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

FORM 10-Q

- ☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended **June 30, 2016**
OR
☐ Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from: _____ to _____

Commission File Number: **001-05270**

AMERICAN INDEPENDENCE CORP.

(Exact name of registrant as specified in its charter)

Delaware **11-1817252**
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

485 Madison Avenue, New York, NY **10022**
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(212) 355-4141**

Not Applicable

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

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

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

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 Exchange Act). Yes ☐ No ☒

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

Class
Common stock, \$0.01 par value

Outstanding at August 15, 2016
8,118,551 shares

**American Independence Corp. and Subsidiaries
Index**

	<u>Page</u>
PART I – FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets (Unaudited)	4
Condensed Consolidated Statements of Income (Unaudited)	5
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)	6
Condensed Consolidated Statement of Changes in Stockholders' Equity (Unaudited)	7
Condensed Consolidated Statements of Cash Flows (Unaudited)	8
Notes to Condensed Consolidated Financial Statements (Unaudited)	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3. Quantitative and Qualitative Disclosures About Market Risk	32
Item 4. Controls and Procedures	33
PART II – OTHER INFORMATION	
Item 1. Legal Proceedings	33
Item 1A. Risk Factors	33
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 3. Defaults Upon Senior Securities	34
Item 4. Mine Safety Disclosures	34
Item 5. Other Information	34
Item 6. Exhibits	35
Signatures	36

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

Forward-Looking Statements

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

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

PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

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

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS:		
Investments:		
Securities purchased under agreements to resell	\$ 7,527	\$ 4,595
Fixed maturities available-for-sale, at fair value	201,707	84,933
Equity securities available-for-sale, at fair value	2,608	2,594
Total investments	211,842	92,122
Cash and cash equivalents	7,824	4,861
Restricted cash	1,379	1,377
Accrued investment income	1,626	727
Premiums receivable (\$14,137 and \$14,009, respectively, due from related parties)	15,988	16,654
Net deferred tax asset	14,723	13,944
Due from reinsurers (\$1,276 and \$3,330, respectively, due from related parties)	36,161	4,950
Goodwill	5,703	5,703
Intangible assets	12,814	13,327
Due from securities brokers	403	1,051
Other assets	12,623	10,540
Assets attributable to discontinued operations (Note 3)	-	31,718
TOTAL ASSETS	\$ 321,086	\$ 196,974
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Policy benefits and claims (\$28,267 and \$27,110, respectively, due to related parties)	\$ 47,512	\$ 43,764
Premium and claim funds payable	1,379	1,377
Commission payable (\$4,126 and \$5,221, respectively, due to related parties)	7,294	5,817
Accounts payable, accruals and other liabilities (\$2,960 and \$2,435, respectively, due to related parties)	10,396	11,192
Debt	2,025	3,189
State income taxes payable	5,904	-
Due to securities brokers	1,973	-
Due to reinsurers	18,436	100
Liabilities attributable to discontinued operations (Note 3)	953	24,337
Total liabilities	95,872	89,776
STOCKHOLDERS' EQUITY:		
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; 8,118,551 and 8,088,105 shares outstanding, respectively	92	92
Additional paid-in capital	88,658	88,637
Accumulated other comprehensive gain (loss)	1,740	(197)
Treasury stock, at cost, 1,063,242 and 1,093,688 shares, respectively	(9,878)	(10,161)
Retained earnings	141,026	25,549
Total American Independence Corp. stockholders' equity	221,638	103,920
Non-controlling interest in subsidiaries	3,576	3,278
Total equity	225,214	107,198
TOTAL LIABILITIES AND EQUITY	\$ 321,086	\$ 196,974

See the accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
REVENUES:				
Premiums earned (\$6,392, \$20,726, \$14,449 and \$40,509, respectively, from related parties)	\$ 21,735	\$ 37,232	\$ 42,831	\$ 73,449
Agency income	5,094	3,639	10,594	6,116
Net investment income	1,155	485	2,625	1,084
Net realized investment gains (losses)	389	211	603	352
Other income	1,073	593	2,195	594
	<u>29,446</u>	<u>42,160</u>	<u>58,848</u>	<u>81,595</u>
EXPENSES				
Insurance benefits, claims and reserves (\$4,076, \$12,817, \$6,943 and \$25,494, respectively, from related parties)	13,508	25,296	28,474	49,266
Selling, general and administrative expenses (\$3,579, \$5,888, \$6,820 and \$11,693, respectively, from related parties)	13,573	15,168	27,079	30,120
Amortization and depreciation	303	217	583	332
	<u>27,384</u>	<u>40,681</u>	<u>56,136</u>	<u>79,718</u>
Income from continuing operations before income taxes	2,062	1,479	2,712	1,877
Provision for income taxes	<u>669</u>	<u>527</u>	<u>903</u>	<u>667</u>
Income from continuing operations	1,393	952	1,809	1,210
Discontinued operations: (Note 3)				
Income (loss) from discontinued operations, before income taxes	-	(18)	122,034	819
Income taxes on discontinued operations	(22)	(4)	8,047	320
Income (loss) from discontinued operations	<u>22</u>	<u>(14)</u>	<u>113,987</u>	<u>499</u>
Net income	1,415	938	115,796	1,709
Less: Net (income) loss attributable to the non-controlling interest	<u>88</u>	<u>51</u>	<u>266</u>	<u>100</u>
Net income attributable to American Independence Corp.	\$ 1,327	\$ 887	\$ 115,530	\$ 1,609
Basic income per common share:				
Income from continuing operations	\$.16	\$.11	\$.19	\$.14
Income from discontinued operations	-	-	14.06	.06
Basic income per common share	<u>\$.16</u>	<u>\$.11</u>	<u>\$ 14.25</u>	<u>\$.20</u>
Weighted-average shares outstanding	<u>8,119</u>	<u>8,079</u>	<u>8,110</u>	<u>8,079</u>
Diluted income per common share:				
Income from continuing operations	\$.16	\$.11	\$.19	\$.14
Income from discontinued operations	-	-	14.03	.06
Diluted income per common share	<u>\$.16</u>	<u>\$.11</u>	<u>\$ 14.22</u>	<u>\$.20</u>
Weighted-average diluted shares outstanding	<u>8,148</u>	<u>8,094</u>	<u>8,125</u>	<u>8,093</u>

See the accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
Net Income	\$ 1,415	\$ 938	\$ 115,796	\$ 1,709
Other comprehensive income (loss):				
Unrealized holding gains (losses) arising during the period, net of tax expense (benefit) of \$812, \$(137), \$1,254 and \$55, respectively	1,508	(255)	2,329	257
Less: reclassification adjustment for gains included in net income, net of tax of \$136, \$84, \$211 and \$127, respectively	(252)	(155)	(392)	(236)
Other comprehensive income (loss)	1,256	(410)	1,937	21
Comprehensive income (loss)	2,671	528	117,733	1,730
Less: comprehensive (income) loss attributable to non-controlling interests	(88)	(51)	(266)	(100)
Comprehensive income (loss) attributable to American Independence Corp.	\$ 2,583	\$ 477	\$ 117,467	\$ 1,630

See the accompanying Notes to Condensed Consolidated Financial Statements.

American Independence Corp. and Subsidiaries
Condensed Consolidated Statement of Changes In Stockholders' Equity
(In thousands)
(Unaudited)

	ACCUMULATED					NON-		
	COMMON	ADDITIONAL	OTHER	TREASURY	RETAINED	TOTAL AMIC	CONTROLLING	TOTAL
	STOCK	PAID-IN	COMPREHENSIVE	STOCK,	EARNINGS	STOCKHOLDERS'	INTERESTS IN	EQUITY
		CAPITAL	INCOME (LOSS)	AT COST		EQUITY	SUBSIDIARIES	
BALANCE AT DECEMBER 31, 2015	\$ 92	\$ 88,637	\$ (197)	\$ (10,161)	\$ 25,549	\$ 103,920	\$ 3,278	\$ 107,198
Net income					115,530	115,530	266	115,796
Other comprehensive income, net of tax			1,937			1,937		1,937
Exercise of stock options				283	(21)	262		262
Share-based compensation expense		21				21		21
Other					(32)	(32)	32	-
BALANCE AT JUNE 30, 2016	\$ 92	\$ 88,658	\$ 1,740	\$ (9,878)	\$ 141,026	\$ 221,638	\$ 3,576	\$ 225,214

See the accompanying Notes to Condensed Consolidated Financial Statements.

American Independence Corp. and Subsidiaries
Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended	
	June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 115,796	\$ 1,709
Adjustments to reconcile net income to net change in cash from operating activities:		
Net realized investment gains	(603)	(352)
Amortization and depreciation	583	332
Equity income	-	(93)
Gain on disposal of discontinued operations, net of tax	(113,521)	-
Deferred tax expense	366	962
Net gain on step acquisition of GAF and settlement of pre-existing relationships (see Note 2)	-	(503)
Non-cash stock compensation expense	21	22
Amortization of bond premiums and discounts	447	301
Change in operating assets and liabilities:		
Change in trading securities	-	23
Change in policy benefits and claims	3,748	7,481
Change in net amounts due from and to reinsurers	(12,875)	(1,909)
Change in claims fund	(1,128)	8
Change in commissions payable	1,477	874
Change in premiums receivable	666	(3,650)
Change in income taxes	(3,085)	(216)
Distribution from interest in partnerships	120	-
Change in other assets and other liabilities	(1,584)	1,735
Net change in cash from operating activities	(9,572)	6,724
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in securities under resale and repurchase agreements	(2,932)	(5,084)
Sales of and principal repayments on fixed maturities	100,070	39,226
Maturities and other repayments of fixed maturities	11,413	2,207
Purchases of fixed maturities	(222,514)	(43,227)
Cash paid in acquisitions, net of cash acquired	(275)	-
Change in loans receivable	(255)	33
Proceeds from sales of subsidiaries, net of cash divested	127,961	511
Other investing activities	(31)	(28)
Net change in cash from investing activities	13,437	(6,362)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	262	-
IPA acquisition of non-controlling interest	-	(126)
Repayment of debt	(1,164)	-
Net change in cash from financing activities	(902)	(126)
Increase (decrease) in cash and cash equivalents	2,963	236
Cash and cash equivalents, beginning of period	4,861	3,706
Cash and cash equivalents, end of period	\$ 7,824	\$ 3,942
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	\$ 77	\$ 11
Cash paid for income taxes	\$ 3,310	\$ 10

See the accompanying Notes to Condensed Consolidated Financial Statements.

American Independence Corp. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

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 51% ownership in HealthInsurance.org, LLC ("HIO"), a lead generation agency; c) our wholly owned sales and marketing company, IHC Specialty Benefits, Inc. ("Specialty Benefits"); d) our 80% ownership in Global Accident Facilities, LLC ("GAF"), a holding company for agencies that primarily produce occupational accident and injured on duty business; e) our wholly owned career sales agency, IPA Family, LLC ("IPA Family"); and f) our 92% ownership in IPA Direct, LLC ("IPAD"), a consumer direct sales call center. On March 31, 2016, the Company sold IHC Risk Solutions, LLC ("Risk Solutions"), its wholly owned managing general underwriter of medical stop-loss insurance, and its 23% investment in Majestic Underwriters LLC. In addition, under the purchase and sale agreement, all of the in-force medical stop-loss business of Independence American produced by Risk Solutions is 100% co-insured as of January 1, 2016.

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". Specialty Benefits, HIO, GAF, IPAD and IPA Family are collectively referred to as "our Agencies".

Since November 2002, AMIC has been affiliated with Independence Holding Company ("IHC"). Through various transactions subsequently, IHC and its subsidiaries further increased its ownership of AMIC to approximately 91%. In June 2016, IHC started the necessary proceedings to take AMIC private. 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) Consolidation

(i) IPA Family

During the second quarter of 2015, AMIC purchased all remaining ownership shares of IPA Family from non-controlling interests for cash consideration of approximately \$126,000, thereby increasing its ownership interest in IPA Family from 90% to 100% as of June 30, 2015.

(ii) GAF

During the second quarter of 2015, the Company increased its ownership in GAF to 80%. See Note 2 for information regarding the acquisition of GAF.

(C) Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. 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. AMIC's annual report on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission, should be read in conjunction with the accompanying unaudited condensed consolidated financial statements.

On March 31, 2016, the Company sold Risk Solutions, its managing general underwriter of stop-loss insurance for self-insured employer groups that desire to manage the risk of large medical claims ("Medical Stop-Loss"). In addition, under the purchase and sale agreement, all of the in-force medical stop-loss business of Independence American produced by Risk Solutions is 100% co-insured as of January 1, 2016. AMIC's block of medical stop-loss business is in run-off. The sale of Risk Solutions and exit from the medical stop-loss business represents a strategic shift that will have a major effect on the Company's operations and

financial results. The disposal transaction qualified for reporting as a discontinued operation in the first quarter of 2016 as a result of the Board of Directors commitment to a plan for its disposal in January 2016. Certain items have been reclassified in the prior year to reflect the assets, liabilities, and related income and expenses associated with the disposal group as discontinued operations in the accompanying unaudited condensed consolidated financial statements and Notes thereto. See Note 3 for more information.

AMIC acquired a controlling interest in GAF on April 30, 2015. Prior to obtaining control, AMIC recorded its investment in GAF using the equity method. AMIC recorded changes in its investment in GAF in the “Other income” line in the Condensed Consolidated Statements of Income. Upon achieving control, on April 30, 2015, GAF’s income and expense amounts became consolidated with AMIC’s results. The Condensed Consolidated Balance Sheet at June 30, 2016 and December 31, 2015 includes the consolidated balance sheet of GAF.

In the opinion of management, all adjustments (consisting only of normal recurring accruals) that are necessary for a fair presentation of the condensed consolidated financial position and results of operations for the interim periods have been included. The Condensed Consolidated Statements of Income for the six months ended June 30, 2016 is not necessarily indicative of the results to be anticipated for the entire year.

(D) Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In September 2015, the Financial Accounting Standards Board (“FASB”) issued guidance to simplify the accounting for adjustments made to provisional amounts recognized in a business combination and eliminate the requirement to retrospectively account for those adjustments. The adoption of this guidance did not have a material effect on the Company’s consolidated financial statements.

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. The adoption of this guidance did not have a material effect 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. The adoption of this guidance did not have a material effect on the Company’s consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

In June 2016, the FASB issued guidance requiring financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. An allowance for credit losses will be deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected with changes in the allowance recorded in earnings. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than a write-down, which would be limited to the amount by which fair value is below the amortized cost. Certain existing requirements used to evaluate credit losses have been removed. For public entities that are SEC filers, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those years. Early adoption is permitted for fiscal years beginning after December 15, 2018. The amendments in this Update should be applied through a cumulative effect adjustment to retained earnings upon adoption as of the beginning of the first reporting period in which the guidance is effective. The adoption of this guidance is not expected to have a material effect on the Company’s consolidated financial statements.

In March 2016, the FASB issued guidance that simplify several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification in the statement of cash flows. The amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The adoption of this guidance is not expected to have a material effect on the Company’s consolidated financial statements.

In March 2016, the FASB issued guidance that eliminates the requirement for retroactive adjustments on the date that a previously held investment qualifies for the equity method of accounting as a result of an increase in ownership interest or degree of influence. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 and should be applied prospectively upon their effective date. The adoption of this guidance is not expected to have a material effect on the Company’s consolidated financial statements.

In February 2016, the FASB issued guidance that requires lessees to recognize the assets and liabilities that arise from leases, including operating leases, on the statement of financial position. The amendments in this Update are effective for fiscal years beginning after December 31, 2018, including interim periods within those fiscal years, using a modified retrospective approach. The

adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In January 2016, the FASB issued guidance that eliminates the requirement to classify equity securities with readily determinable fair values as trading or available-for-sale. The guidance requires equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income, simplifies the impairment assessment of equity securities without readily determinable fair values and requires changes in disclosure requirements. For public entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted in certain circumstances. The amendments in this Update should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of the Update. The adoption of this guidance is not expected to have a material effect on the Company's Consolidated Balance Sheet or AMIC's stockholders' equity.

In May 2015, the FASB issued guidance requiring additional disclosures for short-duration contracts regarding the liability for unpaid claims and claim adjustment expenses. For public entities, the guidance is effective for annual reporting periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted. The adoption of this guidance is not expected to have a significant 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. In 2016, additional guidance was issued to clarify certain aspects of the implementation guidance and to clarify the identification of performance obligations. In August 2015, the effective date of this guidance has been deferred. For public entities, this guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and requires one of two specified retrospective methods of application. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Management has not yet determined the impact that the adoption of this guidance will have on the Company's consolidated financial statements.

(E) 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. Global Accident Facilities, LLC

On April 30, 2015 (the "Acquisition Date"), through a settlement with a former owner, AMIC increased its ownership in Global Accident Facilities, LLC ("GAF") from 40% to 80%, in order to obtain control of the business it produces for Independence American. GAF and its subsidiaries are principally engaged in the marketing, underwriting and administration of specialty risk insurance, primarily Occupational Accident and Injured on Duty for Independence American, which are offered exclusively in Texas and Massachusetts, respectively. The consideration transferred in exchange for the additional 40% ownership interest consisted of: (i) \$325,000 in cash; and (ii) non-monetary consideration, primarily consisting of the settlement of a pre-existing relationship with the former owner, with a fair value of \$1,195,000 at the Acquisition Date. The fair value of the settlement of the pre-existing relationship was based on projected future underwriting results discounted for collectability. The acquisition resulted in AMIC's obtaining control of GAF. Immediately preceding the transaction, AMIC's carrying value of its investment in GAF was \$1,908,000.

As a result of AMIC obtaining control, the Company has included GAF's consolidated assets and liabilities and results of operations, subsequent to the Acquisition Date, in its consolidated financial results as of and for the periods ended December 31, 2015. Accordingly, the individual line items on the unaudited Condensed Consolidated Statements of Income for six months ended 2016 reflect six months of the operations of GAF and only two months of corresponding amounts for 2015. We recorded \$1,969,000

and \$4,027,000 of revenues, and \$2,256,000 and \$4,549,000 of expenses from GAF for the three months and six months ended June 30, 2016, respectively. We recorded \$1,139,000 of revenues and \$1,441,000 of expenses from GAF for both the three months and six months ended June 30, 2015.

On the Acquisition Date in 2015, the Company recognized a net pre-tax gain of \$503,000 as follows: (i) a loss of \$692,000 was recognized by AMIC as a result of re-measuring its equity interest in GAF to its fair value of \$1,216,000 immediately before the acquisition; and (ii) a gain of \$1,195,000 was recognized by AMIC as a result of settling the pre-existing relationship with the former owner.

3. Discontinued Operations

On March 31, 2016, AMIC sold the stock of Risk Solutions to Swiss Re Corporate Solutions, a division of Swiss Re (“Swiss Re”). In addition, under the purchase and sale agreement, all of the in-force medical stop-loss business of Independence American produced by Risk Solutions is co-insured by Westport Insurance Corporation (“Westport”), Swiss Re’s largest US carrier, as of January 1, 2016. The aggregate purchase price was \$152,500,000 in cash, subject to adjustments and settlements. Approximately 89% of the purchase price was allocated to AMIC, with the balance being paid to Standard Security Life and other IHC subsidiaries. The Company recorded a gain of \$113,521,000, net of taxes, as a result of the transaction. The aforementioned transaction, which includes the sale of Risk Solutions and the corresponding coinsurance agreement, is collectively referred to as the “Risk Solutions Sale and Coinsurance Transaction”. AMIC’s block of medical stop-loss business is in run-off. The sale of Risk Solutions and exit from the medical stop-loss business represents a strategic shift that will have a major effect on the Company’s operations and financial results. The disposal transaction qualified for reporting as a discontinued operation in the first quarter of 2016 as a result of the Board of Directors commitment to a plan for its disposal in January 2016. Aside from reinsurance and marketing of Westport small group stop-loss, there will be no further involvement with the discontinued operation.

The following is a reconciliation of the major line items constituting the pretax profit of discontinued operations for the periods indicated (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenue	\$ -	\$ 3,450	\$ 6,406	\$ 7,572
Selling, general and administrative expenses	-	(3,293)	(5,564)	(6,406)
Amortization and depreciation	-	(175)	(125)	(347)
Pretax profit of discontinued operations	-	(18)	717	819
Gain on disposal of discontinued operations, pretax	-	-	121,317	-
Income (loss) from discontinued operations, before income taxes	-	(18)	122,034	819
Income taxes on discontinued operations	(22)	(4)	8,047	320
Income (loss) from discontinued operations	\$ 22	\$ (14)	\$ 113,987	\$ 499

Total operating cash flows from discontinued operations for the six months ended June 30, 2016 and 2015 amounted to \$1,106,000 and \$436,000, respectively. The Company elected to classify the proceeds received from the sale of discontinued operations in the investing activities section of the Condensed Consolidated Statement of Cash Flows.

In connection with the Risk Solutions Sale and Coinsurance Transaction in March 2016, AMIC utilized a significant amount of its Federal NOL carryforwards and made a corresponding adjustment to its valuation allowance (see Note 11) The Company recorded income taxes on discontinued operations of \$8,047,000 for the six months ended June 30, 2016, consisting of \$5,777,000 of state taxes and \$2,270,000 of federal taxes, net of a \$38,419,000 decrease in AMIC's valuation allowance.

The following is a reconciliation of the carrying amounts of major classes of assets and liabilities for discontinued operations for the periods indicated (in thousands):

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Major classes of assets included in discontinued operations:		
Cash	\$ -	\$ 904
Restricted Cash	-	20,358
Intangible assets	-	786
Other assets	-	9,670
Assets attributable to discontinued operations	\$ -	\$ 31,718
Major classes of liabilities included in discontinued operations:		
Premium and claim funds payable	\$ -	\$ 20,358
Accounts payable and accrued liabilities	953	3,979
Liabilities attributable to discontinued operations	\$ 953	\$ 24,337

4. Income Per Common Share

Income per common share calculations are based on the weighted-average of common shares and common share equivalents outstanding during the year. Common stock options are considered to be common share equivalents and are used to calculate income per common share except when they are anti-dilutive. Included in the diluted earnings per share calculation for three months and six months ended June 30, 2016 are approximately 16,000 and 29,000 shares, respectively, from the assumed exercise of options using the treasury stock method. Included in the diluted earnings per share calculation for three months and six months ended June 30, 2015 are approximately 15,000 and 14,000 shares, respectively, from the assumed exercise of options using the treasury stock method. Net income does not change as a result of the assumed dilution of options. Net income does not change as a result of the assumed dilution of options.

5. 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):

JUNE 30, 2016				
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
FIXED MATURITIES				
AVAILABLE-FOR-SALE:				
Corporate securities	\$ 101,518	\$ 1,539	\$ (232)	\$ 102,825
Foreign government	4,458	2	(42)	4,418
Collateralized mortgage obligations (CMO) – residential	148	2	-	150
States, municipalities and political subdivisions	47,826	1,171	(149)	48,848
U.S. Government	39,950	290	-	40,240
Government sponsored enterprise (GSE)	21	2	-	23
Agency mortgage backed pass through securities (MBS)	29	1	-	30
Redeemable preferred stocks	5,111	62	-	5,173
Total fixed maturities	\$ 199,061	\$ 3,069	\$ (423)	\$ 201,707
EQUITY SECURITIES				
AVAILABLE-FOR-SALE:				
Nonredeemable preferred stocks	2,577	35	(4)	2,608
Total available-for-sale equity securities	\$ 2,577	\$ 35	\$ (4)	\$ 2,608
DECEMBER 31, 2015				
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
FIXED MATURITIES				
AVAILABLE-FOR-SALE:				
Corporate securities	\$ 37,044	\$ 25	\$ (683)	\$ 36,386
Foreign government	1,088	7	(6)	1,089
CMO – residential	187	2	-	189
CMO – commercial	359	119	-	478
States, municipalities and political subdivisions	37,590	237	(178)	37,649
U.S. Government	7,679	59	(4)	7,734
GSE	998	2	(1)	999
MBS	34	1	-	35
Redeemable preferred stocks	273	101	-	374
Total fixed maturities	\$ 85,252	\$ 553	\$ (872)	\$ 84,933
EQUITY SECURITIES				
AVAILABLE-FOR-SALE				
Nonredeemable preferred stocks	2,578	19	(3)	2,594
Total available-for-sale equity securities	\$ 2,578	\$ 19	\$ (3)	\$ 2,594

Government-sponsored enterprises (“GSEs”) are private enterprises established and chartered by the Federal Government, or its various insurance and lease programs that carry the full faith and credit obligation of the US Government.

The amortized cost and fair value of fixed maturities at June 30, 2016, 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 COST	FAIR VALUE
(In thousands)		
Due in one year or less	\$ 1,026	\$ 1,003
Due after one year through five years	83,949	84,569
Due after five years through ten years	72,550	74,129
Due after ten years	41,338	41,803
CMOs and MBSs	198	203
	<u>\$ 199,061</u>	<u>\$ 201,707</u>

The following tables summarize, for all securities in an unrealized loss position at June 30, 2016 and December 31, 2015, 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):

June 30, 2016						
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>FIXED MATURITIES:</i>						
Corporate securities	\$ 4,394	\$ 53	\$ 1,535	\$ 179	\$ 5,929	\$ 232
Foreign government	3,253	42	-	-	3,253	42
States, municipalities and political subdivisions	4,581	73	1,408	76	5,989	149
Nonredeemable preferred stocks	1,322	4	-	-	1,322	4
Total temporarily impaired securities	<u>\$ 13,550</u>	<u>\$ 172</u>	<u>\$ 2,943</u>	<u>\$ 255</u>	<u>\$ 16,493</u>	<u>\$ 427</u>
Number of securities in an unrealized loss position	<u>11</u>		<u>4</u>		<u>15</u>	
December 31, 2015						
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>FIXED MATURITIES:</i>						
Corporate securities	\$ 24,627	\$ 387	\$ 6,760	\$ 296	\$ 31,387	\$ 683
Foreign government	484	6	-	-	484	6
U.S. government	995	4	-	-	995	4
GSE	973	1	-	-	973	1
States, municipalities and political subdivisions	13,013	98	1,408	80	14,421	178
Nonredeemable preferred stocks	1,324	3	-	-	1,324	3
Total temporarily impaired securities	<u>\$ 41,416</u>	<u>\$ 499</u>	<u>\$ 8,168</u>	<u>\$ 376</u>	<u>\$ 49,584</u>	<u>\$ 875</u>
Number of securities in an unrealized loss position	<u>36</u>		<u>7</u>		<u>43</u>	

Substantially all of the unrealized losses on fixed maturities at June 30, 2016 and December 31, 2015 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 June 30, 2016.

The following table summarizes the Company's net investment income for three months and six months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Fixed maturities	\$ 1,167	\$ 474	\$ 1,795	\$ 1,015
Equity securities	48	19	99	51
Short-term investments	5	1	9	2
Interest relating to the Risk Solutions Sale and Coinsurance Transaction	-	-	887	-
Other	(65)	(9)	(165)	16
Net investment income	\$ 1,155	\$ 485	\$ 2,625	\$ 1,084

Net realized investment gains for the three months and six ended June 30, 2016 and 2015 are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Available-for-sale securities:				
Fixed maturities	\$ 389	\$ 239	\$ 603	\$ 363
Total available-for-sale securities	389	239	603	363
Trading securities	-	13	-	14
Change in unrealized gain on trading securities	-	(41)	-	(25)
Net realized investment gains	\$ 389	\$ 211	\$ 603	\$ 352

For the six months ended June 30, 2016 and 2015, proceeds from sales of available-for-sale securities were \$100,070,000 and \$39,226,000, respectively. For the three months and six months ended June 30, 2016, the Company recorded realized gross gains of \$563,000 and \$802,000, respectively, and gross losses of \$174,000 and \$199,000, respectively, on available-for-sale securities. For the three months and six months ended June 30, 2015, the Company recorded realized gross gains of \$294,000 and \$451,000, respectively, and gross losses of \$54,000 and \$88,000, respectively, on available-for-sale securities.

Other-Than-Temporary Impairment Evaluations

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 (loss). See Note 11(v) to the Consolidated Financial Statements in the 2015 Annual Report for further discussion of the factors considered by management in its regular review to identify and recognize other-than-temporary impairments on available-for-sale securities. The Company did not recognize any other-than-temporary impairments on available-for-sale securities in the first three months of 2016 or 2015.

Credit losses were recognized on certain fixed maturities for which each security also had an impairment loss recognized in other comprehensive income (loss). The rollforward of these credit losses were as follows for the periods indicated (in thousands):

	Six Months Ended	
	June 30,	
	2016	2015
Balance, beginning of period	\$ 288	\$ 288
Securities sold	(288)	-
Balance, end of period	\$ -	\$ 288

6. 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 CMO securities backed by Alt-A 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.

The following tables present our financial assets and liabilities measured at fair value on a recurring basis at June 30, 2016 and December 31, 2015 (in thousands):

June 30, 2016				
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS:				
Fixed maturities available-for-sale:				
Corporate securities	\$ -	\$ 102,825	\$ -	\$ 102,825
Foreign government	-	4,418	-	4,418
CMO – residential	-	150	-	150
States, municipalities and political subdivisions				
	-	48,848	-	48,848
U.S. government	-	40,240	-	40,240
GSE	-	23	-	23
MBS – residential	-	30	-	30
Redeemable preferred stocks	5,173	-	-	5,173
Total fixed maturities	5,173	196,534	-	201,707
Equity securities available-for-sale:				
Nonredeemable preferred stocks	2,608	-	-	2,608
Total equity securities	2,608	-	-	2,608
Total Financial Assets	\$ 7,781	\$ 196,534	\$ -	\$ 204,315
FINANCIAL LIABILITIES:				
Contingent liability	\$ -	\$ -	\$ 885	\$ 885

December 31, 2015				
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS:				
Fixed maturities available-for-sale:				
Corporate securities	\$ -	\$ 36,386	\$ -	\$ 36,386
Foreign government	-	1,089	-	1,089
CMO – residential	-	189	-	189
CMO – commercial	-	-	478	478
States, municipalities and political subdivisions	-	37,649	-	37,649
U.S. government	-	7,734	-	7,734
GSE	-	999	-	999
MBS – residential	-	35	-	35
Redeemable preferred stocks	374	-	-	374
Total fixed maturities	374	84,081	478	84,933
Equity securities available-for-sale:				
Nonredeemable preferred stocks	2,594	-	-	2,594
Total equity securities	2,594	-	-	2,594
Total Financial Assets	\$ 2,968	\$ 84,081	\$ 478	\$ 87,527
FINANCIAL LIABILITIES:				
Contingent liability	\$ -	\$ -	\$ 885	\$ 885

The following table provides carrying values, fair values and classification in the fair value hierarchy of the Company's financial instruments, for the periods indicated, that are not carried at fair value but are subject to fair value disclosure requirements, for the periods indicated (in thousands):

June 30, 2016		December 31, 2015	
Level 2		Level 2	
Fair Value	Carrying Value	Fair Value	Carrying Value
FINANCIAL LIABILITIES:			
Debt	\$ 1,979	\$ 2,025	\$ 3,137
			\$ 3,189

The following methods and assumptions were used to estimate the fair value of the financial instruments that are not carried at fair value in the Consolidated Financial Statements:

Debt

The fair value of debt with fixed interest rates approximates its carrying amount and is included in Level 2 of the fair value hierarchy.

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 six months ending June 30, 2016, 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 during the six months ended June 30, 2016 or 2015. 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 the six months ended June 30, 2016 or 2015. The changes in the carrying value of Level 3 assets and liabilities for the six months ended June 30, 2016 and 2015 are summarized as follows (in thousands):

Three Months Ended June 30, 2016					
	Financial Assets			Financial Liabilities	
	Total		Contingent	Total	
	CMOs	Level 3		Level 3	
	Commercial	Assets	Liability	Liabilities	
Balance, beginning of period	\$ -	\$ -	\$ 885	\$ 885	
Gains (losses) included in earnings:					
Net realized investment gains (losses)	-	-	-	-	
Sales of securities	-	-	-	-	
Repayments and amortization of fixed maturities	-	-	-	-	
Net unrealized gain included in accumulated other comprehensive income (loss)	-	-	-	-	
Balance, end of period	\$ -	\$ -	\$ 885	\$ 885	

Three Months Ended June 30, 2015			
Financial Assets			
Total		Total	
CMOs	Level 3	CMOs	Level 3
Commercial	Assets	Commercial	Assets
Balance, beginning of period	\$ 406	\$ 406	
Net unrealized gain included in accumulated other comprehensive income (loss)	87	87	
Balance, end of period	\$ 493	\$ 493	

Six Months Ended June 30, 2016					
	Financial Assets			Financial Liabilities	
	Total		Contingent	Total	
	CMOs	Level 3		Level 3	
	Commercial	Assets	Liability	Liabilities	
Balance, beginning of period	\$ 478	\$ 478	\$ 885	\$ 885	
Gains (losses) included in earnings:					
Net realized investment gains (losses)	141	141	-	-	
Sales of securities	(471)	(471)	-	-	
Repayments and amortization of fixed maturities	(30)	(30)	-	-	
Net unrealized gain included in accumulated other comprehensive income (loss)	(118)	(118)	-	-	
Balance, end of period	\$ -	\$ -	\$ 885	\$ 885	

Six Months Ended June 30, 2015		
Financial Assets		
	CMOs Commercial	Total Level 3 Assets
Balance, beginning of period	\$ 381	\$ 381
Net unrealized gain included in accumulated other comprehensive income (loss)	112	112
Balance, end of period	\$ 493	\$ 493

7. Goodwill and Other Intangible Assets

The carrying amount of goodwill was \$5,703,000 at both June 30, 2016 and December 31, 2015.

The change in the carrying amount of other intangible assets for the three months and six months ended June 30, 2016 and 2015 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance, beginning of period	\$ 13,086	\$ 8,549	\$ 13,327	\$ 8,637
Additions	-	5,500	-	5,500
Amortization expense	(272)	(207)	(513)	(295)
Balance, end of period	\$ 12,814	\$ 13,842	\$ 12,814	\$ 13,842

8. Related-Party Transactions

AMIC and its subsidiaries incurred expense of \$378,000 and \$209,000 for the three months ended June 30, 2016 and 2015, respectively, and \$769,000 and \$381,000 for the six months ended June 30, 2016 and 2015, respectively, from service agreements with IHC and its subsidiaries which is recorded in Selling, General and Administrative Expenses in the Condensed Consolidated Statements of Income. These payments reimburse IHC and its subsidiaries, at agreed upon rates including an overhead factor, for certain services provided to AMIC and its subsidiaries, including general management, corporate strategy, accounting, legal, compliance, underwriting, and claims.

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 business written and assumed by Independence American. 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.

9. Reinsurance

Effective January 1, 2016, all of the in-force medical stop-loss business of Independence American produced by Risk Solutions was co-insured in connection with the Risk Solutions Sale and Coinsurance Transaction (see Note 3). Stop-loss business produced by Risk Solutions was 100% co-insured, accordingly the Condensed Consolidated Statements of Income reflect the co-insurance effective January 31, 2016. As a result of this transaction and the 100% co-insurance of stop-loss, amounts due from reinsurers increased to \$36,161,000 at June 30, 2016.

The Company is contingently liable with respect to reinsurance in the unlikely event that the assuming reinsurers are unable to meet their obligations. The ceding of reinsurance does not discharge the primary liability of the original insurer to the insured.

10. Share-Based Compensation

Total share-based compensation expense was \$11,000 and \$11,000 for the three months ended June 30, 2016 and 2015, respectively, and \$21,000 and \$22,000 for the six months ended June 30, 2016 and 2015, respectively. Related tax benefits of \$4,000 and \$4,000 were recognized for the three months ended June 30, 2016 and 2015, respectively, and \$7,000 and \$8,000 for the six months ended June 30, 2016 and 2015, respectively.

Under the terms of the Company's stock-based compensation plan, option exercise prices are equal to the quoted market price of the shares at the date of grant; option terms are ten years; and vesting periods range from three to four years. The Company may also grant shares of restricted stock, stock appreciation rights and share-based performance awards. Restricted shares are valued at the quoted market price of the shares at the date of grant, and have a three year vesting period.

Stock Options

The following table summarizes information regarding outstanding and exercisable options as of June 30, 2016:

	<u>Outstanding</u>	<u>Exercisable</u>
Number of options	41,112	36,667
Weighted average exercise price per share	\$ 9.07	\$ 8.86
Aggregate intrinsic value of options	\$ 636,000	\$ 575,000
Weighted average contractual term remaining	4.21 years	3.76 years

The Company's stock option activity for the six months ended June 30, 2016 is as follows:

	<u>No. of Shares Under Option</u>	<u>Weighted Average Exercise Price</u>
Balance, December 31, 2015	71,558	\$ 8.88
Exercised	(30,446)	8.62
Balance, June 30, 2016	<u>41,112</u>	<u>\$ 9.07</u>

No options were granted in 2016.

Compensation expense of \$11,000 and \$11,000 was recognized for the three months ended June 30, 2016 and 2015, respectively, and \$21,000 and \$22,000 for the six months ended June 30, 2016 and 2015, respectively, for the portion of the fair value of stock options vesting during that period.

As of June 30, 2016, there was approximately \$19,000 of total unrecognized compensation expense related to non-vested options that will be recognized over the remaining requisite service periods.

11. Income Taxes

The provision for income taxes shown in the Condensed Consolidated Statements of Income was computed based on the Company's actual results, which approximate the effective tax rate expected to be applicable for the balance of the current fiscal year. As a result of the Risk Solutions Sale and Coinsurance Transaction (see Note 3), AMIC utilized approximately \$109,770,000 of its operating loss carryforwards and made a corresponding adjustment to its valuation allowance. At June 30, 2016, AMIC had remaining net operating loss carryforwards of approximately \$147,550,000 for federal income tax purposes, which expire in varying amounts through the year 2028, with a significant portion expiring in 2020. In the second quarter of 2016, the Company made a \$3,000,000 tax payment to IHC in accordance with a tax sharing agreement.

The net deferred tax assets shown in the Condensed Consolidated Balance Sheets for the periods ending June 30, 2016 and December 31, 2015 are \$14,723,000 and \$13,944,000, respectively. 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. The Internal Revenue Service ("IRS") 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. 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. Management believes that it is more likely than not that the Company will realize the benefits of these net deferred tax assets recorded at June 30, 2016.

12. Subsequent Event

IHC intends to take AMIC private on or about August 31, 2016 by way of a statutory "short-form" merger. As a result, IHC will indirectly own all of the outstanding shares of common stock of AMIC.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the financial condition and results of operations of American Independence Corp. ("AMIC") and its subsidiaries (collectively, the "Company") should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements of the Company and the related Notes thereto appearing in our annual report on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission, and our unaudited condensed consolidated financial statements and related Notes thereto appearing elsewhere in this quarterly report.

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 career sales agency, IPA Family LLC ("IPA Family"), our 92% owned consumer direct sales call center, IPA Direct, LLC ("IPAD"), our 80% owned agency, Global Accident Facilities, LLC ("GAF"), and our 51% owned lead generation agency, HealthInsurance.org ("HIO"). On March 31, 2016, the Company sold IHC Risk Solutions, LLC ("Risk Solutions"), its wholly owned managing general underwriter of medical stop-loss insurance, and its 23% investment in Majestic Underwriters LLC. In addition, under the purchase and sale agreement, all of the in-force medical stop-loss business of Independence American produced by Risk Solutions is 100% co-insured as of January 1, 2016. Specialty Benefits, HIO, GAF, IPAD and IPA Family are collectively referred to as "our Agencies". Since November 2002, AMIC has been affiliated with Independence Holding Company ("IHC"), which owned approximately 91% of AMIC's stock as of June 30, 2016. The senior management of IHC provides direction to the Company through a service agreement between the Company and IHC. As of June 30, 2016, 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 specialty 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, short-term medical, occupational accident, dental and other ancillary products. Given its broad licensing, A- (Excellent) rating from A.M. Best Company, Inc. ("A.M. Best"), and that it is the only property and casualty (P&C) company in IHC, Independence American seeks opportunities to expand the distribution of P&C and specialty health 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 health, pet and occupational accident insurance play a significant role in determining whether to expand Independence American's insurance premiums. Independence American 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.

Independence American Insurance Company

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. 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. Independence American's unaudited statutory capital and surplus as of June 30, 2016 was \$64,951,000.

Agencies

The Company has a 51% interest in HIO, which is headquartered in Minneapolis, MN. HIO is a lead generation agency through its well-established internet domain address: www.healthinsurance.org. The Company owns Specialty Benefits, which is also headquartered in Minneapolis, MN. Specialty Benefits is a sales and marketing company. AspiraAMas.com and Healthdeals.com are divisions of Specialty Benefits. The Company owns IPA Family, which is headquartered in Tampa, FL. IPA Family is a consumer direct sales agency. The Company has a 92% interest in IPAD, which is headquartered in Lake Mary, FL. IPAD is a consumer direct sales call center. The Company has an 80% ownership in GAF, a holding company for agencies that primarily produce occupational accident and injured on duty business. GAF has offices in Marshfield, MA and Dallas, TX.

The following is a summary of key performance information and events:

The results of operations for the three months and six months ended June 30, 2016 and 2015 are summarized as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenues	\$ 29,446	\$ 42,160	\$ 58,848	\$ 81,595
Expenses	27,384	40,681	56,136	79,718
Income from continuing operations before income taxes	2,062	1,479	2,712	1,877
Income taxes	669	527	903	667
Income from continuing operations	1,393	952	1,809	1,210
Income (loss) from discontinued operations, net of tax	22	(14)	113,987	499
Net income	1,415	938	115,796	1,709
Less: Net (income) loss attributable to the non-controlling interest	88	51	266	100
Net income attributable to American Independence Corp.	\$ 1,327	\$ 887	\$ 115,530	\$ 1,609

- The book value of the Company increased to \$27.30 per share at June 30, 2016 compared to \$12.85 per share at December 31, 2015 as a result of the sale of Risk Solutions in the first quarter of 2016.
- Income from continuing operations was \$.16 per share, and \$.19 per share diluted, for the three and six months ended June 30, 2016, respectively, compared to \$.11 per share, and \$.14 per share diluted, for the three and six months ended June 30, 2015, respectively.
- At June 30, 2016, 100% of the Company's fixed maturities were investment grade.
- Consolidated investment yields were 2.4% and 2.9% for the six months ended June 30, 2016 and 2015, respectively.
- Premiums earned decreased 42% to \$42.8 million for the six months ended June 30, 2016 compared to \$73.4 million for the six months ended June 30, 2015, primarily due to a decrease in medical stop-loss premiums resulting from the sale of Risk Solutions and the exit from the medical stop-loss business, slightly offset by higher fully insured health premiums.
- For the six months ended June 30, 2016, our Agencies generated revenues of \$10.6 million compared to \$6.7 million for the six months ended June 30, 2015. Excluding revenue related to the consolidation of GAF totaling \$4.0 million for the six months ended June 30, 2016 and \$1.6 million for the six months ended June 30, 2015, total revenues increased \$1.5 million due to higher revenues generated at HIO, IPA Family and Specialty Benefits.
- Agency net loss decreased \$1.5 million from a loss of \$2.5 million for the six months ended June 30, 2015 to a loss of \$1.0 million for the six months ended June 30, 2016 due to lower losses at IPA Family, IPAD and Specialty Benefits, and higher income at HIO.

- Underwriting experience as indicated by GAAP Combined Ratios, on our two primary lines of business for the three months and six months ended June 30, 2016 and 2015, are as follows (in thousands):

Fully Insured Health	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Premiums Earned	\$ 19,074	\$ 17,903	\$ 37,815	\$ 35,631
Insurance Benefits Claims and Reserves	11,143	10,982	25,198	21,075
Profit Commission Expense (Recovery)	8	(30)	19	(3)
Expenses	6,800	5,808	13,394	12,286
Loss Ratio ^(A)	58.4%	61.3%	66.6%	59.1%
Profit Commission Expense Ratio ^(B)	0.0%	-0.2%	0.1%	0.0%
Expense Ratio ^(C)	35.7%	32.4%	35.4%	34.5%
Combined Ratio ^(D)	94.1%	93.5%	102.1%	93.6%

Group Disability	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Premiums Earned	\$ 1,547	\$ 1,381	\$ 3,044	\$ 2,860
Insurance Benefits Claims and Reserves	879	872	1,482	1,841
Expenses	491	445	963	861
Loss Ratio ^(A)	56.8%	63.1%	48.7%	64.4%
Expense Ratio ^(C)	31.7%	32.2%	31.6%	30.1%
Combined Ratio ^(D)	88.5%	95.3%	80.3%	94.5%

(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.

- The Company recorded an increase in the loss ratio in the fully insured health line of business for the six months ended June 30, 2016 primarily due to a substantial increase in losses for the occupational accident business, partially offset by improved results in pet and international health business. We are strategically evaluating the occupational accident line of business and taking steps to improve the underwriting results.
- The Company experienced a decrease in the loss ratio for group disability for the six months ended June 30, 2016 as a result of lower losses for both the DBL and international line of LTD business.

Critical Accounting Policies

The accounting and reporting policies of the Company conform to U.S. generally accepted accounting principles ("U.S. GAAP"). The preparation of the condensed consolidated financial statements in conformity with U.S. 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 of the Annual Report on Form 10-K for the year ended December 31, 2015. Management has identified the accounting policies related to Policy Benefits and Claims, Premium and Fee income Revenue Recognition, Reinsurance, Income Taxes, Investments and Other Intangibles as those that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of the Company's condensed consolidated financial statements and this Management's Discussion and Analysis. A full discussion of these policies is included under Critical Accounting Policies in Item 7 of the Annual Report on Form 10-K for the year ended December 31, 2015.

Results of Operations for the Three Months Ended June 30, 2016, Compared to the Three Months Ended June 30, 2015.

Insurance							
		Fees and	Net	Benefits,	Selling,	Amortization	
<u>June 30,</u>	<u>Premiums</u>	<u>Other</u>	<u>Investment</u>	<u>Claims</u>	<u>General</u>	<u>and</u>	
<u>2016</u>	<u>Earned</u>	<u>Income</u>	<u>Income</u>	<u>and</u>	<u>and</u>	<u>Depreciation</u>	<u>Total</u>
<u>Reserves</u>				<u>Admin</u>			
(In thousands)							
Independence							
American:							
Medical stop-loss	\$ 1,114	1,049	176	1,486	103	-	\$ 750
Fully Insured							
Health	19,074	-	392	11,143	6,808	-	1,515
Group Disability	1,547	-	33	879	491	-	210
Total Independence							
American	21,735	1,049	601	13,508	7,402	-	2,475
Agencies							
	-	5,118	(33)	-	5,472	303	(690)
Corporate	-	-	587	-	699	-	(112)
Subtotal	\$ 21,735	6,167	1,155	13,508	13,573	303	1,673
Net realized investment gains							
							389
Income from continuing operations before income taxes							
							2,062
Income taxes							
							(669)
Income from continuing operations							
						\$	1,393
Insurance							
		Fees and	Net	Benefits,	Selling,	Amortization	
<u>June 30,</u>	<u>Premiums</u>	<u>Other</u>	<u>Investment</u>	<u>Claims</u>	<u>General</u>	<u>and</u>	
<u>2015</u>	<u>Earned</u>	<u>Income</u>	<u>Income</u>	<u>and</u>	<u>and</u>	<u>Depreciation</u>	<u>Total</u>
<u>Reserves</u>				<u>Admin</u>			
(In thousands)							
Independence							
American:							
Medical stop-loss	\$ 17,948	-	238	13,442	3,587	-	\$ 1,157
Fully Insured							
Health	17,903	-	175	10,982	5,778	-	1,318
Group Disability	1,381	-	23	872	445	-	87
Total Independence							
American	37,232	-	436	25,296	9,810	-	2,562
Agencies							
	-	4,232	24	-	4,963	217	(924)
Corporate	-	-	25	-	395	-	(370)
Subtotal	\$ 37,232	4,232	485	25,296	15,168	217	1,268
Net realized investment gains							
							211
Income from continuing operations before income taxes							
							1,479
Income taxes							
							(527)
Income from continuing operations							
						\$	952

Acquisition of GAF

On April 30, 2015 (the "Acquisition Date"), through a settlement with a former owner, AMIC increased its ownership in Global Accident Facilities, LLC ("GAF") from 40% to 80%. GAF and its subsidiaries are principally engaged in the marketing, underwriting and administration of specialty risk insurance, referred to as Occupational Accident and Injured on Duty for Independence American, which are offered exclusively in Texas and Massachusetts, respectively.

Prior to obtaining control, AMIC recorded its investment in GAF using the equity method. AMIC recorded changes in its investment in GAF in the "Other income" line in the Condensed Consolidated Statements of Income. Upon achieving control on April 30, 2015, GAF's income and expense amounts became consolidated with AMIC's results. Accordingly, the individual line items on the Condensed Consolidated Statements of Income for six months ended June 2016 reflect six months of the operations of GAF and only two months of corresponding amounts for the six months ended June 30, 2015. The individual line items on the Condensed Consolidated Statements of Income for three months ended June 2016 reflect three months of the operations of GAF and only two months of corresponding amounts for the three months ended June 30, 2015.

Premiums Earned. Premiums earned decreased 42%, or \$15,497,000 from 2015 to 2016. The Company currently has three lines of business. Premiums relating to medical stop-loss business decreased \$16,834,000 due to the sale of Risk Solutions and the exit from the medical stop-loss business. Premiums relating to fully insured health (consisting of run-off major medical, short-term

medical, dental, vision, gap, occupational accident, pet insurance, and international medical) increased \$1,171,000. The increase is primarily due to an increase in international medical and pet insurance premiums, offset by a decrease in major medical premiums. Premiums relating to group disability increased \$166,000. For the three months ended June 30, 2016, 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, approximately 28% of IHC's medical stop-loss business, and 14% of certain of IHC's group major medical business. There were no significant changes to these percentages from the prior year.

Agency Income. Agency income increased \$1,455,000 from 2015 to 2016. Excluding income related to the consolidation of GAF, totaling \$1,981,000 for the three months ended June 30, 2016 and \$1,139,000 for the three months ended June 30, 2015, total agency income increased \$613,000. In 2016, agency income consisted of commission income and other fees of \$635,000, \$480,000 and \$1,981,000 from IPA Family, IPAD and GAF, respectively, and revenue of \$240,000 and \$1,758,000 from HIO and Specialty Benefits, respectively. In 2015, agency income consisted of commission income and other fees of \$481,000, \$536,000 and \$1,139,000 from IPA Family, IPAD and GAF, respectively, and revenue of \$188,000 and \$1,295,000 from HIO and Specialty Benefits, respectively.

Net Investment Income. Net investment income increased \$670,000 from 2015 to 2016 due to an increase in investable assets due to the sale of Risk Solutions, offset by a lower yield on those assets. The consolidated investment yields were 2.1% and 2.7% for the three months ended June 30, 2016 and 2015, respectively.

Net Realized Investment Gains (Losses). The Company recorded a net realized investment gain of \$389,000 for the three months ended June 30, 2016, compared to a gain of \$211,000 for the three months ended June 30, 2015. 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 increased \$480,000 from 2015 to 2016 primarily due the amortization of a ceding commission paid to Independence American in connection with the Risk Solutions Sale and Coinsurance Transaction (see Note 3), offset by the recognition of a net gain of \$503,000 relating to the acquisition of GAF in 2015.

Insurance Benefits, Claims and Reserves. Insurance benefits claims and reserves decreased 47%, or \$11,788,000 from 2015 to 2016. The decrease is primarily due to a decrease in medical stop-loss of \$11,957,000 due to the sale of Risk Solutions and the exit from the medical stop-loss business.

Selling, General and Administrative. Selling, general and administrative expenses decreased \$1,595,000 from 2015 to 2016. Excluding expenses related to the consolidation of GAF, totaling \$1,931,000 for the three months ended June 30, 2016 and \$1,368,000 for the three months ended June 30, 2015, total selling, general and administrative expenses decreased \$2,158,000. The decrease is primarily due to lower commission expense of \$3,358,000 at Independence American relating to the exit from the medical stop-loss business, offset by higher underwriting expense of \$927,000 at Independence American due to a change in the mix of business and higher expenses of \$377,000 at Specialty Benefits.

Amortization and Depreciation. Amortization and depreciation expense increased \$86,000 from 2015 to 2016 primarily due to the amortization of intangible assets recorded in connection with the consolidation of GAF.

Income Taxes. The provision for income taxes increased \$142,000 to \$669,000, an effective rate of 32.4%, for the three months ended June 30, 2016, compared to \$527,000, an effective rate of 35.6%, for the three months ended June 30, 2015. Net income for the three months ended June 30, 2016 and 2015 includes a non-cash provision for federal income taxes of \$441,000 and \$492,000, respectively. The state tax effective rate increased to 2.1% for the three months ended June 30, 2016, compared to 1.3% for the three months ended June 30, 2015 due to the mix of business by company and their respective state tax rates. 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.

Net Income (loss) attributable to the non-controlling interest. Net income (loss) attributable to the non-controlling interest increased \$37,000 from 2015 to 2016. The net income for the three months ended June 30, 2016 and 2015 relates to the 49% non-controlling interest in HIO, the 20% non-controlling interest in GAF, and the 8% non-controlling interest in IPAD.

Income from continuing operations. Income from continuing operations increased to \$1,393,000, or \$.16 per share, diluted, for the three months ended June 30, 2016, compared to \$952,000, or \$.11 per share, diluted, for the three months ended June 30, 2015.

Results of Operations for the Six Months Ended June 30, 2016, Compared to the Six Months Ended June 30, 2015.

Insurance							
		Fees and	Net	Benefits,	Selling,	Amortization	
<u>June 30,</u>	<u>Premiums</u>	<u>Other</u>	<u>Investment</u>	<u>Claims</u>	<u>General</u>	<u>and</u>	
<u>2016</u>	<u>Earned</u>	<u>Income</u>	<u>Income</u>	<u>and</u>	<u>and</u>	<u>Depreciation</u>	<u>Total</u>
<u>Reserves</u>	<u>Admin</u>						
(In thousands)							
Independence							
American:							
Medical stop-loss	\$ 1,972	2,098	369	1,794	119	-	\$ 2,526
Fully Insured							
Health	37,815	-	655	25,198	13,413	-	(141)
Group Disability	3,044	-	56	1,482	963	-	655
Total Independence							
American	42,831	2,098	1,080	28,474	14,495	-	3,040
Agencies							
	-	10,642	(62)	-	11,020	583	(1,023)
Corporate	-	49	1,607	-	1,564	-	92
Subtotal	\$ 42,831	12,789	2,625	28,474	27,079	583	2,109
Net realized investment gains							
							603
Income from continuing operations before income taxes							
							2,712
Income taxes							
							(903)
Income from continuing operations							
						\$	1,809
Insurance							
		Fees and	Net	Benefits,	Selling,	Amortization	
<u>June 30,</u>	<u>Premiums</u>	<u>Other</u>	<u>Investment</u>	<u>Claims</u>	<u>General</u>	<u>and</u>	
<u>2015</u>	<u>Earned</u>	<u>Income</u>	<u>Income</u>	<u>and</u>	<u>and</u>	<u>Depreciation</u>	<u>Total</u>
<u>Reserves</u>	<u>Admin</u>						
(In thousands)							
Independence							
American:							
Medical stop-loss	\$ 34,958	-	523	26,350	7,358	-	\$ 1,773
Fully Insured							
Health	35,631	-	426	21,075	12,283	-	2,699
Group Disability	2,860	-	56	1,841	861	-	214
Total Independence							
American	73,449	-	1,005	49,266	20,502	-	4,686
Agencies							
	-	6,710	33	-	8,895	332	(2,484)
Corporate	-	-	46	-	723	-	(677)
Subtotal	\$ 73,449	6,710	1,084	49,266	30,120	332	1,525
Net realized investment gains							
							352
Income from continuing operations before income taxes							
							1,877
Income taxes							
							(667)
Income from continuing operations							
						\$	1,210

Premiums Earned. Premiums earned decreased 42%, or \$30,618,000 from 2015 to 2016. The Company currently has three lines of business. Premiums relating to medical stop-loss business decreased \$32,986,000 due to the sale of Risk Solutions and the exit from the medical stop-loss business. Premiums relating to fully insured health (consisting of run-off major medical, short-term medical, dental, vision, gap, occupational accident, pet insurance, and international medical) increased \$2,185,000. The increase is primarily due to an increase in international medical and pet insurance premiums, offset by a decrease in major medical premiums. Premiums relating to group disability increased \$183,000. For the six months ended June 30, 2016, 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, approximately 28% of IHC's medical stop-loss business, and 12% of certain of IHC's group major medical business. There were no significant changes to these percentages from the prior year.

Agency Income. Agency income increased \$4,478,000 from 2015 to 2016. Excluding income related to the consolidation of GAF, totaling \$4,049,000 for the six months ended June 30, 2016 and \$1,139,000 for the six months ended June 30, 2015, total agency income increased \$1,568,000. In 2016, agency income consisted of commission income and other fees of \$1,320,000, \$1,012,000 and \$4,049,000 from IPA Family, IPAD and GAF, respectively, and revenue of \$647,000 and \$3,566,000 from HIO and Specialty Benefits, respectively. In 2015, agency income consisted of commission income and other fees of \$846,000, \$1,029,000 and \$1,139,000 from IPA Family, IPAD and GAF, respectively, and revenue of \$510,000 and \$2,592,000 from HIO and Specialty Benefits, respectively.

Net Investment Income. Net investment income increased \$1,541,000 from 2015 to 2016 due to an increase in investable assets due to the sale of Risk Solutions, offset by a lower yield on those assets. The consolidated investment yields were 2.4% and 2.9% for the six months ended June 30, 2016 and 2015, respectively.

Net Realized Investment Gains (Losses). The Company recorded a net realized investment gain of \$603,000 for the six months ended June 30, 2016, compared to a gain of \$352,000 for the six months ended June 30, 2015. 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 increased \$1,601,000 from 2015 to 2016 primarily due the amortization of a ceding commission paid to Independence American in connection with the Risk Solutions Sale and Coinsurance Transaction (see Note 3), offset by the recognition of a net gain of \$503,000 relating to the acquisition of GAF in 2015.

Insurance Benefits, Claims and Reserves. Insurance benefits claims and reserves decreased 42%, or \$20,792,000 from 2015 to 2016. The decrease is primarily due to a decrease in medical stop-loss of \$24,556,000 due to the sale of Risk Solutions and the exit from the medical stop-loss business, and a decrease in assumed major medical of \$1,855,000 due to lower premiums, offset by an increase in direct occupational accident of \$4,627,000 due to higher claims and reserves on the line and an increase in Pets of \$941,000 due to an increase in premiums.

Selling, General and Administrative. Selling, general and administrative expenses decreased \$3,041,000 from 2015 to 2016. Excluding expenses related to the consolidation of GAF, totaling \$3,816,000 for the six months ended June 30, 2016 and \$1,368,000 for the six months ended June 30, 2015, total selling, general and administrative expenses decreased \$5,489,000. The decrease is primarily due to lower commission expense of \$7,989,000 at Independence American relating to the exit from the medical stop-loss business, offset by higher underwriting expense of \$2,003,000 at Independence American due to a change in the mix of business, higher expenses of \$449,000 at Specialty Benefits and higher public accounting fees of \$383,000.

Amortization and Depreciation. Amortization and depreciation expense increased \$251,000 from 2015 to 2016 primarily due to the amortization of intangible assets recorded in connection with the consolidation of GAF.

Income Taxes. The provision for income taxes increased \$236,000 to \$903,000, an effective rate of 33.3%, for the six months ended June 30, 2016, compared to \$667,000, an effective rate of 35.5%, for the six months ended June 30, 2015. Net income for the six months ended June 30, 2016 and 2015 includes a non-cash provision for federal income taxes of \$366,000 and \$659,000, respectively. The state tax effective rate increased to 3.3% for the six months ended June 30, 2016, compared to (1.1)% for the six months ended June 30, 2015 due to the mix of business by company and their respective state tax rates. 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.

Net Income (loss) attributable to the non-controlling interest. Net income (loss) attributable to the non-controlling interest increased \$166,000 from 2015 to 2016. The net income for the six months ended June 30, 2016 and 2015 relates to the 49% non-controlling interest in HIO, the 20% non-controlling interest in GAF, and the 8% non-controlling interest in IPAD.

Income from continuing operations. Income from continuing operations increased to \$1,809,000, or \$.19 per share, diluted, for the six months ended June 30, 2016, compared to \$1,210,000, or \$.14 per share, diluted, for the six months ended June 30, 2015.

LIQUIDITY

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 subsidiaries to pay dividends to its parent company. For the six months ended June 30, 2016, our Agencies did not pay any dividends to Corporate.

Cash Flows

The Company had \$7.8 million and \$4.9 million of cash and cash equivalents as of June 30, 2016 and December 31, 2015,

respectively.

For the six months ended June 30, 2016, \$9.6 million of cash was utilized by operating activities, whereas investing activities provided the Company with \$13.4 million of cash. Financing activities utilized \$0.9 million for the period.

At June 30, 2016, the Company had \$47.5 million 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 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 \$117,099,000 to \$210,272,000 during the six months ended June 30, 2016 from \$93,173,000 at December 31, 2015, primarily due to the sale of Risk Solutions.

The Company had receivables from reinsurers of \$36,161,000 at June 30, 2016. Substantially 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 June 30, 2016.

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

Total Future Policy Benefits and Claims Liabilities			
	June 30, 2016		December 31, 2015
Medical Stop-Loss	\$	23,184	\$ 23,257
Fully Insured Health		22,688	18,495
Group Disability		1,640	2,012
	\$	<u>47,512</u>	<u>\$ 43,764</u>

The increase in total policy benefits and claims of \$3,748,000 is primarily attributable to an increase in claims for occupational accident, offset by a decrease in group disability.

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 (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.

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 \$117,718,000 increase in AMIC's stockholders' equity in the first six months of 2016 is primarily due to income from discontinued operations of \$113,987,000 resulting from the sale of Risk Solutions, income from continuing operations of \$1,809,000,

and an increase in net unrealized gains on investments, net of taxes of \$1,937,000. The increase in net unrealized gains 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 losses on available-for-sale securities totaled \$427,000 at June 30, 2016. Additionally, 100% 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. The Company does not have any non-performing fixed maturity investments at June 30, 2016.

The Company reviews its investments regularly and monitors its investments continually for impairments. There were no realized losses for other-than-temporary impairments recorded for the six months ended June 30, 2016 and 2015. The following table summarizes the carrying value of securities with fair values less than 80% of their amortized cost at June 30, 2016 by the length of time the fair values of those securities were below 80% of their amortized cost (in thousands):

			Greater than 3 months, less than 6 months	Greater than 6 months, less than 12 months	Greater than 12 months	Total
Fixed maturities	\$	-	\$ 172	\$ -	\$ -	\$ 172

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 June 30, 2016. In 2016, the Company recorded \$2,980,000 of net unrealized gains on available-for-sale securities, pre-tax, in other comprehensive income (loss). 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

For the balance of 2016, we anticipate:

- A continued decrease in premiums and earnings due to exiting the medical stop-loss business as a result of the closing of the Risk Solutions Sale and Coinsurance Transaction.
- Continued significant increase in specialty health premiums (including short-term and supplemental health products, such as dental, short-term medical, critical illness and occupational accident products), and continued decrease in major medical premiums, which is in run-off. Increasing emphasis on direct-to-consumer and career advisor distribution initiatives as we believe this will be a growing means for selling health insurance in the coming years, and accompanying start-up costs of expanding our sales through our call center, career model (including our newly launched Aspira A Mas outreach to the Hispanic community) and transactional websites.
- If a rule proposed by certain departments of the federal government is enacted as published, the duration of short-term medical ("STM") products may be regulated by the federal government. We do not anticipate any negative impact from this proposed rule in 2016, and we believe if it is adopted that we may see a shift in sales in 2017 from STM and to our hospital indemnity products, which may benefit AMIC overall.
- Increasing retention in our group disability lines of business. We expect a continuation of the increase in group long-term and short-term disability products driven by higher retention amounts and a full year of premiums generated by a relatively new distribution partnership.

- Continued evaluation of strategic transactions. As a result of the sale of Risk Solutions, we have significant cash. We plan to redeploy some of this cash in making investments and acquisitions to bolster existing or new lines of business. Specialty Benefits has made two minority investments in call centers that have begun writing substantially all of their specialty health business with carriers affiliated with IHC. We are currently negotiating a similar transaction, which we anticipate could close this year.
- Continued focus on administrative efficiencies.
- We anticipate that IHC will take AMIC private on August 31, 2016.

On March 31, 2016, IHC and its subsidiary Independence American Holdings Corp. sold the stock of Risk Solutions. In addition, under the purchase and sale agreement, all of the in-force medical stop-loss business of Standard Security Life and Independence American produced by Risk Solutions was co-insured by Westport as of January 1, 2016. The aggregate purchase price was \$152.5 million in cash, subject to adjustments and settlements. This transaction resulted in a gain on the sale estimated at approximately \$114 million. As a result of the transaction, AMIC is highly liquid and has excess capital, however, its Medical Stop-Loss line of business is in run-off, which will have a negative impact on future earnings.

IHC intends to take AMIC private on or about August 31, 2016 by way of a statutory "short-form" merger. As a result, IHC will indirectly own all of the outstanding shares of common stock of AMIC.

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.

IHC Treaties

Independence American derives a significant amount of its premiums from pro rata quota share reinsurance treaties ("IHC Treaties") with Standard Security Life and Madison National Life Insurance Company, Inc. ("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. 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 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 specialty health, DBL and LTD premiums from IHC under the IHC Treaties.

Item 3. 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 and other derivatives may be utilized to modify the duration and average life of such assets.

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.

The expected change in fair value as a percentage of the Company's fixed income portfolio at June 30, 2016 given a 100 to 200 basis point rise or decline in interest rates is not materially different than the expected change at December 31, 2015 included in Item 7A of the Company's Annual Report on Form 10-K.

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.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and procedures

AMIC's Chief Executive Officer and Chief Financial Officer supervised and participated in AMIC's evaluation of its disclosure controls and procedures as of the end of the period covered by this report. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in AMIC's periodic reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

As previously disclosed in Item 9A of our Form 10-K for the year ended December 31, 2015, management concluded that there was a material weakness in internal control over financial reporting for income taxes. Management determined that we did not maintain effective controls over the accounting for and disclosures of technical accounting matters as they relate to income taxes. Specifically, we did not have (i) sufficient tax accounting resources with adequate knowledge of the Company's process and controls over financial reporting related to income taxes to effectively design, operate, and document controls over accounting for income taxes, (ii) an adequate risk assessment process related to income tax accounting to identify and appropriately account for income taxes associated with significant, non-routine transactions and (iii) effective process level controls over completeness, existence, accuracy and disclosure of deferred tax balances.

Plan for Remediation of Material Weakness

The Company is actively engaged in evaluating and determining implementation steps to remediate the material weaknesses in internal control over financial reporting identified related to accounting for income taxes. The Company has begun and will continue to (i) augment existing tax staff with additional skilled tax accounting resources and providing additional training to existing staff on the design and operation of tax related financial reporting and corresponding internal controls, (ii) enhance risk assessment processes that operate over accounting for income taxes, with a particular focus on the tax accounting and disclosure for unusual and complex transactions, and (iii) review the processes and controls in place to measure and record transactions related to tax accounting to enhance the effectiveness of the design and operation of those controls. Though the Company has begun to address the remediation efforts described above, until the remediation actions are fully implemented and the operational effectiveness of related internal controls validated through testing, the material weaknesses described above will continue to exist.

Changes in Internal Control Over Financial Reporting

There has been no change in AMIC's internal control over financial reporting during the quarter ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, AMIC's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. 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 related to its outstanding legal proceedings and claims. The Company believes the results of pending legal proceedings and claims are not expected to have a material adverse effect on its financial condition or cash flows, although there could be a material effect on its results of operations for a particular period.

Item 1A. Risk Factors

There were no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 in response to Item 1A. to Part 1 of Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Share Repurchase Program

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. As of June 30, 2016, 500,000 shares were still authorized to be repurchased under the program. There were no share repurchases during the quarter ended June 30, 2016.

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits

<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).
10.9	Purchase and Sale Agreement, dated as of January 5, 2016, by and among Independence Holding Company, Independence American Holdings Corp., and SR Corporate Solutions America Holding Corporation.
18	Preferability Letter of KPMG LLP dated August 8, 2014. Incorporated by reference to exhibit 18 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of 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.

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.

AMERICAN INDEPENDENCE CORP.
(Registrant)

/s/ Roy T.K. Thung
Roy T.K. Thung
Chief Executive Officer

Date: August 15, 2016

/s/ Teresa A. Herbert
Teresa A. Herbert
Chief Financial Officer and Senior Vice President

Date: August 15, 2016