# AMERICAN INDEPENDENCE CORP.

## *NOTICE OF ANNUAL MEETING OF STOCKHOLDERS*
## *To Be Held June 19, 2009*

Dear Stockholders:

We cordially invite you to attend the 2009 annual meeting of the stockholders of American Independence Corp. ("AMIC"). The meeting will take place at the Hyatt Regency Greenwich, located at 1800 East Putnam Avenue, Old Greenwich, Connecticut 06870, on Friday, June 19, 2009 at 10:00 a.m. local time.

Details regarding admission to the meeting and the business to be conducted are described in the Notice of Internet Availability of Proxy Materials (the "Notice") you received in the mail. We have also made available a copy of our 2008 Annual Report with this proxy statement. We encourage you to read our Annual Report. It includes our audited financial statements and provides information about our business and products.

The purpose of the meeting is to:

1. elect six directors, each for a term of one year;

2. ratify the appointment of KPMG LLP as AMIC's independent registered public accounting firm for the fiscal year ending December 31, 2009;

3. approve the 2009 stock incentive plan; and

4. transact any other business that may properly come before the meeting.

Only stockholders of record at the close of business on April 20, 2009 may vote at the meeting or any postponements or adjournments of the meeting.

By order of the Board of Directors,

Adam C. Vandervoort
*Secretary*

April 30, 2009

**HOW TO VOTE: Your vote is important. Whether or not you plan to attend the meeting, we hope you will vote as soon as possible. You may vote over the Internet, as well as by telephone or, if you requested to receive printed proxy materials, by mailing a proxy or voting instruction card or voting on the Internet. Please review the instructions on each of your voting options described in this proxy statement as well as in the Notice you received in the mail.**

# 2009 PROXY STATEMENT

---

## TABLE OF CONTENTS


| | Page |
|---|---|
| **INFORMATION ABOUT THE ANNUAL MEETING** | 2 |
| What is the purpose of the annual meeting? | 2 |
| Who is entitled to vote? | 2 |
| Why did I receive a notice in the mail regarding the Internet availability of proxy materials instead of a full set of proxy materials? | 2 |
| How do I vote by proxy? | 2 |
| Am I entitled to vote if my shares are held in “street name”? | 2 |
| How many shares must be present to hold the meeting? | 3 |
| What if a quorum is not present at the meeting? | 3 |
| How can I vote my shares in person at the meeting? | 3 |
| How can I vote my shares without attending the meeting? | 3 |
| Can I change my vote? | 3 |
| Who can attend the meeting? | 4 |
| Will my vote be kept confidential? | 4 |
| Who will count the votes? | 4 |
| How does the Board of Directors recommend I vote on the proposals? | 4 |
| What if I do not specify how my shares are to be voted? | 4 |
| Will any other business be conducted at the meeting? | 4 |
| How many votes are required to elect the director nominees? | 5 |
| What happens if a nominee is unable to stand for election? | 5 |
| How many votes are required to ratify the appointment of AMIC’s independent registered public accounting firm? | 5 |
| How many votes are required to approve the adoption of the 2009 Stock Incentive Plan | 5 |
| How will abstentions be treated? | 5 |
| How will broker non-votes be treated? | 5 |
| **STOCK OWNERSHIP** | 6 |
| Directors and Executive Officers | 6 |
| Section 16(a) Beneficial Ownership Reporting Compliance | 6 |
| Significant Stockholders | 7 |
| **CORPORATE GOVERNANCE MATTERS** | 8 |
| Corporate Governance Documents | 8 |
| Director Independence | 8 |
| Audit Committee Financial Expert | 8 |
| Executive Sessions of Non-Management Directors | 8 |
| Communications with Directors | 8 |
| Nomination of Director Candidates | 9 |
| **MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS** | 10 |
| Meetings | 10 |
| Committees | 10 |
| Attendance at Annual Meeting of Stockholders | 10 |
| **EXECUTIVE OFFICERS** | 11 |
| **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS** | 12 |
| Compensation Committee Interlocks and Insider Participation | 12 |
| Transactions with Management and Other Relationships | 12 |
| **PROPOSAL 1 - ELECTION OF DIRECTORS** | 13 |
| **DIRECTORS’ COMPENSATION** | 15 |
| Equity Award | 15 |
| Director Summary Compensation | 16 |
| **EXECUTIVE COMPENSATION** | 17 |
| Compensation Discussion and Analysis | 17 |
| Outstanding Equity Awards at Fiscal Year-End | 17 |
| Compensation Committee Report | 17 |
| Potential Payments to Named Executive Officers | 17 |
| Equity Compensation Plans | 18 |

**TABLE OF CONTENTS**
(Continued)


| | Page |
|---|---|
| **REPORT OF THE AUDIT COMMITTEE** | 18 |
| **AUDIT AND NON-AUDIT FEES** | 19 |
| **PROPOSAL 2 - RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM** | 20 |
| Appointment of Independent Registered Public Accounting Firm | 20 |
| Vote Required for Ratification | 20 |
| **PROPOSAL 3 – APPROVAL OF THE 2009 STOCK INCENTIVE PLAN** | 20 |
| Background | 20 |
| Summary of 2009 Stock Incentive Plan | 21 |
| Vote Required for Approval | 26 |
| **OTHER MATTERS** | 26 |
| **ADDITIONAL INFORMATION** | 27 |
| Proxy Solicitation | 27 |
| Stockholder Proposals for 2010 Annual Meeting | 27 |

**AMERICAN INDEPENDENCE CORP.**
**485 Madison Avenue, New York, NY 10022**
**212-355-4141**
**www.americanindependencecorp.com**

# 2009 PROXY STATEMENT

AMIC's Board of Directors (the "Board") is furnishing you this proxy statement in connection with the solicitation of proxies on its behalf for the 2009 Annual Meeting of Stockholders. The meeting will take place at the Hyatt Regency Greenwich, located at 1800 East Putnam Avenue, Old Greenwich, Connecticut 06870, on Friday, June 19, 2009 at 10:00 a.m. local time. At the meeting, stockholders will vote on the election of six directors, the ratification of AMIC's independent registered public accounting firm and the adoption of AMIC's 2009 stock incentive plan (the "2009 Stock Incentive Plan" or "SIP"). Stockholders also will consider any other matter that may properly come before the meeting, although we know of no other business to be presented.

By submitting your proxy (via the Internet, telephone or mail), you authorize Mr. Adam C. Vandervoort, AMIC's Vice President, General Counsel and Secretary, and Ms. Teresa A. Herbert, AMIC's Chief Financial Officer and Senior Vice President, to represent you and vote your shares at the meeting in accordance with your instructions. They also may vote your shares to adjourn the meeting and will be authorized to vote your shares at any postponements or adjournments of the meeting.

AMIC's 2008 Annual Report, which includes AMIC's audited financial statements, is being made available to AMIC's stockholders concurrent herewith. Although the Annual Report is being made available concurrent with this proxy statement, it does not constitute a part of the proxy solicitation materials and is not incorporated by reference into this proxy statement.

We are first making this proxy statement and accompanying materials available to stockholders on or about April 30, 2009.

***YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE PROMPTLY VOTE YOUR SHARES OVER THE INTERNET, BY TELEPHONE OR BY MAIL.***

## INFORMATION ABOUT THE ANNUAL MEETING

**What is the purpose of the annual meeting?**

At the annual meeting, the stockholders will be asked to:

- elect six directors, each for a term of one year;
- ratify the appointment of KPMG LLP ("KPMG") as AMIC's independent registered public accounting firm for the fiscal year ending December 31, 2009; and
- approve the 2009 Stock Incentive Plan.

Stockholders also will transact any other business that may properly come before the meeting. Members of AMIC's management team will be present at the meeting to respond to appropriate questions from stockholders.

**Who is entitled to vote?**

The record date for the meeting is April 20, 2009. Only stockholders of record at the close of business on that date are entitled to vote at the meeting. The only class of stock entitled to be voted at the meeting is AMIC common stock. Each outstanding share of common stock is entitled to one vote for all matters before the meeting. At the close of business on the record date, there were 8,503,989 shares of AMIC common stock outstanding.

**Why did I receive a notice in the mail regarding the Internet availability of proxy materials instead of a full set of proxy materials?**

In accordance with rules adopted by the Securities and Exchange Commission (the "SEC"), we may now furnish proxy materials, including this proxy statement and our 2008 Annual Report, to our stockholders by providing access to such documents on the Internet instead of mailing printed copies. If you received a Notice by mail, you will not receive a printed copy of the proxy materials. Most stockholders will not receive printed copies of the proxy materials unless they request them. Instead, the Notice, which was mailed to most of our stockholders, will instruct you as to how you may access and review all of the proxy materials on the Internet. The Notice also instructs you as to how you may submit your proxy on the Internet. If you would like to receive a paper copy of our proxy materials, you should follow the instructions for requesting such materials in the Notice. If you vote by Internet or telephone, please do not mail your proxy card.

**How do I vote by proxy?**

You may vote by proxy using the Internet or telephone by following the instructions on your Notice. If you requested a printed set of materials, you may also vote by mail by signing, dating and returning the proxy card.

Please note that there are separate telephone and Internet arrangements depending on whether you are a registered stockholder (that is, if you hold your stock in your own name) or you hold your shares in "street name" (that is, in the name of a brokerage firm or bank that holds your securities account). In either case, you must follow the procedures described on your Notice.

**Am I entitled to vote if my shares are held in "street name"?**

If your shares are held by a bank, brokerage firm or other nominee, you are considered the "beneficial owner" of shares held in "street name." If your shares are held in street name, the proxy materials are being made available to you by your bank, brokerage firm or other nominee (the "record holder"), along with voting instructions. As the beneficial owner, you have the right to direct your record holder how to vote your shares, and the record holder is required to vote your shares in accordance with your instructions. If you do not give instructions to your bank, brokerage firm or other nominee, it will nevertheless be entitled to vote your shares in its discretion on the election of directors (Proposal 1) and the ratification of the appointment of the independent registered public accounting firm (Proposal 2).

As the beneficial owner of shares, you are invited to attend the annual meeting. If you are a beneficial owner, however, you may not vote your shares in person at the meeting unless you obtain a legal proxy, executed in your favor, from the record holder of your shares.

**How many shares must be present to hold the meeting?**

A quorum must be present at the meeting for any business to be conducted. The presence at the meeting, in person or by proxy, of the holders of a majority of the shares of common stock outstanding on the record date will constitute a quorum. Proxies received but marked as abstentions or treated as broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting.

**What if a quorum is not present at the meeting?**

If a quorum is not present or represented at the meeting, the holders of a majority of the shares entitled to vote at the meeting who are present in person or represented by proxy, or the chairman of the meeting, may adjourn the meeting until a quorum is present or represented. The time and place of the adjourned meeting will be announced at the time the adjournment is taken, and no other notice will be given.

**How can I vote my shares in person at the meeting?**

Shares held in your name as the stockholder of record may be voted by you in person at the meeting. Shares held beneficially in street name may be voted by you in person at the meeting only if you obtain a legal proxy from the broker, bank, trustee or nominee that holds your shares giving you the right to vote the shares. Even if you plan to attend the meeting, we recommend that you also submit your proxy or voting instructions as described below so that your vote will be counted if you later decide not to attend the meeting.

**How can I vote my shares without attending the meeting?**

Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the meeting. If you are a stockholder of record, you may vote by proxy. You can vote by proxy over the Internet or telephone by following the instructions provided in the Notice, or, if you requested to receive printed proxy materials, you can also vote by mail pursuant to instructions provided on the proxy card. If you hold shares beneficially in street name, you may also vote by proxy over the Internet or telephone by following the instructions provided in the Notice, or, if you requested to receive printed proxy materials, you can also vote by mail by following the voting instruction card provided to you by your broker, bank, trustee or nominee.

**Can I change my vote?**

You may change your vote at any time prior to the taking of the vote at the meeting. If you are the stockholder of record, you may change your vote by (1) granting a new proxy bearing a later date (which automatically revokes the earlier proxy) using any of the methods described above (and until the applicable deadline for each method), (2) providing a written notice of revocation to AMIC's Corporate Secretary at American Independence Corp., 485 Madison Avenue, 14$^{th}$ Floor, New York, New York 10022 prior to your shares being voted, or (3) attending the meeting and voting in person. Attendance at the meeting will not cause your previously granted proxy to be revoked unless you specifically so request. For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, bank, trustee or nominee following the instructions they provided, or, if you have obtained a legal proxy from your broker, bank, trustee or nominee giving you the right to vote your shares, by attending the meeting and voting in person.

**Who can attend the meeting?**

Only stockholders eligible to vote or their authorized representatives will be admitted to the meeting. If your shares are held in street name, you must bring the indicated portion of your voting instruction card. Alternatively, you may bring other proof of ownership, such as your most recent brokerage account statement, which clearly shows your ownership of AMIC common stock as of the record date. In addition, you must bring a valid government-issued photo identification, such as a driver's license or a passport, and a legal proxy from your broker, bank, trustee or nominee giving you the right to vote your shares in person at the meeting.

**Will my vote be kept confidential?**

Yes, your vote will be kept confidential and not disclosed to AMIC unless:

- required by law;
- you expressly request disclosure on your proxy; or
- there is a proxy contest.

**Who will count the votes?**

Broadridge Financial Solutions, an independent third party, will tabulate and certify the votes. A representative of Broadridge Financial Solutions will serve as the inspector of election.

**How does the Board of Directors recommend I vote on the proposals?**

Your Board recommends that you vote:

- FOR the election of the six nominees to the Board of Directors;
- FOR the ratification of the appointment of KPMG as AMIC's independent registered public accounting firm for the fiscal year ending December 31, 2009; and
- FOR the approval of the 2009 Stock Incentive Plan.

**What if I do not specify how my shares are to be voted?**

If you submit a proxy but do not indicate any voting instructions, your shares will be voted:

- FOR the election of the six nominees to the Board of Directors;
- FOR the ratification of the appointment of KPMG as AMIC's independent registered public accounting firm for the fiscal year ending December 31, 2009; and
- FOR the approval of the 2009 Stock Incentive Plan.

**Will any other business be conducted at the meeting?**

SEC regulations require stockholders to give advance notice of any proposal intended to be presented at the meeting. The deadline for this notice has passed and we have not received any such notices. If any other matter properly comes before the stockholders for a vote at the meeting, however, the proxy holders will vote your shares in accordance with their best judgment.

**How many votes are required to elect the director nominees?**

The affirmative vote of a plurality of the votes cast at the meeting is required to elect the six nominees as directors. This means that the six nominees will be elected if they receive more affirmative votes than any other person. If you vote "Withheld" with respect to one or more nominees, your shares will not be voted with respect to the person or persons indicated, although they will be counted for purposes of determining whether there is a quorum.

**What happens if a nominee is unable to stand for election?**

If a nominee is unable to stand for election, the Board may either reduce the number of directors to be elected or select a substitute nominee. If a substitute nominee is selected, the proxy holders will vote your shares for the substitute nominee, unless you have withheld authority.

**How many votes are required to ratify the appointment of AMIC's independent registered public accounting firm for the fiscal year ending December 31, 2009?**

The ratification of the appointment of KPMG as AMIC's independent registered public accounting firm for the fiscal year ending December 31, 2009 requires the affirmative vote of a majority of the shares present at the meeting in person or by proxy and entitled to vote.

**How many votes are required to approve the adoption of the 2009 Stock Incentive Plan?**

Adoption of the 2009 Stock Incentive Plan requires the affirmative vote of a majority of the shares present at the meeting in person or by proxy and entitled to vote.

**How will abstentions be treated?**

Abstentions will be treated as shares present for quorum purposes and entitled to vote, and will have the same practical effect as votes against a proposal.

**How will broker non-votes be treated?**

Broker non-votes will be treated as shares present for quorum purposes. Your broker will be entitled to vote your shares in its discretion on the election of directors (Proposal 1) and the ratification of the appointment of the independent registered public accounting firm for the fiscal year ending December 31, 2008 (Proposal 2), without your voting instructions on these items.

## STOCK OWNERSHIP

### Directors and Executive Officers

The following table sets forth the amount of AMIC's common stock beneficially owned by each director or nominee, the principal executive officer, the principal financial officer, and all directors, nominees and executive officers as a group, as of March 31, 2009. Unless otherwise indicated, beneficial ownership is direct and the person indicated has sole voting and investment power.

| Name | Number of Shares | Number of Option Shares (1) | Percent of Class (2) |
|---|---|---|---|
| Edward A. Bennett | 5,000 | 75,002 | * |
| Teresa A. Herbert | 3,100 | 36,668 | * |
| Edward Netter | --- (3) | ---- | --- |
| Myron M. Picoult | 1,000 | 14,445 | * |
| Ronald I. Simon | 60,000 | 31,390 | 1.07% |
| Roy T.K. Thung | 0 | 33,334 | * |
| Martin E. Winter | 7,500 | 14,445 | * |
| All directors and executive officers, as a group | 96,600(4) | 254,243(5) | 4.13% |

(1) Reflects the number of shares that could be acquired on March 31, 2009 or within sixty days thereafter through the exercise of stock options. The shares are excluded from the column headed "Number of Shares," but included in the ownership percentages reported in the column headed "Percent of Class."

(2) Based on 8,503,989 shares outstanding on March 31, 2009.

(3) A group consisting of Geneve Holdings, Inc. ("GHI") and certain of its affiliates are the beneficial owners of 8,155,611 shares of common stock of Independence Holding Company, which represents 53.05% of Independence Holding Company common stock as of March 31, 2009. Mr. Netter, Chairman and a Director of Independence Holding Company, is an executive officer and a Director of GHI. Mr. Netter and members of his family control GHI by virtue of his voting interest. Mr. Netter disclaims beneficial ownership as to the shares of AMIC's common stock owned by Independence Holding Company.

(4) Includes 20,000 shares owned by two executive officers not named in the table above.

(5) Includes 48,960 shares issuable pursuant to options granted to three executive officers not named in the table above, all of which options are exercisable within 60 days after March 31, 2009.

* Represents less than 1% of the outstanding Common Stock.

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires directors and certain officers of AMIC and persons who own more than ten percent of AMIC's common stock to file with the Securities and Exchange Commission initial reports of beneficial ownership (Form 3) and reports of subsequent changes in their beneficial ownership (Form 4 or Form 5) of AMIC's common stock. Such directors, officers and greater-than-ten-percent stockholders are required to furnish AMIC with copies of the Section 16(a) reports they file. The Securities and Exchange Commission has established specific due dates for these reports, and AMIC is required to disclose in this proxy statement any late filings or failures to file.

Based solely upon a review of the copies of the Section 16(a) reports (and any amendments thereto) furnished to AMIC and written representations from certain reporting persons that no additional reports were required, AMIC believes that its directors, reporting officers and greater-than-ten-percent stockholders complied with all these filing requirements for the fiscal year ended December 31, 2008.

**Significant Stockholders**

The following table lists certain persons known by AMIC to own beneficially more than five percent of AMIC's outstanding shares of common stock as of March 31, 2009.

| | Common Stock | Percentage of Outstanding Shares Beneficially Owned |
|---|---|---|
| Independence Holding Company(1) ........................................................................................ | 4,227,296 | 49.71% |

(1) Based on filings with the Securities and Exchange Commission supplemented by information provided to AMIC in response to a questionnaire. Includes 2,926,810 shares of Common Stock that may be deemed to be beneficially owned by Madison Investors Corp. ("MIC"), and 196,053 shares owned by Madison National Life Insurance Company, Inc. ("MNL"), both wholly owned subsidiaries of Independence Holding Company ("IHC"). The business address of IHC and MIC is 96 Cummings Point Road, Stamford, CT 06902. The business address of MNL is 1241 John Q. Hammons Drive, Madison, WI 53717.

To the best knowledge of AMIC, IHC has sole investment and voting power with respect to the shares listed above, and no other person or persons acting in concert own beneficially more than 5% of AMIC common stock.

## CORPORATE GOVERNANCE MATTERS

### Corporate Governance Documents

In furtherance of its longstanding goals of providing effective governance of AMIC's business and affairs for the long-term benefit of stockholders and promoting a culture and reputation of the highest ethics, integrity and reliability, the Board has adopted:

- a Code of Business Ethics that applies to AMIC's President and Chief Operating Officer, Chief Financial Officer, principal accounting officers or controller and other Company employees performing similar functions (the "Code of Ethics");
- a Corporate Code of Conduct that applies to all employees, officers and directors of AMIC and its subsidiaries and affiliates (the "Code of Conduct"); and
- written charters for its audit and compensation committees (the "Charters").

The Code of Ethics, Code of Conduct, and the Charters can be found on AMIC's website at www.americanindependencecorp.com, and are also available in print to any stockholder who requests them. The information on AMIC's website, however, is not incorporated by reference in, and does not form part of, this proxy statement. The Board does not anticipate modifying the Code of Ethics or the Code of Conduct, or granting any waivers to either, but were any such waiver or modification to occur, it would promptly be disclosed on AMIC's website.

### Director Independence

As a company listed on the NASDAQ Global Market, AMIC adopts and uses as its definition of independence the standards for independence set forth in the rules applicable to companies listed on the NASDAQ Global Market (the "NASDAQ Rules"). The Board has determined that four directors (Messrs. Bennett, Picoult, Simon and Winter, collectively "Independent Members") meet such definition of independence. The remaining directors, Messrs. Netter and Thung, were nominated by IHC pursuant to that certain Stock Agreement, dated as of July 30, 2002, among AMIC, IHC and a subsidiary of IHC pursuant to which, IHC is entitled to nominate at least two directors. Messrs. Netter and Thung are not independent. Since a majority of the Board is comprised of Independent Members, AMIC meets the independence standards in the NASDAQ Rules. For each independent director, after reasonable investigations and in reliance on representations made by such independent director to AMIC, AMIC believes there is no transaction, relationship, or arrangement not disclosed under the caption "Transaction with Related Persons".

### Audit Committee Financial Expert

The Board has determined that at least two member of the Board's Audit Committee (the "Audit Committee"), Messrs. Winter and Simon, qualify as "audit committee financial expert" as such term is defined in Item 401(h)(2) of Regulation S-K, promulgated by the Securities and Exchange Commission.

### Executive Sessions of Independent Members

Independent Members meet at least twice annually at regularly scheduled executive sessions, in connection with regularly scheduled Board meetings. At least once a year, such meetings include only the independent members of the Board. Mr. Winter presides over meetings of the non-employee and independent directors.

### Communications with Directors

You may communicate directly with any member or committee of the Board by writing to: AMIC Board of Directors, c/o Corporate Secretary, 485 Madison Avenue, 14th Floor, New York, New York 10022. Please specify to whom your letter should be directed. The Corporate Secretary of AMIC will review all such correspondence and regularly forward to the Board a summary of all such correspondence and copies of all correspondence that, in his opinion, deals with the functions of the Board or its committees or that he otherwise determines requires the attention of any member, group or committee of the Board. Board members may, at any time, review a log of all correspondence received by AMIC that is addressed to Board members and request copies of any such correspondence.

Interested parties who wish to communicate with non-management AMIC directors, or with the presiding director of the Board's executive sessions, may do so by writing to AMIC Board of Directors, c/o Corporate Secretary, Attn: Non-management Directors (or the Presiding Director for executive sessions, as applicable), 485 Madison Avenue, 14th Floor, New York, New York 10022. All such mail received will first be opened and screened for security purposes.

**Nomination of Director Candidates**

The NASDAQ Rules allow that, *in lieu* of an independent nominating committee, director nominees may be selected by a majority of a company's independent directors. Given the relatively small size of the Board and the Stock Agreement's requirements, AMIC believes that it is not necessary or appropriate to form a separate nominating committee and has elected instead to have the Independent Members fulfill these duties.

In selecting candidates for nomination to serve on the Board, the Independent Members begin by determining whether the incumbent directors desire and are qualified to continue their service on the Board. The Board is of the view that the continuing service of qualified incumbents promotes stability and continuity in the board room, giving AMIC the benefit of the familiarity and insight into AMIC's affairs that its directors have accumulated during their tenure, while contributing to the Board' ability to work as a collective body. Accordingly, it is the policy of the Independent Members, absent special circumstances, to nominate qualified incumbent directors who continue to satisfy AMIC's criteria for membership on the Board, who the Independent Members believe will continue to make important contributions to the Board and who consent to stand for reelection and, if reelected, to continue their service on the Board. If there are Board positions for which the Independent Members will not be re-nominating a qualified incumbent, the Independent Members will solicit recommendations for nominees from persons whom the Independent Members believe are likely to be familiar with qualified candidates, including members of the Board and senior management. The Independent Members will review and evaluate each candidate whom they believe merits serious consideration, taking into account all available information concerning the candidate, the qualifications for Board membership established by AMIC, the existing composition and mix of talent and expertise on the Board and other factors that they deem relevant. In conducting their review and evaluation, the Independent Members may solicit the views of management and other members of the Board and may, if deemed helpful, conduct interviews of proposed candidates.

By resolution adopted by the Board, AMIC requires that all candidates for director be persons of integrity and sound ethical character, be able to represent all stockholders fairly, have no interests that materially conflict with those of AMIC and its stockholders, have demonstrated professional achievement, have meaningful management, advisory or policy making experience, have a general appreciation of the major business issues facing AMIC, and have adequate time to devote to service on the Board. Additionally, AMIC requires that (subject to vacancies) a majority of directors be independent as defined under the NASDAQ Rules, that at least three of the directors have the financial literacy necessary for service on the audit committee and at least one of these directors qualify as an "audit committee financial expert," as defined by applicable SEC rules.

The Independent Members will consider recommendations for director nominations submitted by stockholders entitled to vote in the election of directors. However, the Independent Members will only consider candidates who satisfy the minimum qualifications for director outlined above. In considering a stockholder recommendation, the Independent Members will take into account, among other factors, the size and duration of the recommending stockholder's ownership interest in AMIC and whether the stockholder intends to continue holding that interest through the annual meeting date. Stockholders should be aware, as discussed above, that it is the general policy of AMIC to re-nominate qualified incumbent directors; and that, absent special circumstances, the Independent

Members will not consider other candidates when a qualified incumbent consents to stand for reelection. See "Stockholder Proposals" for procedures to forward stockholder nominations to the Independent Members.

## MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

### Meetings

During 2008, the Board and its committees held eight meetings. Each director attended at least 75% of the aggregate of: (i) the total number of meetings of the Board; and (ii) the total number of meetings held by all committees of the Board on which he served.

### Committees

The Board has an Audit Committee and a Compensation Committee (the "Compensation Committee"). The Audit Committee and the Compensation Committee both consist entirely of non-employee directors who satisfy the independence requirements in the NASDAQ Rules and applicable SEC rules and regulations. AMIC does not have a standing nominating committee, as explained above. Committee memberships are as follows:

| Audit Committee | Compensation Committee |
| --- | --- |
| Mr. Martin E. Winter (Chairman) | Mr. Ronald I. Simon (Chairman) |
| Mr. Edward A. Bennett | Mr. Myron M. Picoult |
| Mr. Myron M. Picoult | Mr. Martin E. Winter |
| Mr. Ronald I. Simon | |

***Audit Committee***. The principal functions of the Audit Committee are: (i) to select an independent registered public accounting firm; (ii) to review and approve management's plan for engaging AMIC's independent registered public accounting firm during the year to perform non-audit services, and consider what effect these services will have on the independence of AMIC's independent registered public accounting firm; (iii) to review AMIC's annual financial statements and other financial reports that require approval by the Board; (iv) to oversee the integrity of AMIC's financial statements, AMIC's systems of disclosure controls and internal controls over financial reporting and AMIC's compliance with legal and regulatory requirements; (v) to review the scope of AMIC's independent registered public accounting firm's audit plans and the results of their audit; and (vi) to evaluate the performance of AMIC's internal audit function and independent registered public accounting firm.

The Audit Committee met five times during 2008, principally in connection with its oversight of management's assessment of internal controls as required under Section 404 of the Sarbanes-Oxley Act of 2002. The Audit Committee and the Board have determined that each member of the Audit Committee is financially literate and Messrs. Winter and Simon qualify as "audit committee financial experts," as such term is defined in Item 401(h)(2) of Regulation S-K, promulgated by the Securities and Exchange Commission.

***Compensation Committee***. The Compensation Committee assists the Board in fulfilling its responsibilities with regard to compensation matters, is responsible for determining the compensation of AMIC's executive officers, administers AMIC's 1998 Stock Incentive Plan ("1998 Stock Incentive Plan") and will administer the 2009 Stock Incentive Plan. During 2008, no compensation was paid by AMIC to the Chief Executive Officer or other executive officers. The Compensation Committee acted by unanimous written consent in 2008 and did not meet in person.

The Compensation Committee exercises sole authority to determine and approve the Chief Executive Officer's compensation level. Management's recommendations as to the form and level of compensation of AMIC's other executive officers are subject to the approval of the Compensation Committee of the Board. The Committee has not retained a compensation consultant.

### Attendance at Annual Meeting of Stockholders

Each AMIC director is expected to be present at the Annual Meeting of Stockholders. Generally, if an AMIC director is unable to attend an annual meeting, AMIC endeavors to arrange for the director's participation by teleconference. At last year's annual meeting, every AMIC director attended in person.

## EXECUTIVE OFFICERS

Except for Mr. Thung, who serves as (and is nominated to continue as) a director of AMIC, set forth below is information about each executive officer of AMIC, including such officer's name, age, all positions and offices held with AMIC and its subsidiaries and principal occupations and business experience during the past five years. AMIC's officers are elected by the Board, each to serve until his or her successor is elected and has qualified, or until his or her earlier resignation, removal from office or death.

**Mr. Bernon R. Erickson, Jr.**, 48
*Chief Health Actuary and Senior Vice President*

Since June 2007, Chief Health Actuary and Senior Vice President; since April 2007, Chief Health Actuary and Senior Vice President of IHC; since April 2007, Chief Executive Officer and President of Actuarial Management Corporation, a wholly owned subsidiary of IHC; for more than five years prior to April 2007, President and founder of Actuarial Management Corporation.

**Ms. Teresa A. Herbert**, age 47
*Chief Financial Officer and Senior Vice President*

Since November 2002, Chief Financial Officer and Senior Vice President; since March 2005, Chief Financial Officer and Senior Vice President of IHC; since March 2001, Vice President of Geneve Corporation.

**Mr. David T. Kettig**, age 50
*Chief Operating Officer and Senior Vice President*

Since April 2009, Chief Operating Officer and Senior Vice President; from June 2007 to April 2009, Co-Chief Operating Officer and Senior Vice President; from November 2002 to June 2007, Chief Operating Officer and Senior Vice President; since December 1, 2006, President and a director of Independence American Insurance Company ("Independence American"), a wholly owned subsidiary of AMIC; since April 2009, Chief Operating Officer and Senior Vice President of IHC; from January 2006 to April 2009, Co-Chief Operating Officer and Senior Vice President of IHC.

**Mr. Jeffrey C. Smedsrud**, 50
*Chief Marketing and Strategy Officer and Senior Vice President*

Since June 2007, Chief Marketing and Strategy Officer and Senior Vice President; since April 2008, Chief Executive Officer of Independent Producers of America, LLC, a subsidiary of AMIC; since March 2006, Chief Marketing and Strategy Officer and Senior Vice President of IHC; since March 2006, Chief Executive Officer and President of IHC Health Solutions, Inc., a wholly owned subsidiary of IHC; for more than five years prior thereto, president and founder of CA Marketing and Management Services, LLC, the corporate predecessor to IHC Health Solutions, Inc.; prior thereto, managing partner of CORE Marketing.

**Mr. Henry B. Spencer**, age 69
*Vice President — Investments*

Since March 2005, Vice President — Investments; since March 2005, Vice President – Investments of IHC; for more than five years prior thereto, Chief Investment Officer of Head Asset Management, an investment advisory affiliate of Head & Co, merchant bankers in the insurance industry, located in New York, New York; for eleven years prior thereto, Senior Vice President — Investments for Guardian Life Insurance Company, located in New

York, New York.

**Mr. Adam C. Vandervoort**, age 34
*Vice President, General Counsel and Secretary*

Since September 2006, Vice President, General Counsel and Secretary; since September 2006, Vice President, General Counsel and Secretary of IHC; for more than five years prior to September 2006, attorney in private practice. Mr. Vandervoort is licensed to practice law in the states of California, Connecticut and New York.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

### Compensation Committee Interlocks and Insider Participation

Messrs. Simon, Picoult and Winter served on the Compensation Committee of the Board during fiscal year 2008.

### Transactions with Related Persons

***With IHC***

IHC and its wholly owned subsidiaries are the beneficial owner of 49.71% of AMIC's common stock.

Independence American has reinsurance treaties with insurance company subsidiaries of IHC pursuant to which these subsidiaries cede premiums to Independence American. For the year ended December 31, 2008, Independence American assumed premiums of $57,031,000 under these treaties.

Four of AMIC's subsidiaries earn fees relating to premiums they write on behalf of IHC's insurance company subsidiaries. These fees amounted to $6,128,000 for 2008.

AMIC and IHC and certain of their respective subsidiaries entered into service agreements pursuant to which one party may charge the other on an hourly or cost basis for services provided by employees of one party to the other. AMIC paid IHC $805,000 during 2008 and $235,000 during the first quarter of 2009 under these agreements. See Note 12 of the Notes to Consolidated Financial Statements in the Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

### Review, Approval, or Ratification of Transactions with Related Persons

Under the NASDAQ Rules Section 4350 (h), AMIC is required to conduct an appropriate review on an ongoing basis of all transactions disclosable pursuant to Regulation S-K Item 404 under this caption Transactions with Related Persons for potential conflict of interest situations, and all such transactions must be approved by the Audit Committee or another independent body of the Board of AMIC.

AMIC's governance documents specifically prohibit various conflict of interest situations and impose disclosure requirements in connection with any potential conflicts of interest.

The Audit Committee, with the assistance of AMIC's Vice President and General Counsel, has reviewed and approved each of the related-party transactions set forth above. AMIC is not aware of any transaction reportable under paragraph (a) of Item 404 of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended, in respect of 2008, that was not so reviewed and approved.

## PROPOSAL 1 – ELECTION OF DIRECTORS

The Board currently consists of six members. All of AMIC's directors are elected at each annual meeting of stockholders and hold office until the next annual meeting of stockholders. The Board proposes that each of the six current directors be reelected to the Board. Each of the directors elected at this annual meeting will hold office until the annual meeting of stockholders to be held in 2010 and until his successor is duly elected and qualified.

Each nominee has consented to being named in this proxy statement and has agreed to serve if elected. If a nominee is unable to stand for election, the Board may either reduce the number of directors to be elected or select a substitute nominee. If a substitute nominee is selected, the proxy holders will vote your shares for the substitute nominee, unless you have withheld authority.

The affirmative vote of a plurality of the votes cast at the meeting is required to elect the six nominees as directors. This means that the six nominees will be elected if they receive more affirmative votes than any other person.

**YOUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE ELECTION OF EACH OF THE SIX NOMINEES.**

The following table sets forth, with respect to each nominee, his name, age, principal occupation, employment during at least the past five years, the year he was first elected an AMIC director and directorships held in other public companies.

### NOMINEES FOR ELECTION TO THE BOARD

| Director, Year First Elected as Director | Age | Principal Occupation, Business and Directorships |
|---|---|---|
| EDWARD A. BENNETT, 1998 | 62 | Non-Executive Chairman of the Board since June 2001; from 2000 to 2001, a Partner of (212) Ventures, a venture capital firm dedicated to investing in infrastructure and wireless internet services and technologies; from 1997 until 2002, President and Chief Executive Officer of Bennett Media Collaborative, a new media, internet and technology consulting company; President and Chief Executive Officer of Prodigy Ventures, an internet/ technology investment firm, from June 1996 to June 1997, and President and Chief Executive Officer of Prodigy Services Corporation, an internet services company, from April 1995 to June 1996; prior to that, President and Chief Executive Officer at VH-1 Networks from 1989 to 1994, and Executive Vice President and Chief Operating Officer at Viacom Cable from 1979 to 1989. |
| EDWARD NETTER, 2002 | 76 | Chairman of the Board and a Director of IHC since December 1990; Chief Executive Officer of IHC from December 1990 until January 2000; Chairman of the Board since February 1978 and a Director since 1977 of Geneve Corporation ("Geneve"); since January 1998, a Director of The Aristotle Corporation ("Aristotle"), a publicly held company with its principal executive offices in Stamford, Connecticut, which is a leading manufacturer and global distributor of educational, health and agricultural products. |

| Director, Year First Elected as Director | Age | Principal Occupation, Business and Directorships |
|---|---|---|
| MYRON M. PICOULT, 2002 | 67 | Since April 2004, a self-employed independent insurance consultant; from July 2002 through April 2004, an advisor working exclusively for Lazard Freres & Company, an investment bank located in New York, New York, with regard to all facets of the insurance industry; from July 1996 through July 2002, a Senior Advisor at Dresdner Klienwort Wasserstein, an investment bank located in New York, New York; from August 1995 to July 1996, a Managing Director and Senior Insurance Analyst for First Manhattan Company, an investment firm located in New York, New York; from June 1979 to June 1995, a Managing Director and Senior Insurance Analyst for Oppenheimer & Company, Inc., an investment bank located in New York, New York; from February 1971 through May 1979, a Limited Partner and Senior Insurance Analyst for Bear, Stearns and Company, an investment bank located in New York, New York. |
| RONALD I. SIMON, 1995 | 70 | Chairman of the Board from August 1997 until April 1999, Vice Chairman of the Board from April 1999 to February 2001, Acting Chairman of the Board, Chief Executive Officer and Chief Financial Officer from February 2001 through May 2001, Chairman of the Compensation Committee since January 2003, and a member of the Audit Committee since January 2005; from May 1997 through April 2000, Executive Vice President and Chief Financial Officer of Western Water Company, and a Director of the company from September 1999 to September 2001; a Director of Collateral Therapeutics Inc., a developer of non-surgical gene therapy procedures for the treatment of cardiovascular diseases, from May 1999 through July 2002, when the company was acquired by Schering, AG; from January 2006 through January 2009, a Director of Cardium Therapeutics, a company formed to acquire and further develop the procedures originally developed by Collateral Therapeutics; from August 2001 through June 2002, Chief Financial Officer of Wingcast, Inc., a joint venture of Ford Motor Company and Qualcomm, Inc.; from April 2003 through April 2005, Director of BDI Investment Corp., a closely held regulated investment company; from March 2003 through February 2006, a Director of WFS Financial, Inc., one of the nation's largest independent automobile finance companies. |
| ROY T.K. THUNG, 2002 | 65 | Since November 2002, Chief Executive Officer and President; Chief Executive Officer, President and a Director of IHC since January 2000; from July 1999 to December 1999, President, Chief Operating Officer and a Director of IHC; from November 1993 to July 1999, Executive Vice President, Chief Financial Officer, Treasurer and a Director of IHC; from October 1993 to July 1999, Executive Vice President and Chief Financial Officer of Geneve; since July 1999, Executive Vice President of Geneve; since June 2002, a Director of Aristotle. |

| Director, Year First Elected as Director | Age | Principal Occupation, Business and Directorships |
|---|---|---|
| MARTIN E. WINTER, 2002 | 55 | Chairman of the Audit Committee since December 2002; since September 2003, a Managing Director of Alvarez & Marsal, a global diversified professional services firm, which assists companies to solve problems and unlock value; from 2002 to 2005, Chief Executive Officer of Independent Board Advisory Services, located in New York, New York, which provides clearly defined solutions and objective financial analysis to audit committees and boards of directors of publicly held companies, and was affiliated with Alvarez & Marsal; from 1988 to September 2002, a principal (since 1994), Senior Vice President and Director, and Chief Financial Officer and other positions at various times, with MD Sass Investors Services, Inc. and affiliated companies, a privately held investment management firm; for more than five years prior to 2000, Secretary and Treasurer of Corporate Renaissance Group, Inc., a publicly traded business development company. |

## DIRECTORS' COMPENSATION

The general policy of the Board is that compensation for independent directors should be a mix of cash and equity. The Compensation Committee has the primary responsibility for reviewing and considering any revisions to director compensation. Messrs. Netter and Thung have waived all compensation for their service as directors, including the option grants outlined below.

During 2009, each non-employee (outside) director will be paid:

- an annual retainer of $25,500;
- $1,000 per meeting date for each date on which such director attends one or more meetings of the Board or its committees; and
- $2,500 for service as chairman of the Board or one of its committees.

### Equity Award

Pursuant to the Automatic Option Grant Program under the 1998 Stock Incentive Plan, each individual elected or appointed as a non-employee board member was, and pursuant to the Automatic Option Grant Program under the 2009 Stock Incentive Plan, each individual elected or appointed as a non-employee board member will be, automatically granted, on the date of such initial election or appointment, a non-statutory option to purchase 6,667 shares of AMIC's common stock, provided that the individual has not previously been in the employ of AMIC (or any parent or subsidiary of AMIC). In addition, each such individual will automatically be granted one or more additional non-statutory options for 6,667 shares of common stock, with the first such additional 6,667-share option grant to be made at the annual stockholders meeting which is held in the third calendar year after the calendar year in which he received the initial 6,667-share grant, and each such additional 6,667-share grant to be made at every third annual stockholders meeting held thereafter for so long as such individual continues to serve as a non-employee board member. Each such option will have an exercise price per share equal to 100% of the fair market value per share of AMIC's common stock on the option grant date and a maximum term of ten years measured from the grant date. Each such option will be immediately exercisable for all applicable option shares, and the shares subject to each automatic option grant will vest in six successive equal semi-annual installments upon the optionee's completion of each six months of board service over the thirty-six month period measured from the option grant date.

**Director Summary Compensation**

The following table summarizes compensation paid to the Independent Members during 2008:

| Name | Fees Earned or Paid in Cash ($) | Stock Awards ($) | Total ($) |
|---|---|---|---|
| Mr. Edward A. Bennett (Chairman) | $35,000 | $10,000 | $45,000 |
| Mr. Myron M. Picoult | $33,500 | $6,500 | $40,000 |
| Mr. Ronald I. Simon | $35,000 | $10,000 | $45,000 |
| Mr. Martin E. Winter | $36,000 | $6,500 | $42,500 |

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

During fiscal year 2008, no compensation was paid by AMIC to any of its executive officers, and all amounts paid by AMIC with respect to any services received from these individuals were paid to IHC pursuant to the terms of a service agreement — see "Certain Relationships and Related Transactions."

### Outstanding Equity Awards at Fiscal Year-End

| Name | Number of Securities Underlying Unexercised Options Exercisable | Number of Securities Underlying Unexercised Options Unexercisable | Option Exercise Price ($) | Option Expiration Date |
|---|---|---|---|---|
| Mr. Roy T.K. Thung | 33,334 | 0 | $7.80 | 11/25/2012 |
| Ms. Teresa A. Herbert | 13,334 | 0 | $7.80 | 11/25/2012 |
| | 5,000 | 0 | $7.50 | 1/28/2013 |
| | 8,334 | 0 | $14.01 | 1/22/2014 |
| | 9,375 | 625 (1) | $14.10 | 3/08/2015 |

(1) Such unvested portion vests at a schedule of 208 shares per month subsequent to December 31, 2008.

### Compensation Committee Report

The Compensation Committee assists the Board in fulfilling its responsibilities with regard to compensation matters, and is responsible for determining the compensation of AMIC's executive officers. The Compensation Committee has sole authority to determine the compensation for AMIC's Chief Executive Officer. The Compensation Committee has reviewed and discussed the "Compensation Discussion and Analysis" section of this proxy statement with management, including AMIC's Chief Executive Officer and AMIC's Chief Financial Officer. Based on this review and discussion, the Compensation Committee recommended to the Board that the "Compensation Discussion and Analysis" section be included in AMIC's 2008 Annual Report on Form 10-K and in this proxy statement.

### Potential Payments to Named Executive Officers

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

**Equity Compensation Plans**

The following table sets forth certain information as of December 31, 2008 with respect to compensation plans under which shares of AMIC common stock may be issued.

| Plan Category | (a) Number of Securities to be Issued upon Exercise of Outstanding Options | (b) Weighted Average Exercise Price of Outstanding Options($) | (c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Excluding Securities Reflected in Column (a) |
|---|---|---|---|
| Equity compensation plans approved by security holders .... | 419,817 | 14.37 | 6,550,556 |

## REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board is comprised of directors who meet the standards for independence set forth in the NASDAQ Rules. The Audit Committee operates under a written charter adopted, and reviewed annually, by the Board. The Charter was last revised in April 2003, and was reviewed by the Board without change in March 2009. The Audit Committee performed a self-evaluation and review of the performance of the Committee and its members, including a review of the Committee's compliance with the Charter.

Management of AMIC has primary responsibility for the financial reporting process, the preparation of financial statements in conformity with U.S. generally accepted accounting principles, the system of internal accounting and financial controls and the establishment of procedures designed to insure compliance with accounting standards and applicable laws and regulations. KPMG is responsible for auditing AMIC's financial statements. The Audit Committee's responsibility is to monitor and review these processes and procedures. Audit Committee members are not professionally engaged in the practice of accounting or auditing. The Audit Committee relies, without independent investigation or verification, on the information provided to it, including the representations of management that the financial statements have been prepared with integrity and objectivity, and the representations of management and the opinion of KPMG that such financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.

The Audit Committee also reviewed the Report of Management on Internal Control over Financial Reporting contained in AMIC's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 prior to filing such report with SEC, as well as KPMG's Reports of Independent Registered Public Accounting Firm (also included in AMIC's Annual Report on Form 10-K) and KPMG's reports related to the audit of AMIC's consolidated financial statements. The Audit Committee continues to oversee AMIC's efforts related to its internal control over financial reporting and management's preparations for the evaluation in 2009.

The Audit Committee met with management periodically during the year to consider the adequacy of AMIC's internal controls and the objectivity of its financial reporting. The Audit Committee discussed these matters with appropriate Company financial and internal audit personnel and with KPMG. The Audit Committee also discussed with AMIC's senior management the process used for certifications by AMIC's chief executive officer and chief financial officer which are required for certain filings with SEC.

The Audit Committee appointed KPMG as AMIC's independent registered public accounting firm for AMIC after reviewing the firm's performance and independence from management.

The Audit Committee reviewed with management and KPMG, AMIC's audited financial statements and met separately with both management and KPMG to discuss and review those financial statements and reports prior to issuance. Management has represented to the Audit Committee that the financial statements were prepared in conformity with U.S. generally accepted accounting principles. KPMG's report states the firm's opinion that such financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.

The Audit Committee has reviewed and discussed with KPMG its independence from AMIC and its management. The Audit Committee received from KPMG the written disclosure and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). This letter relates to that firm's independence from AMIC. The Audit Committee also discussed with KPMG matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees) to the extent applicable. The Audit Committee implemented a procedure to monitor auditor independence, reviewed audit and non-audit services performed by KPMG, and discussed with KPMG its independence.

Based on these reviews and discussions, the Audit Committee recommended to the Board that AMIC's audited financial statements be included in AMIC's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

**Audit Committee Members**

Mr. Martin E. Winter, Chairman
Mr. Edward A. Bennett
Mr. Myron M. Picoult
Mr. Ronald I. Simon

## AUDIT AND NON-AUDIT FEES

The following table sets forth fees for services KPMG provided to AMIC during 2008 and 2007:

| | **2008** | **2007** |
|---|---|---|
| Audit fees | $350,000 | $425,000 |
| Total | $350,000 | $425,000 |

- *Audit Fees*. Represents fees for professional services provided for the audit of AMIC's annual financial statements and the review of AMIC's quarterly financial statements and audit services provided in connection with other statutory or regulatory filings.

Before AMIC's independent registered public accounting firm is engaged by AMIC or any of its subsidiaries to render any audit or non-audit services, such engagement is first approved by the Audit Committee of the Board. The Audit Committee has determined that the provision of non-audit services by KPMG may be compatible with maintaining KPMG's independence.

## PROPOSAL 2 – RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**Appointment of Independent Registered Public Accounting Firm**

KPMG audited AMIC's annual financial statements for the fiscal year ended December 31, 2008. The Audit Committee has appointed KPMG to be AMIC's independent registered public accounting firm for the fiscal year ending December 31, 2009. The stockholders are asked to ratify this appointment at the annual meeting. Representatives of KPMG will be present at the meeting to respond to appropriate questions and to make a statement if they so desire.

**Vote Required for Ratification**

The Audit Committee is responsible for selecting AMIC's independent registered public accounting firm. Accordingly, stockholder approval is not required to appoint KPMG as AMIC's independent registered public accounting firm for the fiscal year ending December 31, 2009. The Board believes, however, that submitting the appointment of KPMG to the stockholders for ratification is a matter of good corporate governance. If the stockholders do not ratify the appointment, the Audit Committee will review its future selection of the independent registered public accounting firm.

The ratification of the appointment of KPMG as AMIC's independent registered public accounting firm for the fiscal year ending December 31, 2009 requires the affirmative vote of a majority of the shares present at the meeting in person or by proxy and entitled to vote.

**YOUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THIS PROPOSAL.**

## PROPOSAL 3 – APPROVAL OF THE 2009 STOCK INCENTIVE PLAN

**Background**

Subject to stockholder approval, the Board has adopted the AMIC 2009 Stock Incentive Plan and is proposing that the SIP be approved by AMIC's stockholders at the Annual Meeting to enable AMIC to design appropriate awards and incentives for the persons eligible to participate in the SIP. Other than automatic stock option grants to non-employee members of the Board, the exact amounts and nature of the proposed awards under the SIP have not yet been determined, although the SIP permits grants of stock options, stock appreciation rights ("SARs"), restricted stock or units, deferred share units, and performance awards ("Awards"). A copy of the SIP is set forth in full in Appendix A to this proxy statement, and the following description of the SIP is qualified in its entirety by reference to Appendix A.

The Board believes that the SIP is an important factor in attracting, retaining and motivating employees, consultants, agents, and directors of AMIC and its corporate affiliates. The Board believes that AMIC needs the flexibility to make future awards in a form other than stock options.

The SIP will reserve 6,550,556 shares of Common Stock for future awards to eligible employees, consultants, agents, and directors of AMIC and its corporate affiliates from shares that remained available for awards under the 1998 Stock Incentive Plan which expired on October 7, 2008. Stockholder approval of the SIP will enable AMIC to make awards that qualify as performance-based compensation that is exempt from the deduction limitation set forth under Section 162(m) of the Internal Revenue Code. Subject to certain exceptions, Section 162(m) generally limits corporate income tax deductions to $1,000,000 annually for compensation paid to each of the Chief Executive Officer and the other four highest paid executive officers of AMIC.

If the SIP is approved by the stockholders, the Board intends to cause the shares of Common Stock that will become available for issuance under the SIP to be registered on applicable registration statements to be filed with the Securities and Exchange Commission ("SEC"), at AMIC's expense.

**Summary of 2009 Stock Incentive Plan**

The following summary is not intended to be complete and reference should be made to Appendix A for a complete statement of the terms and provisions of the SIP. Capitalized terms used in this summary and not otherwise defined in this proxy statement will have the meanings ascribed to such terms in the SIP.

*Purpos*e. The purpose of the SIP is to attract, retain and motivate select employees, officers, directors, consultants, and agents of AMIC and its affiliates (referred to collectively as "Eligible Persons") and to provide incentives and rewards to Eligible Persons for superior performance.

*Shares Subject to the SIP.* The SIP provides that no more than 6,550,556 shares of Common Stock may be issued pursuant to Awards under the SIP. These shares shall be authorized but unissued shares, or shares that AMIC has reacquired or otherwise holds in treasury or in a trust. The number of shares available for Awards, as well as the terms of outstanding Awards, are subject to adjustment as provided in the SIP for stock splits, stock dividends, recapitalizations and other similar events. Shares of Common Stock that are subject to any Award that expires, or is forfeited, cancelled or becomes unexercisable will again be available for subsequent Awards, except as prohibited by law.

*Administration.* Either the Board of Directors or a committee appointed by the Board will administer the SIP. The Board of Directors and any committee exercising discretion under the SIP are referred to as the "Committee." The Board of Directors may, at any time, appoint additional members to the Committee, remove and replace members of the Committee, with or without cause, and fill vacancies on the Committee. To the extent permitted by law, the Committee may authorize one or more persons who are reporting persons for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, (or other officers) to make Awards to Eligible Persons who are not reporting persons for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (or other officers whom AMIC has specifically authorized to make Awards). With respect to decisions involving an Award intended to satisfy the requirements of Section 162(m) of the Code, the Committee is to consist of two or more directors who are "outside directors" for purposes of that Code section. The Committee may delegate administrative functions to individuals who are reporting persons for purposes of Rule 16b-3 of the Exchange Act, officers or employees of AMIC or its affiliates.

Subject to the terms of the SIP, the Committee has express authority to determine the Eligible Persons who will receive Awards, the number of shares of Common Stock, units or dollars to be covered by each Award, and the terms and conditions of Awards. The Committee has broad discretion to prescribe, amend, and rescind rules relating to the SIP and its administration, to interpret and construe the SIP and the terms of all Award agreements, and to take all actions necessary or advisable to administer the SIP. Within the limits of the SIP, the Committee may accelerate the vesting of any Award, allow the exercise of unvested Awards, and may modify, replace, cancel or renew them.

The SIP provides that AMIC and its affiliates will indemnify members of the Committee and their delegates against any claims, liabilities or costs arising from the good faith performance of their duties under the SIP. The SIP releases these individuals from liability for good faith actions associated with the SIP's administration.

*Options Grant Limitations.* The Committee may grant options that are intended to qualify as incentive stock options ("ISOs") only to employees, and may grant all other Awards to Eligible Persons. The SIP and the discussion below use the term "Participant" to refer to an Eligible Person who has received an Award. The SIP provides that for any calendar year not more than 200,000 shares of Common Stock may be issued to any Participant under the SIP pursuant to Awards in the form of stock options and SARs.

*Options.* Options granted under the SIP provide Participants with the right to purchase shares of Common Stock at a predetermined exercise price. The Committee may grant options that are intended to qualify as ISOs or options that are not intended to so qualify ("Non-ISOs"). The SIP provides for the automatic grant every three years of Non-ISOs to non-employee Board members over their period of service on AMIC's Board of Directors. Each such automatic Award would grant non-employee directors Non-ISOs to purchase 6,667 shares of Common Stock, which would best in equal semi-annual installments over three years. The SIP also provides that ISO treatment may not be available for options that become first exercisable in any calendar year to the extent the value of the underlying shares that are the subject of the option exceed $100,000 (based upon the fair market value of the shares of Common Stock on the option grant date).

*Share Appreciation Rights (SARs).* A share appreciation right generally permits a Participant who receives it to receive, upon exercise, cash and/or shares of Common Stock equal in value to an amount determined by multiplying (a) the excess of the fair market value, on the date of exercise, of the shares of Common Stock with respect to which the SAR is being exercised, over the exercise price of the SAR for such shares by (b) the number of Shares with respect to which the SARs are being exercised. The Committee may grant SARs in tandem with options or independently of them. SARs that are independent of options may limit the value payable on its exercise to a percentage, not exceeding 100%, of the excess value.

*Exercise Price for Options and SARs.* The exercise price of ISOs, Non-ISOs, and SARs may not be less than 100% of the fair market value on the grant date of the shares of Common Stock subject to the Award (110% of fair market value for ISOs granted to employees who, at the time of grant, own more than 10% of AMIC's outstanding shares of Common Stock). As of the Record Date, the closing price of a share of Common Stock on the NASDAQ Global Market was $3.50 per share.

*Exercise of Options and SARs.* To the extent exercisable in accordance with the agreement granting them, an option or SAR may be exercised in whole or in part, and from time to time during its term; subject to earlier termination relating to a holder's termination of employment or service. With respect to options, the Committee has the discretion to accept payment of the exercise price in any of the following forms (or combination of them): cash or check in U.S. dollars, certain shares of Common Stock, and cashless exercise under a program the Committee approves. The term over which Participants may exercise options and SARs may not exceed ten years from the date of grant (five years in the case of ISOs granted to employees who, at the time of grant, own more than 10% of AMIC's outstanding shares of Common Stock).

Subject to the terms of the agreement evidencing an option grant, the option may be exercised during the one-year period after the optionee retires, during the one-year period after the optionee's termination of service due to death or permanent disability, and during the 90-day period after the optionee's termination of employment without cause (but in no case later than the termination date of the option). The agreements evidencing the grant of an option may, in the discretion of the Committee, set forth additional or different terms and conditions applicable to such option upon a termination or change in status of the employment or service of the option holder. All SARs are to be settled in shares of AMIC's stock and shall be counted in full against the number of shares available for award under the SIP, regardless of the number of exercise gain shares issued upon settlement of the SARs.

*Restricted Shares, Restricted Share Units, Unrestricted Shares and Deferred Share Units.* Under the SIP, the Committee may grant restricted shares that are forfeitable until certain vesting requirements are met, may grant restricted share units which represent the right to receive shares of Common Stock after certain vesting requirements are met, and may grant unrestricted shares as to which the Participant's interest is immediately vested. For restricted Awards, the SIP provides the Committee with discretion to determine the terms and conditions under which a Participant's interest in such Awards becomes vested. The SIP provides for deferred share units in order to permit certain directors, consultants, agents, or select members of management to defer their receipt of compensation payable in cash or shares of Common Stock (including shares that would otherwise be issued upon the vesting of restricted shares and restricted share units). Deferred share units represent a future right to receive shares of Common Stock.

Whenever shares of Common Stock are released pursuant to these Awards, the Participant will be entitled to receive additional shares of Common Stock equal to the sum of (i) any stock dividends that AMIC's stockholders received between the date of the Award and issuance or release of the shares of Common Stock and (ii) a number of additional shares of Common Stock equal to the shares of Common Stock that the Participant could have purchased at Fair Market Value on the payment date of any cash dividends for shares of Common Stock if the Participant had received such cash dividends between its grant date and its settlement date.

*Performance Awards.* The SIP authorizes the Committee to grant performance-based awards in the form of Performance Units that the Committee may or may not designate as "Performance Compensation Awards" that are intended to be exempt from Code section 162(m) limitations. In either case, Performance Awards vest and become payable based upon the achievement, within the specified period of time, of performance objectives applicable to the individual, AMIC or any affiliate. Performance Awards are payable in shares of Common Stock, cash or some combination of the two; subject to an individual Participant limit, respectively, of 60,000 shares of Common Stock and of a cash amount equal to $1,500,000 per performance period. The Committee decides the length of performance periods, but the periods may not be less than one fiscal year of AMIC.

With respect to Performance Compensation Awards, the SIP requires that the Committee specify in writing the performance period to which the Award relates, and an objective formula by which to measure whether and the extent to which the Award is earned on the basis of the level of performance achieved with respect to one or more performance measures. Once established for a performance period, the performance measures and performance formula applicable to the Award may not be amended or modified in a manner that would cause the compensation payable under the Award to fail to constitute performance-based compensation under Code section 162(m).

Under the SIP, the possible performance measures for Performance Compensation Awards include basic, diluted or adjusted earnings per share; sales or revenue; earnings before interest, taxes and other adjustments (in total or on a per share basis); basic or adjusted net income; returns on equity, assets, capital, revenue or similar measure; gross premium; profit margin; economic value added; working capital; total stockholder return; and product development, product market share, research, licensing, litigation, human resources, information services, mergers, acquisitions, and sales of assets of affiliates or business units. Each measure will be, to the extent applicable, determined in accordance with generally accepted accounting principles as consistently applied by AMIC (or such other standard applied by the Committee) and, if so determined by the Committee, and in the case of a Performance Compensation Award, to the extent permitted under Code section 162(m), adjusted to omit the effects of extraordinary items, gain or loss on the disposal of a business segment, unusual or infrequently occurring events and transactions and cumulative effects of changes in accounting principles. Performance measures may vary from performance period to performance period, and from Participant to Participant, and may be established on a stand-alone basis, in tandem or in the alternative.

*Income Tax Withholding.* As a condition for the issuance of shares of Common Stock pursuant to Awards, the SIP requires satisfaction of any applicable federal, state, local or foreign withholding tax obligations that may arise in connection with the Award or the issuance of shares of Common Stock.

*Transferability.* Awards may not be sold, pledged, assigned, hypothecated, transferred or disposed of other than by will or the laws of descent and distribution, except to the extent the Committee permits lifetime transfers in the form of a Non-ISO, Share-settled SAR, Restricted Shares, or Performance Shares to charitable institutions, certain family members or related trusts, or as otherwise approved by the Committee.

*Certain Corporate Transactions.* The Committee shall equitably adjust the number of shares covered by each outstanding Award, and the number of shares that have been authorized for issuance under the SIP but as to which no Awards have yet been granted or that have been returned to the SIP upon cancellation, forfeiture or expiration of an Award, as well as the price per share covered by each such outstanding Award, to reflect any increase or decrease in the number of issued shares resulting from a stock split, reverse stock split, stock dividend, combination, recapitalization or reclassification of the shares of Common Stock, or any other increase or decrease in the number of issued shares effected without receipt of consideration by AMIC. In the event of any such transaction or event, the Committee may provide in substitution for any or all outstanding Options under the SIP such alternative consideration (including securities of any surviving entity) as it may in good faith determine to be equitable under the circumstances and may require in connection therewith the surrender of all Options so replaced. In any case, such substitution of securities will not require the consent of any person who is granted options pursuant to the SIP.

In addition, in the event or in anticipation of a Change in Control (as defined in the SIP), the Committee may at any time in its sole and absolute discretion and authority, without obtaining the approval or consent of AMIC's stockholders or any Participant with respect to his or her outstanding Awards (except to the extent an Award provides otherwise), take one or more of the following actions: (a) arrange for or otherwise provide that each outstanding Award will be assumed or substituted with a substantially equivalent award by a successor corporation or a parent or subsidiary of such successor corporation; (b) accelerate the vesting of Awards for any period (and may provide for termination of unexercised Options and SARs at the end of that period) so that Awards shall vest (and, to the extent applicable, become exercisable) as to the shares of Common Stock that otherwise would have been unvested and provide that repurchase rights of AMIC with respect to shares of Common Stock issued upon exercise of an Award shall lapse as to the shares of Common Stock subject to such repurchase right; (c) arrange or otherwise provide for payment of cash or other consideration to Participants in exchange for the satisfaction and cancellation of outstanding Awards; or (d) terminate upon the consummation of the transaction, provided that the Committee may in its sole discretion provide for vesting of all or some outstanding Awards in full as of a date immediately prior to consummation of the Change of Control. To the extent that an Award is not exercised prior to consummation of a transaction in which the Award is not being assumed or substituted, such Award shall terminate upon such consummation.

Notwithstanding the above, in the event a Participant holding an Award assumed or substituted by the successor corporation in a Change in Control is Involuntarily Terminated (as defined in the SIP) by the successor corporation in connection with, or within 12 months (or other period either set forth in an Award Agreement, or as increased thereafter by the Committee to a period longer than 12 months) following consummation of, the Change in Control, then any assumed or substituted Award held by the terminated Participant at the time of termination shall accelerate and become fully vested (and exercisable in full in the case of Options and SARs), and any repurchase right applicable to any shares of Common Stock subject to such assumed or substituted Award shall lapse in full. The acceleration of vesting and lapse of repurchase rights provided for in the previous sentence shall occur immediately prior to the effective date of the Participant's termination.

In the event of any distribution to AMIC's stockholders of securities of any other entity or other assets (other than dividends payable in cash or stock of AMIC) without receipt of consideration by AMIC, the Committee may, in its discretion, equitably adjust the price per share covered by each outstanding Award to reflect the effect of such distribution. Finally, if AMIC dissolves or liquidates, all Awards will terminate immediately prior to such dissolution or liquidation, subject to the ability of the Board to exercise any discretion that the Board may exercise in the case of a Change in Control.

*Term of SIP; Amendments and Termination.* The term of the SIP is ten years from June 1, 2009. The Board may from time to time, amend, alter, suspend, discontinue or terminate the SIP; provided that no amendment, suspension or termination of the SIP shall materially and adversely affect Awards already granted unless (1) it relates to an adjustment pursuant to certain transactions that change AMIC's capitalization, (2) it is otherwise mutually agreed between the Participant and the Committee, or (3) the Committee determines in good faith, before a Change in Control, that the modification is not materially adverse to the Participant. Furthermore, neither AMIC nor the Committee shall, without shareholder approval, allow for a repricing within the meaning of the federal securities laws applicable to proxy statement disclosures. In addition, the Committee may not cancel an outstanding option whose exercise price is greater than Fair Market Value at the time of cancellation for the purpose of reissuing the option to the participant at a lower exercise price or granting a replacement award of a different type. Notwithstanding the foregoing, the Committee may amend the SIP to eliminate provisions which are no longer necessary as a result of changes in tax or securities laws or regulations, or in the interpretation thereof.

*Expected Tax Consequences.* The following is a brief summary of certain tax consequences of certain transactions under the SIP. This summary is not intended to be complete and does not describe state or local tax consequences.

*U.S. Federal Income Tax Consequences.* Under the United States Internal Revenue Code, AMIC will generally be entitled to a deduction for federal income tax purposes at the same time and in the same amount as the ordinary income that Participants recognize pursuant to Awards (subject to the Participant's overall compensation being reasonable, and to the discussion below with respect to Code section 162(m)). For Participants, the expected U.S. federal income tax consequences of Awards are as follows:

Non-ISOs. A Participant will not recognize income at the time a Non-ISO is granted. At the time a Non-ISO is exercised, the Participant will recognize ordinary income in an amount equal to the excess of (a) the fair market value of the shares of Common Stock issued to the Participant on the exercise date, over (b) the exercise price paid for the shares. At the time of sale of shares acquired pursuant to the exercise of a Non-ISO, the appreciation (or depreciation) in value of the shares after the date of exercise will be treated either as short-term or long-term capital gain (or loss) depending on how long the shares have been held.

ISOs. A Participant will not recognize income upon the grant of an ISO. There are generally no tax consequences to the Participant upon exercise of an ISO (except the amount by which the fair market value of the shares at the time of exercise exceeds the option exercise price is a tax preference item possibly giving rise to an alternative minimum tax). If the shares of Common Stock are not disposed of within two years from the date the ISO was granted or within one year after the ISO was exercised, any gain realized upon the subsequent disposition of the shares will be characterized as long-term capital gain and any loss will be characterized as long-term capital loss. If both of these holding period requirements are not met, then a "disqualifying disposition" occurs and (a) the Participant recognizes gain in the amount by which the fair market value of the shares at the time of exercise exceeded the exercise price for the ISO and (b) any remaining amount realized on disposition (except for certain "wash" sales, gifts or sales to related persons) will be characterized as capital gain or loss.

Share Appreciation Rights. A Participant to whom a SAR is granted will not recognize income at the time of grant of the SAR. Upon exercise of a SAR, the Participant must recognize taxable compensation income in an amount equal to the value of any cash or shares of Common Stock that the Participant receives.

Restricted Shares, Restricted Share Units, Defined Share Units, and Performance Awards. In general, a Participant will not recognize income at the time of grant of restricted shares, restricted share units, defined share units or Performance Awards, unless the Participant elects with respect to restricted shares or restricted share units to accelerate income taxation to the date of the Award. In this event, a Participant would recognize ordinary income equal to the excess of the market value of the restricted shares over any amount the Participant pays for them (in which case subsequent gain or loss would be capital in nature). In the absence of an election to accelerate income taxation to the date of an Award, a Participant must recognize taxable compensation income equal to the value of any cash or shares of Common Stock that the Participant receives when the Award vests. The same tax consequences apply to Performance Awards.

Unrestricted Shares. A Participant will recognize income at the time of grant of unrestricted shares, in an amount equal to the excess of the market value of the unrestricted shares over any amount the Participant pays for them (in which case subsequent gain or loss would be capital in nature).

Special Tax Provisions. Under certain circumstances, the accelerated vesting, cash-out or accelerated lapse of restrictions on Awards in connection with a change in control of AMIC might be deemed an "excess parachute payment" for purposes of the golden parachute tax provisions of Code section 280G, and the Participant may be subject to a 20% excise tax and AMIC may be denied a tax deduction. Furthermore, AMIC may not be able to deduct the aggregate compensation in excess of $1,000,000 attributable to Awards that are not "performance-based" within the meaning of Code section 162(m) in certain circumstances.

Income Taxes and Deferred Compensation. The SIP provides that participants are solely responsible and liable for the satisfaction of all taxes and penalties that may arise in connection with Awards (including any taxes arising under Section 409A of the Code), and that AMIC will not have any obligation to indemnify or otherwise hold any Participant harmless from any or all of such taxes. Nevertheless, the SIP authorizes the Committee to organize any deferral program, to require deferral election forms, and to grant or to unilaterally modify any Award in a manner that (i) conforms with the requirements of Section 409A of the Code, (ii) that voids any Participant election to the extent it would violate Section 409A of the Code, and (iii) for any distribution election that would violate Section 409A of the Code, to make distributions pursuant to the Award at the earliest to occur of a distribution event that is allowable under Section 409A of the Code or any distribution event that is both allowable under Section 409A of the Code and is elected by the Participant, with the Committee's consent, in accordance with Section 409A.

*General Tax Law Considerations.* The preceding paragraphs are intended to be merely a summary of certain important tax law consequences concerning a grant of options under the SIP and the disposition of shares issued thereunder in existence as of the date of this Proxy Statement. Special rules may apply to AMIC's officers, directors or greater than ten percent stockholders. Participants in the SIP should review the current tax treatment with their individual tax advisors at the time of grant, exercise or any other transaction relating to an Award or the underlying shares.

*New Plan Benefits.* The Committee will grant Awards under the SIP at its discretion. Consequently, it is not possible to determine at this time the amount or dollar value of Awards to be provided under the SIP, other than to note that the Committee has not granted Awards that are contingent upon the approval of the SIP.

**Vote Required for Approval**

The approval of the SIP requires the affirmative vote of a majority of the shares present at the meeting in person or by proxy and entitled to vote.

**YOUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THIS PROPOSAL.**

## OTHER MATTERS

SEC regulations require stockholders to give advance notice of any proposal intended to be presented at the annual meeting. The deadline for this notice has passed and AMIC has not received any such notice. If any other matter properly comes before the stockholders for a vote at the meeting, however, the proxy holders will vote your shares in accordance with their best judgment.

## ADDITIONAL INFORMATION

### Proxy Solicitation

AMIC will bear all costs of this proxy solicitation. In addition to soliciting proxies by this mailing, AMIC expects that its directors, officers and regularly engaged employees may solicit proxies personally or by mail, telephone, facsimile or other electronic means, for which solicitation they will not receive any additional compensation. AMIC will reimburse brokerage firms, custodians, fiduciaries and other nominees for their out-of-pocket expenses in forwarding solicitation materials to beneficial owners upon our request.

### Stockholder Proposals for 2010 Annual Meeting

Stockholder proposals intended to be presented at AMIC's 2010 annual meeting must be received by AMIC no later than January 1, 2010 to be eligible for inclusion in AMIC's proxy statement and form of proxy for next year's meeting. Proposals should be addressed to American Independence Corp., Attention: Corporate Secretary, 485 Madison Avenue, 14th Floor, New York, New York 10022.

Any proposal concerning recommendation of a candidate for election as a director must be accompanied by the information concerning the stockholder or group of stockholders making the recommendation, the proposed nominee, any relationships between the recommending stockholder and the proposed nominee and the qualifications of the proposed nominee to serve as director, and, further, be accompanied by the consent of the proposed nominee to serve if nominated and the agreement of the nominee to be contacted by AMIC if it, in its discretion, decides to do so.

By order of the Board of Directors,

Adam C. Vandervoort
*Secretary*

**APPENDIX A**

**American Independence Corp.**
**2009 Stock Incentive Plan**

---

**Plan Document**

---

1. **Establishment, Purpose, and Types of Awards.** American Independence Corp. (the "Company") hereby establishes this equity-based incentive compensation plan to be known as the "American Independence Corp. 2009 Stock Incentive Plan" (hereinafter referred to as the "Plan"), for the following purposes: (a) to enhance the Company's ability to attract highly qualified personnel; (b) to strengthen its retention capabilities; (c) to enhance the long-term performance and competitiveness of the Company; and (d) to align the interests of Participants with those of the Company's stockholders.

(a) *Effective Date*. This Plan shall become effective on June 1, 2009; provided that the Plan and any Award made before stockholder approval of the Plan shall be contingent on its approval by a vote of a majority of the votes cast at a duly held meeting of the Company's stockholders (or by such other stockholder vote that the Committee determines to be sufficient for the issuance of Shares and Awards according to the Company's governing documents and Applicable Law).

(b) *Awards*. The Plan permits the granting of the following types of Awards according to the Sections of the Plan listed here:

| | |
|---|---|
| Section 5 | Stock Options |
| Section 6 | Share Appreciation Rights (SARs) |
| Section 7 | Restricted Shares, Restricted Share Units (RSUs), and Unrestricted Shares |
| Section 8 | Deferred Share Units (DSUs) |
| Section 9 | Performance and Cash-settled Awards |

(a) *Appendices*. Incorporated by reference and thereby part of the Plan are the terms set forth in the following appendices:

| | |
|---|---|
| Appendix I | Definitions |
| Appendix II | Special U.S. provisions regarding tax and securities compliance |

(b) *Effect on Other Plans, Awards, and Arrangements*. This Plan is not intended to affect and shall not affect any stock options, equity-based compensation, or other benefits that the Company or its Affiliates may have provided, or may separately provide in the future, pursuant to any agreement, plan, or program that is independent of this Plan. Notwithstanding the foregoing, effective upon stockholder approval of this Plan, no further awards of any kind shall occur under the Company's 1998 Stock Incentive Plan, and any shares that are currently reserved for future awards (not including issuances of shares upon conversion of outstanding awards) under such each such plan (as well as any Shares that in the future would have become available for awards under same) shall be added to the reserve of Shares that are authorized and available for issuance pursuant to this Plan.

2. **Defined Terms.** Terms in the Plan and any Appendix that begin with an initial capital letter have the defined meaning set forth in *Appendix I*, unless the context indicates a different meaning.

3. **Shares Subject to the Plan.** (a) *Generally*, Subject to Section 13 below, a total of 6,550,556 Shares shall be available for issuance under the Plan. The Shares deliverable pursuant to Awards shall be authorized, but unissued Shares, or Shares that the Company otherwise holds in treasury or in trust. In addition, any Shares that for any reason will never be issued to a Participant or Beneficiary pursuant to an Award (for example, due to settlement of the Award in cash rather than in Shares, or the Award's forfeiture, cancellation, expiration, or net settlement without the issuance of Shares) will again be available for future Awards. Further, and to the extent permitted under Applicable Laws, the maximum number of Shares available for delivery under the Plan shall not be reduced by any Shares issued under the Plan through the settlement, assumption, or substitution of outstanding awards or obligations to grant future awards as a condition of the Company's or an Affiliate's acquiring another entity. For purposes of clarity, previously-issued Shares that have never been unrelated to any Awards (*e.g.*, Shares already owned by the Participant) that are tendered or withheld in payment of all or part of the exercise price of an Award or in satisfaction of applicable Withholding Taxes, and Shares that the Company or an Affiliate reacquires with cash tendered in payment of the exercise price of an Award, shall not be included in or added to the number of Shares available for issuance under the Plan.

4. **Eligibility.**

(a) *General Rule*. Awards may only be made to Eligible Persons (as determined for each Award on its Grant Date). Each Award shall be evidenced by an Award Agreement that sets forth its Grant Date and all other terms and conditions of the Award, that is signed on behalf of the Company (or delivered by an authorized agent through an electronic medium), and that, if required by the Committee, is signed by the Eligible Person as an acceptance of the Award. Unless specifically stated in an Award Agreement, the grant of an Award shall not obligate the Company or any Affiliate to continue the employment or service of any Eligible Person, or to provide any future Awards or other remuneration at any time thereafter.

(b) *Limits on Individual Awards*. During each calendar year of the Plan, no Participant may receive Options and SARs that relate to more than 200,000 Shares. The Committee will adjust this limitation pursuant to Section 13 below..

(c) *Replacement Awards*. Subject to Applicable Laws (including any associated stockholder approval requirements), the Committee may, in its sole discretion and upon such terms as it deems appropriate, require as a condition for granting an Award that an Eligible Person surrender for cancellation some or all Awards that have previously been granted under this Plan or otherwise. An Award conditioned upon such surrender may or may not be the same type of Award, may cover the same (or a lesser or greater) number of Shares as such surrendered Award, may have other terms that are determined without regard to the terms or conditions of such surrendered Award, and may contain any other terms that the Committee deems appropriate.

(d) *Automatic Stock Option Program.* Notwithstanding anything to the contrary contained herein, the individuals who shall be eligible to participate in the Automatic Option Grant Program shall be limited to (i) those individuals who first become non-employee Board members after the effective date of the Plan, whether through appointment by the Board or election by the Company's stockholders, and (ii) those individuals who continue to serve as non-employee Board members at one or more annual stockholders meetings held after the 2009 annual meeting of the Company's stockholders. A non-employee Board member who has previously been in the employ of the Company (or any parent or subsidiary of the Company) shall not be eligible to receive an option grant under the Automatic Option Grant Program at the time he or she first becomes a non-employee Board member, but shall be eligible to receive periodic option grants under the Automatic Option Grant Program while he or she continues to serve as a non-employee Board member.

5. **Stock Options.**

(a) *Grants of Discretionary Options.* The Committee may grant Options to Eligible Persons pursuant to Award Agreements setting forth terms and conditions that are not inconsistent with the Plan, and that may include vesting or other requirements for the right to exercise the Option; provided that –

(i) the exercise price for Shares subject to purchase through exercise of an Option shall not be less than 100% of the Fair Market Value of the underlying Shares on the Grant Date; and

(ii) no Option shall be exercisable for a term ending more than ten years after its Grant Date.

(b) *Grants of Automatic Stock Options to Eligible Directors.* Option grants shall be made as specified below:

(i) Each individual serving as a non-employee Board member on the Plan Effective Date who was automatically granted an initial Non-ISO to purchase 6,667 Shares pursuant to the Company's 1998 Stock Incentive Plan, shall, over his or her period of continued Board service, automatically be granted an additional Non-ISO to purchase 6,667 Shares pursuant to the Plan at every third annual stockholders meeting thereafter at which he or she continues to serve as a non-employee Board member.

(ii) Each individual who is first elected or appointed as a non-employee Board member at any time on or after the effective date of the Plan shall automatically be granted, on the date of such initial election or appointment, a Non-ISO to purchase 6,667 Shares, provided that individual has not previously been in the employ of the Company or any Parent or Subsidiary. In addition, each such individual shall, over his or her period of continued Board service, automatically be granted one or more additional Non-ISOs to purchase 6,667 Shares, with the first such additional 6,667-Share grant to be made at the Annual Stockholders Meeting held in the third calendar year following the calendar year in which he or she received the initial 6,667-Share grant and each such additional 6,667-Share grants to be made at every third annual stockholders meeting held thereafter during such individual's period of continued service as a non-employee Board member.

(iii) There shall be no limit on the number of such additional 6,667-Share option grants any one Eligible Director may receive over his or her period of Board service, and non-employee Board members who have previously been in the employ of the Company (or any parent or subsidiary of the Company) shall be eligible to receive one or more such additional 6,667-Share option grants over their period of continued Board service.

(iv) The exercise price per Share shall be equal to 100% of the Fair Market Value per share of the underlying Shares on the grant date of the option.

(v) Each option shall have a term of ten (10) years from the option grant date.

(c) *Method of Exercise*. Subject to Section 14 below, Options may be exercised by the Participant (or his guardian or personal representative) giving notice to the Company pursuant to procedures established by the Company for the exercise of Options. Such notice shall state the number of Shares the Participant has elected to purchase under the Option and the method by which the exercise price and any applicable Withholding Taxes will be paid. The exercise price and Withholding Taxes may be paid in cash or by check payable to the Company (in U.S. dollars), or to the extent that the terms of an Award Agreement expressly permit –

(i) by delivery or attestation of Shares (valued at their Fair Market Value) that are either subject to the Option being exercised or that the Participant has owned for at least six months (or such other period as the Committee shall specify in the Award Agreement or thereafter in writing) in satisfaction of all or any part of the exercise price or Withholding Taxes;

(ii) delivery of a properly executed exercise notice with irrevocable instructions to a broker to deliver to the Company the amount necessary to pay the exercise price or Withholding Taxes from the sale or proceeds of a loan from the broker with respect to the sale of Shares or a broker loan secured by Shares; or

(iii) a combination of (i) and (ii).

(d) *Exercise of an Unvested Option.* The Committee in its sole discretion may allow a Participant to exercise an unvested Option, in which case the Shares then issued shall be Restricted Shares having analogous vesting restrictions to the unvested Option.

(e) *Termination of Continuous Service.*

(i) *Discretionary Options.* The Committee may establish and set forth in the applicable Award Agreement the terms and conditions on which an Option shall remain exercisable following termination of a Participant's Continuous Service. Except to the extent an Award Agreement specifically provides otherwise, an Option shall be exercisable, only to the extent the Participant was entitled to exercise such Option at the date of terminating Continuous Service, only until the "Option Termination Date" determined pursuant to the following table:

| **Reason for terminating Continuous Service** | **Option Termination Date** |
|---|---|
| (I) By the Company for Cause, or what would have been Cause if the Company had known all of the relevant facts. | Termination of the Participant's Continuous Service, or when Cause first existed if earlier. |
| (II) Disability of the Participant. | Within one year after termination of the Participant's Continuous Service. |
| (III) Retirement of the Participant after age 60 with 5 years or more of Continuous Service. | Within one year after termination of the Participant's Continuous Service. |
| (IV) Death of the Participant during Continuous Service or within 90 days thereafter. | Within one year after termination of the Participant's Continuous Service. |
| (V) Other than due to Cause or the Participant's Disability, Retirement, or Death. | Within 90 days after termination of the Participant's Continuous Service. |

Notwithstanding the foregoing, in no event may any Option be exercised after the expiration of the Option term as set forth in the Award Agreement. To the extent that a Participant is not entitled to exercise an Option at the date of his or her termination of Continuous Service, or if the Participant (or other person entitled to exercise the Option) does not exercise the Option to the extent so entitled within the time specified in the Award Agreement or above (as applicable), the Option shall terminate and the Shares underlying the unexercised portion of the Option shall revert to the Plan and become available for future Awards

(ii) *Automatic Options to Directors.* The following provisions shall govern the exercise of any options held by the Optionee at the time the Optionee ceases to serve as a Board member:

(a) The Optionee (or, in the event of Optionee's death, the personal representative of the Optionee's estate or the person or persons to whom the option is transferred pursuant to the Optionee's will or in accordance with the laws of descent and distribution or by the designated beneficiary or beneficiaries of such option) shall have a twelve (12)-month period following the date of such cessation of Board service in which to exercise each such option.

(b) During the twelve (12)-month exercise period, the option may not be exercised in the aggregate for more than the number of vested shares of Common Stock for which the option is exercisable at the time of the Optionee's cessation of Board service.

(c) Should the Optionee cease to serve as a Board member by reason of death or Permanent Disability, then all shares at the time subject to the option shall immediately vest so that such option may, during the twelve (12)-month exercise period following such cessation of Board service, be exercised for all or any portion of those shares as fully-vested shares of Common Stock.

(d) In no event shall the option remain exercisable after the expiration of the option term. Upon the expiration of the twelve (12)-month exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be outstanding for any vested shares for which the option has not been exercised. However, the option shall, immediately upon the Optionee's cessation of Board service for any reason other than death or Permanent Disability, terminate and cease to be outstanding to the extent the option is not otherwise at that time exercisable for vested shares.

(f) *Buyout*. If a Participant so elects, the Committee may cancel an Option in exchange for a payment to the Participant in cash, cash equivalents, new Awards, or Shares, at such time and on such terms and conditions as the Committee shall have established and communicated to the Participant; provided, however, that, except in connection with a Change in Control, the per Share exercise price of any Option cancelled pursuant to this Section 5(e) (as adjusted pursuant to Section 13 below) shall not be greater than the Fair Market Value of a Share on such date unless the terms of the cancellation of such Option are approved by the stockholders of the Company. In addition, but subject to Section 4(c) above and to any stockholder approval requirement of Applicable Law, if the Fair Market Value for Shares subject to an Option is more than 33% below their exercise price for more than 30 consecutive business days, the Committee may unilaterally terminate and cancel the Option by providing each affected Participant with either cash or a new Award that has (i) a value equal to that of the vested portion of the Option being cancelled (with value being uniformly determined as of the buyout date in accordance with the methodology that the Company generally uses for financial accounting purposes for its Awards), (ii) vesting terms not less favorable to the Participant than the Option being cancelled, and (iii) any other terms and conditions that the Committee may set forth in the Award Agreement for the new Award.

6. **SARs.**

(a) *Grants.* The Committee may grant SARs to Eligible Persons pursuant to Award Agreements setting forth terms and conditions that are not inconsistent with the Plan; provided that –

(i) the exercise price for the Shares subject to each SAR shall not be less than 100% of the Fair Market Value of underlying Shares on the Grant Date;

(ii) no SAR shall be exercisable for a term ending more than ten years after its Grant Date; and

(iii) each SAR shall, except to the extent an SAR Award Agreement provides otherwise, be subject to the provisions of Section 5(d) relating to the effect of a termination of Participant’s Continuous Service and Section 5(e) relating to buyouts, in each case with “SAR” being substituted for “Option.”

(b) *Settlement.* Subject to Section 14 below, an SAR shall entitle the Participant, upon exercise of the SAR, to receive Shares having a Fair Market Value on the date of exercise equal to the product of the number of Share as to which the SAR is being exercised, and the excess of (i) the Fair Market Value, on such date, of the

Shares covered by the exercised SAR, over (ii) an exercise price designated in the SAR Award Agreement. Notwithstanding the foregoing, an SAR Award Agreement may limit the total settlement value that the Participant will be entitled to receive upon the SAR's exercise, and may provide for settlement either in cash or in any combination of cash or Shares that the Committee may authorize pursuant to an Award Agreement.

(c) *SARs related to Options*. The Committee may grant SARs either concurrently with the grant of an Option or with respect to an outstanding Option, in which case the SAR shall extend to all or a portion of the Shares covered by the related Option. An SAR shall entitle the Participant who holds the related Option, upon exercise of the SAR and surrender of the related Option, or portion thereof, to the extent the SAR and related Option each were previously unexercised, to receive payment of an amount determined pursuant to Section 6(b) above.

(d) *Effect on Available Shares.* At each time of a exercise of an SAR that is settled in Shares, only those Shares that are issued or delivered in settlement of the exercise shall be counted against the number of Shares available for Awards under the Plan; provided that the number of Shares that are issued or delivered pursuant to the exercise of an SAR shall not exceed the number of Shares specified in the Award Agreement as being subject to the SAR Award.

7. **Restricted Shares, RSUs, and Unrestricted Share Awards.**

(a) *Grant.* The Committee may grant Restricted Shared, RSUd, and Unrestricted Share Awards to Eligible Persons, in all cases pursuant to Award Agreements setting forth terms and conditions that are not inconsistent with the Plan. The Committee shall establish as to each Restricted Share or RSU Award the number of Shares deliverable or subject to the Award (which number may be determined by a written formula), and the period or periods of time (the "Restriction Period") at the end of which all or some restrictions specified in the Award Agreement shall lapse and the Participant shall receive unrestricted Shares (or cash to the extent provided in the Award Agreement) in settlement of the Award. Such restrictions may include, without limitation, restrictions concerning voting rights and transferability and such restrictions may lapse separately or in combination at such times and pursuant to such circumstances or based on such criteria as selected by the Committee, including, without limitation, criteria based on the Participant's duration of employment, directorship or consultancy with the Company, individual, group, or divisional performance criteria, Company performance, or other criteria selection by the Committee. The Committee may make Restricted Share and RSU Awards with or without the requirement for payment of cash or other consideration. In addition, the Committee may grant Awards hereunder in the form of Unrestricted Shares which shall vest in full upon the Grant Date or such other date as the Committee may determine or which the Committee may issue pursuant to any program under which one or more Eligible Persons (selected by the Committee in its sole discretion) elect to pay for such Shares or to receive Unrestricted Shares in lieu of cash bonuses that would otherwise be paid.

(b) *Vesting and Forfeiture.* The Committee shall set forth in an Award Agreement granting Restricted Shares or RSUs, the terms and conditions under which the Participant's interest in the Restricted Shares or the Shares subject to RSUs will become vested and non-forfeitable. Except as set forth in the applicable Award Agreement or the Committee otherwise determines, upon termination of a Participant's Continuous Service for any reason, the Participant shall forfeit his or her Restricted Shares and RSUs to the extent the Participant's interest therein has not vested on or before such termination date; provided that if a Participant purchases Restricted Shares and forfeits them for any reason, the Company shall return the purchase price to the Participant to the extent either set forth in an Award Agreement or required by Applicable Laws.

(c) *Certificates for Restricted Shares.* Unless otherwise provided in an Award Agreement, the Company shall hold certificates representing Restricted Shares and dividends (whether in Shares or cash) that accrue with respect to them until the restrictions lapse, and the Participant shall provide the Company with appropriate stock powers endorsed in blank. The Participant's failure to provide such stock powers within ten days after a written request from the Company shall entitle the Committee to unilaterally declare a forfeiture of all or some of the Participant's Restricted Shares.

(d) *Issuance of Shares upon Vesting.* As soon as practicable after vesting of a Participant's Restricted Shares (or of the right to receive Shares underlying RSUs), the Company shall deliver to the Participant, free from vesting restrictions, one Share for each surrendered and vested Restricted Share (or deliver one Share free of the vesting restriction for each vested RSU), unless an Award Agreement provides otherwise and subject to Section 10 below regarding Withholding Taxes. No fractional Shares shall be distributed, and cash shall be paid in lieu thereof.

(e) *Dividends Payable on Vesting*. Except to the extent otherwise provided in the Award Agreement, whenever Shares are deliverable to a Participant or duly-authorized transferee pursuant to Section 7(d) above as a result of the vesting of a Restricted Share or RSU Award, the Participant or his or her duly authorized transferee shall also be entitled to receive, with respect to each Share then vesting, a number of Shares equal to the sum of –

(i) any per-Share dividends which were declared and paid in Shares to the Company's stockholders of record between the Grant Date and the date Shares are delivered to the Participant pursuant to the particular vesting event for the Award, and

(ii) the Shares that the Participant could have purchased at their Fair Market Value on the payment date of any cash dividends if the Participant had received such cash dividends with respect to each Restricted Share, or Share subject to an RSU, between the Grant Date and the date Shares are delivered to the Participant pursuant to the particular vesting event for the Award.

(f) *Deferral Elections for RSUs*. To the extent specifically provided in an Award Agreement, a Participant may irrevocably elect, in accordance with Section 8 below, to defer the receipt of all or a percentage of the Shares that would otherwise be transferred to the Participant upon the vesting of an RSU Award. If the Participant makes this election: (i) the Company shall credit the Shares subject to the election, and any associated dividends and interest, to a DSU account established pursuant to Section 8 below on the date such Shares and any associated cash would otherwise have been delivered to the Participant pursuant to Sections 7(d) and 7(e) above, and (ii) any vesting that would have occurred (other than for death or Disability if provided pursuant to the Award Agreement) within the 12-month period following the date of the Participant's election shall occur on the 12-month anniversary of such election.

8. **DSUs.**

(a) *Elections to Defer*. The Committee may make DSU awards to any Eligible Persons pursuant to Award Agreements, regardless of whether or not there is a deferral of compensation, and may permit select Eligible Persons to irrevocably elect, on a form provided by and acceptable to the Committee (the "Election Form"), to forego the receipt of cash or other compensation (including the Shares deliverable pursuant to any RSU Award) and in lieu thereof to have the Company credit to an internal Plan account a number of DSUs having a Fair Market Value equal to the Shares and other compensation deferred. These credits will be made at the end of each calendar quarter (or other period determined by the Committee) during which compensation is deferred. Unless the Company sends an Eligible Person a written notice rejecting an Election Form within five business days after the Company receives it, an Election Form shall take effect on the first day of the next calendar year (or on the first day of the next calendar month in the case of an initial election within 30 days after a Participant becomes first eligible to defer hereunder) after its delivery to the Company. Notwithstanding the foregoing sentence, a Participant's Election Form will be ineffective with respect to any compensation that the Participant earns before the date on which the Election Form takes effect.

(b) *Vesting*. Unless an Award Agreement expressly provides otherwise, each Participant shall be 100% vested at all times in any Shares subject to DSUs.

(c) *Issuances of Shares*. The Company shall settle a Participant's DSU Award, by delivering one Share for each DSU, in five substantially equal annual installments that are issued before the last day of each of the five calendar years that end after the date on which the Participant's Continuous Service ends for any reason, subject to –

(i) the Participant's right to elect a different form of distribution, only on a form provided by and acceptable to the Committee, that permits the Participant to select any combination of a lump sum and annual installments that are triggered by, and completed within ten years following, the last day of the Participant's Continuous Service, and

(ii) the Company's acceptance of the Participant's distribution election form executed at the time the Participant elects to defer the receipt of Shares or other compensation pursuant to Section 8(a), provided that the Participant may change a distribution election through any subsequent election that (I) the Participant delivers to the Company at least one year before the date on which distributions are otherwise scheduled to commence pursuant to the Participant's initial distribution election, and (II) defers the commencement of distributions by at least five years from the originally scheduled distribution commencement date.

Fractional shares shall not be issued, and instead shall be paid out in cash.

(d) Dividends. Unless otherwise provided in an Award Agreement, whenever Shares are issued to a Participant pursuant to Section 9(c) above, the Participant shall also be entitled to receive, with respect to each Share issued, a number of Shares determined in a manner consistent with Section 7(e) above (but by reference to the period from the Grant Date of the DSU to its settlement through the issuance of Shares to the Participant).

(e) *Emergency Withdrawals*. In the event that a Participant suffers an unforeseeable emergency within the contemplation of this Section, the Participant may apply to the Committee for an immediate distribution of all or a portion of the Participant's DSUs. The unforeseeable emergency must result from a sudden and unexpected illness or accident of the Participant, the Participant's spouse, or a dependent of the Participant, casualty loss of the Participant's property, or other similar extraordinary and unforeseeable conditions beyond the control of the Participant. The Committee shall, in its sole and absolute discretion, determine whether a Participant has a qualifying unforeseeable emergency, may require independent verification of the emergency, and may determine whether or not to provide the Participant with cash or Shares. The amount of any distribution hereunder shall be limited to the amount necessary to relieve the Participant's unforeseeable emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution. The number of Shares subject to the Participant's DSU Award shall be reduced by any Shares distributed to the Participant and by a number of Shares having a Fair Market Value on the date of distribution equal to any cash paid to the Participant pursuant to this Section.

(f) *Unsecured Rights to Deferred Compensation*. A Participant's right to DSUs shall at all times constitute an unsecured promise of the Company to pay benefits as they come due. The right of the Participant or the Participant's duly-authorized transferee to receive benefits hereunder shall be solely an unsecured claim against the general assets of the Company. Neither the Participant nor the Participant's duly-authorized transferee shall have any claim against or rights in any specific assets, Shares, or other funds of the Company.

9. **Performance and Cash-Settled Awards.**

(a) *Performance Awards*. Subject to the limitations set forth in paragraph (b) hereof, the Committee may in its discretion grant Performance Units to any Eligible Person, including Performance Unit Awards that (i) have substantially the same financial benefits and other terms and conditions as Options, SARs, RSUs, or DSUs, but (ii) are settled only in cash. All Performance Awards hereunder shall be made pursuant to Award Agreements setting forth terms and conditions that are not inconsistent with the Plan.

(b) *Deferral Elections*. At any time prior to the date that is both at least six months before the close of a Performance Period (or shorter or longer period that the Committee selects) with respect to a Performance Award and at which time vesting or payment is substantially uncertain to occur, the Committee may permit a Participant who is a member of a select group of management or highly compensated employees to irrevocably elect, on a form provided by and acceptable to the Committee, to defer the receipt of all or a percentage of the cash or Shares that would otherwise be transferred to the Participant upon the vesting of such Award. If the Participant makes this election, the cash or Shares subject to the election, and any associated interest and dividends, shall be credited to an account established pursuant to Section 8 hereof on the date such cash or Shares would otherwise have been released or issued to the Participant pursuant to this Section.

10. **Taxes; Withholding.** Participants are solely responsible and liable for the satisfaction of all taxes and penalties that may arise in connection with Awards, and neither the Company, any Affiliate, nor any of their employees, directors, or agents shall have any obligation to mitigate, indemnify, or to otherwise hold any Participant harmless from any or all of such taxes. The Company's obligation to deliver Shares (or to pay cash) to Participants

pursuant to Awards is at all times subject to their prior or coincident satisfaction of all required Withholding Taxes. Except to the extent otherwise either provided in an Award Agreement or thereafter authorized by the Committee, the Company or any Affiliate will satisfy required Withholding Taxes first from withholding the cash otherwise payable to the Participant pursuant to the Award, and then by withholding and cancelling the Participant's rights with respect to a number of Shares that (i) would otherwise have been delivered to the Participant pursuant to the Award, and (ii) have an aggregate Fair Market Value equal to the Withholding Taxes (such withheld Shares to be valued on the basis of the aggregate Fair Market Value thereof on the date of the withholding). The number of Shares so withheld and cancelled will be rounded up to the nearest whole Share sufficient to satisfy the Withholding Taxes, with cash being paid to the Participant in an amount equal to the amount by which the Fair Market Value of such Shares exceeds the Withholding Taxes.

11. **Non-Transferability of Awards.**

(a) *General.* Except as set forth in this Section 11, or as otherwise approved by the Committee, Awards may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent or distribution. The designation of a death beneficiary by a Participant will not constitute a transfer. An Award may be exercised, during the lifetime of the holder of an Award, only by such holder, the duly-authorized legal representative of a Participant who is Disabled, or a transferee permitted by this Section 11.

(b) *Limited Transferability Rights.* Notwithstanding anything else in this Section 11, the Committee may in its discretion provide in an Award Agreement that an Award may be transferred, on such terms and conditions as the Committee deems appropriate, either (i) by instrument to the Participant's "Immediate Family" (as defined below), (ii) by instrument to an inter vivos or testamentary trust (or other entity) in which the Award is to be passed to the Participant's designated beneficiaries, or (iii) by gift to charitable institutions. Any transferee of the Participant's rights shall succeed and be subject to all of the terms of this Award Agreement and the Plan. "Immediate Family" means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, and shall include adoptive relationships.

(c) *Death.* In the event of the death of a Participant, any outstanding Awards issued to the Participant shall automatically be transferred to the Participant's Beneficiary (or, if no Beneficiary is designated or surviving, to the person or persons to whom the Participant's rights under the Award pass by will or the laws of descent and distribution).

12. **Modification of Awards and Substitution of Options.** Within the limitations of the Plan, the Committee may modify an Award to accelerate the rate at which an Option or SAR may be exercised, to accelerate the vesting of any Award, to extend or renew outstanding Awards or to accept the cancellation of outstanding Awards to the extent not previously exercised. Notwithstanding the foregoing provision, no modification of an outstanding Award shall materially and adversely affect a Participant's rights thereunder unless either (i) the Participant provides written consent, or (ii) before a Change in Control, the Committee determines in good faith that the modification is not materially adverse to the Participant.

13. **Change in Capital Structure; Change in Control; Etc.**

(a) *Changes in Capitalization.* The Committee shall equitably adjust the number of Shares covered by each outstanding Award, and the number of Shares that have been authorized for issuance under the Plan but as to which no Awards have yet been granted or that have been returned to the Plan upon cancellation, forfeiture, or expiration of an Award, as well as the price per Share covered by each such outstanding Award, to reflect any increase or decrease in the number of issued Shares resulting from a stock-split, reverse stock-split, stock dividend, combination, recapitalization or reclassification of the Shares, or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company. In the event of any such transaction or event, the Committee may provide in substitution for any or all outstanding Awards under the Plan such alternative consideration (including securities of any surviving entity) as it may in good faith determine to be equitable under the circumstances and may require in connection therewith the surrender of all Awards so replaced. In any case, such substitution of securities shall not require the consent of any person who is granted Awards pursuant to the

Plan. Except as expressly provided herein, or in an Award Agreement, if the Company issues for consideration shares of stock of any class or securities convertible into shares of stock of any class, the issuance shall not affect, and no adjustment by reason thereof shall be required to be made with respect to the number or price of Shares subject to any Award.

(b) *Change in Control.* In the event of a Change in Control, the Committee may in its sole and absolute discretion and authority, without obtaining the approval or consent of the Company's stockholders or any Participant with respect to his or her outstanding Awards, take one or more of the following actions:

(i) arrange for or otherwise provide that each outstanding Award shall be assumed or a substantially similar award shall be substituted by a successor corporation or a parent or subsidiary of such successor corporation (the "Successor Corporation");

(ii) accelerate the vesting of Awards so that Awards shall vest (and, to the extent applicable, become exercisable) as to the Shares that otherwise would have been unvested and provide that repurchase rights of the Company with respect to Shares issued upon exercise of an Award shall lapse as to the Shares subject to such repurchase right;

(iii) arrange or otherwise provide for the payment of cash or other consideration to Participants in exchange for the satisfaction and cancellation of outstanding Awards (with the Committee determining the amount payable to each Participant based on the Fair Market Value, on the date of the Change in Control, of the Award being cancelled, based on any reasonable valuation method selected by the Committee); or

(iv) terminate upon the consummation of the transaction, provided that the Committee may in its sole discretion provide for vesting of all or some outstanding Awards in full as of a date immediately prior to consummation of the Change in Control. To the extent that an Award is not exercised prior to consummation of a transaction in which the Award is not being assumed or substituted, such Award shall terminate upon such consummation; or

(v) make such other modifications, adjustments or amendments to outstanding Awards or this Plan as the Committee deems necessary or appropriate, subject however to the terms of Section 17(c) below. Notwithstanding the above, in the event a Participant holding an Award assumed or substituted by the Successor Corporation in a Change in Control is Involuntarily Terminated by the Successor Corporation in connection with, or within 12 months (or longer periods that the Committee approves) following consummation of, the Change in Control, then any assumed or substituted Award held by the terminated Participant at the time of termination shall accelerate and become fully vested (and exercisable in full in the case of Options and SARs), and any repurchase right applicable to any Shares shall lapse in full, unless an Award Agreement provides for a more restrictive acceleration or vesting schedule or more restrictive limitations on the lapse of repurchase rights or otherwise places additional restrictions, limitations and conditions on an Award. The acceleration of vesting and lapse of repurchase rights provided for in the previous sentence shall occur immediately prior to the effective date of the Participant's termination, unless an Award Agreement provides otherwise.

(c) *Certain Distributions.* In the event of any distribution to the Company's stockholders of securities of any other entity or other assets (other than dividends payable in cash or stock of the Company) without receipt of consideration by the Company, the Committee may, in its discretion, appropriately adjust the price per Share covered by each outstanding Award to reflect the effect of such distribution

(d) *Dissolution or Liquidation*. In the event of the dissolution or liquidation of the Company other than as part of a Change in Control, each Award will terminate immediately prior to the consummation of such action, subject to the ability of the Committee to exercise any discretion authorized in the case of a Change in Control.

14. **<u>Laws and Regulations</u>.**

(a) *General Rules.* This Plan, the grant of Awards, the exercise of Options and SARs, and the obligations of the Company hereunder (including those to pay cash or to deliver, sell or accept the surrender of any of its Shares or other securities) shall be subject to all Applicable Laws. In the event that any Shares are not registered under any Applicable Law prior to the required delivery of them pursuant to Awards, the Company may require, as a condition to their issuance or delivery, that the persons to whom the Shares are to be issued or delivered make any written representations and warranties (such as that such Shares are being acquired by the Participant for investment for the Participant's own account and not with a view to, for resale in connection with, or with an intent of participating directly or indirectly in, any distribution of such Shares) that the Committee may reasonably require, and the Committee may in its sole discretion include a legend to such effect on the certificates representing any Shares issued or delivered pursuant to the Plan.

(b) *Black-out Periods.* Notwithstanding any contrary terms within the Plan or any Award Agreement, the Committee shall have the absolute discretion to impose a "blackout" period on the exercise of any Option or SAR, as well as the settlement of any Award, with respect to any or all Participants (including those whose Continuous Service has ended) to the extent that the Committee determines that doing so is either desirable or required in order to comply with applicable securities laws, provided that, if any blackout period occurs, the term of any Option or SAR shall not expire until the earlier of (i) 30 days after the blackout period ends or (ii) the Option's or SAR's expiration date but only if within 30 days thereafter the Company makes a cash payment to each affected Participant in an amount equal to the value of the Option or SAR (as determined by the Committee) immediately before its expiration to the extent then vested and exercisable.

(c) *No Stockholder Rights.* Neither a Participant nor any transferee of a Participant shall have any rights as a stockholder of the Company with respect to any Shares underlying any Award until the date of issuance of a share certificate to a Participant or a transferee of a Participant for such Shares in accordance with the Company's governing instruments and Applicable Law. Prior to the issuance of Shares pursuant to an Award, a Participant shall not have the right to vote or to receive dividends or any other rights as a stockholder with respect to the Shares underlying the Award, notwithstanding its exercise in the case of Options and SARs. No adjustment will be made for a dividend or other right that is determined based on a record date prior to the date the stock certificate is issued, except as otherwise specifically provided for in this Plan.

(d) *Local Law Adjustments and Sub-plans.* To facilitate the making of any grant of an Award under this Plan, the Committee may adopt rules and provide for such special terms for Awards to Participants who are located within the United States, foreign nationals, or who are employed by the Company or any Affiliate outside of the United States of America as the Committee may consider necessary or appropriate to accommodate differences in local law, tax policy or custom. Without limiting the foregoing, the Company is specifically authorized to adopt rules and procedures regarding the conversion of local currency, taxes, withholding procedures and handling of stock certificates which vary with the customs and requirements of particular countries. The Company may adopt sub-plans and establish escrow accounts and trusts, and settle Awards in cash in lieu of shares, as may be appropriate, required or applicable to particular locations and countries.

15. **<u>Termination, Rescission and Recapture of Awards</u>.**

(a) Each Award under the Plan is intended to align the Participant's long-term interest with those of the Company. If the Participant engages in certain activities discussed below, either during employment or after employment with the Company terminates for any reason, the Participant is acting contrary to the long-term interests of the Company. Accordingly, unless otherwise expressly provided in an Award Agreement, the Company may terminate any outstanding, unexercised, unexpired, unpaid, or deferred Awards ("<u>Termination</u>"), rescind any exercise, payment or delivery pursuant to the Award ("<u>Rescission</u>"), or recapture any Shares (whether restricted or unrestricted) or proceeds from the Participant's sale of Shares issued pursuant to the Award ("<u>Recapture</u>"), if the Participant does not comply with the conditions of subsections (b), (c), and (e) hereof (collectively, the "<u>Conditions</u>").

(b) A Participant shall not, without the Company's prior written authorization, disclose to anyone outside the Company, or use in other than the Company's business, any proprietary or confidential information or material, as those or other similar terms are used in any applicable patent, confidentiality, inventions, secrecy, or other agreement between the Participant and the Company with regard to any such proprietary or confidential information or material.

(c) Pursuant to any agreement between the Participant and the Company with regard to intellectual property (including but not limited to patents, trademarks, copyrights, trade secrets, inventions, developments, improvements, proprietary information, confidential business and personnel information), a Participant shall promptly disclose and assign to the Company or its designee all right, title, and interest in such intellectual property, and shall take all reasonable steps necessary to enable the Company to secure all right, title and interest in such intellectual property in the United States and in any foreign country.

(d) Upon exercise, payment, or delivery of cash or Shares pursuant to an Award, the Participant shall certify on a form acceptable to the Company that he or she is in compliance with the terms and conditions of the Plan and, if a severance of Continuous Service has occurred for any reason, shall state the name and address of the Participant's then-current employer or any entity for which the Participant performs business services and the Participant's title, and shall identify any organization or business in which the Participant owns a greater-than-five-percent equity interest.

(e) If the Company determines, in its sole and absolute discretion, that (i) a Participant has violated any of the Conditions or (ii) during his or her Continuous Service, or within one year after its termination for any reason, a Participant (x) has rendered services to or otherwise directly or indirectly engaged in or assisted, any organization or business that, in the judgment of the Company in its sole and absolute discretion, is or is working to become competitive with the Company; (y) has solicited any non-administrative employee of the Company to terminate employment with the Company; or (z) has engaged in activities which are materially prejudicial to or in conflict with the interests of the Company, including any breaches of fiduciary duty or the duty of loyalty, then the Company may, in its sole and absolute discretion, impose a Termination, Rescission, and/or Recapture with respect to any or all of the Participant's relevant Awards, Shares, and the proceeds thereof.

(f) Within ten days after receiving notice from the Company of any such activity described in Section 15(e) above, the Participant shall deliver to the Company the Shares acquired pursuant to the Award, or, if Participant has sold the Shares, the gain realized, or payment received as a result of the rescinded exercise, payment, or delivery; provided, that if the Participant returns Shares that the Participant purchased pursuant to the exercise of an Option (or the gains realized from the sale of such Shares), the Company shall promptly refund the exercise price, without earnings, that the Participant paid for the Shares. Any payment by the Participant to the Company pursuant to this Section shall be made either in cash or by returning to the Company the number of Shares that the Participant received in connection with the rescinded exercise, payment, or delivery. It shall not be a basis for Termination, Rescission or Recapture if after termination of a Participant's Continuous Service, the Participant purchases, as an investment or otherwise, stock or other securities of such an organization or business, so long as (i) such stock or other securities are listed upon a recognized securities exchange or traded over-the-counter, and (ii) such investment does not represent more than a five percent (5%) equity interest in the organization or business.

(g) Notwithstanding the foregoing provisions of this Section, the Company has sole and absolute discretion not to require Termination, Rescission and/or Recapture, and its determination not to require Termination, Rescission and/or Recapture with respect to any particular act by a particular Participant or Award shall not in any way reduce or eliminate the Company's authority to require Termination, Rescission and/or Recapture with respect to any other act or Participant or Award. Nothing in this Section shall be construed to impose obligations on the Participant to refrain from engaging in lawful competition with the Company after the termination of employment that does not violate subsections (b), (c), or (e) of this Section, other than any obligations that are part of any separate agreement between the Company and the Participant or that arise under Applicable Law.

(h) All administrative and discretionary authority given to the Company under this Section shall be exercised by the most senior human resources executive of the Company or such other person or committee (including without limitation the Committee) as the Committee may designate from time to time.

(i) If any provision within this Section is determined to be unenforceable or invalid under any Applicable Law, such provision will be applied to the maximum extent permitted by Applicable Law, and shall automatically be deemed amended in a manner consistent with its objectives and any limitations required under Applicable Law. Notwithstanding the foregoing, but subject to any contrary terms set forth in any Award Agreement, this Section shall not be applicable to any Participant from and after his or her termination of Continuous Service after a Change in Control.

16. **Recoupment of Awards.** Unless otherwise specifically provided in an Award Agreement, and to the extent permitted by Applicable Law, the Committee may in its sole and absolute discretion, without obtaining the approval or consent of the Company's stockholders or of any Participant, require that any Participant reimburse the Company for all or any portion of any Awards granted under this Plan ("Reimbursement"), or the Committee may require the Termination or Rescission of, or the Recapture associated with, any Award, if and to the extent—

(a) the granting, vesting, or payment of such Award(or portion thereof) was predicated upon the achievement of certain financial results that were subsequently the subject of a material financial restatement;

(b) in the Committee's view the Participant either benefited from a calculation that later proves to be materially inaccurate, or engaged in fraud or misconduct that caused or partially caused the need for a material financial restatement by the Company or any Affiliate; and

(c) a lower granting, vesting, or payment of such Award would have occurred based upon the conduct described in clause (b) of this Section.

In each instance, the Committee may, to the extent practicable and allowable under Applicable Laws, require Reimbursement, Termination or Rescission of, or Recapture relating to, any such Award granted to a Participant; provided that the Company will not seek Reimbursement, Termination or Rescission of, or Recapture relating to, any such Awards that were paid or vested more than three years prior to the first date of the applicable restatement period.

17. **Administration of the Plan.** The Committee shall administer the Plan in accordance with its terms, provided that the Board may act in lieu of the Committee on any matter. Notwithstanding anything to the contrary contained herein, administration of the Automatic Option Grant Program shall be self-executing and neither the Committee nor any other administrator of the Plan shall exercise any discretionary functions with respect to any oprion grants under that Program. The Committee shall hold meetings at such times and places as it may determine and shall make such rules and regulations for the conduct of its business as it deems advisable. In the absence of a duly appointed Committee, the Board shall function as the Committee for all purposes of the Plan.

(a) *Committee Composition.* The Board shall appoint the members of the Committee. If and to the extent permitted by Applicable Law, the Committee may authorize one or more executive officers to make Awards to Eligible Persons other than themselves. The Board may at any time appoint additional members to the Committee, remove and replace members of the Committee with or without Cause, and fill vacancies on the Committee however caused.

(b) *Powers of the Committee.* Subject to the provisions of the Plan, the Committee shall have the authority, in its sole discretion:

(i) to grant Awards and to determine Eligible Persons to whom Awards shall be granted from time to time, and the number of Shares, units, or dollars to be covered by each Award;

(ii) to determine, from time to time, the Fair Market Value of Shares;

(iii) to determine, and to set forth in Award Agreements, the terms and conditions of all Awards, including any applicable exercise or purchase price, the installments and conditions under which an Award shall become vested (which may be based on performance), terminated, expired, cancelled, or replaced, and the circumstances for vesting acceleration or waiver of forfeiture restrictions, and other restrictions and limitations;

(iv) to approve the forms of Award Agreements and all other documents, notices and certificates in connection therewith which need not be identical either as to type of Award or among Participants;

(v) to construe and interpret the terms of the Plan and any Award Agreement, to determine the meaning of their terms, and to prescribe, amend, and rescind rules and procedures relating to the Plan and its administration;

(vi) to the extent consistent with the purposes of the Plan and without amending the Plan, to modify, to cancel, or to waive the Company's rights with respect to any Awards, to adjust or to modify Award Agreements for changes in Applicable Law, and to recognize differences in foreign law, tax policies, or customs; and

(vii) in the event that the Company establishes, for itself or uses the services of a third party to establish an automated system for the documentation, granting, settlement, or exercise of Award, such as a system using an internet website or interactive voice response, to implement paperless documentation, granting, settlement, or exercise of Awards by a Participant may be permitted through the use of such an automated system; and

(viii) to make all interpretations and to take all other actions that the Committee may consider necessary or advisable to administer the Plan or to effectuate its purposes.

Subject to Applicable Law and the restrictions set forth in the Plan, the Committee may delegate administrative functions to individuals who are Directors or Employees.

(c) Within the limitations of the Plan, the Committee may modify an Award to accelerate the rate at which an Option or SAR may be exercised (including without limitation permitting an Option or SAR to be exercised in full without regard to the installment or vesting provisions of the applicable Award Agreement or whether the Option or SAR is at the time exercisable, to the extent it has not previously been exercised), to accelerate the vesting of any Award, to extend or renew outstanding Awards or to accept the cancellation of outstanding Awards to the extent not previously exercised, or to make any other changes that would be allowed under the Plan for a new Award. Notwithstanding the foregoing provision, no modification of an outstanding Award shall materially and adversely affect such Participant's rights thereunder (with such an affect being presumed to arise from a modification that would trigger a violation of Section 409A of the Code), unless either (i) the Participant provides written consent, or (ii) before a Change in Control, the Committee determines in good faith that the modification is not materially adverse to the Participant.

(d) *Action by Committee*. Unless otherwise established by the Board or in any charter of the Committee, a majority of the Committee shall constitute a quorum and the acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by all members of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by an officer or other employee of the Company or any Affiliate, the Company's independent certified public accounts, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

(e) *Deference to Committee Determinations*. The Committee shall have the discretion to interpret or construe ambiguous, unclear, or implied (but omitted) terms in any fashion it deems to be appropriate in its sole discretion, and to make any findings of fact needed in the administration of the Plan or Award Agreements. The Committee's prior exercise of its discretionary authority shall not obligate it to exercise its authority in a like fashion thereafter. The Committee's interpretation and construction of any provision of the Plan, or of any Award or Award Agreement, and all determination the Committee makes pursuant to the Plan shall be final, binding, and conclusive. The validity of any such interpretation, construction, decision or finding of fact shall not be given de novo review if challenged in court, by arbitration, or in any other forum, and shall be upheld unless clearly made in bad faith or materially affected by fraud.

(f) *No Liability; Indemnification*. Neither the Board nor any Committee member, nor any Person acting at the direction of the Board or the Committee, shall be liable for any act, omission, interpretation, construction or determination made in good faith with respect to the Plan, any Award or any Award Agreement. The Company and its Affiliates shall pay or reimburse any member of the Committee, as well as any Director, Employee, or Consultant who in good faith takes action on behalf of the Plan, for all expenses incurred with respect to the Plan, and to the full extent allowable under Applicable Law shall indemnify each and every one of them for any claims, liabilities, and costs (including reasonable attorney's fees) arising out of their good faith performance of duties on behalf of the Plan. The Company and its Affiliates may, but shall not be required to, obtain liability insurance for this purpose.

18. **Governing Law**. The terms of this Plan shall be governed by the laws of the State of Delaware, within the United States of America, without regard to the State's conflict of laws rules.

19. **Plan Termination or Amendment**.

If not sooner terminated by the Board, this Plan shall terminate at the close of business on the date ten years after its effective date as determined under Section 1(a) above. No Awards shall be made under the Plan after its termination. The Board may amend or terminate the Plan as it shall deem advisable; provided that no change shall be made that increases the total number of Shares of Company Stock reserved for issuance pursuant to Awards granted under the Plan (except pursuant to Section 13 above) unless such change is authorized by the stockholders of the Company. A termination or amendment of the Plan shall not, without the consent of the Participant, adversely affect a Participant's rights under an Award previously granted to him or her. Notwithstanding the foregoing, the Committee may amend the Plan to comply with changes in tax or securities laws or regulations, or in the interpretation thereof.

20. **Relationship to other Benefits**. No payment pursuant to the Plan shall be taken into account in determining any benefits under any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Affiliate except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

21. **Expenses**. The expenses of administering the Plan shall be borne by the Company and its Affiliates.

**American Independence Corp.**

**2009 Stock Incentive Plan**

Appendix I: Definitions

As used in the Plan, the following terms have the meanings indicated when they begin with initial capital letters within the Plan:

"**Affiliate**" means, with respect to any Person, any other Person that directly or indirectly controls or is controlled by or under common control with such Person. For the purposes of this definition, "control," when used with respect to any Person, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person or the power to elect directors, whether through the ownership of voting securities, by contract or otherwise; and the terms "affiliated," "controlling" and "controlled" have meanings correlative to the foregoing.

"**Applicable Law**" means the legal requirements relating to the administration of options and share-based plans under any applicable laws of the United States, any other country, and any provincial, state, or local subdivision, any applicable stock exchange or automated quotation system rules or regulations, as such laws, rules, regulations and requirements shall be in place from time to time.

**"Automatic Option Grant Program"** means the program automatically granting stock options to non-employee Directors in effect under the Plan.

"**Award**" means any award made pursuant to the Plan, including awards made in the form of an Option, an SAR, a Restricted Share, a RSU, an Unrestricted Share, a DSU, or a Performance Award, or any combination thereof, whether alternative or cumulative.

"**Award Agreement**" means any written document setting forth the terms of an Award that has been authorized by the Committee. The Committee shall determine the form or forms of documents to be used, and may change them from time to time for any reason, including different documents as may be appropriate or applicable for particular locations and countries.

"**Beneficiary**" means the person or entity designated by the Participant, in a form approved by the Company, to exercise the Participant's rights with respect to an Award or receive payment or settlement under an Award after the Participant's death.

"**Board**" means the Board of Directors of the Company.

"**Cause"** will have the meaning set forth in any unexpired employment agreement between the Company and the Participant. In the absence of such an agreement, "Cause" will exist if the Participant is terminated from employment or other service with the Company or an Affiliate for any of the following reasons: (i) the Participant's willful failure to substantially perform his or her duties and responsibilities to the Company or deliberate violation of a material Company policy; (ii) the Participant's commission of any material act or acts of fraud, embezzlement, dishonesty, or other willful misconduct; (iii) the Participant's material unauthorized use or disclosure of any proprietary information or trade secrets of the Company or any other party to whom the Participant owes an obligation of nondisclosure as a result of his or her relationship with the Company; or (iv) Participant's willful and material breach of any of his or her obligations under any written agreement or covenant with the Company. The foregoing definition does not in any way limit the Company's ability to terminate a Participant's employment or consulting relationship at any time, and the term "Company" will be interpreted herein to include any Affiliate or successor thereto, if appropriate.

**"Change in Control"** means the occurrence of any one or more of the events set forth in the following paragraphs:

(i) a change in the ownership of 50% or more of the Company's outstanding common stock, within a twelve month period; or

(ii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting stock of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80% of the total voting power represented by the voting stock or the other voting securities of such surviving entity outstanding immediately after such merger or consolidation; or

(iii) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

However, in no event shall a Change in Control be deemed to have occurred, with respect to a Participant, if the Participant is part of a purchasing group which consummates the Change in Control transaction. The Participant shall be deemed 'part of a purchasing group' for purposes of the preceding sentence if the Participant is an equity participant or has agreed to become an equity participant in the purchasing company or group (except for (a) passive ownership of less than 5% of the stock of the purchasing company or (b) ownership of equity participation in the purchasing company or group which is otherwise not deemed to be significant, as determined prior to the Change in Control by a majority of the nonemployee directors). The Board has final authority to determine the exact date on which a Change in Control has been deemed to have occurred under subparagraphs (i), (ii), and (iii) above.

"**Committee**" means one or more committees or subcommittees of the Board appointed by the Board to administer the Plan in accordance with Section 17 above. With respect to any decision involving an Award intended to satisfy the requirements of Section 162(m) of the Code, the Committee shall consist of two or more Directors of the Company who are "outside directors" within the meaning of Section 162(m) of the Code. With respect to any decision relating to a Reporting Person, the Committee shall consist solely of two or more directors who are disinterested within the meaning of Rule 16b-3. Unless otherwise determined by the Board, the Committee shall be the Compensation Committee of the Board or its successor.

"**Company**" means American Independence Corp., a Delaware corporation; provided, however, that in the event the Company reincorporates to another jurisdiction, all references to the term "Company" shall refer to the Company in such new jurisdiction.

"**Consultant**" means any person (other than an Employee or Director), including an advisor, who is engaged by the Company or any Affiliate to render services and is compensated for such services.

"**Continuous Service**" means a Participant's period of service in the absence of any interruption or termination, as an Employee, Director, or Consultant. Continuous Service shall not be considered interrupted in the case of: (i) sick leave; (ii) military leave; (iii) any other leave of absence approved by the Committee, provided that such leave is for a period of not more than 90 days, unless reemployment upon the expiration of such leave is guaranteed by contract or statute, or unless provided otherwise pursuant to Company policy adopted from time to time; (iv) changes in status from Director to advisory director or emeritus status; or (v) transfers between locations of the Company or between the Company and its Affiliates. Changes in status between service as an Employee, Director, and a Consultant will not constitute an interruption of Continuous Service if the individual continues to perform bona fide services for the Company. The Committee shall have the discretion to determine whether and to what extent the vesting of any Awards shall be tolled during any paid or unpaid leave of absence; provided, however, that in the absence of such determination, vesting for all Awards shall be tolled during any such unpaid leave (but not for a paid leave).

"**Deferred Share Units**" or "**DSUs**" mean Awards pursuant to Section 8 of the Plan.

"**Director**" means a member of the Board, or a member of the board of directors of an Affiliate.

“**Disabled”** means a condition under which a Participant --

(i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or

(ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, received income replacement benefits for a period of not less than 3 months under an accident or health plan covering employees of the Company.

**“Eligible Director”** means a non-employee Board member eligible to participate in the Automatic Option Grant Program in accordance with the Plan.

“**Eligible Person**” means any Consultant, Director, or Employee and includes non-Employees to whom an offer of employment has been or is being extended.

“**Employee**” means any person whom the Company or any Affiliate classifies as an employee (including an officer) for employment tax purposes, whether or not that classification is correct. The payment by the Company of a director’s fee to a Director shall not be sufficient to constitute “employment” of such Director by the Company.

“**Employer**” means the Company and each Subsidiary and Affiliate that employs one or more Participants.

“**Fair Market Value**” as of any date (the “Determination Date”) means: (i) the closing price of a Share on the New York Stock Exchange, the American Stock Exchange or the NASDAQ Stock Market (collectively, the “Exchange”) on the Determination Date, or, if shares were not traded on the Determination Date, then on the nearest preceding trading day during which a sale occurred; or (ii) if such stock is not traded on the Exchange but is otherwise traded in the over-the-counter market, the mean between the representative bid and asked prices on the Determination Date; or (iii) if subsections (i) or (ii) do not apply, the fair market value established in good faith by the Board based on relevant facts and circumstances.

“**Grant Date**” means the later of (i) the date designated as the “Grant Date” within an Award Agreement, and (ii) date on which the Committee determines the key terms of an Award, provided that as soon as reasonably practicable thereafter the Committee both notifies the Eligible Person of the Award and enters into an Award Agreement with the Eligible Person.

**“Involuntary Termination”** means termination of a Participant’s Continuous Service under the following circumstances occurring on or after a Change in Control: (i) termination without Cause by the Company or an Affiliate or successor thereto, as appropriate; or (ii) voluntary termination by the Participant within 60 days following (A) a material reduction in the Participant’s job responsibilities, provided that neither a mere change in title alone nor reassignment to a substantially similar position shall constitute a material reduction in job responsibilities; (B) an involuntary relocation of the Participant’s work site to a facility or location more than 50 miles from the Participant’s principal work site at the time of the Change in Control; or (C) a material reduction in Participant’s total compensation other than as part of an reduction by the same percentage amount in the compensation of all other similarly-situated Employees, Directors, Consultants, or agents.

“**Option**” means a right granted under the Plan to purchase Shares, at a price determined in accordance with the Plan.

**“Optionee”** means a person to whom an Option is granted under the Plan.

“**Participant**” means any Eligible Person who holds an outstanding Award.

“**Performance Awards**” mean Awards granted pursuant to Section 9.

“**Performance Unit**” means an Award granted pursuant to Section 9(a) of the Plan which may be paid in cash, in Shares, or such combination of cash and Shares as the Committee in its sole discretion shall determine.

"**Person**" means any natural person, association, trust, business trust, cooperative, corporation, general partnership, joint venture, joint-stock company, limited partnership, limited liability company, real estate investment trust, regulatory body, governmental agency or instrumentality, unincorporated organization or organizational entity.

"**Plan**" means this American Independence Corp. 2009 Stock Incentive Plan.

"**Recapture**" and "**Rescission**" have the meaning set forth in Section 15 of the Plan.

"**Reimbursement**" has the meaning set forth in Section 16 of the Plan.

"**Restricted Share**" means a Share of Company Stock awarded with restrictions imposed under Section 7.

"**Restricted Share Unit**" or "**RSU**" means a right granted to a Participant to receive Shares or cash upon the lapse of restrictions imposed under Section 7.

"**Retirement**" means a Participant's termination of employment after age 65.

"**Share**" means a share of Common Stock of the Company, as adjusted in accordance with Section 13 of the Plan.

"**SAR**" or "**Share Appreciation Right**" means a right to receive amounts awarded under Section 6.

"**Unrestricted Shares**" mean Shares awarded (without restrictions) pursuant to Section 7 of the Plan.

"**Withholding Taxes**" means the aggregate minimum amount of federal, state, local and foreign income, payroll and other taxes that the Company and any Affiliates are required to withhold in connection with any Award.

**American Independence Corp.**
**2009 Stock Incentive Plan**

---

**Appendix II: U.S. Sub-Plan**

---

This Appendix II applies to any Awards that are made to Eligible Persons who are residents of the United States of America ("**U.S.**") and who are or may become subject to U.S. tax (i.e. income tax and/or social security tax) as a result of Awards granted under the American Independence Corp. 2009 Stock Incentive Plan (the "**Plan**"). Terms herein that begin with initial capital letters have the special definition set forth in the Plan.

This Appendix II shall be read in conjunction with the Plan and is subject to the terms and conditions of the Plan; provided that, to the extent that the terms and conditions of the Plan differ from or conflict with the terms of this Appendix II, the following terms of this Appendix II shall prevail:

**A.** **Additional or Modified Definitions.** Appendix I of the Plan shall be modified as follows:

"**Code**" means the Internal Revenue Code of 1986, as amended.

"**Committee**" shall be modified to mean (i) with respect to any decision involving an Award intended to satisfy the requirements of Section 162(m) of the Code, a committee consisting of two or more Directors of the Company who are "outside directors" within the meaning of Code Section 162(m), and (ii) with respect to any decision relating to a Reporting Person, a committee consisting of solely of two or more Directors who are disinterested within the meaning of Rule 16b-3.

**"Exchange Act"** means the Securities Exchange Act of 1934, as amended.

"**Incentive Stock Option**" or "**ISO**" means, an Option that qualifies for favorable income tax treatment under Code Section 422.

**"Non-ISO"** means an Option not intended to qualify as an Incentive Stock Option, as designated in the applicable Award Agreement.

**"Reporting Person"** means an Employee, Director, or Consultant who is subject to the reporting requirements set forth under Rule 16b-3

**"Rule 16b-3"** means Rule 16b-3 promulgated under the Exchange Act, as amended from time to time, or any successor provision.

"**Ten Percent Holder**" means a person who owns (within the meaning of Code Section 422) stock representing more than ten percent (10%) of the combined voting power of all classes of stock of the Company.

**B.** **Eligibility**. Section 4(a) of the Plan shall be modified by inserting the following sentence at the end thereof:

Notwithstanding the foregoing, a Person shall not be an Eligible Person with respect to Options or SARs if they are classified as an Employee solely by an entity that is a "parent corporation" (within the meaning of Code Section 424) of the Company.

**C.** **Payment of Exercise Price**. In order to ensure compliance with the Sarbanes-Oxley Act of 2002, Section

5(b) of the Plan shall be modified by inserting the following sentence at the end thereof:

> Notwithstanding any other provision of the Plan to the contrary, no Participant who is a Director or an "executive officer" of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to make payment with respect to any Awards granted under the Plan, or continue any extension of credit with respect to such payment with a loan from the Company or a loan arranged by the Company in violation of Section 13(k) of the Exchange Act.

**D. Authorization for ISOs.** In order to permit the granting of ISOs, the Section 5 of Plan shall be modified by adding the following subsection (f) at the end thereof:

(a) *Special ISO Provisions*. The following provisions shall control any grants of Options that are denominated as ISOs.

(i) Grants of ISOs. The Committee may grant ISOs only to Employees (including officers who are Employees) of the Company or an Affiliate that is a "parent corporation" or "subsidiary corporation" within the meaning of Section 424 of the Code. Each Option that is intended to be an ISO must be designated in the Award Agreement as an ISO, provided that any Option designated as an ISO will be a Non-ISO to the extent the Option fails to meet the requirements of Code Section 422. In the case of an ISO, the Committee shall determine the acceptable methods of payment on the Date of Grant and it shall be included in the applicable Award Agreement.

(ii) Maximum Limit. Subject to adjustment pursuant to Section 13 of the Plan, the number of Shares that are available for ISO Awards shall be determined, to the extent required under the Code, by reducing the number of Shares designated in Section 3 of the Plan by the number of Shares issued pursuant to Awards, provided that any Shares that are issued under the Plan and forfeited back to the Plan shall be available for issuance pursuant to future ISO Awards.

(iii) $100,000 Limit. To the extent that the aggregate Fair Market Value of Shares with respect to which Options designated as ISOs first become exercisable by a Participant in any calendar year (under this Plan and any other plan of the Company or any Affiliate) exceeds U.S. $100,000, such excess Options shall be treated as Non-ISOs. For purposes of determining whether the U.S. $100,000 limit is exceeded, the Fair Market Value of the Shares subject to an ISO shall be determined as of the Grant Date. In reducing the number of Options treated as ISOs to meet the U.S. $100,000 limit, the most recently granted Options shall be reduced first. In the event that Section 422 of the Code is amended to alter the limitation set forth therein, the limitation of this paragraph shall be automatically adjusted accordingly.

(iv) Grants to 10% Holders. In the case of an Incentive Stock Option granted to an Employee who is a Ten Percent Holder on the Date of Grant, the term of the Incentive Stock Option shall not exceed five years from the Date of Grant, and the exercise price shall be at least 110% of the Fair Market Value of the underlying Shares on the Grant Date. In the event that Section 422 of the Code is amended to alter the limitations set forth therein, the limitation of this paragraph shall be automatically adjusted accordingly.

(v) Substitution of Options. Notwithstanding any other provisions of the Plan, in the event the Company or an Affiliate acquires (whether by purchase, merger or otherwise) all or substantially all of outstanding capital stock or assets of another corporation or in the event of any reorganization or other transaction qualifying under Code Section 424, the Committee may, in accordance with the provisions of that Section, substitute ISOs for ISOs under the plan of the acquired company provided (i) the excess of the aggregate Fair Market Value of the Shares subject to an ISO immediately after the substitution over the aggregate exercise price of such shares is not more than the similar excess immediately before such substitution, and (ii) the new ISO does not give additional benefits to the Participant, including any extension of the exercise period.

(vi) Notice of Disqualifying Dispositions. By executing an ISO Award Agreement, each Participant agrees to notify the Company in writing immediately after the Participant sells, transfers or otherwise disposes of any Shares acquired through exercise of the ISO, if such disposition occurs within the earlier of (i) two years of the Grant Date, or (ii) one year after the exercise of the ISO being exercised. Each Participant further agrees to provide any information about a disposition of Shares as may be requested by the Company to assist it in complying with any applicable tax laws.

**E. SARs**. Section 6 of the Plan shall be modified through addition of the following sentence at the end of Section 6(d):

Any SAR granted in tandem with an ISO will contain such terms as may be required to comply with the provisions of Code Section 422.

**F. Restricted Shares or RSUs.** Section 7 of the Plan shall be modified by adding the following paragraph at its end:

(b) *Section 83(b) Elections*. A Participant may make an election under Code Section 83(b) (the "Section 83(b) Election") with respect to Restricted Shares. A Participant who has received RSUs may, within ten days after receiving the RSU Award, provide the Committee with a written notice of his or her desire to make Section 83(b) Election with respect to the Shares subject to such RSUs. The Committee may in its discretion convert the Participant's RSUs into Restricted Shares, on a one-for-one basis, in full satisfaction of the Participant's RSU Award. The Participant may then make a Section 83(b) Election with respect to those Restricted Shares; provided that the Participant's Section 83(b) Election will be invalid if not filed with the Company and the appropriate U.S. tax authorities within 30 days after the Grant Date of the RSUs replaced by the Restricted Shares.

**G. DSUs**. Section 8 of the Plan shall be modified as follows:

Section 8(a) shall be modified through addition of the following sentence at its end:

For any Participant who is subject to U.S. income taxation, the Committee shall only authorize deferral elections pursuant to Section 8 (i) under written procedures, and using written election forms that satisfy the requirements of Code Section 409A, and (ii) shall only be made by Eligible Persons who are Directors, Consultants, or members of a select group of management or highly compensated Employees (within the meaning of the Code).

Section 8(e) of the Plan shall be modified through addition of the following at its end:

For all DSUs granted to Participants who are U.S. taxpayers, the term "unforeseeable emergency" shall be interpreted in accordance with Section 409A of the Code, and the term "dependent" shall be interpreted in accordance with Section 152(a) of the Code.

Section 8 of the Plan shall be modified through addition of the following at its end:

(c) *Termination of Service*. For purposes of Section 8 of the Plan, a Participant's "Continuous Service" shall only end when the Participant incurs a "separation from service" within the meaning of Treasury Regulations §1.409A-1(h). A Participant shall be considered to have experienced a termination of Continuous Service when the facts and circumstances indicate that either (i) no further services will be performed for the Company or any Affiliate after a certain date, or (ii) that the level of bona fide services the Participant will perform after such date (whether as an Employee, Director, or Consultant) are reasonably expected to permanently decrease to no more than 50% of the average level of bona fide services performed by such Participant (whether as an Employee, Director, or Consultant) over the immediately preceding 36-month period (or full period of services to the Company and its Affiliates if the Participant has been providing such services for less than 36 months).

**H.** **Performance Awards**. Section 9 of the Plan shall be modified by adding the following paragraphs and by re-lettering Section 9(b) as Section 9(e):

(d) *Performance Compensation Awards*. Subject to the limitations set forth in Section 9 and in this Appendix II.H., the Committee may, at the time of grant of a Performance Unit, designate such Award as a "Performance Compensation Award" (payable in cash or Shares) in order that such Award constitutes "qualified performance-based compensation" under Code Section 162(m), in which event the Committee shall have the power to grant such Performance Compensation Award upon terms and conditions that qualify it as "qualified performance-based compensation" within the meaning of U.S. Code Section 162(m). With respect to each such Performance Compensation Award, the Committee shall establish, in writing within the time required under Code Section 162(m), a "Performance Period," "Performance Measure(s)", and "Performance Formula(e)" (each such term being defined below). A Participant shall be eligible to receive payment in respect of a Performance Compensation Award only to the extent that the Performance Measure(s) for such Award is achieved and the Performance Formula(e) as applied against such Performance Measure(s) determines that all or some portion of such Participant's Award has been earned for the Performance Period. As soon as practicable after the close of each Performance Period, the Committee shall review and certify in writing whether, and to what extent, the Performance Measure(s) for the Performance Period have been achieved and, if so, determine and certify in writing the amount of the Performance Compensation Award to be paid to the Participant and, in so doing, may use negative discretion to decrease, but not increase, the amount of the Award otherwise payable to the Participant based upon such performance

(e) *Limitations on Awards*. The maximum Performance Award and the maximum Performance Compensation Award that any one Participant may receive for any one Performance Period shall not together exceed 60,000 Shares, as adjusted pursuant to Section 13 below (or, for Performance Units to be settled in cash, U.S. $1,500,000.

(f) *Definitions*.

(i) "Performance Formula" means, for a Performance Period, one or more objective formulas or standards established by the Committee for purposes of determining whether or the extent to which an Award has been earned based on the level of performance attained or to be attained with respect to one or more Performance Measure(s). Performance Formulae may vary from Performance Period to Performance Period and from Participant to Participant and may be established on a stand-alone basis, in tandem or in the alternative.

(ii) "Performance Measure" means one or more of the following selected by the Committee to measure Company, Affiliate, and/or business unit performance for a Performance Period, whether in absolute or relative terms (including, without limitation, terms relative to a peer group or index): basic, diluted, or adjusted earnings per share; sales or revenue; earnings before interest, taxes, and other adjustments (in total or on a per share basis); basic or adjusted net income; returns on equity, assets, capital, revenue or similar measure; economic value added; working capital; total shareholder return; and product development, product market share, research, licensing, litigation, human resources, information services, mergers, acquisitions, sales of assets of Affiliates or business units. Each such measure shall be, to the extent applicable, determined in accordance with generally accepted accounting principles as consistently applied by the Company (or such other standard applied by the Committee) and, if so determined by the Committee, and in the case of a Performance Compensation Award, to the extent permitted under Code Section 162(m), adjusted to omit the effects of extraordinary items, gain or loss on the disposal of a business segment, unusual or infrequently occurring events and transactions and cumulative effects of changes in accounting principles. Performance Measures may vary from Performance Period to Performance Period and from Participant to Participant, and may be established on a stand-alone basis, in tandem or in the alternative.

(iii) "Performance Period" means one or more periods of time (of not less than one fiscal year of the Company), as the Committee may designate, over which the attainment of one or more Performance Measure(s) will be measured for the purpose of determining a Participant's rights in respect of an Award.

**I.** **Taxes; Withholding**. In order to confirm with Code Section 409A, Section 10 of the Plan shall be modified by inserting the following at the end thereof:

To the extent that the committee determines that any Award granted under the Plan is subject to Section 409A of the Code, the Award Agreement evidencing such Award shall incorporate the terms and conditions required by Section 409A of the Code. To the extent applicable, the Plan and Award Agreements shall be interpreted in accordance with Section 409A of the code and Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the Effective Date. Notwithstanding any provision of the Plan to the contrary, in the event that following the effective date of the committee determines that any Award may be subject to Section 409A of the code and related Department of Treasury guidance (including such Department of Treasury guidance as may be issued after the Effective Date), the Committee may adopt such amendments to the Plan and the applicable Award Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Administrator determines are necessary or appropriate to (a) exempt the Award from Section 409A of the code and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (b) comply with the requirements of Section 409A of the code and related Department of Treasury guidance and thereby avoid the application of any penalty taxes under such Section.

The Plan is intended to be an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Holder pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Holder any rights that are greater than those of a general creditor of the Company or any Subsidiary.

**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**

**FOE THE FISCAL YEAR ENDED DECEMBER 31, 2008**
**COMMISSION FILE NUMBER 001-05270**

**AMERICAN INDEPENDENCE CORP.**
(Exact name of Registrant as specified in its charter)

| **DELAWARE** | **11-1817252** |
|---|---|
| (State of Incorporation) | (I. R.S. Employer Identification No.) |

| **485 Madison Avenue, New York, New York** | **10022** |
|---|---|
| (Address of Principal Executive Offices) | (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 [X] 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 [X] 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[X] 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. [X]

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

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
[ ] Yes [X] 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, 2008 was $26,681,000.

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

| Class | Outstanding at March 16, 2009 |
|---|---|
| Common Stock, $0.01 par value | 8,503,989 |

**Portions of the registrant’s definitive proxy statement to be delivered (or made available, pursuant to applicable regulations) to stockholders in connection with the 2009 annual meeting of stockholders to be held in June 2009 are incorporated by reference in response to Part III of this Report.**

**FORM 10-K CROSS REFERENCE INDEX**


| | | | |
|---|---|---|---|
| PART I | Item 1. | Business | 4 |
| | Item 1A. | Risk Factors | 10 |
| | Item 1B. | Unresolved Staff Comments | 15 |
| | Item 2. | Properties | 15 |
| | Item 3. | Legal Proceedings | 15 |
| | Item 4. | Submission of Matters to a Vote of Security Holders | 15 |
| PART II | Item 5. | Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 16 |
| | Item 6. | Selected Financial Data | 17 |
| | Item 7. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 17 |
| | Item 7A. | Quantitative and Qualitative Disclosures About Market Risk | 30 |
| | Item 8. | Financial Statements and Supplementary Data | 31 |
| | Item 9. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 67 |
| | Item 9A.(T) | Controls and Procedures | 67 |
| | Item 9B. | Other Information | 68 |
| PART III | Item 10. | Directors, Executive Officers and Corporate Governance | 68 |
| | Item 11. | Executive Compensation | 68 |
| | Item 12. | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 68 |
| | Item 13. | Certain Relationships and Related Transactions, and Director Independence | 68 |
| | Item 14 | Principal Accounting Fees and Services | 69 |
| PART IV | Item 15. | Exhibits and Financial Statement Schedules | 69 |

## FORWARD-LOOKING STATEMENTS

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

*Numerous risks and uncertainties may impact the matters addressed by our forward−looking statements, any of which could negatively and materially affect our future financial results and performance. We describe some of these risks and uncertainties in greater detail in Item 1A of this report, Risk Factors.*

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

## PART I

### Item 1. BUSINESS

***Business Overview***

American Independence Corp. is a Delaware corporation (NASDAQ: AMIC). We are a holding company principally engaged in health insurance and reinsurance with principal executive offices located at 485 Madison Avenue, New York, New York 10022.

Our website is located at www.americanindependencecorp.com. Detailed information about AMIC, its corporate affiliates and insurance products and services can be found on our website. In addition, we make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to such reports available, free of charge, through our website, as soon as reasonably practicable after they are filed with or furnished to the SEC. The information on our website, however, is not incorporated by reference in, and does not form part of, this Annual Report on Form 10-K.

We provide specialized health coverage and related services to commercial customers and individuals. We focus on niche health products and/or narrowly defined distribution channels in the United States. Our wholly owned subsidiary, Independence American Insurance Company ("Independence American"), markets its products through AMIC's managing general underwriter and agency subsidiaries and through independent brokers, producers and agents.

As used in this report, unless otherwise required by the context, AMIC and its subsidiaries are sometimes collectively referred to as the "Company" or "AMIC", or are implicit in the terms "we", "us" and "our".

AMIC retains much of the risk that it underwrites, and focuses on the following lines of business:

- Medical excess or "stop-loss"
- Major medical for individuals and families
- Group major medical
- Short-term medical

Independence American, which is domiciled in Delaware, is licensed to write property and/or casualty insurance in 49 states and the District of Columbia, and has an A- (Excellent) rating from A.M. Best Company, Inc. ("A.M. Best"). We have been informed by A.M. Best that an A.M. Best rating is assigned after an extensive quantitative and qualitative evaluation of a company's financial condition and operating performance, and is also based upon factors relevant to policyholders, agents, and intermediaries, and is not directed towards protection of investors. A.M. Best ratings are not recommendations to buy, sell or hold securities of the Company.

We own controlling interests in three managing general underwriter subsidiaries: IndependenceCare Underwriting Services – Minneapolis , L.L.C. ("IndependenceCare"); Marlton Risk Group LLC ("Marlton") and Risk Assessment Strategies, Inc. ("RAS"). IndependenceCare, Marlton and RAS are collectively referred to as "our MGUs." AMIC also has a minority investment in Majestic Underwriters LLC ("Majestic"). Our MGUs are responsible for marketing, underwriting, billing and collecting premiums, and, through an affiliate, administering and processing claims and medical management. In the fourth quarter of 2008, the Company formed Excess Claims Administrators, Inc. ("ECA") to administer, adjudicate, and process claims and perform medical management services for our MGUs, Majestic and third parties. These functions, which were previously performed by each MGU separately, were consolidated in order to generate cost savings through economies of scale and provide more uniform results among the MGUs.

IndependenceCare, which is headquartered in Minneapolis, Minnesota, markets and underwrites employer medical stop-loss, provider excess loss, HMO Reinsurance and ancillary products for Standard Security Life Insurance Company of New York ("Standard Security Life") and Madison National Life Insurance Company, Inc. ("Madison National Life"), Independence American and another carrier. Standard Security Life and Madison National Life are wholly owned, indirect subsidiaries of Independence Holding Company. Independence Holding Company and its subsidiaries including Standard Security Life and Madison National Life are collectively referred to as "IHC". IHC owns 49.7% of AMIC's outstanding stock. Marlton, which is headquartered near Philadelphia, Pennsylvania, markets and underwrites employer medical stop-loss and group life for Standard Security Life, Independence American and two other carriers. RAS, which is headquartered near Hartford, Connecticut, markets and underwrites employer medical stop-loss and group life for Standard Security Life, Madison National Life, Independence American and one other carrier. AMIC also has a 51% ownership in HealthInsurance.org, LLC ("HIO"), an insurance and marketing agency, and a 51% ownership in Independent Producers of America, LLC ("IPA"), a national, career agent marketing organization. HIO and IPA are collectively referred to as "our Agencies".

In 2007, Independence American began writing group major medical, medical stop-loss, major medical plans for individuals and families, and short-term medical ("STM") primarily through two distribution sources. Given its A- (Excellent) rating from A.M. Best, in 2008, Independence American began to expand the distribution of its medical stop-loss products and major medical plans for individuals and families, although its overall premiums decreased as a result of reduced reinsurance premiums from IHC's smaller book of business. In 2009, Independence American expects to continue to expand the distribution, as a direct writer, of these products, and expects its reinsurance premiums to be relatively flat. Historically, Independence American derived most of its income from assumed reinsurance premiums

## Our Philosophy

Our business strategy consists of maximizing underwriting profits through a variety of niche health products and/or through distribution channels that enable us to access underserved markets or markets in which we believe we have a competitive advantage. In addition to distributing through independent agents and brokers, Independence American focuses on alternative distribution sources, such as captive agencies and direct-to-consumer initiatives. While management considers a wide range of factors in its strategic planning and decision-making, underwriting profit is consistently emphasized as the primary goal in all decisions.

## Our Products

### Medical Stop-Loss

Self-insured group major medical 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 managed care organizations ("MCO"). Employer medical stop-loss insurance provides coverage to public and private entities that elect to self-insure their employees' medical coverage for losses within specified ranges, which permits such groups to manage the risk of excessive health insurance costs by limiting specific and aggregate losses to predetermined amounts.

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's 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.

Standard Security Life, Madison National Life and Independence American 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, 2008, Standard Security Life marketed this product through nine MGUs, including IndependenceCare, RAS, Marlton and Majestic. As of December 31, 2008, Madison National Life marketed this product through one MGU. As of December 31, 2008, Independence American marketed this product through two MGUs. MGUs are responsible for establishing an employer's conditions for coverage in accordance with guidelines formulated and approved by Standard Security Life, Madison National Life and Independence American, billing and collecting premiums from the employers, paying commissions to agents, third-party administrators ("TPAs") and/or brokers, and adjudicating claims. Standard Security Life, Madison National Life and Independence American 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.

Independence American issues and/or reinsures managed care excess coverages, including provider excess loss insurance and HMO Reinsurance. Provider excess loss insurance is marketed to providers, MCOs, 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. The market for this product has shrunk in recent years and we currently have an immaterial amount of this business. 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.

Independence American has employer medical stop-loss policies approved in the vast majority of states. Independence American wrote employer medical stop-loss business through two distribution sources in 2008 (see Note 19 of Notes to Consolidated Financial Statements). Given its A- (Excellent) rating from A.M. Best in 2008, Independence American has begun writing medical stop-loss through other MGUs.

**Fully Insured Health**

During 2008, Independence American reinsured 9% 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. In 2008, Independence American wrote approximately $22.4 million of this business and retained 100% of the risk, subject to a contractual undertaking by the producer of this business to share in 35% of all profits and losses. Independence American expects the reinsurance premium from this line of business to decline in 2009 and its direct business to remain steady in 2009. In 2008, Independence American wrote approximately $4.3 million of health plans for individual and families through IPA and ceded 50% to a third-party reinsurer. AMIC anticipates growth in this line of business in 2009 both through these production sources and modest growth in assumed reinsurance premiums derived from health plans for individual and families written by Standard Security Life and Madison National Life.

**Short-Term Medical (“STM”)**

This business, primarily written through agents and brokers that receive commissions, is designed specifically for people with short-term 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 are 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. Independence American is licensed to write this product in the vast majority of states, and will continue to seek alternative distribution channels (including through HIO) that would give it an opportunity to write this business on its paper. During 2008, Independence American reinsured 10% of the STM business written by Standard Security Life and Madison National Life. Independence American expects modest growth from the reinsurance premium and direct premium from this line of business in 2009.

**Short-term Statutory Disability**

Independence American reinsures 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. Independence American expects the reinsurance premium from this line of business to remain steady in 2009.

**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 of 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.

During 2008, 69% of Independence American’s premiums earned were derived from assumed reinsurance premiums, compared to 75% in 2007. This lower percentage is primarily due to the increase in direct business. In 2008, 73% of this premium was related to medical stop-loss business, 22% was related to fully insured health business, and 5% was related to DBL. Of the medical stop-loss premiums, 80% was generated from pro rata reinsurance treaties with Standard Security Life and Madison National Life pursuant to which they cede, at treaty renewals, at least 15% (and may cede up to 30%) of their gross medical stop-loss premiums written to Independence American. For 2008, Standard Security Life and Madison National Life ceded, on average, approximately 23% 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, 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, 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. Both companies are rated A- (Excellent) by A.M. Best. The balance of the medical stop-loss assumed reinsurance premium was related to business written by unaffiliated carriers on nine other programs. For 2008, Independence American received between 15% and 25% of the premium on these unaffiliated programs. The Company's strategic plan is to continue to expand the fully insured health and medical stop-loss business written by Independence American.

**Federal Net Operating Loss Carryforwards**

At December 31, 2008, AMIC had consolidated net operating loss (“NOL”) carryforwards 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. The IRS has completed their audit of the Company’s 2003 and 2004 consolidated income tax returns in the third quarter of 2008 and made no changes to the reported tax for those periods.

Our ability to utilize our NOLs 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 NOL carryforwards and certain federal income tax credits. The certificate of incorporation generally restricts any person from attempting to sell, transfer or dispose, or purchase or acquire any AMIC stock, if such transfer would affect the percentage of AMIC stock owned by a 5% Stockholder. Any person attempting such a transfer will be required, prior to the date of any proposed transfer, to request in writing that the board of directors review the proposed transfer and authorize or not authorize such proposed transfer. Any 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 will remain the owner of such shares. Notwithstanding such transfer restrictions, there could be circumstances under which an issuance by AMIC of a significant number of new shares of common stock or other new class of equity security having certain characteristics (for example, the right to vote or convert into common stock) might result in an ownership change under the Code.

**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, 2008, 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.

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.

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 are 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.

**Competition and Regulation**

Independence American competes with many larger insurance and reinsurance companies and managed care organizations. Our MGUs compete with many other managing general underwriters, insurance companies, and MCOs.

AMIC is an insurance holding company; as such, AMIC and its subsidiaries are subject to regulation and supervision by multiple state insurance regulators, including the Office of the Insurance Commissioner of the State of Delaware (Independence American's domestic regulator). Independence American is subject to regulation and supervision in every state 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 insurance holding company.

Certain transactions within the AMIC 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 applicable 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 Office of the Insurance Commissioner of the State 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 conditions are subject to periodic examination.

The National Association of Insurance Commissioners has developed a formula for analyzing insurance companies called risk−based capital. The risk−based capital formula is intended to establish minimum capital thresholds that vary with the size and mix of an insurance company's business and assets. It is designed to identify companies with capital levels that may require regulatory attention. 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 specified corrective action. At December 31, 2008, Independence American's total adjusted capital was significantly in excess of the authorized control level risk−based capital.

**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. Due to difficult and deteriorating conditions in that market, the Company wound down those businesses.

The operating results of these discontinued operations have been segregated from continuing operations and are reported as a 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.

**Employees**

The Company and its subsidiaries, collectively, had 59 employees as of December 31, 2008.

**Item 1A.** ***Risk Factors***

*The risks and uncertainties described below are not the only ones that we face, but are those that we have identified as being the most significant factors that make investment in our stock speculative or risky or that have special application to us. Additional risks and uncertainties that we do not know about, or that we deem less significant than those identified below, may also make investment in our stock speculative or risky. If any of the adverse events associated with the risks described below occurs, our business, financial condition or results of operations could be materially adversely affected. In such a case, the trading price of our stock could decline.*

**Our investment portfolio is subject to various risks that may result in realized investment losses. In particular, decreases in the fair value of fixed maturities may greatly reduce the value of our investments, and as a result, our financial condition may suffer.**

We are subject to credit risk in our investment portfolio. Defaults by third parties in the payment or performance of their obligations under these securities could reduce our investment income and realized investment gains or result in the continued recognition of investment losses. The value of our investments may be materially adversely affected by increases in interest rates, downgrades in the preferred stocks and bonds included in our portfolio and by other factors that may result in the continued recognition of other-than-temporary impairments. Each of these events may cause us to reduce the carrying value of our investment portfolio.

In particular, at December 31, 2008, fixed maturities represented $45.9 million or 87% of our total investments of $52.8 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 us 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 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. For mortgage−backed securities, credit risk exists if mortgagees default on the underlying mortgages. Although at December 31, 2008, approximately 99.6% of the fixed maturities were investment grade, all of our fixed maturities are subject to credit risk. If any of the issuers of our fixed maturities suffer financial setbacks, the ratings on the fixed maturities could fall (with a concurrent fall in fair value) and, in a worst case scenario, the issuer could default on its financial obligations. If the issuer defaults, we could have realized losses associated with the impairment of the securities.

The impact of market value fluctuations affects our Consolidated Financial Statements. Because all of our fixed maturities are classified as available for sale, changes in the fair market value of our securities are reflected in our 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 our stockholders' equity, total comprehensive income and/or cash flows.

We regularly monitor our investment portfolio to ensure that investments that are other-than-temporarily impaired are identified in a timely fashion, properly valued and any impairment is charged against earnings in the proper period. Assessment factors include, but are not limited to, the length of time and the extent to which the market value has been less than cost, the financial condition and rating of the issuer, whether any collateral is held and our intent and ability to retain the investment for a period of time sufficient to allow for recovery. However, the determination that a security has incurred an other-than-temporary decline in value requires the judgment of management. Inherently, there are risks and uncertainties involved in making these judgments. Therefore, changes in facts and circumstances and critical assumptions could result in management's decision that further impairments have occurred. This could lead to additional losses on investments, particularly those that management has the intent and ability to hold until recovery in value occurs.

**Our earnings could be materially affected by an impairment of goodwill.**

Goodwill represented $23.6 million of our $130.6 million in total assets as of December 31, 2008. We review our goodwill annually for impairment or more frequently if indicators of impairment exist. We regularly assess whether any indicators of impairment exist, which requires a significant amount of judgment. Such indicators may include: a sustained significant decline in our share price and market capitalization; a decline in our expected future cash flows; a significant adverse change in the business climate; and/or slower growth rates, among others. Any adverse change in one of these factors could have a significant impact on the recoverability of these assets and could have a material impact on our consolidated financial statements. During 2008, we experienced a significant decline in our stock price. Due to this significant decline, our market capitalization as of December 31, 2008 was significantly below our fair value. If we experience a sustained decline in our results of operations and cash flows, or other indicators of impairment exist, we may incur a material non-cash charge to earnings relating to impairment of our goodwill, which could have a material adverse effect on our results.

**Changes in state and federal regulations, or the application thereof, may adversely affect our business, financial condition and results of operations.**

Congress and state legislatures continue to focus on health care issues. In addition, the 2008 elections resulted in a renewed focus on health care and health insurance, and several key legislators and some of the newly appointed and elected officials, including in the executive branch, have proposed significant changes to the existing system. Potential reforms include, but are not limited to: mandating universal coverage; imposing more restrictive regulation of the underwriting and marketing of health insurance; making generally available a government-sponsored health plan as an alternative to private insurance; and changing the federal income tax laws relating to the deductibility of health insurance premiums. A number of states are contemplating significant reform of their health insurance markets. These proposals include provisions affecting both public programs and privately financed health insurance arrangements. We cannot assure you that, if enacted into law, any of these proposals would not have a material, adverse effect on our business, results of operations or financial condition.

Less-fundamental change in the regulatory requirements imposed on us may also harm our business or results of operations. For example, some states have imposed 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 we were unable, for any reason, to comply with these requirements, it could result in substantial costs to us and could materially adversely affect our results of operations and financial condition.

**If rating agencies downgrade our insurance company, our results of operations and competitive position in the industry may suffer.**

Ratings have become an increasingly important factor in establishing the competitive position of insurance companies. Independence American is rated A- (Excellent) by A.M. Best, 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. If A.M. Best were to reduce Independence American's ratings from current levels, our business would be adversely affected.

**Given the current economic and political climates, our stock may be increasingly subject to stock price and trading volume volatility. The price of our common stock could fluctuate or decline significantly and you could lose all or part of your investment.**

During 2008, the stock markets experienced significant price and trading volume volatility. Company-specific issues and market developments generally in the insurance industry and in the regulatory environment may have caused this volatility. Our stock price declined significantly during 2008 and may continue to materially fluctuate in 2009 in response to a number of events and factors, including: quarterly variations in our reported results; operating and stock price performance of other companies that investors may deem comparable; sales of stock by insiders; and changes in our financial strength ratings. These factors could materially reduce our stock price. In addition, broad market and industry fluctuations may materially and adversely affect the trading price of our common stock, regardless of our actual operating performance.

**Our loss reserves are based on an estimate of our future liability, and if actual claims prove to be greater than our reserves, our results of operations and financial condition may be adversely affected.**

We maintain loss reserves to cover our estimated liability for unpaid losses and loss adjustment expenses where material, 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, we cannot be sure that current reserves will prove adequate. If our reserves are insufficient to cover our actual losses and loss adjustment expenses, we would have to augment our reserves and incur a charge to our earnings, and these charges could be material. Reserves do not represent an exact calculation of liability. Rather, reserves represent an estimate of what we expect the ultimate settlement and administration of claims will cost. These estimates, which generally involve actuarial projections, are based on our assessment of known facts and circumstances. 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 us. 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, and are reflected in the results of the periods in which such estimates are changed.

**Our 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 our results to fluctuate. The industry and our 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 health care services by members;
- New mandated benefits or other regulatory changes that change the scope of business or increase our costs; and
- Failure of MGUs to adhere to underwriting guidelines as required by us in its MGU agreements.

The occurrence of any or a combination of these factors, which is beyond our control, could have a material adverse effect on our results.

**The stock transfer restriction in our certificate of incorporation may not protect against adverse tax consequences.**

Although the stock transfer restrictions contained in our 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 us 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, we have not requested a ruling from the IRS regarding the effectiveness of the stock transfer restrictions and, therefore, we cannot be certain that the IRS will agree that the stock transfer restrictions are effective for purposes of Section 382 of the Code. Further, we 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 our tax net operating loss carryforwards are allowable. In addition, our 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 our best interests. Therefore, the stock transfer restrictions were to reduce, but not necessarily eliminate, the risk that Section 382 of the Code will cause limitations on the use of our tax attributes.

**Our inability to assess underwriting risk accurately could reduce our net income.**

Our success is dependent on our ability to assess accurately the risks associated with the businesses on which we retain risk. If we fail to assess accurately the risks we retain, we may fail to establish the appropriate premium rates and our reserves may be inadequate to cover our losses, requiring augmentation of the reserves, which in turn would reduce our net income.

Our agreements with our producers (including our MGUs) require that each producer follow underwriting guidelines published by us and amended from time to time. Failure to follow these guidelines may result in termination or modification of the agreement. We perform periodic audits to confirm adherence to the guidelines, but it is possible that we 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 (defined as insurance benefits, claims and reserves divided by (premiums earned less underwriting expenses)) for that producer and could have an adverse impact on our operating results.

**If we fail to comply with extensive state and federal regulations, we will be subject to penalties, which may include fines and suspension and which may adversely affect our results of operations and financial condition.**

We are 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 we do 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 and regulation of their conduct in the market;
- Restrictions on the nature, quality and concentration of investments;
- 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.

A large portion of our business depends on our compliance with applicable laws and regulations and our ability to maintain valid licenses and approvals for our 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, we follow practices based on our interpretations of regulations, or interpretations that we believe to be generally followed by the industry, which may be different from the requirements or interpretations of regulatory authorities. If we do not have the requisite licenses and approvals and do not comply with applicable regulatory requirements, the insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our insurance-related activities or otherwise penalize us. That type of action could have a material adverse effect on our 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 our business.

**We may be unsuccessful in competing against larger or better-established business rivals.**

Our industry is highly competitive and has experienced severe price competition from time to time over the last several years. We face competition from domestic and international insurance and reinsurance companies, from underwriting agencies, and from diversified financial services companies that are much larger than we are. Some of these competitors have greater financial, marketing and other resources, have been operating longer than we have 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, we face competition from a variety of sources in attracting and retaining qualified employees. We cannot assure that we will maintain our current competitive position in the markets in which we operate, or that we will be able to expand our operations into new markets and compete effectively in the future. If we fail to do so, our business could be materially adversely affected.

**The occurrence of various events may adversely affect our ability to utilize fully our NOL carryforwards.**

We have U.S. federal NOL carryforwards of approximately $276 million, which may be used against any profits from our business. However, events outside of our or IHC's control, such as certain acquisitions and dispositions of our common stock, may limit the use of all or a portion of our NOL carryforwards. If such events were to occur, our expectation of using our NOL carryforwards against potential profits would not be realized and we could potentially have a higher tax liability in the future than we would otherwise have had. As the NOL carryforwards are utilized by AMIC, the amount of our NOL carryforwards could be reduced upon audit by the IRS for those tax years open for assessment under the statute of limitations.

**We rely on reinsurance arrangements to help manage our business risks, and failure to perform by the counterparties to our reinsurance arrangements may expose us to risks we had sought to mitigate.**

We utilize reinsurance to mitigate our risks in various circumstances. Reinsurance does not relieve us of our direct liability to our policyholders, even when the reinsurer is liable to us. Accordingly, we bear credit risk with respect to our reinsurers. Our reinsurers may be unable or unwilling to pay the reinsurance recoverable owed to us now or in the future or on a timely basis. A reinsurer's insolvency, inability or unwillingness to make payments under the terms of its reinsurance agreement with us could have an adverse effect on our financial condition, results of operations and cash flows.

**Failure to protect our policyholder's confidential information and privacy could adversely affect our business.**

In the conduct of our business, we are subject to privacy regulations and to confidentiality obligations. For example, the collection and use of patient data in our health insurance operations is the subject of national and state legislation, including the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and certain other activities we conduct are subject to the privacy regulations of the Gramm-Leach-Bliley Act. We also have contractual obligations to protect certain confidential information we obtain from our existing vendors, partners and policyholders. These obligations generally include protecting such confidential information in the same manner and to the same extent as we protect our own confidential information. If we do not properly comply with privacy regulations and protect confidential information, we could experience adverse consequences, including regulatory sanctions, such as penalties, fines and loss of license, as well as loss of reputation and possible litigation.

**Certain of our business arrangements are terminable by other parties**

Independence American currently reinsures 20% of Standard Security Life's short-term statutory disability benefit product, but Standard Security Life is not contractually obligated to continue to cede this business to Independence American after termination of the current treaty year. Standard Security Life and Madison National Life also ceded approximately 8.9% of the majority of their fully insured health 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 approximately 23%, on average, of their medical stop-loss business to Independence American in 2008, however, they are not contractually obligated to cede amounts in excess of 15%. Our MGUs are the largest producers of medical stop-loss business for IHC, controlling a majority of this premium in 2008.

**Item 1B. *Unresolved Staff Comments***

None

**Item 2. *Properties***

IndependenceCare leases 4,200 square feet of office space in Minneapolis, Minnesota, which expires on May 31, 2011. RAS leases 4,200 square feet of office space in South Windsor, Connecticut, which expires on January 31, 2012. Marlton leases 4,000 square feet of office space in Voorhees, New Jersey, which expires on January 31, 2010. ECA leases 2,000 square feet of office space in Voorhees, New Jersey, which expires on January 31, 2010.

**Item 3. *Legal Proceedings***

We are involved in legal proceedings and claims that arise in the ordinary course of our businesses. We have established reserves that we believe are sufficient given information presently available relating to our outstanding legal proceedings and claims. We no not anticipate that the result of any pending legal proceeding or claim will have a material adverse effect on our financial condition or cash flows, although there could be such an effect on our results of operations for any particular period.

**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 2008.

## 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 Stock Market ("NASDAQ") under the symbol "AMIC".

| Quarter Ended: | High | Low |
|---|---|---|
| December 31, 2008 | $ 6.79 | $ 2.01 |
| September 30, 2008 | $ 6.96 | $ 5.69 |
| June 30, 2008 | $ 8.22 | $ 6.19 |
| March 31, 2008 | $ 9.25 | $ 7.02 |

| Quarter Ended: | High | Low |
|---|---|---|
| December 31, 2007 | $ 10.41 | $ 8.50 |
| September 30, 2007 | $ 11.44 | $ 10.10 |
| June 30, 2007 | $ 12.73 | $ 10.00 |
| March 31, 2007 | $ 11.13 | $ 10.11 |

**Holders of Record**

At March 4, 2009, there were 346 record holders of the Company's common stock. The closing price for the Company's common stock at December 31, 2008 was $2.73.

Our ability to utilize our federal NOL carrryforwards would be substantially reduced if AMIC were to undergo an "ownership change" within the meaning of Section 382(g)(1) of the Internal Revenue Code. AMIC will be treated as having had an "ownership change" if there is more than a 50% increase in stock ownership during a three year '"testing period" by "5% stockholders". In order to reduce the risk of an ownership change, in November 2002, AMIC's stockholders approved an amendment to its certificate of incorporation restricting transfers of shares of its common stock that could result in the imposition of limitations on the use, for federal, state and city income tax purposes, of AMIC's NOL carryforwards and certain federal income tax credits. The certificate of incorporation generally restricts any person from attempting to sell, transfer or dispose, or purchase or acquire any AMIC stock, if such transfer would affect the percentage of AMIC stock owned by a 5% stockholder. Any person attempting such a transfer will be required, prior to the date of any proposed transfer, to request in writing that the board of directors review the proposed transfer and authorize or not authorize such proposed transfer. Any 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 will remain the owner of such shares. Notwithstanding these 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 2008.

**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 2009 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, 2008.

**Item 6.** ***Selected Financial Data***

Not applicable

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

**Overview**

We are an insurance holding company engaged in the insurance and reinsurance business through our wholly owned insurance company, Independence American Insurance Company ("Independence American"), our marketing organizations, including our three medical stop-loss managing general underwriter subsidiaries (“our MGUs"), our two insurance and marketing agencies IPA and HIO, and our claims administration company, ECA. Since November 2002, AMIC has been affiliated with Independence Holding Company ("IHC"), which currently owns 49.7% of AMIC's stock, and IHC's senior management has provided direction to us through service agreements between us and IHC. In 2008, Independence American’s primary source of revenue was 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 group major medical, medical stop-loss, major medical plans for individuals and families, and short-term medical in 2007. Given its A- (Excellent) rating from A.M. Best, Independence American expects to expand the distribution of its medical stop-loss products, and increase the business written on its paper, especially major medical plans for individuals and families.

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 health insurance premiums. Since Independence American reinsures a portion of all of the business produced by our MGUs, and since these companies are also eligible to earn profit sharing commissions based on the profitability of the business they place, our MGUs also emphasize underwriting profitability. In addition, management focuses on controlling operating costs. By sharing employees with IHC and sharing resources among our subsidiaries, we strive to maximize our earnings.

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

| | Year Ended December 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| Revenues | $ 113,312 | $ 119,096 |
| Expenses | 111,641 | 117,267 |
| Income from continuing operations, before income tax | 1,671 | 1,829 |
| Provision for income taxes | 631 | 691 |
| Income from continuing operations | 1,040 | 1,138 |
| Loss on disposition of discontinued operations, net of tax | (75) | - |
| Net income | $ 965 | $ 1,138 |

- Net income per share decreased to $.11 per share, diluted, or $1.0 million, for the year ended December 31, 2008, compared to $.13 per share, diluted, or $1.1 million for the year ended December 31, 2007.

- The book value of the Company decreased to $9.75 per share at December 31, 2008 compared to $9.96 per share at December 31, 2007, primarily due to the unrealized losses on the Company's investment portfolio.

- Of the aggregate carrying value of the Company's investment assets, approximately 94.0% was invested in investment grade fixed maturities, securities purchased under resale agreements, and cash and cash equivalents at December 31, 2008. Also at such date, 99.6% of the Company's fixed maturities were investment grade.

- The return on investments of the Company was 5.3% and 5.4% for the year ended December 31, 2008 and 2007, respectively.

- Premiums earned decreased 9% to $97.0 million for the year ended December 31, 2008 from $106.1 million for the year ended December 31, 2007, primarily due to a decrease in stop-loss and fully insured health premiums assumed from IHC, offset by an increase in direct fully insured health premiums and the additional premiums written by IPA (see Note 3 of Notes to Consolidated Financial Statements).

- For the year ended December 31, 2008, Independence American wrote $5.2 million of medical stop-loss business and $22.4 million of group major medical business pursuant to the Company's agreement with EDH.

- For the year ended December 31, 2008, Independence American wrote $4.3 million of individual health business produced by our marketing organization IPA, and ceded 50% to a third-party reinsurer.

- Underwriting experience, as indicated by its GAAP Combined Ratios on our three lines of business for the year ended December 31, 2008 and 2007 are as follows:

  - Medical Stop Loss

| | 2008 | 2007 |
|---|---|---|
| | (in thousands) | |
| Premiums Earned | $ 54,574 | $ 63,483 |
| Insurance Benefits Claims and Reserves | 37,838 | 47,567 |
| Expenses | 17,105 | 18,793 |
| | | |
| Loss Ratio[(A)] | 69.3% | 74.9% |
| Expense Ratio [(B)] | 31.3% | 29.6% |
| Combined Ratio [(C)] | 100.6% | 104.5% |

  - Fully Insured Health

| | 2008 | 2007 |
|---|---|---|
| | (in thousands) | |
| Premiums Earned | $ 38,975 | $ 39,136 |
| Insurance Benefits Claims and Reserves | 30,370 | 28,830 |
| Expenses | 8,932 | 9,631 |
| | | |
| Loss Ratio[(A)] | 77.9% | 73.7% |
| Expense Ratio [(B)] | 22.9% | 24.6% |
| Combined Ratio [(C)] | 100.8% | 98.3% |

- DBL

| | 2008 | 2007 |
|---|---|---|
| | (in thousands) | |
| Premiums Earned | $ 3,435 | $ 3,481 |
| Insurance Benefits Claims and Reserves | 1,906 | 2,221 |
| Expenses | 999 | 1,044 |
| | | |
| Loss Ratio[(A)] | 55.5% | 63.8% |
| Expense Ratio [(B)] | 29.1% | 30.0% |
| Combined Ratio [(C)] | 84.6% | 93.8% |

(A) Loss ratio represents insurance benefits claims and reserves divided by premiums earned.
(B) Expense ratio represents net commissions (including profit commissions), administrative fees, premium taxes and other underwriting expenses divided by premiums earned.
(C) The combined ratio is equal to the sum of the loss ratio and the expense ratio.

- In 2008, our MGUs and Agencies generated revenues of $15.0 million compared to $9.8 million in 2007, an increase of 53%, primarily due to income earned by HIO, IPA, and higher profit commissions, offset by lower fee income due to the lower volume of premium underwritten.

- In 2008, our MGUs wrote an aggregate of $73.3 million of annualized gross premium compared to $87.2 million in 2007. This reduction in premiums was due, in part, to stricter underwriting guidelines and the continuing generally "soft" market.

- The Company formed Excess Claims Administrators, Inc. (“ECA”) during 2008 to provide medical management services and adjudicate claims for our MGUs and independent managing general underwriters.

- On April 1, 2008, the Company purchased the remaining 20% interest in Marlton, thereby increasing our interest in this medical stop-loss MGU to 100% (see Note 3 of Notes to Consolidated Financial Statements).

- On April 15, 2008, the Company acquired a 51% interest in IPA (see Note 3 of Notes to Consolidated Financial Statements).

## 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, where material, 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, 2008. 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 and HMO Reinsurance. The two "primary" or "key" assumptions underlying the calculation of loss reserves for medical stop-loss business are (i) projected net loss ratio, and (ii) claim development patterns. The projected net loss ratio is set at expected levels consistent with the underlying assumptions ("Projected Net Loss Ratio"). Claim development patterns are set quarterly as reserve estimates are developed and are based on recent claim development history ("Claim Development Patterns"). 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 determined using assumptions developed using completed prior experience trended forward. The Projected Net Loss Ratio is the Company's best estimate of future performance until such time as developing losses provide a better indication of ultimate results.

While the Company establishes a best estimate of the Projected Net Loss Ratio, actual experience may deviate from this estimate. This was the case with the 2005, 2006 and 2007 underwriting years that increased (decreased) by 8.0, 9.6, and (2.0) Net Loss Ratio points, respectively. While the Company believes that larger variations are possible, based on the Company's experience to date, it is reasonably likely that the actual experience will fall within a range up to five Net Loss Ratio points above or below the expected Projected Net Loss Ratio for 2008 at December 31, 2008. The impact of these reasonably likely changes at December 31, 2008, 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 2008 Consolidated Statements 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 applicable 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 fully insured medical and disability business due to the "excess of loss" nature of these products with very high deductibles applying to specific claims on any individual claimant and in the aggregate for a given group. The level of these deductibles makes it more difficult to predict the amount and payment pattern of such claims. Fluctuations in results for specific coverage are primarily due to the severity and frequency of individual claims, whereas fluctuations in aggregate coverage are largely attributable to frequency of underlying claims rather than severity. Liabilities for first dollar medical reserves and disability coverages are computed using completion factors and expected loss ratios derived from actual historical premium and claim data.

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

**Fully Insured Health**

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 health reserves is that historical claim development patterns are representative of future claim development patterns. Factors which may affect this assumption include changes in claim payment processing times and procedures, changes in product design, changes in time delay in submission of claims and the incidence of unusually large claims. The reserving analysis includes a review of claim processing statistical measures and large claim early notifications; the potential 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. Since our analysis considered a variety of outcomes related to these factors, the Company does not believe that any reasonably likely change in these factors will have a Material Effect.

***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. Our 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*

Amounts recoverable or paid for under reinsurance contracts are included in total assets or total liabilities as due from reinsurers or due to reinsurers. In 2008, Independence American derived 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 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 each of the twelve months ended December 31, 2008 and 2007, Standard Security Life and Madison National Life ceded an average of approximately 23% of their medical stop-loss business to Independence American. Independence American reinsures 20% of Standard Security Life's DBL business. Standard Security Life and Madison National Life also ceded approximately 8.9% of the majority of their fully insured health business to Independence American. In addition, in 2008, Independence American ceded 50% of its short-term medical ("STM") and major medical for individuals and families business to unaffiliated 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 2028.

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.

### *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 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. Fixed maturities and equity securities available-for-sale totaled $48.9 million and $49.4 million at December 31, 2008 and 2007, respectively. Premiums and discounts on debt securities purchased at other than par value are amortized and accreted, respectively, to interest income in the Consolidated Statements of Operations, using the constant yield method over the period to maturity. Net realized gains and losses on investments are computed using the specific identification method and are reported in the Consolidated Statements of Operations.

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 net realized investment gains in 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;

current expected cash flows; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions (including, 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 the twelve months ended December 31, 2008, the Company recorded a loss of $1.0 million for other-than-temporary impairments from bonds and preferred stocks.

At December 31, 2008, the Company had $1.9 million invested in whole loan CMOs backed by Alt-A mortgages. Of this amount, 46.3% were in CMOs that originated in 2005 or earlier and 53.7% were in CMOs that originated in 2006. The Company's mortgage security portfolio has no direct exposure to sub-prime mortgages. The unrealized loss for the equity securities was primarily due to wider spreads for preferred stocks issued by financial institutions following the disruption in credit markets in late 2007 and continuing in 2008. Some of these financial institutions have exposure to sub-prime mortgages. The unrealized loss for CMO securities is primarily attributable to Alt-A mortgages as described above. The unrealized losses on corporate securities are due to wider spreads. Spreads have widened as investors shifted funds to US Treasuries in response to the current market turmoil.

***Goodwill and Other Intangibles***

Goodwill and intangible assets with indefinite lives, which consist of licenses, are not amortized but are evaluated for impairment in the aggregate at the end of the fourth quarter of each year, or more frequently if indicators arise. If the fair value of a reporting unit is less than its carrying amount (including goodwill), further evaluation is required to determine if a write-down of goodwill is required. Any impairment write-down of goodwill would be charged to expense. No impairment charge was required in 2008 or 2007. If the Company experiences a sustained decline in its results of operations and cash flows, or other indicators of impairment exist, the Company may incur a material non-cash charge to earnings relating to impairment of our goodwill, which could have a material adverse effect on our results.

## RESULTS OF OPERATIONS

### Results of Operations for the Year Ended December 31, 2008, Compared to the Year Ended December 31, 2007

Information by line of business for the years ended December 31, 2008 and 2007 is as follows:

| December 31, 2008 | Premiums Earned | Fees and Other Income | Net Investment Income | Benefits, Claims and Reserves (In thousands) | Selling, General and Admin | Amortization and Depreciation | Minority Interest | Total |
|---|---|---|---|---|---|---|---|---|
| Independence American: | | | | | | | | |
| Medical stop-loss | $ 54,574 | 197 | 2,273 | 37,838 | 16,958 | 147 | - | $ 2,101 |
| Fully Insured Health | 38,975 | 846 | 715 | 30,370 | 8,430 | 502 | - | 1,234 |
| DBL | 3,435 | - | 76 | 1,906 | 999 | - | - | 606 |
| Total Independence American | 96,984 | 1,043 | 3,064 | 70,114 | 26,387 | 649 | - | 3,941 |
| MGU Subs and Agencies | - | 14,590 | 380 | - | 12,448 | 144 | 471 | 1,907 |
| Corporate | - | 70 | 83 | - | 1,428 | - | - | (1,275) |
| Subtotal | $ 96,984 | 15,703 | 3,527 | 70,114 | 40,263 | 793 | 471 | 4,573 |
| Net realized investment loss | | | | | | | | (2,902) |
| Income from continuing operations before income taxes | | | | | | | | 1,671 |
| Income taxes | | | | | | | | (631) |
| Income from continuing operations | | | | | | | | 1.040 |
| Loss on disposition of discontinued operations, net of tax | | | | | | | | (75) |
| Net income | | | | | | | | $ 965 |

| December 31, 2007 | Premiums Earned | Fees and Other Income | Net Investment Income | Benefits, Claims and Reserves (In thousands) | Selling, General and Admin | Amortization and Depreciation | Minority Interest | Total |
|---|---|---|---|---|---|---|---|---|
| Independence American: | | | | | | | | |
| Medical stop-loss | $ 63,483 | (78) | 2,416 | 47,567 | 18,646 | 147 | - | $ (539) |
| Fully Insured Health | 39,136 | (332) | 566 | 28,830 | 9,129 | 502 | - | 909 |
| DBL | 3,481 | - | 92 | 2,221 | 1,044 | - | - | 308 |
| Total Independence American | 106,100 | (410) | 3,074 | 78,618 | 28,819 | 649 | - | 678 |
| MGU Subs and Agencies | - | 9,474 | 292 | - | 7,257 | 322 | 215 | 1,972 |
| Corporate | - | - | 245 | - | 1,387 | - | - | (1,142) |
| Subtotal | $ 106,100 | 9,064 | 3,611 | 78,618 | 37,463 | 971 | 215 | 1,508 |
| Net realized investment gains | | | | | | | | 321 |
| Income before income taxes | | | | | | | | 1,829 |
| Income taxes | | | | | | | | (691) |
| Net income | | | | | | | | $ 1,138 |

*Premiums Earned*. Premiums earned decreased 9%, or $9,116,000, to $96,984,000 for 2008, compared to $106,100,000 for 2007. The Company currently has three lines of business. Premiums relating to medical stop-loss business were $54,574,000 and $63,483,000 for 2008 and 2007, respectively. This change is primarily due to a decrease in medical stop-loss premiums assumed by Independence American ($9,239,000), partially offset by an increase in medical stop-loss written by Independence American ($330,000). Premiums relating to group major medical, STM and individual health were $38,975,000 and $39,136,000 for 2008 and 2007, respectively. The increase is primarily due to an increase in premiums written by Independence American, offset by a net decrease in group major medical and STM premiums assumed from IHC. Premiums relating to DBL were $3,435,000 and $3,481,000 for 2008 and 2007, respectively, a decrease due to a reduction in rates. For 2008, Independence American assumed 10% of IHC's STM business, 8.8% of certain of IHC's group major medical business, 20% of IHC's DBL business and approximately 23% of IHC's medical stop-loss business. There were no significant changes to these percentages from the prior year.

*MGU and Agency Income*. MGU and agency income increased $5,087,000 to $14,539,000 for 2008, compared to $9,452,000 for 2007. MGU fee income-administration decreased $1,319,000 to $7,822,000 for 2008, compared to $9,141,000 for 2007, as our MGUs have decreased their volume of business as a result of stricter underwriting guidelines. MGU fee income-profit commission increased $779,000 to $1,036,000 for 2008, compared to $257,000 for 2007 as a result of more favorable loss ratios experienced at certain of our MGUs. 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 2008 are based on business written during portions of 2005, 2006 and 2007. In 2008, income from our Agencies consisted of commission income and other fees of $4,716,000 from IPA and revenue of $965,000 from HIO. In 2007, income from our Agencies consisted of revenue of $54,000 from HIO. IPA was acquired subsequent to December 31, 2007 and ECA commenced operations in the fourth quarter of 2008.

*Net Investment Income.* Net investment income decreased $84,000 to $3,527,000 for 2008, compared to $3,611,000 for 2007 due to lower average investible assets as a result of the Marlton and IPA acquisitions in the second quarter of 2008, and a lower return on investments. The return on investments of the Company was 5.3% and 5.4% for 2008 and 2007, respectively.

*Net Realized Investment Gains (Losses).* The Company recorded a net realized investment loss of $2,902,000 for 2008, compared to a gain of $321,000 for 2007. For 2008 and 2007, the Company recorded a loss of $1,006,000 and $0, respectively, for other-than-temporary impairments. The loss of $1,006,000 for 2008 represents a loss on bonds and preferred stock that the Company determined to be other-than-temporary due to the severity of the decrease in fair values and the length of time that these securities were in a loss position. In the fourth quarter of 2008, the Company became aware of certain activities engaged in by the non-affiliate broker-dealer that managed a trading account of the Company. Accordingly, the Company recorded a $2,006,000 loss, net of expected recoveries, in the fourth quarter of 2008 relating to assets invested with this broker-dealer. See Note 5 of Notes to Consolidated Financial Statements for additional information. The Company's decision as to whether to sell securities is based on management's ongoing evaluation of investment opportunities and economic market conditions, thus creating fluctuations in realized gains or losses from period to period.

*Other Income (Loss).* Other income was $1,164,000 for 2008 compared to a loss of $388,000 for 2007. Included in 2008 is income of $1,043,000 representing a decrease in the fair value of the derivative liability relating to the agreement with Employers Direct Health, Inc. ("EDH") (see Note 19 of Notes to Consolidated Financial Statements). Included in 2007 is a loss of $409,000 representing an increase in the fair value of the derivative liability relating to the agreement with EDH. The unrealized gain for 2008 reflects the probability of a lower future payment due to EDH as a result of less favorable loss ratios on this business.

*Insurance Benefits, Claims and Reserves.* Insurance benefits claims and reserves decreased 11%, or $8,504,000, to $70,114,000 for 2008, compared to $78,618,000 for 2007. The decrease of $8,504,000 is primarily comprised of a $9,729,000 decrease in medical stop-loss due to a decrease in volume of business written and improved loss ratios (the Company recorded $4,500,000 of reserve strengthening in the prior year), partially offset by a $1,540,000 increase in fully insured health as a result of higher claims and an overestimation of a PPO discount on business from the group major medical program, and higher losses on group major medical business assumed from IHC.

*Selling, General and Administrative*. Selling, general and administrative expenses increased $2,800,000 to $40,263,000 for 2008, compared to $37,463,000 for 2007. This increase is primarily due to the additional expense of IPA of $5,540,000, which includes commissions and other general expenses of the agency, and higher underwriting expenses inclusive of administration fees of $702,000, offset by lower commissions expense of $3,134,000 incurred by Independence American primarily resulting from a decrease in premiums assumed in medical stop-loss business.

*Amortization and Depreciation.* Amortization and depreciation expense decreased $178,000 to $793,000 for 2008, compared to $971,000 for 2007. The decrease in amortization is the result of the Company fully amortizing the intangible asset associated with previous broker/TPA relationships in the prior year, offset by additional amortization expense as a result of the acquisition of the remaining 20% interest in Marlton and the acquisition of 51% of IPA (see Note 4 of Notes to Consolidated Financial Statements).

*Minority Interest*. The Company recorded minority interest expense of $471,000 for 2008 and $215,000 for 2007. The 2008 expense relates to the 49% minority interest in IPA, the 49% minority interest in HIO, and the 20% minority interest in Marlton for the first quarter ended March 31, 2008. The 2007 expense relates to the 20% minority interest in Marlton.

*Income Taxes.* The provision for income taxes decreased $60,000 to $631,000, an effective rate of 37.8%, for 2008, compared to $691,000, an effective rate of 37.8%, for 2007. Net income for 2008 and 2007 includes a non-cash provision for federal income taxes of $497,000 and $518,000, respectively. The state tax effective rate decreased to 8.1% for 2008 from 8.4% for 2007. As compared to our MGUs, Independence American pays a nominal amount of state income tax; therefore, the Company's state tax effective rate will increase relative to a decrease in Independence American's pre-tax income. For as long as AMIC utilizes its NOL carryforwards, it will not pay any income taxes, except for federal alternative minimum taxes and state income taxes.

*Gain (loss) on Discontinued Operations.* Loss on discontinued operations, net of tax was $75,000 for 2008, compared to $0 for 2007. The loss of $75,000 was due to the loss of rental income associated with the sublease of a property located in Livermore, California, and a re-estimation of expected expenses related to the lease (see Note 9 of Notes to Consolidated Financial Statements).

*Net Income.* The Company's net income decreased 15% to $965,000, or $.11 per share, diluted, for 2008, compared to $1,138,000, or $.13 per share, diluted, for 2007.

## 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 and other investing activities. Such cash flow is partially used to finance liabilities for insurance policy benefits and reinsurance obligations.

*Corporate*

Corporate derives cash flow funds principally from dividends and tax payments from its subsidiaries and investment income from corporate liquidity. Other than Independence American, there are no regulatory constraints on the ability of any of our subsidiaries to pay dividends to its parent company. Delaware insurance laws and regulations govern the ability of Independence American to pay dividends to its parent company. For the twelve months ended December 31, 2008, our MGUs and agencies paid $3,025,000 in dividends to Corporate.

*Cash Flows*

As of December 31, 2008, the Company had $57,248,000 of cash, cash equivalents, and investments net of amounts due to/from brokers compared with $66,432,000 as of December 31, 2007.

Net cash provided by operating activities of continuing operations for the year ended December 31, 2008 was $2,603,000. Net cash flows were the result of insurance revenues and fees from our MGUs, partially offset by claims and losses.

Net cash used by investing activities of continuing operations for the year ended December 31, 2008 was $4,338,000. This resulted from purchases of ownership interests in IPA and Marlton (see Note 3 of Notes to Consolidated Financial Statements).

At December 31, 2008, the Company had $6,980,000 of restricted cash at our MGUs. The amount at our MGUs is directly offset by corresponding liabilities for Premium and Claim Funds Payable of $6,980,000. This asset, in part, represents the premium that is remitted by the insureds and is collected by our MGUs on behalf of the insurance carriers they represent. Each month the premium is remitted to the insurance carriers by our MGUs. Until such remittance is made the collected premium is carried as an asset on the balance sheet of each of our MGUs with a corresponding payable to each insurance carrier. In addition to the premium being held at our MGUs, our MGUs are in possession of cash to pay claims. The cash is deposited by each insurance carrier into a bank account that our MGUs can access. The cash is used by our MGUs to pay claims on behalf of the insurance carriers they represent. The availability of cash enables our MGUs to reimburse claims in a timely manner.

At December 31, 2008, the Company had $32,760,000 of insurance reserves that it expects to pay out of current assets and cash flows from future business. If necessary, the Company could utilize the cash received from maturities and repayments of its fixed maturity investments if the timing of claim payments associated with the Company's 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 similar to the amount used in 2008 for its discontinued operations, which are primarily lease obligations, for the year ending December 31, 2009.

**Asset Quality and Investment Impairments**

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 94.0% was invested in investment grade fixed income securities, securities purchased under resale agreements, and cash and cash equivalents at December 31, 2008. The Company's gross unrealized losses on available-for-sale securities totaled $4,620,000 and $1,459,000 at December 31, 2008 and 2007, respectively. Substantially all of these securities were investment grade. The Company holds all fixed maturities and preferred stock as available-for-sale and accordingly marks all of its securities to market through accumulated other comprehensive income (loss). The Company does not have any non-performing fixed maturities at December 31, 2008.

At December 31, 2008, the Company had $1.9 million invested in whole loan collateralized mortgage obligations ("CMOs") backed by Alt-A mortgages. Of this amount, 46.3% were in CMOs that originated in 2005 or earlier and 53.7% were in CMOs that originated in 2006. While these mortgages have seen lower market values recently, we believe that the unrealized losses on these securities are not necessarily indicative of their ultimate performance. The Company's mortgage security portfolio has no direct exposure to sub-prime mortgages. The decline in fair value for the equity securities was primarily due to wider spreads for preferred stocks issued by financial institutions following the disruption in credit markets in late 2007. Some of these financial institutions have exposure to sub-prime mortgages. The unrealized loss for CMO securities is primarily attributable to Alt-A mortgages as described above. The unrealized losses on corporate securities are due to wider spreads. Spreads have widened as investors shifted funds to US Treasuries in response to the current market turmoil. Further deterioration in credit quality of the companies backing the securities, further deterioration in the condition of the financial services industry, a continuation of the current imbalances in liquidity that exist in the marketplace, a continuation or worsening of the current economic recession, or additional declines in real estate values may further affect the fair value of these securities and increase the potential that certain unrealized losses be designated as other-than-temporary in future periods and the Company may incur additional write-downs.

The composition of the Company's fixed maturities at December 31, 2008, utilizing Standard and Poor's rating categories, was as follows:

| GRADE | % INVESTED |
|---|---|
| AAA | 47.9% |
| AA | 10.7% |
| A | 20.6% |
| BBB | 20.4% |
| BB | 0.4% |
| | 100% |

The Company reviews its investments regularly and monitors its investments continually for impairments. For 2008, the Company recorded a loss of $1,006,000 for other-than-temporary impairments from bonds and preferred stocks.

The following table summarizes the carrying value of securities with fair values less than 80% of their amortized cost at December 31, 2008 by the length of time the fair values of those securities were below 80% of their amortized cost (in thousands):

| | Less than 3 months | Greater than 3 months, less than 6 months | Greater than 6 months, less than 12 months | Greater than 12 months | Total |
|---|---|---|---|---|---|
| Fixed maturities | $ 1,591 | $ 813 | $ - | $ - | $ 2,404 |
| Equity securities | 83 | 247 | - | - | 330 |
| Total | $ 1,674 | $ 1,060 | $ - | $ - | $ 2,734 |

The Company has chosen to carry its fixed maturity securities as available-for-sale. The unrealized losses on all available-for-sale securities have been evaluated in accordance with the Company's impairment policy (as disclosed in Note 2 of Notes to Consolidated Financial Statements) and were determined to be temporary in nature at December 31, 2008. In 2008, the Company experienced an increase in unrealized losses of $2,853,000 million which decreased stockholders' equity by $2,853,000 million (reflecting unrealized losses of $4,057,000 million at December 31, 2008 compared to unrealized losses of $1,204,000 million at December 31, 2007). From time to time, as warranted, the Company may employ investment strategies to mitigate interest rate and other market exposures.

**Balance Sheet**

Total investments decreased $7,301,000 to $52,847,000 at December 31, 2008 from $60,148,000 at December 31, 2007, due to unrealized losses and impairments of fixed income securities, the acquisitions of Marlton ($3,700,000) and IPA ($1,750,000), and the trading account loss of $2,006,000, net of expected recoveries, taken in the fourth quarter of 2008 relating to certain activities engaged in by the non-affiliate broker-dealer that managed a trading account of the Company. The $1,745,000 decrease in total stockholders' equity is primarily due to an increase of $2,853,000 in unrealized losses, offset by net income of $965,000 generated during 2008.

The Company had receivables from reinsurers of $9,386,000 at December 31, 2008. 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, 2008.

## CAPITAL RESOURCES

As Independence American's total adjusted capital was significantly in excess of the authorized control level risk-based capital, the Company remains well positioned to increase or diversify its current activities. It is anticipated that future acquisitions or other expansion of operations will be funded internally from existing capital and surplus and parent company liquidity. In the event additional funds are required, it is expected that they would be borrowed or raised in the public or private capital markets to the extent determined to be necessary or desirable.

## OUTLOOK

### Independence American

Independence American, which is domiciled in Delaware, is licensed to write property and/or casualty insurance in 49 states and the District of Columbia, and has an A- (Excellent) 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.

Since its acquisition by AMIC in 2002, Independence American's primary source of revenue has been reinsurance premiums. During 2008, we began to become less dependent on reinsurance premiums as we increased the amount of business written by Independence American. During 2008, Independence American wrote group major medical, medical stop-loss, major medical plans for individuals and families, and a small amount of short-term medical. Given its A- (Excellent) rating from A.M. Best, Independence American expects to expand the distribution of its products. In late 2008, Independence American appointed a second MGU, which is expected to meaningfully increase the amount of medical stop-loss business written by Independence American in 2009, and we continue to seek additional production sources. With respect to major medical plans for individuals and families, the acquisition of a controlling interest in IPA, should meaningfully increase the amount of this line of business written by Independence American in 2009.

### 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 or Madison National Life that is ceded to the IHC Treaties; and (iii) the amount of gross premium produced by the MGUs and other distribution sources written by carriers other than Standard Security Life or Madison National Life that is ceded to Independence American. The profitability of the business ceded will also impact our operating results. Independence American assumes medical stop-loss, fully insured health and DBL premiums from IHC under the IHC Treaties.

#### Percentage of Business Ceded

In 2009 and beyond, 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 reinsure IHC's business. 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, our MGUs are the largest producers of medical stop-loss business for IHC, controlling a majority of this premium in 2008.

Independence American reinsures 20% of Standard Security Life's DBL product. Standard Security Life is not contractually obligated to continue to cede this business to Independence American after termination of the current treaty year. Standard Security Life and Madison National Life ceded approximately 8.9% of the majority of their fully insured health 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.

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 approximately 23% ceded for the twelve months ended December 31, 2008) 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 $1.8 million, which is approximately 1.8% of total net premiums earned for the year ended December 31, 2008. 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 Premiums Written**

The gross medical stop-loss premiums written by IHC decreased in 2008 by 9.3% and such premiums produced by our MGUs decreased by 10.4% in 2008 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 in 2008, which decrease could extend into 2009. Our MGUs do not anticipate materially increasing their production of medical stop-loss business in 2009. IHC has reported that it expects its DBL and fully insured premiums to remain steady in 2009

**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 2008. 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 although 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. Fully insured health business tends to be less volatile and less cyclical than excess insurance.

**Marketing Agreements**

In February 2006, Independence American entered into an agreement with a marketing organization with a 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 moved the majority of its existing block of fully insured and stop-loss health insurance to Independence American during 2007. 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 19 of Notes to Consolidated Financial Statements).

In addition, in 2007 the Company entered into an agreement with IPA, a national career agent marketing organization, to begin marketing health plans to individuals and families utilizing Independence American as the carrier. Independence American retains 50% of the risk on this business. Gross premiums of $4,295,000 and $231,000 were written under this program in 2008 and 2007, respectively. The program is administered by Insurers Administrative Corporation, a wholly owned subsidiary of IHC. AMIC purchased a 51% interest in IPA in April 2008 (see Note 3 of Notes to Consolidated Financial Statements).

## Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

**Not applicable**

**Item 8.** ***Financial Statements and Supplementary Data***

***AMERICAN INDEPENDENCE CORP. AND SUBSIDIARIES***

***INDEX TO CONSOLIDATED FINANCIAL STATEMENTS***


| | Page |
|---|---|
| **Report of Management on Internal Control over Financial Reporting** | 32 |
| **Reports of Independent Registered Public Accounting Firm** | 33 |
| **CONSOLIDATED FINANCIAL STATEMENTS:** | |
| Consolidated Balance Sheets as of December 31, 2008 and December 31, 2007 | 34 |
| Consolidated Statements of Operations for the years ended December 31, 2008 and 2007 | 35 |
| Consolidated Statements of Stockholders' Equity for the years ended December 31, 2008 and 2007 | 36 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2008 and 2007 | 37 |
| Notes to Consolidated Financial Statements | 38 |
| **SCHEDULES:*** | |
| Summary of investments - Other than investments in related parties at December 31, 2008 (Schedule I) | 72 |
| Financial information of parent company (Schedule II) | 73-75 |
| Supplementary insurance information (Schedule III) | 76 |
| Statements of Cash Flows – Valuation and Qualifying Accounts (Schedule V) | 77 |


*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.

## <u>Report of Management on Internal Control Over Financial Reporting</u>

**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, 2008. 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, 2008, AMIC's internal control over financial reporting is effective.

## Report of Independent Registered Public Accounting Firm

**The Board of Directors and Stockholders**
**American Independence Corp.:**

We have audited the accompanying consolidated balance sheets of American Independence Corp. and subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. 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 are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended 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.

/s/ KPMG LLP

New York, New York

March 16, 2009

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

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| **ASSETS:** | | |
| **Investments:** | | |
| Short-term investments, at amortized cost, which approximates fair value | $ - | $ 4,786 |
| Securities purchased under agreements to resell | 3,917 | 5,923 |
| Fixed maturities available-for-sale, at fair value | 45,884 | 46,112 |
| Equity securities available-for-sale, at fair value | 3,046 | 3,327 |
| Total investments | 52,847 | 60,148 |
| Cash and cash equivalents | 4,401 | 6,284 |
| Restricted cash ($5,194 and $12,824, respectively, restricted by related parties) | 6,980 | 15,201 |
| Accrued investment income | 509 | 471 |
| Premiums receivable ($5,684 and $7,103, respectively, due from related parties) | 9,571 | 9,926 |
| Net deferred tax asset | 12,584 | 12,455 |
| Due from reinsurers ($7,115 and $9,242, respectively, due from related parties) | 9,386 | 10,845 |
| Goodwill | 23,561 | 20,485 |
| Intangible assets | 3,256 | 2,811 |
| Accrued fee income ($480 and $782, respectively, due from related parties) | 955 | 1,113 |
| Other assets | 6,575 | 2,376 |
| **TOTAL ASSETS** | $ 130,625 | $ 142,115 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY:** | | |
| **LIABILITIES:** | | |
| Insurance reserves ($21,564 and $22,973, respectively, due to related parties) | $ 32,760 | $ 32,311 |
| Premium and claim funds payable ($5,194 and $12,824, respectively, due to related parties) | 6,980 | 15,201 |
| Derivative liability | 205 | 1,248 |
| Commission payable ($2,894 and $2,455, respectively, due to related parties) | 3,592 | 3,345 |
| Accounts payable, accruals and other liabilities ($281 and $339, respectively, due to related parties) | 2,763 | 2,633 |
| State income taxes payable | 573 | 453 |
| Due to reinsurers ($25 and $1,789, respectively, due to related parties) | 25 | 1,796 |
| Net liabilities associated with discontinued operations | 366 | 399 |
| Total liabilities | 47,264 | 57,386 |
| Minority interest | 429 | 52 |
| **STOCKHOLDERS' EQUITY:** | | |
| Preferred stock, $0.10 par value, 1,000 shares designated; no shares issued and outstanding | - | - |
| Common stock, $0.01 par value, 15,000,000 shares authorized; 9,181,793 shares issued, respectively; 8,503,989 shares outstanding, respectively | 92 | 92 |
| Additional paid-in capital | 479,783 | 479,640 |
| Accumulated other comprehensive loss | (4,057) | (1,204) |
| Treasury stock, at cost, 677,804 shares, respectively | (8,112) | (8,112) |
| Accumulated deficit | (384,774) | (385,739) |
| Total stockholders’ equity | 82,932 | 84,677 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ 130,625 | $ 142,115 |

See accompanying notes to consolidated financial statements.

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

| | Year Ended December 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| **REVENUES:** | | |
| Premiums earned ($57,031 and $68,143, respectively, from related parties) | $ 96,984 | $ 106,100 |
| MGU and agency income ($6,128 and $6,896, respectively, from related parties) | 14,539 | 9,452 |
| Net investment income | 3,527 | 3,611 |
| Net realized investment gains (losses) | (2,902) | 321 |
| Other income (loss) | 1,164 | (388) |
| | 113,312 | 119,096 |
| **EXPENSES** | | |
| Insurance benefits, claims and reserves ($39,670 and $50,128, respectively, from related parties) | 70,114 | 78,618 |
| Selling, general and administrative expenses ($18,239 and $18,599, respectively, from related parties) | 40,263 | 37,463 |
| Amortization and depreciation | 793 | 971 |
| Minority interest | 471 | 215 |
| | 111,641 | 117,267 |
| Income from continuing operations before income tax | 1,671 | 1,829 |
| Provision for income taxes | 631 | 691 |
| Income from continuing operations | 1,040 | 1,138 |
| Loss on disposition of discontinued operations, net of tax | (75) | - |
| Net income | $ 965 | $ 1,138 |
| Basic income per common share: | | |
| Income from continuing operations | $ .12 | $ .13 |
| Loss on disposition of discontinued operations, net of tax | (.01) | - |
| Net income applicable to common shares | $ .11 | $ .13 |
| Weighted-average shares outstanding | 8,504 | 8,484 |
| Diluted income per common share: | | |
| Income from continuing operations | $ .12 | $ .13 |
| Loss on disposition of discontinued operations, net of tax | (.01) | - |
| Net income applicable to common shares | $ .11 | $ .13 |
| Weighted-average diluted shares outstanding | 8,504 | 8,535 |

See accompanying notes to consolidated financial statements.

## AMERICAN INDEPENDENCE CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

## (in thousands except shares)

| | Common Stock Shares | Common Stock Amount | Additional Paid In Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Treasury Stock Shares | Treasury Stock Amount | Total Stockholders' Equity | Comprehensive Income (Loss) |
|---|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2006** | 9,180,695 | $ 92 | $ 479,399 | $ (1,191) | $ (386,566) | 722,805 | $ (8,650) | $ 83,084 | $ |
| Exercise of options | - | - | 10 | - | (311) | (45,001) | 538 | 237 | |
| Share-based compensation expense | - | - | 231 | - | - | - | - | 231 | |
| Unrealized losses on securities | - | - | - | (13) | - | - | - | (13) | (13) |
| Other capital transactions | 1,098 | - | - | - | - | - | - | - | |
| Net income | - | - | - | - | 1,138 | - | - | 1,138 | 1,138 |
| **Balance, December 31, 2007** | 9,181,793 | 92 | 479,640 | (1,204) | (385,739) | 677,804 | (8,112) | 84,677 | 1,125 |
| Share-based compensation expense | - | - | 143 | - | - | - | - | 143 | |
| Unrealized losses on securities | - | - | - | (2,853) | - | - | - | (2,853) | (2,853) |
| Net income | - | - | - | - | 965 | - | - | 965 | 965 |
| **Balance, December 31, 2008** | 9,181,793 | $ 92 | $ 479,783 | $ (4,057) | $ (384,774) | 677,804 | $ (8,112) | $ 82,932 | $ (1,888) |

See accompanying notes to consolidated financial statements.

**AMERICAN INDEPENDENCE CORP. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(in thousands)**

| | Year Ended December 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | $ 965 | $ 1,138 |
| Adjustments to net income: | | |
| Net realized investment (gains) losses | 2,902 | (321) |
| Loss on disposal of discontinued operations | 75 | - |
| Amortization and depreciation | 793 | 971 |
| Equity loss | 56 | 28 |
| Deferred tax expense | 620 | 621 |
| Non-cash stock compensation expense | 143 | 231 |
| Change in operating assets and liabilities: | | |
| Net sales of trading securities | 142 | 324 |
| Change in insurance reserves | 449 | 9,807 |
| Change in net amounts due from and to reinsurers | (312) | 1,286 |
| Change in accrued fee income | 158 | (98) |
| Change in premiums receivable | 355 | (7,799) |
| Change in income taxes | (106) | 9 |
| Change in other assets and other liabilities | (3,637) | 2,377 |
| Net cash provided by operating activities of continuing operations | 2,603 | 8,574 |
| Net cash used by operating activities of discontinued operations | (148) | (156) |
| Net cash provided by operating activities | 2,455 | 8,418 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Net (purchases) sales of short-term investments | 2,368 | (40) |
| Net sales of securities under resale and repurchase agreements | 2,006 | 753 |
| Sales of and principal repayments on fixed maturities | 11,649 | 11,894 |
| Maturities and other repayments of fixed maturities | 5,230 | 2,770 |
| Purchases of fixed maturities | (19,994) | (17,739) |
| Sales of equity securities | 622 | 863 |
| Purchases of equity securities | (962) | (2,444) |
| Distribution from interest in partnerships | - | 62 |
| Acquisition of Marlton 20% interest (see Note 3) | (3,700) | - |
| Acquisition of IPA, LLC, net of cash acquired (see Note 3) | (1,557) | - |
| Acquisition of HealthInsurance.org, LLC | - | (430) |
| Net cash used by investing activities | (4,338) | (4,311) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from exercise of stock options | - | 237 |
| Net cash provided by financing activities | - | 237 |
| Increase (decrease) in cash and cash equivalents | (1,883) | 4,344 |
| Cash and cash equivalents, beginning of period | 6,284 | 1,940 |
| Cash and cash equivalents, at end of period | $ 4,401 | $ 6,284 |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | |
| Cash paid during period for: | | |
| Income taxes | $ 108 | $ 97 |

See accompanying notes to consolidated financial statements.

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

## 1. Nature of Business

American Independence Corp. is a Delaware corporation (NASDAQ: AMIC). We are a holding company principally engaged in the insurance and reinsurance business through: a) our wholly owned insurance company, Independence American Insurance Company ("Independence American"); b) our 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"); c) our 23% investment in Majestic Underwriters LLC ("Majestic"); d) our 51% ownership in HealthInsurance.org, LLC ("HIO"), an insurance and marketing agency; e) our 51% ownership in Independent Producers of America, LLC ("IPA"), a national career agent marketing organization; and f) our wholly owned claims administration company, Excess Claims Administrators, Inc. ("ECA"). IndependenceCare, RAS and Marlton are collectively referred to as "our MGUs". HIO and IPA are collectively referred to as "our Agencies".

Prior to November 14, 2002, the Company (then known as SoftNet Systems, Inc.) was a holding company principally engaged in providing Internet services. All previously reported business segments have ceased operations or have been sold, and accordingly are reported as discontinued operations (see Note 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 49.7% of AMIC's outstanding common stock at December 31, 2008. 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 through its wholly owned subsidiaries, Standard Security Life Insurance Company of New York ("Standard Security Life") and Madison National Life Insurance Company, Inc. ("Madison National Life"), whereby the Company assumes reinsurance premiums from the following lines of business: medical stop-loss, New York statutory disability ("DBL"), short-term medical ("STM") and group major medical.

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

### *Immaterial Correction of an Error*

Minority interest is to be reported at the percentage of the historical financial statement carrying amounts of the net assets of the acquired enterprise based on the ownership interest of the remaining minority interest owners in the acquired enterprise. The Company incorrectly recorded minority interest from the January 1, 2003 acquisition of Marlton based on the fair value of the net assets of the acquired enterprise. Accordingly, the December 31, 2007 minority interest amount reflected on the consolidated balance sheet has been reduced by $3,987,000 with an offsetting reduction to goodwill. This correction had no effect on consolidated stockholders' equity or on the results of operations.

***Reclassifications***

Certain amounts in prior years' Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2008 presentation, primarily relating to the EDH Derivative (see Note 19 of Notes to Consolidated Financial Statements).

***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 investment income in the Consolidated Statements of Operations with a corresponding charge to the Company's investment account. The Company also reduces its investment 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 evaluated for impairment in the aggregate at the end of the third quarter of each year, or more frequently if indicators arise. If the fair value of a reporting unit is less than its carrying amount (including goodwill), further evaluation is required to determine if a write-down of goodwill is required. Any impairment write-down of goodwill would be charged to expense. No impairment charge was required in 2008 or 2007.

At December 31, 2008, the Company’s market capitalization was less than its book value indicating a potential impairment of goodwill. As a result, the Company assessed the factors contributing to the performance of AMIC stock in 2008. As a result of this assessment, the Company does not believe that an impairment of goodwill exists at this time (see Note 3 of Notes to Consolidated Financial Statements).

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

***Fair Value of Financial Instruments***

The carrying amount of 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 our 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 our 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. The Company maintains control of securities purchased under resale agreements, values the collateral on a daily basis and obtains additional collateral, if necessary, to protect the Company in the event of default by the counterparties.

***Investment Securities***

**(i)** Investments in fixed income securities, redeemable preferred stock equity securities and derivatives (options and options on future contracts) are accounted for as follows:

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

**(b)** Securities not held for trading purposes which may or may not be held to maturity ("available-for-sale securities") are carried at fair value. Unrealized gains and losses deemed temporary are credited or charged, as appropriate, directly to accumulated other comprehensive income (a component of stockholders' equity). Premiums and discounts on debt securities purchased at other than par value are amortized and accreted, respectively, to interest income in the Consolidated Statements of Operations, using the constant yield method over the period to maturity. Realized gains and losses on sales of available-for-sale securities, and unrealized losses considered to be other than temporary, are credited or charged, as appropriate, to net realized investment gains in the Consolidated Statements of Operations.

**(ii)** Financial instruments sold, but not yet purchased, represent obligations to replace borrowed securities that have been sold. Such transactions occur in anticipation of declines in the fair value of the securities. 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 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, 2008 and 2007.

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

**(iv)** The Company enters into derivative transactions, 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. Gains (losses) on these instruments were $1,196,000 and $(480,000) during 2008 and 2007, respectively. There were no such derivative transactions outstanding at December 31, 2008 and 2007.

**(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. Beginning with fourth quarter of 2008, for purposes of other-than-temporary impairment evaluation, preferred stocks are treated in a manner similar to debt securities. 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; subordinated credit support; whether the issuer of a debt security has remained current on principal and interest payments; current expected cash flows; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions (including, 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 structured securities such as mortgage backed 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, MGU Fee, and Agency Income Revenue Recognition***

Direct and assumed premiums from short-duration contracts are recognized as revenue over the period of the contracts in proportion to the amount of insurance protection provided. The Company records MGU fee income as policy premium payments are earned. Our 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. Agency income consists of commissions, fees and lead revenue earned by our Agencies.

MGU and agency income consisted of the following:

| | Year Ended December 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| | (In thousands) | |
| MGU fee income - administration | $ 7,822 | $ 9,141 |
| MGU fee income - profit commissions | 1,036 | 257 |
| Agency Income | 5,681 | 54 |
| | $ 14,539 | $ 9,452 |

### *Insurance Reserves*

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

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.

#### Medical Stop-Loss

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

The two “primary” or “key” assumptions underlying the calculation of loss reserves for medical stop-loss business are (i) projected net loss ratio, and (ii) claim development patterns. The projected net loss ratio is set at expected levels consistent with the underlying assumptions (“Projected Net Loss Ratio”). Claim development patterns are set quarterly as reserve estimates are developed and are based on recent claim development history (“Claim Development Patterns”). 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 assumptions developed using completed prior experience trended forward. The Projected Net Loss Ratio is the Company's best estimate of future performance until such time as developing losses provide a better indication of ultimate results.

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

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

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

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

**Fully Insured Health**

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

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

Liabilities for insurance reserves on 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, 2008 and December 31, 2007. Changes in the Company's reserve estimates are recorded through a charge or credit to its earnings in the period in which they arise.

***Reinsurance***

Amounts recoverable or paid for under reinsurance contracts are included in total assets or total liabilities as due from reinsurers or due to reinsurers. In 2008, Independence American derived 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.

***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).

In June 2006, the Financial Accounting Standards Board (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 to be taken in a tax return. 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 adoption of Interpretation 48 on January 31, 2007 did not have a material effect on the Company's financial statements and the Company believes there are no significant tax positions that would require disclosure under Interpretation 48. Interest income or expense and penalties when applicable will be credited or charged, as appropriate, to selling, general and administrative expenses in the Consolidated Statements of Operations. The IRS has completed their audit of the Company's 2003 and 2004 consolidated income tax returns in the third quarter of 2008 and made no changes to the reported tax for those periods.

***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 calculations are 51,000 shares for the year ended December 31, 2007, from the assumed exercise of options using the treasury stock method. For the year ended December 31, 2008, such shares were deemed anti-dilutive. Net income does not change as a result of the assumed dilution.

***Recent Accounting Pronouncements***

***Recently Issued Accounting Standards***

In November 2008, the Financial Accounting Standards Board ("FASB") issued Emerging Issues Task Force ("EITF") Issue No. 08-7, *"Accounting for Defensive Intangible Assets,"* ("EITF No. 08-7"). EITF No. 08-7 applies to defensive intangible assets, which are acquired intangible assets that the acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. As these assets are separately identifiable, EITF No. 08-7 requires an acquiring entity to account for defensive intangible assets as a separate unit of accounting. Defensive intangible assets should not be included as part of the cost of the acquirer's existing intangible assets because the defensive intangible assets are separately identifiable. Defensive intangible assets must be recognized at fair value in accordance with Statement of Financial Accounting Standards ("SFAS") 141(R) and SFAS 157. EITF No. 08-7 is effective for fiscal years beginning after December 15, 2008. The adoption of EITF No. 08-7 is not expected to have a material effect on the Company's consolidated financial statements.

In November 2008, the FASB issued EITF Issue No. 08-6, *"Equity Method Investment Accounting"* ("EITF No. 08-6"). EITF No. 08-6 requires that the cost basis of an equity method investment be determined by using a cost-accumulation model, which would continue the practice of including transaction costs in the cost of the investment and would exclude the value of contingent consideration. Equity method investments will be subject to other-than-temporary impairment analysis, however, an equity investor shall not separately test and investee's underlying indefinite-lived intangible assets for impairment. EITF No. 08-6 also requires an equity investor to account for a share issuance by an investee as if the investor had sold a proportionate share if its investment. Any gain or loss to the investor resulting from an investee's share issuance shall be recognized in earnings. EITF No. 08-6 is effective for fiscal years beginning after December 15, 2008. The adoption of EITF No. 08-6 is not expected to have a material effect on the Company's consolidated financial statements.

In June 2008, the FASB issued FSP EITF No. 03-6-1, *"Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities"* ("FSP EITF No. 03-6-

1”). FSP EITF No. 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore need to be included in the earnings allocation in calculating earnings per share under the two-class method described in SFAS No. 128, *“Earnings per Share”.* FSP EITF No. 03-6-1 requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as a separate class of securities in calculating earnings per share. FSP EITF No. 03-6-1 is effective for fiscal years beginning after December 15, 2008; earlier application is not permitted. The adoption of FSP EITF No. 03-6-1 is not expected to have a material effect on the Company’s consolidated financial statements.

In May 2008, the FASB issued SFAS No. 163, "*Accounting for Financial Guarantee Insurance Contracts - An interpretation of FASB Statement No. 60*" (“SFAS 163”). SFAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. It also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities, and requires expanded disclosures about financial guarantee insurance contracts. It is effective for financial statements issued for fiscal years beginning after December 15, 2008, except for some disclosures about the insurance enterprise's risk-management activities. SFAS 163 requires that disclosures about the risk-management activities of the insurance enterprise be effective for the first period beginning after issuance. Except for those disclosures, earlier application is not permitted. The adoption of SFAS 163 is not expected to have a material effect on the Company’s consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position (“FSP”) FAS 142-3, “*Determination of the Useful Life of Intangible Assets.*” (“FSP FAS 142-3”). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, “*Goodwill and Other Intangible Assets*.” FSP FAS 142-3 applies prospectively to intangible assets that are acquired, individually or with a group of other assets, after the effective date in either a business combination or asset acquisition. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The adoption of FSP FAS 142-3 is not expected to have a material effect on the Company’s consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *“Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133”* (“SFAS 161”). SFAS 161 expands the current disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. In addition, SFAS 161 requires disclosure of fair values of derivative instruments and their gains and losses in a tabular format as well as cross-referencing within the footnotes to allow users of financial statements to locate important information about derivative instruments. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The adoption of SFAS 161 is not expected to have a material effect on the Company’s consolidated financial statements

In February 2008, the FASB issued FSP FAS 140-3, “*Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*” (“FSP FAS 140-3”). The objective of FSP FAS 140-3 is to provide guidance on accounting for a transfer of a financial asset and a repurchase financing. FSP FAS 140-3 presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under Statement of Financial Accounting Standards No. 140, "*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*" ("SFAS 140"). However, if certain criteria are met, the initial transfer and repurchase financing shall not be evaluated as a linked transaction and shall be evaluated separately under SFAS No. 140. FSP FAS 140-3 is effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within these fiscal years. Earlier application is not permitted. The adoption of FSP FAS 140-3 is not expected to have a material effect on the Company's consolidated financial statements.

In November 2007, the FASB issued SFAS No. 141 (revised 2007), "*Business Combinations*" ("SFAS 141(R)") and SFAS No. 160, "*Non-controlling Interests in Consolidated Financial Statements*", an amendment of ARB No. 51 ("SFAS 160"). These standards aim to improve, simplify, and converge internationally the accounting for business combinations and the reporting of non-controlling interests in consolidated financial statements. SFAS 141(R) will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be re-characterized as non-controlling interests and classified as a component of equity. SFAS 141(R) and SFAS 160 are effective for both public and private companies for fiscal years beginning on or after December 15, 2008. SFAS 141(R) will be applied prospectively. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS 160 will be applied prospectively. Early adoption is prohibited for both standards. The adoption of SFAS 141(R) and SFAS 160 is not expected to have a material effect on the Company's consolidated financial statements.

***Recently Adopted Accounting Standards***

In January 2009, the FASB issued FSP No. EITF 99-20-1, *"Amendments to the Impairment Guidance of EITF Issue No. 99-20"* ("FSP EITF 99-20-1"). FSP EITF 99-20-1 aligns the impairment guidance in EITF Issue No. 99-20, *"Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to be Held by a Transferor in Securitized Financial Assets"*, with that in SFAS No. 115, *"Accounting for Certain Investments in Debt and Equity Securities"*, and other related guidance. The adoption of FSP EITF 99-20-1 did not have a material effect on the Company's consolidated financial statements.

In December 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, *"Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities"* ("FSP FAS 140-4 and FIN 46(R)-8"). This FSP amends SFAS No. 140, *"Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities"*, requiring public entities to provide additional disclosures about transfers of financial assets. It also amends FASB Interpretation No. 46 (revised December 2003), *"Consolidation of Variable Interest Entities"*, requiring public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. FSP FAS 140-4 and FIN 46(R)-8 shall be effective for annual or interim periods ending after December 15, 2008. The adoption of FSP FAS 140-4 and FIN 46(R)-8 did not have a material effect on the Company's consolidated financial statements.

In September 2008, the FASB issued FSP FAS 133-1 and FIN 45-4, *"Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161"* ("FSP FAS 133-1 and FIN 45-4"). FSP FAS 133-1 and FIN 45-4 expands the disclosure requirements of SFAS 133 for sellers of credit derivatives and hybrid instruments that have embedded credit derivatives to include (a) the nature of the credit derivative, including the approximate term, the reasons for entering into the credit derivative and the events or circumstances that would require the seller to perform under the credit derivative and the current status of the payment/performance risk of the credit derivative, (b) the maximum potential amount of future payments (undiscounted) the seller could be required to make under the credit derivative, (c) the fair value of the credit derivative, and (d) the nature of (1) any recourse provisions that would enable the seller to recover from third parties any of the amounts paid under the credit derivative, and (2) any assets held either as collateral or by third parties that, upon the occurrence of any specified triggering event or condition, the seller can obtain and liquidate to recover all or a portion of the amounts paid under the credit derivative. With respect to hybrid instruments that have an embedded credit derivative, the seller shall disclose the required information for the entire hybrid instrument, not just the embedded derivative. Disclosure requirements of Interpretation 45 were expanded to include the current status of the payment/performance risk of the guarantee. FSP FAS 133-1 and FIN 45-4 shall be effective for annual or interim periods ending after November 15, 2008. FSP FAS 133-1 and FIN 45-4 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The adoption of FSP FAS 133-1 and FIN 45-4 did not have a material effect on the Company's consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, "*The Hierarchy of Generally Accepted Accounting Principles*" ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. It is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "*The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*", which occurred on September 16, 2008. The adoption of SFAS 162 did not have a material effect on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 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. FASB Staff Position FIN 157-2, "*Effective Date of FASB Statement No. 157*", amends SFAS 157 to defer its effective date to fiscal years beginning after November 15, 2008, and for interim periods within those fiscal years. The delayed effective date applies to all non-financial assets and non-financial liabilities except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP FAS 157-3, *"Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active"* clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate. The partial adoption of SFAS 157 for financial assets and liabilities did not have a material impact on the Company's consolidated financial statements.

### *3. Goodwill*

The change in the carrying amount of goodwill for the year ended December 31, 2008 is as follows (in thousands):

| | | Goodwill |
|---|---|---|
| Balance at December 31, 2007 | $ | 20,485 |
| IPA Acquisition | | 330 |
| Marlton Acquisition | | 3,182 |
| Reduction of valuation allowance on deferred tax assets | | (436) |
| Balance at December 31, 2008 | $ | 23,561 |

On April 1, 2008, the Company purchased the remaining 20% interest in Marlton for $3,700,000, which was funded from corporate liquidity, thereby increasing its interest in this medical stop-loss MGU to 100%. The Company reduced minority interest by $39,000 for the 20% interest in net assets acquired. The Company recorded goodwill based on the fair value of the remaining 20% interest at the acquisition date. As a result of the acquisition, the Company also reduced the valuation allowance on deferred tax assets by $436,000 with a corresponding decrease in goodwill for the amount of net operating losses it estimates it will utilize.

On April 15, 2008, the Company acquired certain of the assets and assumed certain of the liabilities of Insurance Producers Group of America, Inc. and its subsidiaries for $1,750,000, which was funded from corporate liquidity. These assets were acquired by IPA, an indirect, 51% owned subsidiary of the Company.

As required by SFAS 142, the goodwill impairment test must be performed annually. Additionally, SFAS 142 states that goodwill shall be tested for impairment between annual tests if an event or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company utilized a discounted cash flow model, which includes residual value, to determine the fair value of the reporting unit. The Company performed its annual test at September 30, 2008 and determined that goodwill was not impaired.

At December 31, 2008, the Company's market capitalization was less than its book value indicating a potential impairment of goodwill. As a result, the Company assessed the factors contributing to the performance of AMIC stock in 2008, and concluded that the market capitalization does not represent the fair value of the Company. The Company noted several factors that have led to a difference between the market capitalization and the fair value of the Company, including (i) the Company's stock is thinly traded and a sale of even a small number of shares can have a large percentage impact on the price of the stock, (ii) IHC and insiders own over 50% of the outstanding shares, which has had a significant adverse impact on the number of shares available for sale and therefore the trading potential of AMIC stock, (iii) the general lack of confidence in equity securities, which has resulted in a flight to US Treasury securities and other investments perceived to be of a higher quality, (iv) both financial institutions and the insurance industry as a whole have seen similar drops in share prices, particularly in the fourth quarter of 2008 as concerns over the effects of the volatile equity and bond markets on insurance company's investment portfolios are translating into lower share prices. In light of such developments, the Company updated its evaluation at December 31, 2008 and reaffirmed that goodwill was not impaired. Going forward, the Company changed its annual impairment testing date from September 30 to December 31. If the Company experiences a sustained decline in its results of operations and cash flows, or other indicators of impairment exist, the Company may incur a material non-cash charge to earnings relating to impairment of our goodwill, which could have a material adverse effect on our results.

### 4. *Intangible Assets*

Intangible assets at December 31, 2008 and 2007 consist of the following (in thousands):

| | December 31, 2008 | | | December 31, 2007 | | |
|---|---|---|---|---|---|---|
| | Definitive Lives (a) | Indefinite Lives | Total | Definitive Lives | Indefinite Lives | Total |
| **Gross Carrying Value** | | | | | | |
| Balance beginning of period | $ 8,169 | $ 100 | $ 8,269 | $ 8,057 | $ 100 | $ 8,157 |
| Additions | 1,204 | - | 1,204 | 112 | - | 112 |
| Balance end of period | 9,373 | 100 | 9,473 | 8,169 | 100 | 8,269 |
| **Accumulated Amortization** | | | | | | |
| Balance beginning of period | (5,458) | - | (5,458) | (4,615) | - | (4,615) |
| Amortization expense | (759) | - | (759) | (843) | - | (843) |
| Balance end of period | (6,217) | - | (6,217) | (5,458) | - | (5,458) |
| Net intangible assets | $ 3,156 | $ 100 | $ 3,256 | $ 2,711 | $ 100 | $ 2,811 |
| Weighted average remaining life in years | | | 2.42 | | | 1.66 |

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

| | Year Ending December 31, |
|---|---|
| 2009 | $ 783 |
| 2010 | 783 |
| 2011 | 783 |
| 2012 | 124 |
| 2013 and thereafter | 683 |
| | $ 3,156 |

Intangible asset additions of $1,204,000 in 2008 are a result of the Company's purchase of the remaining 20% interest in Marlton on April 1, 2008 ($480,000), and the acquisition of certain of the assets and assumption of certain of the liabilities of Insurance Producers Group of America, Inc. and its subsidiaries on April 15, 2008 ($724,000). These assets were acquired by IPA, an indirect, 51% owned subsidiary of the Company. Intangible assets related to the purchase of the remaining 20% interest in Marlton represent broker relationships with an estimated useful life of 10 years. Intangible assets related to Insurance Producers Group of America, Inc. and its subsidiaries represent various relationships and proprietary technology with estimated useful life spans of 4 to 12 years.

## 5. Investments

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

| | DECEMBER 31, 2008 | | | |
|---|---|---|---|---|
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | FAIR VALUE |
| | (In thousands) | | | |
| ***FIXED MATURITIES*** | | | | |
| **AVAILABLE-FOR-SALE:** | | | | |
| Corporate securities | $ 24,621 | $ 128 | $ (2,964) | $ 21,785 |
| Collateralized mortgage obligations (CMO) | 8,470 | 46 | (989) | 7,527 |
| States, municipalities and political subdivisions | 2,513 | 21 | (147) | 2,387 |
| U.S. Government | 4,873 | 239 | - | 5,112 |
| Government sponsored enterprise (GSE) | 2,801 | 49 | - | 2,850 |
| Agency mortgage backed pass through securities (MBS) | 6,143 | 80 | - | 6,223 |
| Total fixed maturities | $ 49,421 | $ 563 | $ (4,100) | $ 45,884 |
| ***EQUITY SECURITIES*** | | | | |
| **AVAILABLE-FOR-SALE** | | | | |
| Preferred stock | $ 3,566 | $ - | $ (520) | $ 3,046 |

| | DECEMBER 31, 2007 | | | |
|---|---|---|---|---|
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | FAIR VALUE |
| | (In thousands) | | | |
| ***FIXED MATURITIES*** | | | | |
| **AVAILABLE-FOR-SALE:** | | | | |
| Corporate securities | $ 21,332 | $ 55 | $ (655) | $ 20,732 |
| Collateralized mortgage obligations (CMO) | 8,929 | 20 | (306) | 8,643 |
| States, municipalities and political subdivisions | 1,788 | 2 | (13) | 1,177 |
| U.S. Government | 4,663 | 112 | - | 4,775 |
| Government sponsored enterprise (GSE) | 5,354 | 7 | (27) | 5,334 |
| Agency mortgage backed pass through securities (MBS) | 4,793 | 59 | (1) | 4,851 |
| Total fixed maturities | $ 46,859 | $ 255 | $ (1,002) | $ 46,112 |
| ***EQUITY SECURITIES*** | | | | |
| **AVAILABLE-FOR-SALE** | | | | |
| Preferred stock | $ 3,784 | $ - | $ (457) | $ 3,327 |

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, 2008 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, 2008 | | |
|---|---|---|---|
| | AMORTIZED COST | FAIR VALUE | % OF TOTAL FAIR VALUE |
| | (in Thousands) | | |
| Due in one year or less | $ 791 | $ 787 | 2% |
| Due after one year through five years | 11,901 | 11,648 | 25% |
| Due after five years through ten years | 8,606 | 7,513 | 17% |
| Due after ten years | 10,709 | 9,336 | 20% |
| | 32,007 | 29,284 | 64% |
| CMO and MBS | | | |
| 15 years | 9,829 | 8,929 | 19% |
| 20 years | - | - | - |
| 30 years | 7,585 | 7,671 | 17% |
| Total | $ 49,421 | $ 45,884 | 100% |

The following tables summarizes, for all securities in an unrealized loss position at December 31, 2008 and December 31, 2007, 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, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 8,998 | $ 882 | $ 10,254 | $ 2,082 | $ 19,252 | $ 2,964 |
| CMO | 1,049 | 291 | 2,666 | 698 | 3,715 | 989 |
| States, municipalities and political subdivisions | 1,358 | 99 | 481 | 48 | 1,839 | 147 |
| U.S. Government | - | - | - | - | - | - |
| GSE | - | - | - | - | - | - |
| Mortgage-backed securities | - | - | - | - | - | - |
| Total fixed maturities | $ 11,405 | $ 1,272 | $ 13,401 | $ 2,828 | $ 24,806 | $ 4,100 |
| *EQUITY SECURITIES:* | | | | | | |
| Preferred stock with maturities | $ 160 | $ 14 | $ 517 | $ 29 | $ 677 | $ 43 |
| Preferred stock without maturities | 1,013 | 330 | 1,356 | 147 | 2,369 | 477 |
| Total preferred stock | $ 1,173 | $ 344 | $ 1,873 | $ 176 | $ 3,046 | $ 520 |

| | December 31, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 5,680 | $ 268 | $ 9,386 | $ 387 | $ 15,066 | $ 655 |
| CMO | 1,896 | 80 | 5,436 | 226 | 7,332 | 306 |
| States, municipalities and political subdivisions | 823 | 13 | - | - | 823 | 13 |
| U.S. Government | - | - | 25 | - | 25 | - |
| GSE | - | - | 2,892 | 27 | 2,892 | 27 |
| Mortgage-backed securities | - | - | 113 | 1 | 113 | 1 |
| Total fixed maturities | $ 8,399 | $ 361 | $ 17,852 | $ 641 | $ 26,251 | $ 1,002 |
| *EQUITY SECURITIES:* | | | | | | |
| Preferred stock with maturities | $ 291 | $ 6 | $ 884 | $ 98 | $ 1,175 | $ 104 |
| Preferred stock without maturities | 1,635 | 299 | 517 | 54 | 2,152 | 353 |
| Total preferred stock | $ 1,926 | $ 305 | $ 1,401 | $ 152 | $ 3,327 | $ 457 |

Substantially all of the unrealized losses at December 31, 2008 and 2007 relate to investment grade securities and are attributable to changes in market interest rates and general disruptions in the credit market subsequent to purchase. The unrealized losses on corporate securities are due to wider spreads. Spreads have widened as investors shifted funds to US Treasuries in response to the current market turmoil. The Company reviews its investments regularly and monitors its investments for impairments. At December 31, 2008, the Company had $1.9 million invested in whole loan CMOs backed by Alt-A mortgages. Of this amount, 46.3% were in CMOs that originated in 2005 or earlier and 53.7% were in CMOs that originated in 2006. The Company's mortgage security portfolio has no direct exposure to sub-prime mortgages. The unrealized loss for the equity securities was primarily due to wider spreads for preferred stocks issued by financial institutions following the disruption in credit markets in late 2007 and continuing in 2008. Some of these financial institutions have exposure to sub-prime mortgages.

A total of 30 securities were in a continuous unrealized loss position for less than 12 months and 43 securities for 12 months or longer as of December 2008. A total of 24 securities were in a continuous unrealized loss position for less than 12 months and 51 securities for 12 months or longer as of December 31, 2007. 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 of Notes to Consolidated Financial Statements, the Company recorded a loss of $1,006,000 for other-than-temporary impairments for the twelve months ended December 31, 2008. This was due to the severity of the decrease in fair values and the length of time that these securities were in a loss position. The Company did not record any losses for other-than-temporary impairments for the twelve months ended December 31, 2007. The loss for the twelve months ended December 31, 2008 of $1,006,000 represents a loss on investment grade bonds and preferred stocks of financial institutions that the Company determined to be other-than-temporary. Further deterioration in credit quality of the companies backing the securities, further deterioration in the condition of the financial services industry, a continuation of the current imbalances in liquidity that exist in the marketplace, a continuation or worsening of the current economic recession, or additional declines in real estate values may further affect the fair value of these securities and increase the potential that certain unrealized losses be designated as other-than-temporary in future periods and the Company may incur additional write-downs.

The Company had derivative instruments representing the value of the contingent payment due to EDH as of December 31, 2008 and 2007 (see Note 19 of Notes to Consolidated Financial Statements).

Gross gains of $50,000 and gross losses of $83,000 were realized on sales of available-for-sale securities for the year ended December 31, 2008.

Gross gains of $112,000 and gross losses of $115,000 were realized on sales of available-for-sale securities for the year ended December 31, 2007.

In the fourth quarter of 2008, the Company became aware of certain activities engaged in by the non-affiliate broker-dealer that managed a trading account of the Company. Net realized investment gains reported in the accompanying Consolidated Statements of Operations for 2008 and 2007 includes income related to the trading account of $142,000 and $324,000, respectively. Short-term investments in the December 31, 2007 consolidated balance sheet include the Company's investment in the account with a carrying amount of $4,802,000. The carrying amount of the Company's investment at the time of loss was $2,566,000. The broker-dealer is now in bankruptcy. The Company intends to file a claim and believes it will likely recover the $500,000 maximum amount available from the Securities Investor Protection Corporation ("SIPC"). Accordingly, the Company recorded a pre-tax loss of $2,006,000, net of expected recoveries, in net realized investment losses in the fourth quarter of 2008 in the Consolidated Statements of Operations. While the Company may be subject to legal claims in this matter, the ultimate resolution of any such claims would not be material to its financial condition.

Major categories of net investment income for years 2008 and 2007 are summarized as follows:

| | Year Ended December 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| | (In thousands) | |
| Fixed maturities | $ 2,707 | $ 2,614 |
| Equity securities | 238 | 257 |
| Short-term investments | 154 | 317 |
| Other | 484 | 451 |
| Equity income (loss) - Majestic | (56) | (28) |
| Net investment income | $ 3,527 | $ 3,611 |

Net realized investment gains (losses) for years 2008 and 2007 are as follows:

| | Year Ended December 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| | (In thousands) | |
| Net realized investment gains (losses): | | |
| Fixed maturities | $ (46) | $ 9 |
| Common stock | (10) | 389 |
| Preferred stock | 12 | (12) |
| Short-term investments | 2 | - |
| | (42) | 386 |
| Other than temporary impairments: | | |
| Fixed maturities | (435) | - |
| Preferred stock | (571) | - |
| | (1,006) | - |
| Trading account write-off | (2,006) | - |
| Trading and other gains (losses) | 152 | (65) |
| Net realized investment gains (losses) | $ (2,902) | $ 321 |

## 6. Fair Value Measurements

The adoption of SFAS 157 did not have a material impact on our financial statements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require or permit assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions.

The valuation techniques required by SFAS 157 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market expectations. These two types of inputs create the following fair value hierarchy:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Instruments where significant value drivers are unobservable.

When available, we use quoted market prices to determine fair value and classify such items in Level 1. In some cases, we use quoted market prices for similar instruments in active markets and/or model-derived valuations where inputs are observable in active markets and classify such items in Level 2. When there are limited or inactive trading markets, we use industry–standard pricing methodologies, including discounted cash flow models, whose inputs are based on management assumptions and available current market information. These items are classified in Level 3. Further, we retain independent pricing vendors to assist in valuing certain instruments.

The following section describes the valuation methodologies we use to measure different financial instruments at fair value.

**Investments in fixed maturities and equity securities**

Investments included in Level 1 are primarily equities with quoted market prices. Level 2 is primarily comprised of our portfolio of corporate fixed income securities, government agency mortgage-backed securities, government sponsored enterprises ("GSEs"), certain CMO securities, municipals and certain preferred stocks that were priced with observable market inputs. Level 3 securities consist of certain CMO securities, primarily Alt-A mortgages.

**Derivative liability**

Financial liabilities consist of a derivative liability relating to the EDH Agreement (see Note 19 of Notes to Consolidated Financial Statements), and is included in Level 2. The liability is valued using market-observable inputs including market price, interest rate, and volatility within a Black-Scholes model.

The following table presents our financial assets and liabilities measured at fair value on a recurring basis at December 31, 2008 (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Investment securities held for sale: | | | | |
| Fixed maturities | $ - | $ 44,838 | $ 1,046 | $ 45,884 |
| Equity securities | 2,752 | 294 | - | 3,046 |
| Total | $ 2,752 | $ 45,132 | $ 1,046 | $ 48,930 |
| **Financial Liabilities** | | | | |
| Derivative liability | $ - | $ 205 | $ - | $ 205 |
| Total | $ - | $ 205 | $ - | $ 205 |

Inputs for certain fixed maturity securities that were observable during the second and third quarters of 2008 were not unobservable at December 31, 2008 as a result of limited or inactive markets. These securities were transferred out of Level 2 and into the Level 3 category during 2008. No securities were sold or transferred out of the Level 3 category in 2008. Changes in the carrying value of Level 3 financial assets and liabilities for the year ended December 31, 2008 are summarized as follows (in thousands):

| | Fixed Maturities |
|---|---|
| Balance at beginning of year | $ - |
| Transfers into Level 3 | 1,080 |
| Net unrealized losses included in accumulated other comprehensive loss | (34) |
| Balance at end of year | $ 1,046 |

**7. Investment in Majestic**

At December 31, 2008 and December 31, 2007, the Company had an equity investment in Majestic with a carrying value of $862,000 and $918,000, respectively. For years 2008 and 2007, the Company recorded $(56,000) and $(28,000), respectively, for its share of income (loss) from its investment in Majestic in Net Investment Income in the Consolidated Statements of Operations.

**8. Fixed Assets**

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

| | As of December 31, 2008 | As of December 31, 2007 |
|---|---|---|
| Furniture and fixtures | $ 653 | $ 564 |
| Leasehold improvements | 126 | 126 |
| Equipment | 941 | 892 |
| Total | 1,720 | 1,582 |
| Less: allowance for depreciation | (1,571) | (1,546) |
| Fixed assets, net | $ 149 | $ 36 |

## 9. Discontinued Operations

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

Net liabilities of $366,000 and $399,000 associated with discontinued operations at December 31, 2008 and December 31, 2007, respectively, represent estimated closure costs of Intellicom. A loss on disposition of discontinued operations was recorded in the fourth quarter of 2008 due to the loss of rental income associated with the sublease of a property located in Livermore, California, and a re-estimation of expected expenses related to the lease. The company entered into an agreement with a third party to sublease the property in October of 2006 and estimated the income associated with the sublease in the reserve balance. Due to the insolvency of the lessee, the Company recorded a loss of $75,000, net of tax, in the fourth quarter of 2008.

The Company believes the net liabilities for discontinued operations at December 31, 2008 adequately estimate the remaining costs associated with Intellicom discontinued operations.

## 10. Commitments and Contingencies

Fixed maturities with a carrying value of $5,112,000 are on deposit with various state insurance departments at December 31, 2008.

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.

Future minimum lease payments under non-cancelable operating leases as of December 31, 2008, are as follows (in thousands):

| Year Ending December 31, | | Net Operating Leases |
|---|---|---|
| 2009 | $ | 292 |
| 2010 | | 180 |
| 2011 | | 31 |
| 2012 | | - |
| 2013 | | - |
| 2014 and thereafter | | - |
| Total | $ | 503 |

The Company's net rent expense for years 2008 and 2007 were $412,000 and $357,000, respectively.

The Company has additional obligations in regard to its agreement with EDH as further described in Note 19 of Notes to Consolidated Financial Statements.

***Legal Proceedings***

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

**11. Share-Based Compensation**

***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 provided for the grants of non-statutory and incentive stock options, stock appreciation rights, restricted stock awards, performance shares, and other awards to officers, employee and other individuals. Under the terms of the 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. The 1998 Plan, which expired by its terms on October 7, 2008, had reserved for issuance a total of 7,154,198 common stock shares. At December 31, 2008, stock options for 419,817 common stock shares were outstanding, stock options for 380,864 common stock shares were vested, and 6,550,556 common stock shares that had not been issued remained available for future stock options grants and other awards. Awards made under the 1998 Plan prior to its expiration are still in effect.

Total share-based compensation expense was $143,000 and $231,000 for the twelve months ended December 31, 2008 and 2007, respectively. Related tax benefits of $50,000 and $81,000 for the twelve months ended December 31, 2008 and 2007, respectively. As of December 31, 2008, there was approximately $132,000 of total unrecognized compensation expense related to non-vested options which will be recognized over the remaining requisite service periods.

***Stock Options***

The following table summarizes the outstanding options to purchase common stock shares for years 2008 and 2007:

| | Outstanding Options | |
|---|---|---|
| | **Shares** | **Weighted Average Exercise Price** |
| **Balance, December 31, 2006** | 491,500 | 15.00 |
| Granted | 35,334 | 10.78 |
| Exercised | (45,001) | 5.28 |
| Expired | (23,334) | 30.56 |
| Forfeited | (15,000) | 9.67 |
| **Balance, December 31, 2007** | 443,499 | 15.02 |
| Granted | 13,334 | 6.35 |
| Expired | (37,016) | 19.17 |
| **Balance, December 31, 2008** | 419,817 | $ 14.37 |

The following table summarizes information regarding outstanding and exercisable options as of December 31, 2008:

| | Outstanding | Exercisable |
|---|---|---|
| Number of options | 419,817 | 380,864 |
| Weighted average exercise price per share | $ 14.37 | $ 14.86 |
| Aggregate intrinsic value of options | $ - | $ - |
| Weighted average contractual term remaining | 4.66 years | 4.27 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 2008 and 2007:

| | Year Ended December 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| Volatility | 21.42% | 21.11% |
| Risk-free interest rate | 4.00% | 4.76% |
| Dividend yield | - | - |
| Expected lives in years | 5.00 | 5.00 |
| Weighted average fair value | $ 2.56 | $ 4.46 |

***Restricted Stock***

The Company issued 12,000 restricted stock awards during the twelve months ended December 31, 2008, with a weighted average grant-date fair value of $6.92 per share. No restricted stock awards were issued in 2007. Restricted stock expense was $15,000 and $0 for the twelve months ended December 31, 2008 and 2007, respectively.

The following table summarizes restricted stock activity for the twelve months ended December 31, 2008:

| | Shares | Weighted Average Grant-Date Fair Value |
|---|---|---|
| **Balance, December 31, 2007** | - | $ - |
| Granted | 12,000 | 6.92 |
| **Balance, December 31, 2008** | 12,000 | $ 6.92 |

As of December 31, 2008, there was approximately $68,000 of total unrecognized compensation expense related to non-vested restricted stock which will be recognized over the remaining requisite service periods.

**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 and Madison National Life have received regulatory approval to cede up to 30% to Independence American under most of IHC's medical stop-loss programs. For the twelve months ended December 31, 2008 and 2007, Standard Security Life and Madison National Life ceded an average of approximately 23% of their medical stop-loss business to Independence American. Commencing in July 2004, Independence American began reinsuring 20% of Standard Security Life's DBL business. Standard Security Life and Madison National Life ceded approximately 8.9% of the majority of its fully insured health business to Independence American.

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

IHC provides the Company with pro rata quota share reinsurance on business written by Independence American. In June 2008, Independence American began ceding 30% of its direct stop-loss busines sold through Marlton to Madison National Life. In addition, in 2008, Independence American ceded 50% of its STM and major medical for individuals and families business to unrelated reinsurers. Independence American incurs an administration expense on its retained share of major medical for individual and families busness that is paid to Insurers Administrative Corporation, a subsidiary of IHC.

The Company and its subsidiaries incurred expense of $805,000 and $776,000 for the twelve months ended December 31, 2008 and 2007, respectively, from service agreements with IHC and its subsidiaries. These payments reimburse IHC and its subsidiaries, at agreed upon rates including an overhead factor, for management services provided to the Company and its subsidiaries, including accounting, legal, compliance, underwriting, and claims.

**13. Income Taxes**

The Company and its subsidiaries file a consolidated federal income tax return on a September 30 fiscal tax year. The provision for income taxes for the periods ended December 31, 2008 and 2007 are as follows:

| | Year Ended December 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| | (In thousands) | |
| **CURRENT:** | | |
| U.S. Federal | $ (1) | $ 19 |
| State and local | 12 | 51 |
| | 11 | 70 |
| **DEFERRED:** | | |
| U.S. Federal | 497 | 518 |
| State and local | 123 | 103 |
| | 620 | 621 |
| | $ 631 | $ 691 |

Taxes computed at the federal statutory rate of 35% for the years ended December 31, 2008 and 2007 are reconciled to the Company's actual income tax expense as follows:

| | 2008 | 2007 |
|---|---|---|
| | (In thousands) | |
| Tax computed at the statutory rate | $ 585 | $ 640 |
| Dividends received deduction and tax exempt interest | (46) | (44) |
| State and local income taxes, net of federal effect | 88 | 100 |
| Other, net | 4 | (5) |
| Income tax | $ 631 | $ 691 |

The federal income tax provision for the periods ending December 31, 2008 and 2007 include income tax provisions of $497,000 and $518,000, respectively, for the utilization of the Company's federal NOL carryforwards. The Company recorded deferred tax benefits on discontinued operations of $40,000 and $0 for the periods ending December 31, 2008 and 2007, which were included in Loss on Disposition of Discontinued Operations, net of tax, in the Consolidated Statements of Operations.

The tax effect of temporary differences that give rise to significant portions of the net deferred tax assets at December 31, 2008 and 2007 are as follows:

| | 2008 | 2007 |
|---|---|---|
| | (In thousands) | |
| **DEFERRED TAX ASSETS:** | | |
| Net liabilities associated with discontinued operations | $ 147 | $ 160 |
| Investments | 670 | 644 |
| Unpaid accruals | 161 | 161 |
| Property and equipment | 141 | 141 |
| Other | 12 | 9 |
| Compensation accruals | 1,011 | 1,340 |
| Goodwill | (48) | 198 |
| Derivative liability | 454 | 227 |
| Insurance reserves | 207 | 203 |
| Unrealized securities losses | 1,412 | 413 |
| Net operating loss carryforwards | 98,794 | 98,371 |
| Total gross deferred tax assets | 102,961 | 101,867 |
| Less valuation allowance | (87,515) | (87,101) |
| Net deferred tax assets | 15,446 | 14,766 |
| **DEFERRED TAX LIABILITIES:** | | |
| MGU partnership income | (2,862) | (2,311) |
| Total gross deferred tax liabilities | (2,862) | (2,311) |
| Net deferred tax asset | $ 12,584 | $ 12,455 |

During the year ended December 31, 2008 the Company increased its valuation allowance by $414,000. This increase included $999,000 representing an increase of deferred tax on unrealized losses allocated to equity, offset by reductions of $436,000 for the acquisition of 20% of Marlton and $149,000 for the 51% acquisition of IPA, both of which were allocated to goodwill. During the year ended December 31, 2007 the Company reduced its valuation allowance by $3,000 representing a decrease 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, 2008.

At December 31, 2008, the Company had federal NOL carryforwards of approximately $276,340,000 which expire as follows (in thousands).

| **Tax Year:** | | |
|---|---|---|
| 2019 | $ | 19,671 |
| 2020 | | 70,827 |
| 2021 | | 142,530 |
| 2022 | | 41,252 |
| 2023 | | 528 |
| 2024 | | 2 |
| 2025 | | - |
| 2026 | | 354 |
| 2027 | | - |
| 2028 | | 1,176 |
| | $ | 276,340 |

At December 31, 2008, the Company also had NOL carryforwards of approximately $25,814,000 for state income tax purposes, primarily in the State of California. Management believes that it is more likely than not that the state tax benefit of these net operating loss carryforwards will not be realized.

The IRS has completed their audit of the Company’s 2003 and 2004 consolidated income tax returns in the third quarter of 2008 and made no changes to the reported tax for those periods. As the NOL carryforwards are utilized by AMIC, the amount of our NOL carryforwards could be reduced upon audit by the IRS for those tax years open for assessment under the statute of limitations.

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

**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 U.S. GAAP. Many factors could affect these reserves, including economic and social conditions, inflation, healthcare costs, changes in doctrines of legal liability and damage awards in litigation. Therefore, 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.

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

| | Year Ended December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | (In thousands) | |
| Balance at a beginning of period | $ 32,311 | $ 22,504 |
| Less: reinsurance recoverables | (3,768) | (4,439) |
| Net balance at beginning of period | 28,543 | 18,065 |
| Amount incurred: | | |
| Current year | 70,238 | 75,654 |
| Prior years | (124) | 2,964 |
| Total | 70,114 | 78,618 |
| Amount paid, related to: | | |
| Current year | 43,558 | 48,861 |
| Prior years | 26,282 | 19,279 |
| Total | 69,840 | 68,140 |
| Net balance at end of period | 28,817 | 28,543 |
| Plus: reinsurance recoverables | 3,943 | 3,768 |
| Balance at end of period | $ 32,760 | $ 32,311 |

The preceding schedule reflects (i) due and unpaid claims, (ii) claims in the course of settlement, (iii) estimated incurred but not reported reserves and (iv) the present value of amounts not yet due on claims. The incurred and paid data above reflects all activity for the year. The amount incurred in 2008 for prior years of $(124,000) is a result of a redundancy of $301,000 of DBL reserves, offset by the re-estimation of unpaid losses on fully insured health reserves of $177,000. The amount incurred in 2007 for prior years of $2,964,000 is a result of the re-estimation of unpaid losses on medical stop-loss reserves of $2,778,000 and of fully insured health reserves of $438,000, slightly offset by a redundancy of $252,000 of DBL reserves. Fluctuations are generally the result of on-going analysis of recent loss development trends.

Medical stop-loss business is excess coverage with a short duration. Predicting ultimate claims and estimating reserves in medical stop-loss is especially complicated due to the “excess of loss” nature of these products with very high deductibles applying to specific claims on any individual claimant and in the aggregate for a given group. Fluctuations in results for specific coverage are primarily due to the severity and frequency of individual claims. Due to the short-term nature of medical stop-loss, redundancies and deficiencies will typically emerge during the following year rather than over a number of years. In the third quarter of 2007, the Company identified a material increase in claims and reserves with respect to business written in 2006. Such adverse development was primarily driven by the frequency of claims relative to the business written in that year proving significantly higher than what would have been predicted by prior loss development patterns. This increased frequency of medical stop-loss claims was due, in part, to increased severity of primary claims.

**15. Reinsurance**

Independence American reinsures a portion of its direct business in order to limit the assumption of disproportionate risks. Amounts not retained are ceded to other companies on an automatic basis. Independence American is contingently liable with respect to reinsurance in the unlikely event that the assuming reinsurers are unable to meet their obligations. The ceding of reinsurance does not discharge the primary liability of the original insurer to the insured. At December 31, 2008, Independence American ceded to highly rated reinsurers.

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

| | DIRECT AMOUNT | ASSUMED FROM OTHER COMPANIES | CEDED TO OTHER COMPANIES | | NET AMOUNT | % OF AMOUNT ASSUMED TO NET |
|---|---|---|---|---|---|---|
| **Insurance Benefits:** | | | | | | |
| Year ended December 31, 2008 | $ 24,684 | $ 46,430 | $ 1,000 | | $ 70,114 | 66% |
| Year ended December 31, 2007 | 19,095 | 59,278 | (245) | (a) | 78,618 | 75% |
| **Premiums Earned:** | | | | | | |
| Year ended December 31, 2008 | $ 32,342 | $ 66,911 | $ 2,269 | | $ 96,984 | 69% |
| Year ended December 31, 2007 | 27,039 | 79,316 | 255 | | 106,100 | 75% |

(a) Primarily represents a release of reserves relating to provider excess business ceded that experienced a lower loss ratio than reserved in the prior year.

**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 December 31 next preceding. Such dividends may be paid as long as they have not been disapproved by the Delaware Insurance Commissioner within 30 days of its receipt of notice thereof. Independence American did not pay any dividends in 2008 and 2007.

Independence American's statutory surplus was $40,365,000 (unaudited) as of December 31, 2008 and $41,353,000 as of December 31, 2007. Independence American's statutory net income was $2,323,000 (unaudited) for 2008 and $1,325,000 for 2007.

**17. Segment Information**

Our MGUs are no longer managed separately as the majority of their business is written by affiliates and is integrated in the management of our stop-loss line of business. Therefore, the Company has reported the current period's financial information as one segment with three lines of business.

## 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 years 2008 and 2007 are as follows:

| | Net of tax 2008 | Net of tax 2007 |
|---|---|---|
| | (In thousands) | |
| Unrealized holding losses arising during the period | $ (3,891) | $ (16) |
| Less: reclassification adjustment for (gains) losses included in net income | 1,038 | 3 |
| Net unrealized losses on securities | $ (2,853) | $ (13) |

## 19. Marketing Agreements

In February 2006, Independence American entered into an agreement (the "EDH Agreement") with Employers Direct Health, Inc. ("EDH"). Under the EDH Agreement, EDH began writing employer medical stop-loss for Independence American in 2006, and moved the majority of its existing block of employer-sponsored group major medical and medical stop-loss to Independence American during 2007. The employer-sponsored group major medical product is part of the Company's fully insured health line of business. Independence American paid EDH $2,500,000, which EDH simultaneously paid to IHC in consideration of IHC issuing 125,000 shares of IHC common stock ("IHC Stock") to EDH. As part of the EDH Agreement, an affiliate of EDH and Independence American agreed to a profit/loss sharing arrangement whereby Independence American will pay to, or receive from, such affiliate 35% of the underwriting profit or loss of the business written by Independence American. Accordingly, the Company has recorded a profit sharing commission expense on the business underwritten in the twelve months period ended December 31, 2008. The IHC stock is held by Independence American as collateral to satisfy EDH's obligation under the profit/loss sharing agreement.

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 fair value of the EDH Derivative is evaluated each quarter and the corresponding changes in unrealized gains or losses are reported in other income (loss) in the Consolidated Statements of Operations. As of December 31, 2008, the value of the EDH Derivative was $205,000. The value of the EDH Derivative decreased $1,043,000 for the twelve months ended December 31, 2008. 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 original value of the EDH Derivative as an intangible asset that will be amortized over the five year contract period.

Such amortization started January 1, 2007 to coincide with the transfer of business on January 1, 2007.

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

None

**Item 9A (T).** ***Controls and Procedures***

*Evaluation of Disclosure Controls and Procedures*

A review and evaluation was performed by management under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company's disclosure controls and procedures, as required by Rule 13a-15(b) of the Securities Exchange Act of 1934 as of December 31, 2008. Based upon that most recent evaluation, which was completed as of the end of the period covered by this Form 10-K, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at December 31, 2008 to ensure that information required to be disclosed in reports that the Company files under the Securities Exchange Act of 1934 is recorded, processed, summarized and timely reported as provided in the Securities and Exchange Commission ("SEC") rules and forms. As a result of this evaluation, there were no significant deficiencies in the Company's internal control over financial reporting during the twelve months ended December 31, 2008 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

*Management Report on Internal Control Over Financial Reporting*

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(b) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of the Company's principal executive and principal financial officers and effected by the Company's board, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States ("GAAP, US") and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of a company;

- provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, US and that receipts and expenditures of a company are being made only in accordance with authorization of management and directors of a company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of a company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of human error and the circumvention or overriding of controls, material misstatements may not be prevented or detected on a timely basis. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes and conditions or that the degree of compliance with policies or procedures may deteriorate.

Accordingly, even internal controls determined to be effective can provide only reasonable assurance that information required to be disclosed in and reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and represented within the time periods required.

Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this annual report. As a result, this annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting.

*Changes in Internal Control Over Financial Reporting*

There has been no change in the Company's internal control over financial reporting during the year ended December 31, 2008, that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

**Item 9B. *Other Information***

None

**PART III**

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

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of AMIC's stockholders to be held in June 2009, which definitive proxy statement will be filed with the SEC.

Our written Code of Business Ethics and Corporate Code of Conduct may be found on our website, www.americanindependencecorp.com, under the Corporate Information / Corporate Governance tabs. Collectively, the two Codes apply to all of our directors, officers and employees, including our principal executive officer and our senior financial officers. Any amendment to or waiver from either of the Codes will be posted to the same location on our website, to the extent such disclosure is legally required.

**Item 11. *Executive Compensation***

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of AMIC's stockholders to be held in June 2009, which definitive proxy statement will be filed with the SEC.

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

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of AMIC's stockholders to be held in June 2009, which definitive proxy statement will be filed with the SEC.

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

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of AMIC's stockholders to be held in June 2009, which definitive proxy statement will be filed with the SEC.

**Item 14. Principal Accounting Fees and Services**

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of AMIC's stockholders to be held in June 2009, which definitive proxy statement will be filed with the SEC.

**PART IV**

**Item 15. *Exhibits and Financial Statement Schedules***

***(a) Financial Statements and Exhibits***


| * (1) *Financial Statement Schedules.* | **Page** |
|---|---|
| Schedule I – Summary of investments – other than investments in related parties | 72 |
| Schedule II – Financial information of Parent Company | 73-75 |
| Schedule III – Supplementary insurance information | 76 |
| Schedule V – Valuation and Qualifying Accounts | 77 |


* 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) *Exhibits.* See Index to Exhibits included in this Annual Report on Form 10-K Page 71

## 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 16, 2009.

**AMERICAN INDEPENDENCE CORP.**

**Signature**

| | |
|---|---|
| /s/ Roy T.K. Thung<br>**(Roy T.K. Thung)** | President, and Chief Executive Officer<br>(Principal Executive Officer) |
| /S/ Teresa A. Herbert<br>**(Teresa A. Herbert)** | Chief Financial Officer<br>(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 16, 2009.

**Signature**

| | |
|---|---|
| /s/ Edward A. Bennett<br>**(Edward A. Bennett)** | Director |
| /s/ Edward Netter<br>**(Edward Netter)** | Director |
| /s/ Ronald I. Simon<br>**(Ronald I. Simon)** | Director |
| /s/ Roy T. K. Thung<br>**(Roy. T.K. Thung)** | Director |
| /s/ Myron M. Picoult<br>**(Myron M. Picoult)** | Director |
| /s/ Martin E. Winter<br>**(Martin E. Winter)** | Director |

**AMERICAN INDEPENDENCE CORP. AND SUBSIDIARIES**
**INDEX TO EXHIBITS**
**Item 15(A) (3)**

| Exhibit No. | Description of Document |
|---|---|
| 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. |
| 10.6 | Contribution Agreement dated April 15, 2008 by and among Independent Producers of America, LLC, a wholly owned subsidiary of the Registrant, Insurance Producers Group of America, Inc., Insurance Producers of America Agency, Inc. and Independent Producers of America Agency, Inc. Incorporated by reference to exhibit 10.1 of the Registrant’s Current Report on Form 8-K dated April 22, 2008. |
| 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. |

SCHEDULE I

**AMERICAN INDEPENDENCE CORP. AND SUBSIDIARIES**
**SUMMARY OF INVESTMENTS – OTHER THAN INVESTMENTS IN RELATED PARTIES**
**AS OF DECEMBER 31, 2008**
**(In thousands)**

| TYPE OF INVESTMENT | AMORTIZED COST | FAIR VALUE | AMOUNT SHOWN ON BALANCE SHEET |
|---|---|---|---|
| **FIXED MATURITIES:** | | | |
| **BONDS:** | | | |
| Corporate securities | $ 20,251 | $ 17,992 | $ 17,992 |
| Public Utilities | 4,370 | 3,793 | 3,793 |
| Collateralized mortgage obligations (CMO) | 8,470 | 7,527 | 7,527 |
| States, municipalities and political subdivisions | 2,513 | 2,387 | 2,387 |
| U.S. Government | 4,873 | 5,112 | 5,112 |
| Government sponsored enterprise (GSE) | 2,801 | 2,850 | 2,850 |
| Agency mortgage backed pass through securities (MBS) | 6,143 | 6,223 | 6,223 |
| **TOTAL FIXED MATURITIES** | 49,421 | 45,884 | 45,884 |
| **NON-REDEEMABLE PREFERRED STOCKS** | 3,566 | 3,046 | 3,046 |
| Securities purchased under agreements to resell | 3,917 | 3,917 | 3,917 |
| **TOTAL INVESTMENTS** | $ 56,904 | $ 52,847 | $ 52,847 |

SCHEDULE II

**AMERICAN INDEPENDENCE CORP.**
**BALANCE SHEETS**
**(PARENT COMPANY ONLY)**
**(In thousands)**

| | As of December 31, | |
|---|---|---|
| | **200** | **2007** |
| **ASSETS:** | | |
| Cash and cash equivalents | $ 1,209 | $ 267 |
| Short-term investments | - | 4,786 |
| Securities purchased under agreements to resell | - | 2,083 |
| Investments in continuing consolidated subsidiaries | 68,932 | 65,648 |
| Other receivables | 565 | - |
| Other assets | 477 | 435 |
| Deferred tax asset | 12,584 | 12,455 |
| **TOTAL ASSETS** | $ 83,767 | $ 85,674 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **LIABILITIES:** | | |
| Accounts payable and other liabilities | $ 469 | $ 598 |
| Net liabilities associated with discontinued operations | 366 | 399 |
| **TOTAL LIABIITIES** | 835 | 997 |
| **STOCKHOLDERS' EQUITY** | | |
| Preferred stock (none issued) | - | - |
| Common stock, 9,181,793 shares issued, respectively; 8,503,989 shares outstanding, respectively | 92 | 92 |
| Paid-in capital | 479,783 | 479,640 |
| Accumulated other comprehensive loss: | | |
| Unrealized loss on investments, net | (4,057) | (1,204) |
| Treasury stock, at cost, 677,804 shares, respectively | (8,112) | (8,112) |
| Accumulated deficit | (384,774) | (385,739) |
| **TOTAL STOCKHOLDERS' EQUITY** | 82,932 | 84,677 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ 83,767 | $ 85,674 |

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

**SCHEDULE II**

**(Continued)**

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

| | YEAR ENDED DECEMBER 31, 2008 | 2007 |
|---|---|---|
| **REVENUES:** | | |
| Net investment income | $ 82 | $ 243 |
| Net realized investment gains | (1,863) | 324 |
| Other income | 71 | - |
| | (1,710) | 567 |
| **EXPENSES:** | | |
| General and administrative expenses and other | 1,486 | 1,440 |
| | 1,486 | 1,440 |
| Loss before income tax expense | (3,196) | (873) |
| Income tax benefit | (1,102) | (282) |
| Loss before equity in net income of subsidiaries | (2,094) | (591) |
| Equity in net income of subsidiaries, net of tax | 3,134 | 1,729 |
| Income from continuing operations | 1,040 | 1,138 |
| Discontinued Operations: | | |
| Loss on disposition of discontinued operations, net of tax | (75) | - |
| Net income | $ 965 | $ 1,138 |

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

**SCHEDULE II**

**(Continued)**

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

| | YEAR ENDED DECEMBER 31, 2008 | 2007 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income | $ 965 | $ 1,138 |
| Adjustments to reconcile net income to net cash provided from operating activities: | | |
| Deferred tax expense | 620 | 621 |
| Equity in net income of subsidiaries | (3,134) | (1,729) |
| Net realized investment (gains) | 1,863 | (324) |
| Loss from discontinued operations | 75 | - |
| Non-cash compensation expense | 143 | 231 |
| Change in operating assets and liabilities: | | |
| Net sales of trading securities | 142 | 324 |
| Change in deferred tax asset | (708) | (103) |
| Change in other assets and liabilities | (325) | (111) |
| Net cash provided by (used by) operating activities of continuing operations | (359) | 47 |
| Net cash used by operating activities of discontinued operations | (148) | (156) |
| Net cash used by operating activities | (507) | (109) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Decrease in investments in and advances to consolidated subsidiaries | 2,255 | 1,763 |
| Acquisition of subsidiaries | (5,257) | (430) |
| Net (purchases) sales of short-term investments | 2,368 | (390) |
| Net (purchases) sales of securities under resale and repurchase agreements | 2,083 | (903) |
| Net cash provided by investing activities | 1,449 | 40 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Exercise of common stock options | - | 237 |
| Net cash provided by financing activities | - | 237 |
| Increase in cash and cash equivalents | 942 | 168 |
| Cash and cash equivalents, beginning of period | 267 | 99 |
| Cash and cash equivalents, end of period | $ 1,209 | $ 267 |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | |
| Cash paid during the period for: | | |
| Income taxes | $ 108 | $ 97 |

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

**SCHEDULE III**

**AMERICAN INDEPENDENCE CORP. AND SUBSIDIARIES**
**SUPPLEMENTARY INSURANCE INFORMATION**
**(In thousands)**

| | INSURANCE RESERVES | UNEARNED PREMIUMS | PREMIUMS EARNED | NET INVESTMENT INCOME (1) | INSURANCE BENEFITS, CLAIMS AND RESERVES | SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (2) | PREMIUMS WRITTEN |
|---|---|---|---|---|---|---|---|
| **YEAR ENDED DECEMBER 31, 2008:** | | | | | | | |
| Independence American: | | | | | | | |
| Medical stop-loss | $ 22,953 | $ - | $ 54,574 | $ 2,273 | $ 37,838 | $ 16,958 | $ 54,574 |
| Fully Insured Health | 9,157 | 120 | 38,975 | 715 | 30,370 | 8,430 | 38,950 |
| DBL | 650 | 80 | 3,435 | 76 | 1,906 | 999 | 3,423 |
| Total Independence American | 32,760 | 200 | 96,984 | 3,064 | 70,114 | 26,387 | 96,947 |
| MGU Subs and Agencies | - | - | - | 380 | - | 12,448 | - |
| Corporate | - | - | - | 83 | - | 1,428 | - |
| **Total** | $ 32,760 | $ 200 | $ 96,984 | $ 3,527 | $ 70,114 | $ 40,263 | $ 96,947 |
| **YEAR ENDED DECEMBER 31, 2007:** | | | | | | | |
| Independence American: | | | | | | | |
| Medical stop-loss | $ 24,195 | $ - | $ 63,483 | $ 2,416 | $ 47,567 | $ 18,646 | $ 63,483 |
| Fully Insured Health | 7,414 | 105 | 39,136 | 566 | 28,830 | 9,129 | 39,110 |
| DBL | 702 | 132 | 3,481 | 92 | 2,221 | 1,044 | 3,613 |
| Total Independence American | 32,311 | 237 | 106,100 | 3,074 | 78,618 | 28,819 | 106,206 |
| MGU Subs and Agencies | - | - | - | 292 | - | 7,257 | - |
| Corporate | - | - | - | 245 | - | 1,387 | - |
| **Total** | $ 32,311 | $ 237 | $ 106,100 | $ 3,611 | $ 78,616 | $ 37,463 | $ 106,206 |

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

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

**AMERICAN INDEPENDENCE CORP.**
**STATEMENTS OF CASH FLOWS**
**SCHEDULE V – VALUATION AND QUALIFYING ACCOUNTS**
**(In thousands)**

| | Balance at Beginning Of Period | Charged to Costs and Expenses | Charged to Other Accounts | Deductions | Balance at End of Period |
|---|---|---|---|---|---|
| **Valuation Allowance on Deferred Tax Asset:** | | | | | |
| Year ended December 31, 2008 | $ 87,101 | $ 999 | $ - | $ 585 (c) | $ 87,515 |
| Year ended December 31, 2007 | $ 87,104 | $ (3) | $ - | $ - | $ 87,101 |
| **Net Liabilities Associated with Discontinued Operations:** | | | | | |
| Year ended December 31, 2008 | $ 399 | $ 115 (b) | $ - | $ 148 (a) | $ 366 |
| Year ended December 31, 2007 | $ 555 | $ - | $ - | $ 156 (a) | $ 399 |

(a) Amounts written off and payments applied, net of receipts.

(b) Expected payments were more than original reserve estimate.

(c) $436 of this reduction is due to the acquisition of 20% of Marlton, the remaining $149 is due to the acquisition of 51% of IPA, both occurring in April 2008.

## 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

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

**Mr. Bernon R. Erickson, Jr.**
Chief Health Actuary and
Senior Vice President

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

**Mr. Jeffrey C. Smedsrud**
Chief Marketing and Strategy Officer and
Senior Vice President

**Mr. Henry B. Spencer**
Vice President — Investments

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

**Additional Officers:**

**Mr. Gary J. Balzofiore**
Vice President – Finance

**Mr. Paul R. Janerico**
Vice President – Internal Audit

**Mr. Brian R. Schlier**
Vice President – Tax

**Mr. John C. Morris**
Controller and Assistant Secretary