INDEPENDENCE HOLDING CO
Form 10-Q
August 01, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[X]

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

For the quarterly period ended **March 31, 2016.**

[ ]

Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from: ________ to _________

Commission File Number: **001-32244**

INDEPENDENCE HOLDING COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**58-1407235**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

96 CUMMINGS POINT ROAD, STAMFORD, CONNECTICUT 06902

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(203) 358-8000**

NOT APPLICABLE

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

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

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

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

Large Accelerated Filer [ ] Accelerated Filer [X]
Non-Accelerated Filer [ ] Smaller Reporting Company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

Class	Outstanding at July 30, 2016
Common stock, $ 1.00 par value	**17,170,933 Shares**

INDEPENDENCE HOLDING COMPANY

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

Forward-Looking Statements

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

Numerous risks and uncertainties may impact the matters addressed by our forward-looking statements, any of which could negatively and materially affect our future financial results and performance. We describe some of these risks and uncertainties in greater detail in Item 1A, Risk Factors, of IHC s annual report on Form 10-K as filed with Securities and Exchange Commission.

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

PART I - FINANCIAL INFORMATION

Item 1.

Financial Statements

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

		March 31, 2016 (Unaudited)		December 31, 2015
ASSETS:				
Investments:				
Short-term investments	$	50	$	50
Securities purchased under agreements to resell		21,196		28,285
Trading securities		1,190		1,259
Fixed maturities, available-for-sale		520,638		428,601
Equity securities, available-for-sale		8,714		8,426
Other investments		20,501		21,538
Total investments		572,289		488,159
Cash and cash equivalents		145,696		17,500
Due and unpaid premiums		64,645		69,075
Due from reinsurers		462,087		483,073
Premium and claim funds		41,576		22,015
Goodwill		47,276		47,276
Other assets		48,257		57,934
Assets attributable to discontinued operations (Note 3)		-		12,931
TOTAL ASSETS	$	1,381,826	$	1,197,963
LIABILITIES AND STOCKHOLDERS EQUITY:				
LIABILITIES:				
Policy benefits and claims	$	247,900	$	245,443
Future policy benefits		235,251		270,624
Funds on deposit		149,147		173,350
Unearned premiums		13,350		10,236
Other policyholders' funds		9,675		11,822
Due to reinsurers		70,283		46,355
Due to securities brokers		99,803		998
Accounts payable, accruals and other liabilities		57,020		63,111
Liabilities attributable to discontinued operations (Note 3)		6,085		(15)
Debt		4,250		5,189
Junior subordinated debt securities		38,146		38,146

TOTAL LIABILITIES		930,910		865,259
STOCKHOLDERS EQUITY:				
IHC STOCKHOLDERS' EQUITY:				
Preferred stock (none issued)		-		-
Common stock $1.00 par value, 23,000,000 shares authorized;				
18,569,183 shares issued; 17,215,758 and 17,265,758 shares outstanding		18,569		18,569
Paid-in capital		128,053		127,733
Accumulated other comprehensive loss		(479)		(3,440)
Treasury stock, at cost; 1,353,425 and 1,303,425 shares		(14,782)		(13,961)
Retained earnings		300,457		194,450
TOTAL IHC STOCKHOLDERS EQUITY		431,818		323,351
NONCONTROLLING INTERESTS IN SUBSIDIARIES		19,098		9,353
TOTAL EQUITY		450,916		332,704
TOTAL LIABILITIES AND EQUITY	$	1,381,826	$	1,197,963

See the accompanying Notes to Condensed Consolidated Financial Statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(In thousands, except per share data)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
REVENUES:		
Premiums earned	$ 62,562	$ 122,114
Net investment income	4,436	5,422
Fee income	5,079	2,577
Other income	3,258	992
Net realized investment gains	560	2,000
	75,895	133,105
EXPENSES:		
Insurance benefits, claims and reserves	30,743	79,620
Selling, general and administrative expenses	35,227	45,484
Interest expense on debt	453	432
	66,423	125,536
Income from continuing operations before income taxes	9,472	7,569
Income taxes	3,576	2,868
Income from continuing operations	5,896	4,701
Discontinued operations: (Note 3)		
Income from discontinued operations, before income taxes	117,636	1,031
Income taxes on discontinued operations	7,866	401
Income from discontinued operations	109,770	630
Net income	115,666	5,331
Less: Income from noncontrolling interests in subsidiaries	(9,656)	(112)
NET INCOME ATTRIBUTABLE TO IHC	$ 106,010	$ 5,219
Basic income per common share: (Note 2)		
Income from continuing operations	$ .34	$ .27
Income from discontinued operations	5.81	.03
Basic income per common share	$ 6.15	$ .30
WEIGHTED AVERAGE SHARES OUTSTANDING	17,243	17,364
Diluted income per common share: (Note 2)		
Income from continuing operations	$ .33	$ .27
Income from discontinued operations	5.75	.03
Diluted income per common share	$ 6.08	$ .30

WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	17,449	17,531

See the accompanying Notes to Condensed Consolidated Financial Statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(In thousands)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Net income	$ 115,666	$ 5,331
Other comprehensive income:		
Available-for-sale securities:		
Unrealized gains on available-for-sale securities, pre-tax	4,703	1,320
Tax expense on unrealized gains on available-for-sale securities	1,685	403
Unrealized gains on available-for-sale securities, net of taxes	3,018	917
Other comprehensive income, net of tax	3,018	917
COMPREHENSIVE INCOME, NET OF TAX	118,684	6,248
Comprehensive income, net of tax, attributable to noncontrolling interests:		
Income from noncontrolling interests in subsidiaries	(9,656)	(112)
Other comprehensive income, net of tax, attributable to noncontrolling interests:		
Unrealized gains on available-for-sale securities, net of tax	(57)	(43)
Other comprehensive income, net of tax, attributable to noncontrolling interests	(57)	(43)
COMPREHENSIVE INCOME, NET OF TAX, ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(9,713)	(155)
COMPREHENSIVE INCOME, NET OF TAX, ATTRIBUTABLE TO IHC	$ 108,971	$ 6,093

See the accompanying Notes to Condensed Consolidated Financial Statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited) (In thousands)

	COMMON STOCK	PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK, AT COST	RETAINED EARNINGS	TOTAL IHC STOCKHOLDERS' EQUITY	NON CONTRO INTERES SUBSIDI
BALANCE AT DECEMBER 31, 2015	$ 18,569	$ 127,733	$ (3,440)	$ (13,961)	$ 194,450	$ 323,351	$
Net income					106,010	106,010	
Other comprehensive income, net of tax			2,961			2,961	
Repurchases of common stock				(821)		(821)	
Share-based compensation expenses and related tax benefits		193				193	
Other capital transactions		127			(3)	124	
BALANCE AT MARCH 31, 2016	$ 18,569	$ 128,053	$ (479)	$ (14,782)	$ 300,457	$ 431,818	$

See the accompanying Notes to Condensed Consolidated Financial Statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Three Months Ended March 31, 2016	2015
CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES:		
Net income	$ 115,666	$ 5,331
Adjustments to reconcile net income to net change in cash from operating activities:		
Gain on disposal of discontinued operations, net of tax	(109,304)	-
Amortization of deferred acquisition costs	86	1,464
Net realized investment gains	(560)	(2,000)
Equity (income) loss from equity method investments	30	(365)
Depreciation and amortization	472	536
Deferred tax expense (benefit)	(901)	3,251
Other	3,105	2,341
Changes in assets and liabilities:		
Net (purchases) sales of trading securities	3,180	1,291
Change in insurance liabilities	(31,725)	2,935
Change in amounts due from reinsurers	20,985	4,531
Change in premium and claim funds	(19,562)	(376)
Change in current income tax liability	(1,428)	(789)
Change in due and unpaid premiums	4,430	(14,183)
Other operating activities	(6,057)	2,749
Net change in cash from operating activities	(21,583)	6,716
CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES:		
Net (purchases) sales of securities under resale agreements	7,089	(34,147)
Sales of equity securities	-	3,902
Sales of fixed maturities	32,447	92,089
Maturities and other repayments of fixed maturities	10,342	12,067
Purchases of fixed maturities	(30,723)	(81,963)
Proceeds on sales of subsidiaries, net of cash divested	134,625	-
Other investing activities	(1,107)	10
Net change in cash from investing activities	152,673	(8,042)
CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES:		
Repurchases of common stock	(821)	(597)
Cash paid in acquisitions of noncontrolling interests	-	(1,609)
Withdrawals of investment-type insurance contracts	(500)	(607)
Repayments of debt	(939)	-

Dividends paid	(779)	(609)
Other financing activities	145	144
Net change in cash from financing activities	(2,894)	(3,278)
Net change in cash and cash equivalents	128,196	(4,604)
Cash and cash equivalents, beginning of year	17,500	23,408
Cash and cash equivalents, end of period	$ 145,696	$ 18,804

See the accompanying Notes to Condensed Consolidated Financial Statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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 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), an administration exchange for health and pet insurance; and (ii) a managing general underwriter (MGU) that writes medical stop-loss. On March 31, 2016, the Company sold IHC Risk Solutions, LLC (Risk Solutions), its managing general underwriter of excess or stop-loss insurance. In addition, all of the in-force stop-loss business of Standard Security Life and Independence American produced by Risk Solutions is 100% co-insured as of January 1, 2016 and IHC s block of Medical Stop-Loss business is in run-off. 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 March 31, 2016.

(B)

Consolidation

American Independence Corp.

At March 31, 2016 and December 31, 2015, the Company owned approximately 92%, respectively, of the outstanding common stock of American Independence Corp. ("AMIC"). In June 2016, IHC started the necessary proceedings to take AMIC private. AMIC is an insurance holding company engaged in the insurance and reinsurance business.

Effects of Ownership Changes in Subsidiaries

The following table summarizes the effects of changes in the Company s ownership interests in its subsidiaries on IHC s equity for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2016	**2015**
Changes in IHC s paid-in capital:		
Purchases of AMIC shares	$ -	$ (199)
Net transfers from noncontrolling interests	$ -	$ (199)

(C)

Basis of Presentation

The unaudited Condensed Consolidated Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The unaudited Condensed Consolidated Financial Statements include the accounts of IHC and its consolidated subsidiaries. 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. IHC s annual report on Form 10-K as filed with the Securities and Exchange Commission should be read in conjunction with the accompanying unaudited Condensed Consolidated Financial Statements.

On March 31, 2016, the Company sold Risk Solutions, its managing general underwriter of excess or stop-loss insurance for self-insured employer groups that desire to manage the risk of large medical claims (Medical Stop-Loss). In addition, under the purchase and sale agreement, all of the in-force stop-loss business of Standard Security Life and Independence American produced by Risk Solutions is 100% co-insured as of January 1, 2016. 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 qualified for reporting as a discontinued operation in the first quarter of 2016 as a result of the Board of Directors commitment to a plan for its disposal in January 2016. The assets, liabilities, and related income and expenses associated with the disposal group are presented as discontinued operations in the accompanying condensed consolidated financial statements and Notes thereto. See Note 3 for more information.

In the opinion of management, all adjustments (consisting only of normal recurring accruals) that are necessary for a fair presentation of the consolidated financial position and results of operations for the interim periods have been included. The condensed consolidated results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results to be anticipated for the entire year.

(D)

Reclassifications

Certain amounts in prior year s consolidated financial statements and Notes thereto have been reclassified to conform to the 2016 presentation, primarily for the effects of discontinued operations.

(E)

Recent Accounting Pronouncements

Recently Adopted Accounting Standards

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

In February 2015, the FASB issued guidance that modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities for the purpose of consolidation. The adoption of this guidance did not have a material effect on the Company s consolidated financial statements.

In June 2014, the FASB issued explicit guidance for entities that grant their employees share-based payments in which the terms of the award include a performance target that affects vesting and could be achieved after the requisite service period. The adoption of this guidance did not have a material effect on the Company s consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

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

In March 2016, the FASB issued guidance that simplify several aspects of accounting for 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 May 2015, the FASB issued guidance requiring additional disclosures for short-duration contracts regarding the liability for unpaid claims and claim adjustment expenses. For public entities, the guidance is effective for annual reporting periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted. The adoption of this guidance is not expected to have a significant effect on the Company s consolidated financial statements.

In May 2014, the FASB issued revenue recognition guidance for entities that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards such as insurance contracts or lease contracts. The amendment provides specific steps that an entity should apply in order to achieve its main objective which is recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In 2016, additional guidance was issued to clarify certain aspects of the implementation guidance and to clarify the identification of performance obligations. In August 2015, the effective date of this guidance has been deferred. For public entities, this guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and requires one of two specified retrospective methods of application. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Management has not yet determined the impact that the adoption of this guidance will have on the Company s consolidated financial statements.

Note 2.

Income Per Common Share

Diluted income per share was computed using the treasury stock method and includes incremental common shares, primarily from the dilutive effect of share-based payment awards, amounting to 206,000 and 167,000 shares for the three months ended March 31, 2016 and 2015.

The following is a reconciliation of income available to common shareholders used to calculate income per share for the periods indicated (in thousands):

	Three Months Ended March 31	
	2016	**2015**
Income from continuing operations	$ 5,896	$ 4,701
Less: Income from continuing operations attributable to noncontrolling interests	(106)	(70)
Income from continuing operations attributable to IHC common shareholders	$ 5,790	$ 4,631

Income from discontinued operations	$	109,770	$	630
Less: Income from discontinued operations attributable to noncontrolling interests		(9,550)		(42)
Income from discontinued operations attributable to IHC common shareholders	$	100,220	$	588

Note 3.

Discontinued Operations

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 is co-insured by Westport Insurance Corporation (Westport), Swiss Re s largest US carrier, as of January 1, 2016. The aggregate purchase price was $152,500,000 in cash, subject to adjustments and settlements. Approximately 89% of the purchase price was allocated to AMIC, with the balance being paid to Standard Security Life and other IHC subsidiaries. The Company recorded a gain of $99,793,000, net of taxes and amounts attributable to noncontrolling interests, as a result of the transaction. The aforementioned transaction, which includes the sale of Risk Solutions and the corresponding coinsurance agreement, is collectively referred to as the Risk Solutions Sale and Coinsurance Transaction . 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 qualified for reporting as a discontinued operation in the first quarter of 2016 as a result of the Board of Directors commitment to a plan for its disposal in January 2016. Aside from reinsurance and marketing of Westport small group stop-loss, there will be no further involvement with the discontinued operation.

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

	Three Months Ended March 31,		
		2016	2015
Revenue	$	6,406 $	1,160
Selling, general and administrative expenses		5,689	129
Pretax profit of discontinued operations		717	1,031
Gain on disposal of discontinued operations, pretax		116,919	-
Income from discontinued operations, before income taxes		117,636	1,031
Income taxes on discontinued operations		7,866	401
Income from discontinued operations	$	109,770 $	630

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

		March 31, 2016	December 31, 2015
Major classes of assets included in discontinued operations:			
Cash	$	-$	1,671
Goodwill		-	5,664
Intangible assets		-	919
Other assets		-	4,677
Assets attributable to discontinued operations	$	-$	12,931
Major classes of liabilities included in discontinued operations:			
Accounts payable and accrued liabilities	$	6,085$	(15)
Liabilities attributable to discontinued operations	$	6,085$	(15)

Total operating cash flows from discontinued operations for the three months ended March 31, 2016 and 2015 amounted to $339,000 and $116,000, respectively. The Company elected to classify the proceeds received from the sale of discontinued operations in the investing activities section of the Condensed Consolidated Statement of Cash Flows.

In connection with the Risk Solutions Sale and Coinsurance Transaction in March 2016, AMIC utilized a significant amount of its Federal NOL carryforwards and made a corresponding adjustment to its valuation allowance (see Note 9). On a consolidated basis, the Company recorded income taxes on discontinued operations of $7,866,000 for the three months ended March 31, 2016, consisting of $5,799,000 of state taxes and $2,067,000 of Federal taxes, net of a $38,565,000 decrease in AMIC s valuation allowance.

Note 4.

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):

	March 31, 2016 AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
FIXED MATURITIES AVAILABLE-FOR-SALE:				
Corporate securities	$ 183,587	$ 1,145	$ (4,844)	$ 179,888
CMOs - residential (1)	2,986	63	-	3,049
U.S. Government obligations	124,898	421	(7)	125,312
Agency MBS - residential (2)	32	1	-	33
GSEs (3)	10,715	2	(208)	10,509
States and political subdivisions	192,965	3,675	(1,112)	195,528
Foreign government obligations	2,301	70	-	2,371
Redeemable preferred stocks	4,036	85	(173)	3,948
Total fixed maturities	$ 521,520	$ 5,462	$ (6,344)	$ 520,638
EQUITY SECURITIES AVAILABLE-FOR-SALE:				
Common stocks	$ 4,926	$ 155	$ (24)	$ 5,057
Nonredeemable preferred stocks	3,588	95	(26)	3,657
Total equity securities	$ 8,514	$ 250	$ (50)	$ 8,714

	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

(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.

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The amortized cost and fair value of fixed maturities available-for-sale at March 31, 2016, 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	$ 23,979	$ 23,519
Due after one year through five years	180,141	180,071
Due after five years through ten years	126,709	128,460
Due after ten years	176,959	174,997
CMOs and MBSs	13,732	13,591
	$ 521,520	$ 520,638

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):

	March 31, 2016					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate securities	$ 43,714	$ 687	$ 71,655	$ 4,157	$ 115,369	$ 4,844
U.S. Government obligations	104,478	7	-	-	104,478	7
GSEs	3,578	66	6,907	142	10,485	208
States and political subdivisions	38,859	584	20,900	528	59,759	1,112
	3,590	173	-	-	3,590	173

Redeemable preferred stocks										
Total fixed maturities	194,219		1,517		99,462		4,827		293,681	6,344
Common stocks	478		24		-		-		478	24
Nonredeemable preferred stocks	-		-		1,301		26		1,301	26
Total equity securities	478		24		1,301		26		1,779	50
Total temporarily impaired securities	$ 194,697	$	1,541	$	100,763	$	4,853	$	295,460	$ 6,394
Number of securities in an unrealized loss position	80				30				110	

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	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	

Substantially all of the unrealized losses on fixed maturities available-for-sale at March 31, 2016 and December 31, 2015 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 March 31, 2016.

Net realized investment gains are as follows for periods indicated (in thousands):

	Three Months Ended March 31, 2016	2015
Available-for-sale securities:		
Fixed maturities	$ 628	$ 1,300
Common stocks	-	1,465
Total sales of available-for-sale securities	628	2,765
Trading securities	-	(507)
Total realized gains	628	2,258
Unrealized gains (losses) on trading securities:		
Change in unrealized gains (losses) on trading securities	(70)	(251)
Total unrealized gains (losses) on trading securities	(70)	(251)
Gains (losses) on other investments	2	(7)
Net realized investment gains	$ 560	$ 2,000

For the three months ended March 31, 2016 and 2015, proceeds from sales of available-for-sale securities were $31,494,000 and $106,415,000, respectively, and the Company realized gross gains of $615,000 and $3,114,000, respectively, and gross losses of $17,000 and $182,000, respectively, on those sales.

Other-Than-Temporary Impairment Evaluations

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). See Note 1H(iv) to the Consolidated Financial Statements in the 2015 Annual Report for further discussion of the factors considered by management in its regular review to identify and recognize other-than-temporary impairments on available-for-sale securities. The Company did not recognize any other-than-temporary impairments on available-for-sale securities in the first three months of 2016 or 2015.

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

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Balance at beginning of year	$ 473	$ 473
Securities sold	(473)	-
Balance at end of period	$ -	$ 473

Note 5.

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 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.

Contingent liabilities:

Contingent liabilities classified in Level 3 include; (i) a contingent liability assumed in connection with an acquisition 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 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):

	March 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS:				
Fixed maturities available-for-sale:				
Corporate securities	$ -	$ 179,888	$ -	$ 179,888
CMOs - residential	-	3,049	-	3,049
US Government obligations	-	125,312	-	125,312
Agency MBS - residential	-	33	-	33
GSEs	-	10,509	-	10,509
States and political subdivisions	-	193,385	2,143	195,528
Foreign government obligations	-	2,371	-	2,371
Redeemable preferred stocks	3,948	-	-	3,948
Total fixed maturities	3,948	514,547	2,143	520,638
Equity securities available-for-sale:				
Common stocks	5,057	-	-	5,057

Nonredeemable preferred stocks		3,657		-		-		3,657
Total equity securities		8,714		-		-		8,714
Trading securities - equities		1,190		-		-		1,190
Total trading securities		1,190		-		-		1,190
Total Financial Assets	$	13,852	$	514,547	$	2,143	$	530,542
FINANCIAL LIABILITIES:								
Contingent liabilities	$	-	$	-	$	1,555	$	1,555
Total Financial Liabilities	$	-	$	-	$	1,555	$	1,555

	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

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 either 2016 or 2015. The following table presents the changes in fair value of our Level 3 financial instruments for the periods indicated (in thousands):

	Financial Assets: CMOs Commercial	Financial Assets: States and Political Subdivisions	Total Level 3 Assets	Financial Liabilities: Contingent Liabilities	Total Level 3 Liabilities
Balance at December 31, 2015	$ 1,195	$ 2,179	$ 3,374	$ 1,650	$ 1,650
Gains (losses) included in earnings:					
Net investment income	-	-	-	(633)	(633)
Net realized investment gains	141	-	141	-	-
Other income	-	-	-	538	538
Gains (losses) included in other comprehensive income (loss):					
Net unrealized gains (losses)	(296)	(11)	(307)	-	-
Repayments and amortization of fixed maturities	(74)	(25)	(99)	-	-
Sales	(966)	-	(966)	-	-
Balance at March 31, 2016	$ -	$ 2,143	$ 2,143	$ 1,555	$ 1,555

	Three Months Ended March 31, 2015		
	CMOs Commercial	States and Political Subdivisions	Total
Beginning balance	$ 953	$ 2,314	$ 3,267
Gains (losses) included in other comprehensive income (loss):			
Net unrealized gains (losses)	63	(13)	50
Repayments and amortization of fixed maturities	-	(20)	(20)
Balance at end of period	$ 1,016	$ 2,281	$ 3,297

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):

	March 31, 2016		December 31, 2015	
	Level 2 Fair Value	Carrying Value	Level 2 Fair Value	Carrying Value
FINANCIAL ASSETS:				
Policy loans	$ 38	$ 38	$ 38	$ 38
FINANCIAL LIABILITIES:				
Funds on deposit	$ 149,404	$ 149,147	$ 173,625	$ 173,350
Debt and junior subordinated debt securities	$ 42,344	$ 42,396	$ 43,283	$ 43,335

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 Condensed 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 variable interest rates approximates its carrying amount and is included in Level 2 of the fair value hierarchy.

Note 6.

Variable Interest Entities

The Company has a minority interest in certain limited partnerships that we have determined to be Variable Interest Entities (VIEs). The aforementioned VIEs are not required to be consolidated in the Company s condensed consolidated financial statements as we are not the primary beneficiary since we do not have the power to direct the activities that most significantly impact the VIEs economic performance.

The Company will periodically reassess whether we are the primary beneficiary in any of these investments. The reassessment process will consider whether we have acquired the power to direct the most significant activities of the VIE through changes in governing documents or other circumstances. Our maximum loss exposure is limited to our combined $8,844,000 carrying value in these equity investments that are included in other investments in the Condensed Consolidated Balance Sheet as of March 31, 2016.

Note 7.

Related Party Transactions

Through a joint venture consummated in 2015, the Company has a significant equity interest in Ebix Health Exchange. Ebix Health Exchange administers various lines of health insurance for IHC s insurance subsidiaries. The carrying value of the Company s equity investment in Ebix Health Exchange was $9,061,000 and 9,838,000 at March 31, 2016 and December 31, 2015, respectively. Ebix Health Exchange reported a net loss of $821,000 for the three months ended March 31, 2016. The Company recorded $188,000 of the loss in earnings and reduced the contingent liability, previously recognized on the acquisition date, by $633,000 of cash operating losses for the period. The Company s Consolidated Balance Sheets at March 31, 2016 and December 31, 2015 include $2,403,000 and $1,397,000, respectively, of notes and other amounts receivable from, and $1,083,000 and $405,000, respectively, 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 $113,000 in fee income from, and $1,247,000 of administrative fee expenses to, Ebix Health Exchange which are included in fee income and selling, general and administrative expenses, respectively, for the three months ended March 31, 2016. There are no comparable amounts for the three months ended March 31, 2015.

Note 8.

Goodwill and Other Intangible Assets

Certain prior year balances of goodwill and intangible assets were reclassified to assets attributable to discontinued operations on the accompanying Condensed Consolidated Balance Sheet as of December 31, 2015 to conform to the 2016 presentation (see Notes 1 and 3).

The carrying amount of goodwill was $47,276,000 at March 31, 2016 and December 31, 2015.

The Company has net other intangible assets of $14,258,000 and $14,598,000 at March 31, 2016 and December 31, 2015, respectively, which are included in other assets in the Condensed 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):

	March 31, 2016		December 31, 2015	
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Finite-lived Intangible Assets:				
Agent and broker relationships	$ 18,201	$ 12,805	$ 18,201	$ 12,497
Trademarks	1,000	115		