GARUBO ANGELO G
Form 4
January 11, 2006

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
GARUBO ANGELO G

(Last) (First) (Middle)

733 THIRD AVENUE

(Street)

NEW YORK, NY 10017

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
FINANCIAL FEDERAL CORP [FIF]

3. Date of Earliest Transaction (Month/Day/Year)
01/09/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
VP & General Counsel

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	01/09/2006		M		5,000	A	$ 18.625	20,526	D	
Common Stock	01/09/2006		M		4,332	A	$ 23.6	24,858	D	
Common Stock	01/09/2006		M		3,750	A	$ 26.1	28,608	D	
Common Stock	01/09/2006		S		10,582	D	$ 44.002	18,026	D	
Common Stock	01/10/2006		S		2,500	D	$ 44.012	15,526	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Incentive Stock Options (right to buy)	$ 18.625	01/09/2006		M			5,000	06/01/2002 (1)	06/01/2006	Common Stock	5,000
Incentive Stock Options (right to buy)	$ 23.6	01/09/2006		M			4,332	04/24/2003 (2)	04/24/2007	Common Stock	4,332
Incentive Stock Options (right to buy)	$ 26.1	01/09/2006		M			3,750	07/24/2004 (3)	07/24/2008	Common Stock	3,750

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
GARUBO ANGELO G 733 THIRD AVENUE NEW YORK, NY 10017			VP & General Counsel	

Signatures

/s/ Garubo, Angelo G.	01/11/2006
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) 25% exercisable on 6/1/2002, 6/1/2003, 6/1/2004 and 6/1/2005

(2) 25% exercisable on 4/24/2003, 4/24/2004, 4/24/2005 and 4/24/2006

(3) 25% exercisable on 7/24/2004, 7/24/2005, 7/24/2006 and 7/24/2007

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Preferred stocks - perpetual	32,280	-	-	32,280
Preferred stocks - with maturities	11,124	-	-	11,124
Total equity securities	48,073	-	-	48,073
Total	$48,073	$755,391	$38,265	$841,729

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December 31, 2009

	Level 1	Level 2	Level 3	Total
ASSETS:				
Fixed maturities available-for-sale:				
Corporate securities	$ -	$ 200,529	$ -	$ 200,529
CMOs - residential	-	34,885	39,042	73,927
CMOs - commercial	-	-	466	466
US Government obligations	-	6,363	-	6,363
Agency MBS - residential	-	40,338	-	40,338
GSEs	-	15,147	-	15,147
States and political subdivisions	-	353,093	-	353,093
Total fixed maturities	-	650,355	39,508	689,863
Equity securities available-for-sale:				
Common stocks	3,872	-	-	3,872
Preferred stocks - perpetual	35,728	-	-	35,728
Preferred stocks - with maturities	19,015	2,200	-	21,215
Total equity securities	58,615	2,200	-	60,815
Total	$ 58,615	$ 652,555	$ 39,508	$ 750,678

It is the Company's policy to recognize transfers of assets and liabilities between levels of the fair value hierarchy at the end of a reporting period. For the year ending December 31, 2010, there were no transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy. No securities were transferred out of Level 2 and into the Level 3 category as a result of limited or inactive markets during 2010. The Company does not transfer out of Level 3 and into Level 2 until such time as observable inputs become available and reliable or the range of available independent prices narrow. No securities were transferred out of the Level 3 category in 2010. The changes in the carrying value of Level 3 assets and liabilities for the year ended December 31, 2010 are summarized as follows (in thousands):

	December 31, 2010		
	CMOs		
	Residential	Commercial	Total
Beginning balance	$ 39,042	$ 466	$ 39,508
Acquisition of AMIC	1,831	305	2,136
Gains (losses) included in earnings:			
Net realized investment losses	(167)	-	(167)
Other-than-temporary impairments	(3,087)	-	(3,087)
Net unrealized gains (losses) included in accumulated other comprehensive loss	9,594	36	9,630
Sales of securities	(4,988)	-	(4,988)
Repayments and amortization of fixed maturities	(4,768)	1	(4,767)

Balance at end of period	$	37,457	$	808	$	38,265

With the exception of assets and liabilities assumed in the acquisition of AMIC as disclosed in Note 2, there were no assets measured at fair value on a non-recurring basis during the year ended December 31, 2010. The following asset was measured at fair value on a nonrecurring basis during the year ended December 31, 2009:

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	Level 1	Level 2	Level 3	Total
Investment in AMIC	$ 19,234	$ -	$ -	$ 19,234

The market value of the AMIC shares owned by IHC was approximately $19,234,000 at December 31, 2009 based on the closing market price of AMIC's common stock. Due to the length of time, and the magnitude of the amount by which the quoted market price of AMIC had been below IHC's carrying value, the Company recorded an other-than-temporary impairment loss of $16,752,000, net of $12,446,000 of deferred taxes, on its equity investment in AMIC, including goodwill, at December 31, 2009.

The following methods and assumptions were used to estimate the fair value of financial instruments not disclosed elsewhere in the Notes to Consolidated Financial Statements:

(A) Policy Loans

The fair value of policy loans 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.

(C) Debt

The fair value of debt with variable interest rates approximates its carrying amount. The fair value of fixed rate debt is estimated by discounting the cash flows using current market interest rates.

The estimated fair values of financial instruments not disclosed elsewhere in the Notes to Consolidated Financial Statements are as follows:

	December 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
FINANCIAL ASSETS:				
Policy loans	$ 23,216	$ 28,298	$ 23,833	$ 27,422
FINANCIAL LIABILITIES:				
Funds on deposit	$ 406,366	$ 411,036	$ 408,298	$ 410,485
Debt and junior subordinated debt securities	45,646	45,646	47,146	47,146

Note 7. Net Investment Income

Major categories of net investment income for the years ended December 31, 2010, 2009 and 2008 are summarized as follows:

	2010	2009 (In thousands)	2008
Fixed maturities	$ 34,022	$ 36,037	$ 38,248
Equity securities	4,661	3,750	4,990
Short-term investments	311	110	1,278
Policy loans	1,598	1,789	1,836
Equity income (loss):			
Investment partnerships	684	1,344	(3,046)
Operating partnerships	694	726	663
Other	160	44	617
Investment interest expense	-	-	(99)
Investment expenses	(329)	(280)	(272)
subtotal	41,801	43,520	44,215
Investment income allocated to discontinued operations	-	-	(171)
Net investment income	$ 41,801	$ 43,520	$ 44,044

Note 8. Net Realized Investment Gains and Losses

Net realized investment gains (losses) for the years ended December 31, 2010, 2009 and 2008 are as follows:

	2010	2009 (In thousands)	2008
Net realized investment gains (losses):			
Fixed maturities	$ 8,407	$ 8,253	$ 1,008
Common stocks	654	43	(7,724)
Preferred stocks	413	493	718
	9,474	8,789	(5,998)
Sales of trading securities	(1,619)	-	493
IHC stock puts/call and other gains (losses)	63	-	(137)
Other trading account losses, net	(3,272)	-	(6,759)
Net realized investment gains (losses)	$ 4,646	$ 8,789	$ (12,401)

For the years ended December 31, 2010, 2009 and 2008, the company realized gross gains of $14,848,000, $11,785,000 and $7,232,000, respectively, and gross losses of $5,374,000, $2,996,000 and $13,230,000, respectively, on sales of available-for-sale securities.

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In the fourth quarter of 2008, the Company became aware of certain activities engaged in by the non-affiliate broker-dealer that managed the trading accounts of the Company. Net realized investment gains and losses reported in the accompanying consolidated statements of operations for 2008 include $493,000 of income related to direct investments in these accounts; and net investment income reported in the accompanying consolidated statements of operations for 2008 includes $217,000 of income (loss) related to direct and indirect investments in these accounts. The broker-dealer is now in bankruptcy. The Company filed a claim to recover the $500,000 maximum amount available from the Securities Investor Protection Corporation ("SIPC"). Accordingly, the Company recorded a pre-tax loss of $6,759,000, included in net realized gains and losses on the consolidated statement of operations, in the fourth quarter of 2008 consisting of: (i) the carrying amounts of the Company's direct investments in these trading accounts amounting to $5,857,000 at the time of the loss; (ii) $1,402,000 of profits withdrawn in 2008 that may have been subject to return; net of (iii) $500,000 of expected recoveries from SIPC. The write-down in value in the fourth quarter of 2008 of the Company's indirect investments in these accounts at the time of the loss, amounting to $235,000, is included in net investment income on the consolidated statement of operations. Based on discussions with the trustee in bankruptcy in the fourth quarter of 2010 pertaining to the resolution of these claims, the Company recorded an additional $3,272,000 of pre-tax losses consisting of: (i) the reversal of $500,000 of anticipated SIPC recoveries initially recorded by a subsidiary of IHC; (ii) the reversal of $500,000 of anticipated SIPC recoveries initially recorded by AMIC; and (iii) an additional $2,272,000 of withdrawals by IHC and AMIC deemed subject to return. A settlement agreement was entered into with the trustee in the first quarter of 2011 and payment by the Company is expected to be made on or before July, 15, 2011.

Note 9. Other Investments

Other investments consist of the following at December 31, 2010 and 2009:

	2010	2009
	(In thousands)	
Policy loans	$ 23,216	$ 23,833
Investment partnership interests	6,364	6,674
Operating partnership interests	6,138	5,990
Investment in trust subsidiaries	1,146	1,146
	$ 36,864	$ 37,643

The Company had invested a total of $5,177,000 and $4,519,000 at December 31, 2010 and 2009, respectively, in a domestic feeder fund of Dolphin Limited Partnership III, L.P. ("Dolphin III"). Dolphin III operates as a private investment partnership to act as the "master fund" in a master-feeder fund structure. Dolphin III generally seeks significant investment stakes in publicly traded North American companies with a market value of equity plus debt of approximately $2 billion or less. The Company's net investment income (loss) from Dolphin III for the years ended December 31, 2010, 2009 and 2008 was $659,000, $1,174,000, and $(2,358,000), respectively.

With respect to its investment in Dolphin III, the Company is permitted to withdraw all, or a portion of, its capital account, excluding designated investments subject to lock-up, on any May 31 or November 30, upon 120 days prior written notice. A partner may not withdraw capital corresponding to such designated investments for up to three years from when the investment becomes a designated investment, subject to extension for one additional year. Unless waived by the general partner, the amount of aggregate withdrawals by limited partners as of any withdrawal date shall be limited, on a proportionate basis, so that no more than 25% of the fund's aggregate net asset value is withdrawn as of such date. If withdrawing more than 90% of its capital, the partner shall receive at least 90% of the estimated withdrawal proceeds no later than 45 days following the withdrawal date with the balance settled no later than 30 days after completion of the audit of Dolphin III. As of December 31, 2010, Dolphin III did not have any designated investments subject to lock-up and the Company had no unfunded commitments pertaining to Dolphin III.

Note 10. Acquisitions

The Company completed the following acquisitions in 2010, 2009, and 2008. The results of operations of the acquired companies are included in IHC's Consolidated Financial Statements from the respective acquisition dates. None of the goodwill recognized in these acquisitions is deductible for income tax purposes. Pro forma results of operations for 2010, 2009 and 2008, as though these acquisitions had been completed at the beginning of those years, have not been presented since the effect of the acquisitions was not material.

(A) American Independence Corp.

Refer to Note 2 for the discussion pertaining to the acquisition, in March 2010, of a controlling interest in AMIC.

(B) Alliance Underwriters, LLC

In January 2010, the Company acquired the assets of a managing general underwriter, Alliance Underwriters, LLC ("AU") for a $2,500,000 purchase price. The Company recorded goodwill of $1,459,000 and other intangible assets of $1,100,000, for the fair value of customer relationships, which is being amortized over a weighted average period of 8.0 years. AU is a managing general underwriter that controls approximately $30 million of employer medical stop-loss business.

(C) MedWatch, LLC

In January 2010, IHC Health Holdings Corp., a wholly owned subsidiary of the Company ("IHC Health Holdings"), acquired a 51% interest in the stock of MedWatch, LLC ("MedWatch") for a $500,000 purchase price. The Company recorded goodwill of $581,000 and other intangible assets of $360,000, primarily for the fair value of customer relationships, which is being amortized over a weighted average period of 7.5 years. MedWatch provides utilization review and medical management services to fully insured and self-funded health plans.

(D) Hospital Bill Analysis, LLC

In January 2010, IHC Health Holdings acquired a 51% interest in the stock of Hospital Bill Analysis, LLC ("HBA"), a hospital bill review company, for a $500,000 purchase price. The Company recorded goodwill of $814,000 and other intangible assets of $200,000, primarily for the fair value of customer relationships, which is being amortized over a weighted average period of 7.0 years.

(E) Wisconsin Underwriting Associates, Inc.

In January 2009, Wisconsin Underwriting Associates, Inc., a newly formed wholly owned subsidiary of IHC Health Holdings Corp. ("IHC Health Holdings") acquired the assets of Wisconsin Underwriting Associates, LLC ("WUA") in exchange for $300,000 and 49% of its capital stock. The addition of $750,000 of goodwill represents the excess fair value of the consideration transferred over the total fair value of the net assets of WUA acquired. In January 2011, the Company acquired the remaining 49% noncontrolling interest.

(F) GroupLink

On July 1, 2009, IHC Health Holdings acquired the remaining non-controlling interest in GroupLink, effectively making the administrative company a wholly owned subsidiary as of such date. The non-controlling interest, consisting of 250 shares of GroupLink common stock, was purchased from a senior officer of GroupLink for a purchase price of $500,000. The difference between the fair value of the consideration paid and the amount of the non-controlling interest resulted in a charge of $426,000 to additional paid-in capital attributable to IHC Health Holdings.

(G) Majestic Underwriters, LLC

On April 1, 2008 the Company purchased an additional 14.7% interest in Majestic Underwriters LLC (“Majestic”) pursuant to terms set forth in the limited liability company agreement of Majestic, thereby increasing its controlling interest in the medical stop-loss MGU from 62% to 77%. The interest was purchased from a senior officer of Majestic for a total purchase price of $998,000. The Company recorded goodwill of $884,000 and other intangible assets of $88,000 for the fair value of broker relationships, which is being amortized over 10 years.

Note 11. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill by business segment are as follows for the years ended December 31, 2010, 2009 and 2008:

	2010	2009 (In thousands)	2008
Balance at beginning of year	$ 48,859	$ 52,331	$ 51,695
Medical Stop-Loss:			
AMIC other-than-temporary impairment	-	(4,222)	-
Acquisition of AMIC shares	-	-	(248)
Acquisition of Majestic	-	-	884
Fully Insured:			
Acquisition of AU	1,459	-	-
Acquisition of MedWatch	581	-	-
Acquisition of HBA	814	-	-
Acquisition of WUA	-	750	-
Balance at end of year	$ 51,713	$ 48,859	$ 52,331

See Note 22 for goodwill carrying amounts by segment as of December 31, 2010 and 2009.

At December 31, 2009, the Company wrote-off $4,222,000 of goodwill in connection with an other-than-temporary impairment loss related to its then equity method investment in AMIC. The Company obtained a controlling interest in AMIC in 2010. See Note 2 for further information regarding the impairment loss in 2009. No impairment charge for AMIC goodwill was required in 2008.

At December 31, 2010, 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 2010, 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 59% 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. The Company will continue to monitor IHC's book value against market capitalization to determine whether an interim test of goodwill is warranted. 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.

At December 31, 2010 and 2009, the Company had other intangible assets of $20,078,000 and $8,262,000, respectively, net of accumulated amortization of $12,082,000 and $11,689,000, respectively, which are included in other assets in the Consolidated Balance Sheets. These intangible assets principally represent the estimated fair value of acquired agent and broker relationships. At December 31, 2010 and 2009, respectively, $7,997,000 and $477,000 of other intangible assets had indefinite lives and are not subject to amortization.

The changes in the carrying amount of intangible assets by business segment are as follows for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
		(In thousands)	
Balance at beginning of year	$ 8,262	$ 15,308	$ 17,584
Medical Stop-Loss:			
Acquisition of AMIC	12,200	-	-
Acquisition of Majestic	-	-	88
Fully Insured:			
Acquisition of AU	1,100	-	-
Acquisition of MedWatch	360	-	-
Acquisition of HBA	200	-	-
Capitalized software development	229	601	517
Write-off of capitalized software	-	(5,077)	-
Amortization expense	(2,273)	(2,570)	(2,881)
Balance at end of year	$ 20,078	$ 8,262	$ 15,308

In connection with the acquisition of a controlling interest in AMIC discussed in Note 2, the Company recorded $12,200,000 of intangible assets. Of this amount, $1,700,000 represents the fair value of agent and marketing contracts and relationships, which is being amortized over a weighted average period of 7.6 years, $1,000,000 represents the fair value of a domain name being amortized over a 10 year period, and $2,000,000 represents the fair value of customer lists, which are being amortized over a period of 5.0 years. The remaining $7,500,000 represents non-amortizable intangible assets consisting of the fair value of insurance licenses with indefinite lives. The AMIC acquisition was accounted for as a bargain purchase and accordingly, the Company did not record goodwill in connection with the transaction.

In the fourth quarter of 2009, the Fully-Insured segment wrote-off $5,077,000 of previously capitalized software, net of $210,000 of accumulated amortization. The Company had been working with a software developer on this project for a number of years in order to improve the Company’s administrative efficiency as it sought in prior years to quickly expand its premiums under management. The software was delivered to the Company in the fourth quarter of 2009. During testing of the software, it was determined that the system was not capable of administering the Company’s lines of business as is and it would take a substantial additional investment to implement. As the Company is not willing to incur the additional investment to make the software functional, the carrying value was fully written off. The expense is included in selling, general and administrative expenses on the Consolidated Statement of Operations for the year ended December 31, 2009.

Estimated amortization expense for each of the next five years is as follows:

Year (In thousands)	Amortization Expense
2011	2,324
2012	2,540
2013	2,401
2014	1,778
2015	1,076

Note 12. Sale of Credit Life and Disability Segment

The Company sold its credit life and disability segment by entering into a 100% coinsurance agreement with an unaffiliated insurer effective December 31, 2007. In accordance with the terms of such coinsurance agreement, the Company continued to administer this block of business through June 30, 2008. Included in the Consolidated Balance Sheet at December 31, 2009 are unearned premium reserves of this block and the corresponding amount in due from reinsurers of $8,847,000. As a result of the subsequent assumption reinsurance agreement, the Company transferred the unearned premium reserves of this block to such insurer effective December 31, 2010.

The Company recorded income (loss) from discontinued operations representing expenses and changes in claims and reserves related to insurance liabilities for claims incurred prior to the sale on December 31, 2007 as follows:

	2010	2009	2008
Pretax income (loss) from discontinued operations	$(394)	$(572)	$990
Tax expense (benefits) allocated to discontinued operations	(138)	(873)	346
Income (loss) from discontinued operations	$(256)	$301	$644

In 2009, tax benefits include a $673,000 deferred benefit resulting from a capital loss associated with the difference in the tax basis of certain net assets sold.

Changes in the net liabilities related to the discontinued operations for the year ended December 31, 2010 were as follows (in thousands):

	Claims Liability	Accrued Expenses	Termination Benefits	Total
Balance at beginning of year	$ 1,522	$ -	$ 24	$ 1,546
Loss from discontinued operations:				
Changes in claims and reserves related to block in run-off	361	-	-	361
Expenses incurred related to block in run-off	-	33	-	33
				394
		(33)	(24)	(57)

Payments of expenses accrued to administer the business sold										
Claim payments related to block in run-off		(1,112	)		-		-		(1,112	)
Balance at December 31, 2010	$	771		$	-	$	-	$	771	

The Company believes that the net liabilities of discontinued operations at December 31, 2010 adequately estimate the remaining costs associated with the credit life and disability discontinued operations.

Note 13. Insurance Policy Claims and Reserves

The liabilities for unpaid claims and claim adjustment expenses and insurance reserves-health represent amounts necessary to provide for the estimated cost of settling claims relating to insured events that have been incurred prior to the balance sheet date which have not yet been settled.

Changes in the liability for reserves, unpaid claims and claim adjustment expenses for the Insurance Group's health and disability coverages for the years ended December 31, 2010, 2009 and 2008 are summarized below.

	2010	2009	2008
		(In thousands)	
Balance at beginning of year	$ 202,801	$ 211,318	$ 212,413
Less: reinsurance recoverable	100,711	104,076	108,936
Net balance at beginning of year	102,090	107,242	103,477
Gross reserves of AMIC acquired	27,373	-	-
Less: reinsurance recoverable	10,296	-	-
Net reserves of AMIC acquired	17,077	-	-
Amount incurred:			
Current year	203,602	180,015	190,927
Prior years	(2,466)	250	1,577
Total	201,136	180,265	192,504
Amount paid, related to:			
Current year	137,953	108,438	112,748
Prior years	67,106	76,979	75,991
Total	205,059	185,417	188,739
Net balance at end of year	115,244	102,090	107,242
Plus: reinsurance recoverable	82,724	100,711	104,076
Balance at end of year	$ 197,968	$ 202,801	$ 211,318

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 redundancy in 2010 for prior years of $2,466,000 is primarily the result of redundancies of $4,299,000 in the group disability reserves offset by $1,258,000 incurred in Medical Stop-Loss reserves and $575,000 incurred on all other reserves. The amount incurred in 2009 for prior years of $250,000 is primarily the result of $2,586,000 of Medical Stop-Loss reserves and redundancies of $1,905,000 in the group disability reserves and $431,000 on all other reserves. The amount incurred in 2008 for prior years of $1,577,000 is primarily the result of $3,310,000 of Medical Stop-Loss reserves and redundancies of, $1,191,000 in the Fully Insured Health reserves and $542,000 on all other reserves.

These increases 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 14. Debt and Junior Subordinated Debt Securities

(A) Debt

In August 2006, a subsidiary of IHC amended its credit agreement with a commercial bank and increased its line of credit at that time to $15,000,000 with automatic reductions of $2,500,000 in August 2007 and August 2008, and the remaining $10,000,000 scheduled in August 2009. The Company simultaneously entered into an interest rate swap which was accounted for as a cash flow hedge. See Note 5 for further discussion of this derivative instrument. In August 2009, the Company made a $1,000,000 principal repayment on the outstanding line of credit and amended the credit agreement such that the line of credit was cancelled and the $9,000,000 remaining balance was converted into an amortizing term loan. The amortizing term loan: (i) bears a variable interest rate of Libor plus 3.35% (3.65% at December 31, 2010); (ii) requires principal payments in the amount of $1,500,000 in both August 2010 and August 2011, and (iii) matures in August 2012. 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 and the assets of such subsidiary of IHC. At December 31, 2010 and 2009, there was $7,500,000 and $9,000,000, respectively, of outstanding debt under this credit agreement.

(B) Junior Subordinated Debt Issued to Trust Preferred Subsidiaries

Junior subordinated debt consisted of the following at both December 31, 2010 and 2009 (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 recognized liabilities of $38,146,000 for junior subordinated debt and assets of $38,146,000 for the investments in trust subsidiaries at both December 31, 2010 and 2009. 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, (4.3% at December 31, 2010 and 2009); Independence Preferred Trust II, 390 basis points over the three-month LIBOR, (4.2% at December 31, 2010 and 2009); and Independence Preferred Trust III, 350 basis points over the three-month LIBOR (3.8% at December 31, 2010 and 2009).

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 $1,908,000 $2,999,000 and $3,592,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

Note 15. 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, 2010 and 2009.

Note 16. Common Stock

In 1991, IHC initiated a program of repurchasing shares of its common stock. In January 2010, the Board of Directors authorized the repurchase of up to 500,000 shares of IHC's common stock, inclusive of prior authorizations, under the 1991 plan. Through December 31, 2010, the Company has repurchased 6,190,447 common shares at a cumulative cost of $39,557,000. This total includes repurchases of 206,400 shares and 23,015 shares in 2010 and 2008, respectively. No shares were repurchased in 2009. All of the repurchased shares have been either retired, reissued, or have become treasury shares. At December 31, 2010, there were 293,600 shares still authorized to be repurchased under the plan authorized by the Board of Directors.

In January 2008, IHC issued 127,520 shares of common stock as a private placement of unregistered securities under section 4(2) of the Securities Act. The IHC shares were issued from treasury stock at a fair value of $1,401,000. The difference between the fair value and the $2,422,000 cost basis of the treasury stock resulted in a $1,021,000 charge to retained earnings.

Note 17. Share-Based Compensation

IHC and AMIC each have share-based compensation plans. The following is a summary of the activity pertaining to each of these plans. AMIC disclosures reflect activity subsequent to the Acquisition Date.

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A) IHC Share-Based Compensation Plans

In June 2003, the stockholders approved the Independence Holding Company 2003 Stock Incentive Plan (the "2003 Plan") under which, 630,000 shares of common stock were reserved for options and other common stock awards. The final option grants under the 2003 Plan were made during 2006.

In June 2006, the stockholders approved the Independence Holding Company 2006 Stock Incentive Plan (the "2006 Plan") under which, 1,300,000 shares of common stock were reserved for options and other common stock awards.

Under the terms of the Company's share-based compensation plans, option exercise prices are equal to the quoted market price of the shares at the date of grant or higher; option terms range from five to ten years; and vesting periods are three years for employee options. The Company may also grant shares of restricted unvested stock, SARs and share-based performance awards. Restricted unvested shares are valued at the quoted market price of the shares at the date of grant and have a three year vesting period. Exercise prices of SARs are equal to the quoted market price of IHC shares at the date of grant, or higher, and have three year vesting periods. There were 736,346 shares available for future stock-based compensation grants under these plans at December 31, 2010.

Total share-based compensation expense recorded for the years ended December 31, 2010, 2009 and 2008 was $672,000, $518,000 and $1,180,000, respectively, and the related tax benefits recognized for the years ended December 31, 2010, 2009 and 2008 were $268,000, $207,000 and $471,000, respectively.

Stock Options

The Company's stock option activity for the year ended December 31, 2010 was as follows:

	No. of Shares Under Option	Weighted-Average Exercise Price
December 31, 2009	312,170	$ 14.62
Granted	461,800	10.00
Expired	(17,490)	19.85
December 31, 2010	756,480	11.68

The following table summarizes information regarding outstanding and exercisable options as of December 31, 2010:

	Outstanding	Exercisable
Number of shares under option	756,480	228,010
Weighted average exercise price per share	$ 11.68	$ 15.28
Aggregate intrinsic value	$ -	$ -
Weighted average contractual term remaining	3.1 years	1.5 years

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The fair value of an option award is estimated on the date of grant using the Black-Scholes option valuation model. The weighted average grant-date fair value of options granted during the years ended December 31, 2010 and 2008 was $1.57 and $3.44 per share, respectively. No options were granted in 2009. The assumptions set forth in the table below were used to value these grants:

	2010	2008
Weighted-average risk-free interest rate	2.3 %	2.2 %
Annual dividend rate per share	$ .05	$ .05
Weighted-average volatility factor of the Company's common stock	45.0 %	36.6 %
Weighted-average expected term of options	4.5 years	4.5 years

Compensation expense of $494,000, $357,000 and $855,000 was recognized in the years ended December 31, 2010, 2009 and 2008, respectively, for the portion of the grant-date fair value of stock options vested during that period.

No options were exercised during 2010 or 2009. During the year ended December 31, 2008, the Company received cash proceeds of $173,000 upon the exercise of 15,608 options with an intrinsic value of $31,000. In addition, another 276,192 options were exercised and, pursuant to the terms of the Company's applicable stock option plans, payments were made equal to the difference between the fair values of such shares, with respect to the options at such exercise date, and the aggregate option strike price. The intrinsic value of such totaled $640,000 and the payments were made in the form of IHC common stock totaling 29,486 shares after deducting applicable income taxes.

In connection with the cancellation of 116,000 stock options during the year ended December 31, 2009, the Company made cash payments totaling $6,000, which represents the fair value of the cancelled options as of the cancellation date.

At December 31, 2010, the total unrecognized compensation cost related to non-vested stock options was $534,000 which is expected to be recognized as compensation expense over a weighted average period of 1.5 years.

Restricted Stock

The Company issued 2,250 restricted stock awards during each of the years ended December 31, 2010, 2009 and 2008 with weighted-average grant-date fair values of $7.01, $6.74 and $12.26 per share, respectively. The total fair value of restricted stock that vested in 2010, 2009 and 2008 was $23,000, $70,000 and $223,000, respectively. Restricted stock expense was $28,000, $104,000 and $347,000 in 2010, 2009 and 2008, respectively.

The following table summarizes restricted stock activity for the year ended December 31, 2010:

	No. of Non-vested Shares	Weighted-Average Grant-Date Fair Value
December 31, 2009	5,380	$ 12.43
Granted	2,250	$ 7.01
Vested	(3,130)	$ 15.19
December 31, 2010	4,500	$ 7.80

At December 31, 2010, the total unrecognized compensation cost related to non-vested restricted stock awards was $25,000 which is expected to be recognized as compensation expense over a weighted average period of 1.8 years.

SARs and Other Share-Based Performance Awards

The fair value 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 No SARs were exercised in 2010, 2009 or 2008 however, in 2009, 80,000 SARs were cancelled and the Company made a cash payment of $4,000 representing the fair value of the SARs at such time. Included in Other Liabilities on the Company's Consolidated Balance Sheets at December 31, 2010 and December 31, 2009 are liabilities of $79,000 and $3,000, respectively, pertaining to SARs. Other awards include share-based performance awards. Compensation costs for these plans are recognized and accrued as performance conditions are met, based on the current share price. For the years ended December 31, 2010, 2009 and 2008, the Company recorded $74,000, $48,000 and $30,000, respectively, of compensation costs for these plans. The intrinsic value of share-based performance awards paid in 2010, 2009 and 2008 was $54,000, $39,000 and $70,000, respectively.

B) AMIC Share-Based Compensation Plans

Total AMIC share-based compensation expense was $62,000 for the period between the Acquisition Date and December 31, 2010. Related tax benefits of $21,000 were recognized for the period between the Acquisition Date and December 31, 2010.

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 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 25% on the first year anniversary date of the grant and ratably over the next 36 months. The AMIC's 1998 Plan, which expired by its terms on October 7, 2008, had reserved for issuance a total of 7,154,198 common stock shares. At December 31, 2010, stock options for 359,234 common stock shares were outstanding, stock options for 344,525 common stock shares were vested, and 6,537,222 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.

Stock Options

The following table summarizes information regarding AMIC's outstanding and exercisable options for the period between the Acquisition Date and December 31, 2010:

	Shares Under Option	Weighted- Average Exercise Price
March 5, 2010	355,900	$ 10.00
Granted	13,334	4.60
Exercised	(10,000)	4.50
December 31, 2010	359,234	9.95

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The following table summarizes information regarding AMIC's outstanding and exercisable options as of December 31, 2010:

	Outstanding	Exercisable
Number of options	359,234	344,525
Weighted average exercise price per share	$ 9.95	$ 10.14
Aggregate intrinsic value for all options	$ 22,154	$ 19,376
Weighted average contractual term remaining	3.3 years	3.1 years

The fair value of an option award is estimated on the date of grant using the Black-Scholes option valuation model. The weighted average grant-date fair-value of options granted during the period between the Acquisition Date and December 31, 2010 was $2.79 per share. The assumptions set forth in the table below were used to value the stock options granted during the period between the Acquisition Date and December 31, 2010:

Weighted-average risk-free interest rate	3.69 %
Annual dividend rate per share	$ -
Weighted-average volatility factor of the Company's common stock	45.0 %
Weighted-average expected term of options	5 years

Compensation expense of $47,000 was recognized for the period between the Acquisition Date and December 31, 2010, respectively, for the portion of the grant-date fair value of AMIC's stock options vesting during the period.

AMIC received cash proceeds of $45,000 upon the exercise of 10,000 options with an intrinsic value of $1,000 during the period between the Acquisition Date and December 31, 2010.

As of December 31, 2010, the total unrecognized compensation expense related to AMIC's non-vested options was $51,000 which will be recognized over the remaining requisite service periods.

Restricted Stock

AMIC issued 12,000 restricted stock awards in the second quarter of 2008, with a weighted average grant-date fair value of $6.92 per share. No restricted stock awards were issued in 2010. The total fair value of AMIC's restricted stock that vested during the period between the Acquisition Date and December 31, 2010 was $13,000. Restricted stock expense was $15,000 for the period between the Acquisition Date and December 31, 2010.

The following table summarizes AMIC's restricted stock activity for the period between the Acquisition Date and December 31, 2010:

	No. of Non-vested Shares	Weighted-Average Grant-Date Fair Value
March 5, 2010	6,333	$ 6.92
Vested	(2,500)	$ 6.92
Forfeited	(1,333)	$ 6.92
December 31, 2010	2,500	$ 6.92

As of December 31, 2010, there was approximately $8,000 of total unrecognized compensation expense related to AMIC's non-vested restricted stock which will be recognized over the remaining requisite service periods.

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Note 18. Income Taxes

The IHC and its subsidiaries, excluding AMIC, file a consolidated Federal income tax return on a June 30 fiscal year. AMIC continues to file its own separate income tax return on a September 30 fiscal year and is not included in the consolidated tax return of IHC. The provision for income tax expense (benefit) attributable to income from continuing operations as shown in the Consolidated Statements of Operations for the years ended December 31, 2010, 2009 and 2008 is as follows:

	2010	2009 (In thousands)	2008
CURRENT:			
U.S. Federal	$ (2,973)	$ 1,545	$ 1,913
State and Local	456	235	(211)
	(2,517)	1,780	1,702
DEFERRED:			
U.S. Federal	12,698	(9,997)	(17,533)
State and Local	2,402	(2,452)	(568)
	15,100	(12,449)	(18,101)
	$ 12,583	$ (10,669)	$ (16,399)

Taxes computed at the Federal statutory rate of 35% in 2010, 2009 and 2008, attributable to pretax income from continuing operations, are reconciled to the Company’s actual income tax expense on income from continuing operations as follows:

	2010	2009 (In thousands)	2008
Tax computed at the statutory rate	$ 12,688	$ (6,336)	$ (14,309)
Dividends received deduction and tax exempt interest	(1,816)	(2,025)	(1,433)
State and local income taxes, net of Federal effect	1,858	(1,442)	(506)
Other, net	(147)	(866)	(151)
Income tax expense	$ 12,583	$ (10,669)	$ (16,399)

Deferred income tax expense for the year ended December 31, 2010 allocated to stockholders’ equity (principally for net unrealized losses on investment securities) was $4,328,000, representing the increase in the related net deferred tax liability to $360,000 at December 31, 2010 from a tax asset of $3,968,000 at December 31, 2009.

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, 2010 and 2009 are summarized below. 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, 2010 or 2009. AMIC had federal deferred tax assets of $10,839,000, net of a valuation allowance of $86,500,000, on the date of its acquisition in March 2010. AMIC has since decreased its valuation allowance due to deferred tax on unrealized gains allocated to equity.

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	2010	2009
	(In thousands)	
DEFERRED TAX ASSETS:		
Deferred insurance policy acquisition costs	$ 2,612	$ 3,193
Unrealized losses on investment securities	771	6,532
Investment write-downs	5,383	5,665
Loss carryforwards	112,788	14,669
Investment in AMIC	-	9,479
Other	7,109	3,851
Total gross deferred tax assets	128,663	43,389
Less valuation allowance	(86,059)	-
Net deferred tax assets	42,604	43,389
DEFERRED TAX LIABILITIES:		
Deferred insurance policy acquisition costs	(11,868)	(11,579)
Insurance reserves	(5,414)	(4,785)
Investment in AMIC	(2,589)	-
Other	(5,982)	(1,138)
Total gross deferred tax liabilities	(25,853)	(17,502)
Net deferred tax asset	$ 16,751	$ 25,887

As of December 31, 2010, IHC and its subsidiaries, excluding AMIC, had net operating tax loss carryforwards arising from limitations on offsetting non-life insurance company losses against life insurance company income. The non-life insurance company tax loss carryforwards amount to approximately $32,000,000 at December 31, 2010, which expire as follows (in thousands):

Tax Year:	
2025	$ 498
2026	1,951
2027	7,294
2028	2,815
2029	7,640
2030	9,165
2031	2,637
	$ 32,000

In addition, as of December 31, 2010, IHC and its subsidiaries, excluding AMIC, had capital tax loss carryforwards of approximately $11,215,000 expiring in 2014 and 2015 arising from the excess capital losses realized by the life insurance company group.

Explanation of Responses:

At December 31, 2010, AMIC had federal NOL carryforwards of approximately $273,544,000 which expire as follows (in thousands):

Tax Year:		
2019	$	16,677
2020		70,827
2021		142,530
2022		41,252
2023		528
2024		2
2025		-
2026		354
2027		-
2028		2
2029		1,372
	$	273,544

At December 31, 2010, AMIC also had NOL carryforwards of approximately $25,814,000 for state income tax purposes, primarily in the State of California. Management believes that it is more likely than not that the state tax benefit of these net operating loss carryforwards will not be realized.

AMIC's ability to utilize its federal NOL carrryforwards would be substantially reduced if AMIC were to undergo an "ownership change" within the meaning of Section 382(g)(1) of the Internal Revenue Code. AMIC will be treated as having had an "ownership change" if there is more than a 50% increase in stock ownership during a three year '"testing period" by "5% stockholders."

As the NOL carryforwards are utilized by IHC and AMIC, the amount of NOL carryforwards could be reduced upon audit by the IRS for those tax years open for assessment under the statute of limitations.

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, 2010. As of December 31, 2010, IHC and its subsidiaries, and AMIC, believe there were no material uncertain tax positions that would require disclosure under U.S. GAAP.

Interest expense and penalties for the years ended December 31, 2010 and 2009 are insignificant, however $969,000 of interest income related to tax refunds is included in selling, general and administrative expenses on the Consolidated Statement of Operations for the year ended December 31, 2008.

Net cash payments for income taxes were $637,000, $2,393,000 and $3,022,000 in 2010, 2009 and 2008, respectively.

Note 19. Commitments and Concentration of Credit Risk

Certain subsidiaries of the Company are obligated under non-cancelable operating lease agreements for office space. Total rental expense for the years 2010, 2009 and 2008 for operating leases was $4,942,000, $4,137,000 and

$4,048,000, respectively.

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The approximate minimum annual rental payments under operating leases that have remaining non-cancelable lease terms in excess of one year at December 31, 2010 are as follows (in thousands):

2011	$3,691
2012	2,625
2013	1,941
2014	1,570
2015	1,574
2016 and thereafter	2,576
Total	$13,977

At December 31, 2010, 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 4.

Fixed maturities with a carrying value of $11,771,000 and $10,556,000 were on deposit with various state insurance departments at December 31, 2010 and 2009, respectively.

At December 31, 2010, the Company had net receivables of $46,069,000 and $34,926,000 from two different reinsurers which are rated A- and A, respectively, by A.M. Best. These are the only reinsurers with a net receivable that individually exceed 10% of the stockholders' equity of the Company. The Company believes that these receivables are fully collectible.

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 20. Acquisitions of Policy Blocks

In addition to its core life and health lines of business, IHC has acquired blocks of life insurance and annuity policies from other insurance companies, guaranty associations and liquidators. The deferred acquisition costs that arise from the acquisition of these policy blocks are costs that vary with, and are primarily related to, the acquisition of new and renewal insurance contracts. As these were acquisitions of blocks of existing policies, the deferral reflects the purchase price of the policies and the associated finder's fees. Both of these were variable and directly related to obtaining the policy block.

Madison National Life acquired a block of life insurance policies during 2010. Madison National Life did not record any significant policy block acquisitions in 2009. Effective April 1, 2008, Madison National Life acquired a block of life insurance and annuity policies by entering into a coinsurance agreement with an unaffiliated insurer whereby Madison National Life assumed 25% of the business covered under the agreement. Under terms of the acquisition, Madison National Life assumed administration of the policies on November 1, 2008.

The following reflects the impact of these transactions:

	2010	2008
Liabilities:		
Insurance reserves - life	$ 1,603	$ 32,183
Funds on deposit	-	32,251
Other policyholders’ funds	-	4,700
Other	3	27
	1,606	69,161
Non-cash assets:		
Deferred acquisition costs	100	8,850
Other investments (policy loans)	251	2,971
Due and unpaid premiums	63	61
	414	11,882
Cash received	$ 1,192	$ 57,279

Note 21. Reinsurance

Standard Security Life, Madison National Life and Independence American reinsure portions of certain business in order to limit the assumption of disproportionate risks. Standard Security Life, Madison National Life and Independence American retain varying amounts of individual life or group life insurance. Amounts not retained are ceded to other companies on an automatic or facultative basis. In addition, Standard Security Life, Madison National Life and Independence American participate in various coinsurance treaties on a quota share basis. Standard Security Life, Madison National Life and Independence American are 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.

Madison National Life entered into a reinsurance treaty with an unaffiliated reinsurer to cede $48,837,000 of life reserves, effective April 1, 2009, in exchange for transferring $40,639,000 in cash to such reinsurer. Madison National Life recorded a net deferred gain of $8,198,000 which will be amortized over the life of the contract. In accordance with the terms of the agreement, Madison National Life will continue to administer this block of business.

The effect of reinsurance on life insurance in-force, benefits to policyholders and premiums earned is as follows:

	GROSS AMOUNT	ASSUMED FROM OTHER COMPANIES	CEDED TO OTHER COMPANIES	NET AMOUNT	PERCENTAGE OF AMOUNT ASSUMED TO NET
		(In thousands)			
Life Insurance In-Force:					
December 31, 2010	$11,253,298	$ 291,467	$ 5,797,444	$5,747,321	5.1 %
December 31, 2009	$11,091,711	$ 703,045	$ 6,173,559	$5,621,197	12.5 %
December 31, 2008	$7,224,141	$ 554,219	$ 2,326,940	$5,451,420	10.2 %
Benefits to Policyholders:					
December 31, 2010	$307,988	$ 65,624	$ 132,936	$240,676	27.3 %
December 31, 2009	$302,785	$ 93,307	$ 176,301	$219,791	42.5 %
December 31, 2008	$320,869	$ 77,464	$ 176,736	$221,597	35.0 %
Premiums Earned:					
December 31, 2010					
Health	$394,446	$ 55,036	$ 159,896	$289,586	19.0 %
Life and annuity	48,280	8,712	20,432	36,560	23.8 %
	$442,726	$ 63,748	$ 180,328	$326,146	19.5 %
December 31, 2009					
Health	$376,139	$ 97,527	$ 215,567	$258,099	37.8 %
Life and annuity	39,285	14,595	17,180	36,700	39.8 %
	$415,424	$ 112,122	$ 232,747	$294,799	38.0 %
December 31, 2008					
Health	$428,186	$ 89,972	$ 237,944	$280,214	32.1 %
Life and annuity	35,888	10,073	8,887	37,074	27.2 %
	$464,074	$ 100,045	$ 246,831	$317,288	31.5 %

Included in Gross Amount in 2010, 2009 and 2008, respectively, are $8,452,000, $62,259,000 and $76,835,000 of premiums written through AMIC subsidiaries prior to its consolidation in 2010. Included in Ceded to Other Companies in 2010, 2009 and 2008, respectively, are $5,867,000, $45,519,000 and $57,031,000 of Premiums Earned and $3,020,000, $31,009,000 and $39,670,000 of Benefits to Policyholders for business ceded to Independence American, a subsidiary of AMIC prior to its consolidation in 2010.

Note 22. 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 for the years ended December 31, 2010, 2009 and 2008 is presented below.

	2010	2009	2008
		(In thousands)	
Revenues:			
Medical Stop-Loss (A)	$130,654	$133,121	$165,285
Fully Insured Health (B)	150,684	115,975	121,195
Group disability; life, annuities and DBL (C)	65,972	64,992	57,664
Individual life, annuities and other	58,641	60,638	62,941
Corporate	28,590	1,314	(2,750)
	434,541	376,040	404,335
Net realized investment gains (losses)	4,646	8,789	(12,401)
Other-than-temporary impairment losses	(3,819)	(29,991)	(38,247)
Total revenues	$435,368	$354,838	$353,687
Income (loss) from continuing operations before income taxes:			
Medical Stop-Loss (A)	$1,878	$3,709	$4,386
Fully Insured Health (B)	3,126	(7,808)	499
Group disability; life, annuities and DBL (C) (D)	6,646	7,107	7,356
Individual life, annuities and other	2,217	6,302	6,817
Corporate	23,470	(3,393)	(5,611)
	37,337	5,917	13,447
Interest expense	(1,912)	(2,817)	(3,776)
Net realized investment gains (losses)	4,646	8,789	(12,401)
Other-than-temporary impairment losses	(3,819)	(29,991)	(38,247)
Income (loss) from continuing operations before income taxes	$36,252	$(18,102)	$(40,977)

(A) The amount includes equity income from AMIC (prior to its acquisition) of $14,000, $786,000 and $338,000 for the years 2010, 2009 and 2008, respectively.

(B) The amount includes equity income from AMIC (prior to its acquisition) of $244,000, $387,000 and $96,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

(C) The amount includes equity income from AMIC (prior to its acquisition) of $22,000, $116,000 and $46,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

(D) The Fully Insured Health segment includes amortization of intangible assets recorded as a result of purchase accounting for the recent acquisitions. Total amortization expense was $2,382,000, $2,458,000 and $2,722,000 for the years ended December 31, 2010, 2009 and 2008, respectively. Amortization expense for the other segments is insignificant.

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		2010		2009
		(In thousands)		
IDENTIFIABLE ASSETS AT YEAR END				
Medical Stop-Loss (A)	$	187,639	$	143,935
Fully Insured Health (B)		164,014		153,582
Group disability; life, annuities and DBL		281,495		266,640
Individual life, annuities and other		681,244		672,798
Corporate (C)		47,400		67,521
	$	1,361,792	$	1,304,476

(A) The Medical Stop-Loss segment includes allocated goodwill of $5,664,000 and $4,205,000 at December 31, 2010 and 2009.

(B) The Fully Insured Health segment includes allocated goodwill of $46,048,000 and $44,654,000 at December 31, 2010 and 2009, respectively.

(C) At December 31, 2009, the Corporate segment includes the $19,234,000 equity investment in AMIC.

Note 23. Dividend Restrictions on Insurance Subsidiaries and IHC

Dividends from Madison National Life are subject to the prior notification to the Commissioner of Insurance of the State of Wisconsin if such dividend distribution exceeds 115% of the distribution for the corresponding period of the previous year. In addition, if such dividends, together with the fair market value of other dividends paid or credited and distributions made within the preceding twelve months, exceed the lesser of (i) total net gain from operations for the preceding calendar year minus realized capital gains for that calendar year and (ii) 10% of surplus with regard to policyholders as of December 31 of the preceding year, such dividends may be paid so long as such dividends have not been disapproved by the Wisconsin Insurance Commissioner within 30 days of its receipt of notice thereof. Madison National Life declared and paid $3,450,000 and $3,000,000, respectively, of dividends in 2010 and 2009. No dividends were declared or paid by Madison National Life in 2008. Madison National Life's statutory capital and surplus was $174,171,000 (unaudited) and $169,301,000 as of December 31, 2010 and 2009, respectively. For the years ended December 31, 2010, 2009 and 2008, Madison National Life's statutory net income (loss) was $12,820,000 (unaudited), $21,423,000 and $(4,824,000), respectively.

The payment of dividends by Standard Security Life to its parent, Madison National Life, is subject to the prior notification to the New York State Insurance Department if such dividends, together with other dividends in such calendar year exceed the lesser of (i) 10% of surplus as regards policyholders as of the immediately preceding calendar year and (ii) net gain from operations for the immediately preceding calendar year, not including realized capital gains. Such dividends may be paid so long as they have not been disapproved by the New York State Department of Insurance within 30 days of its receipt of notice thereof. Standard Security Life declared and paid dividends to Madison National Life of $8,500,000, $7,800,000 and $4,500,000 in 2010, 2009 and 2008, respectively. Standard Security Life's statutory capital and surplus was $109,264,000 (unaudited) and $115,055,000 as of December 31, 2010 and 2009, respectively. For the years ended December 31, 2010, 2009 and 2008, Standard Security Life's statutory net income (loss) was $3,267,000 (unaudited), $8,783,000 and $(3,803,000), respectively.

Dividends from Independence American to its parent, a subsidiary of AMIC, are subject to the prior notification to the Delaware Insurance Commissioner, if such dividends, together with the fair market value of other dividends or distributions made within the preceding twelve months, exceed the greater of (i) 10% of surplus as regards policyholders as of the preceding December 31 or (ii) net income, not including realized capital gains, for the twelve-month period ending the December 31 next preceding. Such dividends may be paid as long as they have not been disapproved by the Delaware Insurance Commissioner within 30 days of its receipt of notice thereof. Independence American paid dividends of $1,500,000 in 2010. Independence American's statutory surplus was $47,392,000 (unaudited) as of December 31, 2010 and statutory net income was $2,697,000 (unaudited) for 2010.

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. IHC declared cash dividends of $762,000 in 2010 and $771,000 in both 2009 and 2008.

Note 24. Other Comprehensive Income (Loss)

The components of total comprehensive income (loss) include (i) net income or loss reported in the Consolidated Statements of Operations, (ii) 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 (iii) effective April 1, 2009, the non-credit related component of other-than-temporary impairments of fixed maturities, net of tax.

The net unrealized gains and losses on investment securities included in total comprehensive income (loss) for the years ended December 31, 2010, 2009 and 2008 are as follows:

	Before Tax	Tax Effect (In thousands)	Net of Tax
2010			
Unrealized gains arising during the year	$ 20,762	$ (6,398)	$ 14,364
Allocation to deferred acquisition costs	(3,042)	-	(3,042)
Reclassification of net gains included in earnings	(9,474)	3,433	(6,041)
Reclassification of losses recognized as other-than-temporary impairments in earnings	3,819	(1,363)	2,456
Net unrealized gains on available-for-sale securities	$ 12,065	$ (4,328)	$ 7,737
2009			
Unrealized gains arising during the year	$ 95,484	$ (30,006)	$ 65,478
Allocation to deferred acquisition costs	(11,559)	-	(11,559)
Reclassification of net gains included in earnings	(8,789)	3,144	(5,645)
Reclassification of losses recognized as other-than-temporary impairments in earnings	793	(289)	504
Net unrealized losses on available-for-sale securities	$ 75,929	$ (27,151)	$ 48,778
2008			
Unrealized losses arising during the year	$ (114,993)	$ 37,065	$ (77,928)
Allocation to deferred acquisition costs	11,340	-	11,340
Reclassification of net losses included in earnings	5,999	(2,099)	3,900
Reclassification of losses recognized as other-than-temporary impairments in earnings	38,247	(13,725)	24,522
Net unrealized losses on available-for-sale securities	$ (59,407)	$ 21,241	$ (38,166)

Included in accumulated other comprehensive income at December 31, 2010 and 2009 are after-tax adjustments of $1,132,000 and $1,542,000, respectively, related to the non-credit related component of other-than-temporary impairment losses recorded in connection with new accounting standards adopted on April 1, 2009. For the year ended December 31, 2010 the reclassification of net gains to earnings includes $410,000 of the non-credit related component of previously recorded other-than-temporary impairments on securities that were sold during the period, net of $221,000 tax. No losses for other-than-temporary impairments were recognized in other comprehensive income since the adoption, in the second quarter of 2009, of the new accounting standards related to other-than-temporary impairments.

Note 25. Quarterly Data (Unaudited)

The quarterly results of operations for the years ended December 31, 2010 and 2009 are summarized below:

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(In thousands, except per share data)			
2010				
Total revenues	$116,350	$106,431	$107,875	$104,712
Income (loss) from continuing operations	$16,377	$2,318	$5,051	$(77)
Loss from discontinued operations	(127)	(55)	(21)	(53)
(Income) from noncontrolling interests in subsidiaries	(216)	(565)	(610)	(285)
Net income (loss) attributable to IHC	$16,034	$1,698	$4,420	$(415)
Basic income (loss) per common share:				
Income (loss) from continuing operations	$1.06	$.11	$.29	$(.02)
Loss from discontinued operations	(.01)	-	-	(.01)
Basic income (loss) per common share	$1.05	$.11	$.29	$(.03)
Diluted income (loss) per common are:				
Income (loss) from continuing operations	$1.05	$.11	$.29	$(.02)
Loss from discontinued operations	(.01)	-	-	(.01)
Diluted income (loss) per share	$1.04	$.11	$.29	$(.03)

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	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(In thousands, except per share data)			
2009				
Total revenues	$98,795	$99,983	$92,512	$63,548
Income (loss) from continuing operations	$3,349	$1,963	$1,881	$(14,626)
Income (loss) from discontinued operations	(237)	(117)	49	606
Income (loss) from noncontrolling interests in subsidiaries	7	13	(5)	(5)
Net income (loss) attributable to IHC	$3,119	$1,859	$1,925	$(14,025)
Basic (loss) income per common share:				
Income (loss) from continuing operations	$.22	$.13	$.12	$(.95)
Income (loss) from discontinued operations	(.02)	(.01)	-	.04
Basic income (loss) per common share	$.20	$.12	$.12	$(.91)
Diluted income (loss) per common share:				
Income (loss) from continuing operations	$.22	$.13	$.12	$(.95)
Income (loss) from discontinued operations	(.02)	(.01)	-	.04
Diluted income (loss) per share	$.20	$.12	$.12	$(.91)

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS
ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

AMERICAN INDEPENDENCE CORP. 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.

American Independence Corp. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except share data)

	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS:		
Investments:		
Securities purchased under agreements to resell	$ 4,067	$ 6,716
Fixed maturities available-for-sale, at fair value	54,935	53,736
Equity securities available-for-sale, at fair value	5,957	3,997
Total investments	64,959	64,449
Cash and cash equivalents	2,350	2,614
Restricted cash ($2,459 and $2,562, respectively, restricted by related parties)	4,615	4,194
Accrued investment income	568	429
Premiums receivable ($3,889 and $4,157, respectively, due from related parties)	9,645	10,065
Net deferred tax asset	9,786	10,250
Due from reinsurers ($5,370 and $5,300, respectively, due from related parties)	9,450	9,155
Goodwill	23,561	23,561
Intangible assets	1,494	1,689
Accrued fee income ($545 and $541, respectively, due from related parties)	1,670	1,233
Due from securities brokers	133	65
Other assets ($3 and $0, respectively, due from related parties)	5,738	5,645
TOTAL ASSETS	$ 133,969	$ 133,349
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Insurance reserves ($13,332 and $13,440, respectively, due to related parties)	$ 24,525	$ 24,998
Premium and claim funds payable ($2,459 and $2,562, respectively, due to related parties)	4,615	4,194
Commission payable ($2,345 and $2,404, respectively, due to related parties)	4,245	4,181
Accounts payable, accruals and other liabilities ($458 and $357, respectively, due to related parties)	3,541	3,557
State income taxes payable	869	835
Due to securities brokers	1,280	1,327
Due to reinsurers ($184 and $162, respectively, due to related parties)	1,927	2,080
Total liabilities	41,002	41,172
STOCKHOLDERS' EQUITY:		
American Independence Corp. stockholders' equity:		
Preferred stock, $0.10 par value, 1,000 shares designated; no shares issued and outstanding	-	-
Common stock, $0.01 par value, 15,000,000 shares authorized; 9,181,793 shares issued, respectively; 8,513,313 and 8,508,591 shares outstanding, respectively	92	92
Additional paid-in capital	479,926	479,910

Accumulated other comprehensive income	22	103
Treasury stock, at cost, 668,480 and 673,202 shares, respectively	(7,920)	(7,976)
Accumulated deficit	(379,167)	(380,069)
Total American Independence Corp. stockholders' equity	92,953	92,060
Non-controlling interest in subsidiaries	14	117
Total equity	92,967	92,177
TOTAL LIABILITIES AND EQUITY	$ 133,969	$ 133,349

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2011	2010
REVENUES:		
Premiums earned ($8,055 and $8,801, respectively, from related parties)	$17,769	$18,411
MGU and agency income ($852 and $1,672, respectively, from related parties)	3,316	3,647
Net investment income	559	614
Net realized investment gains (losses)	(15)	186
Other income (loss)	93	(14)
	21,722	22,844
EXPENSES		
Insurance benefits, claims and reserves ($4,946 and $4,531,respectively, from related parties)	11,048	12,318
Selling, general and administrative expenses ($3,033 and $3,183,respectively, from related parties)	8,908	8,826
Amortization and depreciation	214	213
	20,170	21,357
Income before income tax	1,552	1,487
Provision for income taxes	495	453
Net income	1,057	1,034
Less: Net income attributable to the non-controlling interest	(120)	(191)
Net income attributable to American Independence Corp.	$937	$843
Basic income per common share:		
Net income attributable to American Independence Corp. common stockholders	$.11	$.10
Weighted-average shares outstanding	8,511	8,506
Diluted income per common share:		
Net income attributable to American Independence Corp. common stockholders	$.11	$.10
Weighted-average diluted shares outstanding	8,511	8,506

See accompanying notes to condensed consolidated financial statements.

American Independence Corp. and Subsidiaries
Condensed Consolidated Statements of Changes In Stockholders' Equity
Three Months Ended March 31, 2011
(In thousands)
(Unaudited)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK, AT COST	ACCUMULATED DEFICIT	TOTAL AMIC STOCKHOLDERS' EQUITY	NON-CONTROLLING INTERESTS IN SUBSIDIARIES	TOTAL EQUITY
BALANCE AT DECEMBER 31, 2010	$ 92	$ 479,910	$ 103	$ (7,976)	$ (380,069)	$ 92,060	$ 117	$ 92,177
Net income					937	937	120	1,057
Net change in unrealized gains on certain available-for-sale securities			(81)			(81)	-	(81)
Total comprehensive income						856	120	976
Exercise of stock options				56	(35)	21	-	21
Dividends paid to non-controlling interest							(223)	(223)
Share-based compensation expense		16				16	-	16
BALANCE AT MARCH 31, 2011	$ 92	$ 479,926	$ 22	$ (7,920)	$ (379,167)	$ 92,953	$ 14	$ 92,967

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$1,057	$1,034
Adjustments to reconcile net income to net change in cash from operating activities:		
Net realized investment (gains) losses	15	(186)
Amortization and depreciation	214	213
Equity loss	5	17
Deferred tax expense	495	455
Non-cash stock compensation expense	16	19
Change in operating assets and liabilities:		
Change in insurance reserves	(473)	(1,913)
Change in net amounts due from and to reinsurers	(448)	723
Change in accrued fee income	(437)	(383)
Change in premiums receivable	420	739
Change in income taxes	-	(13)
Change in other assets and other liabilities	(351)	(83)
Net cash provided by operating activities of continuing operations	513	622
Net cash used by operating activities of discontinued operations	-	(79)
Net cash provided by operating activities	513	543
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in net amount due from and to securities brokers	(115)	(461)
Net sales of securities under resale and repurchase agreements	2,649	1,274
Sales of and principal repayments on fixed maturities	7,779	11,661
Maturities and other repayments of fixed maturities	1,479	1,795
Purchases of fixed maturities	(10,722)	(14,246)
Sales of equity securities	849	1,142
Purchases of equity securities	(2,717)	(1,020)
Net cash provided (used) by investing activities	(798)	145
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	21	-
Net cash provided by financing activities	21	-
Increase (decrease) in cash and cash equivalents	(264)	688
Cash and cash equivalents, beginning of period	2,614	4,073
Cash and cash equivalents, end of period	$2,350	$4,761
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during period for:		

Income taxes	$2	$4

See accompanying notes to condensed consolidated financial statements.

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

1. Significant Accounting Policies and Practices

(A) Business and Organization

American Independence Corp. is a Delaware corporation (NASDAQ: AMIC). AMIC is a holding company principally engaged in the insurance and reinsurance business through: a) its wholly owned insurance company, Independence American Insurance Company ("Independence American"); b) its managing general underwriter subsidiaries: Risk Assessment Strategies, Inc. ("RAS"), and Marlton Risk Group LLC ("Marlton"); c) its 23% investment in Majestic Underwriters LLC ("Majestic"); d) its 51% ownership in HealthInsurance.org, LLC (“HIO”), an insurance and marketing agency; e) its 51% ownership in Independent Producers of America, LLC (“IPA”), a national career agent marketing organization; f) its wholly owned stop-loss sales office, IHC Risk Solutions – IIG (“IIG”); and g) its wholly owned claims administration company, IHC Risk Solutions, Inc. (“RSI”), formerly known as Excess Claims Administrators, Inc. During 2010, AMIC owned another managing general underwriter, IndependenceCare Underwriting Services – Minneapolis, L.L.C. ("IndependenceCare"), which was put into runoff prior the end of 2009. IndependenceCare, RAS and Marlton are collectively referred to as "AMIC’s MGUs". HIO, IIG, IPA, and RSI are collectively referred to as “AMIC’s Agencies”. After the end of the first quarter of 2011, AMIC consolidated RAS, IIG and RSI into Marlton and changed the name of the merged entity to IHC Risk Solutions LLC (“Risk Solutions”).

As used in this report, unless otherwise required by the context, AMIC and its subsidiaries are sometimes collectively referred to as "AMIC", or are implicit in the terms "it", "them" and "their".

Since November 2002, AMIC has been affiliated with Independence Holding Company ("IHC"), which owned 63% of AMIC's stock as of March 31, 2011. The senior management of IHC provides direction to AMIC through a service agreement between AMIC and IHC. IHC has also entered into reinsurance treaties through its wholly owned subsidiaries, Standard Security Life Insurance Company of New York (“Standard Security Life”) and Madison National Life Insurance Company, Inc. (“Madison National Life”), whereby AMIC assumes reinsurance premiums from the following lines of business: medical stop-loss, New York statutory disability (“DBL”), short-term medical and group major medical.

(B) Basis of Presentation

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) and include the accounts of AMIC and its consolidated subsidiaries. All intercompany transactions have been eliminated in consolidation. The preparation of financial statements in conformity with U.S. GAAP requires AMIC management to make estimates and assumptions that affect: (i) the reported amounts of assets and liabilities; (ii) the disclosure of contingent assets and liabilities at the date of the financial statements; and (iii) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. AMIC’s annual report on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission, should be read in conjunction with the accompanying condensed consolidated financial statements.

In the opinion of AMIC management, all adjustments (consisting only of normal recurring accruals) that are necessary for a fair presentation of the condensed consolidated financial position and results of operations for the interim periods have been included. The condensed consolidated results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results to be anticipated for the entire year.

(C) Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In December 2010, the FASB issued guidance that amends existing goodwill impairment test guidance to include a requirement that entities perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts if it is more likely than not that an impairment exists. This guidance was effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of this guidance, effective January 1, 2011, did not have a material effect on AMIC's consolidated financial statements.

In December 2010, the FASB issued guidance that clarifies the existing requirements for pro forma revenue and earnings disclosures, and expands the supplemental pro forma revenue and earnings disclosures, for public companies that have completed business acquisitions. The amendments in this guidance were effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this guidance, effective January 1, 2011, did not have a material effect on AMIC's consolidated financial statements.

In January 2010, the FASB issued standards requiring entities to provide the activity of Level 3 security purchases, sales, issuances, and settlements on a gross basis, which were be effective for fiscal years beginning after December 15, 2010. The adoption of this guidance did not have a material effect on AMIC's consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

In April 2011, the FASB issued guidance that amends existing standards with regards to transfers of financial assets under repurchase and other agreements that entitle and obligate the transferor to repurchase or redeem the assets prior to maturity. Specifically, with respect to assessing effective control in such agreements, the criteria that the transferor must have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even upon the transferee's default, has been eliminated; as has the corresponding criterion calling for the transferor to have obtained cash or other sufficient collateral to purchase replacement assets from a third party, which was required to demonstrate such ability. This guidance is effective for the first interim or annual period beginning after December 15, 2011. The adoption of this guidance is not expected to have a material effect on AMIC’s consolidated financial statements.

In October 2010, the FASB issued guidance that specifies the accounting treatment for the costs incurred by insurance entities when acquiring new and renewal insurance contracts. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011 and should be applied prospectively upon adoption. AMIC is currently evaluating the potential impact the amendments in this update will have on its consolidated financial statements.

(D) Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The effects of all subsequent events that provided additional evidence about conditions that existed at the date of the balance sheet, including estimates, if any, have been recognized in the accompanying Condensed Consolidated Balance Sheet and Condensed Consolidated Statements of Operations as of and for the three month period ended March 31, 2011. AMIC did not recognize subsequent events that provided evidence about conditions that arose after the balance sheet date.

2. Income Per Common Share

Income per common share calculations are based on the weighted-average of common shares and common share equivalents outstanding during the year. Restricted stock and common stock options are considered to be common share equivalents and are used to calculate income per common share except when they are anti-dilutive. For the three months ended March 31, 2011 and 2010, shares from the assumed dilution due to the exercise of common stock options and vesting of restricted stock using the treasury stock method were deemed anti-dilutive.

3. MGU and Agency Income

AMIC records MGU fee income as corresponding policy premiums are earned. AMIC’s MGUs are compensated in two ways. They earn fee income based on the volume of business produced for marketing, underwriting and administrative services that they provide for their carriers (“fee income–administration”), and earn profit-sharing commissions if such business exceeds certain profitability benchmarks (“fee income–profit commissions”). Profit-sharing commissions are accounted for beginning in the period in which AMIC believes they are reasonably estimable, which is typically at the point that claims have developed to a level where claim development patterns can be applied to generate reasonably reliable estimates of ultimate claim levels. Profit-sharing commissions are a function of an MGU attaining certain profitability thresholds and could vary greatly from quarter to quarter. Agency income consists of commissions, fees and lead revenue earned by AMIC’s Agencies.

MGU and Agency income consisted of the following:

	Three Months Ended March 31, 2011	2010
	(In thousands)	
Agency income	$ 2,024	$ 2,283
MGU fee income–administration	1,023	1,103
MGU fee income– profit commissions	269	261
	$ 3,316	$ 3,647

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4. Investments

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

	MARCH 31, 2011			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(In thousands)			
FIXED MATURITIES AVAILABLE-FOR-SALE:				
Corporate securities	$20,598	$139	$ (285)	$20,452
Collateralized mortgage obligations (CMO) – residential	1,255	303	(118)	1,440
CMO – commercial	579	-	(279)	300
States, municipalities and political subdivisions	15,857	115	(274)	15,698
U.S. Government	6,721	133	(1)	6,853
Government sponsored enterprise (GSE)	9,897	80	(43)	9,934
Agency mortgage backed pass through securities (MBS)	242	16	-	258
Total fixed maturities	$55,149	$786	$ (1,000)	$54,935
EQUITY SECURITIES AVAILABLE-FOR-SALE				
Common stock	$978	$57	$ (14)	$1,021
Preferred stock with maturities	273	58	-	331
Preferred stock without maturities	4,470	150	(15)	4,605
Total equity securities	$5,721	$265	$ (29)	$5,957

	DECEMBER 31, 2010			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(In thousands)			
FIXED MATURITIES AVAILABLE-FOR-SALE:				
Corporate securities	$15,850	$167	$ (248)	$15,769
CMO – residential	2,021	279	(107)	2,193
CMO – commercial	579	-	(256)	323
States, municipalities and political subdivisions	17,239	152	(327)	17,064
U.S. Government	10,137	159	-	10,296
GSE	7,678	145	(5)	7,818
MBS	256	17	-	273
Total fixed maturities	$53,760	$919	$ (943)	$53,736
EQUITY SECURITIES AVAILABLE-FOR-SALE				
Common stock	$604	$26	$ (20)	$610
Preferred stock with maturities	273	54	-	327
Preferred stock without maturities	2,993	77	(10)	3,060
Total equity securities	$3,870	$157	$ (30)	$3,997

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

The unrealized gains (losses) on certain preferred stocks with maturities at March 31, 2011 and December 31, 2010 includes $99,000 related to the non-credit related component of other-than-temporary impairment losses recorded in accumulated other comprehensive income in connection with new accounting standards adopted on April 1, 2009

The amortized cost and fair value of fixed maturities at March 31, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The average life of mortgage-backed securities is affected by prepayments on the underlying loans and, therefore, is materially shorter than the original stated maturity.

	AMORTIZED COST	FAIR VALUE	% OF TOTAL FAIR VALUE
	(In thousands)		
Due in one year or less	$ 2,546	$ 2,563	5 %
Due after one year through five years	22,725	22,850	42 %
Due after five years through ten years	12,296	12,218	22 %
Due after ten years	9,275	9,048	16 %
	46,842	46,679	85 %
CMO and MBS			
15 years	3,313	3,234	6 %
20 years	-	-	- %
30 years	4,994	5,022	9 %
	$ 55,149	$ 54,935	100 %

The following tables summarize, for all securities in an unrealized loss position at March 31, 2011 and December 31, 2010, the aggregate fair value and gross unrealized loss by length of time, those securities that have continuously been in an unrealized loss position (in thousands):

	March 31, 2011					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
FIXED MATURITIES:						
Corporate securities	$12,642	$257	$357	$28	$12,999	$285
CMO – residential	28	29	351	89	379	118
CMO – commercial	-	-	300	279	300	279
States, municipalities and political subdivisions	5,543	151	2,424	123	7,967	274
U.S. Government	1,735	1	-	-	1,735	1
GSE	4,097	43	-	-	4,097	43
Total fixed maturities	$24,045	$481	$3,432	$519	$27,477	$1,000
EQUITY SECURITIES:						
Common stock	$190	$14	$-	$-	$190	$14
Preferred stock without maturities	-	-	980	15	980	15
Total equity securities	$190	$14	$980	$15	$1,170	$29

	December 31, 2010					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

FIXED MATURITIES:						
Corporate securities	$6,970	$216	$359	$32	$7,329	$248
CMO – residential	88	16	642	91	730	107
CMO – commercial	-	-	323	256	323	256
States, municipalities and political subdivisions	6,351	189	2,413	138	8,764	327
GSE	544	5	-	-	544	5
Total fixed maturities	$13,953	$426	$3,737	$517	$17,690	$943
EQUITY SECURITIES:						
Common stock	$141	$20	$-	$-	$141	$20
Preferred stock without maturities	1,283	10	-	-	1,283	10
Total equity securities	$1,424	$30	$-	$-	$1,424	$30

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At March 31, 2011, a total of 25 fixed maturities and 9 equity securities were in a continuous unrealized loss position for less than 12 months. Also, at March 31, 2011, a total of 6 fixed maturities and one equity security were in a continuous unrealized loss position for 12 months or longer. At December 31, 2010 a total of 20 fixed maturities and 9 equity securities were in a continuous unrealized loss position for less than 12 months. Also, at December 31, 2010, a total of 7 fixed maturities were in a continuous unrealized loss position for 12 months or longer. Except for certain fixed maturities which are determined to be other-than-temporarily impaired, there are no securities past due or securities for which AMIC currently believes it is not probable that it will collect the current amortized cost basis of the security.

Substantially all of the unrealized losses on fixed maturities at March 31, 2011 and December 31, 2010 were attributable to changes in market interest rates and general disruptions in the credit market subsequent to purchase. The unrealized losses on corporate securities and state and political subdivisions are due to wider spreads. Spreads have widened in recent years as investors shifted funds to US Treasuries in response to the current market turmoil. Because AMIC does not intend to sell, nor is it more likely than not that AMIC will have to sell, such investments before recovery of their amortized cost bases, AMIC does not consider those investments to be other-than-temporarily impaired at March 31, 2011.

At March 31, 2011, AMIC had $1,268,000 invested in whole loan CMOs backed by Alt-A mortgages. Of this amount, 74.1% were in CMOs that originated in 2005 or earlier and 25.9% were in CMOs that originated in 2006 or later. The unrealized losses on all other CMO's relate to prime rate CMO's and are primarily attributable to general disruptions in the credit market subsequent to purchase.

Other-Than-Temporary Impairment Evaluations

AMIC reviews its investment securities regularly and determines whether other-than-temporary impairments have occurred. Beginning April 1, 2009, AMIC adopted new accounting guidance that specified new criteria for identifying and recognizing other-than-temporary impairment losses on fixed maturities. The factors considered by AMIC's management in its regular review include, but are not limited to: the length of time and extent to which the fair value has been less than cost; AMIC'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 AMIC 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 Condensed Consolidated Statement of Operations. If a decline in fair value of a debt security is judged by AMIC's management to be other-than-temporary and; (i) AMIC 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, AMIC 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 Condensed Consolidated Statements of Operations, establishing a new cost basis for the security. The amount of the other-than-temporary impairment related to all other factors is recognized in other comprehensive income in the Condensed Consolidated Balance Sheets. It is reasonably possible that further declines in estimated fair values of such investments, or changes in assumptions or estimates of anticipated recoveries and/or cash flows, may cause further other-than-temporary impairments in the near term, which could be significant.

In assessing corporate debt securities for other-than-temporary impairment, AMIC 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, AMIC 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 AMIC. In addition, AMIC evaluates other asset-backed securities for other-than-temporary impairment by examining similar characteristics referenced above for mortgage-backed securities. AMIC 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.

Prior to April 1, 2009, AMIC assessed its ability and intent to hold a fixed maturity for a period of time sufficient to allow for a recovery in fair value. If AMIC could not assert this condition, an other-than-temporary impairment loss was recognized in the Condensed Consolidated Statements of Operations.

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 AMIC's ability and intent to hold the security to recovery. If a decline in fair value is judged by AMIC's management to be other-than-temporary or AMIC's 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 Condensed Consolidated Statements of Operations for the difference between the carrying value and the fair value of the securities. For the purpose of other-than-temporary impairment evaluations, preferred stocks with maturities are treated in a manner similar to debt securities. Declines in the creditworthiness of the issuer of debt securities with both debt and equity-like features requires the use of the equity model in analyzing the security for other-than-temporary impairment.

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

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

Balance at December 31, 2010	$99
Additions	-
Balance at March 31, 2011	$99

Further deterioration in credit quality of the companies backing the securities, further deterioration in the condition of the financial services industry, a continuation of the current imbalance in liquidity that exist in the marketplace, a continuation or worsening of the current economic recession, or additional declines in real estate values may further affect the fair value of these securities and increase the potential that certain unrealized losses be designated as other-than-temporary in future periods and AMIC may incur additional write-downs.

5. Net Realized Investment Gains (Losses)

Net realized investment gains (losses) for the three months ended March 31, 2011 and 2010 are as follows (in thousands):

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net realized investment gains (losses):		
Fixed maturities	$ 2	$ 168
Common stock	(17)	21
Preferred stock	-	(3)
Net realized investment gains (losses)	$ (15)	$ 186

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For the three months ended March 31, 2011, AMIC recorded realized gross gains of $91,000 and gross losses of $106,000 on sales of available-for-sale securities. For the three months ended March 31, 2010, AMIC recorded realized gross gains of $263,000 and gross losses of $77,000 on sales of available-for-sale securities.

6. Fair Value Measurements

For all financial and non-financial instruments accounted for at fair value on a recurring basis, AMIC utilizes valuation techniques based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect AMIC's 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 AMIC uses to measure different financial instruments at fair value.

Investments in fixed maturities and equity securities

Available-for-sale securities included in Level 1 are equity securities with quoted market prices. Level 2 is primarily comprised of AMIC's portfolio of corporate fixed income securities, government agency mortgage-backed securities, government sponsored enterprises, certain CMO securities, municipals and certain preferred stocks that were priced with observable market inputs. Level 3 securities consist of certain CMO securities, primarily Alt-A mortgages. For these securities, AMIC uses industry-standard pricing methodologies, including discounted cash flow models, whose inputs are based on AMIC management's assumptions and available market information. Further, they retain independent pricing vendors to assist in valuing certain instruments.

The following tables present AMIC's financial assets measured at fair value on a recurring basis at March 31, 2011 and December 31, 2010, respectively (in thousands):

	March 31, 2011			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS:				
Fixed maturities available-for-sale:				
Corporate securities	$ -	$ 20,452	$ -	$ 20,452
CMO - residential	-	123	1,317	1,440
CMO – commercial	-	-	300	300
States, municipalities and political subdivisions	-	15,698	-	15,698
U.S. Government	-	6,853	-	6,853
GSE	-	9,934	-	9,934
MBS - residential	-	258	-	258
Total fixed maturities	-	53,318	1,617	54,935
Equity securities available-for-sale:				
Common stock	1,021	-	-	1,021
Preferred stock with maturities	331	-	-	331
Preferred stock without maturities	4,605	-	-	4,605
Total equity securities	5,957	-	-	5,957
Total financial assets	$ 5,957	$ 53,318	$ 1,617	$ 60,892

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS:				
Fixed maturities available-for-sale:				
Corporate securities	$ -	$ 15,769	$ -	$ 15,769
CMO - residential	-	634	1,559	2,193
CMO – commercial	-	-	323	323
States, municipalities and political subdivisions	-	17,064	-	17,064
U.S. Government	-	10,296	-	10,296
GSE	-	7,818	-	7,818
MBS - residential	-	273	-	273
Total fixed maturities	-	51,854	1,882	53,736
Equity securities available-for-sale:				
Common stock	610	-	-	610
Preferred stock with maturities	327	-	-	327
Preferred stock without maturities	3,060	-	-	3,060
Total equity securities	3,997	-	-	3,997
Total financial assets	$ 3,997	$ 51,854	$ 1,882	$ 57,733

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It is AMIC's policy to recognize transfers of assets and liabilities between levels of the fair value hierarchy at the end of a reporting period. For the three months ending March 31, 2011, there were no transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy. No securities were transferred out of the Level 2 and into the Level 3 category as a result of limited or inactive markets during the first three months of 2011. AMIC does not transfer out of Level 3 and into Level 2 until such time as observable inputs become available and reliable or the range of available independent prices narrow. No securities were transferred out of the Level 3 category in the first three months of 2011. The changes in the carrying value of Level 3 assets and liabilities for the three months ended March 31, 2011 are summarized as follows (in thousands):

	March 31, 2011		
	CMOs		
	Residential	Commercial	Total
Balance, beginning of period	$ 1,559	$ 323	$ 1,882
Sales of securities	(211)	-	(211)
Repayments of fixed maturities	(54)	-	(54)
Net realized investment losses	(20)	-	(20)
Net unrealized gain (loss) included in accumulated other comprehensive income	43	(23)	20
Balance, end of period	$ 1,317	$ 300	$ 1,617

7. Other Intangible Assets

The change in the carrying amount of other intangible assets for the three months ended March 31, 2011 is as follows (in thousands):

	Other Intangible Assets
Balance at December 31, 2010	$ 1,689
Amortization expense	(195)
Balance at March 31, 2011	$ 1,494

8. Related-Party Transactions

AMIC and its subsidiaries incurred expense of $287,000 and $312,000 for the three months ended March 31, 2011 and 2010, respectively, from service agreements with IHC and its subsidiaries which is recorded in Selling, General and Administrative Expenses in the Condensed Consolidated Statements of Operations. These payments reimburse IHC and its subsidiaries, at agreed upon rates including an overhead factor, for certain services provided to AMIC and its subsidiaries, including general management, corporate strategy, accounting, legal, compliance, underwriting, and claims.

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

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9. Share-Based Compensation

Total share-based compensation expense was $16,000 and $19,000 for the three months ended March 31, 2011 and 2010, respectively. Related tax benefits of $5,000 and $7,000 were recognized for the three months ended March 31, 2011 and 2010, respectively.

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

Stock Options

The following table summarizes information regarding outstanding and exercisable options as of March 31, 2011:

	Outstanding	Exercisable
Number of options	322,844	309,510
Weighted average exercise price per share	$ 10.56	$ 10.81
Aggregate intrinsic value of options	$ 9,817	$ 6,817
Weighted average contractual term remaining	3.44 years	3.21 years

AMIC's stock option activity for the three months ended March 31, 2011 is as follows:

	No. of Shares Under Option	Weighted Average Exercise Price
Balance, December 31, 2010	359,234	$ 9.95
Expired	(31,668)	4.50
Exercised	(4,722)	4.50
Balance, March 31, 2011	322,844	$ 10.56

Compensation expense of $12,000 and $14,000 was recognized for the three months ended March 31, 2011 and 2010, respectively, for the portion of the fair value of stock options vesting during that period.

As of March 31, 2011, there was approximately $39,000 of total unrecognized compensation expense related to non-vested options which will be recognized over the remaining requisite service periods.

Restricted Stock

AMIC issued 12,000 restricted stock awards in the second quarter of 2008, with a weighted average grant-date fair value of $6.92 per share. No restricted stock awards were issued in 2010 and 2011. Restricted stock expense was $4,000 and $5,000, for the three months ended March 31, 2011 and 2010, respectively.

The following table summarized restricted stock activity for the three months ended March 31, 2011:

	No. of Non-vested Shares	Weighted Average Exercise Price
Balance, December 31, 2010	2,500	$ 6.92
Forfeited	-	-
Balance, March 31, 2011	2,500	$ 6.92

As of March 31, 2011, there was approximately $4,000 of total unrecognized compensation expense related to non-vested restricted stock which will be recognized over the remaining requisite service periods.

10. Other Comprehensive Income

The components of other comprehensive income (loss) include (i) net income or loss reported in the Condensed Consolidated Statements of Operations, (ii) certain amounts reported directly in stockholders' equity, principally 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 (iii) effective April 1, 2009, the non-credit related component of other-than-temporary impairments of fixed maturities.

The comprehensive income for the three months ended March 31, 2011 and 2010 is summarized as follows (in thousands):

	Three Months Ended March 31, 2011	2010
Net income	$ 1,057	$ 1,034
Unrealized holdings gains (losses) arising during the period	(96)	626
Reclassification adjustment for (gains) losses included in earnings	15	(186)
Net unrealized gains (losses) on certain available-for-sale securities arising during the period	(81)	440
Comprehensive income	976	1,474
Comprehensive income attributable to non-controlling interests	(120)	(191)
Comprehensive income attributable to American Independence Corp.	$ 856	$ 1,283

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Accumulated other comprehensive income at March 31, 2011 and December 31, 2010 includes an adjustment of $99,000 related to the non-credit related component of other-than-temporary impairment losses recorded in connection with new accounting standards adopted on April 1, 2009. No losses for other-than-temporary impairments were recognized in other comprehensive income since the adoption, in the second quarter of 2009, of the new accounting standards related to other-than-temporary impairments.

11. Income Taxes

The provision for income taxes shown in the Condensed Consolidated Statements of Operations was computed based on AMIC's actual results which approximate the effective tax rate expected to be applicable for the balance of the current fiscal year. At March 31, 2011, AMIC had consolidated net operating loss ("NOL") carryforwards of approximately $272,600,000 for federal income tax purposes which expire between 2019 and 2029.

The net deferred tax assets shown in the Condensed Consolidated Balance Sheets for the periods ending March 31, 2011 and December 31, 2010 are $9,786,000 and $10,250,000, respectively. In assessing the realizability of deferred tax assets, AMIC's 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. AMIC's management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. AMIC's management believes that it is more likely than not that AMIC will realize the benefits of these net deferred tax assets recorded at March 31, 2011.

Report of Management on Internal Control Over Financial Reporting

The Board of Directors and Stockholders
American Independence Corp.

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

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

Management assessed the effectiveness of AMIC’s internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control –Integrated Framework. Based on our assessment we concluded that, as of December 31, 2010, AMIC’s internal control over financial reporting is effective.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
American Independence Corp.:

We have audited the accompanying consolidated balance sheets of American Independence Corp. and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2010. In connection with our audits of the consolidated financial statements, we have also audited financial statement schedules I to III and V. These consolidated financial statements and schedules are the responsibility of American Independence Corp.'s management. Our responsibility is to express an opinion on these consolidated financial statements and schedules based on our audits.

We conducted our audits in accordance with the auditing 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. American Independence Corp. is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of American Independence Corp.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Independence Corp. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010 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.

As discussed in Note 2 and Note 6, effective April 1, 2009, American Independence Corp. changed its method of evaluating other-than-temporary impairments of fixed maturity securities due to the adoption of new accounting requirements issued by the Financial Accounting Standards Board.

/s/ KPMG LLP

New York, New York

March 17, 2011

American Independence Corp. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share data)

	December 31,	
	2010	2009
ASSETS:		
Investments:		
Securities purchased under agreements to resell	$6,716	$2,577
Fixed maturities available-for-sale, at fair value	53,736	49,641
Equity securities available-for-sale, at fair value	3,997	5,412
Total investments	64,449	57,630
Cash and cash equivalents	2,614	4,073
Restricted cash ($2,562 and $3,198, respectively, restricted by related parties)	4,194	5,521
Accrued investment income	429	454
Premiums receivable ($4,157 and $4,946, respectively, due from related parties)	10,065	10,540
Net deferred tax asset	10,250	11,272
Due from reinsurers ($5,300 and $7,047, respectively, due from related parties)	9,155	11,011
Goodwill	23,561	23,561
Intangible assets	1,689	2,473
Accrued fee income ($541 and $452, respectively, due from related parties)	1,233	804
Due from securities brokers	65	19
Other assets	5,645	7,024
TOTAL ASSETS	$133,349	$134,382
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Insurance reserves ($13,440 and $18,630, respectively, due to related parties)	$24,998	$29,286
Premium and claim funds payable ($2,562 and $3,198, respectively, due to related parties)	4,194	5,521
Commission payable ($2,404 and $2,391, respectively, due to related parties)	4,181	3,928
Accounts payable, accruals and other liabilities ($357 and $276, respectively, due to related parties)	3,557	3,071
State income taxes payable	835	703
Due to securities brokers	1,327	828
Due to reinsurers ($162 and $160 respectively, due to related parties)	2,080	1,680
Net liabilities associated with discontinued operations	-	106
Total liabilities	41,172	45,123
STOCKHOLDERS' EQUITY:		
American Independence Corp. stockholders' equity:		
Preferred stock, $0.10 par value, 1,000 shares designated; no shares issued and outstanding	-	-
Common stock, $0.01 par value, 15,000,000 shares authorized; 9,181,793shares issued, respectively; 8,508,591 and 8,506,489 shares outstanding,respectively	92	92

Additional paid-in capital	479,910	479,864
Accumulated other comprehensive income (loss)	103	(826)
Treasury stock, at cost, 673,202 shares and 675,304 shares, respectively	(7,976)	(8,082)
Accumulated deficit	(380,069)	(382,075)
Total American Independence Corp. stockholders' equity	92,060	88,973
Non-controlling interest in subsidiaries	117	286
Total equity	92,177	89,259
TOTAL LIABILITIES AND EQUITY	$133,349	$134,382

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31, 2010	2009	2008
REVENUES:			
Premiums earned ($34,299, $45,519 and $57,031, respectively, from related parties)	$73,859	$85,515	$96,984
MGU and agency income ($4,904, $5,272 and $6,871, respectively, from related parties)	13,425	15,340	14,572
Net investment income	2,518	2,924	3,583
Net realized investment gains (loss)	(244)	275	(1,896)
Total other-than-temporary impairment losses (no current period impairment losses were recognized in other comprehensive income)	(179)	-	(1,006)
Other income	25	193	1,075
	89,404	104,247	113,312
EXPENSES:			
Insurance benefits, claims and reserves ($22,982, $31,009 and $39,670, respectively, from related parties)	50,226	59,658	70,114
Selling, general and administrative expenses ($11,927, $14,825 and $18,239, respectively, from related parties)	34,244	39,109	40,263
Amortization and depreciation	861	842	793
	85,331	99,609	111,170
Income from continuing operations before income tax	4,073	4,638	2,142
Provision for income taxes	1,091	1,472	631
Income from continuing operations	2,982	3,166	1,511
Loss on disposition of discontinued operations, net of tax	-	-	(75)
Net income	2,982	3,166	1,436
Less: Net income attributable to the non-controlling interest	(883)	(554)	(471)
Net income attributable to American Independence Corp.	$2,099	$2,612	$965
Basic income per common share:			
Income from continuing operations attributable to American Independence Corp. common stockholders	$.25	$.31	$.12
Loss from discontinued operations attributable to American Independence Corp. common stockholders	-	-	(.01)
Net income attributable to American Independence Corp. common stockholders	$.25	$.31	$.11
Weighted-average shares outstanding	8,509	8,505	8,504
Diluted income per common share:			

Income from continuing operations attributable to American Independence Corp. common stockholders	$.25	$.31	$.12
Loss from discontinued operations attributable to American Independence Corp. common stockholders	-	-	(.01)
Net income attributable to American Independence Corp. common stockholders	$.25	$.31	$.11
Weighted-average diluted shares outstanding	8,509	8,505	8,504

See accompanying notes to consolidated financial statements.

American Independence Corp. and Subsidiaries
Consolidated Statements of Changes In Stockholders' Equity
Years Ended December 31, 2008, 2009 and 2010
(In thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK, AT COST	ACCUMULATED DEFICIT	TOTAL AMIC STOCKHOLDERS' EQUITY	NON-CONTROLLING INTERESTS IN SUBSIDIARIES	TOTAL EQUITY
BALANCE AT DECEMBER 31, 2007	$ 92	$ 479,640	$ (1,204)	$ (8,112)	$ (385,739)	$ 84,677	$ 52	$ 84,729
Net income					965	965	471	1,436
Net change in unrealized gains (losses)			(2,853)			(2,853)	-	(2,853)
Total comprehensive income						(1,888)	471	(1,417)
Acquisition of IPA, LLC							432	432
Acquisition of Marlton 20% interest							(64)	(64)
Dividends paid to non-controlling interest							(462)	(462)
Share-based compensation expense		143				143	-	143
BALANCE AT DECEMBER 31, 2008	92	479,783	(4,057)	(8,112)	(384,774)	82,932	429	83,361
Net income					2,612	2,612	554	3,166
Net change in unrealized gains (losses) on certain available-for-sale securities			3,330			3,330	-	3,330
Total comprehensive income						5,942	554	6,496

Cumulative effect of adjustment on April 1, 2009 due to adoption of new accounting guidance, net of tax			(99)		99	-	-	-
Dividends paid to non-controlling interest							(697)	(697)
Other stock issuances		(18)		30	(12)	-	-	-
Share-based compensation expense		99				99	-	99
BALANCE AT DECEMBER 31, 2009	92	479,864	(826)	(8,082)	(382,075)	88,973	286	89,259
Net income					2,099	2,099	883	2,982
Net change in unrealized gains (losses) on certain available-for-sale securities			929			929	-	929
Total comprehensive income						3,028	883	3,911
Exercise of stock options				120	(75)	45		45
Repurchase of common stock				(60)		(60)		(60)
Dividends paid to non-controlling interest							(1,052)	(1,052)
Other stock issuances		(28)		46	(18)	-	-	-
Share-based compensation expense		74				74	-	74
BALANCE AT DECEMBER 31, 2010	$ 92	$ 479,910	$ 103	$ (7,976)	$ (380,069)	$ 92,060	$ 117	$ 92,177

See accompanying notes to consolidated financial statements.

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

		Year Ended December 31,	
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$2,982	$3,166	$1,436
Adjustments to reconcile net income to net change in cash from operating activities:			
Net realized investment (gains) losses	244	(275)	1,896
Other-than-temporary impairment losses	179	-	1,006
Loss on disposal of discontinued operations	-	-	75
Amortization and depreciation	861	842	793
Equity loss	45	29	56
Deferred tax expense	1,154	1,438	620
Non-cash stock compensation expense	74	99	143
Change in operating assets and liabilities:			
Net sales of trading securities	-	-	142
Change in insurance reserves	(4,288)	(3,474)	449
Change in net amounts due from and to reinsurers	2,256	30	(312)
Change in accrued fee income	(429)	151	158
Change in premiums receivable	475	(969)	355
Change in current income tax liability	(102)	(23)	(106)
Change in other assets and other liabilities	28	(494)	(4,108)
Net cash provided by operating activities of continuing operations	3,479	520	2,603
Net cash used by operating activities of discontinued operations	(93)	(260)	(148)
Net cash provided by operating activities	3,386	260	2,455
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net sales of short-term investments	-	-	2,368
Change in net amount due from and to securities brokers	453	809	-
Change in securities under resale and repurchase agreements	(4,139)	1,340	2,006
Sales of and principal repayments on fixed maturities	39,396	27,226	11,649
Maturities and other repayments of fixed maturities	8,329	8,838	5,230
Purchases of fixed maturities	(50,380)	(37,219)	(19,994)
Sales of equity securities	8,239	607	622
Purchases of equity securities	(6,728)	(2,189)	(962)
Acquisition of Marlton 20% interest	-	-	(3,700)
Acquisition of IPA, LLC, net of cash acquired	-	-	(1,557)
Net cash used by investing activities	(4,830)	(588)	(4,338)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options	45	-	-
Repurchase of common stock	(60)	-	-

Net cash used by financing activities	(15)	-	-
Decrease in cash and cash equivalents	(1,459)	(328)	(1,883)
Cash and cash equivalents, beginning of period	4,073	4,401	6,284
Cash and cash equivalents, end of period	$2,614	$4,073	$4,401
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during period for:			
Income taxes	$9	$28	$108

See accompanying notes to the American Independence Corp. consolidated financial statements.

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American Independence Corp. and Subsidiaries
Notes to American Independence Corp. Consolidated Financial Statements

1. Nature of Business

American Independence Corp. is a Delaware corporation (NASDAQ: AMIC). American Independence Corp. is a holding company principally engaged in the insurance and reinsurance business through: a) its wholly owned insurance company, Independence American; b) its managing general underwriter subsidiaries: Risk Assessment Strategies, Inc. (“RAS”), and Marlton Risk Group LLC (“Marlton”); c) its 23% investment in Majestic Underwriters LLC (“Majestic”); d) its 51% ownership in HealthInsurance.org, LLC (“HIO”), an insurance and marketing agency; e) its 51% ownership in Independent Producers of America, LLC (“IPA”), a national career agent marketing organization; f) its wholly owned stop-loss sales office, IHC Risk Solutions – IIG (“IIG”); and g) its wholly owned claims administration company, IHC Risk Solutions, Inc. (“RSI”), formerly known as Excess Claims Administrators, Inc. During 2010, AMIC owned another managing general underwriter, IndependenceCare Underwriting Services – Minneapolis, L.L.C. (“IndependenceCare”), which was put into runoff prior the end of 2009. IndependenceCare, RAS and Marlton are collectively referred to as “AMIC’s MGUs”. HIO, IIG, IPA, and RSI are collectively referred to as “its Agencies”.

Prior to November 14, 2002, American Independence Corp. (then known as SoftNet Systems, Inc.) was a holding company principally engaged in providing Internet services. All previously reported business segments have ceased operations or have been sold, and accordingly are reported as discontinued operations (see Note 11 of Notes to Consolidated Financial Statements).

Since November 2002, AMIC has been affiliated with Independence Holding Company (“IHC”), an insurance holding company, which owned 50.1% of AMIC’s stock as of December 31, 2010. In March 2010, upon approval of the AMIC Board of Directors, IHC acquired control of AMIC through the purchase of approximately 28,000 shares of common stock of AMIC in the open market. Subsequent to December 31, 2010, IHC acquired 1,100,325 shares of AMIC, bringing its ownership to 63%. The senior management of IHC provides direction to American Independence Corp. through a service agreement between American Independence Corp. and IHC. IHC has also entered into long-term reinsurance treaties through its wholly owned subsidiaries, Standard Security Life and Madison National Life, whereby American Independence Corp. assumes reinsurance premiums from the following lines of business: medical stop-loss, New York statutory disability (“DBL”), short-term medical and group major medical.

2. Summary of Significant Accounting Policies

(A) Principles of Consolidation and Presentation of Financial Statements

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

(B) Reclassifications

Certain amounts in prior years’ Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2010 presentation.

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(C) Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued. American Independence Corp. has evaluated all such events occurring subsequent to the balance sheet date herein of December 31, 2010. The effects of all subsequent events that provided additional evidence about conditions that existed at the date of the balance sheet, including estimates, if any, have been recognized in the accompanying Consolidated Balance Sheet and Consolidated Statement of Operations as of and for the twelve-month period ended December 31, 2010. American Independence Corp. did not recognize subsequent events that provided evidence about conditions that arose after the balance sheet date.

(D) Investment in Majestic Underwriters LLC

American Independence Corp.'s investment in Majestic Underwriters LLC (see Note 9 of Notes to Consolidated Financial Statements) is carried on the equity method with American Independence Corp.'s share of income or loss credited or charged, as appropriate, to net investment income in the Consolidated Statements of Operations with a corresponding charge to American Independence Corp.'s investment account. American Independence Corp. also reduces its investment for its proportionate share of the amortization expense for the intangible assets recorded in the acquisition.

(E) Goodwill and Other Intangibles

Goodwill and intangible assets with indefinite lives, which consist of licenses, are not amortized but are evaluated for impairment in the aggregate at the end of the fourth quarter of each year, or more frequently if indicators arise. If the fair value of American Independence Corp. is less than its carrying amount (including goodwill), further evaluation is required to determine if a write-down of goodwill is required. In determining its fair value, American Independence Corp. used an income approach, applying a discounted cash flow method which included a residual value. Based on historical experience, American Independence Corp. made 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 American Independence Corp. Any impairment write-down of goodwill would be charged to expense. No impairment charge was required in 2010 or 2009.

American Independence Corp.'s intangible assets with definite lives, consisting of broker/third party relationships and marketing agreements, are amortized over the expected life of the assets (see Note 4 of Notes to the American Independence Corp. Consolidated Financial Statements).

(F) Cash, Cash Equivalents and Restricted Cash

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

(G) Short-Term Investments

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

(H) Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

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

(I) Investment Securities

(i) Investments in fixed income securities, redeemable preferred stock equity securities and derivatives (options and options on future contracts) are accounted for as follows:
(a) Securities which are held for trading purposes are carried at estimated fair value ("fair value"). Changes in fair value are credited or charged, as appropriate, to net realized investment gains in the Consolidated Statements of Operations.
(b) Securities not held for trading purposes which may or may not be held to maturity ("available-for-sale securities") are carried at fair value. Unrealized gains and losses deemed temporary are credited or charged, as appropriate, directly to accumulated other comprehensive income (a component of stockholders' equity). Premiums and discounts on debt securities purchased at other than par value are amortized and accreted, respectively, to interest income in the Consolidated Statements of Operations, using the constant yield method over the period to maturity. Realized gains and losses on sales of available-for-sale securities are credited or charged, as appropriate, to net realized investment gains in the Consolidated Statements of Operations.
(ii) Financial instruments sold, but not yet purchased, represent obligations to replace borrowed securities that have been sold. Such transactions occur in anticipation of declines in the fair value of the securities. American Independence Corp.'s risk is an increase in the fair value of the securities sold in excess of the consideration received, but that risk is mitigated as a result of relationships to certain securities owned. Unrealized gains or losses on open transactions are credited or charged, as appropriate, to net realized investment gains in the Consolidated Statements of Operations. While the transaction is open, American Independence Corp. will also incur an expense for any accrued dividends or interest payable to the lender of the securities. When the transaction is closed, American Independence Corp. realizes a gain or loss in an amount equal to the difference between the price at which the securities were sold and the cost of replacing the borrowed securities. There were no such transactions outstanding at December 31, 2010 and 2009.
(iii) Realized gains or losses on sales of securities are determined on the basis of specific identification.
(iv) American Independence Corp. enters into derivative transactions, such as put and call option contracts and options on interest rate futures contracts, to minimize losses on portions of American Independence Corp.'s fixed income portfolio in a rapidly changing interest rate environment. Equity index options are entered into to offset price fluctuations in the equity markets. These derivative financial instruments are all readily marketable and are carried on the Consolidated Balance Sheets at their current fair value with changes in fair value (unrealized gains or losses), credited or charged, as appropriate, to net realized investment gains in the Consolidated Statements of Operations. All realized gains and losses are reflected currently in the Consolidated Statements of Operations. Gains on these instruments were $0, $205,000 and $1,196,000 during 2010, 2009 and 2008, respectively. There were no such derivative transactions outstanding at December 31, 2010, 2009 and 2008.
(v) Fair value is determined using quoted market prices when available. In some cases, American Independence Corp. uses 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, American Independence Corp. uses industry-standard pricing methodologies, including discounted cash flow models, whose inputs are based on management assumptions and available current market information. Further, American Independence Corp. retains independent pricing vendors to assist in valuing certain instruments.
(vi) American Independence Corp. reviews its investment securities regularly and determines whether other-than-temporary impairments have occurred. Beginning April 1, 2009, American Independence Corp. adopted new accounting guidance that specified new criteria for identifying and recognizing other-than-temporary impairment losses on fixed maturities. The factors considered by management in its regular review include, but are not limited to: the length of time and extent to which the fair value has been less than cost; American Independence Corp.'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 American Independence Corp. 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 Operations. If a decline in fair value of a debt security is judged by management to be other-than-temporary and; (i) American Independence Corp. 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, American Independence Corp. assesses whether the present value of the cash flows to be collected from the security is less than its amortized cost basis. To the extent that the present value of the cash flows generated by a debt security is less than the amortized cost basis, a credit loss exists. For any such security, the impairment is bifurcated into (a) the amount of the total impairment related to the credit loss, and (b) the amount of the total impairment related to all other factors. The amount of the other-than-temporary impairment related to the credit loss is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statements of Operations, establishing a new cost basis for the security. The amount of the other-than-temporary impairment related to all other factors is recognized in other comprehensive income in the Consolidated Balance Sheets. It is reasonably possible that further declines in estimated fair values of such investments, or changes in assumptions or estimates of anticipated recoveries and/or cash flows, may cause further other-than-temporary impairments in the near term, which could be significant.

In assessing corporate debt securities for other-than-temporary impairment, American Independence Corp. 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, American Independence Corp. 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 American Independence Corp. In addition, American Independence Corp. evaluates other asset-backed securities for other-than-temporary impairment by examining similar characteristics referenced above for mortgage-backed securities. American Independence Corp. 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.

Prior to April 1, 2009, American Independence Corp. assessed its ability and intent to hold a fixed maturity for a period of time sufficient to allow for a recovery in fair value. If American Independence Corp. could not assert this condition, an other-than-temporary impairment loss was recognized in the Consolidated Statements of Operations.

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 American Independence Corp.'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 and ability to hold a security, a loss is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statement of Operations for the difference between the carrying value and the fair value of the securities. For the purpose of other-than-temporary impairment evaluations, preferred stocks with maturities are treated in a manner similar to debt securities. Declines in the creditworthiness of the issuer of debt securities with both debt and equity-like features requires the use of the equity model in analyzing the security for other-than-temporary impairment.

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

(J) Fixed Assets

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

(K) Premium, MGU Fee, and Agency Income Revenue Recognition

Direct and assumed premiums from short-duration contracts are recognized as revenue over the period of the contracts in proportion to the amount of insurance protection provided. American Independence Corp. records MGU fee income as policy premium payments are earned. AMIC’s MGUs are compensated in two ways. They earn fee income based on the volume of business produced, and collect profit-sharing commissions if such business exceeds certain profitability benchmarks. Profit-sharing commissions are accounted for beginning in the period in which American Independence Corp. believes they are reasonably estimable, which is typically at the point that claims have developed to a level where Claim Development Patterns can be applied to generate reasonably reliable estimates of ultimate claim levels. Profit-sharing commissions are a function of an MGU attaining certain profitability thresholds and could greatly vary from quarter to quarter. Agency income consists of commissions, fees and lead revenue earned by its Agencies.

MGU and agency income consisted of the following:

	Year Ended December 31, 2010	2009 (In thousands)	2008
Agency Income	$ 8,377	$ 8,733	$ 5,714
MGU fee income - administration	4,129	5,586	7,822
MGU fee income - profit commissions	919	1,021	1,036
	$ 13,425	$ 15,340	$ 14,572

(L) Insurance Reserves

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

Independence Corp.'s liability at the balance sheet date.

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

Medical Stop-Loss

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

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

Projected Net Loss Ratio

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

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

Claim Development Patterns

Subsequent to the first twelve months of an underwriting year, American Independence Corp.’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. American Independence Corp. must determine whether changes in development represent true indications of emerging experience or are simply due to random claim fluctuations.

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

Predicting ultimate claims and estimating reserves in Medical Stop-Loss is more complex than first dollar medical and disability business due to the “excess of loss” nature of these products with very high deductibles applying to specific claims on any individual claimant and in the aggregate for a given group. The level of these deductibles makes it more difficult to predict the amount and payment pattern of such claims. Fluctuations in results for specific coverage are primarily due to the severity and frequency of individual claims, whereas fluctuations in aggregate coverage are largely attributable to frequency of underlying claims rather than severity.

Due to the short-term nature of Medical Stop-Loss, redundancies or deficiencies will typically emerge during the course of the following year rather than over a number of years. For Employer Stop-Loss, as noted above, American Independence Corp. typically maintains its reserves based on underlying assumptions until it determines that an adjustment is appropriate based on emerging experience from all of AMIC's MGUs for prior underwriting years. Reserves for HMO Reinsurance are adjusted on a policy by policy basis. Because of the small number of HMO Reinsurance policies it writes or reinsures, American Independence Corp. is able to evaluate each policy individually for potential liability by reviewing open claims with each HMO and applying completion factors using historical data.

Fully Insured Health

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

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

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

AMIC Management believes that American Independence Corp.'s methods of estimating the liabilities for insurance reserves provided appropriate levels of reserves at December 31, 2010 and December 31, 2009. Changes in American Independence Corp.'s reserve estimates are recorded through a charge or credit to its earnings in the period in which they arise.

(M) Reinsurance

Amounts recoverable or paid for under reinsurance contracts are included in total assets or total liabilities as due from reinsurers or due to reinsurers. In 2010, Independence American derived a majority of its business from pro rata quota share reinsurance treaties with Standard Security Life and Madison National Life, which are wholly owned subsidiaries of IHC.

(N) Income Taxes

American Independence Corp. accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial carrying amounts of existing assets and liabilities and their respective tax basis, and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets where it is more likely than not that the deferred tax asset will not be realized (see Note 15 of Notes to Consolidated Financial Statements).

(O) Income Per Common Share

Basic income per common share is computed using the weighted average number of common stock shares outstanding during the period. Diluted income per common share is computed using the weighted average number of common stock shares and common stock equivalent shares outstanding during the period. Common stock equivalents consist of stock options and restricted stock (using the “treasury stock” method). Common stock equivalent shares are excluded from the computation if the effect is anti-dilutive. As a result of the anti-dilutive effect, common stock equivalent shares have been excluded from the computation of diluted earnings per share for periods presented with a net loss. For the years ended December 31, 2010, 2009 and 2008 such shares were deemed anti-dilutive. Net income does not change as a result of the assumed dilution.

(P) Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In January 2010, the FASB issued standards requiring new disclosures regarding (i) transfers in and out of Level 1 and Level 2 fair value measurements and (ii) activity in Level 3 fair value measurements. This guidance also clarifies existing disclosures regarding (i) the level of asset and liability disaggregation and (ii) fair value measurement inputs and valuation techniques. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010; early adoption is permitted. The adoption of this guidance, effective January 1, 2010, did not have a material effect on American Independence Corp.’s consolidated financial statements.

In June 2009, the FASB issued standards which among other things, amends former guidance on the consolidation of variable interest entities. The standards (i) require an entity to perform an analysis to determine whether an entity’s variable interest or interests give it a controlling financial interest in a variable interest entity; (ii) require ongoing reassessments of whether an entity is the primary beneficiary of a variable interest entity and eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity; (iii) amend previous guidance for determining whether an entity is a variable interest entity; and (iv) require enhanced disclosure that will provide users of financial statements with more transparent information about an entity’s involvement in a variable interest entity. In December 2009, these standards were added to the Codification. The adoption of this guidance, effective January 1, 2010, did not have a material effect on American Independence Corp.'s consolidated financial statements.

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In June 2009, the FASB issued standards to revise previous authoritative guidance related to accounting for transfers of financial assets, and will require more disclosures about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. In December 2009, these standards were added to the Codification. Among other things, the guidance eliminates the concept of a “qualifying special-purpose entity”, changes the requirements for derecognizing financial assets and enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and an entity’s continuing involvement in transferred financial assets. The guidance is effective for the first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter with earlier application prohibited. The recognition and measurement provisions shall be applied to transfers that occur on or after the effective date. The adoption of this guidance, effective January 1, 2010, did not have a material effect on American Independence Corp.’s consolidated financial statements.

In April 2009, the FASB provided guidance on debt securities classified as available-for-sale and held-to-maturity that are subject to other-than-temporary impairment guidance. These provisions modified the accounting guidance for determining fair value of financial instruments under distressed market conditions, revised the recognition and measurement requirements for other-than-temporary impairment losses on debt securities and expanded the related disclosures about other-than-temporary impairments for both debt and equity securities. This guidance was effective for interim and annual reporting periods ending after June 15, 2009 to be applied to existing and new investments held by an entity as of the beginning of the interim period in which it was adopted. For debt securities held at the beginning of the interim period for which an other-than-temporary impairment was previously recognized, if an entity did not intend to sell and it was not more likely than not that the entity would be required to sell the security before recovery of its amortized cost basis, the entity recognized the cumulative effect of initially applying this guidance as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income, net of tax. The amortized cost basis of the security was to be adjusted by the cumulative-effect adjustment before taxes. As of March 31, 2009, American Independence Corp. had previously recognized $436,000 and $199,000 of other-than-temporary impairments on available-for-sale fixed maturities and certain preferred stocks evaluated as debt securities, respectively, in the Consolidated Statement of Operations. American Independence Corp. has determined that (a) the portion of the previously recorded losses on debt securities and preferred stocks evaluated as debt securities representing a credit loss is $535,000, and (b) the amount of a cumulative-effect adjustment to the opening balance of retained earnings and corresponding adjustment to accumulated other comprehensive income representing the amount of previously recorded losses on debt securities and preferred stocks evaluated as debt securities related to all other factors is $99,000.

Recently Issued Accounting Standards Not Yet Adopted

In December 2010, the FASB issued guidance that amends existing goodwill impairment test guidance to include a requirement that entities perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts if it is more likely than not that an impairment exists. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of this guidance is not expected to have a material effect on American Independence Corp.’s consolidated financial statements.

In December 2010, the FASB issued guidance that clarifies the existing requirements for pro forma revenue and earnings disclosures, and expands the supplemental pro forma revenue and earnings disclosures, for public companies that have completed business acquisitions. The amendments in this guidance are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this guidance is not expected to have a material effect on American Independence Corp.’s consolidated financial statements.

In October 2010, the FASB issued guidance that specifies the accounting treatment for the costs incurred by insurance entities when acquiring new and renewal insurance contracts. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011 and should be applied prospectively upon adoption. American Independence Corp. is currently evaluating the potential impact the amendments in this update will have on its consolidated financial statements.

In April 2010, the FASB issued guidance on the accounting effect, if any, that arises from the different signing dates between the Health Care and Education Reconciliation Act of 2010, which is a reconciliation bill that amends the Patient Protection and Affordable Care Act. This guidance is applicable for registrants with a period end that falls between the signing dates for which the timing difference could have an accounting impact. The adoption of this guidance is not expected to have a material effect on American Independence Corp.'s consolidated financial statements.

In January 2010, the FASB issued standards requiring entities to provide the activity of Level 3 security purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010. The adoption of this guidance is not expected to have a material effect on American Independence Corp.'s consolidated financial statements.

3. Goodwill

American Independence Corp. recorded goodwill of $23,561,000 for the years ended December 31, 2010 and 2009.

American Independence Corp. performed its annual test at December 31, 2010 and determined that goodwill was not impaired.

At December 31, 2010, American Independence Corp.'s market capitalization was less than its book value indicating a potential impairment of goodwill. As a result, American Independence Corp. assessed the factors contributing to the performance of AMIC stock in 2010, and concluded that the market capitalization does not represent its fair value. American Independence Corp. noted several factors that have led to a difference between the market capitalization and the fair value of American Independence Corp., including (i) American Independence Corp.'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) IHC and insiders own over 52% 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 AMIC stock, and (iii) lack of analyst coverage of American Independence Corp. American Independence Corp. will continue to monitor AMIC's book value against market capitalization to determine whether an interim test of goodwill is warranted. If American Independence Corp. experiences a sustained decline in its results of operations and cash flows, or other indicators of impairment exist, American Independence Corp. may incur a material non-cash charge to earnings relating to impairment of its goodwill, which could have a material adverse effect on its results.

4. Intangible Assets

Intangible assets at December 31, 2010 and 2009 consist of the following (in thousands):

	December 31, 2010			December 31, 2009		
	Definitive Lives (a)	Indefinite Lives	Total	Definitive Lives	Indefinite Lives	Total
Gross Carrying Value						
Balance beginning of period	$ 9,373	$ 100	$ 9,473	$ 9,373	$ 100	$ 9,473
Additions	-	-	-	-	-	-
Balance end of period	9,373	100	9,473	9,373	100	9,473
Accumulated Amortization						
Balance beginning of period	(7,000)	-	(7,000)	(6,217)	-	(6,217)
Amortization expense	(784)	-	(784)	(783)	-	(783)
Balance end of period	(7,784)	-	(7,784)	(7,000)	-	(7,000)
Net intangible assets	$ 1,589	$ 100	$ 1,689	$ 2,373	$ 100	$ 2,473
Weighted average remaining life in years			1.45			1.93

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

	Year Ending December 31,
2011	$ 783
2012	124
2013	120
2014	120
2015 and thereafter	442
	$ 1,589

5. Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell are utilized to invest excess funds on a short-term basis. At December 31, 2010, American Independence Corp. had $6,716,000 in resale agreements outstanding, all of which settled on January 3, 2011 and were subsequently reinvested. American Independence Corp. maintains control of securities purchased under resale agreements, values the collateral on a daily basis and obtains additional collateral, if necessary, to protect American Independence Corp. in the event of default by the counterparties.

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6. Investments

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

	DECEMBER 31, 2010			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(In thousands)			
FIXED MATURITIES AVAILABLE-FOR-SALE:				
Corporate securities	$15,850	$167	$ (248)	$15,769
Collateralized mortgage obligations (CMO) – residential	2,021	279	(107)	2,193
CMO – commercial	579	-	(256)	323
States, municipalities and political subdivisions	17,239	152	(327)	17,064
U.S. Government	10,137	159	-	10,296
Government sponsored enterprise (GSE)	7,678	145	(5)	7,818
Agency mortgage backed pass through securities (MBS)	256	17	-	273
Total fixed maturities	$53,760	$919	$ (943)	$53,736
EQUITY SECURITIES AVAILABLE-FOR-SALE				
Common stock	$604	$26	$ (20)	$610
Preferred stock with maturities	273	54	-	327
Preferred stock without maturities	2,993	77	(10)	3,060
Total equity securities	$3,870	$157	$ (30)	$3,997

	DECEMBER 31, 2009			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(In thousands)			
FIXED MATURITIES AVAILABLE-FOR-SALE:				
Corporate securities	$18,448	$186	$ (323)	$18,311
CMO – residential	5,053	181	(446)	4,788
CMO – commercial	578	-	(268)	310
States, municipalities and political subdivisions	9,892	43	(431)	9,504
U.S. Government	4,874	54	-	4,928
Government sponsored enterprise (GSE)	7,063	51	(61)	7,053
Agency mortgage backed pass through securities (MBS)	4,692	55	-	4,747
Total fixed maturities	$50,600	$570	$ (1,529)	$49,641
EQUITY SECURITIES AVAILABLE-FOR-SALE				
Common stock	$948	$37	$ (17)	$968

Preferred stock with maturities	820	13	(10)	823
Preferred stock without maturities	3,511	117	(7)	3,621
Total equity securities	$5,279	$167	$ (34)	$5,412

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

The unrealized gains (losses) on certain preferred stocks with maturities at December 31, 2010 and 2009 includes $99,000 related to the non-credit related component of other-than-temporary impairment losses recorded in accumulated other comprehensive income in connection with new accounting standards adopted on April 1, 2009.

The amortized cost and fair value of fixed maturities at December 31, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The average life of mortgage backed securities is affected by prepayments on the underlying loans and, therefore, is materially shorter than the original stated maturity.

	AMORTIZED COST	FAIR VALUE (In thousands)	% OF TOTAL FAIR VALUE
Due in one year or less	$ -	$ -	0 %
Due after one year through five years	22,991	23,249	43 %
Due after five years through ten years	13,408	13,310	25 %
Due after ten years	8,139	7,929	15 %
	44,538	44,488	83 %
CMO and MBS			
15 years	4,183	4,117	8 %
20 years	-	-	0 %
30 years	5,039	5,131	9 %
	$ 53,760	$ 53,736	100 %

The following tables summarize, for all securities in an unrealized loss position at December 31, 2010 and December 31, 2009, the aggregate fair value and gross unrealized loss by length of time, those securities that have continuously been in an unrealized loss position (in thousands):

	December 31, 2010					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
FIXED MATURITIES:						
Corporate securities	$6,970	$216	$359	$32	$7,329	$248
CMO – residential	88	16	642	91	730	107
CMO – commercial	-	-	323	256	323	256
States, municipalities and political subdivisions	6,351	189	2,413	138	8,764	327
GSE	544	5	-	-	544	5
Total fixed maturities	$13,953	$426	$3,737	$517	$17,690	$943
EQUITY SECURITIES:						
Common stock	$141	$20	$-	$-	$141	$20
Preferred stock without maturities	1,283	10	-	-	1,283	10
Total equity securities	$1,424	$30	$-	$-	$1,424	$30

December 31, 2009

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
FIXED MATURITIES:						
Corporate securities	$4,714	$69	$4,287	$254	$9,001	$323
CMO – residential	617	11	1,769	435	2,386	446
CMO – commercial	-	-	310	268	310	268
States, municipalities and political subdivisions	6,278	314	1,161	117	7,439	431
GSE	5,577	61	-	-	5,577	61
Total fixed maturities	$17,186	$455	$7,527	$1,074	$24,713	$1,529
EQUITY SECURITIES:						
Common stock	$465	$17	$-	$-	$465	$17
Preferred stock with maturities	-	-	240	10	240	10
Preferred stock without maturities	-	-	1,044	7	1,044	7
Total equity securities	$465	$17	$1,284	$17	$1,749	$34

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At December 31, 2010, a total of 20 fixed maturities and 9 equity securities were in a continuous unrealized loss position for less than 12 months. Also, at December 31, 2010, a total of 7 fixed maturities were in a continuous unrealized loss position for 12 months or longer. At December 31, 2009 a total of 25 fixed maturities and 12 equity securities were in a continuous unrealized loss position for less than 12 months. Also, at December 31, 2009, a total of 24 fixed maturities and 3 equity securities were in a continuous unrealized loss position for 12 months or longer. Except for certain fixed maturities which are determined to be other-than-temporarily impaired, there are no securities past due or securities for which American Independence Corp. currently believes it is not probable that it will collect the current amortized cost basis of the security.

Substantially all of the unrealized losses on fixed maturities at December 31, 2010 and December 31, 2009 were attributable to changes in market interest rates and general disruptions in the credit market subsequent to purchase. The unrealized losses on corporate securities and state and political subdivisions are due to wider spreads. Spreads have widened in recent years as investors shifted funds to US Treasuries in response to the current market turmoil. Because American Independence Corp. does not intend to sell, nor is it more likely than not that American Independence Corp. will have to sell, such investments before recovery of their amortized cost bases, American Independence Corp. does not consider those investments to be other-than-temporarily impaired at December 31, 2010.

At December 31, 2010, American Independence Corp. had $1,524,000 invested in whole loan CMOs backed by Alt-A mortgages. Of this amount, 59.3% were in CMOs that originated in 2005 or earlier and 40.7% were in CMOs that originated in 2006 or later. The unrealized losses on all other CMO's relate to prime rate CMO's and are primarily attributable to general disruptions in the credit market subsequent to purchase. American Independence Corp.'s mortgage security portfolio has no direct exposure to sub-prime mortgages.

Major categories of net investment income for years 2010, 2009 and 2008 are summarized as follows:

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
Fixed maturities	$ 2,052	$ 2,346	$ 2,707
Equity securities	262	219	238
Short-term investments	3	10	154
Other	201	349	484
Net investment income	$ 2,518	$ 2,924	$ 3,583

Other-Than-Temporary Impairment Evaluations

Based on AMIC management's review of the portfolio, which considered the various factors described in Note 2 (I) (vi), American Independence Corp. recorded the following losses for other-than-temporary impairments in the Consolidated Statements of Operations for years 2010, 2009 and 2008 (in thousands):

	2010	Year Ended December 31, 2009	2008
Other-than-temporary impairments:			
Fixed maturities	179	-	435
Preferred Stocks	-	-	571
	$ 179	$ -	$ 1,006

For the year ended December 31, 2010, other-than-temporary impairments of $179,000 represent credit losses on fixed maturities as a result of the expected cash flows of certain securities being less than the securities' amortized cost. No losses for other-than-temporary impairments were recognized in other comprehensive income since the adoption of the new accounting standards in 2009.

As of March 31, 2009, American Independence Corp. had previously recognized a total of $436,000 and $199,000 of other-than-temporary impairments on available-for-sale fixed maturities and certain preferred stocks evaluated as debt securities, respectively, in the Consolidated Statement of Operations. As a result of new accounting standards adopted on April 1, 2009, American Independence Corp. determined that (a) the portion of the previously recorded losses on debt securities and preferred stocks evaluated as debt securities representing a credit loss was $535,000, and (b) the amount of a cumulative-effect adjustment to the opening balance of retained earnings and corresponding adjustment to accumulated other comprehensive income representing the amount of previously recorded losses on debt securities and preferred stocks evaluated as debt securities related to all other factors was $99,000. Of the $535,000 of credit losses identified above, $99,000 relates to credit losses for which a portion of an other-than-temporary impairment was recognized in other comprehensive income.

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

	2010	2009
Balance at beginning of year	$ 99	$ -
Adoption of new accounting standard	-	99
Balance at end of year	$ 99	$ 99

Further deterioration in credit quality of the companies backing the securities, further deterioration in the condition of the financial services industry, a continuation of the current imbalance in liquidity that exist in the marketplace, a continuation or worsening of the current economic recession, or additional declines in real estate values may further affect the fair value of these securities and increase the potential that certain unrealized losses be designated as other-than-temporary in future periods and American Independence Corp. may incur additional write-downs.

7. Net Realized Investment Gains (Losses)

Net realized investment gains (losses) for years 2010, 2009 and 2008 are as follows (in thousands):

	Year Ended December 31, 2010	2009	2008
Net realized investment gains (losses):			
Fixed maturities	$ 919	$ 244	$ (46)
Common stock	127	11	(10)
Preferred stock	(24)	20	12
Short-term investments	-	-	2
	1,022	275	(42)
Trading account write-off	(1,266)	-	(2,006)
Trading and other gains (losses)	-	-	152
Net realized investment gains (losses)	$ (244)	$ 275	$ (1,896)

For the twelve months ended December 31, 2010, American Independence Corp. recorded realized gross gains of $1,312,000 and gross losses of $290,000 on sales of available-for-sale securities. For the twelve months ended December 31, 2009, American Independence Corp. recorded realized gross gains of $581,000 and gross losses of $306,000 on sales of available-for-sale securities. For the twelve months ended December 31, 2008, American Independence Corp. recorded realized gross gains of $50,000 and gross losses of $83,000 on sales of available-for-sale securities. As of December 31, 2008, American Independence Corp. no longer has any trading accounts.

In the fourth quarter of 2008, American Independence Corp. became aware of certain activities engaged in by the non-affiliate broker-dealer that managed a trading account of American Independence Corp. Net realized investment gains reported in the accompanying Consolidated Statement of Operations for 2008 include income related to the trading account of $142,000. The carrying amount of American Independence Corp.'s investment at the time of loss was $2,566,000. The broker-dealer is now in bankruptcy. American Independence Corp. filed a claim to recover the $500,000 maximum amount available from the Securities Investor Protection Corporation ("SIPC"). Accordingly, American Independence Corp. recorded a pre-tax loss of $2,006,000, net of expected recoveries, in net realized investment losses in the fourth quarter of 2008 in the Consolidated Statement of Operations. Based on discussions with the trustee in bankruptcy in the fourth quarter of 2010 pertaining to the resolution of these claims, American Independence Corp. recorded an additional $1,266,000 of pre-tax losses consisting of: (i) the reversal of $500,000 of anticipated SIPC recoveries initially recorded; and (ii) $766,000 of withdrawals by AMIC deemed subject to return. A settlement agreement was entered into with the trustee in the first quarter of 2011 and payment by American Independence Corp. is expected to be made on or before July 15, 2011.

8. Fair Value Measurements

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

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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 American Independence Corp. uses to measure different financial instruments at fair value.

Investments in fixed maturities and equity securities

Available-for-sale securities included in Level 1 are equity securities with quoted market prices. Level 2 is primarily comprised of its portfolio of corporate fixed income securities, government agency mortgage-backed securities, government sponsored enterprises, certain CMO securities, municipals and certain preferred stocks that were priced with observable market inputs. Level 3 securities consist of certain CMO securities, primarily Alt-A mortgages. For these securities, American Independence Corp. uses industry-standard pricing methodologies, including discounted cash flow models, whose inputs are based on management's assumptions and available market information. Further, American Independence Corp. retains independent pricing vendors to assist in valuing certain instruments.

The following table presents its financial assets measured at fair value on a recurring basis at December 31, 2010 and 2009, respectively (in thousands):

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS:				
Fixed maturities available-for-sale:				
Corporate securities	$-	$15,769	$-	$15,769
CMO - residential	-	634	1,559	2,193
CMO – commercial	-	-	323	323
States, municipalities and political subdivisions	-	17,064	-	17,064
U.S. Government	-	10,296	-	10,296
Government sponsored enterprise (GSE)	-	7,818	-	7,818
Agency mortgage-backed pass through securities (MBS) - residential	-	273	-	273
Total fixed maturities	-	51,854	1,882	53,736
Equity securities available-for-sale:				
Common stock	610	-	-	610
Preferred stock with maturities	327	-	-	327
Preferred stock without maturities	3,060	-	-	3,060
Total equity securities	3,997	-	-	3,997
Total financial assets	$3,997	$51,854	$1,882	$57,733

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS:				
Fixed maturities available-for-sale:				
Corporate securities	$-	$18,311	$-	$18,311
CMO – residential	-	3,002	1,786	4,788
CMO – commercial	-	-	310	310
States, municipalities and political subdivisions	-	9,504	-	9,504
U.S. Government	-	4,928	-	4,928
Government sponsored enterprise (GSE)	-	7,053	-	7,053
Agency mortgage-backed pass through securities (MBS) – residential	-	4,747	-	4,747
Total fixed maturities	-	47,545	2,096	49,641
Equity securities available-for-sale:				
Common stock	968	-	-	968
Preferred stock with maturities	523	300	-	823
Preferred stock without maturities	3,621	-	-	3,621
Total equity securities	5,112	300	-	5,412
Total financial assets	$5,112	$47,845	$2,096	$55,053

It is American Independence Corp.'s policy to recognize transfers of assets and liabilities between levels of the fair value hierarchy at the end of a reporting period. For the year ending December 31, 2010, there were no transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy. American Independence Corp. 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. One security was sold out of the Level 3 category in 2010. For the year ended December 31, 2010, American Independence Corp. included realized investment losses of $8,000 in earnings. American Independence Corp. included $179,000 of other-than-temporary impairments related to securities categorized as Level 3 securities. The changes in the carrying value of Level 3 assets and liabilities for the years ended December 31, 2010 and 2009 are summarized as follows (in thousands):

	CMOs		
	Residential	Commercial	Total
Balance, December 31, 2008	$ 626	$ 420	$ 1,046
Transfers into Level 3	986	-	986
Repayments of fixed maturities	(198)	-	(198)
Net unrealized gain (loss) included in accumulated other comprehensive loss	372	(110)	262
Balance, December 31, 2009	$ 1,786	$ 310	$ 2,096
Transfers into Level 3	-	-	-
Repayments of fixed maturities	(257)	-	(257)
Realized losses included in earnings	(8)	-	(8)
Security sold out of level 3	(232)	-	(232)

Other-than-temporary Impairment losses	(179)		(179)
Net unrealized gain (loss) included in accumulated other comprehensive loss	449	13	462
Balance, December 31, 2010	$ 1,559	$ 323	$ 1,882

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9. Investment in Majestic

At December 31, 2010 and December 31, 2009, American Independence Corp. had an equity investment in Majestic with a carrying value of $788,000 and $833,000, respectively. For years 2010, 2009 and 2008, American Independence Corp. recorded $45,000, $29,000 and $56,000, respectively, for its share of loss from its investment in other income in the Consolidated Statements of Operations.

10. Fixed Assets

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

	As of December 31, 2010	2009
Furniture and fixtures	$ 682	$ 662
Leasehold improvements	126	126
Equipment	1,011	991
Total	1,819	1,779
Less: allowance for depreciation	(1,707)	(1,630)
Fixed assets, net	$ 112	$ 149

11. Discontinued Operations

Prior to becoming an insurance holding company as a result of the acquisition of Independence American Holdings Corp. ("IAHC") on November 14, 2002, American Independence Corp. was a holding company principally engaged in providing internet services through its discontinued operations. The operating results of discontinued operations, when applicable, have been segregated from continuing operations and are reported as discontinued operations on the Consolidated Statements of Operations. The estimated loss on disposition reserve for the discontinued operations of Intelligent Communications, Inc., ("Intellicom") is reflected in net liabilities associated with discontinued operations in the accompanying Consolidated Balance Sheets. All liabilities have been settled at December 31, 2010.

12. Commitments and Contingencies

Fixed maturities with a carrying value of $4,574,000 are on deposit with various state insurance departments at December 31, 2010.

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

Future minimum lease payments under non-cancelable operating leases as of December 31, 2010, are as follows (in thousands):

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Year Ending December 31,	Net Operating Leases
2011	$ 129
2012	105
2013	100
2014	65
2015	60
2016 and thereafter	31
Total	$ 490

American Independence Corp.'s net rent expense for years 2010, 2009, and 2008 were $355,000, $482,000, and $412,000, respectively.

American Independence Corp. potentially has additional obligations in regard to its agreement with EDH as further described in Note 20 of Notes to Consolidated Financial Statements.

Legal Proceedings

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

13. Share-Based Compensation

2009 Stock Incentive Plan ("2009 Plan")

Effective July 1, 2009, American Independence Corp. implemented the 2009 Plan, which American Independence Corp.'s stockholders approved on June 19, 2009. The 2009 Plan provided for the grants of non-statutory and incentive stock options, stock appreciation rights, restricted stock awards, performance shares, and other awards to officers, employee and other individuals. Under the terms of the 2009 Plan, stock options have a maximum term of ten years from the date of grant, and have various vesting criteria depending on the grant with most grants vesting 25% on the first year anniversary date of the grant and ratably over the next 36 months. The 1998 Plan, which expired by its terms on October 7, 2008, had reserved for issuance a total of 7,154,198 common stock shares. At December 31, 2010, stock options for 359,234 common stock shares were outstanding, stock options for 344,525 common stock shares were vested, and 6,537,222 common stock shares that had not been issued remained available for future stock options grants and other awards. Awards made under the 1998 Plan prior to its expiration are still in effect.

Total share-based compensation expense was $74,000, $99,000 and $143,000 for the twelve months ended December 31, 2010, 2009 and 2008, respectively. Related tax benefits of $26,000, $35,000 and $50,000 were recognized for the twelve months ended December 31, 2010, 2009 and 2008, respectively.

Stock Options

American Independence Corp.'s stock option activity for the year ended December 31, 2010 was as follows:

	No. of Shares	Weighted Average

	Under Option	Exercise Price
Balance, December 31, 2009	355,900	$ 10.00
Granted	13,334	4.60
Exercised	(10,000)	4.50
Balance, December 31, 2010	359,234	$ 9.95

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Compensation expense was $56,000, $74,000, and $128,000 for the twelve months ended December 31, 2010, 2009, and 2008, respectively. As of December 31, 2010, there was approximately $51,000 of total unrecognized compensation expense related to non-vested options which will be recognized over the remaining requisite service periods.

The following table summarizes information regarding outstanding and exercisable options as of December 31, 2010:

	Outstanding	Exercisable
Number of options	359,234	344,525
Weighted average exercise price per share	$ 9.95	$ 10.14
Aggregate intrinsic value of options	$ 22,154	$ 19,376
Weighted average contractual term remaining	3.33 years	3.09 years

The fair value of each stock option on the date of grant was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions for years 2010 and 2009:

	Year Ended December 31, 2010	2009
Volatility	45.00 %	-
Risk-free interest rate	3.69 %	-
Dividend yield	-	-
Expected lives in years	5.0	-
Weighted average fair value	$ 2.79	$ -

No options were granted in 2009.

Restricted Stock

American Independence Corp. issued 12,000 restricted stock awards in the second quarter of 2008, with a weighted average grant-date fair value of $6.92 per share. No restricted stock awards were issued in 2010 and 2009. Restricted stock expense was $18,000, $25,000 and $15,000 for the twelve months ended December 31, 2010, 2009 and 2008, respectively.

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The following table summarizes restricted stock activity for the year ended December 31, 2010:

	No. of Non-vested Shares	Weighted Average Exercise Price
Balance, December 31, 2009	6,333	$ 6.92
Vested	(2,500)	6.92
Forfeited	(1,333)	6.92
Balance, December 31, 2010	2,500	$ 6.92

As of December 31, 2010, there was approximately $8,000 of total unrecognized compensation expense related to non-vested restricted stock which will be recognized over the remaining requisite service periods.

14. Related Party Transactions

Independence American is primarily a reinsurer, and currently derives most of its business from pro rata quota share reinsurance treaties with Standard Security Life and Madison National Life, which are wholly owned subsidiaries of IHC. These treaties were entered into in 2002 and terminate on December 31, 2014, unless terminated sooner by Independence American. Standard Security Life and Madison National Life must cede at least 15% of their medical stop-loss business to Independence American under these treaties. Additionally, Standard Security Life and Madison National Life have received regulatory approval to cede up to 30% to Independence American under most of IHC's medical stop-loss programs. For the twelve months ended December 31, 2010 and 2009, Standard Security Life and Madison National Life ceded an average of approximately 20% and 23%, respectively, of their medical stop-loss business to Independence American. Commencing in July 2004, Independence American began reinsuring 20% of Standard Security Life's DBL business. Standard Security Life and Madison National Life ceded approximately 9% of the majority of its fully insured health business to Independence American in 2010 and 2009.

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

IHC provides American Independence Corp. with pro rata quota share reinsurance on business written by Independence American. In June 2008, Independence American began ceding 30% of its direct stop-loss business sold through Marlton to Madison National Life. Independence American incurs an administration expense on its retained share of major medical for individual and families business that is paid to IHC Health Solutions, a subsidiary of IHC.

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American Independence Corp. and its subsidiaries incurred expense of $1,151,000 and $1,083,000 for the twelve months ended December 31, 2010 and 2009, respectively, from service agreements with IHC and its subsidiaries. These payments reimburse IHC and its subsidiaries, at agreed upon rates including an overhead factor, for management services provided to American Independence Corp. and its subsidiaries, including accounting, legal, compliance, underwriting, and claims.

15. Income Taxes

American Independence Corp. and its subsidiaries file a consolidated federal income tax return on a September 30 fiscal tax year. The provision for income taxes for the periods ended December 31, 2010, 2009 and 2008 are as follows:

	Year Ended December 31, 2010	2009 (In thousands)	2008
CURRENT:			
U.S. Federal	$ 36	$ 35	$ (1)
State and local	(99)	(1)	12
	(63)	34	11
DEFERRED:			
U.S. Federal	1,023	1,311	497
State and local	131	127	123
	1,154	1,438	620
	$ 1,091	$ 1,472	$ 631

Taxes computed at the federal statutory rate of 35% for the years ended December 31, 2010, 2009 and 2008 are reconciled to American Independence Corp.'s actual income tax expense as follows:

	2010	2009 (In thousands)	2008
Tax computed at the statutory rate	$ 1,117	$ 1,430	$ 585
Dividends received deduction and tax exempt interest	(55)	(46)	(46)
State and local income taxes, net of federal effect	21	82	88
Other, net	8	6	4
Income tax	$ 1,091	$ 1,472	$ 631

The federal income tax provision for the periods ending December 31, 2010, 2009 and 2008 include income tax benefits of $1,023,000, $1,311,000 and $497,000, respectively, for the utilization of American Independence Corp.'s federal NOL carryforwards. American Independence Corp. recorded deferred tax benefits on discontinued operations of $40,000 for the period ending December 31, 2008, which were included in Loss on Disposition of Discontinued Operations, net of tax, in the Consolidated Statement of Operations

The tax effect of temporary differences that give rise to significant portions of the net deferred tax assets at December 31, 2010 and 2009 are as follows:

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	2010	2009
	(In thousands)	
DEFERRED TAX ASSETS:		
Net liabilities associated with discontinued operations	$ -	$ 43
Investments	742	679
Unpaid accruals	161	161
Property and equipment	141	141
Other	35	11
Compensation accruals	1,012	986
Derivative liability	908	681
Insurance reserves	131	166
Unrealized securities losses	(36)	281
Net operating loss carryforwards	97,655	98,177
Total gross deferred tax assets	100,749	101,326
Less valuation allowance	(86,059)	(86,384)
Net deferred tax assets	14,690	14,942
DEFERRED TAX LIABILITIES:		
Goodwill	(516)	(282)
MGU partnership income	(3,924)	(3,388)
Total gross deferred tax liabilities	(4,440)	(3,670)
Net deferred tax asset	$ 10,250	$ 11,272

During the year ended December 31, 2010 and 2009 American Independence Corp. decreased its valuation allowance by $325,000 and $1,131,000, respectively, due to deferred tax on unrealized gains allocated to equity.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Management believes that it is more likely than not that American Independence Corp. will realize the benefits of these net deferred tax assets recorded at December 31, 2010.

At December 31, 2010, American Independence Corp. had federal NOL carryforwards of approximately $273,544,000 which expire as follows (in thousands):

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Tax Year:		
2019	$	16,677
2020		70,827
2021		142,530
2022		41,252
2023		528
2024		2
2025		-
2026		354
2027		-
2028		2
2029		1,372
	$	273,544

At December 31, 2010, American Independence Corp. also had NOL carryforwards of approximately $25,814,000 for state income tax purposes, primarily in the State of California. American Independence Corp. management believes that it is more likely than not that the state tax benefit of these net operating loss carryforwards will not be realized and has provided a valuation allowance against the full amount.

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

As of December 31, 2010, AMIC believes there were no material uncertain tax positions that would require disclosure under GAAP.

16. Insurance Reserves

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

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

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

	Year Ended December 31, 2010	2009
	(In thousands)	
Balance at a beginning of period	$ 29,286	$ 32,760
Less: reinsurance recoverables	(5,982)	(3,943)
Net balance at beginning of period	23,304	28,817
Amount incurred:		
Current year	51,035	59,990
Prior years	(809)	(332)
Total	50,226	59,658
Amount paid, related to:		
Current year	33,944	39,196
Prior years	20,388	25,975
Total	54,332	65,171
Net balance at end of period	19,198	23,304
Plus: reinsurance recoverables	5,800	5,982
Balance at end of period	$ 24,998	$ 29,286

The preceding schedule reflects (i) due and unpaid claims, (ii) claims in the course of settlement, (iii) estimated incurred but not reported reserves and (iv) the present value of amounts not yet due on claims. The incurred and paid data above reflects all activity for the year. The amount incurred in 2010 for prior years of $(809,000) is a result of a redundancy of $1,355,000 of fully insured health reserves and of $340,000 of DBL reserves, offset by the re-estimation of unpaid losses on medical stop-loss reserves of $886,000. The amount incurred in 2009 for prior years of $(332,000) is a result of a redundancy of $294,000 of medical stop-loss reserves and of $247,000 of DBL reserves, offset by the re-estimation of unpaid losses on fully insured health reserves of $209,000. Fluctuations are generally the result of on-going analysis of recent loss development trends.

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

17. Reinsurance

Independence American reinsures a portion of its direct business in order to limit the assumption of disproportionate risks. Amounts not retained are ceded to other companies on an automatic basis. Independence American is contingently liable with respect to reinsurance in the unlikely event that the assuming reinsurers are unable to meet their obligations. The ceding of reinsurance does not discharge the primary liability of the original insurer to the insured. At December 31, 2010, Independence American ceded to highly rated reinsurers.

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

	DIRECT AMOUNT	ASSUMED FROM OTHER COMPANIES	CEDED TO OTHER COMPANIES	NET AMOUNT	% OF AMOUNT ASSUMED TO NET
Insurance Benefits:					
Year ended December 31, 2010	$25,265	$ 31,467	$ 6,506	$50,226	63 %
Year ended December 31, 2009	25,272	39,516	5,131	59,657	66 %
Year ended December 31, 2008	24,684	46,430	1,000	70,114	66 %
Premiums Earned:					
Year ended December 31, 2010	$41,264	$ 45,315	$ 12,720	$73,859	61 %
Year ended December 31, 2009	37,396	56,664	8,545	85,515	66 %
Year ended December 31, 2008	32,342	66,911	2,269	96,984	69 %

18. Dividend Restrictions on Insurance Subsidiary

Dividends from Independence American to its parent, a subsidiary of AMIC, are subject to the prior notification to the Delaware Insurance Commissioner, if such dividends, together with the fair market value of other dividends or distributions made within the preceding twelve months, exceed the greater of (i) 10% of surplus as regards policyholders as of the preceding December 31 or (ii) net income, not including realized capital gains, for the twelve-month period ending the December 31 next preceding. Such dividends may be paid as long as they have not been disapproved by the Delaware Insurance Commissioner within 30 days of its receipt of notice thereof. Independence American paid dividends of $1,500,000 in 2010 and no dividends 2009.

Independence American's statutory surplus was $47,392,000 (unaudited) as of December 31, 2010 and $44,215,000 as of December 31, 2009. Independence American's statutory net income was $2,697,000 (unaudited) for 2010, $2,760,000 for 2009, and $2,323,000 for 2008.

19. Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) include (i) net income or loss reported in the Consolidated Statements of Operations, (ii) certain amounts reported directly in stockholders' equity, principally 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 (iii) effective April 1, 2009, the non-credit related component of other-than-temporary impairments of fixed maturities.

The comprehensive income (loss) for years 2010, 2009 and 2008 is summarized as follows (in thousands):

	Year Ended December 31, 2010	2009	2008
Net income	$2,982	$3,166	$1,436
Unrealized holdings gains (losses) arising during the period	506	3,605	(4,897)
Reclassification adjustment for (gains) losses included in earnings	244	(275)	1,038
Reclassification of losses recognized as other-than-temporary impairments in earnings	179	-	1,006
Net unrealized gains (losses) on certain available-for-sale securities arising during the period	929	3,330	(2,853)
Comprehensive income (loss)	3,911	6,496	(1,417)
Comprehensive income attributable to non-controlling interests	(883)	(554)	(471)
Comprehensive income (loss) attributable to American Independence Corp.	$3,028	$5,942	$(1,888)

Accumulated other comprehensive income at December 31, 2010 and 2009 includes an adjustment of $99,000 related to the non-credit related component of other-than-temporary impairment losses recorded in connection with new accounting standards adopted on April 1, 2009. No losses for other-than-temporary impairments were recognized in other comprehensive income since the adoption, in the second quarter of 2009, of the new accounting standards related to other-than-temporary impairments.

20. Marketing Agreements

In February 2006, Independence American entered into an agreement (the “EDH Agreement”) with Employers Direct Health, Inc. (“EDH”). Under the EDH Agreement, EDH began writing employer medical stop-loss for Independence American in 2006, and moved the majority of its existing block of employer-sponsored group major medical and medical stop-loss to Independence American during 2007. The employer-sponsored group major medical product is part of American Independence Corp.’s fully insured health line of business. Independence American paid EDH $2,500,000, which EDH simultaneously paid to IHC in consideration of IHC issuing 125,000 shares of IHC common stock (“IHC Stock”) to EDH. As part of the EDH Agreement, an affiliate of EDH and Independence American agreed to a profit/loss sharing arrangement whereby Independence American will pay to, or receive from, such affiliate 35% of the underwriting profit or loss associated with the fully insured and medical stop-loss business written by Independence American through treaty year 2009. For treaty year 2010, the profit/loss sharing percentage remained at 35% for fully insured business and increased to 50% for medical stop-loss business. Accordingly, American Independence Corp. has recorded a profit sharing commission expense on the business underwritten in the twelve months period ended December 31, 2010. The IHC stock is held by Independence American as collateral to satisfy EDH’s obligation under the profit/loss sharing agreement.

Derivative Liability

The EDH Agreement terminates on December 31, 2011; provided, it will automatically be extended to December 31, 2016, subject to satisfaction of certain conditions as to premium volume and profitability. Assuming these conditions are satisfied, EDH would be entitled to up to an additional $2,500,000 depending on the value of the IHC Stock as of December 31, 2011. American Independence Corp. recorded a derivative liability (“EDH Derivative”) and an intangible asset on its balance sheet in the amount of $743,000 to account for the fair value of such contingent payment at closing. The EDH Derivative is evaluated each quarter and is recorded in the Consolidated Balance Sheet as a liability at fair value. The corresponding changes in unrealized gains or losses are reported in other income (loss) in the Consolidated Statements of Operations.

As a result of an actuarial evaluation of certain performance thresholds of EDH's block of business, American Independence Corp. determined that such thresholds are not likely to be achieved. Therefore, the fair value of the derivative liability representing the contingent payment to EDH was $0 as of December 31, 2010 and 2009.

The gain recognized on the derivative for the twelve months ended December 31, 2010, 2009 and 2008 are as follows (in thousands):

Derivatives Not Designated as Hedging Instruments	Location of Gain Recognized in Income on Derivative	Amount of Gain Recognized in Income on Derivative Year Ended December 31, 2010	2009	2008
EDH Derivative	Other income	$ -	$ 205	$ 1,043
Total		$ -	$ 205	$ 1,043

If the EDH Agreement is extended to December 31, 2016, subject to satisfaction of certain further conditions as to premium volume and profitability, EDH would be entitled to up to an additional $5,000,000 depending on the value of the IHC Stock as of December 31, 2016. In addition, EDH could be entitled to a $1,000,000 bonus on December 31, 2013, subject to satisfaction of certain conditions as to premium volume and profitability.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS
ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Manually signed facsimile copies of the letter of transmittal will be accepted. The letter of transmittal and certificates for shares of American Independence Corp. common stock and any other required documents should be sent to the exchange agent at one of the addresses set forth below. Any questions or requests for assistance may be directed to the exchange agent at its address or telephone numbers set forth below. Additional copies of this prospectus, the letter of transmittal and the notice of guaranteed delivery may be obtained from the exchange agent at its address and telephone numbers set forth below. Holders of shares of American Independence Corp. common stock may also contact their broker, dealer, commercial bank or trust company or other nominee for assistance concerning the offer.

Exchange Agent:

Broadridge Corporate Issuer Solutions, Inc.

By Mail:	By Facsimile Transmission	By Hand:
Broadridge Corporate Issuer Solutions, Inc.	(for eligible institutions only):	Broadridge Corporate Issuer Solutions, Inc.
Attn: Corporate Actions	(610) 649-7302	Attn: Corporate Actions
44 W. Lancaster Ave	To Confirm Via Phone:	44 W. Lancaster Ave
Ardmore, PA 19003	(for eligible institutions only):	Ardmore, PA 19003
	(800) 733-1121	

Any questions or requests for assistance may be directed to the information agent at its address or telephone numbers set forth below. Additional copies of this prospectus, the letter of transmittal and the notice of guaranteed delivery may be obtained from the information agent at its address and telephone numbers set forth below. Holders of shares of American Independence Corp. common stock may also contact their broker, dealer, commercial bank or trust company or other nominee for assistance concerning the offer.

Information Agent:

MORROW & CO., LLC

470 West Avenue
Stamford, CT 06902

E-mail: amic.info@morrowco.com

Banks and Brokerage Firms Call: (800) 662-5200

Stockholders Please Call: (800) 607-0088