NEWS CORP
Form 8-K
June 04, 2007

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

Form 8-K

Current Report
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): 06/04/2007

News Corporation
(Exact name of registrant as specified in its charter)

Commission File Number: 001-32352

Delaware	**26-0075658**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

1211 Avenue of the Americas
New York, NY 10036
(Address of principal executive offices, including zip code)

212-852-7000
(Registrant s telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] **Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)**

[ ] **Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)**

[ ] **Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))**

[ ] **Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))**

Information to be included in the report

Item 8.01. Other Events

Under News Corporation's (the "Company") stock repurchase program announced on June 13, 2005 and extended on May 10, 2006, the Company is authorized to acquire from time to time up to $6 billion in the Company's outstanding shares of Class A common stock and Class B common stock. Under the rules of the Australian Stock Exchange (the "ASX"), the Company is required to provide to the ASX, on a daily basis, disclosure of transactions pursuant to the stock repurchase program to the extent such transactions occur.

Attached as Exhibit 99.1 is a copy of the information provided to the ASX on the date noted on Exhibit 99.1.

Item 9.01. Financial Statements and Exhibits

(c) Exhibits.

Exhibit Number	Description
99.1	Information provided to Australian Stock Exchange on the date noted on Exhibit 99.1.

Signature(s)

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

News Corporation

Date: June 04, 2007

By: /s/ Lawrence A. Jacobs

Lawrence A. Jacobs
Senior Executive Vice President and Group General Counsel

Exhibit Index

Exhibit No.	Description
EX-99.1	Information provided to Australian Stock Exchange on the date noted on Exhibit 99.1.

insured lives; (iv) basic, diluted, or adjusted earnings per share; (v) sales or revenue; (vi) earnings before interest, taxes, and other adjustments (in total or on a per share basis); (vii) basic or adjusted net income; (viii) returns on equity, assets, capital, revenue or similar measure; (ix) economic value added; (x) working capital; (xi) total stockholder return; and (xii) product development, product market share, research, licensing, litigation, human resources, information services, mergers, acquisitions, or sales of assets of affiliates or business units. Performance measures may vary from performance period to performance period and from grantee to grantee.

A grantee will be eligible to receive payment in respect of a performance award only to the extent that the performance measure(s) for such award is achieved, and it is determined that all or some portion of such grantee s award has been earned for the performance period. The Compensation Committee reviews whether, and to what extent, the performance measure(s) for a particular performance period (of not less than one fiscal year) have been achieved and, if so, determines the amount of the performance award to be paid. The Compensation Committee may use negative discretion to decrease, but not increase, the amount of the award otherwise payable based upon such performance.

At any time prior to the date that is at least six months before the close of a performance period (or shorter or longer period that the Compensation Committee selects), the Compensation Committee may permit a grantee who is a member of a select group of management or highly compensated employees to irrevocably elect to defer the receipt of all or a percentage of the cash or shares that would otherwise be transferred to the grantee upon the vesting of a performance award.

Termination, Rescission and Recapture of Awards

Each award under the Plan granted to an employee is intended to align such employee s long-term interest with those of IHC. Therefore, if the employee discloses confidential or proprietary information of IHC, provides services to a competitor of IHC, solicits a non-administrative employee of IHC, or has engaged in activities which conflict with IHC s interests (including any breaches of fiduciary duty or the duty of loyalty), the employee is acting contrary to IHC s long-term interests. Accordingly, except as otherwise expressly provided in an award agreement, IHC may terminate any outstanding, unexercised, unexpired, unpaid, or deferred awards, rescind any exercise, payment or delivery pursuant to the award, or recapture any common stock (whether restricted or unrestricted) or proceeds from the employee s sale of shares issued pursuant to the award. Notwithstanding the foregoing, IHC may, in its sole and absolute discretion, choose not to terminate, rescind or recapture upon the occurrence of any of the foregoing events.

Tax Implications

The Patient Protection and Affordable Care Act amended the Tax Code to add Section 162(m)(6), which limits the amount that certain health care insurers, including the Company, may deduct for tax years starting after 2012. Section 162(m)(6) limits the tax deduction to $500,000 per individual, and makes no exception for performance-based compensation or commissions. In addition, the limit applies to compensation, including deferred compensation, paid to all current and former employees and most independent contractors, not just to compensation paid to a narrow group of current top executives. The rule became effective for employer tax years beginning after December 31, 2012. Consequently, the Company is limited to a $500,000 deduction for compensation paid to each named executive officer.

Section 162(m)(1) of the Tax Code limits the amount a publicly-held corporation may deduct for compensation paid to the CEO and certain named executive officers to $1 million per year per executive, makes an exception for performance-based compensation and commissions, and excludes the compensation paid to former covered executives once they are no longer covered. Since the Company is subject to Section 162(m)(6), the performance-based exclusion available under Section 162(m)(1) is not available to the Company.

Compensation Committee Report

The Compensation Committee assists the Board in fulfilling its responsibilities with regard to compensation matters, and is responsible for establishing and approving the compensation of IHC s executive officers. The Compensation Committee has sole authority to determine the compensation for IHC s Chief Executive Officer. The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis section of this Form 10-K with management, including our Chief Executive Officer and our Chief Financial Officer.

Compensation Committee

Mr. Allan C. Kirkman (Chairman)
Mr. John L. Lahey
Mr. James G. Tatum

Compensation Risk Assessment

The Compensation Committee considered the Company's compensation policies and practices and concluded that they did not need to be modified.

Summary Compensation Table

The following table lists the annual compensation for IHC s CEO, CFO and its three other most highly compensated executive officers in 2015 for the years 2015, 2014 and 2013.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)		Non-Equity Incentive Plan Compensation ($)		Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)		All Other Compensation ($)	Total ($)
Mr. Roy T.K. Thung	2015	452,737	338,800	-	-		804,000	(1)	141,247	(4)	19,932	1,756,716
Chief Executive Officer,	2014	443,885	338,000	-	158,400	(2)	855,000	(1)	133,252	(4)	28,583	1,957,120
	2013	437,348	308,000	-	264,825	(3)	(350,000)	(1)	125,709	(4)	20,558	806,440

President and Chairman									
Ms. Teresa A. Herbert	2015	275,821	173,250	-	-	-	-	22,252	471,323
Chief Financial Officer	2014	270,436	157,500	-	42,570 (2)	-	-	23,871	494,377
	2013	266,455	135,000	-	88,275 (3)	-	-	23,182	512,912
Mr. David T. Kettig	2015	352,728	275,000	-	-	-	-	25,217	652,945
Chief Operating Officer	2014	345,456	250,000	-	47,520 (2)	-	-	19,448	662,424
	2013	340,000	210,000	-	88,275 (3)	-	-	19,373	657,648
Mr. Michael Kemp	2015	328,079	325,000	-	-	-	-	26,030	679,109
Chief Underwriting Officer	2014	321,295	376,680	-	-	-	-	23,533	721,508
	2013	316,200	210,000	-	-	-	-	22,942	549,142
Mr. Larry R. Graber	2015	279,091	293,120	-	-	-	-	31,863	604,074
Chief Life and Annuity	2014	273,619	130,000	-	24,750 (2)	-	-	33,072	461,441
Actuary	2013	269,575	130,000	-	88,275 (3)	-	-	27,949	515,799

(1)

Represents strategic and long term incentive earnings as a result of Mr. Thung s Employment Agreement with IHC for the year indicated. IHC is party to the Officer Employment Agreement by and between IHC and Mr. Roy T.K. Thung, IHC s Chief Executive Officer, President and Chairman of the Board of Directors, dated as of May 11, 2011. Under the agreement, Mr. Thung is entitled to an incentive payment upon the disposition of a strategic asset of IHC equal to 3% of the amount above which the consideration received by IHC for such disposition exceeds the book value of such asset as of March 31, 2011. In addition, any termination of the agreement other than for cause triggers an incentive payment to Mr. Thung in respect of such appreciation in the overall book value of IHC. The initial term of Mr. Thung s employment agreement was two years from the date it was entered into, but, by its terms, will be automatically extended for successive two-year periods unless one hundred twenty days prior notice of non-renewal is given by IHC. In accordance with the terms of the agreement, Mr. Thung received a cash incentive payment of $288,728 in 2015 as a result of the coinsurance and sale transaction with National Guardian Life Insurance Company on July 31, 2015. Had the strategic and long-term incentive provisions of Mr. Thung s agreement been triggered on December 31, 2015, Mr. Thung would have received $2,370,272.

(2)

Represents the modification of fully vested options during 2014 to extend their expiration date. The amount reported is the incremental fair value of the modified award as of the modification date.

(3)

Represents the modification of fully vested options during 2013 to extend their expiration date and impose a new, two-year vesting period. The amount reported is the incremental fair value of the modified award as of the modification date.

(4)

Represents the increase (decrease) in the value of Mr. Thung s Retirement Benefits Agreement with IHC for the year indicated. Refer to Potential Payments to Named Executive Officers for additional information regarding this agreement.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth for each named executive officer certain information about unexercised stock options and unvested shares of restricted stock held as of December 31, 2015.

	Option Awards					Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date		Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)
Roy T.K. Thung	176,000	-	$9.09	January 5, 2017		-	-
	16,500	-	$7.11	March 16, 2016	(1)	-	-
	82,500	-	$9.99	March 19, 2018		-	-
Teresa A. Herbert	47,300	-	$9.09	January 5, 2017		-	-
	11,000	-	$7.11	March 16, 2016	(1)	-	-
	27,500	-	$9.99	March 19, 2018		-	-
David T. Kettig	45,300	-	$9.09	January 5, 2017		-	-
	11,000	-	$7.11	March 16, 2016	(1)	-	-
	27,500	-	$9.99	March 19, 2018		-	-
Michael Kemp	7,150	-	$7.86	August 10, 2016	(2)	-	-
	11,000	-	$7.28	November 9, 2016	(2)	-	-
	14,850	-	$9.75	March 15, 2017	(2)	-	-
	12,000	-	$9.46	December 17, 2017	(2)	-	-
Larry R. Graber	27,500	-	$9.09	January 5, 2017		-	-
	11,000	-	$7.11	March 16, 2016	(1)	-	-
	27,500	-	$9.99	March 19, 2018		-	-

(1)

Stock appreciation rights granted on March 31, 2011 were fully vested as of December 31, 2015.

(2)

Stock appreciation rights granted on August 10, 2011, November 9, 2011, March 15, 2012, and December 17, 2012 were fully vested as of December 31, 2015.

The following table sets forth information about the number and value of option exercises and vested stock awards for each named executive officer during the year 2015.

Option Exercises and Stock Vested

	Option Awards		Stock Awards	
Name	**Number of shares acquired on exercise (#)**	**Value realized on exercise ($)**	**Number of shares acquired on vesting (#)**	**Value realized on vesting ($)**
Roy T.K. Thung	-	-	-	-
Teresa A. Herbert	-	-	-	-
David T. Kettig	7,500	28,518	-	-
Michael Kemp	-	-	-	-
Larry R. Graber	-	-	-	-

Potential Payments to Named Executive Officers

With Mr. Thung

IHC is party to a Retirement Benefits Agreement with Mr. Roy T.K. Thung, dated as of September 30, 1991, and amended by amendments dated as of December 20, 2002, June 17, 2005 and December 31, 2008, respectively, pursuant to which Mr. Thung is entitled to a lump-sum cash payment upon a separation from service from IHC of $1,659,557, increasing on a cumulative, compounding basis of 6% per annum from December 31, 2008. Separation from service is as defined under U.S. Treasury Regulations 1.409A-1(h)(1), and would generally include Mr. Thung s death, retirement or any other termination of employment, including permanent disability. For example, had this provision been triggered on December 31, 2015, Mr. Thung would have been entitled to receive a payment of $2,495,360.

IHC is party to the Officer Employment Agreement by and between IHC and Mr. Roy T.K. Thung, IHC s Chief Executive Officer, President and Chairman of the Board of Directors, dated as of May 11, 2011. Under this employment agreement, if Mr. Thung s employment by IHC or its affiliate were to cease under certain circumstances, Mr. Thung would be entitled to receive a lump-sum severance amount equal to the average annual aggregate total compensation received by Mr. Thung during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Mr. Thung to IHC and its affiliates. The circumstances under which such severance would be paid are: (i) Mr. Thung s employment by IHC being involuntarily terminated under circumstances that would not constitute cause (examples of cause being Mr. Thung s material failure to follow IHC s lawful directions, material failure to follow IHC s corporate policies, breach of the non-compete covenants in the employment agreement or his engaging in unlawful behavior that would damage IHC or its reputation); (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with IHC s material breach of its obligations under the employment agreement, IHC s non-renewal of the employment agreement or change in control of IHC or its ultimate parent); or; (iii) upon Mr. Thung s death or permanent disability. In addition, under the agreement, Mr. Thung is also entitled to strategic and long-term incentive payments which are included in the Summary Compensation Table above. The initial term of Mr. Thung s employment agreement is two years from the date it was entered into, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days prior notice of non-renewal is given by IHC. For example, had the severance provisions of Mr. Thung s agreement been triggered on December 31, 2015, Mr. Thung would have been entitled to receive approximately $64,961 per month for thirty-nine months (approximately $2,533,479 in the aggregate).

With Ms. Herbert

IHC is party to the Officer Employment Agreement, by and between IHC and Ms. Teresa A. Herbert, IHC s Chief Financial Officer and Senior Vice President, dated as of April 18, 2011. Under this employment agreement, if Ms. Herbert s employment by IHC or its affiliate were to cease under certain circumstances, Ms. Herbert would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Ms. Herbert during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Ms. Herbert to IHC and its affiliates, not to exceed twenty-four months. The circumstances under which such severance would be paid are (i) Ms. Herbert s employment by IHC being involuntarily terminated under circumstances that would not constitute cause (examples of cause being Ms. Herbert s material failure to follow IHC s lawful directions, material failure to follow IHC s corporate policies, breach of the non-compete covenants in the employment agreement or her engaging in unlawful behavior that would damage IHC or its reputation), or (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with IHC s (or its successor s) material breach of its obligations under the employment agreement or upon IHC s non-renewal of the employment agreement). The initial term of Ms. Herbert s employment agreement is two years from the date it was entered into, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days prior notice of non-renewal is given by IHC. For example, had the severance provision in Ms. Herbert s agreement been triggered on December 31, 2015, Ms. Herbert would have been entitled to receive approximately $36,340 per month for twenty-four months ($872,160 in the aggregate).

With Mr. Kettig

IHC is party to the Officer Employment Agreement, by and among IHC, Standard Security Life, and Mr. David T. Kettig, IHC s Chief Operating Officer, Executive Vice President and Acting General Counsel, dated as of April 18, 2011. Under this employment agreement, if Mr. Kettig s employment by SSL or its affiliate were to cease under certain circumstances, Mr. Kettig would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Mr. Kettig during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Mr. Kettig to IHC and its affiliates, not to exceed twenty-four months. The circumstances under which such severance would be paid are (i) Mr. Kettig s employment by SSL being involuntarily terminated under circumstances that would not constitute cause (examples of cause being Mr. Kettig s material failure to follow SSL s or IHC s lawful directions, material failure to follow SSL s o IHC s corporate policies, breach of the non-compete covenants in the employment agreement or his engaging in unlawful behavior that would damage SSL, IHC or their respective reputations), or (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with SSL s (or its successor s) material breach of its obligations under the employment agreement or upon SSL s non-renewal of the employment agreement). The initial term of Mr. Kettig s employment agreement is two years from the date it was entered into, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days prior notice of non-renewal is given by SSL. For example, had the severance provision in Mr. Kettig s agreement been triggered on December 31, 2015, Mr. Kettig would have been entitled to receive approximately $48,576 per month for twenty-four months ($1,165,824 in the aggregate).

With Mr. Kemp

IHC was party to the Officer Employment Agreement, by and among IHC, Risk Solutions, and Mr. Michael Kemp, IHC s Chief Underwriting Officer and Senior Vice President, dated as of May 22, 2012. Under this employment agreement, if Mr. Kemp s employment by Risk Solutions or its affiliate were to cease under certain circumstances, Mr. Kemp would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Mr. Kemp during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) 3.5 plus a number of months equal to the aggregate number of years of service of Mr. Kemp to IHC and its affiliates, not to exceed twenty-four months. The circumstances under which such severance would be paid were (i) Mr. Kemp s employment by Risk Solutions being involuntarily terminated under circumstances that would not constitute cause (examples of cause being Mr. Kemp s material failure to follow Risk Solutions or IHC s lawful directions, material failure to follow Risk Solutions or IHC s corporate policies, breach of the non-compete covenants in the employment agreement or his engaging in unlawful behavior that would damage Risk Solutions, IHC or their respective reputations), or (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with Risk Solutions (or its successor s) material breach of its obligations under the employment agreement or upon Risk Solutions non-renewal of the employment agreement). The severance provision in Mr. Kemp s agreement was triggered on March 31, 2016 with the sale of Risk Solutions and Mr. Kemp was paid a lump sum of $598,473.

With Mr. Graber

IHC is party to the Officer Employment Agreement, by and among IHC, Madison National Life, and Mr. Larry R. Graber, IHC s Chief Life and Annuity Actuary and Senior Vice President, dated as of April 18, 2011. Under this employment agreement, if Mr. Graber s employment by MNL or its affiliate were to cease under certain circumstances, Mr. Graber would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Mr. Graber during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Mr. Graber to IHC and its affiliates, not to exceed twenty-four months. The circumstances under which such severance would be paid are (i) Mr. Graber s employment by MNL being involuntarily terminated under circumstances that would not constitute cause (examples of cause being Mr. Graber s material failure to follow MNL s or IHC s lawful directions, material failure to follow MNL s or IHC s corporate policies, breach of the non-compete covenants in the employment agreement or his engaging in unlawful behavior that would damage MNL, IHC or their respective reputations), or (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with MNL s (or its successor s) material breach of its obligations under the employment agreement or upon MNL s non-renewal of the employment agreement). The initial term of Mr. Graber s employment agreement is two years from the date it was entered into, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days prior notice of non-renewal is given by MNL. For example, had the severance provision in Mr. Graber s agreement been triggered on December 31, 2015, Mr. Graber would have been entitled to receive approximately $37,057 per month for nineteen months ($704,083 in the aggregate).

Stock Incentive Plans

Under the terms of IHC s stock incentive plans, the Compensation Committee is obligated to make appropriate provision for the holders of awards thereunder in the event of a change in control of IHC or similar event. The specifics of such an occurrence cannot be anticipated, and thus the prospective effect upon IHC cannot reliably be quantified.

Equity Compensation Plans

The following table sets forth certain information as of April 30, 2016 with respect to compensation plans under which shares of IHC common stock may be issued. IHC s 2006 Stock Incentive Plan expired by its terms on April 17, 2016.

Equity Compensation Plan Information

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in the First Column)
Equity compensation plans approved by stockholders	579,080	$9.35	0

DIRECTORS COMPENSATION

The general policy of the Board is that compensation for independent directors should be a mix of cash and equity. IHC does not pay management directors for board service in addition to their regular employee compensation. The Compensation Committee has the primary responsibility for reviewing and considering any revisions to director compensation.

During 2016, each non-employee (outside) director will be paid:

an annual retainer of $36,000;

$1,500 for each board or committee meeting attended;

$9,000 for service as chairman of a board committee; and

2,475 restricted shares of IHC common stock, vesting ratably over the three annual anniversaries of the award, and contingent upon continuing service as a director.

The following table summarizes compensation paid to IHC s directors during 2015 except for Mr. Roy T.K. Thung, IHC s Chief Executive Officer and President, Mr. David T. Kettig, Chief Operating Officer, Executive Vice President and Acting General Counsel, and Mr. Larry R. Graber, Chief Life and Annuity Actuary and Senior Vice President, for whom compensation was previously discussed.

Director Summary Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Total ($)
Mr. Allan C. Kirkman	63,000	29,156	92,156
Mr. John L. Lahey.	54,000	29,156	83,156

Mr. Steven B. Lapin (1)	-	-	-
Mr. James G. Tatum.	63,000	29,156	92,156

(1)

Mr. Lapin received no compensation in connection with his service as an IHC director during 2015.

ITEM 12.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND

MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Directors and Executive Officers

The following table sets forth certain information concerning the number of shares of our common stock that is beneficially owned by each of our directors and each of our named executive officers based on 17,220,758 issued and outstanding shares of common stock as of April 30, 2016.

Beneficial ownership is determined in accordance with SEC rules and generally includes voting or investment power with respect to securities. Other than as described in the notes to the table, we believe that all persons named in the table have sole voting and investment power with respect to shares beneficially owned by them. All share ownership figures include shares issuable upon exercise of options or warrants exercisable within 60 days of the date above, which are deemed outstanding and beneficially owned by such person for purposes of computing his or her percentage ownership, but not for purposes of computing the percentage ownership of any other person.

The address of each individual named below is c/o IHC at 96 Cummings Point Road, Stamford, Connecticut 06902.

Name of Beneficial Owner	Number of Shares		Percent of Class
Mr. Larry R. Graber	100,285	(1)	*
Ms. Teresa A. Herbert	131,987	(2)	*
Mr. David T. Kettig	158,285	(3)	*
Mr. Allan C. Kirkman	22,176		*
Mr. John L. Lahey	18,150		*
Mr. Steven B. Lapin	122,162	(4)	*
Mr. James G. Tatum	34,176		*
Mr. Roy T. K. Thung	545,750	(5)	3.1%
All directors, nominees for director and executive officers as a group (8 persons)	1,132,971		6.4%

*

Represents less than 1% of the outstanding common stock.

(1)

Includes 55,000 shares of common stock underlying stock options exercisable within sixty (60) days from the date hereof.

(2)

Includes 74,800 shares of common stock underlying stock options exercisable within sixty (60) days from the date hereof.

(3)

Includes 67,800 shares of common stock underlying stock options exercisable within sixty (60) days from the date hereof.

(4)

Excludes the 9,145,226 shares of common stock held by Geneve Holdings, Inc., of which the named individual is an officer.

(5)

Includes 258,500 shares of common stock underlying stock options exercisable within sixty (60) days from the date hereof. Excludes the 9,145,226 shares of common stock held by Geneve Holdings, Inc., of which the named individual is an officer.

Significant Stockholders

The following table sets forth certain information concerning the number of shares of our common stock that is beneficially owned by certain persons known by IHC to beneficially own more than five percent of the outstanding shares of IHC common stock, based on 17,220,758 issued and outstanding shares of common stock as of April 30, 2016.

Beneficial ownership is determined in accordance with SEC rules and generally includes voting or investment power with respect to securities. Other than as described in the notes to the table, we believe that all persons named in the table have sole voting and investment power with respect to shares beneficially owned by them. All share ownership figures include shares issuable upon exercise of options or warrants exercisable within 60 days of the date above, which are deemed outstanding and beneficially owned by such person for purposes of computing its percentage ownership, but not for purposes of computing the percentage ownership of any other person.

Name	Number of Shares	Percent of Class
Geneve Holdings, Inc. (1)	9,145,226	53.11%
Dimensional Fund Advisors LP. (2)	966,046	5.61%

(1)

According to (i) information disclosed in Amendment No. 35 to Schedule 13D dated May 9, 2001 of Geneve Holdings, Inc. (GHI), a private diversified financial holding company, supplemented by (ii) information provided to IHC by GHI in response to a questionnaire. GHI is a member of a group consisting of itself and certain of its affiliates that together hold the shares of common stock of IHC. The address of GHI is 96 Cummings Point Road, Stamford, Connecticut 06902.

(2)

According to information disclosed in Form 13F, reporting as of March 31, 2016 (the Form 13F), Dimensional Fund Advisors LP, an investment adviser registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts (such investment companies, trusts and accounts, collectively referred to as the Funds). In certain cases, subsidiaries of Dimensional Fund Advisors LP may act as an adviser or sub-adviser to certain Funds. In its role as investment advisor, sub-adviser and/or manager, Dimensional Fund Advisors LP or its subsidiaries (collectively, Dimensional) possess voting and/or investment power over the securities of IHC that are owned by the Funds, and may be deemed to be the beneficial owner of the shares of IHC held by the Funds. However, all shares of IHC s common stock reported in the Form 13F are owned by the Funds. Dimensional disclaims beneficial ownership of such securities. In addition, its filing of the Form 13F shall not be construed as an admission that it or any of its affiliates is the beneficial owner of any securities covered by the Form 13F for any other purposes than Section 13(f) of the Securities Exchange Act of 1934, as amended. The address of Dimensional Fund Advisors LP is Palisades West, Building 1, 6300 Bee Cave Road, Austin, Texas 78746.

ITEM 13.

CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Director Independence

As a company listed on the New York Stock Exchange (NYSE), IHC uses the definition of independence prescribed in the NYSE Listed Company Manual (the Manual). Each of Messrs. Kirkman, Tatum and Lahey met such independence requirements. The Board has affirmatively determined that none of them had any material relationship with IHC at all applicable times during 2015.

IHC qualifies as a controlled company, as defined in Section 303A.00 of the Manual, because more than 50% of IHC s voting power is held by GHI. Therefore, IHC is not subject to certain NYSE requirements that would otherwise require IHC to have: (i) a majority of independent directors on the Board (Manual Section 303A.01); (ii) compensation of IHC s executive officers determined by a compensation committee composed solely of independent directors (Manual Section 303A.04); or (iii) director nominees selected, or recommended for the Board s selection, by a nominating committee composed solely of independent directors (Manual Section 303A.05).

Of IHC s directors, none of Messrs. Graber, Kettig, Lapin or Thung is independent under the NYSE s standards.

For each independent director, after reasonable investigations and in reliance on representations by such independent director to IHC, IHC believes there is no transaction, relationship or arrangement between each such director not disclosed in this annual report under the caption Certain Relationships and Related Transactions.

Compensation Committee Interlocks and Insider Participation

Messrs. Kirkman, Lahey and Tatum served on the Compensation Committee of the Board during fiscal year 2015.

Transactions with Management and Other Relationships

With Geneve Holdings, Inc.

IHC and Geneve Holdings, Inc. (GHI), IHC s controlling stockholder, operate under cost-sharing arrangements pursuant to which certain items are allocated between the two companies. During 2015, IHC paid GHI (or accrued for payment thereto) approximately $456,000 under such arrangements, and paid or accrued an additional $113,000 for the first quarter of 2016. Such cost-sharing arrangements include GHI s providing IHC with the use of office space as IHC s corporate headquarters for annual consideration of $155,000 in 2015. The foregoing arrangement is subject to the annual review and approval of the Audit Committee, and IHC s management believes that the terms thereof are no less favorable than could be obtained by IHC from unrelated parties on an arm s-length basis.

With Southern Life and Health Insurance Company

Southern Life and Health Insurance Company (Southern Life) is controlled by GHI. During 2015, IHC and its subsidiaries paid approximately $25,000 to Southern Life for certain cost-sharing arrangements and accrued an additional $6,000 in the first quarter of 2016.

Review, Approval, or Ratification of Transactions with Related Persons

Section 5.7 of IHC s by-laws provide that no contract or transaction between IHC and one or more of its directors or officers (or their affiliates) is *per se* void (or voidable) if, among other things, the material facts as to the relevant relationships and interests were disclosed to the Board (or the relevant committee thereof) and the transaction in question was approved by a majority of the disinterested directors voting on the matter. The Audit Committee s charter requires the Audit Committee to review and approve all interested-party transactions, and IHC s other governance documents specifically prohibit various conflicts of interest and impose disclosure requirements in connection with any potential conflict of interest.

The Audit Committee has reviewed and approved each of the related-party transactions set forth above. IHC is not aware of any transaction reportable under paragraph (a) of Item 404 of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended, in respect of 2015, that was not so reviewed and approved.

ITEM 14.

PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table sets forth fees for services KPMG provided to IHC during 2015 and 2014:

	2015	2014
Audit fees	$ 1,533,000	$ 1,533,000
Audit-related fees	-	68,000
Tax fees	-	-
All other fees	-	-
Total	$ 1,533,000	$ 1,601,000

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Audit Fees. Represents fees for professional services provided for the audit of IHC s annual financial statements, the review of IHC s quarterly financial statements and audit services provided in connection with other statutory or regulatory filings. The fees for 2015 are based on initial engagement and are pending completion of final billing.

The Audit Committee has determined that the provision of non-audit services by KPMG is compatible with maintaining KPMG s independence. Any such engagement of KPMG to provide non-audit services to IHC must be pre-approved by the Audit Committee.

PART IV

ITEM 15.

EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) and (2)

See Index to Consolidated Financial Statements and Schedules on page 74.

(a) (3) EXHIBITS

See Exhibit Index on page 132.

SIGNATURES

Pursuant to the requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on June 3, 2016.

INDEPENDENCE HOLDING COMPANY

REGISTRANT

By:

/s/ Roy T. K. Thung

Roy T.K. Thung

President and

Chief Executive Officer

(Principal Executive Officer)

By:

/s/ Teresa A. Herbert

Teresa A. Herbert

Senior Vice President and

Chief Financial Officer

(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of the 3rd day of June, 2016.

/s/ Larry R. Graber Larry R. Graber Director and Senior Vice President	/s/ Steven B. Lapin Steven B. Lapin Director and Vice Chairman
/s/ Allan C. Kirkman Allan C. Kirkman Director	/s/ James G. Tatum James G. Tatum Director
/s/ David T. Kettig David T. Kettig Director, Chief Operating Officer and Senior Vice President	/s/ Roy T.K. Thung Roy T.K. Thung Chief Executive Officer, President and Chairman (Principal Executive Officer)
/s/ John L. Lahey John L. Lahey Director	

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Independence Holding Company:

We have audited Independence Holding Company s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Independence Holding Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management s Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. Material weaknesses related to the financial reporting for income taxes have been identified and included in management s assessment in Item 9A. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Independence Holding Company as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2015. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2015 consolidated financial statements, and this report does not affect our report dated June 3, 2016, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, because of the effect of the aforementioned material weaknesses on the achievement of the objectives of the control criteria, Independence Holding Company has not maintained effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Independence Holding Company acquired Global Accident Facilities, LLC (GAF) on April 30, 2015, and management excluded from its assessment of the effectiveness of Independence Holding Company s internal control over financial reporting as of December 31, 2015, GAF s internal control over financial reporting. GAF constituted approximately 1.2% of total assets as of December 31, 2015, and approximately 0.6% of total revenues for the year ended December 31, 2015, which are included in the consolidated financial statements of Independence Holding Company and subsidiaries as of and for the year ended December 31, 2015. Our audit of internal control over financial reporting of Independence Holding Company also excluded an evaluation of the internal control over financial reporting of GAF.

/s/ KPMG LLP

New York, New York
June 3, 2016

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Independence Holding Company:

We have audited the accompanying consolidated balance sheets of Independence Holding Company and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2015. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedules I to IV. These consolidated financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Independence Holding Company and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Independence Holding Company s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 3, 2016 expressed an adverse opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

New York, New York
June 3, 2016

INDEPENDENCE HOLDING COMPANY
CONSOLIDATED BALANCE SHEETS (In thousands, except share data)
DECEMBER 31,

	2015	2014
ASSETS:		
Investments:		
Short-term investments	$ 50	$ 50
Securities purchased under agreements to resell	28,285	16,790
Trading Securities	1,259	11,095
Fixed maturities, available-for-sale	428,601	583,880
Equity securities, available-for-sale	8,426	13,895
Other investments	21,538	25,251
Total investments	488,159	650,961
Cash and cash equivalents	19,171	25,083
Deferred acquisition costs	499	30,806
Due and unpaid premiums	69,075	62,628
Due from reinsurers	480,859	278,242
Premium and claim funds	22,755	32,553
Goodwill	52,940	50,318
Other assets	64,505	65,636
TOTAL ASSETS	$ 1,197,963	$ 1,196,227
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Policy benefits and claims	$ 245,443	$ 236,803
Future policy benefits	270,624	277,041
Funds on deposit	173,350	186,782
Unearned premiums	10,236	9,455
Other policyholders' funds	11,822	18,802
Due to reinsurers	44,141	47,945
Accounts payable, accruals and other liabilities	66,308	67,641
Debt	5,189	4,000
Junior subordinated debt securities	38,146	38,146
TOTAL LIABILITIES	865,259	886,615
Commitments and contingencies (Note 14)		
STOCKHOLDERS' EQUITY:		
Preferred stock (none issued)	-	-

Common stock $1.00 par value: 23,000,000 shares authorized; 18,569,183 and 18,531,158 shares issued, 17,265,758 and 17,371,040 shares outstanding	18,569	18,531
Paid-in capital	127,733	127,098
Accumulated other comprehensive income (loss)	(3,440)	22
Treasury stock, at cost: 1,303,425 and 1,160,118 shares	(13,961)	(12,141)
Retained earnings	194,450	166,177
TOTAL IHC STOCKHOLDERS EQUITY	323,351	299,687
NONCONTROLLING INTERESTS IN SUBSIDIARIES	9,353	9,925
TOTAL EQUITY	332,704	309,612
TOTAL LIABILITIES AND EQUITY	$ 1,197,963	$ 1,196,227

See accompanying notes to consolidated financial statements.

78

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (In thousands, except per share data)
YEARS ENDED DECEMBER 31,

	2015	**2014**	**2013**
REVENUES:			
Premiums earned	$ 479,534	$ 479,048	$ 495,991
Net investment income	17,298	21,692	27,471
Fee income	12,954	20,646	26,954
Other income	10,276	4,859	4,878
Gain on sale of subsidiary to joint venture	9,940	-	-
Net realized investment gains	3,094	7,688	19,750
Net impairment losses recognized in earnings	(228)	-	-
	532,868	533,933	575,044
EXPENSES:			
Insurance benefits, claims and reserves	307,178	326,035	354,790
Selling, general and administrative expenses	172,180	177,848	179,553
Amortization of deferred acquisition costs	3,524	4,941	15,132
Interest expense on debt	1,798	1,797	1,915
	484,680	510,621	551,390
Income before income taxes	48,188	23,312	23,654
Income taxes	17,666	6,391	8,398
Net income	30,522	16,921	15,256
Less: Income from noncontrolling interests in subsidiaries	(578)	(628)	(1,477)
NET INCOME ATTRIBUTABLE TO IHC	$ 29,944	16,293	$ 13,779
Basic income per common share	$ 1.73	$ .93	$ .78
WEIGHTED AVERAGE SHARES OUTSTANDING	17,314	17,471	17,758
Diluted income per common share	$ 1.71	$ .92	$ .77
	17,484	17,636	17,871

WEIGHTED AVERAGE DILUTED SHARES
OUTSTANDING

See accompanying notes to consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (In thousands)
YEARS ENDED DECEMBER 31,

	2015	**2014**	**2013**
Net income	$ 30,522	$ 16,921	$ 15,256
Other comprehensive income (loss):			
Available-for-sale securities:			
Unrealized gains (losses) on available-for-sale securities, pre-tax	(5,546)	15,389	(38,439)
Tax expense (benefit) on unrealized gains (losses) on available-for-sale securities	(2,041)	4,768	(12,252)
Unrealized gains (losses) on available-for-sale securities, net of taxes	(3,505)	10,621	(26,187)
Cash flow hedge:			
Unrealized gains (losses) on cash flow hedge, pre-tax	71	120	159
Tax expense (benefit) on unrealized gains (losses) on cash flow hedge	28	48	63
Unrealized gains (losses) on cash flow hedge, net of taxes	43	72	96
Other comprehensive income (loss), net of tax	(3,462)	10,693	(26,091)
COMPREHENSIVE INCOME (LOSS), NET OF TAX	27,060	27,614	(10,835)
Comprehensive income, net of tax, attributable to noncontrolling interests:			
Income from noncontrolling interests in subsidiaries	(578)	(628)	(1,477)
Other comprehensive (income) loss, net of tax, attributable to noncontrolling interests:			
Unrealized (gains) losses on available-for-sale securities, net of tax	(5)	(199)	665
Other comprehensive (income) loss, net of tax, attributable to noncontrolling interests	(5)	(199)	665
COMPREHENSIVE INCOME, NET OF TAX, ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(583)	(827)	(812)
COMPREHENSIVE INCOME (LOSS), NET OF TAX, ATTRIBUTABLE TO IHC	$ 26,477	$ 26,787	$ (11,647)

See accompanying notes to consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (In thousands, except share data)

	COMMON STOCK		PAID-IN	ACCUMULATED OTHER COMPREHENSIVE	TREASURY STOCK, AT COST		RETAINED	TO STOC
	SHARES	AMOUNT	CAPITAL	INCOME (LOSS)	SHARES	AMOUNT	EARNINGS	E
BALANCE DECEMBER 31, 2012	18,461,992	$ 18,462	$ 126,589	$ 15,013	(529,038)	$ (4,533)	$ 138,663	$
Net income							13,779	
Other comprehensive income, net of tax				(25,426)				
Repurchase of common stock					(334,305)	(3,636)		
Purchases of noncontrolling interests			(1,168)	(59)				
Common stock dividend ($.07 per share)							(1,241)	
Share-based compensation expense and related tax benefits	61,741	62	792					
Distributions to noncontrolling interests								
Other capital transactions			26				(22)	
BALANCE AT DECEMBER 31, 2013	18,523,733	18,524	126,239	(10,472)	(863,343)	(8,169)	151,179	
Net income							16,293	
Other comprehensive loss, net of tax				10,494				
Repurchase of common stock					(296,775)	(3,972)		
Common stock dividend ($.07 per share)							(1,223)	

Share-based compensation expense and related tax benefits	7,425	7	756				
Distributions to noncontrolling interests							
Other capital transactions			103				(72)
BALANCE AT DECEMBER 31, 2014	18,531,158 $	18,531 $	127,098 $	22	(1,160,118) $	(12,141) $	166,177 $
Net income							29,944
Other comprehensive income, net of tax				(3,467)			
Repurchase of common stock					(143,307)	(1,820)	
Acquisition of subsidiary							
Purchases of noncontrolling interests			112	5			
Common stock dividend ($.09 per share)							(1,562)
Share-based compensation expense and related tax benefits	38,025	38	408				
Other capital transactions			115				(109)
BALANCE AT DECEMBER 31, 2015	18,569,183 $	18,569 $	127,733 $	(3,440)	(1,303,425) $	(13,961) $	194,450 $

See accompanying notes to consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands)
YEARS ENDED DECEMBER 31,

	2015	2014	2013
Cash Flows Provided By (Used By) Operating Activities:			
Net income	$ 30,522	$ 16,921	$ 15,256
Adjustments to reconcile net income to net change in cash from			
operating activities:			
Gain on sale of subsidiary to joint venture	(9,940)	-	-
Gain on disposition of assets	(5,053)	-	-
Amortization of deferred acquisition costs	3,524	4,941	15,132
Net realized investment gains	(3,094)	(7,688)	(19,750)
Other-than-temporary impairment losses	228	-	-
Equity income from equity method investments	(405)	(1,106)	(2,506)
Depreciation and amortization	3,063	3,932	4,577
Deferred tax expense	2,239	5,628	8,692
Other	4,349	9,449	5,574
Changes in assets and liabilities:			
Net purchases (sales) of trading securities	5,356	(4,719)	1,603
Change in insurance liabilities	(18,907)	(94,876)	36,136
Additions to deferred acquisition costs	26,774	(6,223)	(5,827)
Change in amounts due from reinsurers	(202,617)	101,987	(213,349)
Change in premium and claim funds	(1,891)	4,800	3,243
Change in current income tax liability	3,386	2,241	(951)
Change in due and unpaid premiums	(6,447)	(3,193)	(10,005)
Change in other assets	(5,139)	2,580	(219)
Change in other liabilities	9,328	(7,343)	78
Net change in cash from operating activities	(164,724)	27,331	(162,316)
Cash Flows Provided By (Used By) Investing Activities:			
Net (purchases) sales of securities under resale agreements	(11,495)	5,804	11,362
Sales of equity securities	11,986	288	11,529
Purchases of equity securities	(6,601)	(1,228)	(7,517)
Sales of fixed maturities	629,376	353,143	551,756
Maturities and other repayments of fixed maturities	42,630	45,091	57,090
Purchases of fixed maturities	(521,417)	(421,285)	(462,823)
Acquisition of subsidiary, net of cash acquired	511	-	-
Proceeds from deconsolidation of subsidiaries, net of cash divested	4,518	-	-
Proceeds from sale of assets	8,000	-	-
Change in policy loans	10,629	660	10,837
Other investing activities	191	1,674	9,455
Net change in cash from investing activities	168,328	(15,853)	181,689

Cash Flows Provided By (Used By) Financing Activities:			
Repurchases of common stock	(1,820)	(3,972)	(3,636)
Cash paid in acquisitions of noncontrolling interests	(1,734)	-	(8,825)
Withdrawals of investment-type insurance contracts	(2,306)	(2,988)	(3,262)
Repayments of debt	(2,617)	(2,000)	(2,000)
Dividends paid	(1,392)	(1,233)	(620)
Other financing activities	353	(431)	(746)
Net change in cash from financing activities	(9,516)	(10,624)	(19,089)
Net change in cash and cash equivalents	(5,912)	854	284
Cash and cash equivalents, beginning of year	25,083	24,229	23,945
Cash and cash equivalents, end of year	$ 19,171	$ 25,083	$ 24,229

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1.

Organization, Consolidation, Basis of Presentation and Accounting Policies

(A)

Business and Organization

Independence Holding Company, a Delaware corporation (IHC), is a holding company principally engaged in the life and health insurance business through: (i) its insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life"), Madison National Life Insurance Company, Inc. ("Madison National Life"), Independence American Insurance Company (Independence American); and (ii) its marketing and administrative companies, including IHC Risk Solutions, LLC, IHC Specialty Benefits Inc. and IHC Carrier Solutions, Inc. IHC also owns a significant equity interest in: (i) Ebix Health Exchange Holdings, LLC (Ebix Health Exchange), a newly formed administration exchange for health and pet insurance; and (ii) a managing general underwriter (MGU) that writes medical stop-loss. Standard Security Life, Madison National Life and Independence American are sometimes collectively referred to as the Insurance Group . IHC and its subsidiaries (including the Insurance Group) are sometimes collectively referred to as the "Company", or IHC , or are implicit in the terms we , us and our .

Geneve Corporation, a diversified financial holding company, and its affiliated entities, held approximately 53% of IHC's outstanding common stock at December 31, 2015.

(B)

Consolidation

American Independence Corp

At December 31, 2015 and 2014, the Company owned approximately 92% and 90%, respectively, of the outstanding common stock of American Independence Corp. ("AMIC"). In January 2016, IHC s Board of Directors has preliminarily determined to take the steps necessary to take AMIC private. AMIC is an insurance holding company engaged in the insurance and reinsurance business. The Company has increased its ownership in AMIC through various transactions described below. Because IHC had a controlling interest in AMIC prior to these transactions, these purchases and acquisitions were accounted for as equity transactions. Accordingly, any differences between the fair value of the consideration paid and the carrying value of the noncontrolling interests acquired were recognized as changes in IHC s equity. In 2015, AMIC acquired Global Accident Facilities, LLC (GAF). See Note 6 for more information regarding the acquisition of GAF.

In 2015, IHC purchased shares of AMIC common stock increasing its ownership interest in AMIC to approximately 92%.

In 2013, IHC s ownership in AMIC increased from 79% to 90% as a result of: (i) share repurchases by AMIC; and (ii) a tender offer whereby IHC purchased tendered shares of AMIC common stock for cash.

Effects of Ownership Changes in Subsidiaries

The following table summarizes the effects of any changes in the Company s ownership interests in its less than wholly owned subsidiaries on IHC s equity for the years indicated (in thousands).

	2015	2014	2013
Changes in IHC s paid-in capital:			
Purchases of AMIC shares	$ (199)	$ -	$ (1,571)
Repurchases of shares by AMIC	-	-	403
Purchase remaining IPA Family, LLC interests	311		
Net transfers from (to) noncontrolling interests	$ 112	$ -	$ (1,168)

(C)

Basis of Presentation

The Consolidated Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and include the accounts of IHC and its consolidated subsidiaries. Effective September 1, 2015 (Deconsolidation Date), pursuant to the terms of a contribution agreement, IHC contributed all of its shares in its subsidiary, IHC Health Solutions, Inc. (IHC Health Solutions) to Ebix Health Exchange, a newly formed joint venture with Ebix, Inc. (Ebix), and, as a result, IHC deconsolidated IHC Health Solutions (see Note 6). In accordance with U.S. GAAP, the accompanying Consolidated Financial Statements include the operating results of IHC Health Solutions prior to the Deconsolidation Date. Subsequent to the Deconsolidation Date, the Company s equity interest in the newly formed joint venture is accounted for under the equity method of accounting. All significant intercompany transactions have been eliminated in consolidation. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect: (i) the reported amounts of assets and liabilities 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.

(D)

Immaterial Error Correction

During the fourth quarter of 2015, the Company identified an error in the recording of deferred tax assets and liabilities made in connection with the acquisition of AMIC in 2010. An immaterial error correction was made in the Consolidated Balance Sheet at December 31, 2014 and in the Consolidated Statements of Changes in Stockholders Equity for the two-year period ended December 31, 2014. Other assets in the Consolidated Balance Sheet at December 31, 2014 was increased by $8,510,000, representing the correction of net deferred tax asset balances, with a corresponding increase made to retained earnings, representing an adjustment to the 2010 gain on bargain purchase of AMIC, the effect of which is reflected in the Consolidated Balance Sheet at December 31, 2014 and in the Statements of Changes in Stockholders Equity as of December 31, 2012, 2013 and 2014. This immaterial error correction had no impact on the Consolidated Statements of Income, the computations of basic and diluted earnings per share, the Consolidated Statements of Comprehensive Income, or the Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2014 or 2015.

(E)

Reclassifications

Certain amounts in prior year s Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2015 presentation.

(F)

Cash Equivalents and Short-Term Investments

Cash equivalents are carried at cost which approximates fair value and include principally interest-bearing deposits at brokers, money market instruments and U.S. Treasury securities with original maturities of less than 91 days. Investments with original maturities of 91 days to one year are considered short-term investments and are carried at cost which approximates fair value.

(G)

Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell ("resale agreements") are carried at the amounts at which the securities will be subsequently resold as specified in the agreements. Resale agreements are utilized to invest excess funds on a short-term basis. At December 31, 2015, the Company had $28,285,000 invested in resale agreements, all of which settled on January 2, 2016 and were subsequently reinvested. The Company maintains control of securities purchased under resale agreements, values the collateral on a daily basis and obtains additional collateral, if necessary, to protect the Company in the event of default by the counterparties.

(H)

Investment Securities

(i) Investments in fixed maturities, redeemable preferred securities and equity securities are accounted for as follows:

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

(b) Securities not held for trading purposes which may or may not be held to maturity ("available-for-sale securities") are carried at fair value. Unrealized gains and losses deemed temporary, net of deferred income taxes and adjustments to deferred policy acquisition costs, are credited or charged, as appropriate, to other comprehensive income or loss. Premiums and discounts on debt securities purchased at other than par value are amortized and accreted, respectively, to interest income in the Consolidated Statements of Income, using the constant yield method over the period to maturity.

(ii) Gains or losses on sales of securities are determined on the basis of specific identification and are recorded in net realized investment gains (losses) in the Consolidated Statements of Income on the trade date.

(iii) Fair value is determined using quoted market prices when available. In some cases, we use quoted market prices for similar instruments in active markets and/or model-derived valuations where inputs are observable in active markets. When there are limited or inactive trading markets, we use industry-standard pricing methodologies, including discounted cash flow models, whose inputs are based on management assumptions and available current market information. Further, we retain independent pricing vendors to assist in valuing certain instruments. Most of the securities in our portfolio are classified in either Level 1 or Level 2 of the Fair Value Hierarchy.

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

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

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

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

Subsequent increases and decreases, if not an other-than-temporary impairment, in the fair value of available-for-sale securities that were previously impaired, are recorded in other comprehensive income (loss).

(I)

Other Investments

Investment partnership interests relate to limited investment partnerships that are relatively insensitive to interest rates. All securities held by these partnerships are carried at fair value with changes in fair value credited or charged, as appropriate, to the Consolidated Statements of Income. The Company's investment partnership interests are carried at a value which approximates the Company's equity in the underlying net assets of the partnerships or the equivalent of the net asset value per share. Operating partnership interests relate to insurance related limited operating partnerships. The Company's operating partnership interests are carried on the equity method which approximates the Company's equity in the underlying net assets of the partnership. Equity income or loss on partnership interests are credited or charged, as appropriate, to the Consolidated Statements of Income.

Policy loans are stated at their aggregate unpaid balances.

(J)

Deferred Acquisition Costs ("DAC")

Costs that vary with and are primarily related to the successful acquisition of insurance policies and investment type contracts are deferred and recorded as deferred policy acquisition costs ("DAC"). These costs are principally broker fees, agent commissions, and the purchase prices of the acquired blocks of insurance policies and investment type policies. DAC is amortized to expense and reported separately in the Consolidated Statements of Income. All DAC within a particular product type is amortized on the same basis using the following methods:

For traditional life insurance and other premium paying policies, amortization of DAC is charged to expense over the related premium revenue recognition period. Assumptions used in the amortization of DAC are determined based upon the conditions as of the date of policy issue or assumption and are not generally revised during the life of the policy.

For long duration type contracts, such as annuities and universal life business, amortization of DAC is charged to expense over the life of the underlying contracts based on the present value of the estimated gross profits ("EGPs") expected to be realized over the life of the book of contracts. EGPs consist of margins based on expected mortality rates, persistency rates, interest rate spreads, and other revenues and expenses. The Company regularly evaluates its EGPs to determine if actual experience or other evidence suggests that earlier estimates should be revised. If the Company determines that the current assumptions underlying the EGPs are no longer the best estimate for the future due to changes in actual versus expected mortality rates, persistency rates, interest rate spreads, or other revenues and expenses, the future EGPs are updated using the new assumptions and prospective unlocking occurs. These updated EGPs are utilized for future amortization calculations. The total amortization recorded to date is adjusted through a current charge or credit to the Consolidated Statements of Income.

Internal replacements of insurance and investment contracts determined to result in a replacement contract that is substantially changed from the original contract will be accounted for as an extinguishment of the original contract, resulting in a release of the unamortized deferred acquisition costs, unearned revenue, and deferral of sales inducements associated with the replaced contract.

Deferred acquisition costs have been increased (decreased) by $(10,000), $(323,000) and $5,681,000 in 2015, 2014 and 2013 respectively, due to unrealized investment gains and losses. A corresponding increase or decrease was recorded in other comprehensive income or loss.

The balance of deferred acquisition costs decreased significantly in 2015 as a result of a coinsurance and sale agreement whereby Madison National Life and Standard Security Life together entered into an agreement to cede substantially all of their individual life and annuity policy blocks in run-off. See Note 8 for more information regarding the reinsurance transaction.

(K)

Property and Equipment

Property and equipment of $1,977,000 and $3,086,000 are included in other assets at December 31, 2015 and 2014, respectively, net of accumulated depreciation and amortization of $6,650,000 and $14,030,000, respectively.

Improvements are capitalized while repair and maintenance costs are charged to operations as incurred. Depreciation of property and equipment has been provided on the straight-line method over the estimated useful lives of the respective assets. Amortization of leasehold improvements has been provided on the straight-line method over the shorter of the lease term or the estimated useful life of the asset.

(L)

Goodwill and Other Intangible Assets

Goodwill carrying amounts are evaluated for impairment at the reporting unit level, which is equivalent to an operating segment, at least annually. If the fair value of a reporting unit is less than its carrying amount, further evaluation is required to determine if a write-down of goodwill is required. In determining the fair value of each reporting unit, we used an income approach, applying a discounted cash flow method which included a residual value. Based on historical experience, we make assumptions as to: (i) expected future performance and future economic conditions, (ii) projected operating earnings, (iii) projected new and renewal business as well as profit margins on such business, and (iv) a discount rate that incorporated an appropriate risk level for the reporting unit. Any impairment of goodwill would be charged to expense.

Other intangible assets are amortized to expense over their estimated useful lives and are subject to impairment testing. Any impairment of other intangible assets would be charged to expense.

(M)

Insurance Liabilities

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

Loss reserves differ for short-duration and long-duration insurance policies, including annuities. Reserves are based on approved actuarial methods, but necessarily include assumptions about expenses, mortality, morbidity, lapse rates and future yield on related investments.

Policy Benefits and Claims

All of the Company s short-duration contracts are generated from its accident, health, disability and pet insurance business, and are accounted for based on actuarial estimates of the amount of loss inherent in that period s claims, including losses incurred for which claims have not been reported. Short-duration contract loss estimates rely on actuarial observations of ultimate loss experience for similar historical events.

Medical Stop-Loss

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

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

Projected Net Loss Ratio

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

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

Claim Development Patterns

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

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

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

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

Fully Insured Health

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

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

Long Term Disability

Policy benefits and claims for the Company s long term disability products are developed using actuarial principles and assumptions that consider, among other things, future offsets and recoveries, elimination periods, interest rates, probability of rehabilitation or mortality, incidence and termination rates based on the Company s experience. The liability for policy benefits and claims is made up of case reserves, incurred but not reported reserves, reopen reserves, and loss adjustment expense. Incurred but not reported and reopen reserves are calculated by a hind-sight study, which takes historical experience and develops the reserve as a percentage of premiums from prior years.

The two primary assumptions on which long term disability reserves are based are: (i) morbidity levels; and (ii) recovery rates. If morbidity levels increase, for example due to an epidemic or a recessionary environment, the Company would increase reserves because there would be more new claims than expected. In regard to the assumed recovery rate, if disabled lives recover more quickly than anticipated then the existing claims reserves would be reduced; if less quickly, the existing claims reserves would be increased.

Management believes that the Company's methods of estimating the liabilities for policy benefits and claims provided appropriate levels of reserves at December 31, 2015 and 2014. Changes in the Company's policy benefits and claims estimates are generally recorded through a charge or credit to its earnings.

Future Policy Benefits

The liability for future policy benefits consists of the liabilities associated with the Company s long-duration contracts, primarily its life and annuity products. For traditional life insurance products, the Company computes the liability for future policy benefits primarily using the net premium method based on anticipated investment yield, mortality, and withdrawals. These methods are widely used in the life insurance industry to estimate the liabilities for future policy benefits. Inherent in these calculations are management and actuarial judgments and estimates that could significantly impact the ending reserve liabilities and, consequently, operating results. Actual results may differ, and these estimates are subject to interpretation and change.

Management believes that the Company's methods of estimating the liabilities for future policy benefits provided appropriate levels of reserves at December 31, 2015 and 2014. Changes in the Company's future policy benefits estimates are recorded through a charge or credit to its earnings.

Funds on Deposit

Funds received (net of mortality and expense charges) for certain long-duration contracts (principally deferred annuities and universal life policies) are credited directly to a policyholder liability account, funds on deposit. Withdrawals are recorded directly as a reduction of respective policyholders' funds on deposit. Amounts on deposit were credited at annual rates ranging from 3.0% to 7.0% in 2015, 3.0% to 8.0% in 2014, and 2.5% to 8.0% in 2013.

Other Policyholders   Funds

Other policyholders   funds represent interest-bearing liabilities arising from the sale of products, such as universal life, interest-sensitive life and annuities. Policyholder funds are primarily comprised of deposits received and interest credited to the benefit of the policyholder less surrenders and withdrawals, mortality charges and administrative expenses.

Interest credited to policyholder funds represents interest accrued or paid on interest-sensitive life policies and investment policies. These amounts are reported in insurance benefits, claims and reserves on the Consolidated Statements of Income. Credit rates for certain annuities and interest-sensitive life policies are adjusted periodically by the Company to reflect current market conditions, subject to contractually guaranteed minimum rates.

(N)

Derivative Instruments

All derivatives, whether designated in hedging relationships or not, are required to be recorded in the balance sheet as assets or liabilities at fair value. Hedge accounting is permitted only if certain criteria are met, including a requirement that a highly effective relationship exist between the derivative instrument and the hedged item, both at inception of the hedge and on an ongoing basis. Results of effective hedges are recognized in other comprehensive income or loss for cash flow hedges. The ineffective portions of hedge results are recognized in current earnings.

At December 31, 2015, the Company had an interest rate swap agreement that converts an outstanding term loan from a variable rate to a fixed rate. This agreement was designated and effective as a cash flow hedge. The objective of the swap is to reduce the variability in cash flows associated with the re-pricing of interest rates on certain variable rate debt. Changes in fair value of the swap were recorded through other comprehensive income or loss.

(O)

Deferred Income Taxes

The provision for deferred income taxes is based on the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized by applying enacted statutory tax rates to temporary differences between amounts reported in the Consolidated Financial Statements and the tax bases of existing assets and liabilities in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recognized for the portion of deferred tax assets that, in management's judgment, is not likely to be realized. A liability for uncertain tax positions is recorded when it is more likely than not that a tax position will not be sustained upon examination by taxing authorities. The effect on deferred income taxes of a change in tax rates or laws is recognized in income tax expense in the period that includes the enactment date.

Interest and penalties are classified as other interest expense and are included in selling, general and administrative expenses in the Consolidated Statements of Income.

(P)

Reinsurance

Amounts paid for or recoverable under reinsurance contracts are included in total assets or total liabilities as due from reinsurers or due to reinsurers. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies.

(Q)

Insurance Premium Revenue Recognition and Policy Charges

Premiums from short-duration medical insurance contracts are intended to cover expected claim costs resulting from insured events that occur during a fixed period of short duration. The Company has the ability to not renew the contract or to revise the premium rates at the end of each annual contract period to cover future insured events. Insurance premiums from annual health contracts are collected monthly and are recognized as revenue evenly as insurance protection is provided.

Premiums related to long-term and short-term disability contracts are recognized on a pro rata basis over the applicable contract term.

Traditional life insurance products consist principally of products with fixed and guaranteed premiums and benefits, primarily term and whole life insurance products. Revenue from these products are recognized as premium when due.

Annuities and interest-sensitive life contracts, such as universal life and interest sensitive whole life, are contracts whose terms are not fixed and guaranteed. Premiums from these policies are reported as funds on deposit. Policy charges consist of fees assessed against the policyholder for cost of insurance (mortality risk), policy administration and early surrender. These revenues are recognized when assessed against the policyholder account balance.

Policies that do not subject the Company to significant risk arising from mortality or morbidity are considered investment contracts. Deposits received for such contracts are reported as other policyholder funds. Policy charges for investment contracts consist of fees assessed against the policyholder account for maintenance, administration and surrender of the policy prior to contractually specified dates, and are recognized when assessed against the policyholder account balance.

(R)

Participating Policies

In 2015, the Company ceded substantially all of its individual life policies (see Note 8). For the years ended December 31, 2014 and 2013, participating policies represented 13.7% and 11.7% of the individual life insurance in-force and provided for the payment of dividends.

(S)

Income Per Common Share

Included in the diluted earnings per share calculation for 2015, 2014 and 2013 are 170,000, 165,000 and 113,000 incremental common shares, respectively, primarily from the dilutive effect of share-based payment awards, computed using the treasury stock method.

(T)

Share-Based Compensation

Compensation costs for equity awards, such as stock options and non-vested restricted stock, are measured based on grant-date fair value and are recognized in the Consolidated Statements of Income over the requisite service period (which is usually the vesting period). For such awards with only service conditions, the Company recognizes the compensation cost on a straight-line basis over the requisite service period for the entire award.

Compensation costs for liability-classified awards, such as share appreciation rights (SARs), are measured and accrued each reporting period in the Consolidated Statements of Income as the requisite service or performance conditions are met.

(U)

Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In April 2014, the Financial Accounting Standards Board (FASB) issued guidance: (i) improving the definition of discontinued operations by limiting the reporting of discontinued operations to disposals of components that represent strategic shifts that have (or will have) a major effect on an entity s operations and financial results; and (ii) requiring expanded disclosures for discontinued operations. The adoption of this guidance on January 1, 2015 did not have any effect on the Company s consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

In March 2016, the FASB issued guidance that simplify several aspects of accounting for sharebased 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 IHC s stockholders equity.

In September 2015, the 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. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments in this Update should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this Update with earlier application permitted for financial statements that have not been issued. The adoption of this guidance is not expected to have a material effect on the Company s consolidated financial statements.

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 February 2015, the FASB issued guidance that modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities for the purpose of consolidation. For public entities, this guidance is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Early adoption is permitted. The adoption of this guidance is not expected to 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. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Earlier adoption is permitted. The guidance may be applied either prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The adoption of this guidance is not expected to have a material effect on the Company s consolidated financial statements.

In May 2014, the FASB issued revenue recognition guidance for entities that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards such as insurance contracts or lease contracts. The amendment provides specific steps that an entity should apply in order to achieve its main objective which is recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. 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.

Note 2.

Investment Securities

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

	December 31, 2015			
	AMORTIZED COST	**GROSS UNREALIZED GAINS**	**GROSS UNREALIZED LOSSES**	**FAIR VALUE**
FIXED MATURITIES AVAILABLE-FOR-SALE:				
Corporate securities	$ 172,621	$ 93	$ (5,868)	$ 166,846
CMOs - residential [1]	3,068	2	(14)	3,056
CMOs - commercial	899	296	-	1,195
U.S. Government obligations	44,738	120	(64)	44,794
Agency MBS - residential [2]	34	1	-	35
GSEs [3]	11,814	2	(254)	11,562
States and political subdivisions	194,364	2,159	(1,857)	194,666
Foreign government obligations	2,318	12	(6)	2,324
Redeemable preferred stocks	4,036	101	(14)	4,123
Total fixed maturities	$ 433,892	$ 2,786	$ (8,077)	$ 428,601
EQUITY SECURITIES AVAILABLE-FOR-SALE:				
Common stocks	$ 4,926	$ -	$ (142)	$ 4,784
Nonredeemable preferred stocks	3,588	56	(2)	3,642
Total equity securities	$ 8,514	$ 56	$ (144)	$ 8,426

	December 31, 2014			
	AMORTIZED COST	**GROSS UNREALIZED GAINS**	**GROSS UNREALIZED LOSSES**	**FAIR VALUE**

FIXED MATURITIES AVAILABLE-FOR-SALE:								
Corporate securities	$	264,162	$	1,076	$	(3,314)	$	261,924
CMOs - residential [(1)]		5,073		55		(22)		5,106
CMOs - commercial		975		-		(22)		953
U.S. Government obligations		22,766		126		-		22,892
Agency MBS - residential [(2)]		65		4		-		69
GSEs [(3)]		14,706		36		(86)		14,656
States and political subdivisions		238,514		3,253		(2,386)		239,381
Foreign governments		34,863		136		(299)		34,700
Redeemable preferred stocks		4,036		163		-		4,199
Total fixed maturities	$	585,160	$	4,849	$	(6,129)	$	583,880

EQUITY SECURITIES AVAILABLE-FOR-SALE:								
Common stocks	$	8,452	$	1,452	$	(147)	$	9,757
Nonredeemable preferred stocks		4,004		134		-		4,138
Total equity securities	$	12,456	$	1,586	$	(147)	$	13,895

(1)

Collateralized mortgage obligations (CMOs).

(2)

Mortgage-backed securities (MBS).

(3)

Government-sponsored enterprises (GSEs) are private enterprises established and chartered by the Federal Government or its various insurance and lease programs which carry the full faith and credit obligation of the U.S.

Government.

The amortized cost and fair value of fixed maturities available-for-sale at December 31, 2015, by contractual maturity, are shown below (in thousands). 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
Due in one year or less	$ 3,726	$ 3,726
Due after one year through five years	99,796	99,036
Due after five years through ten years	118,608	117,379
Due after ten years	196,922	193,584
CMOs and MBSs	14,840	14,876
	$ 433,892	$ 428,601

The following tables summarize, for all available-for-sale securities in an unrealized loss position, the aggregate fair value and gross unrealized loss by length of time those securities that have continuously been in an unrealized loss position for the periods indicated (in thousands):

	December 31, 2015					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate securities	$ 101,903	$ 2,559	$ 55,217	$ 3,309	$ 157,120	$ 5,868
CMO s - residential	2,867	14	-	-	2,867	14
U.S. Government obligations	19,809	64	-	-	19,809	64
GSEs	6,539	128	4,997	126	11,536	254

States and political subdivisions	68,898	780	31,351	1,077	100,249	1,857
Foreign government obligations	484	6	-	-	484	6
Redeemable preferred stocks	3,749	14	-	-	3,749	14
Total fixed maturities	204,249	3,565	91,565	4,512	295,814	8,077
Common stocks	4,784	142	-	-	4,784	142
Nonredeemable preferred stocks	1,324	2	-	-	1,324	2
Total equity securities	6,108	144	-	-	6,108	144
Total temporarily impaired securities	$ 210,357	$ 3,709	$ 91,565	$ 4,512	$ 301,922	$ 8,221
Number of securities in an unrealized loss position	99		31		130	

	December 31, 2014					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate securities	$ 77,868	$ 1,473	$ 69,498	$ 1,841	$ 147,366	$ 3,314
CMO s - residential	2,062	16	1,562	6	3,624	22
CMOs - commercial	-	-	953	22	953	22
GSEs	-	-	9,581	86	9,581	86
States and political subdivisions	58,819	744	67,318	1,642	126,137	2,386
Foreign governments	21,148	171	12,229	128	33,377	299
Total fixed maturities	159,897	2,404	161,141	3,725	321,038	6,129
Common stocks	2,007	136	348	11	2,355	147
Total equity securities	2,007	136	348	11	2,355	147
Total temporarily impaired securities	$ 161,904	$ 2,540	$ 161,489	$ 3,736	$ 323,393	$ 6,276
Number of securities in an unrealized loss position	70		46		116	

Substantially all of the unrealized losses on fixed maturities available-for-sale at December 31, 2015 and December 31, 2014 relate to investment grade securities and are 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, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2015.

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

	2015	2014	2013
Fixed maturities	$ 15,364	$ 18,504	$ 22,667
Equity securities	845	943	1,065
Short-term investments	66	74	118
Policy loans	427	813	1,020
Partnership interests	405	1,101	2,506
Other	295	336	291
Investment income, gross	17,402	21,771	27,667
Investment expenses	(104)	(79)	(196)
Net investment income	$ 17,298	$ 21,692	$ 27,471

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

	2015	2014	2013
Available-for-sale securities:			
Fixed maturities	$ 3,533	$ 7,642	$ 17,664
Common stocks	1,519	(5)	-
Preferred stocks	151	-	177
Total available-for-sale securities	5,203	7,637	17,841
Trading securities	(1,653)	506	1,619
Total realized gains	3,550	8,143	19,460
Unrealized gains (losses) on trading securities:			
Change in unrealized gains (losses) on trading securities	(452)	(451)	94
Total unrealized gains (losses) on trading securities	(452)	(451)	94
Gains (losses) on other investments	(4)	(4)	196
Net realized investment gains	$ 3,094	$ 7,688	$ 19,750

For the years ended December 31, 2015, 2014 and 2013, proceeds from sales of available-for-sale securities were $640,902,000, $355,740,000 and $563,285,000, respectively, and the company realized gross gains of $6,412,000, $9,289,000 and $21,889,000, respectively, and gross losses of $805,000, $741,000 and $2,902,000, respectively, on those sales.

We recognize other-than-temporary impairment losses 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).

The Company recognized $228,000 of other-than-temporary impairment losses in earnings on equity securities available-for-sale during the year ended December 31, 2015 due to the length of time and extent an equity security was below cost. The Company did not recognize any other-than-temporary impairments on available-for-sale securities in 2014 or 2013. 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 years indicated (in thousands):

	2015	2014	2013
Balance at beginning of year	$ 473	$ 473	$ 1,976
Securities sold	-	-	(1,503)
Balance at end of period	$ 473	$ 473	$ 473

The after-tax portion of other-than-temporary impairments included in accumulated other comprehensive income (loss) at December 31, 2015 and 2014 consists of $276,000 and $335,000, respectively, related to CMO securities.

Note 3.

Cash Flow Hedge

In connection with its outstanding amortizing term loan, a subsidiary of IHC entered into an interest rate swap on July 1, 2011 with the commercial bank lender, for a notional amount equal to the debt principal amount ($2,000,000 and $4,000,000 December 31, 2015 and December 31, 2014, respectively), under which the Company receives a variable rate equal to the rate on the debt and pays a fixed rate (1.60%) in order to manage the risk in overall changes in cash flows attributable to forecasted interest payments. As a result of the interest rate swap, interest payments on this debt are fixed at 4.95%. There was no hedge ineffectiveness on this interest rate swap which was accounted for as a cash flow hedge. At December 31, 2015 and 2014, the fair value of interest rate swap was $11,000 and $83,000, respectively, which is included in other liabilities on the accompanying Consolidated Balance Sheets. See Note 4 for further discussion on the valuation techniques utilized to determine the fair value of the interest rate swap.

Note 4.

Fair Value Disclosures

For all financial and non-financial assets and liabilities 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 assets and liabilities at fair value.

Investments in fixed maturities and equity securities:

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

Trading securities:

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

Interest rate swap:

The financial liability included in Level 2 consists of an interest rate swap on IHC debt. It is valued using market observable inputs including market price, interest rate, and volatility within a Black-Scholes model.

Contingent liabilities:

Contingent liabilities classified in Level 3 include; (i) a contingent liability assumed in connection with an acquisition (see Note 6) related to an earn-out agreement whereby significant unobservable inputs are based on projected income; and (ii) a contingent liability recognized in connection with the deconsolidation of a former subsidiary and a newly formed joint venture transaction (see Note 6) whereby significant unobservable inputs are based on projected cash flows.

The following tables present our financial assets and liabilities measured at fair value on a recurring basis for the periods indicated (in thousands):

	December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS:				
Fixed maturities available-for-sale:				
Corporate securities	$ -	$ 166,846	$ -	$ 166,846
CMOs - residential	-	3,056	-	3,056
CMOs - commercial	-	-	1,195	1,195
US Government obligations	-	44,794	-	44,794
Agency MBS - residential	-	35	-	35
GSEs	-	11,562	-	11,562
States and political subdivisions	-	192,487	2,179	194,666
Foreign government obligations	-	2,324	-	2,324
Redeemable preferred stocks	4,123	-	-	4,123
Total fixed maturities	4,123	421,104	3,374	428,601
Equity securities available-for-sale:				
Common stocks	4,784	-	-	4,784
Nonredeemable preferred stocks	3,642	-	-	3,642
Total equity securities	8,426	-	-	8,426
Trading securities - equities	1,259	-	-	1,259
Total trading securities	1,259	-	-	1,259

Total Financial Assets	$ 13,808	$ 421,104	$ 3,374	$ 438,286
FINANCIAL LIABILITIES:				
Interest rate swap	$ -	$ 11	$ -	$ 11
Contingent liabilities	-	-	1,650	1,650
Total Financial Liabilities	$ -	$ 11	$ 1,650	$ 1,661

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS:				
Fixed maturities available-for-sale:				
Corporate securities	$ -	$ 261,924	$ -	$ 261,924
CMOs residential	-	5,106	-	5,106
CMOs commercial	-	-	953	953
US Government obligations	-	22,892	-	22,892
Agency MBS - residential	-	69	-	69
GSEs	-	14,656	-	14,656
States and political subdivisions	-	237,067	2,314	239,381
Foreign government	-	34,700	-	34,700
Redeemable preferred stocks	4,199	-	-	4,199
Total fixed maturities	4,199	576,414	3,267	583,880
Equity securities available-for-sale:				
Common stocks	9,757	-	-	9,757
Nonredeemable preferred stocks	4,138	-	-	4,138
Total equity securities	13,895	-	-	13,895
Trading securities - equities	11,095	-	-	11,095
Total trading securities	11,095	-	-	11,095
Total Financial Assets	$ 29,189	$ 576,414	$ 3,267	$ 608,870
FINANCIAL LIABILITIES:				
Interest rate swap	$ -	$ 83	$ -	$ 83
Total Financial Liabilities	$ -	$ 83	$ -	$ 83

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. 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.

The Company did not transfer any securities between Level 1, Level 2 or Level 3 in 2015 or 2014. The following table presents the changes in fair value of our Level 3 financial instruments for the periods indicated (in thousands):

	Financial Assets:			Financial Liabilities	
	CMOs Commercial	States and Political Subdivisions	Total Level 3 Assets	Contingent Liabilities	Total Level 3 Liabilities
Balance at December 31, 2013	$ 593	$ 2,441	$ 3,034	$ -	$ -
Gains (losses) included in other comprehensive income (loss):					
Net unrealized gains (losses)	360	(58)	302	-	-
Repayments and amortization of fixed maturities	-	(69)	(69)	-	-
Balance at December 31, 2014	953	2,314	3,267	-	-
Assumed in acquisition	-	-	-	1,000	1,000
Gains (losses) included in earnings:					
Gain on sale of subsidiary to joint venture	-	-	-	1,501	1,501
Net investment income	-	-	-	(736)	(736)
Other income	-	-	-	(115)	(115)
Gains (losses) included in other comprehensive income (loss):					
Net unrealized gains (losses)	318	(47)	271	-	-

Repayments and amortization of fixed maturities		(76)		(88)		(164)		-		-
Balance at December 31, 2015	$	1,195	$	2,179	$	3,374	$	1,650	$	1,650

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):

	December 31, 2015				December 31, 2014			
		Level 2 Fair Value		**Carrying Value**		**Level 2 Fair Value**		**Carrying Value**
FINANCIAL ASSETS:								
Policy loans	$	38	$	38	$	13,356	$	10,667
FINANCIAL LIABILITIES:								
Funds on deposit	$	173,625	$	173,350	$	187,213	$	186,782
Debt and junior subordinated debt securities	$	43,283	$	43,335	$	42,146	$	42,146

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:

(A)

Policy Loans

The fair value of policy loans included in Level 2 of the fair value hierarchy is estimated by projecting aggregate loan cash flows to the end of the expected lifetime period of the life insurance business at the average policy loan rates, and discounting them at a current market interest rate.

(B)

Funds on Deposit

The Company has two types of funds on deposit. The first type is credited with a current market interest rate, resulting in a fair value which approximates the carrying amount. The second type carries fixed interest rates which are higher than current market interest rates. The fair value of these deposits was estimated by discounting the payments using current market interest rates. The Company's universal life policies are also credited with current market interest rates, resulting in a fair value which approximates the carrying amount. Both types of funds on deposit are included in Level 2 of the fair value hierarchy.

(C)

Debt

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

Note 5.

Other Investments

Other investments consist of the following for the periods indicated (in thousands):

	December 31, 2015	December 31, 2014
Policy loans	$ 38	$ 10,667
Partnership interests	18,944	12,033
Investment in trust subsidiaries	1,146	1,146
Other	1,410	1,405
	$ 21,538	$ 25,251

Note 6.

Acquisition and Deconsolidation of Subsidiaries

Acquisition

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, referred to as Occupational Accident and Injury on Duty for Independence American, which are offered exclusively in Texas and Massachusetts, respectively. The consideration transferred in exchange for the additional 40% voting interest consisted of: (i) $325,000 in cash; and (ii) non-monetary consideration, primarily consisting of the settlement of a pre-existing relationship with a former owner, with a fair value of $1,195,000 at the Acquisition Date. The fair value of the settlement of the pre-exiting relationship was based on projected future underwriting results discounted for collectability. The acquisition resulted in AMIC 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 Consolidated Statements of Income for 2015 reflect approximately eight months of the operations of GAF with no corresponding amounts for 2014.

On the Acquisition Date, 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. The net pre-tax gain of $503,000 is included in the Other income line in the Consolidated Statements of Income.

Upon the acquisition of a controlling interest, the Company consolidated the assets and liabilities of GAF. Accordingly, the Company determined the fair value of the identifiable assets acquired and liabilities assumed from GAF on the Acquisition Date. The following table presents the identifiable assets acquired and liabilities assumed in the acquisition of GAF on the Acquisition Date based on their respective fair values (in thousands):

Cash	$	836
Intangible assets		5,500
Other assets		1,405
Total identifiable assets		7,741
Other liabilities		4,369
Deferred tax liability		1,925
Debt		3,806
Total liabilities		10,100
Net identifiable liabilities assumed	$	2,359

Other liabilities assumed includes a $1,000,000 contingent liability recorded in connection with an earn-out agreement with a former owner of a subsidiary of GAF. In accordance with this agreement, payments are required in 2016 and 2019 based on certain earnings targets. The fair value of the contingent liability was estimated based on projected income. See Note 4 for further information regarding fair value measurements.

In connection with the acquisition, the Company recorded $5,703,000 of goodwill and $5,500,000 of intangible assets (see Note 7). None of the goodwill is deductible for income tax purposes. Goodwill reflects the synergies between GAF and Independence American as GAF is the primary writer of Occupational Accident and Injury on Duty business for Independence American. Goodwill was calculated as the excess of the sum of: (i) the acquisition date fair value of total consideration transferred of $1,520,000; (ii) the acquisition date fair value of the equity interest in GAF immediately preceding the acquisition of $1,216,000; and (iii) the fair value of the noncontrolling interest in GAF of $608,000 on the acquisition date; over (iv) the net liabilities of $2,359,000 that were assumed. The enterprise value of GAF was determined by an independent appraisal using a discounted cash flow model based upon the projected future earnings of GAF including a control premium. The fair value of the non-controlling interest was determined based upon their percentage of the GAF enterprise value discounted for a lack of control.

For the period from the Acquisition Date to December 31, 2015, the Company s Consolidated Statement of Income includes revenues and net income of $6,954,000 and $607,000, respectively, from GAF.

Deconsolidation

A)

IHC Health Solutions

Effective September 1, 2015, IHC and Ebix, a non-related party and international supplier of On-Demand software and E-commerce services to the insurance, financial and healthcare industries, finalized a joint venture in which IHC sold its wholly owned administrative subsidiary, IHC Health Solutions (now known as Ebix Health Administration Exchange, Inc.), in exchange for a 60% ownership interest in Ebix Health Exchange and $6,000,000 in cash proceeds. Ebix contributed $6,000,000 of cash and a pet insurance software license, valued by Ebix Health Exchange at $2,000,000, for its 40%. IHC is obligated to fund any negative cash flow through December 31, 2016 in the form of a loan to the joint venture. Any remaining balance of the loan at December 31, 2016 will be converted to capital. Ebix has the option to increase its ownership position to 50% over the next three years. IHC and Ebix have equal voting interest on the Board of Managers of Ebix Health Exchange. The transaction resulted in a loss of control over the subsidiary (due to a lack of the majority of the voting interest on the Board of Managers) and therefore the subsidiary was deconsolidated from the Company s financial statements.

The Company recognized a gain of $9,940,000, pre-tax, on the transaction consisting of: (i) a pre-tax gain on the deconsolidation of $11,441,000, measured as the fair value of the consideration received and the fair value of the retained investment in Ebix Health Exchange less the carrying amount of the former subsidiary s net assets; partially offset by (ii) a contingent liability of $1,501,000 representing the Company s estimated obligation to fund future cash operating losses through December 31, 2016 per the terms of the joint venture agreement. The fair value of the contingent liability was estimated based on expected future operating cash shortfalls. Approximately $5,441,000 of the pre-tax gain is attributable to the re-measurement of the retained investment in the former subsidiary to its current value. The fair value of the retained investment was determined by an independent appraisal using a discounted cash flow model based upon the projected future earnings.

Ebix Health Exchange will administer various lines of health insurance for IHC s insurance subsidiaries. The carrying value of the Company s equity investment in Ebix Health Exchange amounted to $9,838,000 at December 31, 2015. Ebix Health Exchange reported a net loss of $1,007,000 for the period ended December 31, 2015. The Company recorded $271,000 of the loss in earnings and reduced the contingent liability, previously recognized on the acquisition date, by $736,000 of cash operating losses for the period. At December 31, 2015, the Company s Consolidated Balance Sheet includes $1,397,000 of notes and other amounts receivable from, and $405,000 of administrative fees and other expenses payable to, Ebix Health Exchange which are included in other assets and accounts payable, accruals and other liabilities, respectively. The Company s Consolidated Statements of Income include $80,000 in fee income from, and $1,477,000 of administrative fee expenses to, Ebix Health Exchange which are included in fee income and selling, general and administrative expenses, respectively, for the year ended

December 31, 2015.

B)

Innovative Medical Risk Management, Inc.

On December 31, 2015, the Company sold all of the stock of its wholly owned subsidiary, Innovative Medical Risk Management, Inc. (IMRM), to an unrelated party for $1,084,000 cash consideration. Upon the sale, IMRM was deconsolidated from the Company s financial statements. The Company recognized a gain of $679,000 on the transaction, pre-tax, which is included in Other Income on the Consolidated Statement of Income. The gain was measured as the difference between the fair value of the consideration received and the carrying amount of the former subsidiary s assets and liabilities. The sale transaction also included an earn-out agreement with the new owners of IMRM. In accordance with this agreement, the Company could receive additional consideration in the future based on certain earnings thresholds in 2016 and 2017. Other than the settlement of the aforementioned earn-out agreement, there will be no further involvement with IMRM.

Note 7.

Goodwill and Other Intangible Assets

Changes in goodwill and goodwill balances by reportable segment are as follows for the periods indicated (in thousands):

	Medical Stop-Loss	Fully-Insured Health	Total
Balance at December 31, 2013	$ 5,664	$ 44,654	$ 50,318
Acquisition	-	-	-
Balance at December 31, 2014	5,664	44,654	50,318
Acquisition (see Note 6)	-	5,703	5,703
Sale of subsidiary/business (see Note 6)	-	(3,081)	(3,081)
Balance at December 31, 2015	$ 5,664	$ 47,276	$ 52,940

At December 31, 2015, the Company s market capitalization was less than its book value indicating a potential impairment of goodwill. As a result, the Company assessed the factors contributing to the performance of IHC stock in 2015, and concluded that the market capitalization does not represent the fair value of the Company. The Company noted several factors that have led to a difference between the market capitalization and the fair value of the Company, including (i) the Company s stock is thinly traded and a sale of even a small number of shares can have a large percentage impact on the price of the stock, (ii) Geneve Corporation and insiders own approximately 57% of the outstanding shares, which has had a significant adverse impact on the number of shares available for sale and therefore the trading potential of IHC stock, and (iii) lack of analyst coverage of the Company. If we experience a sustained decline in our results of operations and cash flows, or other indicators of impairment exist, we may incur a material non-cash charge to earnings relating to impairment of our goodwill, which could have a material adverse effect on our results.

The Company has net other intangible assets of $15,517,000 and $12,135,000 at December 31, 2015 and 2014, respectively, which are included in other assets in the Consolidated Balance Sheets. These intangible assets consist of: (i) finite-lived intangible assets, principally the fair value of acquired agent and broker relationships, which are subject to amortization; and (ii) indefinite-lived intangible assets which consist of the estimated fair value of insurance licenses that are not subject to amortization.

The gross carrying amounts of these other intangible assets are as follows for the periods indicated (in thousands):

	December 31, 2015		December 31, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite-lived Intangible Assets:				
Agent and broker relationships	$ 23,529	$ 16,906	$ 22,725	$ 18,567
Trademarks	1,000	83	-	-
Total finite-lived	$ 24,529	$ 16,989	$ 22,725	$ 18,567

	December 31,	
	2015	2014
Indefinite-lived Intangible Assets:		
Insurance licenses	$ 7,977	$ 7,977
Total indefinite-lived	$ 7,977	$ 7,977

Changes in net other intangible assets are as follows for the periods indicated (in thousands):

	2015	2014	2013
Balance at beginning of year	$ 12,135	$ 14,767	$ 18,271
Acquisitions	5,500	-	(183)
Sale of subsidiaries/businesses	(122)	-	(101)
Amortization expense	(1,996)	(2,632)	(3,220)
Balance at end of year	$ 15,517	$ 12,135	$ 14,767

As discussed in Note 6, the Company recorded $5,500,000 of intangible assets in connection with the acquisition of a controlling interest in GAF during 2015 and, of that amount, $1,000,000 represents the fair value of trademarks, which is being amortized over a period of 8 years, and $4,500,000 represents the fair value of customer relationships being amortized over a period of 9 years.

As a result of the deconsolidation of certain subsidiaries discussed in Note 6, net intangible assets associated with the Fully Insured Health segment decreased by $122,000.

Estimated amortization expense for each of the next five years is as follows (in thousands):

Year		**Amortization Expense**
2016	$	1,925
2017		1,551
2018		1,210
2019		849
2020		622

Note 8.

Reinsurance

The Insurance Group reinsures portions of certain business in order to limit the assumption of disproportionate risks. Amounts not retained are ceded to other companies on an automatic or facultative basis. In addition, the Insurance Group participates in various coinsurance treaties on a quota share or excess basis. 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.

The effects of reinsurance on premiums earned and insurance benefits, claims and reserves are shown below for the periods indicated (in thousands). Accident and health products and property and liability products (primarily the pet insurance line) consist of short-duration contracts. Life and annuity products consist of long-duration contracts.

	GROSS AMOUNT	ASSUMED FROM OTHER COMPANIES	CEDED TO OTHER COMPANIES	NET AMOUNT
Premiums Earned:				
December 31, 2015				
Accident and health	$ 513,814	$ 28,822	$ 126,613	$ 416,023
Life and annuity	46,699	4,330	23,078	27,951
Property and liability	35,812	-	252	35,560
	$ 596,325	$ 33,152	$ 149,943	$ 479,534
December 31, 2014				
Accident and health	$ 482,511	$ 52,063	$ 116,163	$ 418,411
Life and annuity	44,407	6,128	20,214	30,321
Property and liability	30,477	-	161	30,316
	$ 557,395	$ 58,191	$ 136,538	$ 479,048
December 31, 2013				
Accident and health	$ 461,336	$ 85,627	$ 102,053	$ 444,910
Life and annuity	46,416	6,654	20,820	32,250
Property and liability	18,845	-	14	18,831
	$ 526,597	$ 92,281	$ 122,887	$ 495,991
Insurance benefits, claims and reserves:				
December 31, 2015	$ 365,634	$ 24,956	$ 83,412	$ 307,178
December 31, 2014	$ 276,634	$ 50,441	$ 1,040	$ 326,035

December 31, 2013	$ 374,865	$ 82,337	$ 102,412	$ 354,790

On July 31, 2015, Madison National Life and Standard Security Life together entered into a coinsurance and sale agreement with an unaffiliated reinsurer, National Guardian Life Insurance Company (NGL), to: (i) cede substantially all of their individual life and annuity policy blocks currently in run-off; and (ii) sell the related infrastructure associated with the administration of such policies. The Company transferred $207,964,000 of cash to NGL, net of the aggregate consideration of $42,000,000 for the coinsurance and sale transaction. As a result of this transaction, the Company: (i) recorded $234,740,000 of estimated amounts due from reinsurers; (ii) recorded a $31,192,000 decrease in deferred acquisition costs associated with the ceded policies; (iii) recorded a $9,866,000 decrease in policy loans; (iv) recorded $7,686,000 of estimated costs of reinsurance (included in other assets) which will be amortized over the life of the underlying reinsured contracts; and (v) recognized a $5,053,000 pre-tax gain (included in other income) on the sale of the assets associated with the administration of the ceded policies, net of disposal costs.

Effective May 31, 2013, Madison National Life entered into a coinsurance agreement with an unaffiliated reinsurer, Guggenheim Life and Annuity Company, to cede approximately $218,633,000 of life and annuity reserves and, in accordance with its terms, transferred net cash and other assets, with an aggregate value of $215,137,000, to the reinsurer during the second quarter of 2013. As a result of this transaction, the Company: (i) recorded estimated amounts due from reinsurers of $218,296,000; (ii) recorded $6,643,000 of estimated deferred expenses (included in other assets) which will be amortized over the life of the underlying reinsured contracts; and (iii) wrote-off $9,307,000 of deferred acquisition costs associated with this block of policies. The write-off was more than offset by gains realized by the Company in the transaction, most of which resulted from the required sale and transfer of invested assets. During 2014, a large portion of the reserves were transferred to the reinsurer in accordance with the terms of an assumption agreement.

Note 9.

Policy Benefits and Claims

Summarized below are the changes in the liability for policy benefits and claims for the periods indicated (in thousands).

	2015	2014	2013
Balance at beginning of year	$ 236,803	$ 237,754	$ 194,480
Less: reinsurance recoverable	78,531	72,772	78,629
Net balance at beginning of year	158,272	164,982	115,851

Amount assumed	10,343	-	15,384
Amount incurred, related to:			
Current year	294,390	303,973	324,040
Prior years	(8,488)	(4,552)	(3,230)
Total incurred	285,902	299,421	320,810
Amount paid, related to:			
Current year	169,488	192,001	207,315
Prior years	104,948	114,130	79,748
Total paid	274,436	306,131	287,063
Net balance at end of year	180,081	158,272	164,982
Plus: reinsurance recoverable	65,362	78,531	72,772
Balance at end of year	$ 245,443	$ 236,803	$ 237,754

The preceding schedule reflects: (i) the due and unpaid; (ii) claims in the course of settlement; (iii) estimated incurred but not reported reserves; and (iv) the present value of amounts not yet due on claims. The incurred and paid data above reflects all activity for the year. The overall net favorable development of $8,488,000 in 2015 related to prior years consists of favorable developments of $7,977,000 in the Fully Insured Health reserves and $4,464,000 in the group disability reserves, partially offset by an unfavorable development of $3,628,000 in Medical Stop-Loss reserves and $325,000 in other individual accident and health reserves. The overall net favorable development of $4,552,000 in 2014 related to prior years consists of favorable developments of $3,830,000 in the group disability reserves, $448,000 in other individual accident and health reserves and $378,000 in the Fully Insured Health reserves partially offset by an unfavorable development of $104,000 in Medical Stop-Loss reserves. The overall net favorable development of $3,230,000 in 2013 related to prior years consists of favorable developments of $4,269,000 in the group disability reserves and $1,069,000 in other individual accident and health reserves partially offset by an unfavorable developments of $2,000,000 in Medical Stop-Loss reserves and $108,000 in the Fully Insured Health reserves.

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

Note 10.

Debt and Junior Subordinated Debt Securities

(A)

Debt

Outstanding debt, for the periods indicated, consists of the following (in thousands):

	December 31, 2015		December 31, 2014	
Term loan payable to bank	$	2,000	$	4,000
Other term loans		2,964		-
Line of credit		225		-
	$	5,189	$	4,000

In July 2011, a subsidiary of IHC amended its amortizing term loan with a commercial bank. The amortizing term loan, as amended: (i) matures on July 1, 2016; (ii) bears a variable interest rate of Libor plus 3.35%; and (iii) requires annual principal payments of $2,000,000. The Company simultaneously entered into an interest rate swap with the commercial bank lender effectively fixing the rate at 4.95%. See Note 3 for further discussion pertaining to the interest rate swap. As to such subsidiary, the line of credit (i) contains restrictions with respect to, among other things, the creation of additional indebtedness, the consolidation or merger with or into certain corporations, the payment of dividends and the retirement of capital stock; (ii) requires the maintenance of minimum amounts of net worth, as defined, certain financial ratios, and certain investment restrictions; and (iii) is secured by the stock of Madison National Life, Standard Security Life and the assets of such subsidiary of IHC.

In connection with the acquisition of a controlling interest in GAF, as discussed in Note 6, the Company assumed $3,806,000 of GAF s debt in April, 2015. This debt was comprised of: (i) various term loans with former owners of a subsidiary of GAF, aggregating $3,506,000, with various maturities through January 2, 2019 and bearing a fixed interest rate of 2.5%; and (ii) a $300,000 line of credit with a commercial bank bearing interest at 4%.

The Company made aggregate cash payments of $2,617,000 and $2,000,000 for the repayment of debt during the years ended December 31, 2015 and 2014, respectively.

(B)

Junior Subordinated Debt Issued to Trust Preferred Subsidiaries

Junior subordinated debt consisted of the following at both December 31, 2015 and 2014 (in thousands):

Independence Preferred Trust I - Trust Preferred	$	10,000
Independence Preferred Trust I - Common Stock		310
Junior subordinated debt security -Trust I		10,310
Independence Preferred Trust II -Trust Preferred		12,000
Independence Preferred Trust II - Common Stock		372
Junior subordinated debt security - Trust II		12,372
Independence Preferred Trust III Trust Preferred		15,000
Independence Preferred Trust III Common Stock		464
Junior subordinated debt security Trust III		15,464
Total junior subordinated debt securities	$	38,146

The Company has three statutory business trusts that were formed for the purpose of issuing trust preferred securities, totaling $37,000,000, to institutional investors in pooled issuances. Although the Company owns all of the trusts' common securities, it is not the primary beneficiary and, therefore, the trusts are unconsolidated subsidiaries for financial reporting purposes. As a result, the Company recorded liabilities of $38,146,000 for junior subordinated debt and assets of $1,146,000 for the investments in trust subsidiaries (included in other investments on the accompanying

Consolidated Balance Sheets) at both December 31, 2015 and 2014. The Company's subordinated debt securities, which are the sole assets of the subsidiary trusts, are unsecured obligations of the Company and are subordinate and junior in right of payment to all present and future senior indebtedness of the Company. The Company has provided a full and unconditional guarantee of amounts due on the trust preferred securities. The terms of the junior subordinated debt securities, including interest rates and maturities, are the same as the related trust preferred securities.

The distributions payable on the capital securities are cumulative and payable quarterly in arrears. The Company has the right, subject to events of default, to defer payments of interest for a period not to exceed 20 consecutive quarters, provided that no extension period may extend beyond the maturity dates which range from April 2033 to December 2034. The Company has no current intention to exercise its right to defer interest payments. The rates on the capital securities are as follows: Independence Preferred Trust I, 400 basis points over the three-month LIBOR, (4.32% at December 31, 2015); Independence Preferred Trust II, 390 basis points over the three-month LIBOR, (4.22% at December 31, 2015); and Independence Preferred Trust III, 350 basis points over the three-month LIBOR (4.01% at December 31, 2015).

The capital securities are mandatorily redeemable upon maturity. The Company has the right to redeem the capital securities, in whole or in part without penalties with respect to Independence Preferred

Trust I, Independence Preferred Trust II and Independence Preferred Trust III. The redemption price would be 100% (without penalty) of the principal amount plus accrued and unpaid interest.

Cash payments for interest on debt and junior subordinated debt securities were $1,738,000, $1,804,000 and $1,923,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

Note 11.

Income Taxes

IHC and its subsidiaries file a consolidated Federal income tax return on a June 30 fiscal year. Prior to January 15, 2013, AMIC and its subsidiaries filed a separate consolidated Federal income tax return on a September 30 fiscal year. The provision for income tax expense (benefit) attributable to income from operations, as shown in the Consolidated Statements of Income, is as follows for the years indicated (in thousands):

		2015		**2014**		**2013**
CURRENT:						
U.S. Federal	$	14,415	$	20	$	(1,500)
State and Local		1,012		743		1,206
		15,427		763		(294)
DEFERRED:						
U.S. Federal		2,119		5,317		8,805
State and Local		120		311		(113)
		2,239		5,628		8,692
	$	17,666	$	6,391	$	8,398

Taxes computed at the Federal statutory rate of 35% in 2015, 2014 and 2013, attributable to pretax income, are reconciled to the Company's actual income tax expense as follows for the years indicated (in thousands):

	2015	2014	2013
Tax computed at the statutory rate	$ 16,866	$ 8,159	$ 8,279
Dividends received deduction and tax exempt interest	(796)	(1,384)	(849)
State and local income taxes, net of Federal effect	735	685	710
Health insurance excise tax	526	696	-
Health insurer compensation limit	516	661	-
AMIC valuation allowance adjustment	-	(2,500)	-
Other, net	(181)	74	258
Income tax expense	$ 17,666	$ 6,391	$ 8,398

Temporary differences between the Consolidated Financial Statement carrying amounts and tax bases of assets and liabilities that give rise to the deferred tax assets and liabilities at December 31, 2015 and 2014 are summarized below (in thousands). The net deferred tax asset or liability is included in Other Assets or Other Liabilities, as appropriate, in the Consolidated Balance Sheets. IHC and its subsidiaries, excluding AMIC, have certain tax-planning strategies that were used in determining that a valuation allowance was not necessary on its deferred tax assets at December 31, 2015 or 2014. The net deferred tax asset relative to AMIC included in other assets on IHC s Consolidated Balance Sheets at December 31, 2015 and 2014 was $16,215,000 and $20,027,000, respectively.

	2015	2014
DEFERRED TAX ASSETS:		
Deferred insurance policy acquisition costs	$ -	$ 754
Unrealized losses on investment securities	1,935	-
Investment write-downs	205	165
Loss carryforwards	91,558	102,478
Insurance reserves	461	366
Other	5,614	7,126
Total gross deferred tax assets	99,773	110,889
Less AMIC valuation allowance	(74,087)	(74,087)
Net deferred tax assets	25,686	36,802
DEFERRED TAX LIABILITIES:		
Deferred insurance policy acquisition costs	(111)	(10,712)
Insurance reserves	(4,180)	(6,856)
Unrealized gains on investment securities	-	(78)
Goodwill and intangible assets	(6,175)	(2,315)
Other	(3,968)	(2,864)
Total gross deferred tax liabilities	(14,434)	(22,825)
Net deferred tax asset	$ 11,252	$ 13,977

As of December 31, 2015, IHC and its non-life subsidiaries, excluding AMIC, had NOL carryforwards arising from limitations on offsetting non-life insurance company losses against life insurance company income. The non-life insurance company Federal NOL carryforwards amount to approximately $3,533,000 at December 31, 2015, which expire in 2032.

At December 31, 2015, AMIC had Federal NOL carryforwards of approximately $258,061,000, which expire in varying amounts through the year 2028, with a significant portion expiring in 2020.

AMIC s valuation allowance at December 31, 2015 and 2014 was primarily related to net operating loss carryforwards that, in the judgment of management, were not considered realizable prior to the effects of the subsequent sale and coinsurance transaction more fully described in Note 19 for subsequent events. During the year ended December 31, 2014, AMIC decreased its valuation allowance by $3,062,000. The valuation allowance decrease in the year ended December 31, 2014 included $2,500,000 for the projected utilization of Federal net operating losses allocated to operations.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Management believes that it is more likely than not that IHC and its subsidiaries, and AMIC, will realize the benefits of these net deferred tax assets recorded at December 31, 2015. As of December 31, 2015, IHC and its subsidiaries, and AMIC, believe there were no material uncertain tax positions that would require disclosure under U.S. GAAP.

It is anticipated that there will be a significant utilization of AMIC s Federal NOL carryforwards in 2016, and a corresponding adjustment to AMIC s valuation allowance, in connection with a sale and coinsurance transaction more fully described in Note 19 for subsequent events.

Interest expense and penalties for the years ended December 31, 2015, 2014 and 2013 are insignificant. Tax years ending June 30, 2012 and forward are subject to examination by the Internal Revenue Service.

Net cash payments (receipts) for income taxes were $10,974,000, $(2,448,000) and $(387,000) in 2015, 2014 and 2013, respectively.

Note 12.

Stockholders Equity

Preferred Stock

IHC has 100,000 authorized shares of preferred stock, par value $1.00 per share, none of which was issued as of December 31, 2015 and 2014.

Treasury Stock

In 1991, IHC initiated a program of repurchasing shares of its common stock. In August 2014, the Board of Directors authorized the repurchase of up to 500,000 shares of IHC s common stock, in addition to prior authorizations, under the 1991 plan. The Company has repurchased 143,307, 296,775 and 334,305 shares in 2015, 2014 and 2013, respectively. All of the shares repurchased have been either retired, reissued, or have become treasury shares. At December 31, 2015, there were 324,911 shares still authorized to be repurchased under the plan authorized by the Board of Directors.

Accumulated Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) include (i) the after-tax net unrealized gains and losses on investment securities available-for-sale, including the subsequent increases and decreases in fair value of available-for-sale securities previously impaired and the non-credit related component of other-than-temporary impairments of fixed maturities and (ii) the after-tax unrealized gains and losses on a cash flow hedge.

Changes in the balances for each component of accumulated other comprehensive income (loss), shown net of taxes, for the years indicated were as follows (in thousands):

	Unrealized Gains (Losses) on Available-for Sale Securities	Cash Flow Hedge	Total
Balance at December 31, 2012	$ 15,231	$ (218)	$ 15,013
Other comprehensive income (loss) before reclassifications	(14,361)	96	(14,265)
Amounts reclassified from accumulated OCI	(11,826)	-	(11,826)
Net other comprehensive income (loss)	(26,187)	96	(26,091)
Less: Other comprehensive income attributable to noncontrolling interests	665	-	665
Acquired from noncontrolling interests	(59)	-	(59)
Balance at December 31, 2013	(10,350)	(122)	(10,472)
Other comprehensive income (loss) before reclassifications	15,872	72	15,944
Amounts reclassified from accumulated OCI	(5,251)	-	(5,251)
Net other comprehensive income (loss)	10,621	72	10,693
Less: Other comprehensive loss attributable to noncontrolling interests	(199)	-	(199)
Balance at December 31, 2014	72	(50)	22
Other comprehensive income (loss) before reclassifications	(299)	43	(256)
Amounts reclassified from accumulated OCI	(3,206)	-	(3,206)
Net other comprehensive income (loss)	(3,505)	43	(3,462)
Less: Other comprehensive loss attributable to noncontrolling interests	(5)	-	(5)
Acquired from noncontrolling interests	5		5
Balance at December 31, 2015	$ (3,433)	$ (7)	$ (3,440)

Presented below are the amounts reclassified out of accumulated other comprehensive income (loss) and recognized in earnings for each of the years indicated (in thousands):

	2015	2014	2013
Unrealized gains (losses) on available-for-sale securities reclassified during the period to the following income statement line items:			
Net realized investment gains	$ 5,202	$ 7,637	$ 17,841
Net impairment losses recognized in earnings	(228)	-	-
Income before income tax	4,974	7,637	17,841
Tax effect	1,768	2,386	6,015
Net income	$ 3,206	$ 5,251	$ 11,826

Note 13.

Share-Based Compensation

IHC and AMIC each have a share-based compensation plan. The following is a summary of the activity pertaining to each of these plans.

C)

IHC Share-Based Compensation Plan

In June 2006, the stockholders approved the Independence Holding Company 2006 Stock Incentive Plan (the 2006 Plan"). Under the terms of the 2006 Plan, option exercise prices are more than or equal to the quoted market price of the shares at the date of grant; option terms are generally five years; and vesting periods are generally three years. The fair value of an option award is estimated on the date of grant using the Black-Scholes option valuation model. In addition to stock options, the Company has also granted restricted stock units, share appreciation rights (SARs) and share-based performance awards under the 2006 Plan. Restricted share units are valued at the quoted market price of the shares at the date of grant and have a three year vesting period. Compensation costs for options and restricted share units are recognized over the stated vesting periods on a straight-line basis. Exercise prices of SARs are more than or equal to the quoted market price of IHC shares at the date of the grant and have three year vesting periods. The fair value of SARs is calculated using the Black-Scholes valuation model at the grant date and each subsequent reporting period until settlement. Compensation cost is based on the proportionate amount of the requisite service that has been rendered to date. Once fully vested, changes in fair value of the SARs continue to be recognized as compensation expense in the period of the change until settlement. Compensation costs for share-based performance awards are recognized and accrued as performance conditions are met, based on the current share price. IHC discontinued these award programs in 2013.

At December 31, 2015, there were 369,861 shares available for future stock-based compensation grants under IHC s stock incentive plans. The following table summarizes share-based compensation expense, which is included in selling, general and administrative expenses on the Consolidated Statements of Income, applicable to the IHC plans by award type for each of the years indicated (in thousands):

		2015		2014		2013
IHC s Share-based Compensation Plan:						
Stock options	$	55	$	669	$	210
Restricted stock units		89		85		66
SARs		13		14		698
Performance awards		-		-		(15)
Share-based compensation expense, pre-tax		157		768		959
Tax benefits		63		306		382
Share-based compensation expense, net	$	94	$	462	$	577

<u>Stock Options</u>

The Company s stock option activity during 2015 was as follows:

	Shares Under Option		Weighted- Average Exercise Price
December 31, 2014	614,680	$	9.33
Exercised	(30,600)		9.09
December 31, 2015	584,080	$	9.35

No options were granted in 2015, 2014 or 2013. In 2015, IHC received $278,000 in cash from the exercise of stock options with an aggregate intrinsic value of $132,000 and realized $22,000 of tax benefits. In May 2014, option agreements affecting 15 employees were modified to extend the expirations of their terms from 2015 to 2017 and as a result, the Company recorded incremental compensation costs of $405,000. In 2013, the Company received $430,000 in cash from the exercise of stock options with an aggregate intrinsic value of $243,000 and realized $85,000 of tax benefits. In March 2013, option agreements affecting 5 employees were modified to extend the expiration term 5 years. The incremental cost of the modified awards was $618,000, which was recognized over the new 2-year vesting period starting from the date of the modification.

The following table summarizes information regarding outstanding and exercisable options:

	December 31, 2015	
	Outstanding	Exercisable
Number of options	584,080	584,080
Weighted average exercise price per share	$ 9.35	$ 9.35
Aggregate intrinsic value for all options (in thousands)	$ 2,631	$ 2,631
Weighted average contractual term remaining	1.3 years	1.3 years

At December 31, 2015, all of IHC s outstanding stock options are fully vested and all of the related compensation costs have been recognized.

Restricted Stock

The following table summarizes IHC s restricted stock activity for the year ended December 31, 2015:

	No. of Non-vested Shares	Weighted-Average Grant-Date Fair Value
December 31, 2014	14,850	$ 12.09
Granted	7,425	11.78
Vested	(7,425)	11.44
December 31, 2015	14,850	$ 12.26

IHC granted 7,425 restricted stock units during each of the years ended December 31, 2015, 2014 and 2013, with weighted-average grant-date fair values of $11.78, $13.27 and $11.66 per share, respectively. The total fair value of restricted stock that vested in 2015, 2014 and 2013 was $89,000, $103,000 and $69,000, respectively.

At December 31, 2015, the total unrecognized compensation cost related to non-vested restricted stock awards was $129,000 which is expected to be recognized as compensation expense over a weighted average period of 1.7 years.

SARs and Share-Based Performance Awards

IHC had 125,850 and 136,850 SAR awards outstanding at December 31, 2015 and 2014, respectively. During 2015, 11,000 SARs were exercised with an aggregate intrinsic value of $61,000. During 2014, 112,200 SARs were exercised with an aggregate intrinsic value of $529,000; and 2,750 SARs were forfeited. During 2013, 14,850 SARs were exercised with an aggregate intrinsic value of $74,000; and 3,300 SARs were forfeited. Included in Other Liabilities in the Company s Consolidated Balance Sheets at December 31, 2015 and December 31, 2014 are liabilities of $743,000 and $791,000, respectively, pertaining to SARs.

In the past, other share-based compensation awards have included performance awards. These programs were discontinued in 2013. The intrinsic value of share-based performance awards paid during the year ended December 31, 2013 was $83,000.

B)

AMIC Share-Based Compensation Plans

Effective July 1, 2009, AMIC implemented the 2009 Stock Incentive Plan (AMIC 2009 Plan), which the AMIC stockholders approved on June 19, 2009. The AMIC 2009 Plan was preceded by the 1998 Stock Incentive Plan which expired by its terms in 2008. The AMIC 2009 Plan provided for the grants of non-statutory and incentive stock options, stock appreciation rights, restricted stock awards, performance shares, and other awards to officers, employee and other individuals. Under the terms of the AMIC 2009 Plan, stock options have a maximum term of ten years from the date of grant, and have various vesting criteria depending on the grant with most grants vesting ratably over four years. At December 31, 2015, stock options for 71,558 common stock shares were outstanding, stock options for 62,669 common stock shares were vested, and 6,490,553 common stock shares that had not been issued remained available for future stock options grants and other awards. Awards made under AMIC s 1998 Plan prior to its expiration are still in effect.

The following table summarizes share-based compensation expense, which is included in selling, general and administrative expenses on the Consolidated Statements of Income, applicable to the AMIC share-based compensation plans, by award type for each of the years indicated (in thousands):

	2015	2014	2013
AMIC s Share-based Compensation Plans:			
Stock options	$ 43	$ 52	$ 42
Share-based compensation expense, pre-tax	43	52	42
Tax benefits	15	18	15
Share-based compensation expense, net	$ 28	$ 34	$ 27

<u>Stock Options</u>

AMIC s stock option activity during 2015 was as follows:

	Shares Under Option	Weighted- Average Exercise Price
December 31, 2014	166,616	$ 10.50
Exercised	(8,890)	5.81
Forfeited	(26,001)	8.90
Expired	(60,167)	13.82
December 31, 2015	71,558	$ 8.88

The following table summarizes information regarding AMIC s outstanding and exercisable options:

	December 31, 2015

	Outstanding		Exercisable	
Number of options		71,558		62,669
Weighted average exercise price per share	$	8.88	$	8.74
Aggregate intrinsic value for all options (in thousands)	$	73	$	70
Weighted average contractual term remaining		4.19 years		3.63 years

The fair value of an option award is estimated on the date of grant using the Black-Scholes option valuation model. No options were granted in 2015. The weighted average grant-date fair-value of options granted during the years ended December 31, 2014 and 2013 was $5.70 and $4.04. The assumptions set forth in the table below were used to value the stock options granted during the periods:

	2014	2013
Weighted-average risk-free interest rate	2.72%	2.30%
Annual dividend rate per share	-	-
Weighted-average volatility factor of the Company's common stock	38.27%	45.00%
Weighted-average expected term of options	5 years	5 years

During 2015 and 2014, AMIC received $52,000 and $33,000 in cash from the exercise of stock options with aggregate intrinsic values of $37,000 and $38,000. No options were exercised during the year ended December 31, 2013.

As of December 31, 2015, the total unrecognized compensation expense related to AMIC s non-vested options was $40,000 which will be recognized over the remaining requisite service periods.

Note 14.

Commitments and Contingencies

Certain subsidiaries of the Company are obligated under non-cancelable operating lease agreements for office space. Total rental expense for the years 2015, 2014 and 2013 for operating leases was $3,377,000, $3,403,000 and $3,470,000, respectively.

The approximate minimum annual rental payments under operating leases that have remaining non-cancelable lease terms in excess of one year at December 31, 2015 are as follows (in thousands):

2016	$	2,865
2017		2,149
2018		2,048
2019		661
2020		385
2021 and thereafter		-
Total	$	8,108

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

Note 15.

Concentration of Credit Risk

At December 31, 2015, the Company had no investment securities of any one issuer or in any one industry which exceeded 10% of stockholders' equity, except for investments in obligations of the U.S. Government and its agencies and mortgage-backed securities issued by GSEs, as summarized in Note 2.

Fixed maturities with a carrying value of $12,552,000 and $12,523,000 were on deposit with various state insurance departments at December 31, 2015 and 2014, respectively.

At December 31, 2015, the Company had reinsurance recoverables from the following reinsurers that individually exceed 10% of stockholders equity (in thousands):

Reinsurer	AM Best Rating		Due from Reinsurer
National Guardian Life Insurance Company	A	$	236,577
Guggenheim Life and Annuity Company	B++		106,547
RGA Reinsurance Company	A+		40,224
Markel Bermuda, Ltd.	A		41,172

The Company believes that these receivables are fully collectible.

Note 16.

Dividend Payment Restrictions and Statutory Information

Our insurance subsidiaries are restricted by state laws and regulations as to the amount of dividends they may pay to their parent without regulatory approval in any year. Any dividends in excess of limits are deemed extraordinary and require approval. Based on statutory results as of December 31, 2015, in accordance with applicable dividend restrictions, our insurance subsidiaries could pay dividends of approximately $30,513,000 in 2016 without obtaining regulatory approval. There are no regulatory restrictions on the ability of our holding company, IHC, to pay dividends. Under Delaware law, IHC is permitted to pay dividends from surplus or net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Dividends to shareholders are paid from funds available at the corporate holding company level.

Non- extraordinary dividend payments were as follows: (i) Madison National Life declared and paid cash dividends of $4,600,000, $4,000,000 and $3,950,000 to its parent in 2015, 2014 and 2013, respectively; (ii) Standard Security Life declared and paid dividends of $6,000,000, $6,000,000 and $8,000,000 to its parent in 2015, 2014 and 2013, respectively; and (iii) Independence American did not declare or pay dividends to its parent in 2015, 2014 or 2013. IHC declared cash dividends of $1,562,000 in 2015, $1,223,000 in 2014 and $1,241,000 in 2013.

The Company s insurance subsidiaries are required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the insurance department of their state of domicile. Statutory accounting practices differ from U.S. GAAP in several respects causing differences in reported net income and stockholder s equity. The Company s insurance subsidiaries have no permitted accounting practices, which encompass all accounting practices not so prescribed that have been specifically allowed by the state insurance authorities.

The statutory net income and statutory capital and surplus for each of the Company s insurance subsidiaries are as follows for the periods indicated (in thousands):

	Years Ended December 31,		
	2015	**2014**	**2013**
Statutory net income:			
Madison National Life	$ 20,326	$ 9,876	$ 11,704
Standard Security Life	13,198	12,074	9,180
Independence American	2,960	3,127	3,176

	December 31, 2015	December 31, 2014
Statutory capital and surplus:		
Madison National Life	$ 116,652	$ 81,534
Standard Security Life	125,070	116,525
Independence American	63,412	60,168

The insurance subsidiaries are also required to maintain certain minimum amounts of statutory surplus to satisfy their various state insurance departments of domicile. Risk-based capital (RBC) requirements are designed to assess capital adequacy and to raise the level of protection that statutory surplus provides for policyholders. At December 31, 2015 and 2014, the statutory capital of our insurance subsidiaries is significantly in excess of their regulatory RBC requirements.

Note 17.

Segment Reporting

The Insurance Group principally engages in the life and health insurance business. Interest expense, taxes, and general expenses associated with parent company activities are included in Corporate. Identifiable assets by segment are those assets that are utilized in each segment and are allocated based upon the mean reserves and liabilities of each such segment. Corporate assets are composed principally of cash equivalents, resale agreements, fixed maturities, equity securities, partnership interests and certain other investments.

Information by business segment is presented below for the years indicated (in thousands).

	2015	2014	2013
Revenues:			
Medical Stop-Loss	$ 216,512	$ 184,775	$ 171,963
Fully Insured Health	185,912	239,101	278,105
Group disability; life and DBL	90,314	67,641	63,155
Individual life, annuities and other	27,119	34,551	41,966
Corporate	205	177	105
	520,062	526,245	555,294
Gain on sale of subsidiary to joint venture	9,940	-	-
Net realized investment gains	3,094	7,688	19,750
Net impairment losses recognized in earnings	(228)	-	-
Total revenues	$ 532,868	$ 533,933	$ 575,044
Income before income taxes:			
Medical Stop-Loss	$ 23,138	$ 21,933	$ 12,677
Fully Insured Health (A)	6,490	(1,987)	832
Group disability; life and DBL	15,811	12,168	8,647
Individual life, annuities and other(B)	(122)	(6,618)	(10,396)
Corporate	(8,137)	(8,075)	(5,941)
	37,180	17,421	5,819
Gain on sale of subsidiary to joint venture	9,940	-	-
Net realized investment gains	3,094	7,688	19,750
Net impairment losses recognized in earnings	(228)	-	-

Interest expense		(1,798)		(1,797)		(1,915)
Income before income taxes	$	48,188	$	23,312	$	23,654

(A)

The Fully Insured Health segment includes amortization of intangible assets recorded as a result of purchase accounting for previous acquisitions. Total amortization expense was $1,488,000, $1,948,000 and $2,393,000 for the years ended December 31, 2015, 2014 and 2013, respectively. Amortization expense for the other segments is not material.

(B)

The Individual life, annuities and other segment includes amortization of deferred charges in connection with the assumptions of certain ceded life and annuity policies amounting to $1,323,000 and $3,540,000 for the years ended December 31, 2015 and 2014, respectively.

	December 31, 2015		December 31, 2014	
IDENTIFIABLE ASSETS AT YEAR END				
Medical Stop-Loss	$	291,330	$	235,429
Fully Insured Health		159,826		170,522
Group disability; life and DBL		268,606		231,109
Individual life, annuities and other		436,941		525,519
Corporate		41,260		33,648
	$	1,197,963	$	1,196,227

Note 18.

Quarterly Data (Unaudited)

The quarterly results of operations for the years indicated are summarized below (in thousands, except per share data):

		FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER
2015								
Total revenues	$	134,265	$	133,105	$	140,418	$	125,080
Net income	$	5,331	$	5,156	$	14,888	$	5,147
Less income from noncontrolling interests in subsidiaries		(112)		(124)		(128)		(214)
Net income attributable to IHC	$	5,219	$	5,032	$	14,760	$	4,933
Basic income per common share	$	.30	$	.29	$	.85	$	.29
Diluted income per share	$	.30	$	.29	$	.85	$	.28

		FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER
2014								
Total revenues	$	141,072	$	136,019	$	129,752	$	127,090
Net income	$	4,005	$	3,880	$	4,824	$	4,212
Less income from noncontrolling interests in subsidiaries		(304)		(32)		(114)		(178)
Net income attributable to IHC	$	3,701	$	3,848	$	4,710	$	4,034
Basic income per common share	$	.21	$	.22	$	.27	$	.23
Diluted income per share	$	.21	$	.22	$	.27	$	.23

Note 19.

Subsequent Events

On March 31, 2016, IHC and its subsidiary Independence American 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 stop-loss business of Standard Security Life and Independence American produced by Risk Solutions will be 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 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 . IHC 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 qualifies for reporting as discontinued operations in the first quarter of 2016 as a result of the Board of Directors commitment to a plan for its disposal in January 2016.

In January 2016, IHC s Board of Directors has preliminarily determined to take the steps necessary to take AMIC private.

SCHEDULE I

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
SUMMARY OF INVESTMENTS OTHER THAN INVESTMENTS IN RELATED PARTIES
DECEMBER 31, 2015
(In thousands)

TYPE OF INVESTMENT	COST	VALUE	AMOUNT SHOWN IN BALANCE SHEET
FIXED MATURITIES - AVAILABLE-FOR-SALE:			
Bonds:			
United States Government and Government agencies and authorities	$ 56,586	$ 56,391	$ 56,391
States, municipalities and political subdivisions	194,364	194,666	194,666
Foreign governments	2,318	2,324	2,324
Public utilities	23,113	25,606	25,606
All other corporate bonds	153,475	145,491	145,491
Redeemable preferred stock	4,036	4,123	4,123
TOTAL FIXED MATURITIES	433,892	428,601	428,601
EQUITY SECURITIES - AVAILABLE-FOR-SALE AND TRADING:			
Common stocks:			
Industrial, miscellaneous and all other	6,883	6,043	6,043
Non-redeemable preferred stocks	3,588	3,642	3,642
TOTAL EQUITY SECURITIES	10,471	9,685	9,685
Policy loans	38	38	38
Short-term investments and resale agreements	28,335	28,335	28,335
Other long-term investments	21,500	21,500	21,500
TOTAL INVESTMENTS	$ 494,236	$ 488,159	$ 488,159

SCHEDULE II

INDEPENDENCE HOLDING COMPANY
CONDENSED BALANCE SHEETS (In thousands, except share data)
(PARENT COMPANY ONLY)

	DECEMBER 31, 2015	DECEMBER 31, 2014
ASSETS:		
Cash and cash equivalents	$ 512	$ 389
Fixed maturities, available-for-sale	24,549	9,647
Trading securities	620	1,916
Other investments	1,146	1,146
Investments in consolidated subsidiaries	368,836	395,780
Deferred tax assets, net	3,730	11,414
Goodwill	228	228
Other assets	131	97
TOTAL ASSETS	$ 399,752	$ 420,617
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable and other liabilities	$ 8,182	$ 7,140
Amounts due to consolidated subsidiaries, net	12,417	57,220
Income taxes payable	7,494	7,871
Junior subordinated debt securities	38,146	38,146
Dividends payable	809	628
TOTAL LIABILITIES	67,048	111,005
STOCKHOLDERS' EQUITY:		
Preferred stock (none issued)	-	-
Common stock [(A)]	18,569	18,531
Paid-in capital	127,733	127,098
Accumulated other comprehensive income (loss)	(3,440)	22
Treasury stock, at cost [(B)]	(13,961)	(12,141)
Retained earnings	194,450	166,177
TOTAL IHC S STOCKHOLDERS' EQUITY	323,351	299,687
NONCONTROLLING INTERESTS IN SUBSIDIARIES	9,353	9,925
TOTAL EQUITY	332,704	309,612

TOTAL LIABILITIES AND EQUITY	$ 399,752	$ 420,617

(A)

Common stock $1.00 par value, 23,000,000 shares authorized; 18,569,183 and 18,531,158 shares issued, respectively, 17,265,758 and 17,371,040 shares outstanding, respectively.

(B)

Treasury stock, at cost; 1,303,425 and 1,160,118 shares, respectively, outstanding.

(C)

Investments in consolidated subsidiaries and retained earnings balances at December 31, 2014 have been revised to reflect an immaterial error correction related to deferred tax assets and liabilities. For further discussion of this error refer to Note 1 of the Notes to Consolidated Financial Statements.

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

SCHEDULE II
(Continued)

INDEPENDENCE HOLDING COMPANY
CONDENSED STATEMENTS OF INCOME (In thousands)
(PARENT COMPANY ONLY)

	2015	2014	2013
REVENUES:			
Net investment income	$ 112	$ 112	$ 61
Net realized investment gains (losses)	(506)	(78)	349
Other income	1,800	2,129	2,327
	1,406	2,163	2,737
EXPENSES:			
Interest expense on debt	1,567	1,546	1,563
General and administrative expenses	5,506	5,606	4,301
	7,073	7,152	5,864
Loss before tax benefit and equity in net income of subsidiaries	(5,667)	(4,989)	(3,127)
Income taxes (benefits)	(1,491)	(2,389)	(1,228)
Equity in net income of subsidiaries	34,698	19,521	17,155
Net income	30,522	16,921	15,256
Less income from noncontrolling interests in subsidiaries	(578)	(628)	(1,477)
Net income attributable to IHC	$ 29,944	$ 16,293	$ 13,779

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

SCHEDULE II
(Continued)

INDEPENDENCE HOLDING COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (In thousands)
(PARENT COMPANY ONLY)

	2015	2014	2013
CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES:			
Net income	$ 30,522	$ 16,921	$ 15,256
Adjustments to net income:			
Equity in net income of subsidiaries	(34,698)	(19,521)	(17,155)
Other	9,204	3,748	4,398
Changes in other assets and liabilities	550	440	(1,609)
Net change in cash from operating activities	5,578	1,588	890
CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES:			
Change in investments in and advances to subsidiaries	12,398	11,138	6,708
Purchases of fixed maturities	(20,857)	(9,953)	-
Sales of fixed maturities	5,915	2,751	3,260
Net change in cash from investing activities	(2,544)	3,936	9,968
CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES:			
Repurchases of common stock	(1,820)	(3,972)	(3,636)
Cash paid in acquisitions of noncontrolling interests	-	-	(7,626)
Dividends paid	(1,392)	(1,233)	(620)
Other financing activities	301	9	496
Net change in cash from financing activities	(2,911)	(5,196)	(11,386)
Net change in cash and cash equivalents	123	328	(528)
Cash and cash equivalents, beginning of year	389	61	589

Cash and cash equivalents, end of year	$ 512	$ 389	$ 61

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

INDEPENDENCE HOLDING COMPANY
SUPPLEMENTARY INSURANCE INFORMATION
(in thousands)

		DEFERRED ACQUISITION COSTS	FUTURE POLICY BENEFITS, LOSSES & CLAIMS	UNEARNED PREMIUMS	NET PREMIUMS EARNED	NET INVESTMENT INCOME (1)	INSURANCE BENEFITS, CLAIMS & RESERVES	AMORTIZATION OF DEFERRED ACQUISTION COSTS	AI
December 31, 2015									
Medical Stop-Loss	$	-	100,088	-	209,765	4,435	153,919	-	
Fully Insured Health		499	42,165	7,005	171,912	1,813	93,916	386	
Group disability; life and DBL		-	141,837	3,060	85,953	3,699	47,646	-	
Individual life, annuities and other		-	405,327	171	11,904	7,146	11,697	3,138	
Corporate		-	-	-	-	205	-	-	
	$	499	689,417	10,236	479,534	17,298	307,178	3,524	
December 31, 2014									
Medical Stop-Loss	$	-	80,128	-	176,941	4,327	122,469	-	
Fully Insured Health		624	50,767	6,568	218,949	2,202	146,431	482	
Group disability; life and DBL		-	147,823	2,700	64,260	3,156	37,537	-	
Individual life, annuities									

and other		30,182	421,908	187	18,898	11,830	19,598	4,459
Corporate		-	-	-	-	177	-	-
	$	30,806	700,626	9,455	479,048	21,692	326,035	4,941
December 31, 2013								
Medical Stop-Loss	$	-	72,307	-	166,302	5,055	115,599	-
Fully Insured Health		361	57,323	9,828	248,870	2,711	177,290	22
Group disability; life and DBL		-	147,426	2,398	60,004	2,763	37,463	-
Individual life, annuities and other		29,416	522,973	197	20,815	16,837	24,438	15,110
Corporate		-	-	-	-	105	-	-
	$	29,777	800,029	12,423	495,991	27,471	354,790	15,132

(1)

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

(2)

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

SCHEDULE IV

INDEPENDENCE HOLDING COMPANY
REINSURANCE
(In thousands)

	GROSS AMOUNT	ASSUMED FROM OTHER COMPANIES	CEDED TO OTHER COMPANIES	NET AMOUNT	PERCENTAGE OF AMOUNT ASSUMED TO NET
Life Insurance In-Force:					
December 31, 2015	$ 12,063,911	$ 129,231	$ 6,365,993	$ 5,827,149	2.2%
December 31, 2014	$ 11,054,484	$ 418,775	$ 6,128,608	$ 5,344,651	7.8%
December 31, 2013	$ 11,415,328	$ 333,200	$ 6,493,122	$ 5,255,406	6.3%
Premiums Earned:					
December 31, 2015					
Accident and health	$ 513,814	$ 28,822	$ 126,613	$ 416,023	6.9%
Life and annuity	46,699	4,330	23,078	27,951	15.5%
Property and liability (1)	35,812	-	252	35,560	0.0%
	$ 596,325	$ 33,152	$ 149,943	$ 479,534	6.9%
December 31, 2014					
Accident and health	$ 482,511	$ 52,063	$ 116,163	$ 418,411	12.4%
Life and annuity	44,407	6,128	20,214	30,321	20.2%
Property and liability (1)	30,477	-	161	30,316	0.0%
	$ 557,395	$ 58,191	$ 136,538	$ 479,048	12.1%

December 31, 2013									
Accident and health	$	461,336	$	85,627	$	102,053	$	444,910	19.2%
Life and annuity		46,416		6,654		20,820		32,250	20.6%
Property and liability (1)		18,845		-		14		18,831	0.0%
	$	526,597	$	92,281	$	122,887	$	495,991	18.6%

(1)

Property and liability products consist primarily of our pet insurance line.

EXHIBIT INDEX

Exhibit Number

3.1

Restated Certificate of Incorporation of Independence Holding Company (Filed as Exhibit 3(i) to our Quarterly Report on Form 10-Q for the quarter ended June 30, 1996 and incorporated herein by reference).

3.2

Certificate of Amendment of Restated Certificate of Incorporation of Independence Holding Company (Filed as Exhibit 3.1 to our Current Report on Form 8-K filed with the SEC on July 29, 2004 and incorporated herein by reference).

3.3

By-Laws of Independence Holding Company (Filed as Exhibit 3.3 to our Annual Report on Form 10-K for the year ended December 31, 2006 and incorporated herein by reference), as amended by Amendment to By-Laws of Independence Holding Company (Filed as Exhibit 3.2 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 and incorporated herein by reference).

10.1

Officer Employment Agreement, made as of April 18, 2011, by and among Independence Holding Company, Standard Security Life Insurance Company of New York and Mr. David T. Kettig (Filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on April 22, 2011 and incorporated herein by reference).

10.2

Officer Employment Agreement, made as of April 18, 2011, by and among Independence Holding Company, Madison National Life Insurance Company, Inc. and Mr. Larry R. Graber (Filed as Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on April 22, 2011 and incorporated herein by reference).

10.3

Officer Employment Agreement, made as of April 18, 2011, by and between Independence Holding Company and Ms. Teresa A. Herbert (Filed as Exhibit 10.5 to our Current Report on Form 8-K filed with the SEC on April 22, 2011 and incorporated herein by reference).

10.4

Officer Employment Agreement, made as of May 11, 2011, by and between Independence Holding Company and Mr. Roy T.K. Thung (Filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q for the period ended March 31, 2011 that was filed with the SEC on May 12, 2011, and incorporated herein by reference).

10.5

Officer Employment Agreement, by and among Independence Holding Company, IHC Risk Solutions, LLC and Mr. Michael A. Kemp, dated as of May 22, 2012 (Filed as Exhibit 10.3 to our Current Report on Form 8-K filed with the SEC on May 29, 2012, and incorporated herein by reference).

10.6

Retirement Benefit Agreement, dated as of September 30, 1991, between Independence Holding Company and Mr. Roy T.K. Thung, as amended. (Filed as an Exhibit to our Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference; Amendment No. 1 filed as Exhibit 10(iii)(A)(4a) to our Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference; Amendment No. 2 filed as Exhibit 10(iii)(4)(b) to our Current Report on Form 8-K filed with the SEC on June 22, 2005 and incorporated herein by reference; Amendment No. 3 filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on January 7, 2009 and incorporated herein by reference.)

10.7

Purchase Agreement, made and entered into on June 15, 2015, by and among Madison National Life Insurance Company, Inc., Standard Security Life Insurance Company of New York and National Guardian Life Insurance Company (Filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on June 16, 2015, and incorporated herein by reference).

21

Subsidiaries of Independence Holding Company, as of December 31, 2015.*

23

Consent of Independent Registered Public Accounting Firm.*

31.1

Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

31.2

Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

32.1

Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

32.2

Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted 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.

*Filed herewith.