

SOUTHERN FIRST BANCSHARES INC
 Form 4
 January 29, 2016

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

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

(Print or Type Responses)

1. Name and Address of Reporting Person *
 GILMER FRED JR

2. Issuer Name and Ticker or Trading Symbol
 SOUTHERN FIRST BANCSHARES INC [SFST]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)

3. Date of Earliest Transaction (Month/Day/Year)
 01/28/2016

Director 10% Owner
 Officer (give title below) Other (specify below)

P.O. BOX 17465
 (Street)

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

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

GREENVILLE, SC 29606

(City) (State) (Zip)

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

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
				Code	V	Amount or Price			
Common Stock	01/28/2016		M			3,328 A \$ 5.67	58,195	D	
Common Stock	01/28/2016		S			671 D \$ 22.3	57,524	D	
Common Stock	01/28/2016		S			700 D \$ 22.3042	56,824	D	
Common Stock	01/28/2016		S			400 D \$ 22.31	56,424	D	
Common Stock	01/28/2016		S			200 D \$ 22.304	56,224	D	

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Common Stock	01/28/2016	S	100	D	\$ 22.28	56,124	D
Common Stock	01/28/2016	S	225	D	\$ 22.2	55,899	D
Common Stock	01/28/2016	S	4	D	\$ 22.45	55,895	D

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

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SEC 1474
(9-02)

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

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Amount or Number of Shares
Stock Options (right to buy)	\$ 5.67	01/28/2016		M	3,328	01/19/2011 01/19/2020	Common Stock	3,328

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
GILMER FRED JR P.O. BOX 17465 GREENVILLE, SC 29606		X		

Signatures

Fred Gilmer, Jr. /s/Julie A Fairchild,
POA 01/29/2016

**Signature of Reporting Person

Date

Explanation of Responses:

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

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

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

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December 31, 2014

Accident and health

\$

482,511

\$

52,063

\$

116,163

\$

418,411

Explanation of Responses:

3

Life and annuity

44,407

6,128

20,214

30,321

Property and liability

30,477

-

161

30,316

\$

557,395

\$

58,191

\$

136,538

\$

Explanation of Responses:

4

479,048

December 31, 2013

Accident and health

\$

461,336

\$

85,627

\$

102,053

Explanation of Responses:

5

	\$
	444,910
Life and annuity	
	46,416
	6,654
	20,820
	32,250
Property and liability	
	18,845
	-
	14
	18,831
	\$
	526,597
	\$
	92,281
	\$
Explanation of Responses:	6

122,887

\$

495,991

December 31, 2012

Accident and health

\$

396,805

\$

60,232

Explanation of Responses:

7

	\$
	140,653
	\$
	316,384
Life and annuity	
	47,790
	7,538
	18,916
	36,412
Property and liability	
	3,271
	-
	-
	3,271
	\$
	447,866
	\$
Explanation of Responses:	8

67,770

\$

159,569

\$

356,067

Insurance benefits, claims and reserves:

December 31, 2014

\$
276,634
\$
50,441
\$
1,040
\$
326,035

December 31, 2013

\$
374,865
\$
82,337
\$
102,412
\$
354,790

December 31, 2012

\$

Explanation of Responses:

10

301,734
 \$
 56,405
 \$
 113,348
 \$
 244,791

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

Effective January 26, 2012, Standard Security Life entered into a coinsurance agreement with an unaffiliated reinsurer, First Security Benefit Life Insurance and Annuity Company of New York, to cede group annuity reserves. In accordance with the agreement, Standard Security Life transferred \$143,537,000 of cash in the first quarter of 2012 and recorded a corresponding amount as due from reinsurers. The Company received final approval from the New York State Insurance Department to convert the transfer from a coinsurance to an assumption agreement which contractually relieves Standard Security Life of liability with regards to the policies. During the third quarter of 2012, a significant portion of the reserves were assumed by the reinsurer.

Note 8.**Policy Benefits and Claims**

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

	2014	2013	2012
Balance at beginning of year	\$ 237,754	\$ 194,480	\$ 192,987
Less: reinsurance recoverable	72,772	78,629	83,137
Net balance at beginning of year	164,982	115,851	109,850
Amount assumed	-	15,384	-
Amount incurred, related to:			
Current year	303,973	324,040	213,818
Prior years	(4,552)	(3,230)	(8,908)
Total incurred	299,421	320,810	204,910
Amount paid, related to:			
Current year	192,001	207,315	130,386
Prior years	114,130	79,748	68,523
Total paid	306,131	287,063	198,909
Net balance at end of year	158,272	164,982	115,851
Plus: reinsurance recoverable	78,531	72,772	78,629
Balance at end of year	\$ 236,803	\$ 237,754	\$ 194,480

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

development in 2012 for prior years of \$8,908,000 is primarily the result of \$2,968,000 of net favorable developments in Medical Stop-Loss reserves, \$375,000 in the Fully Insured Health reserves, \$4,508,000 in the group disability reserves and \$1,057,000 in all other reserves.

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

Note 9.**Debt and Junior Subordinated Debt Securities****(A)****Debt**

In July 2011, a subsidiary of IHC amended its amortizing term loan with a commercial bank and increased its outstanding debt to \$10,000,000. The amortizing term loan, as amended: (i) matures on July 1, 2016; (ii) bears a variable interest rate of Libor plus 3.35%; and (iii) requires principal payments in the amount of \$2,000,000 annually, commencing on July 1, 2012 through maturity. The Company simultaneously entered into an interest rate swap with the commercial bank lender effectively fixing the rate at 4.95%. See Note 3 for further discussion pertaining to the interest rate swap. As to such subsidiary, the line of credit (i) contains restrictions with respect to, among other things, the creation of additional indebtedness, the consolidation or merger with or into certain corporations, the payment of dividends and the retirement of capital stock; (ii) requires the maintenance of minimum amounts of net worth, as defined, certain financial ratios, and certain investment restrictions; and (iii) is secured by the stock of Madison National Life, Standard Security Life and the assets of such subsidiary of IHC. At December 31, 2014 and 2013, there was \$4,000,000 and \$6,000,000, respectively, of outstanding debt under this amortizing term loan.

(B)**Junior Subordinated Debt Issued to Trust Preferred Subsidiaries**

Junior subordinated debt consisted of the following at both December 31, 2014 and 2013 (in thousands):

Independence Preferred Trust I - Trust Preferred	\$	10,000
Independence Preferred Trust I - Common Stock		310
Junior subordinated debt security -Trust I		10,310
Independence Preferred Trust II -Trust Preferred		12,000
Independence Preferred Trust II - Common Stock		372
Junior subordinated debt security - Trust II		12,372
Independence Preferred Trust III Trust Preferred		15,000
Independence Preferred Trust III Common Stock		464

Explanation of Responses:

Junior subordinated debt security Trust III		15,464
Total junior subordinated debt securities	\$	38,146

The Company has three statutory business trusts that were formed for the purpose of issuing trust preferred securities, totaling \$37,000,000, to institutional investors in pooled issuances. Although the Company owns all of the trusts' common securities, it is not the primary beneficiary and, therefore, the trusts are unconsolidated subsidiaries for financial reporting purposes. As a result, the Company recorded liabilities of \$38,146,000 for junior subordinated debt and assets of \$1,146,000 for the investments in trust subsidiaries (included in other investments on the accompanying Consolidated Balance Sheets) at both December 31, 2014 and 2013. The Company's subordinated debt securities, which are the sole assets of the subsidiary trusts, are unsecured obligations of the Company and are subordinate and junior in right of payment to all present and future senior indebtedness of the Company. The Company has provided a full and unconditional guarantee of amounts due on the trust preferred securities. The terms of the junior subordinated debt securities, including interest rates and maturities, are the same as the related trust preferred securities.

The distributions payable on the capital securities are cumulative and payable quarterly in arrears. The Company has the right, subject to events of default, to defer payments of interest for a period not to exceed 20 consecutive quarters, provided that no extension period may extend beyond the maturity dates which range from April 2033 to December 2034. The Company has no current intention to exercise its right to defer interest payments. The rates on the capital securities are as follows: Independence Preferred Trust I, 400 basis points over the three-month LIBOR, (4.23% at December 31, 2014); Independence Preferred Trust II, 390 basis points over the three-month LIBOR, (4.13% at December 31, 2014); and Independence Preferred Trust III, 350 basis points over the three-month LIBOR (3.74% at December 31, 2014).

The capital securities are mandatorily redeemable upon maturity. The Company has the right to redeem the capital securities, in whole or in part without penalties with respect to Independence Preferred Trust I, Independence Preferred Trust II and Independence Preferred Trust III. The redemption price would be 100% (without penalty) of the principal amount plus accrued and unpaid interest.

Cash payments for interest on debt and junior subordinated debt securities were \$1,804,000 \$1,923,000 and \$2,107,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

Note 10.

Income Taxes

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

	2014	2013	2012
CURRENT:			
U.S. Federal	\$ 20	\$ (1,500)	\$ 2,555
State and Local	743	1,206	648
	763	(294)	3,203
DEFERRED:			
U.S. Federal	5,317	8,805	(1,188)

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State and Local	311	(113)	(12)
	5,628	8,692	(1,200)
	\$ 6,391	\$ 8,398	\$ 2,003

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Taxes computed at the Federal statutory rate of 35% in 2014, 2013 and 2012, attributable to pretax income, are reconciled to the Company's actual income tax expense as follows for the years indicated (in thousands):

	2014	2013	2012
Tax computed at the statutory rate	\$ 8,159	\$ 8,279	\$ 8,615
Dividends received deduction and tax exempt interest	(1,384)	(849)	(1,336)
State and local income taxes, net of Federal effect	685	710	414
Health insurance excise tax	696	-	-
Health insurer compensation limit	661	-	-
AMIC valuation allowance adjustment	(2,500)	-	(5,900)
Other, net	74	258	210
Income tax expense	\$ 6,391	\$ 8,398	\$ 2,003

Temporary differences between the Consolidated Financial Statement carrying amounts and tax bases of assets and liabilities that give rise to the deferred tax assets and liabilities at December 31, 2014 and 2013 are summarized below (in thousands). The net deferred tax asset or liability is included in Other Assets or Other Liabilities, as appropriate, in the Consolidated Balance Sheets. IHC and its subsidiaries, excluding AMIC, have certain tax-planning strategies that were used in determining that a valuation allowance was not necessary on its deferred tax assets at December 31, 2014 or 2013. The net deferred tax asset relative to AMIC included in other assets on IHC's Consolidated Balance Sheets at December 31, 2014 and 2013 was \$11,517,000 and \$10,689,000, respectively.

	2014	2013
DEFERRED TAX ASSETS:		
Deferred insurance policy acquisition costs	\$ 754	\$ 484
Unrealized losses on investment securities	54	5,398
Investment write-downs	222	222
Loss carryforwards	102,478	109,463
Insurance reserves	366	392
Other	5,790	7,222
Total gross deferred tax assets	109,664	123,181
Less AMIC valuation allowance	(73,849)	(76,911)
Net deferred tax assets	35,815	46,270
DEFERRED TAX LIABILITIES:		
Deferred insurance policy acquisition costs	(10,712)	(10,376)
Insurance reserves	(6,856)	(6,183)

Explanation of Responses:

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Unrealized gains on investment securities	(78)	-
Other	(12,702)	(13,805)
Total gross deferred tax liabilities	(30,348)	(30,364)
Net deferred tax asset	\$ 5,467	\$ 15,906

As of December 31, 2014, IHC and its non-life subsidiaries, excluding AMIC, had NOL carryforwards arising from limitations on offsetting non-life insurance company losses against life insurance company income. The non-life insurance company Federal NOL carryforwards amount to

approximately \$24,418,000 at December 31, 2014, which expire in varying amounts between 2029 and 2032. Madison National Life had Federal NOL carryforwards of approximately \$4,392,000 at December 31, 2014 expiring in 2033 and 2034.

At December 31, 2014, AMIC had Federal NOL carryforwards of approximately \$263,985,000 which expire in varying amounts through the year 2028 with a significant portion expiring in 2020.

AMIC's valuation allowance at December 31, 2014 and 2013 was primarily related to net operating loss carryforwards that, in the judgment of management, were not considered realizable. During the years ended December 31, 2014 and 2013, AMIC decreased its valuation allowance by \$3,062,000 and \$1,661,000, respectively. The valuation allowance decrease in the year ended December 31, 2014 included \$2,500,000 for the projected utilization of Federal net operating losses allocated to operations.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Management believes that it is more likely than not that IHC and its subsidiaries, and AMIC, will realize the benefits of these net deferred tax assets recorded at December 31, 2014. As of December 31, 2014, IHC and its subsidiaries, and AMIC, believe there were no material uncertain tax positions that would require disclosure under U.S. GAAP.

Interest expense and penalties for the years ended December 31, 2014, 2013 and 2012 are insignificant.

Net cash payments (receipts) for income taxes were \$(2,448,000), \$(387,000) and \$550,000 in 2014, 2013 and 2012, respectively.

Note 11.

Stockholders' Equity

Preferred Stock

IHC has 100,000 authorized shares of preferred stock, par value \$1.00 per share, none of which was issued as of December 31, 2014 and 2013.

Common Stock

In 2012, IHC issued 1,638,849 shares of common stock, net of treasury shares, in connection with a special stock dividend payable to shareholders of record on February 17, 2012 with a distribution date of March 5, 2012. Accordingly, IHC charged retained earnings \$15,799,000, representing the fair value of such shares on the distribution date, and recorded a credit to common stock for the par value of such shares and a credit to paid-in capital for the remaining difference. Fractional shares were paid in cash in-lieu of stock. All references to number of common shares and earnings per share amounts have been adjusted retroactively for all periods presented to reflect the change in capital structure.

In June 2012, the stockholders of the Company approved an amendment to the Company's restated certificate of incorporation to increase the number of authorized shares of common stock from 20,000,000 shares to 23,000,000 shares.

Treasury Stock

In 1991, IHC initiated a program of repurchasing shares of its common stock. In August 2014, the Board of Directors authorized the repurchase of up to 500,000 shares of IHC's common stock, in addition to prior authorizations, under the 1991 plan. The Company has repurchased 296,775, 334,305 and 100,246 shares in 2014, 2013 and 2012, respectively. All of the shares repurchased have been either retired, reissued, or have become treasury shares. At December 31, 2014, there were 468,218 shares still authorized to be repurchased under the plan authorized by the Board of Directors.

Accumulated Other Comprehensive Income (Loss)

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

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

	Unrealized Gains (Losses) on Available-for Sale Securities	Cash Flow Hedge	Total
Balance at December 31, 2011	\$ 8,150	\$ (297)	\$ 7,853
Other comprehensive income (loss) before reclassifications	10,480	79	10,559
Amounts reclassified from accumulated OCI	(3,284)	-	(3,284)
Net other comprehensive income (loss)	7,196	79	7,275
Less: Other comprehensive income attributable to noncontrolling interests	(118)	-	(118)
Acquired from noncontrolling interests	3	-	3
Balance at December 31, 2012	15,231	(218)	15,013

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Other comprehensive income (loss) before reclassifications	(14,361)	96	(14,265)
Amounts reclassified from accumulated OCI	(11,826)	-	(11,826)
Net other comprehensive income (loss)	(26,187)	96	(26,091)
Less: Other comprehensive loss attributable to noncontrolling interests	665	-	665
Acquired from noncontrolling interests	(59)	-	(59)
Balance at December 31, 2013	(10,350)	(122)	(10,472)
Other comprehensive income (loss) before reclassifications	15,872	72	15,944
Amounts reclassified from accumulated OCI	(5,251)	-	(5,251)
Net other comprehensive income (loss)	10,621	72	10,693
Less: Other comprehensive loss attributable to noncontrolling interests	(199)	-	(199)
Balance at December 31, 2014	\$ 72	\$ (50)	\$ 22

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

	2014	2013	2012
Unrealized gains (losses) on available-for-sale securities reclassified during the period to the following income statement line items:			
Net realized investment gains	\$ 7,637	\$ 17,841	\$ 5,490
Net impairment losses recognized in earnings	-	-	(704)
Income before income tax	7,637	17,841	4,786
Tax effect	2,386	6,015	1,502
Net income	\$ 5,251	\$ 11,826	\$ 3,284

Note 12.

Share-Based Compensation

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

A)

IHC Share-Based Compensation Plan

In June 2006, the stockholders approved the Independence Holding Company 2006 Stock Incentive Plan (the "2006 Plan"). Under the terms of the 2006 Plan, option exercise prices are more than or equal to the quoted market price of the shares at the date of grant; option terms are generally five years; and vesting periods are generally three years. The fair value of an option award is estimated on the date of grant using the Black-Scholes option valuation model. In

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

At December 31, 2014, there were 377,286 shares available for future stock-based compensation grants under IHC's stock incentive plans. The following table summarizes share-based compensation expense, which is included in selling, general and administrative expenses on the Consolidated Statements of Income, applicable to the IHC plans by award type for each of the years indicated (in thousands):

	2014	2013	2012
IHC's Share-based Compensation Plan:			
Stock options	\$ 669	\$ 210	\$ 237
Restricted stock units	85	66	45
SARs	14	698	428
Performance awards	-	(15)	89
Share-based compensation expense, pre-tax	768	959	799
Tax benefits	306	382	319
Share-based compensation expense, net	\$ 462	\$ 577	\$ 480

Stock Options

The Company's stock option activity during 2014 was as follows:

	Shares Under Option	Weighted- Average Exercise Price
December 31, 2013	616,858	\$ 9.35
Expired	(2,178)	14.75
December 31, 2014	614,680	\$ 9.33

No options were granted in 2014, 2013 or 2012. In May 2014, option agreements affecting 15 employees were modified to extend the expirations of their terms from 2015 to 2017 and as a result, the Company recorded incremental compensation costs of \$405,000. In 2013, the Company received \$430,000 in cash from the exercise of stock options with an aggregate intrinsic value of \$243,000 and realized \$85,000 of tax benefits. In March 2013, option agreements affecting 5 employees were modified to extend the expiration term 5 years. The incremental cost of the modified awards was \$618,000, which is being recognized over the new 2-year vesting period starting from the date of the modification.

The following table summarizes information regarding outstanding and exercisable options:

	December 31, 2014	
	Outstanding	Exercisable
Number of options	614,680	532,180
Weighted average exercise price per share	\$ 9.33	\$ 9.23
Aggregate intrinsic value for all options (in thousands)	\$ 2,838	\$ 2,512
Weighted average contractual term remaining	2.3 years	2.2 years

As of December 31, 2014, the total unrecognized compensation expense related to non-vested stock options was \$55,000, which is expected to be recognized over the remaining requisite weighted average service period of 0.21 years.

Restricted Stock

The following table summarizes IHC's restricted stock activity for the year ended December 31, 2014:

	No. of Non-vested Shares	Weighted-Average Grant-Date Fair Value
December 31, 2013	14,850	\$ 10.60
Granted	7,425	13.27
Vested	(7,425)	10.30
December 31, 2014	14,850	\$ 12.09

IHC granted 7,425 restricted stock units during each of the years ended December 31, 2014, 2013 and 2012, with weighted-average grant-date fair values of \$13.27, \$11.66 and \$9.39 per share, respectively. The total fair value of restricted stock that vested in 2014, 2013 and 2012 was \$103,000, \$69,000 and \$40,000, respectively.

At December 31, 2014, the total unrecognized compensation cost related to non-vested restricted stock awards was \$131,000 which is expected to be recognized as compensation expense over a weighted average period of 1.8 years.

SARs and Share-Based Performance Awards

IHC had 136,850 and 251,800 SAR awards outstanding at December 31, 2014 and 2013, respectively. During 2014, 112,200 SARs were exercised with an aggregate intrinsic value of \$529,000; and 2,750 SARs were forfeited. During 2013, 14,850 SARs were exercised with an aggregate intrinsic value of \$74,000; and 3,300 SARs were forfeited. During 2012, the Company granted 56,000 SAR awards; 13,750 SARs were exercised with an aggregate intrinsic value of \$33,000; and 2,750 SARs were forfeited. Included in Other Liabilities in the Company's Consolidated Balance Sheets at December 31, 2014 and December 31, 2013 are liabilities of \$791,000 and \$1,307,000, respectively, pertaining to SARs.

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

31, 2013 and 2012 was \$83,000 and \$57,000, respectively.

B)

AMIC Share-Based Compensation Plans

Effective July 1, 2009, AMIC implemented the 2009 Stock Incentive Plan (AMIC 2009 Plan), which the AMIC stockholders approved on June 19, 2009. The AMIC 2009 Plan was preceded by the 1988 Stock Incentive Plan which expired by its terms in 2008. The AMIC 2009 Plan provided for the grants of non-statutory and incentive stock options, stock appreciation rights, restricted stock awards, performance shares, and other awards to officers, employee and other individuals. Under the terms of the AMIC 2009 Plan, stock options have a maximum term of ten years from the date of grant, and have various vesting criteria depending on the grant with most grants vesting ratably over four years. At December 31, 2014, stock options for 166,616 common stock shares were outstanding, stock options for 148,837 common stock shares were vested, and 6,490,553 common stock shares that had not been issued remained available for future stock options grants and other awards. Awards made under AMIC 's 1998 Plan prior to its expiration are still in effect.

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

	2014	2013	2012
AMIC s Share-based Compensation Plans:			
Stock options	\$ 52	\$ 42	\$ 33
Share-based compensation expense, pre-tax	52	42	33
Tax benefits	18	15	11
Share-based compensation expense, net	\$ 34	\$ 27	\$ 22

Stock Options

AMIC s stock option activity during 2014 was as follows:

	Shares Under Option	Weighted- Average Exercise Price
December 31, 2013	222,285	\$ 11.46
Granted	13,334	10.80
Exercised	(6,667)	4.87
Expired	(62,336)	14.58
December 31, 2014	166,616	\$ 10.50

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

December 31, 2014

Explanation of Responses:

	Outstanding	Exercisable
Number of options	166,616	148,837
Weighted average exercise price per share	\$ 10.50	\$ 10.64
Aggregate intrinsic value for all options (in thousands)	\$ 217	\$ 196
Weighted average contractual term remaining	3.18 years	2.48 years

The fair value of an option award is estimated on the date of grant using the Black-Scholes option valuation model. The weighted average grant-date fair-value of options granted during the years ended December 31, 2014 and 2013 was \$5.70 and \$4.04. No options were granted in 2012. The assumptions set forth in the table below were used to value the stock options granted during the periods:

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

During 2014, AMIC received \$33,000 in cash from the exercise of stock options with an aggregate intrinsic value of \$38,000. No options were exercised during the years ended December 31, 2013 or 2012.

As of December 31, 2014, the total unrecognized compensation expense related to AMIC's non-vested options was \$83,000 which will be recognized over the remaining requisite service periods.

Note 13.

Commitments and Contingencies

Certain subsidiaries of the Company are obligated under non-cancelable operating lease agreements for office space. Total rental expense for the years 2014, 2013 and 2012 for operating leases was \$3,403,000, \$3,470,000 and \$3,750,000, respectively.

The approximate minimum annual rental payments under operating leases that have remaining non-cancelable lease terms in excess of one year at December 31, 2014 are as follows (in thousands):

2015	\$	3,291
2016		2,723
2017		1,206
2018		790
2019		118
2020 and thereafter		29
Total	\$	8,157

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

On September 1, 2013, Madison National Life entered into an agreement with a former policyholder for a return of premium in connection with health insurance business written during 2007. The agreement was entered into in

response to a potential lawsuit. In April 2014, the Company fulfilled its obligation under the terms of the agreement with a payment of \$1,541,000 representing return of premium reserves (net of recoveries). The Company terminated the MGU that produced this business in 2008.

Note 14.

Concentration of Credit Risk

At December 31, 2014, the Company had no investment securities of any one issuer or in any one industry which exceeded 10% of stockholders' equity, except for investments in obligations of the U.S. Government and its agencies and mortgage-backed securities issued by GSEs, as summarized in Note 2.

Fixed maturities with a carrying value of \$12,523,000 and \$12,637,000 were on deposit with various state insurance departments at December 31, 2014 and 2013, respectively.

At December 31, 2014, the Company had net receivables of \$115,188,000, \$40,581,000 and \$42,534,000 from three different reinsurers, Guggenheim Life and Annuity Company, Markel Bermuda, Ltd. and RGA Reinsurance Company, respectively, which are rated B++, A and A+, respectively, by A.M. Best. These are the only reinsurers with net receivables that individually exceed 10% of the stockholders' equity of the Company. The Company believes that these receivables are fully collectible.

Note 15.**Dividend Payment Restrictions and Statutory Information**

Our insurance subsidiaries are restricted by state laws and regulations as to the amount of dividends they may pay to their parent without regulatory approval in any year. Any dividends in excess of limits are deemed extraordinary and require approval. Based on statutory results as of December 31, 2014, in accordance with applicable dividend restrictions, our insurance subsidiaries could pay dividends of approximately \$25,507,000 in 2015 without obtaining regulatory approval. There are no regulatory restrictions on the ability of our holding company, IHC, to pay dividends. Under Delaware law, IHC is permitted to pay dividends from surplus or net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Dividends to shareholders are paid from funds available at the corporate holding company level.

Non- extraordinary dividend payments were as follows: (i) Madison National Life declared and paid cash dividends of \$4,000,000, \$3,950,000 and \$3,450,000 to its parent in 2014, 2013 and 2012, respectively; (ii) Standard Security Life declared and paid dividends of \$6,000,000, \$8,000,000 and \$7,980,000 to its parent in 2014, 2013 and 2012, respectively; and (iii) Independence American declared and paid dividends of \$0, \$0 and \$2,000,000 to its parent in 2014, 2013 and 2012, respectively. In February 2012, IHC announced a special 10% stock dividend payable to shareholders. See Note 11 for more information regarding the stock dividend. IHC declared cash dividends of \$1,223,000 in 2014, \$1,241,000 in 2013 and \$1,271,000 in 2012.

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

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

	Years Ended December 31,		
	2014	2013	2012
Statutory net income:			
Madison National Life	\$ 9,876	\$ 11,704	\$ 11,903
Standard Security Life	12,074	9,180	15,805
Independence American	3,127	3,176	3,271

Explanation of Responses:

	December 31,	
	2014	2013
Statutory capital and surplus:		
Madison National Life	\$ 81,534	\$ 77,969
Standard Security Life	116,525	113,972
Independence American	60,168	57,875

The insurance subsidiaries are also required to maintain certain minimum amounts of statutory surplus to satisfy their various state insurance departments of domicile. Risk-based capital (RBC) requirements are designed to assess capital adequacy and to raise the level of protection that statutory surplus provides for policyholders. At December 31, 2014 and 2013, the statutory capital of our insurance subsidiaries is significantly in excess of their regulatory RBC requirements.

Note 16.**Segment Reporting**

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

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

	2014	2013	2012
Revenues:			
Medical Stop-Loss	\$ 184,775	\$ 171,963	\$ 146,378
Fully Insured Health	239,101	278,105	171,492
Group disability; life, annuities and DBL	67,641	63,155	52,049
Individual life, annuities and other	34,551	41,966	53,207
Corporate	177	105	540
	526,245	555,294	423,666
Net realized investment gains	7,688	19,750	5,099
Other-than-temporary impairment losses	-	-	(704)
Total revenues	\$ 533,933	\$ 575,044	\$ 428,061
Income before income taxes:			
Medical Stop-Loss	\$ 21,933	\$ 12,677	\$ 15,818
Fully Insured Health ^(A)	(1,987)	832	4,360
Group disability; life, annuities and DBL	12,168	8,647	8,607
Individual life, annuities and other	(6,618)	(10,396)	905
Corporate	(8,075)	(5,941)	(7,380)
	17,421	(5,819)	22,310

Explanation of Responses:

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Interest expense	(1,797)	(1,915)	(2,091)
Net realized investment gains	7,688	19,750	5,099
Other-than-temporary impairment losses	-	-	(704)
Income before income taxes	\$ 23,312	\$ 23,654	\$ 24,614

(A)

The Fully Insured Health segment includes amortization of intangible assets recorded as a result of purchase accounting for previous acquisitions. Total amortization expense was \$1,948,000, \$2,393,000 and \$2,453,000 for the years ended December 31, 2014, 2013 and 2012, respectively. Amortization expense for the other segments is not material.

	December 31,	
	2014	2013
IDENTIFIABLE ASSETS AT YEAR END		
Medical Stop-Loss ^(A)	\$ 235,429	\$ 200,991
Fully Insured Health ^(B)	170,522	198,000
Group disability; life, annuities and DBL	231,109	213,952
Individual life, annuities and other	525,519	620,891
Corporate	25,138	35,201
	\$ 1,187,717	\$ 1,269,035

(A)

The Medical Stop-Loss segment includes allocated goodwill of \$5,664,000 at both December 31, 2014 and 2013.

(B)

The Fully Insured Health segment includes allocated goodwill of \$44,654,000 at both December 31, 2014 and 2013.

Note 17.**Quarterly Data (Unaudited)**

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

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
<u>2014</u>				
Total revenues	\$ 141,072	\$ 136,019	\$ 129,752	\$ 127,090
Net income	\$ 4,005	\$ 3,880	\$ 4,824	\$ 4,212

Explanation of Responses:

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Less income from noncontrolling interests in subsidiaries		(304)		(32)		(114)		(178)
Net income attributable to IHC	\$	3,701	\$	3,848	\$	4,710	\$	4,034
Basic income per common share	\$.21	\$.22	\$.27	\$.23
Diluted income per share	\$.21	\$.22	\$.27	\$.23

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
<u>2013</u>				
Total revenues	\$ 137,882	\$ 151,900	\$ 141,644	\$ 143,618
Net income	\$ 5,040	\$ 4,158	\$ 3,916	\$ 2,142
Less income from noncontrolling interests in subsidiaries	(339)	(467)	(277)	(394)
Net income attributable to IHC	\$ 4,701	\$ 3,691	\$ 3,639	\$ 1,748
Basic income per common share	\$.26	\$.21	\$.21	\$.10
Diluted income per share	\$.26	\$.21	\$.21	\$.10

SCHEDULE I

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
SUMMARY OF INVESTMENTS OTHER THAN INVESTMENTS IN RELATED PARTIES
DECEMBER 31, 2014
(In thousands)

TYPE OF INVESTMENT	COST	VALUE	AMOUNT SHOWN IN BALANCE SHEET
FIXED MATURITIES -			
AVAILABLE-FOR-SALE:			
Bonds:			
United States Government and Government agencies and authorities	\$ 37,537	\$ 37,617	\$ 37,617
States, municipalities and political subdivisions	238,514	239,381	239,381
Foreign governments	34,863	34,700	34,700
Public utilities	42,977	42,380	42,380
All other corporate bonds	227,233	225,603	225,603
Redeemable preferred stock	4,036	4,199	4,199
TOTAL FIXED MATURITIES	585,160	583,880	583,880
EQUITY SECURITIES -			
AVAILABLE-FOR-SALE			
AND TRADING:			
Common stocks:			
Public utilities	868	861	861
Banks, trust and insurance companies	752	764	764
Industrial, miscellaneous and all other	18,172	19,227	19,227
Non-redeemable preferred stocks	4,004	4,138	4,138
TOTAL EQUITY SECURITIES	23,796	24,990	24,990
Policy loans	10,667	10,667	10,667
Short-term investments and resale agreements	16,840	16,840	16,840
Other long-term investments	14,584	14,584	14,584
TOTAL INVESTMENTS	\$ 651,047	\$ 650,961	\$ 650,961

SCHEDULE II

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

	DECEMBER 31,	
	2014	2013
ASSETS:		
Cash and cash equivalents	\$ 389	\$ 61
Fixed maturities, available-for-sale	9,647	2,406
Trading securities	1,916	944
Other investments	1,146	1,146
Investments in consolidated subsidiaries	387,270	356,378
Deferred tax assets, net	11,414	13,347
Goodwill	228	228
Other assets	97	69
TOTAL ASSETS	\$ 412,107	\$ 374,579
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable and other liabilities	\$ 7,140	\$ 6,403
Amounts due to consolidated subsidiaries, net	57,220	45,000
Income taxes payable	7,871	6,096
Junior subordinated debt securities	38,146	38,146
Dividends payable	628	628
TOTAL LIABILITIES	111,005	96,273
STOCKHOLDERS' EQUITY:		
Preferred stock (none issued)	-	-
Common stock ^(A)	18,531	18,524
Paid-in capital	127,098	126,239
Accumulated other comprehensive income (loss)	22	(10,472)
Treasury stock, at cost ^(B)	(12,141)	(8,169)
Retained earnings	157,667	142,669
TOTAL IHC S STOCKHOLDERS' EQUITY	291,177	268,791
NONCONTROLLING INTERESTS IN SUBSIDIARIES	9,925	9,515
TOTAL EQUITY	301,102	278,306

TOTAL LIABILITIES AND EQUITY	\$ 412,107	\$ 374,579
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(A)

Common stock \$1.00 par value, 23,000,000 shares authorized; 18,531,158 and 18,523,733 shares issued, respectively, 17,371,040 and 17,660,390 shares outstanding, respectively.

(B)

Treasury stock, at cost; 1,160,118 and 863,343 shares, respectively, outstanding.

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

SCHEDULE II
(Continued)

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

	2014	2013	2012
REVENUES:			
Net investment income	\$ 112	\$ 61	\$ 491
Net realized investment gains (losses)	(78)	349	2
Other income	2,129	2,327	2,251
	2,163	2,737	2,744
EXPENSES:			
Interest expense on debt	1,546	1,563	1,638
General and administrative expenses	5,606	4,301	5,125
	7,152	5,864	6,763
Loss before tax benefit and equity in net income of subsidiaries	(4,989)	(3,127)	(4,019)
Income taxes (benefits)	(2,389)	(1,228)	(1,528)
Equity in net income of subsidiaries	19,521	17,155	25,102
Net income	16,921	15,256	22,611
Less income from noncontrolling interests in subsidiaries	(628)	(1,477)	(2,950)
Net income attributable to IHC	\$ 16,293	\$ 13,779	\$ 19,661

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

SCHEDULE II
(Continued)

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

	2014	2013	2012
CASH FLOWS PROVIDED BY (USED BY)			
OPERATING ACTIVITIES:			
Net income	\$ 16,921	\$ 15,256	\$ 22,611
Adjustments to net income:			
Equity in net income of subsidiaries	(19,521)	(17,155)	(25,102)
Other	3,748	4,398	604
Changes in other assets and liabilities	440	(1,609)	(439)
Net change in cash from operating activities	1,588	890	(2,326)
CASH FLOWS PROVIDED BY (USED BY)			
INVESTING ACTIVITIES:			
Change in investments in and advances to subsidiaries	11,138	6,708	5,109
Purchases of fixed maturities	(9,953)	-	(11,781)
Sales of fixed maturities	2,751	3,260	6,109
Change in other investments	-	-	3,152
Net change in cash from investing activities	3,936	9,968	2,589
CASH FLOWS PROVIDED BY (USED BY)			
FINANCING ACTIVITIES:			
Repurchases of common stock	(3,972)	(3,636)	(941)
Cash paid in acquisitions of noncontrolling interests	-	(7,626)	(58)
Dividends paid	(1,233)	(620)	(1,681)
Proceeds from exercise of stock options	-	430	-
Other financing activities	9	66	(92)
Net change in cash from financing activities	(5,196)	(11,386)	(2,772)
Net change in cash and cash equivalents	328	(528)	(2,509)
	61	589	3,098

Explanation of Responses:

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Cash and cash equivalents, beginning of year

Cash and cash equivalents, end of year	\$	389	\$	61	\$	589
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The financial information of Independence Holding Company (Parent Company Only) should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

INDEPENDENCE HOLDING COMPANY
SUPPLEMENTARY INSURANCE INFORMATION
(in thousands)

	DEFERRED ACQUISITION COSTS	FUTURE POLICY BENEFITS, LOSSES & CLAIMS	UNEARNED PREMIUMS	NET PREMIUMS EARNED	NET INVESTMENT INCOME (1)	INSURANCE BENEFITS, CLAIMS & RESERVES	AMORTIZATION OF DEFERRED ACQUISITION COSTS	AT
December 31, 2014								
Medical Stop-Loss Fully Insured Health Group disability; life, annuities and DBL Individual life, annuities and other Corporate	-	80,128	-	176,941	4,327	122,469	-	
	624	50,767	6,568	218,949	2,202	146,431	482	
	-	147,823	2,700	64,260	3,156	37,537	-	
	30,182	421,908	187	18,898	11,830	19,598	4,459	
	-	-	-	-	177	-	-	
\$	30,806	700,626	9,455	479,048	21,692	326,035	4,941	
December 31, 2013								
Medical Stop-Loss Fully Insured Health Group disability; life, annuities and DBL Individual life, annuities	-	72,307	-	166,302	5,055	115,599	-	
	361	57,323	9,828	248,870	2,711	177,290	22	
	-	147,426	2,398	60,004	2,763	37,463	-	

Explanation of Responses:

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and other Corporate	29,416	522,973	197	20,815	16,837	24,438	15,110	
	-	-	-	-	105	-	-	
\$	29,777	800,029	12,423	495,991	27,471	354,790	15,132	
December 31, 2012								
Medical Stop-Loss Fully Insured Health Group disability; life, annuities and DBL Individual life, annuities and other Corporate	\$	-	59,029	-	139,724	4,990	90,406	-
		48	41,034	6,897	141,546	1,733	94,700	17
		-	126,840	1,347	49,315	2,618	27,663	-
		33,353	535,899	209	25,482	23,475	32,022	6,549
		-	-	-	-	540	-	-
\$	33,401	762,802	8,453	356,067	33,356	244,791	6,566	

(1)

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

(2)

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

SCHEDULE IV

**INDEPENDENCE HOLDING COMPANY
REINSURANCE
(In thousands)**

	GROSS AMOUNT	ASSUMED FROM OTHER COMPANIES	CEDED TO OTHER COMPANIES	NET AMOUNT	PERCENTAGE OF AMOUNT ASSUMED TO NET
Life Insurance In-Force:					
December 31, 2014	\$ 11,054,484	\$ 418,775	\$ 6,128,608	\$ 5,344,651	7.8%
December 31, 2013	\$ 11,415,328	\$ 333,200	\$ 6,493,122	\$ 5,255,406	6.3%
December 31, 2012	\$ 11,293,128	\$ 213,041	\$ 6,004,459	\$ 5,501,710	3.9%
P r e m i u m s Earned:					
December 31, 2014					
Accident and health	\$ 482,511	\$ 52,063	\$ 116,163	\$ 418,411	12.4%
Life and annuity	44,407	6,128	20,214	30,321	20.2%
Property and liability (1)	30,477	-	161	30,316	0.0%
	\$ 557,395	\$ 58,191	\$ 136,538	\$ 479,048	12.1%
December 31, 2013					
Accident and health	\$ 461,336	\$ 85,627	\$ 102,053	\$ 444,910	19.2%
Life and annuity	46,416	6,654	20,820	32,250	20.6%
Property and liability (1)	18,845	-	14	18,831	0.0%
	\$ 526,597	\$ 92,281	\$ 122,887	\$ 495,991	18.6%

December 31, 2012						
Accident and health	\$ 396,805	\$ 60,232	\$ 140,653	\$ 316,384		19.0%
Life and annuity	47,790	7,538	18,916	36,412		20.7%
Property and liability (1)	3,271	-	-	3,271		0.0%
	\$ 447,866	\$ 67,770	\$ 159,569	\$ 356,067		19.0%

(1)

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

EXHIBIT INDEX

Exhibit Number

3.1

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

3.2

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

3.3

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

10.3

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

10.4

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

10.5

Officer Employment Agreement, made as of April 18, 2011, by and among Independence Holding Company, IHC Health Solutions, Inc. and Mr. Jeffrey C. Smedsrud made as of April 18, 2011 (Filed as Exhibit 10.3 to our Current Report on Form 8-K filed with the SEC on April 22, 2011 and incorporated herein by reference).

10.7

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

10.8

Explanation of Responses:

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

10.9

Amended and Restated Officer Employment Agreement, by and among Independence Holding Company, IHC Specialty Benefits, Inc. and Mr. Jeffrey C. Smedsrud, dated as of May 22, 2012 (Filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on May 29, 2012, and incorporated herein by reference).

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

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Subsidiaries of Independence Holding Company, as of December 31, 2014.*

23

Consent of Independent Registered Public Accounting Firm.*

31.1

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

31.2

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

32.1

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

32.2

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

101.INS

XBRL Instance Document.

101.SCH

XBRL Taxonomy Extension Schema Document.

101.CAL

XBRL Taxonomy Extension Calculation Linkbase Document.

101.LAB

XBRL Taxonomy Extension Label Linkbase Document.

Explanation of Responses:

101.PRE

XBRL Taxonomy Extension Presentation Linkbase Document.

101.DEF

XBRL Taxonomy Extension Definition Linkbase Document.

*Filed herewith.