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AMERICAN INDEPENDENCE CORP.

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Annual Report 2006

To Our Shareholders

As reflected in our 2007 first quarter results, American Independence Corp. (NASDAQ:AMIC) is beginning to reap the benefits of the foundation we have been building since becoming a health insurance holding company in November 2002. On a non-GAAP basis, the Company's income from operations excluding amortization expense and Federal income tax charge related to deferred taxes for the 2007 first quarter increased 143% to \$1.7 million (\$.20 per share, diluted), as compared to \$0.7 million (\$.08 per share, diluted) for the comparable 2006 period. Independence American Insurance Company is now licensed in 46 jurisdictions and has policies approved for multiple health insurance lines in most of these states. Beginning this year, Independence American is writing small group major medical, major medical for individuals and families and employer medical stop-loss as an issuing carrier. While reinsurance of health business from other carriers (including our 48% shareholder, Independence Holding Company ("IHC")) remains a significant source of revenue, our strategy for future growth will focus on being an issuing carrier of various health products. The greatest benefit of these new lines of business is diversification and balance. Prior to this year, AMIC was almost entirely reliant on one line of business, medical stop-loss, and both Independence American and our managing general underwriter (MGU) division were negatively impacted in the last few years by the "soft" medical stop-loss market. While we are pleased that our results in this line of business are continuing to improve, we believe that our diversification strategy is even more important to AMIC's future.

Transition to Medical Insurance Written by Independence American

In 2006, almost all of Independence American's premiums were derived from reinsurance. While reinsurance premium will continue to be an important source of revenue, we have positioned the Company to write multiple lines of fully insured medical in a variety of states. The first step was to get Independence American, which is domiciled in Delaware and rated B++ (Good) by A.M. Best, broadly licensed. When we acquired Independence American from IHC less than five years ago, it was licensed in 24 jurisdictions. We have almost doubled that number already, and we are optimistic that, by the end of this year, we will achieve that goal. Once licensed in a state, we immediately embark on multiple product filings. We now have employer medical stop-loss, short-term medical, small group major medical and major medical for individuals and families approved in the majority of states, and we continue to make product filings on a regular basis. Of course, to sell these products we need distribution, and that is perhaps the most exciting development in 2007.

Through an agreement with an established marketing and administration organization, Employers Direct Health ("EDH"), Independence American is writing group health policies for small and large employers. Independence American will be the exclusive issuing carrier for business underwritten by this organization through December 31, 2011, with an option to extend the agreement until December 31, 2016. Since the majority of the premium from EDH is transitioning to Independence American from EDH's existing block, premiums from this producer will continue to be earned in future quarters. This block, which is expected to produce meaningful growth, has averaged 8% underwriting profit over the past five years.

In addition, Independence American has entered into an agreement with Independent Producers of America, a national career agent marketing organization, to begin marketing health plans to individuals and families utilizing Independence American as the carrier. Independence American will begin to earn premiums from this line of business in the third quarter of 2007. The program will be administered by Insurers Administrative Corporation, a wholly owned subsidiary of IHC.

Reinsured Premiums and Medical Stop-Loss

The majority of this premium has come from pro rata quota share reinsurance treaties with Standard Security Life Insurance Company of New York and Madison National Life Insurance Company, Inc., which are wholly owned subsidiaries of IHC. These treaties were entered into in 2002 and will terminate on December 31, 2014, unless terminated sooner by Independence American. During 2005 and 2006, Standard Security Life and Madison National Life ceded approximately 22% of their medical stop-loss business to Independence American, making it their largest reinsurer. Independence American also reinsures (i) 20% of Standard Security Life's short-term statutory disability benefit product in New York State ("DBL"), which all companies with more than one employee in New York State are required to provide for their employees, and (ii) 10% of IHC's small group major medical business and short-term medical products ("STM").

The medical stop-loss line is not only the most significant source of revenues for Independence American, but is also critical to the revenues of our MGUs. Due to corrective underwriting actions, the amount of gross premiums written by the IHC companies decreased during 2006. Based on currently available information, business incepting in 2006, of which a material portion will be earned and recorded in 2007, is projected to achieve a net loss ratio that is meaningfully lower than that of business incepting in 2005, just as the net loss ratio on business incepting in 2005 was meaningfully lower than that of business incepting in 2004.

Financial Highlights

The following is a summary of key performance measures of AMIC:

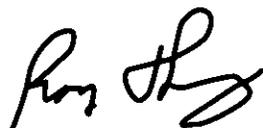
- Premiums earned increased to \$67.8 million for 2006 from \$66.1 million for 2005. Premiums relating to group major medical and STM were \$7,685,000 (11.3% of premiums earned) and \$4,199,000 (6.3% of premiums earned) for 2006 and 2005, respectively.
- Assets increased to \$134.8 million at December 31, 2006 from \$129.7 million at year-end 2005. Total investments increased to \$57.2 million in 2006 from \$48.5 million in 2005, and annual investment yield approximated 5.4% in 2006 compared to 4.8% in 2005. At December 31, 2006, approximately 94.3% of your Company's invested assets were represented by investment grade fixed-income securities, cash and cash equivalents, resale agreements, and policy loans; less than 1% were held directly in non-investment grade bonds.
- Net income for the year ended December 31, 2006 decreased to \$1.5 million (\$.17 per share, diluted) as compared to \$5.5 million (\$.64 per share, diluted) for 2005.
- Revenues for 2006 were \$81.5 million as compared to \$83.1 million in 2005.
- Stockholders' equity per share increased to \$9.82 per share at December 31, 2006 from \$9.64 per share at December 31, 2005.
- As of December 31, 2006, our federal net operating loss carry forwards ("NOLs"), which arose from prior internet operations, were \$276 million.
- On a non-GAAP basis, the Company's income from continuing operations excluding amortization expense and Federal income tax charge related to deferred taxes for the three months ended March 31, 2007 increased 143% to \$1.7 million (\$.20 per share, diluted) for the three months ended March 31, 2007, as compared to \$0.7 million (\$.08 per share, diluted) for the three months ended March 31, 2006. Stockholders' equity per share increased to \$9.99 at March 31, 2007.

Looking Forward

As we look forward to our next several years, we believe that your Company is very well positioned to improve upon its 2006 results, as demonstrated by our 2007 first quarter results. In 2006, the results of both Independence American and our MGUs were negatively impacted by a "soft" medical stop-loss market. Corrective action was taken and we believe that the improved stop-loss results that we reported in the first quarter of 2007 will continue for the remainder of the year. We are also moving toward a much more diversified company. In 2007, Independence American has begun writing a significant amount of fully insured medical. Not only do we receive the carrier allowance in addition to risk premium, but this business tends to be less volatile and less cyclical than excess insurance, and provides a healthy balance to our product portfolio.

We could not have produced these results without our dedicated staff, management team, and Board of Directors, and without the continuing support of our shareholders.

Very truly yours,



Roy T.K. Thung
Chief Executive Officer and President

Dated: May 18, 2007
www.americanindependencorp.com.

PRODUCT LINES

Medical Stop-Loss

- *Employer Medical Stop-Loss Insurance* products that allow self-insured employers to manage the risk of excessive health insurance exposures by limiting aggregate and specific losses to a predetermined amount.
- *Provider Excess Loss/HMO Reinsurance Insurance* and reinsurance products for providers, HMOs and managed care organizations that either desire or are required, by contract or state regulation to purchase such coverage to reduce their risk assumption.

Fully Insured Health Products

- *Employer-Sponsored Group Major Medical Fully insured major medical coverage* designed to work with health reimbursement accounts ("HRA") and health savings accounts ("HSA").
- *Employer-Sponsored Group and Individual Major Medical for Individuals and Families Fully insured major medical coverage* designed to work with health reimbursement accounts ("HRAs") and health savings accounts ("HSAs").
- *Short-Term Medical Fully insured major medical coverage* with a defined duration, which is normally twelve months or less.
- *Dental/Vision Dental indemnity and PPO coverage* for small and large employer and affinity groups. Vision benefits for a specified amount toward eye exams and the purchase of eye glasses and contact lenses.

New York Short-Term DBL

- *DBL New York State mandated temporary cash payments* to replace wages lost as a result of disability due to non-occupational injury or illness.

RECONCILIATION OF GAAP INCOME FROM CONTINUING OPERATIONS TO NON-GAAP INCOME FROM CONTINUING OPERATIONS

	Three Months Ended March 31,	
	2007	2006
	(in thousands except per share data)	
Income from continuing operations	\$1,114	\$393
Amortization of intangible assets related to purchase accounting	48	116
Federal income tax charge related to deferred taxes	562	201
Income from continuing operations excluding amortization and federal income tax charge	\$1,724	\$710
Non — GAAP Basic Income Per Common Share:		
Income from continuing operations excluding amortization and federal income tax charge	\$.20	\$.08
Non — GAAP Diluted Income Per Common Share:		
Income from continuing operations excluding amortization and federal income tax charge	\$.20	\$.08

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

Form 10-K

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

AMERICAN INDEPENDENCE CORP.

(Exact name of Registrant as specified in its charter)

DELAWARE
(State of Incorporation)

485 Madison Avenue, New York, New York
(Address of Principal Executive Offices)

11-1817252
(I. R.S. Employer
Identification No.)
10022
(Zip Code)

(212) 355-4141

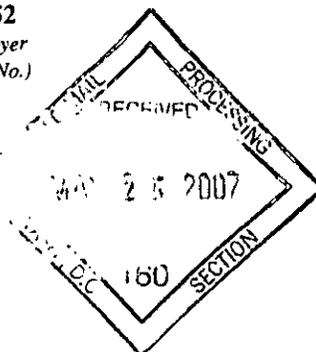
Registrant's telephone number, including area code:

NONE

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

COMMON STOCK, PAR VALUE \$0.01 PER SHARE

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



Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of June 30, 2006 was \$53,248,000.

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

Class	Outstanding at March 15, 2007
Common Stock, \$0.01 par value	8,457,890

Documents Incorporated by Reference

The information required by Part III of this report, to the extent not set forth herein, is incorporated by reference from the registrant's definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held in June 2007, which definitive Proxy Statement will be filed with the Securities and Exchange Commission within the time periods prescribed by applicable law.

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PART I

Item 1. *Business*

Since November 2002, American Independence Corp. ("AMIC or the "Company") has been a holding company 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: IndependenceCare Holdings L.L.C. and its subsidiaries (collectively referred to as "IndependenceCare"); Risk Assessment Strategies, Inc. ("RAS"), and Marlton Risk Group LLC ("Marlton"); and c) its investment in Majestic Underwriters LLC ("Majestic"). IndependenceCare, RAS and Marlton are collectively referred to as the "MGU Subsidiaries." Prior to its current operations, AMIC was an Internet service provider known as SoftNet Systems, Inc.

FORWARD-LOOKING STATEMENTS

Certain statements and materials contained in this report, such as statements relating to management's views with respect to future events and financial performance, may be considered "forward-looking statements". Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from historical experience or from future results expressed or implied by such forward-looking statements. For a discussion of risk factors affecting the Company's business and prospects, see Item 1A *Risk Factors*.

Principal Products and Services

Independence American Insurance Company

Independence American, which is domiciled in Delaware, is licensed to write property and/or casualty insurance in 43 states and the District of Columbia, and has a B++ (Good) rating from A.M. Best Company, Inc. ("A.M. Best"). An A.M. Best rating is assigned after an extensive quantitative and qualitative evaluation of a company's financial condition and operating performance, and is also based upon factors relevant to policyholders, agents, and intermediaries, and is not directed towards protection of investors. A.M. Best ratings are not recommendations to buy, sell or hold securities of the Company.

During 2006, 98% of Independence American's premiums earned were derived from assumed reinsurance premiums. In 2006, 83% of this premium was related to medical stop-loss business, 11% was related to fully insured health business, and 6% was related to short-term statutory disability benefit product in New York State ("DBL"). Of the medical stop-loss premium, 82% was generated from pro rata reinsurance treaties with Standard Security Life Insurance Company of New York ("Standard Security Life") and Madison National Life Insurance Company, Inc. ("Madison National Life") pursuant to which Standard Security Life and Madison National Life will cede, at treaty renewals, at least 15% (and may cede up to 30%) of their gross medical stop-loss premiums written to Independence American. Standard Security Life and Madison National Life are wholly owned, indirect subsidiaries of Independence Holding Company (collectively referred to as "IHC"), which owns 48% of the Company's outstanding stock. For 2006, Standard Security Life and Madison National Life ceded an average of 22.2% of their medical stop-loss business to Independence American. The reinsurance treaties between Independence American and Standard Security Life and Independence American and Madison National Life terminate December 31, 2014, unless terminated sooner by Independence American. Standard Security Life, which is domiciled in New York, has an A (Excellent) rating from A.M. Best, and is licensed as an insurance company in all 50 states, the District of Columbia, the Virgin Islands and Puerto Rico. Madison National Life, which is domiciled in Wisconsin, has an A (Excellent) rating from A.M. Best, is licensed to sell insurance products in 49 states, the District of Columbia, Guam, American Samoa and the U.S. Virgin Islands, and is an accredited reinsurer in New York. The balance of the medical stop-loss assumed reinsurance premium was related to business written by unaffiliated carriers on eight other programs. For 2006, Independence American received between 15% and 25% of the premium on these unaffiliated programs. For more general information on types of reinsurance, see "Reinsurance" below. In 2006, Independence American wrote a nominal amount of medical stop-loss, and short-term medical ("STM") on a direct

basis. In 2007, Independence American will begin writing a significant amount of small group major medical, medical stop-loss and major medical plans for individuals and families. The Company's strategic plan is to continue to expand the fully insured health and medical stop-loss business written by Independence American.

Medical Stop-Loss

Independence American primarily reinsures employer medical stop-loss insurance for self-insured group medical plans. Self-insured plans permit employers flexibility in designing employee health coverages at a cost that may be lower than that available through other health care plans provided by an insurer or health maintenance organization ("HMO"). Employer medical stop-loss insurance allows self-insured employers to manage the risk of excessive health insurance costs under self-funded plans by limiting the employer's health care expenses to a predetermined amount. This stop-loss coverage is available on either a "specific" or a "specific and aggregate" basis. Specific stop-loss coverage reimburses employers for large claims incurred by an individual employee or dependent. When an employee or dependent's covered claims exceed the specific stop-loss deductible, covered amounts in excess of the deductible are reimbursable to the employer under the specific stop-loss policy. The specific stop-loss deductible is selected based on the number of covered employees, the employer's capacity to assume some of the risk, and the medical claim experience of the plan. Aggregate stop-loss coverage protects the employer against fluctuations due to claim frequency. The employer's overall claim liability is limited to a certain dollar amount, often referred to as the attachment point. An aggregate stop-loss policy usually provides reimbursement when coverage claims for the plan as a whole exceed the aggregate attachment point. Many of the stop-loss policies Independence American reinsures cover specific claims only. Standard Security Life and Madison National Life market employer medical stop-loss insurance nationally through a network of managing general underwriters ("MGUs"), which are non-salaried contractors that receive administrative fees. As of December 31, 2006, Standard Security Life marketed this product through 11 MGUs, including IndependenceCare, RAS, Marlton and Majestic. As of December 31, 2006, Madison National Life marketed this product through four MGUs, including IndependenceCare. MGUs are responsible for establishing an employer's conditions for coverage in accordance with guidelines formulated and approved by Standard Security Life and Madison National Life, billing and collecting premiums from the employers, paying commissions to agents, third-party administrators ("TPAs") and/or brokers, and adjudicating claims. Standard Security Life and Madison National Life are responsible for selecting MGUs, establishing underwriting guidelines, maintaining approved policy forms and reviewing employers' claims for reimbursement, as well as establishing appropriate accounting procedures and reserves.

Since 2002, Independence American has issued and/or reinsured managed care excess coverages, including provider excess loss insurance and HMO Reinsurance. Independence American issues and reinsures provider excess loss insurance on a specific loss basis only. This product is marketed to providers, managed care organizations, including provider hospital organizations, hospital groups, physician groups and individual practice associations that have assumed risk (through capitation by an HMO or otherwise) and desire to reduce their risk assumption and/or are required to purchase coverage by contract or regulation. Independence American is currently approved to write provider excess loss insurance in 14 states. This product is written through IndependenceCare which is responsible for marketing, underwriting, billing and collection of premiums, and medical management, administering and adjudicating claims. Independence American also reinsures provider excess loss insurance written through IndependenceCare and issued by Standard Security Life on a specific loss basis only. Independence American reinsures HMO Reinsurance coverage written by Standard Security Life and marketed through IndependenceCare. This coverage protects HMOs against excess losses incurred under an HMO health plan and is marketed to HMOs that desire to reduce their risk assumption and/or are required to purchase coverage by contract or regulation.

As of December 31, 2006, Independence American had employer medical stop-loss policies approved in 36 states. Pursuant to an agreement entered into in 2006 with Employers Direct Health ("EDH"), Independence American began writing employer medical stop-loss business. This block is expected to total, on an annualized basis, approximately \$6 million as of December 31, 2007 (see Note 5 of Notes to Consolidated Financial Statements). Primarily as a result of this marketing agreement, AMIC anticipates significant growth in medical stop-loss business written by Independence American in 2007 and in future years, and believes that the amount of

this line of business reinsured will remain relatively stable unless IHC greatly expands the amount of business written by its carriers.

Fully Insured Health

Small Employer Group Major Medical

During 2006, Independence American reinsured 10% of the group major medical business written by Standard Security Life and Madison National Life, including consumer-driven health plans ("CDHPs"). This business, generally written through agents and brokers that receive commissions, is fully insured major medical coverage designed to work with health reimbursement accounts ("HRA") and health savings accounts ("HSA") which are implemented by employers that wish to provide this benefit as part of an employee welfare benefit plan. These plans are offered primarily as preferred provider organizations ("PPO") plans, and provide a variety of cost-sharing options, including deductibles, coinsurance and co-payment. Independence American has begun filing group major medical and major medical plans for individuals and families that include CDHP products. Pursuant to the marketing agreement with EDH described above, Independence American will begin writing group major medical business in 2007, which is expected to total, on an annualized basis, approximately \$23 million. Independence American initially anticipates retaining 65% of the risk on this business. Primarily as a result of the EDH marketing agreement, AMIC anticipates significant growth in this line of business beginning in 2007 and in future years. In addition, IHC has announced that it anticipates meaningful growth in this line of business in 2007 and in future years, which would mean more reinsurance premium for Independence American assuming the existing reinsurance treaties with Standard Security Life and Madison National Life remain in effect.

Major Medical for Individuals and Families

In 2006, the Company has entered into an agreement with a national, career agent marketing organization to begin marketing health plans to individuals and families utilizing Independence American as the carrier. The agency projects that it will have \$10 million of annualized premiums (\$6 million on an earned basis) on Independence American paper as of December 31, 2007. Independence American initially anticipates retaining 50% of the risk on this business. The program will be administered by Insurers Administrative Corporation, a wholly owned, indirect subsidiary of IHC. These amounts are less than what was initially disclosed due to a later than anticipated launch date as a result of product design changes and filing requirements.

Short-Term Medical ("STM")

During 2006, Independence American reinsured 10% of the STM business written by Standard Security Life and Madison National Life. This business, primarily written through agents and brokers that receive commissions, is designed specifically for people with transient needs for health coverage. Typically, STM products are written as major medical coverage with a defined duration, which is normally twelve months or less. Among the typical purchasers of STM products would be self-employed professionals, recent college graduates, people between jobs, employed individuals not currently eligible for group insurance, and others who need insurance for a specified period of time. IHC has announced that it anticipates meaningful growth in this line of business in 2007 and in future years, which would mean more reinsurance premium for Independence American, assuming the existing reinsurance treaties with Standard Security Life and Madison National Life remain in effect. In addition, Independence American will continue to seek alternative distribution channels that would give it an opportunity to write this business on its paper.

Short-term Statutory Disability

Commencing in July 2004, Independence American began reinsuring 20% of Standard Security Life's short-term statutory disability benefit product in New York State ("DBL"). All companies with more than one employee in New York State are required to provide DBL insurance for their employees. DBL coverage provides temporary cash payments to replace wages lost as a result of disability due to non-occupational injury or illness. The DBL policy provides for (i) payment of 50% of salary to a maximum of \$170 per week; (ii) a maximum of 26 weeks in a consecutive 52 week period; and (iii) benefit commencement on the eighth consecutive day of disability. Policies

covering fewer than 50 employees have fixed rates approved by the New York State Insurance Department. Policies covering 50 or more employees are individually underwritten. The DBL business is marketed primarily through independent general agents.

AMIC expects the reinsurance premium from this line of business to remain relatively stable, assuming the existing reinsurance treaties with Standard Security Life and Madison National Life remain in effect.

Managing General Underwriters

The MGU's are responsible for marketing, underwriting, billing and collecting premiums and administering and processing claims. IndependenceCare and RAS are the two MGU Subsidiaries acquired as part of the November 2002 transaction with IHC. IndependenceCare markets and underwrites employer medical stop-loss, provider excess loss and HMO Reinsurance products for Standard Security Life, Madison National Life, Independence American and another carrier. IndependenceCare currently has two operating subsidiaries IndependenceCare Underwriting Services — Minneapolis L.L.C. and IndependenceCare Underwriting Services — MidAtlantic LLC. During 2006, IndependenceCare Underwriting Services — Tennessee L.L.C., IndependenceCare Underwriting Services — Southwest L.L.C. were converted from MGUs to regional sales offices. RAS markets and underwrites employer medical stop-loss and group life for Standard Security Life, Madison National Life and another carrier.

The Company acquired, on February 10, 2003, but effective as of January 1, 2003, 80% of the business of two affiliated employer medical stop-loss MGUs (the "Acquired MGUs"). The acquisition was accomplished by the formation of Marlton Risk Group LLC ("Marlton") into which the Acquired MGUs contributed all of their assets, and the Company contributed \$16,000,000 cash for an 80% ownership interest. The Company's cash contribution was then distributed to the Acquired MGUs together with the remaining 20% interest in Marlton, and Marlton assumed all of the liabilities of the Acquired MGUs. Marlton is an MGU for employer medical stop-loss and group life for Standard Security Life, Madison National Life and two other carriers. Current senior management of Marlton own the remaining 20%.

On July 13, 2004, the Company acquired a 23% interest in Majestic Underwriters LLC ("Majestic"), an employer medical stop-loss MGU. IHC owns 52% of Majestic and Majestic's management owns the remaining 25%. The purchase price for AMIC's interest in Majestic was \$1,610,000.

On April 16, 2004, the Company expanded its business through the acquisition of substantially all of the assets of an employer medical stop-loss managing general underwriter for a purchase price of \$600,000. The assets were acquired by IndependenceCare Underwriting Services — MidAtlantic LLC ("ICH-MidAtlantic"). This acquisition resulted in goodwill in the amount of \$486,000 and intangible assets in the amount of \$114,000.

Reinsurance

Reinsurance is an arrangement in which an insurance company (the "reinsurer") agrees to indemnify another insurance company (the "ceding company") against all or a portion of the insurance risks underwritten by the ceding company under one or more insurance contracts. Reinsurance provides a ceding company with additional underwriting capacity by permitting it to accept larger risks and write more business than would be possible without an accompanying increase in statutory capital and surplus. There are two basic types of reinsurance arrangements: treaty and facultative reinsurance. In treaty reinsurance, the ceding company is obligated to cede and the reinsurer is obligated to assume a specified portion of a type or category of risks insured by the ceding company. Treaty reinsurers do not separately evaluate each of the individual risks assumed under their treaties and, consequently, after a review of the ceding company's underwriting practices, are largely dependent on the original risk underwriting decisions made by the ceding company. In facultative reinsurance, the ceding company cedes and the reinsurer assumes all or part of the risk under a single insurance contract. Independence American currently only participates in treaty reinsurance. Both treaty and facultative reinsurance can be written on either a pro rata basis or an excess of loss basis. Under pro rata reinsurance, the ceding company and the reinsurer share the premiums as well as the losses and expenses in an agreed proportion. Under excess of loss reinsurance, the reinsurer indemnifies the ceding company against all or a specified portion of losses and expenses in excess of a specified dollar amount,

known as the ceding company's retention or reinsurer's attachment point, generally subject to a negotiated reinsurance contract limit. Premiums paid by the ceding company to a reinsurer for excess of loss reinsurance are not directly proportional to the premiums that the ceding company receives because the reinsurer does not assume a proportionate risk. In pro rata reinsurance, the reinsurer generally pays the ceding company a ceding commission. The ceding commission generally is based on the ceding company's cost of acquiring and managing the business being reinsured (commissions, premium taxes, assessments and miscellaneous administrative expenses). Independence American participates in pro rata reinsurance for their medical stop-loss business.

Federal Net Operating Loss Carryforwards

At December 31, 2006, AMIC had consolidated net operating loss carryforwards ("NOLs") of approximately \$276 million for federal income tax purposes. Some or all of the NOL carryforwards may be available to offset, for federal income tax purposes, the future taxable income, if any, of AMIC as described in more detail in Note 13 of the Notes to Consolidated Financial Statements. The Internal Revenue Service ("IRS") has not audited any of AMIC's tax returns for any of the years during the carryforward period, including those returns for the years in which the losses giving rise to the NOL carryforward were reported.

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

In order to reduce the risk of an ownership change, in November 2002, AMIC's stockholders approved an amendment to its Certificate of Incorporation restricting transfers of shares of its common stock that could result in the imposition of limitations on the use, for federal, state and city income tax purposes, of AMIC's carryforwards of net operating losses and certain federal income tax credits. The Certificate of Incorporation generally restricts any person from attempting to sell, transfer or dispose, or purchase or acquire any AMIC stock, if such transfer would affect the percentage of AMIC stock owned by a 5% stockholder. Any person attempting such a transfer will be required, prior to the date of any proposed transfer, to request in writing that the board of directors review the proposed transfer and authorize or not authorize such proposed transfer. Any attempted transfer made in violation of the stock transfer restrictions will be null and void. In the event of an attempted or purported transfer involving a sale or disposition of capital stock in violation of stock transfer restrictions, the transferor shall 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.

Investments and Reserves

Independence American's securities portfolio is managed by employees of IHC and its affiliates, and ultimate investment authority rests with Independence American's board of directors. As a result of the nature of its insurance liabilities, Independence American endeavors to maintain a significant percentage of its assets in investment grade securities, cash and cash equivalents. At December 31, 2006, 99.6% of the fixed maturities were investment grade. The internal investment group provides a summary of the investment portfolio and the performance thereof at the meetings of the Company's board of directors.

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

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

Competition and Regulation

Independence American competes with many larger insurance and reinsurance companies and managed care organizations. The MGU Subsidiaries compete with many other managing general underwriters, insurance companies, HMOs and other managed care organizations.

The Company is an insurance holding company; as such, it is subject to regulation and supervision by the insurance supervisory agency of Delaware. Independence American is also subject to regulation and supervision in all jurisdictions in which it is licensed to transact business. These supervisory agencies have broad administrative powers with respect to the granting and revocation of licenses to transact business, the licensing of agents, the approval of policy forms, the approval of commission rates, the form and content of mandatory financial statements, reserve requirements and the types and maximum amounts of investments which may be made. Such regulation is primarily designed for the benefit of policyholders rather than the stockholders of an insurance company or holding company.

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

Risk-based capital requirements are imposed on property and casualty insurance companies. The risk-based capital ratio is determined by dividing an insurance company's total adjusted capital, as defined, by its authorized control level risk-based capital. Companies that do not meet certain minimum standards require specific corrective action. The risk-based capital ratio for Independence American exceeds such minimum ratios.

Discontinued Operations

Prior to becoming an insurance holding company in November 2002, the Company (then known as SoftNet Systems, Inc.) was a holding company principally engaged in providing Internet services. As of September 30, 2002, the Company had discontinued the businesses of Intelligent Communications, Inc. ("Intellicon"), Aerzone Corporation ("Aerzone"), ISP Channel, Inc. ("ISP Channel"), Kansas Communications, Inc. ("KCI"), and Micrographic Technology Corporation ("MTC"). Due to difficult and deteriorating conditions in that market, the Company wound down these businesses. In December 2000, the Company's board of directors approved a plan to discontinue the operations of its subsidiary, ISP Channel, which had provided cable-based Internet access and related services, and the operations of another subsidiary, Aerzone, which provided Internet and related services at airports. In April 2002, the Company ceased operations of its remaining operating subsidiary, Intellicon, following

the disposition of its key assets. In connection with the Company's exit from the Internet provider business, it undertook a process of consideration of strategic alternatives for the Company.

On July 30, 2002, the Company entered into an agreement to acquire First Standard Holdings Corp. ("FSHC") from SSH Corp. and Independence Holding Company ("IHC") for \$31.92 million in cash. As described below, FSHC was the holding company for an insurance company and two MGUs. Subsequently, at the Special Meeting of Stockholders on November 14, 2002, the Company's stockholders approved the stock purchase agreement between the Company, SSH Corp. and IHC (the "Purchase Agreement"), and approved the Company's name change to American Independence Corp. Also on November 14, 2002, the Company consummated the transactions contemplated by the Purchase Agreement and FSHC changed its name to Independence American Holdings Corp. ("IAHC"). Following this acquisition, the Company closed its offices in San Francisco, terminated all but two of its employees, and entered into a services agreement with IHC pursuant to which the Company's operations are primarily directed by IHC's management and employees.

In a separate transaction, on July 30, 2002, IHC acquired Pacific Century Cyberworks Limited's ("PCCW") entire interest in the Company consisting of 1,666,666 shares of common stock at \$9.00 per share for a total value of \$15 million. As a result of this transaction, PCCW's two appointees resigned from the Company's board of directors, and Edward Netter, Chairman of IHC, and Roy T.K. Thung, President and Chief Executive Officer of IHC, were appointed to the Company's board of directors. On April 22, 2003, a wholly owned subsidiary of IHC completed its tender for one million shares of the common stock of the Company at \$9.00 per share for a total value of \$9,000,000. On December 22, 2003, IHC purchased 613,401 shares in the market and through private transactions. During 2004, IHC purchased an additional 1% interest in the Company, bringing its aggregate interest in the Company to 40%. During 2005, IHC purchased an additional 8% interest, bringing its current aggregate interest in the Company to 48%.

The operating results of these discontinued operations have been segregated from continuing operations and are reported as a gain (loss) from discontinued operations on the Consolidated Statements of Operations. Although it is difficult to predict the final results, the loss on disposition from discontinued operations includes management's estimates of costs to wind down the business and costs to settle its outstanding liabilities. The actual results could differ from these estimates. The estimated loss on disposition reserve of all discontinued operations is reflected in net liabilities associated with discontinued operations in the accompanying Consolidated Balance Sheets. The cash flows used in discontinued operations are presented separately in the operating activities section of the Consolidated Statements of Cash Flows. There were no cash flows associated with investing and financing activities for the years presented for discontinued operations.

Discontinued Operations of Intelligent Communications, Inc.

On March 29, 2002, the Company and its wholly owned subsidiary, Intellicom, entered into an agreement to sell its operating business and certain assets to Loral Cyberstar, Inc. Following the sale of its operating business and certain assets to Loral Cyberstar, Inc., the Company's board of directors unanimously agreed to cease the operations of Intellicom on April 3, 2002. Principally due to the Company's guaranty of Intellicom's lease for its facility in Livermore, California, the Company has reserves for discontinued operations of Intellicom of \$555,000 for this liability at December 31, 2006, and \$808,000 at December 31, 2005. In October of 2006, the Company entered into an agreement with a third party to sublease the property in Livermore, California for the remaining life of the lease. The income associated with the sublease is reflected in the reserve balance.

Discontinued Operations of Aerzone Corporation

On January 24, 2000, the Company founded Aerzone (formerly SoftNet Zone, Inc.) to provide high-speed Internet access to global business travelers. As part of the Aerzone business, the Company acquired Laptop Lane, on April 21, 2000. On December 19, 2000, the Company decided to discontinue the Aerzone business in light of significant long-term capital needs and the difficulty of securing the necessary financing because of the current state of the financial markets. The Company has no remaining reserve in net liabilities associated with discontinued operations for Aerzone at December 31, 2006.

Discontinued Operations of ISP Channel, Inc.

On December 7, 2000, the Company's board of directors approved a plan to discontinue providing cable-based Internet services through its ISP Channel subsidiary by December 31, 2000, because consolidation in the cable television industry made it difficult for ISP Channel to achieve the economies of scale necessary to provide such services profitably, and the Company was no longer able to bear the costs of maintaining ISP Channel. The Company has no remaining reserve in net liabilities associated with discontinued operations for ISP Channel at December 31, 2006.

Discontinued Operations of Micrographic Technology Corporation

As a result of the December 31, 1999 sale of MTC to Global Information Distribution GmbH ("GID"), the Company discontinued operations of MTC. The Company has no remaining reserve in net liabilities associated with discontinued operations for MTC at December 31, 2006.

Discontinued Operations of Kansas Communications, Inc

As a result of the February 12, 1999 sale of the assets of the telecommunications segment, KCI, to Convergent Communications Services, Inc., the Company discontinued this segment. The Company has no remaining reserve in net liabilities associated with discontinued operations for KCI at December 31, 2006.

Employees

The Company and its subsidiaries, collectively, had 59 employees as of December 31, 2006.

Item 1A. Risk Factors

The risks and uncertainties described below are not the only ones that the Company faces but only those identified by the Company, in accordance with the requirements of Item 503(c) of Regulation S-K, as being the most significant factors that make investment in the Company speculative or risky and that have special application to the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems less significant than identified herein may also make investment in the Company speculative or risky.

If any of the adverse events associated with the risks described below occurs, the Company's business, financial condition or results of operations could be materially adversely affected. In such case, the trading price of the Company's common stock could decline.

The Company's Loss Reserves are Based on an Estimate of Its Future Liability, and if Actual Claims Prove to be Greater Than The Company's Reserves, Its Results of Operations and Financial Condition May Be Adversely Affected

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

in which long periods of time may elapse before a definitive determination of liability is made. Reserve estimates are continually refined in a regular and ongoing process as experience develops and further claims are reported and settled. Adjustments to reserves are reflected in the results of the periods in which such estimates are changed.

The Company's Results May Fluctuate as a Result of Factors Generally Affecting the Insurance and Reinsurance Industry

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

- Fluctuations in interest rates, inflationary pressures and other changes in the investment environment, which affect returns on invested capital;
- Rising levels of actual costs that are not known by companies at the time they price their products;
- Losses related to epidemics, terrorist activities, random acts of violence or declared or undeclared war;
- Changes in reserves resulting from different types of claims that may arise and the development of judicial interpretations relating to the scope of insurers' liability;
- The overall level of economic activity and the competitive environment in the industry;
- Greater than expected use of healthcare services by members;
- New mandated benefits or other regulatory changes that change the scope of business or increase the Company's costs; and
- Failure of MGUs to adhere to underwriting guidelines as required by the Company in its MGU agreements.

The occurrence of any or a combination of these factors, which is beyond the Company's control, could have a material adverse effect on its results.

If the Rating Agencies Downgrade Independence American, the Company's Results of Operations and Competitive Position in the Industry May Suffer

Ratings are an important factor in establishing the competitive position of insurance companies. Independence American is rated B++ (Good) by A.M. Best Company, Inc., whose ratings reflect its opinions of an insurance company's financial strength, operating performance, strategic position, and ability to meet its obligations to policyholders, and are not evaluations directed to investors. The rating of Independence American is subject to periodic review by A.M. Best Company, Inc., and the Company is not assured of the continued retention of this rating. If A.M. Best Company, Inc. reduces Independence American's ratings from its current levels, the Company's business would be adversely affected.

Stock Transfer Restrictions

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

The Company's Inability to Assess Underwriting Risk Accurately Could Reduce Its Net Income

The Company's success is dependent on its ability to assess accurately the risks associated with the businesses on which the risk is retained. If the Company fails to assess accurately the risks it retains, the Company may fail to establish the appropriate premium rates and the Company's reserves may be inadequate to cover its losses, requiring augmentation of the reserves, which in turn would reduce the Company's net income.

The Company's agreements with its producers (including its MGUs) require that the producers follow underwriting guidelines published by the Company and amended from time to time. Failure to follow these guidelines may result in termination or modification of the agreement. The Company performs periodic audits to confirm adherence to the guidelines, but it is possible that the Company would not detect a breach in the guidelines for some time after the infraction which could result in a material impact on the Net Loss Ratio for that producer and could have an adverse impact on the Company's operating results.

If the Company is Unsuccessful in Competing Against Larger or More Well-Established Competitors, Its Results of Operations and Financial Condition Will Be Adversely Affected

The Company's industry is highly competitive and has experienced severe price competition from time to time over the last several years. The Company faces competition from domestic and international insurance and reinsurance companies, from underwriting agencies, and from diversified financial services companies that are significantly larger than the Company. Some of these competitors have greater financial, marketing and other resources, have been operating longer than the Company and have established long-term and continuing business relationships through the industry, which can be a significant competitive advantage. In addition to competition in the operation of its business, the Company faces competition from a variety of sources in attracting and retaining qualified employees. The Company cannot assure that it will maintain its current competitive position in the markets in which it operates, or that it will be able to expand its operations into new markets and compete effectively in the future. If the Company fails to do so, its business could be materially adversely affected.

If the Company Fails to Comply with Extensive State and Federal Regulations, It Will Be Subject to Penalties, Which May Include Fines and Suspension and Which May Adversely Affect Its Results of Operations and Financial Condition.

The Company is subject to extensive governmental regulation and supervision. Most insurance regulations are designed to protect the interests of policyholders rather than stockholders and other investors. This regulation, generally administered by a department of insurance in each state in which it does business, relates to, among other things:

- Approval of policy forms and premium rates;
- Standards of solvency, including risk-based capital measurements, which are a measure developed by the National Association of Insurance Commissioners and used by state insurance regulators to identify insurance companies that potentially are inadequately capitalized;
- Licensing of insurers and their agents;
- Restrictions on the nature, quality and concentration of investments;
- Restrictions on the ability of Independence American to pay dividends to the Company;
- Restrictions on transactions between insurance companies and their affiliates;
- Restrictions on the size of risks insurable under a single policy;
- Requiring deposits for the benefit of policyholders;
- Requiring certain methods of accounting;
- Prescribing the form and content of records of financial condition required to be filed; and
- Requiring reserves for unearned premium, losses and other purposes.

State insurance departments also conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to the financial condition of insurance companies, holding company issues and other matters.

The Company's business depends on compliance with applicable laws and regulations and its ability to maintain valid licenses and approvals for its operations. Regulatory authorities have broad discretion to grant, renew, or revoke licenses and approvals. Regulatory authorities may deny or revoke licenses for various reasons, including the violation of regulations. In some instances, the Company follows practices based on its interpretations of regulations, or those that it believes to be generally followed by the industry, which may be different from the requirements or interpretations of regulatory authorities. If the Company does not have the requisite licenses and approvals and does not comply with applicable regulatory requirements, the insurance regulatory authorities could preclude or temporarily suspend it from carrying on some or all of its activities or otherwise penalize it. That type of action could have a material adverse effect on its business. Also, changes in the level of regulation of the insurance industry (whether federal, state or foreign), or changes in laws or regulations themselves or interpretations by regulatory authorities, could have a material adverse effect on the Company's business.

Decreases in the Fair Market Value of Fixed Maturities May Greatly Reduce the Value of the Company's Investment Portfolio, and as a Result, the Company's Financial Condition May Suffer

At December 31, 2006, fixed maturities represented \$42.7 million or 75% of the Company's total investments of \$57.2 million. The fair market value of fixed maturities and the related investment income fluctuates depending on general economic and market conditions. The fair market value of these investments generally increases or decreases in an inverse relationship with fluctuations in interest rates, while net investment income realized by the Company will generally increase or decrease in line with changes in market interest rates. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations. An investment has prepayment risk when there is a risk that the timing of cash flows that result from the repayment of principal might occur earlier than anticipated because of declining interest rates or later than anticipated because of rising interest rates. The impact of market value fluctuations affects the Company's Consolidated Financial Statements. Because all of the Company's fixed maturities are classified as available for sale, changes in the fair market value of the Company's securities are reflected in the Company's stockholders' equity (accumulated other comprehensive income or loss). No similar adjustment is made for liabilities to reflect a change in interest rates. Therefore, interest rate fluctuations and economic conditions could adversely affect the Company's stockholders' equity, total comprehensive income and/or cash flows.

IHC Will Exercise Significant Influence Over the Company's Business and Affairs, Which May Result in Potential Conflicts of Interest Between IHC and the Company; Reliance on IHC's Expertise

The Company's operations are being directed by IHC management and employees, which may result in potential conflicts of interest between IHC and the Company. For example, a conflict may arise if IHC were to engage in activities or pursue corporation opportunities that overlap with the Company's business. Because IHC's management will also constitute the Company's management, these individuals will have fiduciary duties to both companies, which could result in conflicts of interest, including the Company foregoing opportunities or taking actions that disproportionately benefit IHC. IHC will also have at least two representatives on the Company's board of directors who will have similar conflicts of interest. In addition, the Company is relying upon the management and expertise of officers of IHC who also serve as officers of the Company.

The Occurrence of Various Events May Adversely Affect the Company's Ability to Utilize Fully Its Tax Net Operating Loss Carryforwards.

The Company has U.S. federal tax net operating loss carryforwards of approximately \$276 million, which may be used against any profits from the Company's business. However, events outside of the control of the Company or IHC, such as certain acquisitions and dispositions of the Company's common stock, may limit the use of all or a portion of the Company's tax net operating loss carryforwards. If such events were to occur, the Company's

expectation of using its tax net operating loss carryforwards against potential profits would not be realized and the Company could potentially have a higher tax liability in the future than it would otherwise have had.

Certain Proposed Federal and State Legislation May, if Adopted, Adversely Affect the Company's Business

In the continuing debate over health-care reform, certain federal and state legislation has been proposed that could have the effect of fundamentally altering the dynamics of the industry in which the Company competes, including imposing mandatory universal health-care coverage, or otherwise resulting in a much larger role for government in the provision of health care. We cannot predict which, if any, of such broad-based proposals will be enacted into law and what the effect would be (either positive or negative) on the Company's business and results of operations.

Additionally, less-fundamental change in the regulatory requirements imposed on the Company may harm its business or results of operations. For example, some states have imposed new time limits for the payment of uncontested covered claims and required health-care and dental service plans to pay interest on uncontested claims not paid promptly within the required time period. Some states have also granted their insurance regulatory agencies additional authority to impose monetary penalties and other sanctions on health and dental plans engaging in certain unfair payment practices. If the Company were unable, for any reason, to comply with these requirements, it could result in substantial costs to the Company and could materially adversely affect its results of operations and financial condition.

Certain Business Arrangements are Terminable by Other Parties

Commencing in July 2004, Independence American began reinsuring 20% of Standard Security Life's short-term statutory disability benefit product. Standard Security Life is not contractually obligated to continue to cede this business to Independence American after termination of the current treaty year. In 2005, Standard Security Life and Madison National Life began ceding 10% of the majority of IHC's fully insured business to Independence American. Standard Security Life and Madison National Life are not contractually obligated to continue to cede this business to Independence American after termination of the current treaty years. Standard Security Life and Madison National Life ceded 22.2% on average to Independence American in 2006, amounts in excess of 15% are not contractually obligated. However, the AMIC MGUs are the largest producers of medical stop-loss business for IHC, controlling a majority of this premium in 2006.

Item 1B. *Unresolved Staff Comments*

None

Item 2. *Properties*

IndependenceCare leases 6,900 square feet of office space in Minneapolis, Minnesota, which expires on May 31, 2008; 1,200 square feet in Franklin, Tennessee, which expires on June 30, 2007; and 3,100 square feet in Austin, Texas, which expires on September 30, 2008. The Tennessee lease will not be renewed and the Company is attempting to transfer the obligations under its Texas lease to a third party. RAS leases 4,200 square feet of office space in South Windsor, Connecticut, which expires on February 1, 2009. Marlton leases 6,000 square feet of office space in Voorhees, New Jersey, which expires on January 31, 2009.

Item 3. *Legal Proceedings*

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

Item 4. *Submission of Matters to a Vote of Security Holders*

There were no matters submitted to a vote of security holders during the fourth quarter of 2006.

PART II

Item 5. *Market for the Registrant's Common Equity, Related Stockholder Matters And Issuer Purchases of Equity Securities*

Market Information

Since November 15, 2002, American Independence Corp. ("AMIC or the "Company") common stock has been listed and traded on the Nasdaq National Market ("Nasdaq") under the symbol "AMIC". From April 14, 1999 through November 14, 2002, the Company's common stock was traded and listed on Nasdaq under the symbol "SOFN". The following table sets forth the per share range of high and low sale prices for the Company's common stock, as reported on Nasdaq, for each quarter of 2006 and 2005:

	<u>High</u>	<u>Low</u>
Quarter Ended:		
December 31, 2006	\$11.49	\$ 9.78
September 30, 2006	\$12.28	\$10.36
June 30, 2006	\$12.45	\$10.55
March 31, 2006	\$13.00	\$10.95
	<u>High</u>	<u>Low</u>
Quarter Ended:		
December 31, 2005	\$12.66	\$10.75
September 30, 2005	\$13.40	\$12.35
June 30, 2005	\$13.85	\$12.04
March 31, 2005	\$14.90	\$13.05

Holders of Record

At January 19, 2007, there were 78 record holders of the Company's common stock. The closing price for the Company's common stock at December 31, 2006 was \$10.41.

AMIC's ability to utilize its Federal Net Operating Loss Carryforwards ("NOLs") 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 carryforwards of net operating losses and certain federal income tax credits. The Certificate of Incorporation generally restricts any person from attempting to sell, transfer or dispose, or purchase or acquire any AMIC stock, if such transfer would affect the percentage of AMIC stock owned by a 5% stockholder. Any person attempting such a transfer will be required, prior to the date of any proposed transfer, to request in writing that the board of directors review the proposed transfer and authorize or not authorize such proposed transfer. Any attempted transfer made in violation of the stock transfer restrictions will be null and void. In the event of an attempted or purported transfer involving a sale or disposition of capital stock in violation of stock transfer restrictions, the transferor shall 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.

Dividends

The Company does not have any legal restriction on paying dividends, and no dividend on the Company's stock was declared during 2006.

Securities Authorized for Issuance Under Equity Compensation Plans

The information under the heading "Equity Compensation Plan Information" in the Company's definitive proxy statement for the 2007 annual meeting of stockholders is incorporated herein by reference.

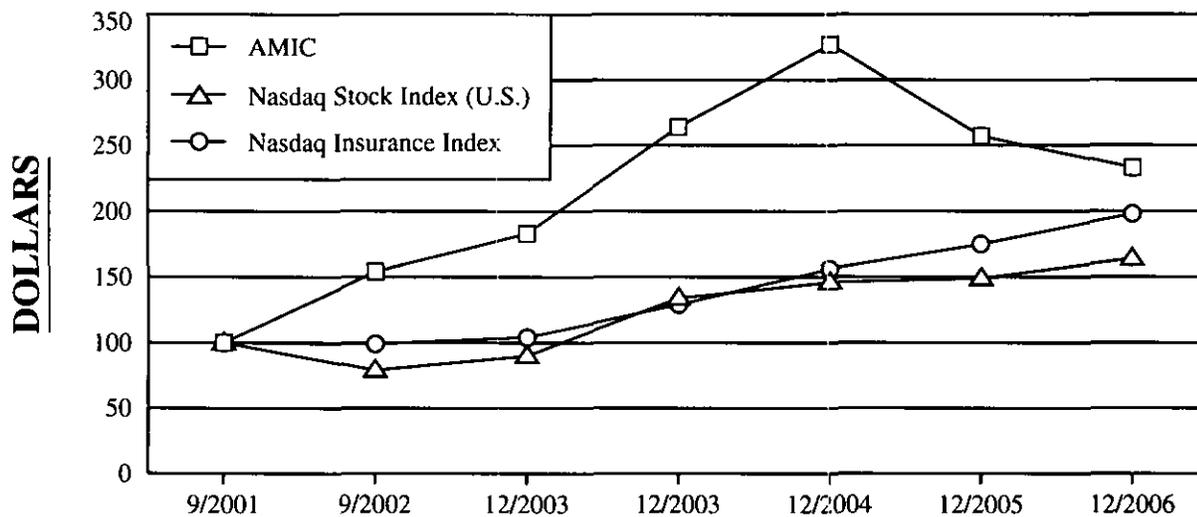
Issuer Purchases of Equity Securities

The Company did not repurchase any of its outstanding equity securities during the quarter ended December 31, 2006.

Performance Graph

Set forth below is a line graph comparing the five year cumulative total return of the Common Stock with that of the Nasdaq Stock Market (US) Index and the Nasdaq Stock Market Insurance Index. The graph assumes that dividends were reinvested and is based on a \$100 investment on September 30, 2001. Indices data was obtained from the Center for Research in Security Price (CRSP). The performance graph represents past performance and should not be considered to be an indication of future performance.

**Comparison of Five Year Cumulative Total Return
Among AMIC, Nasdaq Stock Market (US) Index and Nasdaq Insurance Index**



	9/2001	9/2002	12/2002	12/2003	12/2004	12/2005	12/2006
AMIC	\$100.00	\$154.00	\$183.00	\$264.00	\$327.00	\$257.00	\$233.00
Nasdaq Stock Index (U.S.)	\$100.00	\$ 79.00	\$ 90.00	\$134.00	\$146.00	\$149.00	\$164.00
Nasdaq Insurance Index	\$100.00	\$ 99.00	\$104.00	\$129.00	\$156.00	\$175.00	\$198.00

The Company's website is www.americanindependencecorp.com.

Item 6. Selected Financial Data

The following is a summary of selected consolidated financial data of the Company for each of the last five years. The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and related notes thereto and "Management's Discussions and Analysis of Financial Condition and Results of Operations" included elsewhere in this annual report on Form 10-K. (In thousands, except per share data)

	Year Ended December 31,				Quarter Ended	Year Ended
	2006	2005	2004	2003	December 31,	September 30,
					2002(a)	2002
Income Data:						
Total revenues	\$ 81,485	\$ 83,130	\$ 80,378	\$ 55,553	\$ 2,688	\$ 1,730
Net income (loss) applicable to common shares from continuing operations	\$ 1,508	\$ 5,519	\$ 5,664	\$ 12,561	\$ (5,557)	\$ (8,830)
Balance Sheet Data:						
Total investments	\$ 57,215	\$ 48,481	\$ 44,469	\$ 38,258	\$ 37,010	\$ 40,910
Total assets	134,760	129,732	124,395	112,868	83,489	70,814
Insurance liabilities	40,150	37,178	38,042	33,623	16,114	—
Long-term debt	—	—	—	—	—	—
Stockholders' equity	83,084	81,470	76,467	70,128	57,267	53,665
Per Share Data:						
Basic income (loss) per common share from continuing operations	\$.18	\$.65	\$.67	\$ 1.50	\$ (.66)	\$ (1.05)
Diluted income (loss) per common share from continuing operations	\$.18	\$.65	\$.66	\$ 1.49	\$ (.66)	\$ (1.05)
Book value per common share	\$ 9.82	\$ 9.64	\$ 9.06	\$ 8.33	\$ 6.82	\$ 7.58

Notes:

Excludes all Internet service segments which are discontinued operations.

All per share data has been restated to show the effect of the Company's one for three reverse split on February 13, 2003.

(a) In the fourth quarter of 2002, the Company changed its fiscal year end from September 30 to December 31; accordingly, results have been separately disclosed for the three — month transition period ended December 31, 2002.

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Certain statements and materials contained in this report, such as statements relating to management's views with respect to future events and financial performance, may be considered "forward-looking statement.". Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from historical experience or from future results expressed or implied by such forward-looking

statements. For a discussion of risk factors affecting the Company's business and prospects, see Item 1A *Risk Factors*.

Overview

The following is a summary of the results of operations for the Company (in thousands):

	Year Ended December 31,		
	2006	2005	2004
Revenues	\$81,485	\$83,130	\$80,378
Expenses	79,017	77,491	71,145
Income from continuing operations, before income tax	2,468	5,639	9,233
Provision (benefit) for income taxes	960	120	3,569
Gain (loss) on disposition of discontinued operations, net of tax . . .	(54)	(59)	240
Net income	<u>\$ 1,454</u>	<u>\$ 5,460</u>	<u>\$ 5,904</u>

The Company is an insurance holding company engaged in the insurance and reinsurance business through its wholly owned insurance company, Independence American Insurance Company ("Independence American") and its managing general underwriter subsidiaries (the "MGUs") that currently specialize in medical stop-loss insurance. Since November 2002, AMIC has been affiliated with Independence Holding Company ("IHC"), which currently owns 48% of AMIC's stock, and IHC's senior management has provided direction to the Company through service agreements between the Company and IHC. Independence American's primary source of revenue is reinsurance premiums. The majority of these premiums are ceded to Independence American from IHC under long-term reinsurance treaties to cede its gross medical stop-loss premiums written to Independence American. In addition, Independence American assumes fully insured health and short-term statutory disability benefit product in New York State ("DBL") premiums from IHC, and assumes medical stop-loss premiums from unaffiliated carriers. Independence American began writing medical stop-loss business in 2006 and will expand this line of business and begin writing two fully insured health products in 2007.

While management considers a wide range of factors in its strategic planning, the overriding consideration is underwriting profitability. Management's assessment of trends in healthcare and in the medical stop-loss market play a significant role in determining whether to expand Independence American's reinsurance participation percentage or the number of programs it reinsures. Since Independence American reinsures a portion of all of the business produced by the MGUs, and since the MGUs are also eligible to earn profit sharing commissions based on the profitability of the business they write, the MGUs also emphasize underwriting profitability. In addition, management focuses on controlling operating costs. By sharing employees with IHC and sharing resources among the MGUs and Independence American, AMIC strives to maximize its earnings.

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

Independence American Insurance Company

- 2006 was negatively impacted by higher than expected claims from certain of Independence American's medical stop-loss programs. The Company recorded an overall Net Loss Ratio for medical stop-loss of 100.5%, 97.1% and 91.3% in 2006, 2005 and 2004, respectively. The Net Loss Ratio ("Net Loss Ratio") is defined as insurance benefits, claims and reserves, divided by (premiums earned less underwriting expenses). Based on currently available information, business incepting in 2006, of which a material portion will be earned and recorded in 2007, is projected to achieve a net loss ratio that is meaningfully lower than that of business incepting in 2005, just as the net loss ratio on business incepting in 2005 was meaningfully lower than that of business incepting in 2004.
- Premiums increased 3% to \$67.8 million for the year ended December 31, 2006 from \$66.1 million for the year ended 2005.
- Added six additional licenses in 2006, bringing total to 43 states and the District of Columbia.

- Average percentage of gross medical stop-loss premiums written ceded from IHC to Independence American increased to 22.2% during 2006 from 21.9% during 2005.
- Of the Company's investment assets, approximately 94.3% was invested in investment grade fixed income securities, resale agreements, and cash and cash equivalents at December 31, 2006. Also at such date, 99.6% of the Company's fixed maturities had the highest NAIC rating designation (NAIC ratings of 1 and 2 designation).
- In 2006, Independence American began writing medical stop-loss business and will, in 2007, write small group major medical business pursuant to an agreement entered into in 2006 (see Note 5 of Notes to Consolidated Financial Statements).
- Agreed with a national, career agent marketing organization to begin marketing, in 2007, health plans to individuals and families utilizing Independence American as the carrier.

MGU Division (IndependenceCare, Marlton, RAS)

- In 2006, the MGUs wrote an aggregate of \$94.3 million of annualized gross premium which generated pre-tax income of \$1.4 million, as compared to \$101.3 million and \$4.0 million in 2005, respectively. The MGUs wrote less premiums due, in part, to stricter underwriting guidelines and the continuing generally "soft" market.
- In 2006, the MGUs generated revenues of \$10.8 million, as compared to \$14.4 million in 2005, a decrease of 25%, due to lower volume of premium underwritten and lower profit commissions.

CRITICAL ACCOUNTING POLICIES

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

Insurance Reserves

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

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

Management believes that the Company's methods of estimating the liabilities for insurance reserves provided appropriate levels of reserves at December 31, 2006. Changes in the Company's reserve estimates are recorded through a charge or credit to its earnings.

Medical Stop-Loss

The Company's medical stop-loss business is comprised of employer stop-loss, HMO Reinsurance and Provider Excess. All of the Company's medical stop-loss policies are short-duration and are accounted for based on

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

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 pricing assumptions ("Projected Net Loss Ratio"). Claim development patterns are set quarterly as reserve estimates are developed and are based on recent claim development history ("Claim Development Patterns"). The Company uses the Projected Net Loss Ratio to establish reserves until developing losses provide a better indication of ultimate results and it is feasible to set reserves based on Claim Development Patterns. The Company has concluded that a reasonably likely change in the Projected Net Loss Ratio assumption could have a material effect on the Company's financial condition, results of operations, or liquidity ("Material Effect") but a reasonably likely change in the Claim Development Pattern would not have a Material Effect.

Projected Net Loss Ratio

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

While the Company establishes a best estimate of the Projected Net Loss Ratio, actual experience may deviate from this estimate. While the Company believes that larger variations are possible (as was the case with the 2004 and 2005 underwriting years which deviated by 12.5 and 7.1 Net Loss Ratio points, respectively), based on a review of historical Net Loss Ratios experienced by the Company, the reasonably likely deviation from the expected Net Loss Ratio is between three and five Net Loss Ratio points. Therefore, based on its experience to date, it is reasonably likely that the actual experience will fall within a range up to five loss ratio points above or below the expected pricing loss ratio. The impact of these reasonably likely changes at December 31, 2006, would be an increase in net reserves (in the case of a higher ratio) or a decrease in net reserves (in the case of a lower ratio) of up to approximately \$1.2 million with a corresponding increase or decrease in the pre-tax expense for insurance benefits, claims and reserves in the 2006 Consolidated Statement of Operations.

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

Claim Development Patterns

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

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

Predicting ultimate claims and estimating reserves in medical stop-loss is more complex than 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. Liabilities for first dollar medical reserves and disability coverages are computed using completion factors and expected loss ratios derived from actual historical premium and claim data.

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

Fully Insured

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

The primary assumption in the determination of fully insured 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. The reserving analysis includes a review of claim processing statistical measures and large claim early notifications; the potential impact of any changes in these factors are minimal. The time delay in submission of claims tends to be stable over time and not subject to significant volatility. The Company does not believe that any reasonably likely change in these factors will have a Material Effect.

Premium and MGU Fee Income Revenue Recognition

Direct and assumed premiums from short-duration contracts are recognized as revenue over the period of the contracts in proportion to the amount of insurance protection provided. The Company records MGU fee income as policy premium payments are earned. 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 the Company believes they are reasonably estimable, which is typically at the point that claims have developed to a level where Claim Development Patterns can be applied to generate reasonably reliable estimates of ultimate claim levels.

Reinsurance

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, Madison National Life and Independence American 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, 2006 and 2005, Standard Security Life and Madison National Life ceded an average of 22.2% and

21.9%, respectively, of their medical stop-loss business to Independence American. Commencing in July 2004, Independence American began reinsuring 20% of Standard Security Life's short-term statutory disability benefit product ("DBL") business. In 2005, Standard Security Life and Madison National Life began ceding 10% of the majority of its fully insured business to Independence American.

IHC provides the Company with pro rata quota share reinsurance on business written by Independence American. This business accounted for approximately 2% of the Company's total earned premiums at December 31, 2006. Commencing in January 2004, Independence American began ceding 30% of its provider excess insurance to Madison National Life. In January 2005, Independence American increased the amount ceded to Madison National Life to 55%. This treaty was entered into on January 1, 2004 and will remain in force for an indefinite period, unless terminated by either party as of any December 31. The Company is not aware of any regulatory or other restrictions on the ability of IHC to fund its obligations under agreements in which IHC reinsures such provider excess business. Any such restrictions would at this point have a minimal impact on the Company. In addition, in 2006 Independence American ceded 50% of its STM business to unrelated reinsurers.

Income Taxes

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

The Company has net operating loss carryforwards for federal income tax purposes available to reduce future income subject to income taxes. The net operating loss carryforwards expire between 2019 and 2025.

U.S. Federal and California tax laws impose substantial restrictions on the utilization of net operating loss and credit carryforwards in the event of an "ownership change" for tax purposes, as defined in Section 382 of the Internal Revenue Code. For tax purposes, an ownership change occurred during 1999 and, as a result, utilization of the net operating losses arising prior to 1999 will be subject to an annual limitation in future years.

Investments

The Company accounts for its investments in debt and equity securities under SFAS No. 115 ("SFAS 115"), Accounting for Certain Investments in Debt and Equity Securities. The Company has classified all of its investments as available-for-sale or trading securities. These investments are carried at fair value based on quoted market prices with unrealized gains and losses reported in either accumulated other comprehensive income (loss) in the Consolidated Balance Sheets for available-for-sale securities or as unrealized gains or losses in the Consolidated Statements of Operations for trading securities. The Company also had \$4.0 million and \$3.6 million, on average, in trading accounts at December 31, 2006 and 2005, respectively. All such trading securities were liquidated at December 31, 2006 and 2005. Net realized gains and losses on investments are computed using the specific identification method and are reported in the Consolidated Statements of Operations.

Declines in value of securities available — for-sale that are judged to be other-than-temporary are determined based on the specific identification method and are reported in the Consolidated Statements of Operations as net realized losses. The factors considered by management in determining when a decline is other than temporary include but are not limited to: the length of time and extent to which the fair value has been less than cost; the financial condition and near-term prospects of the issuer; adverse changes in ratings announced by one or more rating agencies; whether the issuer of a debt security has remained current on principal and interest payments; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions (including, in the case of fixed maturities, the effect of changes in market interest rates); and the Company's intent and ability to hold the security for a period of time sufficient to allow for a recovery in fair value. For securities within the scope of Emerging Issues Task Force Issue 99-20, such as purchased interest-only

securities, an impairment loss is recognized when there has been a decrease in expected cash flows combined with a decline in the security's fair value below cost.

Goodwill and Other Intangibles

Goodwill and intangible assets with indefinite lives, which consist of licenses, are not amortized but are tested for impairment, on a reporting unit basis, at the end of the third quarter of each fiscal year, or more frequently if indicators arise. The Company defines its reporting units on a segment basis.

The Company's other intangible assets consisting of broker/third party relationships are amortized over five years.

Discontinued Operations

The Company accrued estimates of expected liabilities related to discontinued operations through its eventual discharge. The estimated remaining liabilities related to discontinued operations include contract terminations, litigation and loss from operations subsequent to September 30, 2002. The Company reviews the estimated closure costs liability on a quarterly basis to determine changes in the costs of the discontinued operations activities. The cash flows used in discontinued operations are presented separately in the operating activities section of the statement of cash flows; there were no cash flows associated with investing and financing activities for the years presented for discontinued operations.

RESULTS OF OPERATIONS

Results of Operations for the Fiscal Year Ended December 31, 2006, Compared to the Fiscal Year Ended December 31, 2005

Premiums Earned

Premiums earned increased \$1,659,000 (3% increase) to \$67,777,000 for fiscal 2006, compared to \$66,118,000 for fiscal 2005. The Company currently reinsures three lines of business from IHC. Premiums relating to medical stop-loss business were \$56,179,000 and \$57,732,000 for fiscal 2006 and fiscal 2005, respectively. The decline is due to a decrease in gross medical stop-loss premiums written by IHC as a result of stricter underwriting guidelines. Premiums relating to DBL were \$3,913,000 and \$4,187,000 for fiscal 2006 and fiscal 2005, respectively. The decline is due to a decrease in DBL premiums produced by IHC as a result of a reduction in premium rates. Premiums relating to group major medical and STM were \$7,685,000 and \$4,199,000 for fiscal 2006 and fiscal 2005, respectively. Independence American began reinsuring 10% of IHC's group medical business effective January 1, 2005 and 10% of IHC's STM in the second half of 2005. The increase is due to an increase in production of these lines at IHC and the lack of STM premiums in the first half of fiscal 2005.

MGU Fee Income

MGU fee income decreased \$3,800,000 to \$10,356,000 for fiscal 2006, compared to \$14,156,000 for fiscal 2005. MGU fee income-administration decreased \$2,046,000 to \$10,238,000 for fiscal 2006, compared to \$12,284,000 for fiscal 2005, as the MGUs have decreased their volume of business as a result of stricter underwriting guidelines. MGU fee income-profit commission decreased \$1,754,000 to \$118,000 for fiscal 2006, compared to \$1,872,000 for fiscal 2005. Profit commissions for a given year are based primarily on the performance of business written during portions of the three preceding years. Therefore, profit commissions for 2006 are based on business written during portions of 2003, 2004 and 2005. Since certain of the MGUs experienced higher loss ratios on those years, profit commissions for 2007 and future fiscal years will continue to be adversely affected.

Net Investment Income

Net investment income increased \$766,000 to \$3,267,000 for fiscal 2006, compared to \$2,501,000 for fiscal 2005 due to higher yields and an increase in invested assets. The return on investments of the Company was 5.4% for fiscal 2006 and 4.76% for the comparable period in 2005.

Net Realized Investment Gains

Net realized investment gains decreased \$179,000 to \$66,000 for fiscal 2006, compared to \$245,000 for fiscal 2005. The Company's decision as to whether to sell securities is based on management's ongoing evaluation of investment opportunities and economic market conditions, thus creating fluctuations in realized gains or losses from period to period. Included in fiscal 2006 is an unrealized loss of \$96,000 representing an increase in the value of the derivative liability relating to the agreement with EDH (see Note 5 of Notes to Consolidated Financial Statements). For fiscal 2006 and 2005, there were no unrealized losses on securities that the Company deemed to be other than temporary in nature. See Note 6 of Notes to Consolidated Financial Statements for additional information.

Insurance Benefits, Claims and Reserves

Insurance benefits claims and reserves increased \$3,077,000 to \$47,799,000 for fiscal 2006, compared to \$44,722,000 for fiscal 2005, an increase of 7%. The increase is mainly the result of a Net Loss Ratio of 100.5% for fiscal 2006 versus 97.1% for fiscal 2005 on its medical stop-loss business. The increase in the net loss ratio is primarily related to further development of business incepting in 2005 and 2004. In addition, there was an increase in the volume of group major medical and STM premium assumed from IHC. The increase of \$3,077,000 for fiscal 2006 is comprised of a \$1,153,000 increase in medical stop-loss expense, a \$1,881,000 increase in group major medical and STM expense, and an increase of \$43,000 relating to DBL expense. Insurance benefits, claims and reserves for 2006 includes a charge of \$1,969,000 to reflect loss development in its medical stop-loss business from prior years. While management sets reserves based on its best estimate of ultimate claim settlement cost, the Company adjusts reserves as claims mature, approach settlement or are otherwise resolved.

Selling, General and Administrative

Selling, general and administrative expenses decreased \$925,000 to \$30,267,000 for fiscal 2006, compared to \$31,192,000 for fiscal 2005. This decrease is primarily due to lower commission expense of \$780,000 incurred by Independence American resulting from a decrease in profit commissions due to non-owned MGUs resulting from higher loss ratios on certain treaties.

Amortization and Depreciation

Amortization and depreciation expense decreased \$411,000 to \$689,000 for fiscal 2006, compared to \$1,100,000 for fiscal 2005. The expense mainly relates to the amortization of the intangible assets for the value of broker/TPA relationships of the MGUs. These assets were part of the purchase price adjustments for the acquisition of IAHC, Marlton, and IndependenceCare-MidAtlantic. Amortization expense for these intangible assets will decline over the useful lives of the assets.

Minority Interest

The Company recorded \$262,000 for fiscal 2006 and \$544,000 for fiscal 2005 of expense related to the 20% minority interest in Marlton. This reduction is due to lower income earned by Marlton.

Income Taxes

The provision for income taxes increased \$840,000 to \$960,000, an effective rate of 38.9%, for fiscal 2006, compared to \$120,000 an effective rate of 2.1%, for fiscal 2005. Net income for fiscal 2006 and 2005 includes a non-cash provision for federal income taxes of \$778,000 and \$1,785,000 respectively. The effective rate of 38.9% for fiscal 2006 represents a combination of state and federal tax expense. In 2005, the Company further reduced the

valuation allowance by \$2,079,000 relating to the deferred tax asset, which caused a corresponding increase in such deferred tax asset. The valuation allowance relates to the probability that AMIC might not be able to fully utilize its prior tax year federal net operating loss carryforwards ("NOLs"). AMIC reviews the valuation allowance quarterly to determine the reasonableness of the amount, and previously reduced it in connection with the Company's acquisitions in 2002, 2003 and 2004. Based upon AMIC's profitability in 2005 and projected continuing profitable results, it was management's view that it was appropriate to further reduce the valuation allowance in the fourth quarter of 2005 which resulted in an increase in net income and income from continuing operations. There was no such adjustment in 2004 or 2006. For as long as AMIC utilizes its net operating loss carryforwards, it will not pay any income taxes, except for federal alternative minimum taxes and state income taxes.

Gain/Loss on Discontinued Operations

Loss on discontinued operations, net of tax was \$54,000 for fiscal 2006, compared to \$59,000 for fiscal 2005. The loss in both years was primarily the result of the re-estimation of lease costs related to the Company's discontinued Intellicom operation.

Net Income

The Company had net income of \$1,454,000, or \$.17 per share, diluted, for fiscal 2006, compared to \$5,460,000, or \$.64 per share, diluted, for fiscal 2005.

Results of Operations for the Fiscal Year Ended December 31, 2005, Compared to the Fiscal Year Ended December 31, 2004

Premiums Earned

Premiums earned increased \$5,915,000 to \$66,118,000 for fiscal 2005, compared to \$60,203,000 for fiscal 2004, an increase of 10%. The Company currently reinsures three lines of business from Independence Holding Company ("IHC"). Total premiums relating to medical stop-loss were \$57,732,000 and \$57,998,000 for the fiscal years ended December 31, 2005 and 2004, respectively. Premiums relating to DBL were \$4,187,000 and \$2,205,000 for 2005 and 2004, respectively. Independence American began reinsuring 20% of IHC's DBL business effective July 1, 2004. Premiums relating to small group major medical were \$4,199,000 and \$0 for 2005 and 2004, respectively. Independence American began reinsuring 10% of IHC's small group medical business effective January 1, 2005. Independence American generated \$180,000 of STM premiums in 2005, which was the first year in which it wrote such business.

MGU Fee Income

The Company earned \$14,156,000 of fee income from its MGUs for fiscal 2005 as compared to \$11,597,000 for fiscal 2004, a decrease of \$3,441,000. The reduction in fee income is due to lower volume of premiums written and lower profit commissions. Included in fee income is \$1,872,000 and \$2,749,000 of MGU profit commissions in 2005 and 2004, respectively. Profit commissions for a given year are based primarily on the performance of business written during portions of the two preceding years. Therefore, profit commissions for 2006 will be based on business written during portions of 2004 and 2005. Since certain of the MGUs experienced higher loss ratios in those years, profit commissions for the 2006 fiscal year and future years may be adversely affected.

Net Investment Income

Net investment income increased \$210,000 to \$2,501,000 for fiscal 2005, compared to \$2,291,000 for fiscal 2004, due to a higher invested asset base in 2005, partially offset by a slightly lower return on investments. The return on investments of the Company was 4.76% in fiscal 2005 and 5.15% in fiscal 2004.

Net Realized Investment Gains

Net realized investment gains increased \$23,000 to \$245,000 for fiscal 2005, compared to \$222,000 for fiscal 2004. The Company's decision as to whether to sell securities is based on cash flow needs, investment opportunities,

and economic market conditions, thus creating fluctuations in realized gains or losses from period to period. See Note 6 of Notes to Consolidated Financial Statements for additional information.

Insurance Benefits, Claims and Reserves

Insurance benefits, claims and reserves amounted to \$44,722,000 for fiscal 2005 as compared to \$39,173,000 for fiscal 2004, an increase of \$5,549,000 or 14%. The increase is mainly due to additional claims relating to increased earned premium volume from Independence American in 2005. Additionally, 2005 was negatively impacted by higher than expected claims from certain of Independence American's 2004 and 2005 medical stop-loss programs. The Company recorded an overall Net Loss Ratio of 95.1% in 2005 versus 90.9% in 2004. Insurance benefits, claims and reserves for 2005 includes a charge of \$305,000 to reflect loss development from prior treaty years and a corresponding increase in reserves for the current treaty year. While management sets reserves based on its best estimate of ultimate claim settlement cost, the Company adjusts reserves as claims mature, approach settlement or are otherwise resolved.

Selling, General and Administrative

Selling, general, and administrative expenses increased \$1,564,000 to \$31,192,000 for fiscal 2005, compared to \$29,628,000 for fiscal 2004. The increase is primarily due to commission expense recorded by Independence American. Commission expense for Independence American increased \$1,801,000 to \$19,954,000 for fiscal 2005, compared to \$18,153,000 for fiscal 2004.

Amortization and Depreciation

Amortization and depreciation expense decreased \$566,000 to \$1,100,000 for fiscal 2005, compared to \$1,666,000 for fiscal 2004. The expense primarily relates to the amortization of the intangible assets for the value of broker/TPA relationships of the MGUs. These intangible assets were acquired as part of acquisitions made by the Company. Amortization expense for these intangible assets will decline over the useful lives of the assets.

Restructuring Expense

The Company recognized no restructuring expense for fiscal 2005 and no related expense for fiscal 2004. The Company reversed the remaining reserve of \$67,000 related to the restructuring during fiscal 2005. At December 31, 2005 and December 31, 2004, a restructuring accrual of \$0 and \$300,000, respectively, remained outstanding.

Minority Interest

The Company recorded \$544,000 for fiscal 2005 and \$678,000 for fiscal 2004 of expense related to the 20% minority interest in Marlton. This reduction is due to lower income earned by Marlton.

Income Taxes

The income tax expense was \$120,000 for fiscal 2005 as compared to a tax expense of \$3,569,000 for fiscal 2004, a decrease of \$3,449,000. In 2005, the Company further reduced the valuation allowance by \$2,079,000 relating to the deferred tax asset, which caused a corresponding increase in such deferred tax asset. The valuation allowance relates to the probability that AMIC might not be able to fully utilize its prior tax year federal net operating loss carryforwards ("NOLs"). AMIC reviews the valuation allowance quarterly to determine the reasonableness of the amount, and previously reduced it in connection with the Company's acquisitions in 2002, 2003 and 2004. Based upon AMIC's profitability in 2005 and projected continuing profitable results, it was management's view that it was appropriate to further reduce the valuation allowance in the fourth quarter of 2005 which resulted in an increase in net income and income from continuing operations. There was no such adjustment in 2004.

Gain/Loss on Discontinued Operations

Loss on discontinued operations was \$59,000 for fiscal 2005, compared to a gain of \$240,000 for fiscal 2004, a decrease of \$299,000. The loss in 2005 is primarily due to the re-estimation of lease expenses related to Intel icom, a discontinued operation. The gain in 2004 is primarily attributable to lower than expected expenses related to Intellicom, MTC, ISP Channel and KCI.

Net Income

The Company had net income of \$5,460,000, or \$.64 per share diluted, for fiscal 2005, compared to net income of \$5,904,000, or \$.69 per share diluted, for fiscal year 2004.

LIQUIDITY AND CAPITAL RESOURCES

Independence American

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

Independence American maintains a revolving Letter of Credit ("LOC") with a financial institution to support reinsurance obligations of Independence American in the ordinary course of business. The LOC has an outstanding face amount up to \$5,000,000 although Independence American has not drawn upon funds to date. The LOC renews October 15 of each year, unless cancelled by Independence American.

Corporate

Corporate derives cash flow funds principally from: dividends and tax payments from its subsidiaries and investment income from corporate liquidity. There are no regulatory constraints on the MGUs' ability to dividend to the parent company, however, state insurance laws have provisions relating to the ability of the parent company to use cash generated by Independence American. For the twelve months ended December 31, 2006, the MGUs have paid \$4,060,000 in dividends to Corporate.

Cash Flows

As of December 31, 2006, the Company had \$59,155,000 of cash, cash equivalents, and investments net of amounts due to/from brokers compared with \$55,720,000 as of December 31, 2005.

Net cash provided by operating activities of continuing operations for the fiscal year ended December 31, 2006 was \$6,565,000. Net cash flows were the result of insurance revenues and fees from MGUs, partially offset by higher than expected claims and losses.

Net cash used by investing activities of continuing operations for fiscal year ended December 31, 2006 was \$11,546,000. This results from purchases of fixed maturities, equity securities, and short-term investments, net of sales of all such securities. Also, in February 2006, Independence American entered into an agreement to write group major medical and medical stop-loss insurance pursuant to which \$2,500,000 was paid to EDH (see Note 5 of Notes to Consolidated Financial Statements).

Net cash provided by financing activities for the fiscal year ended December 31, 2006 was \$52,000, resulting from the exercise of common stock options.

At December 31, 2006, the Company had \$17,646,000 of restricted cash at the MGUs. The amount at the MGUs is directly offset by corresponding liabilities for Premium and Claim Funds Payable of \$17,646,000. This asset, in part, represents the premium that is remitted by the insureds and is collected by the MGUs on behalf of the insurance carriers they represent. Each month the premium is remitted to the insurance carriers by the MGUs. Until such remittance is made the collected premium is carried as an asset on the balance sheet of each MGU with a corresponding payable to each insurance carrier. In addition to the premium being held at the MGUs, the MGUs are

in possession of cash to pay claims "Claim Funds". The cash is deposited by each insurance carrier into a bank account that the MGUs can access. The cash is used by the MGUs to pay claims on behalf of the insurance carriers they represent. The availability of cash enables the MGUs to reimburse claims in a timely manner.

The Company has \$22.5 million of insurance reserves that it expects to pay out of current assets and cash flows from future business. If necessary, the Company could sell its fixed maturity investments if the timing of claim payments associated with our insurance resources does not coincide with future cash flows.

The Company believes it has sufficient cash to meet its currently anticipated business requirements over the next twelve months including the funding of discontinued operations, working capital requirements, and capital investments. The Company expects continued cash usage for its discontinued operations, which are primarily lease obligations, for the year ending December 31, 2007.

Asset Quality

The nature and quality of insurance company investments must comply with all applicable insurance statutes and regulations which have been promulgated primarily for the protection of policyholders. Of the aggregate carrying value of the Company's investment assets, approximately 94.3% was invested in investment grade fixed income securities, resale agreements, and cash and cash equivalents at December 31, 2006. Also at such date, 99.6% of the Company's fixed maturities were investment grade. These investments carry less default risk and, therefore, lower interest rates than other types of fixed maturity investments. At December 31, 2006, 0.4% of the carrying value of fixed maturities was invested in diversified non-investment grade fixed income securities. Investments in such securities have different risks than investment grade securities, including greater risk of loss upon default, and thinner trading markets. The Company does not have any non-performing fixed maturities.

The composition of the Company's fixed maturities at December 31, 2006, utilizing Standard and Poor's rating categories, was as follows:

<u>Grade</u>	<u>% Invested</u>
AAA	51.8%
AA	8.4%
A	19.8%
BBB	19.6%
BB or lower	<u>0.4%</u>
	<u>100%</u>

Investment Impairments

The Company reviews its investments regularly and monitors its investments continually for impairments. For the years ended December 31, 2006 and 2005, the Company had no realized losses for other than temporary impairments. The Company's gross unrealized losses on fixed maturities totaled \$1,172,000 and \$1,017,000 at December 31, 2006 and 2005 respectively. Substantially all of these securities were investment grade. The unrealized losses have been evaluated in accordance with the Company's policy and were determined to be temporary in nature at December 31, 2006. The Company holds all fixed maturities as available-for-sale and accordingly marks all of its securities to market through accumulated other comprehensive income (loss).

Balance Sheet

Total investments increased \$8,734,000 to \$57,215,000 at December 31, 2006 from \$48,481,000 at December 31, 2005, due to net income. The \$1,614,000 increase in total stockholders' equity is primarily due to net income of \$1,454,000 generated during fiscal 2006.

The Company had receivables from reinsurers of \$12,249,000 at December 31, 2006. Substantially all of the business ceded to such reinsurers is of short duration. All of such receivables are either due from related parties,

highly rated companies or are adequately secured. No allowance for doubtful accounts was deemed necessary at December 31, 2006.

CAPITAL RESOURCES

Due to its strong capital ratio and excellent asset quality and credit-worthiness, the Company remains well positioned to increase or diversify its current activities. It is anticipated that future acquisitions or other expansion of operations will be funded internally from existing capital and surplus and parent company liquidity. In the event additional funds are required, it is expected that they would be borrowed or raised in the public or private capital markets to the extent determined to be necessary or desirable.

In accordance with SFAS No. 115, the Company may carry its portfolio of fixed income securities either as held to maturity (carried at amortized cost), as trading securities (carried at fair value) or as available-for-sale (carried at fair value). The Company has chosen to carry its debt securities as available-for-sale. The Company experienced a change in net unrealized loss of \$127,000 reflecting a net unrealized loss of \$1,191,300 at December 31, 2006 from a net unrealized loss of \$1,064,000 at December 31, 2005. From time to time, as warranted, the Company employs investment strategies to mitigate interest rate and other market exposures.

The Company enters into a variety of contractual obligations with third-parties in the ordinary course of its operations. These obligations, as of December 31, 2006, are set forth in the table below. However, we do not believe that our cash flow requirements can be fully assessed based upon an analysis of these obligations. Future cash outflows, whether they are contractual obligations or not, also will vary based upon our future needs. Although some outflows are fixed, others depend on future events. The Company has expected contractual obligations relating to non-cancelable leases and insurance reserves of the following at December 31, 2006 (in thousands):

<u>Year Ending December 31,</u>	<u>Operating Lease</u>	<u>Insurance Reserves</u>
2007	\$ 554	\$22,504
2008	516	—
2009	324	—
2010	220	—
2011	116	—
2012 and thereafter	<u>119</u>	<u>—</u>
Total	<u>\$1,849</u>	<u>\$22,504</u>

Under certain circumstances set forth in the Limited Liability Company Agreements of Marlton and Majestic, the Company has the right and/or obligation to purchase some or all of the minority interests in Marlton and Majestic.

OUTLOOK

Independence American

Independence American, which is domiciled in Delaware, is licensed to write property and/or casualty insurance in 43 states and the District of Columbia, and has a B++ (Good) rating from A.M. Best Company, Inc. ("A.M. Best"). An A.M. Best rating is assigned after an extensive quantitative and qualitative evaluation of a company's financial condition and operating performance, and is also based upon factors relevant to policyholders, agents, and intermediaries, and is not directed towards protection of investors. A.M. Best ratings are not recommendations to buy, sell or hold securities of the Company.

Independence American is primarily a reinsurer, and currently derives most of its business from pro rata quota share medical stop-loss reinsurance treaties (the "IHC Treaties") with Standard Security Life and Madison National Life, which are wholly owned subsidiaries of Independence Holding Company ("IHC"). IHC owns 1.8% of the Company's common stock. The IHC Treaties were entered into in 2002 and terminate on December 31, 2014,

unless terminated sooner by Independence American. There are three factors that determine the amount of premiums assumed by Independence American: (i) the percentage of business ceded to Independence American pursuant to the IHC Treaties or otherwise; (ii) the amount of gross premium produced by the MGU Subsidiaries and other distribution sources written by Standard Security Life or Madison National Life that is ceded to Independence American under the IHC Treaties; and (iii) the amount of gross premium produced by the MGU Subsidiaries and other distribution sources written by carriers other than Standard Security Life or Madison National Life that is ceded to Independence American.

IHC Treaties

With respect to the IHC Treaties, the Company's operating results are affected by the following factors: (i) the percentage of business ceded to Independence American pursuant to the IHC Treaties; (ii) the amount of gross premium written by Standard Security Life and Madison National Life that can be ceded pursuant to the IHC Treaties; and (iii) the profitability of the business ceded.

Percentage of Business Ceded

With respect to medical stop-loss, IHC has agreed to cede a minimum of 15% of its medical stop-loss business to Independence American, and IHC has increased this percentage each year since inception of the IHC Treaties. Standard Security Life, Madison National Life and Independence American have received regulatory approval for Standard Security Life and Madison National Life to cede up to 30% to Independence American under most of IHC's medical stop-loss programs. For the twelve months ended December 31, 2006 and December 30, 2005, Standard Security Life and Madison National Life ceded an average of 22.2% and 21.9%, respectively, of their gross medical stop-loss premiums written to Independence American. This increase in ceding percentage was offset by a decrease in gross medical stop-loss premiums written by IHC (including business written by the MGU Subsidiaries and otherwise) resulting in a small decrease in premiums earned by Independence American. In 2006 and beyond, any increase in the percentage of medical stop-loss ceded to Independence American will depend on how much IHC determines it has available to reinsure and Independence American's desire to increase the percentage. Since the percentage being ceded is now well in excess of the contractual minimum, there is no guaranty that IHC will continue to increase the percentage of business ceded to Independence American or, in fact, cede in excess of 15%. However, the AMIC MGUs are the largest producers of medical stop-loss business for IHC, controlling a majority of this premium in 2006.

Commencing in July 2004, Independence American began reinsuring 20% of Standard Security Life's short-term statutory disability benefit product ("DBL"). Standard Security Life is not contractually obligated to continue to cede this business to Independence American after termination of the current treaty year. In 2005, Standard Security Life and Madison National Life began ceding 10% of the majority of its fully insured business to Independence American. Standard Security Life and Madison National Life are not contractually obligated to continue to cede this business to Independence American after termination of the current treaty years. The Company does not expect the percentage ceded to it from IHC will change significantly in the next twelve months.

Upon renewal of each of the programs underlying the IHC Treaties, Standard Security Life and Madison National Life determine the maximum percentage of risk to be offered to Independence American and Independence American determines the percentage that it wishes to accept. A typical pro rata quota share reinsurance treaty is for a twelve month period in which the ceding company and the reinsurer share the premiums as well as the losses and expenses in an agreed proportion for all policies written with an effective date within this period. Most treaties run from January 1 to December 31, but others could begin and end in other periods. Therefore the percentage ceded could change as the year progresses. If Independence American, Standard Security Life, and Madison National Life had agreed to increase the average percentage ceded to Independence American by 1% (from the 22.2% ceded for the twelve months ended December 31, 2006) and Standard Security Life's and Madison National Life's gross written premium had remained unchanged, Independence American's premium would have increased by approximately \$2.1 million, which is approximately 3.1% of total net premiums earned for the year ended December 31, 2006. That increase in premium, however, would not have flowed directly to pre-tax operating income because of corresponding changes in insurance benefits, claims and reserves and other expenses attributable to the increase in premiums.

Amount of Gross Premiums Written

The gross medical stop-loss premiums written by IHC decreased in 2006 by 4.6% and such premiums produced by the AMIC MGUs decreased by 3.5% in 2006, as a result of writing and/or renewing fewer policies due to competitors' willingness to write business at profit margins lower than those acceptable to the Company, partially offset by increased rates on the policies retained. This resulted in a decrease in the gross amount of premium available to be ceded to Independence American. The AMIC MGUs do not anticipate materially increasing their production of medical stop-loss business in 2007. IHC has reported that it expects its gross DBL premiums to be relatively stable in 2006, however, it expects meaningful growth in its STM and CDHP premiums in 2007.

Profitability

The medical stop-loss market is generally cyclical in nature. When a product experiences several consecutive years of underwriting profitability, it is not unusual for there to be more competitors entering that line which can increase pressure on pricing and create a "softer" market. The medical stop-loss market began to "soften" in 2003 and less favorable conditions continued through 2004, 2005 and 2006. As a result of these market conditions, the rate that the carriers that cede business to the Company were able to charge for medical stop-loss increased at a lesser rate in recent years, however, increases in medical trend have also been held in check to a greater extent and deductibles and attachment points have increased. This reduces the risk taker's overall risk exposure. Despite these market conditions, the Company produced significantly profitable results in 2003 and 2004, marginally profitable results in 2005 and 2006, and expects improved profitability in 2007. Based on currently available information, business incepting in 2006, of which a material portion will be earned and recorded in 2007, is projected to achieve a net loss ratio that is meaningfully lower than that of business incepting in 2005, just as the net loss ratio on business incepting in 2005 was meaningfully lower than that of business incepting in 2004. Fully insured business, including the STM and CDHP lines, tends to be less volatile and less cyclical than excess insurance.

Therefore, the impact on the Company's operating results relating to the IHC Treaties can be summarized as follows: (i) assuming continuing profitability of the underlying business, the Company's results would be positively impacted if IHC were to cede a higher percentage and adversely affected if IHC were to cede less; (ii) Independence American's income would be negatively impacted if IHC's gross premium written were to decrease, and (iii) Independence American's income in future years would be positively affected if IHC were to produce higher profit margins, and negatively impacted if loss ratios increase.

Marketing Agreements

In February 2006, Independence American entered into an agreement with a marketing organization with a growing block of fully insured health business, including CDHPs, primarily sold to small employer groups, and medical stop-loss, to begin writing for Independence American. The organization that produces this business began writing employer medical stop-loss through Independence American in 2006, and will move the majority of its existing block of fully insured and stop-loss health insurance (currently approximately \$29 million) to Independence American during 2007. This block, which is expected to have meaningful growth, has averaged 8% risk profit over the past five years, although there is no guaranty that such results will be maintained. Independence American will be the exclusive issuing carrier for business underwritten by this organization through December 31, 2011. Subject to certain conditions, the agreement will automatically extend until December 31, 2016, and this organization could be entitled to additional cash consideration (see Note 5 of Notes to Consolidated Financial Statements).

In addition, the Company has entered into an agreement with a national, career agent marketing organization to begin marketing health plans to individuals and families utilizing Independence American as the carrier. The agency projects that it will have \$10 million of annualized premiums (\$6 million on an earned basis) on Independence American paper as of December 31, 2007. Independence American initially anticipates retaining 50% of the risk on this business. The program will be administered by Insurers Administrative Corporation, a wholly owned subsidiary of IHC. These amounts are less than what was initially disclosed due to a later than anticipated launch date as a result of product design changes and filing requirements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Risk Management

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

The following summarizes the estimated pre-tax change in fair value (based upon hypothetical parallel shifts in the U.S. Treasury yield curve) of the fixed income portfolio assuming immediate changes in interest rates at specified levels at December 31, 2006:

<u>Change in Interest Rates</u>	<u>Estimated Fair Value</u>	<u>Estimated Change In Fair Value</u>
	(In thousands)	
200 basis point rise	\$38,314	\$(4,386)
100 basis point rise	40,503	(2,197)
Base scenario	42,700	—
100 basis point decline	44,831	2,131
200 basis point decline	46,960	4,260

The Company monitors its investment portfolio on a continuous basis and believes that the liquidity of the Company will not be adversely affected by its current investments.

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

Item 8. *Financial Statements and Supplementary Data*

AMERICAN INDEPENDENCE CORP. AND SUBSIDIARIES

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Report of Management on Internal Control Over Financial Reporting

The Board of Directors and Stockholders
American Independence Corp.

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

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

Management assessed the effectiveness of AMIC's internal control over financial reporting as of December 31, 2006. 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, 2006, AMIC's internal control over financial reporting is effective.

KPMG LLP, the independent registered public accounting firm that audited the financial statements in this Annual Report, has issued an attestation report on management's assessment of, and the effective operation of, AMIC's internal control over financial reporting as of December 31, 2006, which is included herein on page 40.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
American Independence Corp.:

We have audited management's assessment, included in the accompanying "Report of Management on Internal Control Over Financial Reporting", that American Independence Corp. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that American Independence Corp. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, American Independence Corp. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of American Independence Corp. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006, and our report dated March 15, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York
March 15, 2007

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, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedules listed in the accompanying index. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Independence Corp. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of American Independence Corp. and subsidiaries' internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

New York, New York
March 15, 2007

American Independence Corp. and Subsidiaries

Consolidated Balance Sheets

December 31,
2006 2005
(In thousands, except
share data)

ASSETS:

Investments:

Short-term investments, at amortized cost, which approximates fair value	\$ 4,649	\$ 1,979
Securities purchased under agreements to resell	6,676	3,092
Fixed maturities available-for-sale, at fair value	42,700	40,444
Equity securities available-for-sale, at fair value	2,181	1,884
Other long-term investments	<u>1,009</u>	<u>1,082</u>
Total investments	57,215	48,481
Cash and cash equivalents	1,940	7,176
Restricted cash (\$15,419 and \$15,643, respectively, restricted by related parties)	17,646	16,296
Accrued investment income	455	533
Premiums receivable (\$1,787 and \$2,203, respectively, due from related parties)	2,127	2,389
Net deferred tax asset	12,973	13,751
Due from reinsurers (\$11,003 and \$10,696, respectively, due from related parties)	12,249	11,707
Goodwill	24,154	24,154
Intangible assets	3,542	726
Accrued fee income (\$239 and \$370, respectively, due from related parties)	1,015	2,833
Other assets (\$10 and \$11, respectively, due from related parties)	<u>1,444</u>	<u>1,686</u>
TOTAL ASSETS	<u>\$ 134,760</u>	<u>\$ 129,732</u>

LIABILITIES AND STOCKHOLDERS' EQUITY:

LIABILITIES:

Insurance reserves (\$19,241 and \$17,897, respectively, due to related parties)	\$ 22,504	\$ 20,882
Premium and claim funds payable (\$15,419 and \$15,643, respectively, due to related parties)	17,646	16,296
Derivative liability	839	—
Commission payable (\$1,245 and \$1,898, respectively, due to related parties)	1,614	2,599
Accounts payable, accruals and other liabilities	2,231	2,096
State income taxes payable	347	251
Due to reinsurers (\$1,914 and \$1,304 respectively, due to related parties)	1,914	1,304
Net liabilities associated with discontinued operations	<u>555</u>	<u>808</u>
Total liabilities	47,650	44,236
Minority interest	<u>4,026</u>	<u>4,026</u>

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; 9,180,695 shares issued; 8,457,890 and 8,451,223 shares outstanding, respectively	92	92
Additional paid-in capital	479,399	479,192
Accumulated other comprehensive loss	(1,191)	(1,064)
Treasury stock, at cost, 722,805 shares and 729,472 shares, respectively	(8,650)	(8,730)
Accumulated deficit	<u>(386,566)</u>	<u>(388,020)</u>
TOTAL STOCKHOLDER'S EQUITY	83,084	81,470
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 134,760</u>	<u>\$ 129,732</u>

See accompanying notes to consolidated financial statements.

American Independence Corp. and Subsidiaries

Consolidated Statements of Operations

Year Ended December 31,
2006 2005 2004
(In thousands, except per share data)

REVENUES:

Premiums earned (\$56,854, \$55,655 and \$50,031, respectively, from related parties)	\$67,777	\$66,118	\$60,203
MGU fee income (\$7,793, \$10,568 and \$12,772 respectively, from related parties)	10,356	14,156	17,597
Net investment income	3,267	2,501	2,291
Net realized investment gains	66	245	222
Other income	19	110	65
	<u>81,485</u>	<u>83,130</u>	<u>80,378</u>

EXPENSES

Insurance benefits, claims and reserves (\$39,611, \$38,322 and \$32,116, respectively, from related parties)	47,799	44,722	39,173
Selling, general and administrative expenses (\$17,004, \$17,090 and \$15,785, respectively, from related parties)	30,267	31,192	29,628
Amortization and depreciation	689	1,100	1,666
Restructuring (benefit) expense	—	(67)	—
Minority interest	262	544	678
	<u>79,017</u>	<u>77,491</u>	<u>71,145</u>

Income from continuing operations before income tax	2,468	5,639	9,233
Provision for income taxes	960	120	3,569
Income from continuing operations	1,508	5,519	5,664
Gain (loss) on disposition of discontinued operations, net of tax	(54)	(59)	240
Net income	<u>\$ 1,454</u>	<u>\$ 5,460</u>	<u>\$ 5,904</u>

Basic income per common share:

Income from continuing operations	\$.18	\$.65	\$.67
Gain (loss) on disposition of discontinued operations, net of tax	(.01)	(.01)	.03
Net income applicable to common shares	<u>\$.17</u>	<u>\$.64</u>	<u>\$.70</u>

Shares used to compute basic income per share	<u>8,452</u>	<u>8,447</u>	<u>8,434</u>
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Diluted income per common share:

Income from continuing operations	\$.18	\$.65	\$.66
Gain (loss) on disposition of discontinued operations, net of tax	(.01)	(.01)	.03
Net income applicable to common shares	<u>\$.17</u>	<u>\$.64</u>	<u>\$.69</u>

Shares used to compute diluted income per share	<u>8,506</u>	<u>8,526</u>	<u>8,535</u>
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See accompanying notes to consolidated financial statements.

American Independence Corp. and Subsidiaries
Consolidated Statements of Stockholders' Equity

	Common Stock		Additional Paid In Capital	Deferred Stock Compensation	Accumulated Other Comprehensive Income (Loss)		Treasury Stock	Total Stockholders' Equity	Comprehensive Income (Loss)	
	Shares	Amount			Shares	Amount				Shares
Balance, December 31, 2003	9,180,695	\$92	\$478,563	\$—	\$ (66)	\$(399,384)	758,500	\$(9,077)	\$70,128	\$(12,589)
Exercise of Options	—	—	(2)	—	—	—	(16,694)	200	198	—
SFAS 123 stock compensation charge	—	—	456	—	—	—	—	—	456	—
Unrealized losses on securities	—	—	—	—	(219)	—	—	—	(219)	(219)
Net income	—	—	—	—	—	5,904	—	—	5,904	5,904
Balance, December 31, 2004	9,180,695	92	479,017	—	(285)	(393,480)	741,806	(8,877)	76,467	5,685
Exercise of options	—	—	(52)	—	—	—	(12,334)	147	95	—
SFAS 123 stock compensation charge	—	—	227	—	—	—	—	—	227	—
Unrealized losses on securities	—	—	—	—	(779)	—	—	—	(779)	(779)
Net income	—	—	—	—	—	5,460	—	—	5,460	5,460
Balance, December 31, 2005	9,180,695	92	479,192	—	(1,064)	(388,020)	729,472	(8,730)	81,470	4,681
Exercise of options	—	—	(28)	—	—	—	(6,667)	80	52	—
SFAS 123 stock compensation charge	—	—	235	—	—	—	—	—	235	—
Unrealized losses on securities	—	—	—	—	(127)	—	—	—	(127)	(127)
Net income	—	—	—	—	—	1,454	—	—	1,454	1,454
Balance, December 31, 2006	9,180,695	\$92	\$479,399	\$—	\$(1,191)	\$(386,566)	722,805	\$ 8,650	\$83,084	\$ 6,008

See accompanying notes to consolidated financial statements.

American Independence Corp. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2006	2005	2004
	(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 1,454	\$ 5,460	\$ 5,904
Adjustments to net income:			
Net realized investment gains	(66)	(245)	(222)
(Gain) loss on disposal of discontinued operations	54	59	(240)
Restructuring (benefit) expense	—	(67)	—
Amortization and depreciation	689	1,100	1,666
Equity income	(102)	(26)	(37)
Deferred tax expense (benefit)	869	(203)	3,065
Non-cash stock compensation expense	235	227	456
Change in operating assets and liabilities:			
Net sales of trading securities	392	248	249
Change in policy liabilities	1,622	(1,358)	3,605
Change in net amounts due from and to reinsurers	68	3,093	(5,540)
Change in accrued fee income	1,818	495	(236)
Change in premiums receivable	262	(82)	(884)
Change in income taxes	8	(71)	(129)
Change in other assets and other liabilities	(738)	476	790
Net cash provided by (used by) operating activities of continuing operations	6,565	9,106	8,447
Net cash provided by (used by) operating activities of discontinued operations	(307)	(187)	(192)
Net cash provided by (used by) operating activities	<u>6,258</u>	<u>8,919</u>	<u>8,255</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net (purchases) sales of short-term investments	(2,659)	1,982	(819)
Net (purchases) sales of securities under resale and repurchase agreements	(3,584)	1,282	(1,649)
Change in amounts due to and from brokers	—	(206)	86
Sales of and principal repayments on fixed maturities	12,793	30,920	81,795
Maturities of fixed maturities	300	200	—
Purchases of fixed maturities	(15,784)	(38,424)	(85,147)
Sales of equity securities	1,685	720	2,225
Purchases of equity securities	(1,973)	(1,617)	(1,858)
Distribution from interest in partnerships	176	69	1,610
Employers Direct Health ("EDH") agency agreement	(2,500)	—	—
Acquisitions of companies, net	—	—	(600)
Net cash provided by (used by) investing activities	<u>(11,546)</u>	<u>(5,074)</u>	<u>(7,577)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options	52	95	198
Net cash provided by (used by) financing activities	<u>52</u>	<u>95</u>	<u>198</u>
Increase (decrease) in cash and cash equivalents	(5,236)	3,940	876
Cash and cash equivalents, beginning of period	7,176	3,236	2,360
Cash and cash equivalents, at end of period	<u>\$ 1,940</u>	<u>\$ 7,176</u>	<u>\$ 3,236</u>
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during period for:			
Income taxes	\$ 149	\$ 335	\$ 544

See accompanying notes to consolidated financial statements.

American Independence Corp. and Subsidiaries

Notes to Consolidated Financial Statements

1. Nature of Business

American Independence Corp. ("AMIC" or "the Company") is a holding company 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: IndependenceCare Holdings L.L.C. and its subsidiaries (collectively referred to as "IndependenceCare"); Risk Assessment Strategies, Inc. ("RAS"), and Marlton Risk Group LLC ("Marlton"); and c) its investment in Majestic Underwriters LLC ("Majestic"). IndependenceCare, RAS and Marlton are collectively referred to as the "MGU Subsidiaries."

Prior to November 14, 2002, the Company (then known as SoftNet Systems, Inc.) was a holding company principally engaged in providing Internet services. Four previously reported business segments, business center services, satellite-based Internet services, cable-based Internet services and document management, have ceased operations or have been sold, and accordingly are reported as discontinued operations (see Note 9 of Notes to Consolidated Financial Statements).

Since November 2002, AMIC has been affiliated with Independence Holding Company ("IHC"), an insurance holding company, which held 48% of AMIC's outstanding common stock at December 31, 2006. The senior management of IHC provides direction to the Company through a service agreement between the Company and IHC. IHC has also entered into long-term reinsurance treaties to cede medical stop-loss to the Company. Additionally, the Company began reinsuring IHC's New York statutory disability business in the third quarter of 2004 and IHC's short-term medical ("STM") and consumer-driven group major medical business in 2005.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Presentation of Financial Statements

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles 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. generally accepted accounting principles 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.

Reclassifications

Certain reclassifications have been made to prior years' consolidated financial statements and related notes to the consolidated financial statements in order to conform to the current year presentation.

Investment in Majestic Underwriters LLC

The Company's investment in Majestic Underwriters LLC (see Note 7 of Notes to Consolidated Financial Statements) is carried on the equity method with the Company's share of income or loss credited or charged, as appropriate, to net invested income in the Consolidated Statement of Operations with a corresponding charge to the Company's investment account. The Company also reduces its investment account for its proportionate share of the amortization expense for the intangible assets recorded in the acquisition.

Goodwill and Other Intangibles

Goodwill and intangible assets with indefinite lives, which consist of licenses, are not amortized but are tested for impairment, on a reporting unit basis, at the end of the third quarter of each fiscal year, or more frequently if indicators arise. The Company defines its reporting units on a segment basis.

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

For goodwill, if the book value of a reporting unit exceeds its fair value, the implied fair value of goodwill is compared with the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recorded in an amount equal to that excess.

The Company's intangible assets consisting of broker/third party relationships and marketing agreements are amortized accordingly (see Note 4 of Notes to Consolidated Financial Statements).

Fair Value of Financial Instruments

The carrying amount of the Company's financial instruments, which include cash and cash equivalents, restricted cash, short-term investments, due from reinsurers and premiums receivable approximates their fair values.

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 the 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 the MGUs.

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.

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.

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 which may or may not be held to maturity ("available-for-sale securities") are carried at fair value. Unrealized gains or losses are credited or charged, as appropriate, directly to accumulated other comprehensive income (a component of stockholders' equity). Realized gains and losses on sales of available-for-sale securities, and unrealized losses considered to be other than temporary, are credited or charged 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. The Company's risk is an increase in the fair value of the securities sold in excess of the consideration received, but that risk is mitigated as a result of relationships to certain securities owned. Unrealized gains or losses on open transactions are credited or charged, as appropriate, to net realized investment gains in the Consolidated Statements of Operations. While the transaction is open, the Company will also incur an expense for any accrued dividends or interest payable to the lender of the securities. When the transaction is closed, the Company realizes a gain or loss in an amount

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

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, 2006 and 2005.

(iii) Realized gains or losses on sales of securities are determined on the basis of specific identification.

(iv) The Company enters into derivative financial instruments, such as put and call option contracts and options on interest rate futures contracts, to minimize losses on portions of the Company'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. Losses on these instruments were \$19,000, \$90,000 and \$27,000 during 2006, 2005 and 2004, respectively.

(v) Fair value is determined by quoted market prices, where available, or by independent pricing services.

(vi) The Company reviews its investment securities regularly and determines whether other than temporary impairments have occurred. If a decline in fair value is judged by management to be other than temporary, a loss is recognized by a charge to the Consolidated Statements of Operations, establishing a new cost basis for the security. The factors considered by management in its regular review include, but are not limited to: the length of time and extent to which the fair value has been less than cost; the financial condition and near-term prospects of the issuer; adverse changes in ratings announced by one or more rating agencies; whether the issuer of a debt security has remained current on principal and interest payments; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions (including, in the case of fixed maturities, the effect of changes in market interest rates); and the Company's intent and ability to hold the security for a period of time sufficient to allow for a recovery in fair value. For securities within the scope of Emerging Issues Task Force Issue 99-20, such as purchased interest-only securities, an impairment loss is recognized when there has been a decrease in expected cash flows combined with a decline in the security's fair value below cost.

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.

Premium and MGU Fee Income Revenue Recognition

Direct and assumed premiums from short-duration contracts are recognized as revenue over the period of the contracts in proportion to the amount of insurance protection provided. The Company records MGU fee income as policy premium payments are earned. 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 the Company believes they are reasonably estimable, which is typically at the point that claims have developed to a level where Claim Development Patterns can be applied to generate reasonably reliable estimates of ultimate claim levels. Profit-sharing commissions are a function of an MGU attaining certain profitability thresholds and could greatly vary from quarter to quarter.

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

MGU fee income consisted of the following:

	Year Ended December 31,		
	2006	2005	2004
	(In thousands)		
MGU fee income	\$10,238	\$12,284	\$14,848
MGU fee income profit commissions	118	1,872	2,749
	\$10,356	\$14,156	\$17,597

Insurance Reserves

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

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

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 pricing assumptions ("Projected Net Loss Ratio"). Claim development patterns are set quarterly as reserve estimates are developed and are based on recent claim development history ("Claim Development Patterns"). The Company uses the Projected Net Loss Ratio to establish reserves until developing losses provide a better indication of ultimate results and it is feasible to set reserves based on Claim Development Patterns. The Company has concluded that a reasonably likely change in the Projected Net Loss Ratio assumption could have a material effect on the Company's financial condition, results of operations, or liquidity ("Material Effect") but a reasonably likely change in the Claim Development Pattern would not have a Material Effect.

Projected Net Loss Ratio

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

Major factors that affect the Projected Net Loss Ratio assumption in reserving for medical stop-loss relate to: (i) frequency and severity of claims; (ii) changes in medical trend resulting from the influences of underlying cost inflation, changes in utilization and demand for medical services, the impact of new medical technology and

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

changes in medical treatment protocols; and (iii) the adherence by the MGUs that produce and administer this business to the Company's underwriting guidelines.

Claim Development Patterns

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

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.

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 STM and disability coverages are computed using claim development patterns and projected loss ratios derived from actual historical premium and claim data.

Management believes that the Company's methods of estimating the liabilities for insurance reserves provided appropriate levels of reserves at December 31, 2006 and December 31, 2005. Changes in the Company's reserve estimates are recorded through a charge or credit to its earnings.

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.

Income Taxes

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial carrying amounts of existing assets and liabilities and their respective tax basis, and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets where it is more likely than not that the deferred tax asset will not be realized (see Note 13 of Notes to Consolidated Financial Statements).

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

Stock-Based Compensation and Change in Accounting Principle

On November 14, 2002, the Company adopted certain provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 established a fair-value-based method of accounting for stock-based compensation plans. Pursuant to the transition provisions of SFAS 123, the Company applied the fair value method of accounting to all option grants issued on or after October 1, 2002. The fair value method was not applied to stock option awards granted prior to October 1, 2002. Such awards continue to be accounted for under the intrinsic value method pursuant to APB 25, except to the extent those prior years' awards are modified subsequent to October 1, 2002. At December 31, 2006 all such shares accounted for under APB 25 were fully vested or expired.

On January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), "Share Based Payment", which requires compensation cost relating to share-based payment transactions to be recognized in the financial statements, based upon the fair value of the instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted stock plans, performance-based awards, share appreciation rights and employee purchase plans. SFAS No. 123(R) replaces SFAS No. 123. In March 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC's interpretation of SFAS No. 123(R) and the valuation of share-based payments for public companies. The company has applied the provisions of SAB 107 in its adoption of SFAS No. 123(R) and accordingly recorded share-based payment expense in selling, general and administrative expenses. Since the Company previously adopted the provisions of SFAS No. 123, effective November 14, 2002, the adoption of SFAS No. 123(R) did not have a material impact on the Company's Consolidated Financial Statements.

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 (using the "treasury stock" method). Common Stock equivalent shares are excluded from the computation if the effect is anti-dilutive. As a result of the anti-dilutive effect, common stock equivalent shares have been excluded from the computation of diluted earnings per share for periods presented with a net loss. Included in the diluted earnings per share calculation for fiscal years 2006, 2005 and 2004, are 54,000, 79,000 and 101,000 shares, respectively, from the assumed exercise of options using the treasury stock method. Net income does not change as a result of the assumed dilution of options.

Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments" ("SFAS 155"), which amends Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"). SFAS 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. SFAS 155 is effective for all financial instruments acquired, issued or subject to a re-measurement event occurring in fiscal years beginning after September 15, 2006. Adoption of SFAS 155 is not expected to have a material effect on the Company's consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109" ("Interpretation 48"), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

to be taken in a tax return. The recognition threshold is based on a determination of whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of Interpretation 48. Interpretation 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Interpretation 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effect of applying the provisions of Interpretation 48 is reported as an adjustment to retained earnings as of the beginning of the year of adoption. The amount of the cumulative-effect adjustment is the difference between the net amount of assets and liabilities recognized in the balance sheet prior to the application of Interpretation 48 and the net amount of assets and liabilities recognized as a result of applying Interpretation 48. Adoption of Interpretation 48 on January 1, 2007 is not expected to have a material effect on the Company's consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Adoption of SFAS 157 is not expected to have a material effect on the Company's consolidated financial statements.

In September 2006, the staff of the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 was effective for the year ended December 31, 2006 and did not affect the Company's consolidated financial statements.

3. Goodwill

The Company completed its annual impairment testing of goodwill and an impairment charge was not required.

Segment information is as follows (in thousands):

	<u>Year Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
Goodwill:		
Independence American	\$12,295	\$12,255
MGU Subsidiaries	11,859	11,859
Corporate	<u>—</u>	<u>—</u>
	<u>\$24,154</u>	<u>\$24,114</u>

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

4. Intangible Assets

Intangible assets at December 31, 2006 and 2005 consist of the following (in thousands):

	December 31, 2006			December 31, 2005		
	Definitive Lives	Indefinite Lives	Total	Definitive Lives	Indefinite Lives	Total
Gross Carrying Value						
Balance beginning of period.	\$ 4,814	\$100	\$ 4,914	\$ 4,814	\$100	\$ 4,914
Additions	3,243	—	3,243	—	—	—
Balance end of period	8,057	100	8,157	4,814	100	4,914
Accumulated Amortization						
Balance beginning of period.	(4,188)	—	(4,188)	(3,379)	—	(3,379)
Amortization expense	(427)	—	(427)	(809)	—	(809)
Balance end of period	(4,615)	—	(4,615)	(4,188)	—	(4,188)
Net intangible assets	\$ 3,442	\$100	\$ 3,542	\$ 626	\$100	\$ 726
Weighted average remaining life in years			2.24			0.68

Additions of \$3,243,000 to intangible assets represent the cash paid of \$2,500,000 and a derivative issued to EDH according to terms set forth in Note 5 of Notes to Consolidated Financial Statements.

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

	Year Ending December 31,
2007	\$ 841
2008	656
2009	648
2010	649
2011	648
	\$3,442

5. Marketing Agreements

On February 22, 2006, AMIC entered into an agreement with Employers Direct Health (“EDH”). Under this agreement, EDH began writing employer medical stop-loss through Independence American in 2006, and will move the majority of its existing block of employer-sponsored group major medical and medical stop-loss to Independence American during 2007. Independence American paid EDH \$2,500,000, which EDH simultaneously paid to Independence Holding Company (“IHC”) in consideration of IHC issuing 125,000 shares of IHC common stock (“IHC Stock”) to EDH. The IHC Stock is held in escrow by Independence American until such time as the aggregate annualized premiums written through EDH reaches \$30 million.

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. The Company 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 value of the EDH Derivative will be evaluated each quarter and the corresponding changes

American Independence Corp. and Subsidiaries

Notes to Consolidated Financial Statements — (Continued)

in fair value will be reflected in the Consolidated Statements of Operations. 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.

The Company has classified the \$2,500,000 payment and \$743,000 derivative as an intangible asset that will be amortized over the five year contract period. Such amortization will start in 2007 to coincide with the transfer of business on January 1, 2007.

As part of the 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 of the business written by Independence American. Independence American will receive customary carrier fees on the business written on its paper.

In addition, the Company has entered into an agreement with a national, career agent marketing organization to begin marketing health plans to individuals and families utilizing Independence American as the carrier. The agency projects that it will have \$10 million of annualized premiums (\$6 million on an earned basis) on Independence American paper as of December 31, 2007. Independence American initially anticipates retaining 50% of the risk on this business. The program will be administered by Insurers Administrative Corporation, a wholly owned subsidiary of IHC. These amounts are less than what was initially disclosed due to a later than anticipated launch date as a result of product design changes and filing requirements.

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, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
FIXED MATURITIES				
AVAILABLE-FOR-SALE:				
Corporate securities	\$22,241	\$ 8	\$ (693)	\$21,556
Collateralized mortgage obligations (CMO) and asset backed securities (ABS)	9,048	3	(176)	8,875
States, municipalities and political subdivisions	1,178	—	(4)	1,174
U.S. Government	8,211	4	(232)	7,983
Government sponsored enterprise (GSE)	3,046	—	(64)	2,982
Agency mortgage backed pass through securities (MBS)	<u>133</u>	<u>—</u>	<u>(3)</u>	<u>130</u>
Total fixed maturities	<u>\$43,857</u>	<u>\$15</u>	<u>\$(1,172)</u>	<u>\$42,700</u>
EQUITY SECURITIES				
AVAILABLE-FOR-SALE				
Preferred stock	<u>\$ 2,215</u>	<u>\$ 9</u>	<u>\$ (43)</u>	<u>\$ 2,181</u>

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

	December 31, 2005			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(In thousands)			
FIXED MATURITIES				
AVAILABLE-FOR-SALE:				
Corporate securities	\$22,849	\$23	\$ (620)	\$22,252
CMO and ABS	5,570	—	(140)	5,430
U.S. Government	7,802	—	(167)	7,635
GSE	3,563	—	(62)	3,501
MBS	<u>1,654</u>	<u>—</u>	<u>(28)</u>	<u>1,626</u>
Total fixed maturities	<u>\$41,438</u>	<u>\$23</u>	<u>\$(1,017)</u>	<u>\$40,444</u>
EQUITY SECURITIES				
AVAILABLE-FOR-SALE				
Preferred stock	<u>\$ 1,954</u>	<u>\$ 5</u>	<u>\$ (75)</u>	<u>\$ 1,884</u>

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

The amortized cost and fair value of fixed maturities at December 31, 2006 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.

	December 31, 2006		
	Amortized Cost	Fair Value	% of Fair Value
	(In thousands)		
Due in one year or less	\$ —	\$ —	—
Due after one year through five years	10,215	10,046	23%
Due after five years through ten years	9,781	9,491	22%
Due after ten years	<u>11,634</u>	<u>11,176</u>	<u>26%</u>
	31,630	30,713	71%
CMO, ABS, and MBS 15 years	9,424	9,241	22%
20 years	340	333	1%
30 years	<u>2,463</u>	<u>2,413</u>	<u>6%</u>
Total	<u>\$43,857</u>	<u>\$42,700</u>	<u>100%</u>

American Independence Corp. and Subsidiaries

Notes to Consolidated Financial Statements — (Continued)

The following tables summarize, for all securities in an unrealized loss position at December 31, 2006 and December 31, 2005, 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, 2006					
	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	\$ 6,920	\$116	\$12,858	\$ 565	\$19,778	\$ 681
CMO and ABS	2,724	30	4,742	146	7,466	176
States, municipalities and political subdivisions	1,173	4	—	—	1,173	4
U.S. Government	24	—	7,548	232	7,572	232
GSE	288	11	2,982	65	3,270	76
MBS	—	—	130	3	130	3
Total fixed maturities	<u>\$11,129</u>	<u>\$161</u>	<u>\$28,260</u>	<u>\$1,011</u>	<u>\$39,389</u>	<u>\$1,112</u>
Preferred Stock	<u>\$ 895</u>	<u>\$ 5</u>	<u>\$ 672</u>	<u>\$ 38</u>	<u>\$ 1,567</u>	<u>\$ 43</u>

	December 31, 2005					
	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	\$13,003	\$392	\$2,872	\$183	\$15,875	\$ 575
CMO and ABS	2,498	46	2,933	94	5,431	140
U.S. Government	6,760	134	876	33	7,636	157
GSE	5,516	107	—	—	5,516	107
MBS	150	2	1,475	26	1,625	28
Total fixed maturities	<u>\$27,927</u>	<u>\$681</u>	<u>\$8,156</u>	<u>\$336</u>	<u>\$36,083</u>	<u>\$1,017</u>
Preferred Stock	<u>\$ 559</u>	<u>\$ 63</u>	<u>\$ 325</u>	<u>\$ 12</u>	<u>\$ 884</u>	<u>\$ 75</u>

Substantially all of the unrealized losses at December 31, 2006 and 2005 relate to investment grade securities and are attributable to changes in market interest rates subsequent to purchase. The Company reviews its investments regularly and monitors its investments for impairments. A total of 31 securities were in a continuous unrealized loss position for less than 12 months and 54 securities for 12 months or longer as of December 2006. A total of 52 securities were in a continuous unrealized loss position for less than 12 months and 21 securities for 12 months or longer as of December 31, 2005. For fixed maturities, there are no securities past due or securities for which the Company currently believes it is not probable that it will collect all amounts due according to the contractual terms of the investment. Based on management's review of the portfolio, which considered the various factors described in Note 2, including the extent and duration of the unrealized losses and the Company's intent and ability to hold securities for a period of time sufficient to allow for a recovery in fair value, the Company did not consider these investments to be other-than-temporarily impaired at December 31, 2006 and 2005.

The Company had derivative instruments representing the value of the contingent payment due to EDH as of December 31, 2006 (see Note 5 of Notes to Consolidated Financial Statements). There were no derivative instruments as of December 31, 2005.

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

Gross gains of \$115,000 and gross losses of \$336,000 were realized on sales of available-for-sale securities for the year ended December 31, 2006.

Gross gains of \$478,000 and gross losses of \$481,000 were realized on sales of available-for-sale securities for the year ended December 31, 2005.

Gross gains of \$876,000 and gross losses of \$903,000 (including \$134,000 from temporary impairment) were realized on sales of available-for-sale securities for the year ended December 31, 2004.

The Company maintains a securities trading account in addition to its securities classified as available-for-sale. The Company realized net gains from trading securities of \$392,000 in 2006, \$248,000 in 2005 and \$249,000 in 2004. The Company had \$4.0 million and \$3.6 million, on average, in trading securities during 2006 and 2005, respectively. All such trading securities were liquidated at December 31, 2006 and 2005.

Major categories of net investment income for years 2006, 2005 and 2004 are summarized as follows:

	Year Ended December 31,		
	2006	2005	2004
	(In thousands)		
Fixed maturities	\$2,263	\$1,888	\$1,974
Equity securities	169	87	147
Short-term investments	262	209	44
Other	471	291	89
Equity income — Majestic	<u>102</u>	<u>26</u>	<u>37</u>
	<u>\$3,267</u>	<u>\$2,501</u>	<u>\$2,291</u>

Net realized investment gains for years 2006, 2005 and 2004 are as follows:

	Year Ended December 31,		
	2006	2005	2004
	(In thousands)		
Fixed maturities	\$(195)	\$ (14)	\$ 10
Equity securities	288	370	238
Other gains (losses)	69	(111)	(26)
EDH Derivative	<u>(96)</u>	<u>—</u>	<u>—</u>
Net realized investment gain	<u>\$ 66</u>	<u>\$ 245</u>	<u>\$222</u>

7. Other Long-Term Investments

At December 31, 2006 and December 31, 2005, the Company had an equity investment in Majestic with a carrying value of \$1,009,000 and 1,082,000, respectively. For fiscal years 2006 and 2005, the Company recorded \$102,000 and \$26,000, respectively, for its share of income from its investment in Majestic.

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

8. Fixed Assets

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

	As of December 31,	
	2006	2005
Furniture and fixtures	\$ 580	\$ 573
Leasehold improvements	126	26
Equipment	940	935
Total	1,646	1,534
Less allowance for depreciation	(1,496)	(1,134)
Fixed assets, net	\$ 150	\$ 400

9. Discontinued Operations

Until April 2002, the Company (then known as SoftNet Systems, Inc.) was an Internet service provider. Due to difficult and deteriorating conditions in that market, the Company discontinued this business. In December 2000, the Company's board of directors approved a plan to discontinue the operations of its subsidiary, ISP Channel, Inc., which had provided cable-based Internet access and related services, and the operations of another subsidiary, Aerzone Corporation, which provided Internet and related services at airports. In April 2002, the Company ceased operations of its remaining operating subsidiary, Intelligent Communications, Inc., following the disposition of its key assets. The operating results of these discontinued operations have been segregated from continuing operations and are reported as a gain or loss from discontinued operations on the consolidated statements of operations. Although it is difficult to predict the final results, the gain or loss on disposition from discontinued operations includes management's estimates of costs to wind down the business and costs to settle its outstanding liabilities. The actual results could differ from these estimates. The net liabilities associated with discontinued operations are reflected in net liabilities associated with discontinued operations in the accompanying consolidated balance sheets.

Discontinued Operations of Intelligent Communications, Inc.

On March 29, 2002, the Company and its wholly owned subsidiary, Intellicom, entered into an agreement to sell its operating business and certain assets to Loral Cyberstar, Inc. Following the sale of its operating business and certain assets to Loral Cyberstar, Inc., the Company's board of directors unanimously agreed to cease the operations of Intellicom on April 3, 2002. Principally due to the Company's guaranty of Intellicom's lease for its facility in Livermore, California, the Company has reserves for discontinued operations of Intellicom of \$555,000 for this liability at December 31, 2006, and \$808,000 at December 31, 2005. In October of 2006, the Company entered into an agreement with a third party to sublease the property in Livermore, California for the remaining life of the lease. The income associated with the sublease was previously estimated in the reserve balance. Loss from disposition of discontinued operations results from re-estimation of certain expected expenses.

Discontinued Operations of Aerzone Corporation

On January 24, 2000, the Company founded Aerzone (formerly SoftNet Zone, Inc.) to provide high-speed Internet access to global business travelers. As part of the Aerzone business, the Company acquired Lapop Lane, on April 21, 2000. On December 19, 2000, the Company decided to discontinue the Aerzone business in light of significant long-term capital needs and the difficulty of securing the necessary financing because of the current state of the financial markets. The Company has no remaining reserve for Aerzone at December 31, 2006.

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

Discontinued Operations of ISP Channel, Inc.

On December 7, 2000, the Company's board of directors approved a plan to discontinue providing cable-based Internet services through its ISP Channel subsidiary by December 31, 2000, because consolidation in the cable television industry made it difficult for ISP Channel to achieve the economies of scale necessary to provide such services profitably, and the Company was no longer able to bear the costs of maintaining the ISP Channel. The Company has no remaining reserve for ISP Channel at December 31, 2006.

Discontinued Operations of Micrographic Technology Corporation

As a result of the December 31, 1999 sale of MTC to Global Information Distribution GmbH ("GID"), the Company discontinued operations of MTC. The Company has no remaining reserve for MTC at December 31, 2006.

Discontinued Operations of Kansas Communications, Inc

As a result of the February 12, 1999 sale of the assets of the telecommunications segment, KCI, to Convergent Communications Services, Inc., the Company discontinued this segment. The Company has no remaining reserve for KCI at December 31, 2006.

The results of discontinued operations are as follows (in thousands):

	<u>Year Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues	\$ —	\$ —	\$ —
Expenses			
Intellicom	(83)	(147)	48
Aerzone	—	27	—
ISP Channel	—	—	153
MTC	—	30	19
KCI	—	—	20
Income (loss) before income taxes	<u>(83)</u>	<u>(90)</u>	<u>240</u>
Benefit (provision) for income taxes	<u>29</u>	<u>31</u>	<u>—</u>
Net income (loss)	<u><u>\$(54)</u></u>	<u><u>\$ (59)</u></u>	<u><u>\$240</u></u>

10. Commitments and Contingencies

Fixed maturities with a carrying value of \$4,444,946 are on deposit with various state insurance departments at December 31, 2006.

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

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements --- (Continued)

Future minimum lease payments under non-cancelable operating leases as of December 31, 2006, are as follows (in thousands):

<u>Year Ending December 31,</u>	<u>Net Operating Leases</u>
2007	\$ 554
2008	516
2009	324
2010	220
2011	116
2012 and thereafter	<u>119</u>
Total	<u>\$1,849</u>

The minimum lease payments shown above do not include \$315,000 of sublease income to be received in the future under non-cancelable subleases.

The Company's net rent expense from continuing operations for fiscal years 2006, 2005, and 2004 were \$649,000, \$872,000 and \$923,000, respectively.

The Company has additional obligations in regard to its agreement with EDH as further described in Note 5 of Notes to Consolidated Financial Statements.

Under certain circumstances set forth in the Limited Liability Company Agreements of Marlton and Majestic, the Company has the right and/or obligation to purchase some or all of the minority interests in Marlton and Majestic.

Independence American maintains a revolving Letter of Credit ("LOC") with a financial institution to support reinsurance obligations of Independence American in the ordinary course of business. The LOC has an outstanding face amount up to \$5,000,000 although Independence American has not drawn upon funds to date. The LOC renews October 15 of each year, unless cancelled by Independence American.

Legal Proceedings

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

11. Stock Options

1998 Stock Incentive Plan ("1998 Plan")

Effective October 1, 1998, the Company implemented the 1998 Plan, which the Company's stockholders approved on April 13, 1999. The 1998 Plan provides 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 1998 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. In addition, the number of common stock shares reserved for issuance under the 1998 Plan will automatically increase on the first trading day of each calendar year, beginning in calendar year 2000, by an amount equal to seven percent of the total number of common stock shares outstanding on the last trading day of the preceding calendar year, but in no event will any such annual increase

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

exceed 1,333,333 shares, subject to adjustment for subsequent stock splits, stock dividends and similar transactions. At December 31, 2006, a total of 5,966,867 stock shares are reserved for issuance under the 1998 Plan. At December 31, 2006, stock options for 491,500 common stock shares were outstanding, stock options for 425,999 common stock shares were vested, and 5,411,893 common stock shares remained available for future stock options grants and other awards.

Options Outstanding

The following table summarizes the outstanding options to purchase common stock shares for years 2006, 2005 and 2004:

	<u>Outstanding Options</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Balance, December 31, 2003	454,933	\$21.62
Granted	145,671	14.43
Exercised	(16,694)	11.81
Canceled	<u>(136,358)</u>	<u>35.21</u>
Balance, December 31, 2004	447,552	15.50
Granted	82,333	13.80
Exercised	(12,334)	7.80
Canceled	<u>(13,384)</u>	<u>35.00</u>
Balance, December 31, 2005	504,167	14.90
Granted	—	—
Exercised	(6,667)	7.80
Canceled	<u>(6,000)</u>	<u>14.01</u>
Balance, December 31, 2006	<u>491,500</u>	<u>\$15.00</u>

The following table summarizes information regarding stock options outstanding at December 31, 2006:

<u>Range of Exercise Price</u>	<u>Outstanding Options</u>			<u>Vested Options</u>	
	<u>Shares</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
\$ 3.94 to \$10.00	238,063	4.64	\$ 6.60	236,535	\$ 6.59
10.01 to 20.00	193,894	6.83	14.55	129,921	14.92
20.01 to 40.00	25,834	0.51	29.60	25,834	29.60
40.01 to 71.44	<u>33,709</u>	<u>2.48</u>	<u>65.75</u>	<u>33,709</u>	<u>65.75</u>
\$ 3.94 to \$71.44	<u>491,500</u>	<u>5.14</u>	<u>\$15.00</u>	<u>425,999</u>	<u>\$15.21</u>

Stock-Based Compensation and Change in Accounting Principle

On November 14, 2002, the Company adopted certain provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 established a fair-value-based method of accounting for stock-based compensation plans. Pursuant to the transition provisions of

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

SFAS 123, the Company applied the fair value method of accounting to all option grants issued on or after October 1, 2002. The fair value method was not applied to stock option awards granted prior to October 1, 2002. Such awards continue to be accounted for under the intrinsic value method pursuant to APB 25, except to the extent those prior years' awards are modified subsequent to October 1, 2002. At December 31, 2006 all such shares accounted for under APB 25 were fully vested or expired.

On January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), "Share Based Payment", which requires compensation cost relating to share-based payment transactions to be recognized in the financial statements, based upon the fair value of the instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted stock plans, performance-based awards, share appreciation rights and employee purchase plans. SFAS No. 123(R) replaces SFAS No. 123, which established as preferable a fair value based method of accounting for share-based compensation with employees, but permitted the option of continuing to apply the guidance of APB Opinion No. 25, as long as the notes to the financial statements disclosed the effects of the preferable fair value method. In March 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC's interpretation of SFAS No. 123(R) and the valuation of share-based payments for public companies. The company has applied the provisions of SAB 107 in its adoption of SFAS No. 123(R) and accordingly recorded share-based payment expense in selling, general and administrative expenses. Since the Company previously adopted the provisions of SFAS No. 123, effective November 14, 2002, the adoption of SFAS No. 123(R) did not have a material impact on the Company's Consolidated Financial Statements.

Had the Company applied the fair value based method of accounting for stock-based compensation awards issued prior to October 1, 2002, the Company's net income (loss) and income (loss) per share would have been the pro forma amounts as follows (in thousands except per share data):

	Year Ended December 31,		
	2006	2005	2004
	(In thousands)		
Net income (loss) as reported:	\$1,454	\$5,460	\$5,904
Add stock-based compensation expense included in reported income	235	227	456
Deduct stock-based compensation expense determined under the fair value based method for all awards	(235)	(227)	(373)
Pro forma net income (loss)	<u>\$1,454</u>	<u>\$5,460</u>	<u>\$5,987</u>
Basic income (loss) per common share:			
As reported	<u>\$.17</u>	<u>\$.64</u>	<u>\$.70</u>
Pro forma	<u>\$.17</u>	<u>\$.64</u>	<u>\$.71</u>
Diluted income (loss) per common share:			
As reported	<u>\$.17</u>	<u>\$.64</u>	<u>\$.69</u>
Pro forma	<u>\$.17</u>	<u>\$.64</u>	<u>\$.70</u>

The Company recorded an expense of approximately \$235,000 and \$227,000 for fiscal 2006 and 2005, respectively, related to options issued under the fair value based method. As of December 31, 2006, there was \$305,000 of total unrecognized compensation expense related to non-vested options which will be recognized over the remaining requisite service periods.

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

The following table summarizes information regarding stock options outstanding at December 31, 2006:

Number of options outstanding	491,500
Number of options exercisable	425,999
Weighted average exercise price	\$ 15.00
Aggregate intrinsic value for all options outstanding	\$ 906,068
Aggregate intrinsic value for all exercisable options	\$ 903,080
Weighted average contractual term remaining	5.1 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 2006, 2005 and 2004:

	<u>Year Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Volatility	—	27.15%	43.34%
Risk-free interest rate	—	4.01%	3.82%
Dividend yield	—	—	—
Expected lives in years	—	5.00	5.00
Weighted average fair value	\$ —	\$ 4.28	\$ 7.55

No options were granted for the period ended December 31, 2006.

12. 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, Madison National Life and Independence American 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, 2006 and 2005, Standard Security Life and Madison National Life ceded an average of 22.2% and 21.9%, respectively, of their medical stop-loss business to Independence American. Commencing in July 2004, Independence American began reinsuring 20% of Standard Security Life's short-term statutory disability benefit product ("DBL") business. In 2005, Standard Security Life and Madison National Life began ceding 10% of the majority of its fully insured business to Independence American.

IHC provides the Company with pro rata quota share reinsurance on business written by Independence American. This business accounted for approximately 2% of the Company's total earned premiums at December 31, 2006. Commencing in January 2004, Independence American began ceding 30% of its provider excess insurance to Madison National Life. In January 2005, Independence American increased the amount ceded to Madison National Life to 55%. This treaty was entered into on January 1, 2004 and will remain in force for an indefinite period, unless terminated by either party as of any December 31. The Company is not aware of any regulatory or other restrictions on the ability of IHC to fund its obligations under agreements in which IHC reinsures such provider excess business. Any such restrictions would at this point have a minimal impact on the Company. In addition, in 2006 Independence American ceded 50% of its STM business to unrelated reinsurers.

AMIC and its subsidiaries incurred expense of \$622,000, \$564,000 and \$550,000 for the twelve months ended December 31, 2006, 2005, and 2004 respectively, from its 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 AMIC and its subsidiaries, including accounting, legal, compliance, underwriting, and claims.

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

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, the MGU Subsidiaries market, underwrite and provide administrative services (including premium collection, medical management and claims adjudication) for a substantial portion of the medical stop-loss business written by the insurance subsidiaries of IHC and records related income, assets and liabilities in connection with that business. Such related party information is disclosed on the Consolidated Balance Sheets and Consolidated Statements of Operations. The Company also contracts for several types of insurance coverage (e.g. directors and officers and professional liability coverage) jointly with IHC. The cost of this coverage is split proportionally between the Company and IHC according to the type of risk and AMIC's portion is recorded in Selling, General and Administrative Expenses.

13. Income Taxes

The Company and its subsidiaries file a consolidated Federal income tax return on a September 30 fiscal tax year. The provision (benefit) for income taxes for the periods ended December 31, 2006, 2005 and 2004 are as follows:

	Year Ended December 31,		
	2006	2005	2004
	(In thousands)		
CURRENT:			
U.S. Federal	\$ 14	\$ 76	\$ 137
State and local	<u>77</u>	<u>247</u>	<u>367</u>
	<u>91</u>	<u>323</u>	<u>504</u>
DEFERRED:			
U.S. Federal	778	(294)	3,018
State and local	<u>91</u>	<u>91</u>	<u>47</u>
	<u>869</u>	<u>(203)</u>	<u>3,065</u>
	<u><u>\$960</u></u>	<u><u>\$ 120</u></u>	<u><u>\$3,569</u></u>

Taxes computed at the Federal statutory rate of 35% for the years ended December 31, 2006, 2005 and 2004 are reconciled to the Company's actual income tax expense (benefit) as follows:

	2006	2005	2004
	(In thousands)		
Tax computed at the statutory rate	\$863	\$ 1,974	\$3,315
Dividends received deduction and tax exempt interest	(20)	(11)	(19)
State and local income taxes, net of Federal effect	109	220	270
Valuation allowance	—	(2,079)	—
Other, net.	<u>8</u>	<u>16</u>	<u>3</u>
Income tax (benefit)	<u><u>\$960</u></u>	<u><u>\$ 120</u></u>	<u><u>\$3,569</u></u>

The Federal income tax provision (benefit) for the periods ending December 31, 2006, 2005 and 2004 include income tax provisions of \$792,000, \$1,861,000 and \$3,155,000, respectively, for the utilization of the Company's Federal net operating loss carryforwards (NOLs). The Company recorded deferred tax benefits on discontinued operations of \$29,000, \$31,000 and 0 for the periods ending December 31, 2006, 2005 and 2004, which were included in Gain (loss) on Disposition of Discontinued Operations, net of tax, in the Statement of Operations.

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

The tax effect of temporary differences that give rise to significant portions of the net deferred tax assets at December 31, 2006 and 2005 are as follows:

	2006	2005
	(In thousands)	
DEFERRED TAX ASSETS:		
Net liabilities associated with discontinued operations	\$ 222	\$ 324
Investments	644	644
Unpaid accruals	161	162
Property and equipment	141	141
Other	—	8
Compensation accruals	1,182	1,052
Goodwill	410	512
Insurance reserves	116	121
Unrealized securities losses	416	372
Net operating loss carryforwards	98,618	98,836
Total gross deferred tax assets	101,910	102,172
Less valuation allowance	(87,104)	(87,060)
Net deferred tax assets	14,806	15,112
DEFERRED TAX LIABILITIES:		
Other	(1,833)	(1,361)
Total gross deferred tax liabilities	(1,833)	(1,361)
Net deferred tax asset	\$ 12,973	\$ 13,751

During the year ended December 31, 2006 the Company increased its valuation allowance by \$44,000 representing an increase of deferred tax on unrealized losses allocated to equity. During the year ended December 31, 2005, the Company reduced its valuation allowance by \$1,807,000. This reduction included \$2,079,000 for the projected utilization of Federal operating losses which was allocated to operations and a \$272,000 increase of deferred tax on unrealized losses allocated to equity.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Management believes that it is more likely than not that the Company will realize the benefits of these net deferred tax assets recorded at December 31, 2006.

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

At December 31, 2006, the Company had Federal net operating loss carryforwards of approximately \$275,811,000 which expire as follows (in thousands).

Tax Year:	
2019	\$ 20,169
2020	70,327
2021	142,130
2022	41,152
2023	128
2024	2
2025	3
	<u>\$275,811</u>

At December 31, 2006, the Company also had net operating loss 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 Net Operating Loss Carryforwards ("NOLs") 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 carryforwards of net operating losses 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 shall 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.

14. Insurance Reserves

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

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

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

All of the Company's short-duration contracts are generated from our 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,		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(In thousands)		
Balance at a beginning of period	\$20,882	\$22,240	\$18,635
Less: reinsurance recoverables	<u>(4,069)</u>	<u>(4,344)</u>	<u>(4,262)</u>
Net balance at beginning of period	<u>16,813</u>	<u>17,896</u>	<u>14,373</u>
Amount incurred:			
Current year	45,830	44,417	37,443
Prior years	<u>1,969</u>	<u>305</u>	<u>1,730</u>
Total	<u>47,799</u>	<u>44,722</u>	<u>39,173</u>
Amount paid, related to:			
Current year	29,355	29,829	21,521
Prior years	<u>17,192</u>	<u>15,976</u>	<u>14,129</u>
Total	<u>46,547</u>	<u>45,805</u>	<u>35,650</u>
Net balance at end of period	<u>18,065</u>	<u>16,813</u>	<u>17,896</u>
Plus: reinsurance recoverables	<u>4,439</u>	<u>4,069</u>	<u>4,344</u>
Balance at end of period	<u>\$22,504</u>	<u>\$20,882</u>	<u>\$22,240</u>

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 amount incurred in 2006, 2005 and 2004 for prior years of \$1,969,000, \$305,000 and \$1,730,000, respectively, is primarily a result of re-estimation of unpaid losses on medical stop-loss reserves. This increase (decrease) is generally the result of on-going analysis of recent loss development trends.

15. Reinsurance

Independence American reinsures a portion of its provider excess loss 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, 2006, Independence American ceded to three highly rated reinsurers.

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

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

	<u>Gross Amount</u>	<u>Assumed from Other Companies</u>	<u>Ceded to Other Companies</u>	<u>Net Amount</u>	<u>% of Amount Assumed to Net</u>
Insurance Benefits:					
Year ended December 31, 2006	\$2,988	\$46,328	\$1,517	\$47,799	91%
Year ended December 31, 2005	1,503	44,148	929	44,722	91%
Year ended December 31, 2004	1,682	38,602	1,111	39,173	91%
Premiums Earned:					
Year ended December 31, 2006	\$2,295	\$66,554	\$1,072	\$67,777	93%
Year ended December 31, 2005	1,727	65,384	993	66,118	91%
Year ended December 31, 2004	2,506	59,365	1,668	60,203	91%

16. 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 31st day of December next preceding, such dividends may be paid so long as they have not been disapproved by the Delaware Insurance Commissioner within 30 days of its receipt of notice thereof. Independence American did not pay any dividends in 2006, 2005, and 2004.

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

17. Segment Information

Segment information is as follows (in thousands):

	<u>Year Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues:			
Independence American	\$ 70,380	\$ 68,293	\$62,301
MGU Subsidiaries	10,780	14,434	17,745
Corporate	259	158	110
Net realized investment gain	<u>66</u>	<u>245</u>	<u>222</u>
	<u>\$ 81,485</u>	<u>\$ 83,130</u>	<u>\$80,378</u>
Income (loss) from continuing operations before income tax:			
Independence American	\$ 2,500	\$ 2,886	\$ 4,329
MGU Subsidiaries	1,441	3,955	6,771
Corporate	(1,539)	(1,447)	(2,089)
Net realized investment gain	<u>66</u>	<u>245</u>	<u>222</u>
	<u>\$ 2,468</u>	<u>\$ 5,639</u>	<u>\$ 9,233</u>
Identifiable Assets at Year End:			
Independence American	\$ 69,435	\$ 64,125	
MGU Subsidiaries	59,211	58,652	
Corporate	<u>6,114</u>	<u>6,955</u>	
	<u>\$134,760</u>	<u>\$129,732</u>	

18. Other Comprehensive Income

The components of total comprehensive income, net of tax, include net income and certain amounts reported directly in equity, such as the after-tax unrealized gains and losses on investment securities available-for-sale. The components of other comprehensive income for fiscal years 2006, 2005 and 2004 are as follows (in thousands):

	<u>Net of tax</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(In thousands)		
Unrealized holding gains (losses) arising during the period	\$(348)	\$(782)	\$(246)
Less: reclassification adjustment for (gains) losses included in net income	<u>221</u>	<u>3</u>	<u>27</u>
Net unrealized gains (losses) on securities	<u>\$(127)</u>	<u>\$(779)</u>	<u>\$(219)</u>

American Independence Corp. and Subsidiaries
Notes to Consolidated Financial Statements — (Continued)

19. Quarterly Data

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

	Year Ended December 31, 2006			
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006
	(Unaudited)			
Total revenues	<u>\$19,403</u>	<u>\$19,771</u>	<u>\$20,247</u>	<u>\$22,014</u>
Net income	<u>\$ 393</u>	<u>\$ 354</u>	<u>\$ 97</u>	<u>\$ 610</u>
Net income per common share-basic	<u>\$.05</u>	<u>\$.04</u>	<u>\$.01</u>	<u>\$.07</u>
Net income per common share-diluted	<u>\$.05</u>	<u>\$.04</u>	<u>\$.01</u>	<u>\$.07</u>
	Year Ended December 31, 2005			
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005
	(Unaudited)			
Total revenues	<u>\$20,062</u>	<u>\$21,068</u>	<u>\$21,179</u>	<u>\$20,811</u>
Net income	<u>\$ 1,194</u>	<u>\$ 1,221</u>	<u>\$ 1,073</u>	<u>\$ 1,912</u>
Net income per common share-basic	<u>\$.14</u>	<u>\$.14</u>	<u>\$.13</u>	<u>\$.13</u>
Net income per common share-diluted	<u>\$.14</u>	<u>\$.14</u>	<u>\$.13</u>	<u>\$.13</u>

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

None

Item 9A. *Controls and Procedures*

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

There has been no change in AMIC's internal control over financial reporting during the fourth quarter of 2006 that has materially affected, or is reasonably likely to materially affect, AMIC's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm can be found in Item 8 of this form 10-K.

Item 9B. *Other Information*

None

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by this Item concerning the Company's directors and executive officers is incorporated by reference from the Company's definitive proxy statement relating to the annual meeting of stockholders to be held in June 2007, which definitive proxy statement will be filed with the Securities and Exchange Commission, under the headings, "Nominees," "Board Committees and Meetings," "Executive Officers," and "Section 16(a) Beneficial Ownership Reporting Compliance."

The Company's written Code of Business Ethics and Corporate Code of Conduct collectively apply to all of the Company's directors and employees, including the Company's executive officers, including, without limitation, the Company's principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. The Code of Business Ethics is available on the Company's website at www.americanindependencecorp.com/amic/ethics.htm. Changes to, or waivers of, the Code of Business Ethics will be disclosed on the same website.

Item 11. *Executive Compensation*

The information required by this Item is incorporated by reference to the sections of the Company's definitive proxy statement relating to the annual meeting of stockholders to be held in June 2007, which definitive proxy statement will be filed with the Securities and Exchange Commission, under the headings, "Executive Compensation," "Compensation Committee Interlocks and Insider Participation," "Compensation Committee Report," and "Compensation of Non- Employee Directors."

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this Item is incorporated by reference to the sections of the Company's definitive proxy statement relating to the annual meeting of stockholders to be held in June 2007, which definitive proxy statement will be filed with the Securities and Exchange Commission under the headings, "Security Ownership of

Certain Beneficial Owners and Management” and “Securities Authorized for Issuance Under Equity Compensation Plans.”

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this Item is incorporated by reference to the sections of the Company’s definitive proxy statement relating to the annual meeting of stockholders to be held in June 2007, which definitive proxy statement will be filed with the Securities and Exchange Commission, under the headings, “Nominees” and “Certain Relationships and Related Transactions.”

Item 14. *Principal Accounting Fees and Services*

The information required by this Item is incorporated by reference to the sections of the Company’s definitive proxy statement relating to the annual meeting of stockholders to be held in June 2007 which definitive proxy statement will be filed with the Securities and Exchange Commission, under the heading “Principal Accounting Fees and Services.”

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a) *Financial Statements and Exhibits*

	<u>Page</u>
<i>*(1) Financial Statement Schedules</i>	
Schedule I — Summary of investments — other than investments in related parties	75
Schedule II — Condensed financial information of Parent Company	76-78
Schedule III — Supplementary insurance information	79
Schedule IV — Valuation and Qualifying Accounts.	80
* All other schedules have been omitted as they are not applicable or not required, or the information is included in the Consolidated Financial Statements or Notes thereto	
(2) <i>Exhibits</i> . See Index to Exhibits included in this Annual Report on Form 10-K	81

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 15, 2007.

AMERICAN INDEPENDENCE CORP.

Signature

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

President, and Chief Executive Officer

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

Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities on March 15, 2007.

Signature

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

Director

/s/ Edward Netter
(Edward Netter)

Director

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

Director

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

Director

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

Director

/s/ Martin E. Winter
(Martin E. Winter)

Director

SCHEDULE I

AMERICAN INDEPENDENCE CORP. AND SUBSIDIARIES
SUMMARY OF INVESTMENTS — OTHER THAN INVESTMENTS IN RELATED PARTIES
AS OF DECEMBER 31, 2006

<u>Type of Investment</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amount Shown on Balance Sheet</u>
	(In thousands)		
FIXED MATURITIES:			
BONDS:			
Corporate securities	\$22,241	\$21,556	\$21,556
Collateralized mortgage obligations (CMO) and asset backed securities (ABS) . .	9,048	8,875	8,875
States, municipalities and political subdivisions	1,178	1,174	1,174
U.S. Government	8,211	7,983	7,983
Government sponsored enterprise (GSE)	3,046	2,982	2,982
Agency mortgage backed pass through securities (MBS)	133	130	130
TOTAL FIXED MATURITIES	<u>43,857</u>	<u>42,700</u>	<u>42,700</u>
NON-REDEEMABLE PREFERRED STOCKS	<u>2,215</u>	<u>2,181</u>	<u>2,181</u>
Short-term investments	4,649	4,649	4,649
Securities purchased under agreements to resell	6,676	6,676	6,676
Investment in Majestic	1,009	1,009	1,009
TOTAL INVESTMENTS	<u>\$58,406</u>	<u>\$57,215</u>	<u>\$57,215</u>

AMERICAN INDEPENDENCE CORP.

BALANCE SHEETS
(PARENT COMPANY ONLY)

	As of December 31,	
	2006	2005
	(In thousands)	
ASSETS:		
Cash and cash equivalents	\$ 99	\$ 2,913
Short-term investments	4,297	1,979
Securities purchased under agreements to resell	1,180	—
Investments in continuing consolidated subsidiaries	65,266	63,589
Other receivables	1	77
Other assets	529	569
Deferred tax asset	<u>12,973</u>	<u>13,752</u>
TOTAL ASSETS	<u><u>\$ 84,345</u></u>	<u><u>\$ 82,879</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable and other liabilities	\$ 706	\$ 601
Net liabilities associated with discontinued operations	<u>555</u>	<u>808</u>
TOTAL LIABILITIES	<u>1,261</u>	<u>1,409</u>
STOCKHOLDERS' EQUITY		
Preferred stock (none issued)	—	—
Common stock, 9,180,695 and 9,180,695 shares issued and 8,457,890 and 8,451,223 shares outstanding, respectively	92	92
Paid-in capital	479,399	479,192
Accumulated other comprehensive loss:		
Unrealized loss on investments, net	(1,191)	(1,064)
Treasury stock, at cost, 722,805 and 729,472 shares, respectively	(8,650)	(8,730)
Accumulated deficit	<u>(386,566)</u>	<u>(388,020)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>83,084</u>	<u>81,470</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 84,345</u></u>	<u><u>\$ 82,879</u></u>

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

AMERICAN INDEPENDENCE CORP.
STATEMENTS OF OPERATIONS
(PARENT COMPANY ONLY)

	<u>Year Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(In thousands)		
REVENUES:			
Net investment income	\$ 250	\$ 121	\$ 90
Net realized investment gains	384	248	249
Other income	—	—	15
	<u>634</u>	<u>369</u>	<u>354</u>
EXPENSES:			
General and administrative expenses and other	1,796	1,670	2,197
Restructuring (income) expense	—	(67)	—
	<u>1,796</u>	<u>1,603</u>	<u>2,197</u>
Loss before income tax expense	(1,162)	(1,234)	(1,843)
Income tax expense (benefit)	<u>(387)</u>	<u>(2,493)</u>	<u>(632)</u>
Income (loss) before equity in net income of subsidiaries	(775)	1,259	(1,211)
Equity in net income of subsidiaries	<u>2,283</u>	<u>4,260</u>	<u>6,875</u>
Income from continuing operations	1,508	5,519	5,664
Discontinued Operations:			
Income (loss) of discontinued operations	<u>(54)</u>	<u>(59)</u>	<u>240</u>
Net income	<u>\$ 1,454</u>	<u>\$ 5,460</u>	<u>\$ 5,904</u>

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

AMERICAN INDEPENDENCE CORP.
STATEMENTS OF CASH FLOWS
(PARENT COMPANY ONLY)

	Year Ended December 31,		
	2006	2005	2004
	(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 1,454	\$ 5,460	\$ 5,904
Adjustments to reconcile net income to net cash provided from operating activities:			
Deferred tax expense	869	(203)	3,065
Equity in net income of subsidiaries	(2,283)	(4,260)	(6,875)
Net realized investment (gains)	(384)	(248)	(249)
Provisions for restructuring	—	(67)	—
(Gain) loss from discontinued operations	54	59	(240)
Non-cash compensation expense	235	227	456
Change in operating assets and liabilities:			
Net sales of trading securities	392	248	249
Change in deferred tax asset	(91)	(90)	(533)
Change in other assets and liabilities	<u>201</u>	<u>343</u>	<u>(1,043)</u>
Net cash provided by (used by) operating activities of continuing operations ..	447	1,469	734
Net cash provided by (used by) operating activities of discontinued operations	<u>(307)</u>	<u>(187)</u>	<u>(192)</u>
Net cash provided by (used by) operating activities	<u>140</u>	<u>1,282</u>	<u>542</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase (decrease) in investments in and advances to consolidated subsidiaries	479	(1,376)	92
Net (purchases) sales of short-term investments	(2,305)	1,475	(320)
Net (purchases) sales of securities under resale and and repurchase agreements	<u>(1,180)</u>	<u>—</u>	<u>—</u>
Net cash provided by (used by) investing activities	<u>(3,006)</u>	<u>99</u>	<u>(228)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Exercise of common stock options	<u>52</u>	<u>95</u>	<u>198</u>
Net cash provided by (used by) financing activities	<u>52</u>	<u>95</u>	<u>198</u>
Increase (decrease) in cash and cash equivalents	(2,814)	1,476	512
Cash and cash equivalents, beginning of period	<u>2,913</u>	<u>1,437</u>	<u>925</u>
Cash and cash equivalents, end of period	<u>\$ 99</u>	<u>\$ 2,913</u>	<u>\$ 1,437</u>
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the period for:			
Income taxes	\$ 149	\$ 335	\$ 544

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

AMERICAN INDEPENDENCE CORP. AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION

	<u>Insurance Reserves</u>	<u>Premiums Earned</u>	<u>Net Investment Income Gains/ (Losses)</u>	<u>Insurance Benefits And Claims</u>	<u>Selling, General And Administrative Expenses</u>	<u>Premiums Written</u>
	(In thousands)					
FISCAL Year Ended December 31, 2006:						
Independence American.....	\$22,504	\$67,777	\$2,745	\$47,799	\$20,082	\$67,777
MGUs.....	—	—	305	—	8,387	—
Corporate.....	—	—	217	—	1,798	—
Total.....	<u>\$22,504</u>	<u>\$67,777</u>	<u>\$3,267</u>	<u>\$47,799</u>	<u>\$30,267</u>	<u>\$67,777</u>
FISCAL Year Ended December 31, 2005:						
Independence American.....	\$20,882	\$66,118	\$2,505	\$44,722	\$20,685	\$66,118
MGUs.....	—	—	195	—	8,835	—
Corporate.....	—	—	(199)	—	1,672	—
Total.....	<u>\$20,882</u>	<u>\$66,118</u>	<u>\$2,501</u>	<u>\$44,722</u>	<u>\$31,192</u>	<u>\$66,118</u>
FISCAL Year Ended December 31, 2004:						
Independence American.....	\$22,240	\$60,203	\$2,575	\$39,173	\$18,800	\$60,203
MGUs.....	—	—	61	—	8,630	—
Corporate.....	—	—	(345)	—	2,198	—
Total.....	<u>\$22,240</u>	<u>\$60,203</u>	<u>\$2,291</u>	<u>\$39,173</u>	<u>\$29,628</u>	<u>\$60,203</u>

AMERICAN INDEPENDENCE CORP.
STATEMENTS OF CASH FLOWS
SCHEDULE IV — VALUATION AND QUALIFYING ACCOUNTS

	<u>Balance at Beginning of Period</u>	<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts</u>	<u>Deductions</u>	<u>Balance at End of Period</u>
	(In thousands)				
Valuation Allowance on Deferred Tax					
Asset:					
Year ended December 31, 2006	\$87,060	\$ 44	\$ —	\$ —	\$87,104
Year ended December 31, 2005	\$88,867	\$ 272	\$ —	\$2,079(e)	\$87,060
Year ended December 31, 2004	\$89,664	\$(275)	\$ —	\$ 522(c)	\$88,867
Net Liabilities Associated with Discontinued Operations:					
Year ended December 31, 2006	\$ 808	\$ 83(d)	—	\$ 336(a)	\$ 555
Year ended December 31, 2005	\$ 936	\$ 90(d)	\$ —	\$ 218(a)	\$ 808
Year ended December 31, 2004	\$ 1,368	\$ —	\$(240)(b)	\$ 192(a)	\$ 936
Restructuring Reserve:					
Year ended December 31, 2006	\$ —	\$ —	\$ —	\$ —	\$ —
Year ended December 31, 2005	\$ 300	\$ —	\$ —	\$ 300(a)	\$ —
Year ended December 31, 2004	\$ 866	\$ —	\$ —	\$ 566(a)	\$ 300

- (a) Amounts written off and payments applied, net of receipts.
- (b) Payments applied were less than original reserve estimate.
- (c) Reduction due to acquisition of Majestic, effective July 2004.
- (d) Expected payments were more than original reserve estimate.
- (e) Reduction is based on management's periodic evaluation of the valuation allowance.

AMERICAN INDEPENDENCE CORP. AND SUBSIDIARIES
INDEX TO EXHIBITS

Item 15(A) (3)

<u>Exhibit No.</u>	<u>Description of Document</u>
2.1	Stock Purchase Agreement, dated as of July 30, 2002, between Registrant, SSH Corporation and Independence Holding Company. Incorporated by reference to exhibit 10.1 of the Registrant's Current Report on Form 8-K dated July 31, 2002
3.1	Second Amended and restated Certificate of Incorporation of the Registrant. Incorporated by reference to Exhibit 3.1 of the registrant's Annual Report on form 10K for the fiscal year ended September 30, 2002.
3.2	Amended By-Laws of the Registrant. Incorporated by reference to Exhibit 3.1 of the registrant's Annual Report on form 10K for the fiscal year ended September 30, 2002.
4.1	Registration Rights Agreement, dated as of July 30, 2002, between Registrant and Madison Investors Corporation. Incorporated by reference to exhibit 4.1 of the Registrant's Current Report on Form 8-K dated July 31, 2002.
4.2	Stock Agreement, dated as of July 30, 2002, between Registrant, Independence Holding Company and Madison Investors Corporation. Incorporated by reference to exhibit 10.2 of the Registrant's Current Report on Form 8-K dated July 31, 2002.
4.3	Rights Agreement, dated as of July 30, 2002, between Registrant and Mellon Investor Services LLC which includes the form of Certificate of Designations of the Series A Junior Participating Preferred Stock of Registrant as Exhibit A, the form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C. Incorporated by reference to exhibit 4.1 of the Registrant's Current Report on Form 8-K dated July 31, 2002.
10.1	Services Agreement, dated as of November 15, 2002, by and between American Independence Corp. and Independence Holding Company. Incorporated by reference to exhibit 10.2 of the Registrant's Current Report on Form 8-K dated November 14, 2002.
10.2	Agency Agreement, dated February 22, 2006, between the Registrant and First Integrated Health, Inc. Incorporated by reference to exhibit 10.2 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.
10.3	Registrant's 1998 Stock Incentive Plan Incorporated by reference to exhibit 99.1 of the Registrant's Registration Statement on Form S-8 dated May 10, 1999.
10.4	Registrant's 1999 Supplemental Stock Incentive Plan. Incorporated by reference to exhibit 99.1 of the Registrant's Registration Statement on Form S-8 dated June 8, 1999.
10.5	Binding Letter Agreement, dated as of November 7, 2006, by and among Independence American Insurance Company, Insurers Administrative Corporation and Mr. Peter W. Nauert d.b.a. Independent Producers Agency, Inc.
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

CORPORATE INFORMATION

Transfer Agent

- Please direct communications regarding individual stock records and address changes to: Registrar and Transfer Company, 10 Commerce Drive, Cranford, NJ 07016 (website: www.rtco.com). You can call our transfer agent at (800) 368-5948.

Investor Relations

- Securities analysts and investors should contact Investor Relations by writing to the Company's headquarters or by calling (212) 355-4141 x 3047.

Independent Registered Public Accounting Firm

- KPMG LLP, 345 Park Avenue, New York, NY 10154.

Corporate Headquarters

- Our corporate headquarters are located at 485 Madison Ave., 14th Floor, New York, New York 10022.

Corporate Governance

- The Company maintains a website at www.americanindependencecorp.com. Visitors to the Company website can view and print copies of the Company's SEC filings, including Forms 10-K, 10-Q and 8-K, as soon as reasonably practicable after those filings are made with the SEC. Copies of the Company's Code of Business Ethics and Corporate Code of Conduct are available through the Company website. Alternatively, shareholders may obtain, without charge, copies of all of these documents, as well as additional copies of this report, by writing to Investor Relations at the Company's headquarters. Please note that the information contained on Company's website is not incorporated by reference in, or considered to be a part of, this document.

LEADERSHIP INFORMATION

DIRECTORS:

Mr. Edward A. Bennett
President
Bennett Media Collaborative

Mr. Edward Netter
Chairman
Independence Holding Company

Mr. Myron M. Picoult
Independent Insurance Consultant

Mr. Ronald I. Simon
Independent Financial Consultant

Mr. Roy T.K. Thung
Chief Executive Officer
and President
Independence Holding Company

Mr. Martin E. Winter
Managing Director
Alvarez & Marsal LLC

EXECUTIVE OFFICERS:

Mr. Roy T.K. Thung
Chief Executive Officer
and President

Ms. Teresa A. Herbert
Chief Financial Officer
and Senior Vice President

Mr. David T. Kettig
Co-Chief Operating Officer
and Senior Vice President

Mr. Jeffrey C. Smedsrud
Chief Strategic Development Officer
and Senior Vice President

Mr. Scott M. Wood
Co-Chief Operating Officer
and Senior Vice President

Mr. Henry B. Spencer
Vice President — Investments

Mr. Adam C. Vandervoort
Vice President, General Counsel
and Secretary

END

American Independence Corp.
485 Madison Avenue, 14th Floor • New York, NY 10022