2015
ANNUAL REPORT

DHANDHO

DHANDHO

2015 Annual Report

Table of Contents

Dear Partners:

Dhandho Holdings was formed in late 2013, raised $152.4 million in the first half of 2014 and successfully completed the acquisition of Stonetrust Insurance on December 31, 2014. In 2014, we had fund raising, transaction and corporate expenses of $1.3 million. Our NAV at inception was $10/unit. On 12/31/14 it was $9.93/unit - or a decline of less than 1%.

For all practical purposes, however, our operations began on January 1, 2015. We ended 2015 with a NAV of $8.36/unit - a loss of 15.8% in 2015. This is not how I had hoped we would perform right off the bat. More than 2/3 of the drop in the NAV relates to one large equity and debt position we had in Horsehead Holdings, which filed for Chapter 11 bankruptcy in February 2016. I am 100% responsible for this loss. We had invested $15 million in Horsehead equity at the holding company and held $2 million of its convertible debt within Stonetrust Insurance. A detailed post-mortem on Horsehead Holdings starts on Page 8.

Stonetrust Insurance had a decent year. Its 2015 accident year combined ratio came in at 99.0%. However, Stonetrust had some very significant adverse development for the 2011-2014 accident years. This required reserve strengthening to the tune of $5.3 million which more than offset the 2015 underwriting gains. We do have some recourse to these losses since they relate entirely to periods prior to the change of ownership to Dhandho. The recoveries, which are likely to be $1.5 million (or higher), are only partially reflected in the 2015 year-end NAV. A detailed synopsis on Stonetrust follows on Page 3.

Fahad and I expended considerable effort looking for more acquisitions in 2014 and 2015 – and came up with nothing. We did come close in one case, but it ended up becoming an auction and we walked away. With all the billions in private equity and corporate coffers, it is not easy to get deals done at prices that make sense. That does not bother me. We are happy to wait patiently for something that makes sense – and where sellers care about more than extracting the highest possible price.

There was no plan for Dhandho to do startups at the outset. However, two opportunities presented themselves where the downside risks were muted and the upside looked significant. We did not believe we'd put more than $2 million at risk in either venture before they either got traction or were shut down. So, the worst case was a less than 3% hit to our NAV. The first venture, CoverageHQ, was shut down a few weeks ago with an all-in loss of $675,000.

The second venture, Dhandho Funds, has patent pending intellectual property and just launched its first ETF on April 4, 2016. The NYSE Arca ticker is JUNE. So far, this venture looks promising. We spent a total of $600,000 on Dhandho Funds in 2015, which was 100% expensed (and is part of the drop in NAV). While I am very happy with the way Dhandho Funds is taking shape, there are no plans to do anymore startups within Dhandho ☺.

Dhandho's biggest asset is the team that has come together. We have some truly talented folks. Fahad Missmar, our CFO, is a keeper. I cannot say enough good things about Fahad. I wish I had some of his traits. Tanvi Arora, who heads our quant team, is impressive on many fronts. And Reema Mukherjee, who set up and leads Dhandho India, is someone who can do almost anything. Besides them, we have a great team of quants and very good administrative and finance/accounting folks in San Juan. It is also a very young team. Virtually everyone (excluding me) is in their twenties. This has been deliberate on my part. I am a big believer in capability over skills. Skills can be acquired, but it is impossible to change the basic raw material. At Dhandho we have both – amazing capability and skills getting deeper by the day. We have lots of wonderful learning machines on the team.

So, while the numbers show a poor performance in 2015, it was a very good year in terms of talent acquisition. We will recover those NAV losses in the not too distant future. It would be a far bigger loss if we were to lose (or to have not hired) some of our team members. I had not planned it this way, but most of my direct reports are women. Most employers have deeply etched distortions in evaluating women candidates that they are not even aware of. At Dhandho, we have nothing of the kind. It is a significant competitive advantage.

Stonetrust Insurance

For the 2015 accident year, Stonetrust's combined ratio came in at 99.0%. However, adverse development for prior years occurred to the tune of $5.3 million. This brought the calendar year combined ratio to 108.4% Because Stonetrust was a mutual insurance company before we bought them, there were limits on the reps and warranties we could get from its nearly 5,000 policyholder owners and founder. We do, however, expect to collect about $1.5 million of this adverse development.

To give a bit more color, here are the combined ratios by accident year as carried on the books a day before we acquired Stonetrust:

2012	:	**93.0%**
2013	:	**90.8%**
2014	:	**96.0%**

And here are those same combined ratios a year later (as of 12/31/15):

2012	:	**96.7%**
2013	:	**93.5%**
2014	:	**96.5%**
2015	:	**99.0%**

As one can glean, even after the adverse development, the combined ratios for the last four years are quite acceptable. The problem is that we are stuck with the bill for under-reserving during a period when we didn't own the business. I should also point out that all the deal expenses on the Stonetrust side are included in the 2014 combined ratio. That added around 2% to the combined ratio in 2014. In addition, after the Dhandho acquisition, we added costs related to GAAP audits of Stonetrust which add up to approximately 0.5% of premiums.

Workers' compensation insurance is not an easy business. Since it is mandated by law in most states, most employers believe they'll never file a claim and that it is an unjustified tax on their business. Price plays a very important role in carrier selection. And since 96% of businesses never file a claim, most of Stonetrust's customers never get to experience their excellent service when handling claims. Even with the 4% that do file claims, the employer does not typically interact much after there is a claim. It is usually between the injured employee and Stonetrust. In light of these significant headwinds, the Stonetrust team has demonstrated sound underwriting and claim management prowess.

While Stonetrust had sound underwriting practices in place before we bought them, I told Tim Dietrich (its founder/CEO) that we weren't looking for him to grow the business. What Dhandho cares about more than anything else is that the company's focus be to only take on prudent risks, and skip writing policies with inadequate pricing. Tim's incentives are 100% focused on underwriting profit. He does not get paid more if the business doubles in size, for example.

I am happy to report that Tim and his team have taken this input to heart. Not only have they kept their discipline, they decided not to renew or bid on a number of marginal accounts. I am sure, without Dhandho's input, Stonetrust would have reported a higher top line in 2015. Dhandho's ownership has improved underwriting at Stonetrust. In 2015, for the first time since 2010, Stonetrust's earned premium was less than the year before.

Stonetrust Investment Results

Stonetrust had approximately $120 million in assets at the end of 2015. The major buckets are:

Fixed Income: $55 million

Equities: $46 million

Cash: $15.4 million

Building: ~$4 million (excluding mortgage)

On the equities and fixed income, we ended up with an unrealized loss of $1.7 million in 2015.

Most of this relates to a $2 million investment we made in Horsehead convertible debt. Louisiana statutes on how insurance companies can invest their assets are both confusing and quite restrictive. Some of these restrictions do not make much sense. For example, we cannot own any foreign stocks. I would prefer to have at least a few investments in some businesses that happen to be listed on other continents.

Redomestication to Nebraska

Louisiana also imposes among the highest premium taxes on all P&C policies issued to Louisiana-based businesses. This premium tax is 3% of premiums, which may not sound like much, but it is on the top line. So, if an insurer has a combined ratio of 96% (excluding premium tax of 3%), the premium tax is basically 75% of their net underwriting income. This premium tax is not an issue when Stonetrust writes business Louisiana. However, when it writes in other states (with lower premium taxes), these states impose retaliatory taxes on Stonetrust as insurers domiciled in those states pay the higher 3% tax when writing in Louisiana.

Stonetrust is writing an increasingly larger portion of business in other states. As a result, it faces an uneven playing field when competing with carriers domiciled in low premium tax states. We did a thorough study of premium taxes and investment statutes for insurers in all 50 states. As it turns out, Nebraska scores really well on both fronts. I wonder why! Which came first, the chicken or the egg?!

It is not surprising that Nebraska is home to many national P&C insurers. We have applied to the Nebraska Department of Insurance to redomesticate Stonetrust to Nebraska – and we hope it is approved in the coming months. The regulators in Nebraska are very professional and have been a joy to work with. This change will require us to open a small office in Nebraska, and we are planning for Stonetrust to have a small presence in Omaha. Our investment portfolio will benefit from the more rational and clear Nebraska rules. Stay tuned.

Holding Company Investments

One of our holding company investments, Horsehead, was responsible for most of our 2015 NAV drop. Out of $15 million invested, we lost $14.5 million. I do not see any issues with the rest of the portfolio and expect to do quite well with it in the years ahead. Indeed, we fully expect to recover the Horsehead loss (and then some) from the rest of the portfolio even if I make zero portfolio changes for the next few years. We own fractions of some deeply undervalued businesses run by some of the very best managers on the planet. This dog will hunt!

The Dhandho Junoon ETF (Ticker: JUNE)

My wife Harina runs a rooftop solar solutions business. In late 2014, an older client of hers requested me to look through his retirement investment portfolio and suggest a way to better allocate his assets. I wasn't looking for a project like this, but I liked the guy and decided to analyze his situation and give him my 2 cents. So, I asked him to get me a copy of all his various brokerage statements, including all IRAs, 401(k)s etc.

He had investments across a slew of different mutual funds, full service and brokerage accounts and some individual stocks and bonds. He and his wife had done reasonably well and did not need much income from the portfolio to maintain their current lifestyle. They mostly intended to pass these assets on to the next generation.

I suggested he get rid of all the financial advisors and consolidate the assets into one or two well-known discount brokers like Schwab and TD Ameritrade. And I suggested he move his entire equity allocation to a broad index like the S&P 500. I also suggested he invest in the S&P 500 through Vanguard or a low cost S&P 500 ETF. To his credit, I believe he executed on much of what I suggested.

But as I reflected on my advice to him, it bothered me. The S&P 500 is a flawed index. It is market cap weighted, and the largest market cap stocks dominate the index. Normally, this is not an issue. Market cap weights typically reflect the dominant firms and sectors in the overall economy. But sometimes we get distortions. Like in 1999, dot coms which had never made a dime, made up a disproportionately large portion of the index. Or like today. Facebook and Amazon have P/E ratios of 86 and 445 and sport market caps of $320 billion and $250 billion, respectively – which gives them outsized weighting in the index.

Nearly 15 years ago, when I studied this, I found that, on average, it took 28 years for a business to enter the Fortune 500. And at an average age of 42, it was off the list. By the time a business enters the Fortune 500, it is usually already past its prime and secular decline may already be underway. Those numbers (28 and 42) are likely meaningfully lower today – which makes matters worse. Thus, the problem is not just the elevated valuations of Facebook or Amazon. Capitalism is brutal. Many of the largest market cap stocks of today simply aren't likely to be the largest in even just five years.

Equal weighting isn't the answer either since the constant rebalancing of equal-weighted indices leads to a lot of cutting of flowers and watering of weeds. There had to be a better way to index.

So, I started thinking of different approaches and began to backtest these strategies. I was mostly wandering in the dark as I had zero expertise in backtesting, point-in-time databases etc. This all changed when I was introduced to a highly talented team of quants at the UCLA Andersen Business School. All of them were pursuing MFE (Master of Financial Engineering) degrees. We began working with six of them part-time in the spring of 2015, and they joined us for summer internships at our San Juan office. Five of these amazing folks joined us full-time after they graduated in December. Tanvi, Fei, Yingzhou, Kunal and Jaya are all keepers.

Over much of 2015, we ran a zillion backtests over several decades covering a plethora of strategies. The flaws of backtesting are numerous. We paid careful attention to non-confirmatory evidence. We promised ourselves to only bring to market a product that has strong theoretical and empirical underpinnings across a wide range of market conditions, if it delivered meaningfully better results over the S&P 500 over the long haul.

In late 2015, we reached the promised land. In February 2016, Dhandho Funds filed a utility patent with the U.S. Patent and Trademark Office for the algorithm that generates the index. We explored a variety of vehicles in which we could launch the index fund, and decided to launch an Exchange Traded Fund (ETF) as well as a private LP fund, with different fee structures for each fund.

The ETF and private fund are launching under the “Junoon” brand. “Junoon” is a word that occurs in many languages and cultures including Hindi, Urdu, Persian and Arabic; it loosely translates to “passionate revolution.” We believe our strategy is truly unique and revolutionary. On April 4, 2016 Dhandho launched the Dhandho Junoon ETF (Ticker: JUNE). The ETF charges a flat, annual management fee of 0.75%, which is in-line with similar funds.

In addition to our ETF, Dhandho Funds will launch two private funds – the “Dhandho Zero Fee Funds” – called Dhandho Junoon LP and Dhandho Junoon Offshore Ltd. We plan to launch the private funds on July 1, 2016. The Private Placement Memoranda for these funds are on Dhandho Funds’ website (www.dhandhofunds.com). The Dhandho Zero Fee Funds will charge the same exact fees as the Pabrai Investment Funds - zero management fees, only a performance fee of 25% after a 6% annual hurdle. However, they will have substantially more flexibility in their strategy than the ETF’s strategy, such as the ability to concentrate in specific names (the ETF is required to meet diversification requirements set by the SEC that are not applicable to private funds) and make tweaks to the algorithm at the option of the Dhandho Funds General Partner.

A few years back, Charlie Munger made a casual remark to me - that if an investor did just three things, the end results would likely be better than many other approaches. He said investing in cannibals, cloned positions and spin-offs was a great way to go. Cannibals are the businesses that are buying back their stock (hence eating themselves). Cloning is looking at the highest conviction ideas of other great investors (through their required 13-F filings etc.). And finally spin-offs, have been shown to outperform over time (Joel Greenblatt’s book, *You Can be a Stock Market Genius* is a great primer on spin-offs and why they work).

Charlie’s advice was right on. Our backtests showed that a portfolio composed of a mix of cannibals, cloned positions and spin-offs did far better than anything else we tried and tested. And it was meaningfully superior in the long run over the S&P 500. Thus Junoon incorporates all three strategies in a single ETF and fund. More information on the ETF is at www.dhandhofunds.com. Junoon has strong theoretical and empirical underpinnings. We are excited about it!

Dhandho India Private Limited

We established Dhandho India in Pune, India about a year ago to provide IT services to Stonetrust. It has evolved to support Dhandho Funds as well. We have six talented developers and quants at Dhandho India. Four of them work full-time on Stonetrust projects, and two are part of the Junoon quant team. Three of the six are IITians who are also alums of The Dakshana Foundation, which is wonderful.

Horsehead Holdings Corporation: *A post-mortem*

Horsehead Holdings Corporation

First Bought on:	07/20/2015 for $8.06/share
Last Sold on:	01/28/2016 for $0.23/share
Avg. Buy Price:	$8.10
Avg. Sell Price:	$0.26
Total Amount Invested:	$15.0 million
Total Proceeds:	$482 thousand

-96.8% realized loss over a holding period of 6 months.

Until recently, Dhandho Holdings owned over 1.85 million shares of Horsehead. I bought Horsehead for Pabrai Funds originally in November 2008 as a classic Ben Graham net net investment. It was trading well below just the value of its net current assets minus all liabilities. I first learnt of Horsehead in this Forbes article:

http://www.forbes.com/forbes/2008/1110/056.html
(Forbes Magazine; Ben Graham Then and Now; 10/23/2008)

After studying all nine businesses listed as net nets in that article, I decided to only invest in Horsehead as part of the commodities basket I was building at the time for Pabrai Funds. At Pabrai, we bought about 1.3 million shares of Horsehead for about $4 million - a 2% bet as part of our 10% commodities basket. Every single bet in that basket worked out very well. Teck Cominco eventually went up 10x. We captured a 7x return on Teck. In less than 13 months, Horsehead had appreciated by over 400% from the price we paid. A nice home run!

In the last few weeks of 2008 and the first few months of 2009, I was inundated with great investment ideas. It was like drinking from a fire hydrant. I did not get a chance to study these businesses in as much depth as I would have liked. The pricing was such a no-brainer and our position sizes were so small that I acted as fast as I could.

Later I studied businesses like Teck and Horsehead far more closely and discovered that Horsehead was run by an outstanding CEO - a Princeton trained chemical engineer who had a strong appreciation for making very prudent capital allocation bets.

As I exited our commodities basket at Pabrai Funds, I decided to hang on to Horsehead. In December 2009, Horsehead bought Inmetco from Vale for $38 million. They bought Inmetco for 2 times cash flow. It is a very nice business that generates some $18 million a year in operating earnings. When a business is changing hands for $100 million and is valued at over $400 million a year later and then they buy another $18 million in earnings for $38 million, it gets my attention. I liked what the CEO, Jim Hensler, was doing and decided to keep our shares.

In 2011, Jim did another winner deal. He bought Zochem for $30 million – and it generates $15 million in operating earnings. Any additional capex that has gone into both these businesses has generated super high ROI. Now we owned a fraction of a business that had invested $68 million in two businesses and increased operating earnings by $33 million.

In fact, I carefully studied all of Jim's major capex decisions and execution skills. They were flawless. These new businesses were nicely integrated. In addition, a $65 million greenfield EAF (Electric Arc Furnace) dust recycling plant in South Carolina was built in 2009-10, when construction labor was cheaply available. That plant was commissioned on time at a cost that is at least 30% lower than the same would cost today. Until 2011, Horsehead had virtually no net debt. Between 2011 and 2013, I increased our stake in Horsehead significantly. We bought another 5 million shares at prices ranging from $7-14 a share.

In 2015, as Horsehead's price dropped below $8, Dhandho Holdings took a stake in the business and Stonetrust bought the converts.

The Mine that Never Depletes and needs no Capex

Unlike other zinc refiners, Horsehead sources its zinc from EAF dust. EAF dust is a waste product generated when steel is produced in mini mills. There are, broadly speaking, two ways to make steel:

1. In a traditional steel mill using a blast furnace using iron-ore and metallurgical coal.
2. In a mini mill with electric arc furnaces using scrap steel from shredded automobiles, washing machines, etc.

About 45 years ago, when Nucor setup its first mini mills using EAF technology, all they could produce was the lowest grades of steel (rebar used in reinforced concrete). Over the decades EAF technology has improved to the point that, except for the highest end grades of steel, mini mills can produce it all. Because of the significant cost advantages, mini mills have gone through nonstop growth for the last four decades and taken share from integrated steel mills.

One of the byproducts of EAF steel production is EAF dust. The EPA has characterized EAF dust as a hazardous waste and mini mills need to either send it to landfills or an outfit like Horsehead which processes EAF dust and extracts the rich zinc content in it.

Horsehead gets paid by the mini mills to haul away the EAF dust. There is about a million tons of this dust produced in the US and Horsehead has long-term contracts to haul away 65+% of it. They thus have a lock on the EAF supply in the United States. They have four zinc recycling (calcining) plants located close to major mini mills. Mini mills are mostly a Southeastern and Eastern US phenomenon (think Nucor) and Horsehead's plants are strategically located near most of these mini-mills, reducing transport costs.

This locked EAF dust that they get paid to take is at the core of Horsehead's competitive advantage. There is little risk of large reductions in dust production. It does ebb and flow with the economy, but there is enough to keep Horsehead's plants running. It is all very elegant and environmentally friendly. Our clunker cars get converted into brand new Cadillacs, and even dirty byproducts like EAF dust do not go into landfill. They are used to produce zinc, which is used to galvanize that shiny Escalade and make it rust-proof.

Thus Horsehead has this beautiful endless supply of zinc ore where it gets paid to take the ore – and no one else can easily step in and upset that apple cart.

Calcining Plants: Deepening the Moat

The four zinc calcining plants further deepen the moat. They have a $250+ million replacement value. So, any would-be competitor would need to first somehow get supply locked in (not possible as it is already locked), then replicate these four plants with some $300 million of capex. And then they'd either need a smelter or another method of producing refined zinc.

I watched Jim Hensler lock in and extend all the existing EAF dust contracts at favorable terms. And he built a brand new calcining plant in Barnwell, South Carolina in 2010 to further lockdown precious EAF dust.

Mooresboro: The Final Piece of the Moat

The four zinc recycling facilities produce zinc calcine that has historically been fed into Horsehead's smelter in Monaca, Pennsylvania to produce zinc and zinc oxide. The Monaca facility was 80 years old using a very energy intensive, environmentally unfriendly centuries old process of producing zinc. In 2011, Horsehead decided to transition zinc production from smelting to using a state-of-the-art solvent extraction process. This new plant was expected to cost about $350 million and increase EBITDA by $90-$110 million and make them one of the lowest cost zinc producers on the planet.

The new plant, coupled with a captive low cost "EAF Dust Mine" that basically never depletes made it a long-term winner. Jim was able to do a deal with Shell that allowed Shell to take over the old smelter facility along with any legacy environment liability. It was a coup. Horsehead walked away with no future environmental liability from that plant that had produced zinc for 80 years. And Shell intends to build a cracker at the facility to produce a variety of specialty chemicals from the fracking boom. It was a win-win deal for everyone.

Once the Mooresboro plant was ramped up to capacity, Horsehead's moat would have become impregnable. They'd be one of the lowest cost producers of zinc on the planet. Even at the 2008 financial crisis collapsed zinc price of 50 cents a pound, Horsehead would eke out a tiny profit. In a more normal zinc price environment, the company would generate operating earnings north of $160 million. And if zinc prices went euphoric, the company's operating earnings would increase by $25 to $30 million with every 10 cent/lb increase in the price of zinc. If zinc went to $2/lb (which it did about a decade ago), the business would generate over $400 million in operating earnings. The company's market cap hovered mostly in the $400 to $700 million range.

In late August 2015, Dhandho's Horsehead stake was valued at $14.1 million. By late October, it was worth half of that. On January 4, the company missed a bond payment and in early February, the company filed for bankruptcy protection. The missed bond payment and bankruptcy filing came as quite a surprise. The company has two separate businesses (Zochem and Inmetco) that are stand-alone. Even though prices would have been depressed, they could have sold these businesses. In fact, they had multiple offers to sell Zochem at $60 million in January 2016. Why they didn't aggressively pursue this sale and avoid bankruptcy is still a mystery. And even one or more of the calcining plants could have been sold.

After the missed interest payment, I sold our entire equity position for about $482k and used those proceeds to buy some of Horsehead's senior unsecured debt at 8-15% of face value. I very much wanted to be as high as possible on the capital structure. I preferred buying the secured debt at 55 cents to the unsecured at 10 cents. But the secured debt basically didn't trade.

There is a very good chance equity is entirely wiped out in the bankruptcy process. There are some decent prospects of recoveries exceeding the $482k we invested in the unsecured debt. Time will tell. But, even if we got paid par on the bonds, we will still have a very significant loss. And I view the bonds being worth par as a very low probability event.

Dhandho is now on the Official Unsecured Creditors' Committee. We have a seat at the table, but the bankruptcy process is not fair or rational. The odds are very high that the DIP financing and secured lenders will get this remarkable asset for a song.

Was the Horsehead investment a mistake? Well, the original bet was not a mistake. Pabrai Funds had a greater than 4x gain on our original 2008 purchase in a year. The mistake lies in the subsequent purchases. Here are all the subtle and not so subtle mistakes I made with Horsehead:

The first mistake was buying over 5% of the shares outstanding. In the last seventeen years at Pabrai Funds, we have bought over 5% or even over 10% of a few public companies. In no cases have we ever ended up with a winner. It is a small data set, but there are obvious reasons why going over 5% is dumb. Buying over 10% makes us subject to a variety of insider disclosure rules. Going over 5% requires us to make a 13G filing. All these Form 4 and 13G filings not only add cost and administrative time, but they also make it hard to increase or decrease position size without very transparent public filings.

If we owned less than 5% of Horsehead, it is almost certain we would have done tax loss selling in 2015 at significantly higher prices – and decided not to buy it back based on all the updated current facts. This would have been a dumb luck exit. Instead of a $60 million loss, we'd have lost maybe 1/3 to 1/2 of that amount – a huge difference.

The second and third mistake was that there were two prior times when the company had ramp up difficulties at the Mooresboro plant and each time raised capital by issuing stock. In October 2013, they raised $70 million by issuing 6.3 million shares. And in January 2015, they raised another $70 million by issuing 5.8 million shares. When these offerings took place, the all-important question I failed to ask of myself is what would have happened if the equity markets were closed and/or zinc prices were at multi-year lows? Well, the answer is that the company would have faced a serious liquidity crisis. Had I asked myself these questions, I would not have exited, but it would have reinforced the view that Horsehead should have been capped at 5%.

When Hensler embarked on the plant, he had $400 million available to build it – and he hedged zinc prices far into the future to ensure that the rest of the business would not lose money regardless of zinc prices. Both these actions appeared prudent to me. However, in hindsight, there was no margin of safety. If the plant took longer than anticipated to ramp-up, he'd have to extend hedges. And those could only be extended if zinc prices remained healthy. And if he had cost over-runs, he'd have to access the capital markets for debt or equity issuance. And capital market access is never assured. What ended up happening was both: significant cost overruns and significant time delays. The first two times it happened, conditions were benign and he raised the money and extended the hedges. When he had the third cost over-run, the music had stopped. Zinc prices were in a collapsed state and capital markets were closed to Horsehead.

Commodity businesses with heavy reliance on debt are playing with fire. One never knows how prices can change. Unless one is a low cost producer and debt-free, if prices collapse, one is likely to be in trouble. Horsehead was a debt free business attempting to become a low-cost producer. In the process, they elected to add leverage. It would have been far better to bite the bullet and issue $400 million of equity in 2011. Even without leverage, the plant's projected ROI was very good.

The fourth mistake was what Charlie Munger calls the boiling frog syndrome. If you put a frog in boiling water, it immediately jumps out. But if you put it in lukewarm water and raise the temperature very gradually, it never jumps out and it dies. I'm not sure if that is the real behavior a frog would exhibit, but it is a good analogy for Horsehead. When I invested in Horsehead in 2008, it was a classic Graham net net. Net current assets were over $160 million and the market cap was $100 million. The four plants came for free (worth north of $300 million). There were no leverage issues to be concerned about. The big step function in leverage happened when they decided to build the Mooresboro facility.

My good friend, Guy Spier, observed that both of us have a pre-investment checklist, but no in-flight checklist. The pre-investment checklist has proven invaluable. However, it is not enough to just keep up with ongoings in existing investments in a ad hoc manner. It is important to periodically run and re-run the in-flight checklist. If I had first looked at Horsehead in 2011 instead of 2008, I would have either taken a pass or made it a small bet.

The fifth mistake was in reading Jim Hensler. On the surface it appeared that Jim fully understood the pitfalls of debt in a commodity business where you have no control over price. He always had hedges. However, hedges are a weak counter to leverage – they always run out. The reality is that Horsehead needed a far more conservative manager who abhorred debt. Horsehead would have been a very nice asset for its owners for decades if it had elected to finance the plant with equity versus debt.

The sixth mistake is simply this: Most great businesses should not need high amounts of debt to produce high returns on equity. As I look at my pre-investment checklist, the number one reason for losses for many great value investors is leverage. Unfortunately, this has been true for Pabrai Funds as well. In the last seventeen years, leverage is front and center on a number of my mistakes. My interest in investing in levered businesses in the future is likely to be very low. And when we do take the plunge, position sizing will be quite conservative.

The learnings from Horsehead are expensive lessons, but they are truly priceless. I wish I could I have learnt these lessons vicariously, but (unfortunately) they are pounded in better into the brain when we encounter direct pain. I know that I am a better investor and will make better decisions in the future as a result of this mistake. Even with a 100% loss on Horsehead, Dhandho has plenty of other great irons in the fire and we expect to do quite well in the years ahead.

2015 Annual Meeting Transcript

The 2015 Annual Meeting transcript and presentation slides are posted on our website. The transcript is best read in conjunction with the presentation slides (the password to the video is "Warren"):

Here are the links to the transcript and slides:

http://dhandho-holdings.com/2015transcript/

https://vimeo.com/139966800

An Exceptional Team

Our team is simply a delight to work with. I have nothing but praise for the crew at BDO Puerto Rico, Grant Thornton Puerto Rico, Edgar Rios at Pietrantoni Mendez & Alvarez (PMA), and Mike Froy and Sam Schlessinger at Dentons. Our offshore legal advisors Conyers, Dill & Pearman, are a pleasure to work with. Ajay Desai and his team at UBS are our prime broker and custodian, and they are also very much a part of the team. I am blessed to be able to work with these exceptional groups in Chicago, BVI, and San Juan. It makes my job a pure joy.

2016 Annual Meetings – Save the Date

There will be our two annual meetings sequentially at Orange County, California & Chicago, Illinois. We are also adding a 3rd annual meeting at our Dhandho Holdings Corporation headquarters in Puerto Rico! The Puerto Rico meeting will be on September 24, 2016.

Prior to the California meeting on September 10, 2016 we will have the 3rd Annual Gran Fondo Dhandho Bike Ride which will start at 8:15 AM. It's a scenic ride around the Newport Estuary with views of the Pacific Ocean in Newport Beach, California. Biking can be a dangerous activity; we only want folks who are decent bikers on the ride. The ride begins at Starbucks in Newport Beach, and ends there around 10:30 AM. For folks that just wanna chill, you can come to the Starbucks at 10:30 AM and hang out with the bikers. Here is a link to the Starbucks location:

http://www.starbucks.com/store/18175/us/jamboree-bristol/3601-jamboree-road-newport-beach-ca-926602961

The **California** meeting is scheduled to be on **Saturday, September 10th, 2016** at 4:00 PM at:

Soka University
Performing Arts Center
1 University Drive, Aliso Viejo, California 92656 Tel. +1949.480.4000

Soka University has a spectacular campus nestled in the scenic hills of Aliso Viejo. It is a 20 minute drive from Orange County Airport (SNA), and about an hour drive from LAX.

There is a fantastic Marriott Club Sport hotel about 3 miles from Soka University:

Marriott Renaissance ClubSport
50 Enterprise
Aliso Viejo, CA 92656
Reservations: 800-468-3571
Phone: 949-643-6700

There are many hotels in the area. Here is a link to other hotels near Soka University:

http://tinyurl.com/8dmevvu

The **Chicago** meeting is thus scheduled to be on **Saturday, Sept. 17th, 2016** at 4:00 PM at**:**

Carlucci's Restaurant
(The Auditorium)
6111 North River Road, Rosemont, Illinois 60018 Tel. +1847.518.0990

Carlucci's is a five minute taxi ride away from O'Hare airport. The Marriott Suites O'Hare and The Westin O'Hare are both next to the restaurant. In addition, there are a plethora of hotels in the vicinity. Good deals on O'Hare hotels are usually available on the major travel-related websites.

The **Puerto Rico** meeting is scheduled to be on **Saturday, Sept. 24th, 2016** at 4:00PM at:

The Bankers' Club
Banco Popular Building
206 Tetuan Street, San Juan, PR 00902

The Bankers' Club is on the top floor of the historic Banco Popular building in Old San Juan. This is the same building where our Dhandho Holdings offices are located.

There is a fantastic hotel where we have secured a special rate of $185/night. This rate comes with a complimentary continental breakfast and a 15% discount on meals in the main restaurant, Patio Negro. The hotel is a 5 minute walk from the Banco Popular Building. Please mention "Dhandho Holdings" to get this rate.

Hotel El Convento:
100 Cristo Street
Old San Juan, PR 00901
Reservations: +1787.723.9020

Agenda:

4:00 – 4:30 PM:	Meet and Greet
4:30 – 6:30 PM:	Presentation and Q&A
6:30 PM:	Cocktail Hour
7:15 PM:	Dinner (Chicago and Puerto Rico only)

In lieu of dinner this year in California, we're gonna do an extended cocktail hour with expanded appetizers (multiple food stations) and lots of tables to sit and chat. We'll see how it goes and then decide on the format for future years. It may be more fun this way.

The invites will go out in July, 2016. Your significant other and kids of all ages are welcome to attend. I look forward to seeing you in September.

Thanks for your continued interest, referrals and support. Feel free to call me at +1949.453.0609 or email me at mpabrai@dhandho-holdings.com with any queries or comments.

Warm regards,

Mohnish Pabrai

DHANDHO HOLDINGS CORP. AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

BDO

Tel: 787-754-3999
Fax: 787-754-3105
www.bdopr.com

PO Box 363436
San Juan, PR 00936-3436

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Dhandho Holdings Corp. and subsidiaries:

We have audited the accompanying consolidated financial statements of Dhandho Holdings Corp. and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2015, and the related consolidated statement of net loss and comprehensive loss, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dhandho Holdings Corp. and subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BDO Puerto Rico, P.S.C.

San Juan, Puerto Rico

April 26, 2016

Certified Public Accountants
(of Puerto Rico)
License No. 53 expires December 1, 2018
Stamp E195704 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2015

	2015
ASSETS	
Investments in securities avaiable for sale:	
Bonds - (amortized cost of $46,283,397)	$ 44,989,764
Common stocks - at fair value (cost of $87,442,182)	87,832,562
Preferred stocks - at fair value (cost of $9,147,253)	9,024,472
Total investments in securities available for sale	141,846,798
Investment in partnership, at cost	2,000,000
Total investments	143,846,798
Cash and cash equivalents	42,426,761
Premiums receivable	20,485,286
Reinsurance receivables and recoverables	2,519,313
Investment income due and accrued	410,485
Deferred tax assets	2,848,096
Income taxes receivable	1,913,511
Deferred policy acquisition cost	1,656,449
Due from related parties	610,526
Property and equipment - net	7,971,265
Intangible assets	5,296,350
Goodwill	2,427,047
Other assets	1,549,709
Total assets	$ 233,961,596
LIABILITIES AND STOCKHOLDERS' EQUITY	
Losses and loss adjustment expenses	$ 65,507,969
Commissions payable	1,756,227
Unearned premiums	23,330,736
Advance premiums	904,735
Accounts payable and other liabilities	1,298,400
Taxes, licenses and fees, excluding federal income taxes	4,418,625
Accounts payable to former stockholder of Stonetrust Companies	1,000,000
Security deposits	2,010,323
Note and mortgage payable	5,976,561
Total liabilities	106,203,576
Stockholders' equity:	
Common stock, no par value, 1,004 shares authorized, issued and outstanding	151,978,990
Accumulated deficit	(22,095,907)
Accumulated other comprehensive loss	(2,125,063)
Total stockholders' equity	127,758,020
Total liabilities and stockholders' equity	$ 233,961,596

The accompanying notes are an integral part of these consolidated financial statements.

BDO

DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
STATEMENT OF NET LOSS AND COMPREHENSIVE LOSS
FOR THE YEAR ENDED DECEMBER 31, 2015

	2015
Revenues:	
Premiums earned, net of ceded reinsurance premiums incurred of $3,327,677 and $3,865,244, respectively	$ 59,378,853
Net investment income	1,706,313
Rental income	356,827
Management fees	44,407
Other income	337,199
Total revenues	61,823,599
Losses and expenses:	
Losses incurred	38,302,758
Loss adjustment expenses incurred	5,558,641
Underwriting and operating expenses	23,925,240
Net realized capital loss	1,500,249
Loss on impairment of investments	15,603,076
Bad debt expense	236,266
Interest expense	284,425
Total losses and expenses	85,410,655
Loss before income tax	(23,587,056)
Income tax benefit	1,713,274
Net loss	(21,873,782)
Comprehensive loss:	
Unrealized holding losses arising during the period	(19,699,149)
Reclassification adjustment for loss included in net loss	17,103,325
Change in derivative instrument	(35,158)
Other comprehensive loss before taxes	(2,630,982)
Income tax benefit	505,919
Accumulated other comprehensive loss, net	(2,125,063)
Comprehensive loss	$ (23,998,845)

The accompanying notes are an integral part of these consolidated financial statements.

DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015

	Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance, December 31, 2014	$ 151,278,990	$ (222,125)	$ -	$ 151,056,865
Issuance of common stock	700,000	-	-	700,000
Net loss	-	(21,873,782)	-	(21,873,782)
Other comprehensive loss - net	-	-	(2,125,063)	(2,125,063)
Balance, December 31, 2015	$ 151,978,990	$ (22,095,907)	$ (2,125,063)	$ 127,758,020

The accompanying notes are an integral part of these consolidated financial statements.

DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

	2015
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (21,873,782)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization expense	1,097,726
Deferred income taxes	(88,836)
Bad debt expense	236,266
Net amortization on investments	248,408
Loss on impairment on investment securities	15,603,076
Realized loss on investments	1,500,249
Loss on disposition of fixed assets	527,427
Changes in operating assets and liabilities:	
Premiums receivable	1,671,632
Reinsurance receivables and recoverables	534,098
Deferred policy acquisition costs	13,033
Income taxes receivable	(314,365)
Accrued investment income	(48,107)
Due from affiliates	(812,897)
Other assets	(267,564)
Losses and loss adjustment expenses	12,007,742
Unearned and advance premiums	(1,708,199)
Ceded reinsurance payable	(63,951)
Insurance related taxes and assessments	1,186,370
Commissions and other liabilities	(1,786,527)
Net cash provided by operating activities	7,661,799
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of investments available-for-sale	(153,736,538)
Proceeds from sales, maturities and prepayments of investments available-for-sale	42,266,385
Purchase in investment in partnership	(2,000,000)
Purchase of property and equipment	(1,685,510)
Net cash used in by investing activities	(115,155,663)
CASH FLOWS FROM FINANCING ACTIVITIES -	
Proceeds from mortgage loan	2,000,000
Payments on mortgage loan	(23,440)
Net cash provided by financing activities	1,976,560
NET CHANGE IN CASH AND CASH EQUIVALENTS	(105,517,304)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	147,944,065
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 42,426,761

The accompanying notes are an integral part of these consolidated financial statements.

DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Dhandho Holdings Corp. (the "Company" or "DHC") is a holding corporation organized under the laws of the Commonwealth of Puerto Rico on October 31, 2014. The Company is owned 73.358% by Dhandho Holdings, L.P., and 26.742% by Dhandho Holdings Qualified Purchaser, L.P., both limited partnerships organized under the laws of the State of Delaware. The Company's main business purpose is to make equity investments in privately and publicly held businesses.

On December 31, 2014, the Company acquired 100% of the outstanding common stocks of Stonetrust Management Services, LLC ("SMS") and Stonetrust Holding Company, LLC and its Subsidiaries (collectively Stonetrust companies). Stonetrust companies are engaged in providing statutory workers' compensation and employers' liability insurance coverage in Louisiana, Mississippi, Arkansas, Oklahoma and Texas. The acquisition was completed on December 31, 2014 for a total purchase price of $35,000,000. See Note 2.

Stonetrust Commercial Insurance Company ("SCIC"), formerly known as Amicus Mutual Insurance Company, was formed in March 2000 as a Louisiana-domiciled mutual insurance company. SCIC received its Certificate of Authority, effective June 30, 2000, to write workers' compensation business in Louisiana. Operations began July 1, 2000 as the successor to Louisiana Associated Commercial Employers Self Insurers Fund ("LACE-SIF").

Effective January 1, 2006, after a vote of approval by its members, SCIC was converted from a mutual insurance company to a stock insurance company wholly owned by a mutual insurance holding company parent ("Stonetrust Commercial Mutual Insurance Holding Company"). Pursuant to the conversion, Stonetrust Commercial Mutual Insurance Holding Company was owned by the company's policyholders. In addition, effective January 1, 2006, the name was changed from Amicus Mutual Insurance Company to Stonetrust Commercial Insurance Company.

During 2014, SCIC formed Stonetrust Realty, LLC ("SR"), a wholly-owned subsidiary, for the purpose of acquiring and holding real estate.

Effective December 31, 2014, Stonetrust Commercial Mutual Insurance Holding Company entered into a sponsored demutualization transaction and was renamed Stonetrust Holding Company and converted to a stock company. Immediately following the demutualization, Stonetrust Holding Company and its subsidiaries, SCIC, SR and SMS were acquired by the Company.

Effective December 31, 2015, Stonetrust Holding Company was converted to a Louisiana limited liability company. Upon conversion all the common stock owned by the Company were exchanged for all members units of the limited liability company. Stonetrust Holding Company, LLC is authorized to issued new class of membership units. For U.S Federal tax the LLC will continue to be treated as a Corporation.

SMS is a limited liability company organized under the laws of the State of Louisiana in January 2006. Up to December 31, 2014, SMS was a general managing agency contracted to manage and administer 100% of the insurance operations of SCIC. Effective January 2015, the contract between SMS and SCIC was cancelled and all employees and operations of SMS were transferred to SCIC.

Dhandho India Private Limited ("DIPL") is a private limited company organized under the laws of India in May 2015. During 2015, DIPL served as the main technical support services provider to the Company, providing research and development in information technology related to asset management and insurance services. Coverage HQ Agency LLC ("HQ Agency") is a limited liability company organized under the laws of Puerto Rico in October 2015. Coverage HQ Holdings, LLC ("HQ Holdings") is a limited liability company organized under the laws of Puerto Rico in November 2015. HQ Agency and HQ Holdings are engaged in the investment and insurance business. The operations of these subsidiaries were not significant during the year ended December 31, 2015.

Basis of presentation and consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") using the accrual bases of accounting and include the accounts of DHC and its wholly-owned subsidiaries, principally the Stonetrust Companies. All significant intercompany accounts and transactions are eliminated in the consolidation.

Cash and cash equivalents

For purposes of the statement of cash flows, the Company considers cash balances and short-term investments with original maturities of ninety days or less to be cash equivalents.

Premiums

Premiums are recognized when earned over the premium paying period of the related workers' compensation policies. Unearned premiums are established to cover the unexpired portion of premiums written. Premiums are billed and collected according to policy terms predominantly in the form of installments during the policy period. Workers' compensation premiums are determined based upon the payroll of the insured, the applicable premium rates and, where applicable, an experience-based modification factor, debits, credits, and discounts applied by SCIC underwriters based upon individual risk characteristics. Audit of policyholders' records are conducted after policy expiration to make a final determination of applicable premiums. As of December 31, 2015, $2,414,257, were included in premiums receivable for estimated additional amounts of premiums to be billed to SCIC's policyholders.

Premiums collected in advance of the next succeeding policy year are deferred from income recognition and are recorded as advance premiums in the accompanying consolidated balance sheet.

Premium receivables consist of amounts due in the normal course of collection from policyholders located within the states SCIC serves. Receivables for premiums are not secured, other than by security deposits received by SCIC. The portions of premium that are unbilled and will be earned in the future are reported as unearned premiums.

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb probable losses on existing accounts receivable that may become uncollectible based on evaluations of their collectability and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the receivables outstanding and the related allowance may change as a result of future developments. As of December 31, 2015 the allowance for doubtful accounts had a balance of $571,400. The potential for additional loss is not believed to be material to the Company's financial position.

Investments

The Company classifies its investments as available-for-sale or held-to-maturity based upon its intent and ability to hold the investment, and the nature of the securities purchased. The classification is made at the acquisition date of the security and reassessed each year.

Debt securities for which the Company has the intent and ability to hold to maturity are reported at amortized cost, adjusted for amortization of premiums or discounts and other-than-temporary declines in fair value. Debt and equity securities classified as available-for-sale are reported at estimated fair value, adjusted for other than temporary declines in fair value, with unrealized gains and losses reported as a separate component of stockholder's equity. Realized gains and losses are determined on the specific identification method. Also, see Note 4 for further disclosure regarding fair value.

Investment in partnership is comprised of investments in a pooled investment fund. Partnership where the Company's ownership is minor and the Company does not have significant operating or financial influence is recorded using cost method of accounting.

Management evaluates securities for other-than-temporary impairment ("OTTI") periodically and more frequently when economic or market conditions warrant such evaluation. The accounting guidance on OTTI specifies that (a) if an entity does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery; the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security and it is more likely than not that the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an OTTI of a debt security in earnings and the remaining portion in other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

Net investment income consists primarily of interest and dividends. Interest is recognized on the accrual basis and dividends are recorded as earned at the ex-dividend date. Accrual of interest income is suspended for bonds that are in default or when the receipt of interest payment is in doubt. Realized capital gains and losses are determined under the specific identification basis and are recorded in earnings.

Losses and loss adjustment expenses incurred and payable

Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported ("IBNR"). Loss reserves are estimates and are inherently uncertain; they do not and cannot represent an exact measure of ultimate liability. SCIC performs a comprehensive review of its loss reserves at the end of each quarter. Estimating loss reserves is a complex process that involves a combination of actuarial techniques and methods and management judgment to establish the most reasonable estimate of loss reserves. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in the period determined. SCIC does not discount its liabilities for unpaid losses and loss adjustment expenses.

Property and equipment

Property and equipment is stated at cost. Depreciation and amortization are provided under the straight-line method over the estimated useful lives of the related assets. Major additions and betterments are charged to the property accounts, while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed currently. When property is retired or otherwise disposed of, the cost of the asset and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in current earnings.

Impairment of long-lived assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Recoverability of assets to be held and used (the fair value) is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of assets. Management has concluded that there are no impairment losses to be recognized as of December 31, 2015.

Reinsurance

The Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with reinsurers. Amounts recoverable from reinsurance are estimated in a manner consistent with the claims liability associated with the reinsurance policy. All reinsurance contracts in place transfer underwriting risks to reinsurers (see Note 11).

The Company limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks with other insurers under general reinsurance contracts known as “treaties” or by negotiation on an individual risk basis. Amounts recoverable from reinsurance are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Deferred policy and acquisition costs

Deferred policy acquisition costs represent the cost of writing business that vary with, and are primarily related to, the successful production of insurance business (principally commissions and premium taxes). Policy acquisition costs are deferred and recognized as expense as related premiums are earned.

Goodwill and other intangibles

Goodwill represents the excess of the purchase price of an acquired business over the amount assigned to the assets acquired and liabilities assumed. The Company evaluates goodwill on an annual basis, or more frequently if management believes indicators of impairment exist. Such indicators could include, but are not limited to (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competitions, or (3) an adverse action or assessment by a regulator. The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If management concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, management conducts the two-step quantitative goodwill impairment test. The first step of the impairment test involves comparing the fair value of the applicable reporting unit with its carrying value. The Company estimates the fair values of its reporting units using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes the comparable companies' data. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, management performs the second step of the goodwill impairment test. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill. The amount, by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss.

Tradenames are initially measured based on their fair values. Tradenames were categorized as an intangible asset with indefinite life since management expects to continue using the SCIC tradename indefinitely and the tradename renovation process is expected to be easily achievable.

Definite-lived intangible assets, such as product customer relationships, are amortized on a straight-line basis over their estimated or contractual useful lives. The Company continually evaluates the reasonableness of the useful lives of these assets.

Based on current facts, estimates and assumptions used, the Company determined that goodwill and intangible assets were not impaired at December 31, 2015.

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year 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 rate is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts more likely than not to be realized.

The Company follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Fair value measurement

The fair value of a financial instrument is the amount that would be received in an assets sale or paid to transfer a liability in an orderly transaction between unaffiliated market participants. Assets and liabilities measured at fair value are categorized based on whether the inputs are observable in the market and the degree that the inputs are observable. The categorization of financial instruments within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The hierarchy is prioritized into three levels (with Level 3 being the lowest) defined as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 - Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

Concentration of Credit Risk

SCIC provides workers' compensation insurance primarily to employers and individuals within the states it serves. The Company extends credit to policyholders using practices common to the insurance industry.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits, investment securities, reinsurance recoverable and receivables, and balances due from agents and insureds. The Company invests in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Management continually evaluates its investment portfolio to manage concentrations in individual securities, issuers of securities, and types of securities, industries, and geographic regions. The Company generally limits its exposure to credit risk from balances on deposit in financial institutions in excess of the federally insured limits. Management believes the credit risk associated with these deposits is minimal.

All demand deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. The money market funds are not insured by the FDIC.

Comprehensive (Loss)/Income

Comprehensive income is defined as the change in equity of a business enterprise during a period of transactions and other events and circumstances, except those resulting from investment by owners and distributions to owners. Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and derivative instruments, are reported as a separate component of the stockholder's equity section in the balance sheet, such items, along with net income, are components of comprehensive income.

Loss Portfolio Transfer

Under the terms of a Loss Portfolio Transfer ("LPT") agreement, SCIC acquired the outstanding amounts due under the claim reserves of LACE-SIF for all loss years as valued by LACE-SIF's independent actuary as of December 31, 2000. In addition, the transfer agreement moved all loss-related liabilities (such as the liability for assessments by the Second Injury Fund and the Office of Workers' Compensation) and placed SCIC into the place of LACE-SIF to settle all claims and estimated excess policy recoveries. Estimated amounts remaining to be paid under the LPT as of December 31, 2015 totaled $5,538.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates susceptible to change are those used in determining the reserves for losses and loss adjustment expenses, recoverability of deferred assets, the estimate of additional premium to be billed to policyholders and valuation of investment in subsidiaries. Although considerable variability is inherent in these estimates, management believes that the estimates are adequate. The estimates are continually revised and adjusted as necessary. Such adjustments are reflected in current operations.

Adoption of New Accounting Policies

During fiscal year 2015, various Accounting Standard Updates issued by the FASB became effective none of which had an impact on the Company's consolidated financial statements.

Recently Issued Accounting Guidance Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued new guidance on how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance does not apply to contracts within the scope of other standards (for example, insurance contracts or lease contracts). In August 2015, the FASB deferred the effective date of this new guidance by one year. This guidance is now effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The guidance is not expected to have a material impact on the Company's consolidated financial condition, results of operations or cash flows.

In April 2015, the FASB issued guidance simplifying the presentation of debt issuance costs, requiring debt issuance costs related to debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. The guidance is effective for fiscal years beginning after December 15, 2015. Early application is permitted for financial statements that have not been previously issued. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

In May 2015, the FASB issued guidance on disclosures for investments in certain entities that calculate NAV per share or its equivalent. Under this amendment, investments for which fair value is measured at NAV using the practical expedient should not be categorized in the fair value hierarchy. The guidance is effective for periods beginning after December 15, 2016. Early adoption is permitted. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

In May 2015, the FASB issued new guidance which requires insurance entities to provide additional disclosures related to claims liabilities related to short-duration contracts. The additional disclosure requirements include: (1) the claims development information by accident year, net of reinsurance, for the number of years for which claims incurred remain outstanding but not to exceed the most recent 10 years; (2) a reconciliation of claims development information and the aggregate carrying amount of the liability for unpaid claims and claim adjustment expenses; and (3) information about the claims frequency and the amount of the incurred-but-not-reported liabilities for each accident year presented. In addition, a description of the methodologies and assumptions used to determine the amounts disclosed and significant changes in methodologies and assumptions are required. The roll forward of the liability for unpaid claims and claims adjustment expenses, currently required only for annual periods, will also be required for interim periods. The guidance will be effective for annual periods beginning after December 15, 2016 and interim periods thereafter. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued updated guidance to address the recognition, measurement, presentation, and disclosure of certain financial instruments. The updated guidance requires equity investments, except those accounted for under the equity method of accounting, that have readily determinable fair value to be measured at fair value with changes in fair value recognized in net income. Equity investments that do not have readily determinable fair values may be remeasured at fair value either upon the occurrence of an observable price change or upon identification of impairment. A qualitative assessment for impairment is required for equity investments without readily determinable fair values. The updated guidance also eliminates the requirement to disclose the method and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet. The updated guidance is effective for periods beginning after December 15, 2019 and will require recognition of a cumulative effect adjustment at adoption. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

FASB issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842), on February 25, 2016. It is expected to be effective for periods beginning after December 15, 2018 for public entities, and for periods beginning after December 15, 2019 for nonpublic entities. Early application is permitted. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. All leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, Elements of Financial Statements, and, therefore, recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. Lessor accounting remains substantially unchanged with the exception that no leases entered into after the effective date will be classified as leveraged leases. For example, the vast majority of operating leases should remain classified as operating leases, and lessors should continue to recognize lease income for those leases on a generally straight-line basis over the lease term. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

During the year ended December 31, 2015, the FASB issued other accounting standard updates that were not relevant to the Company's operations.

2. BUSINESS COMBINATION

All entities acquired in 2014 were accounted for in accordance with GAAP relating to business combinations.

On December 31, 2014, the Company completed the acquisition of Stonetrust Commercial Mutual Holding Insurance Company, owner of 100% equity interest in SCIC, which provides statutory workers' compensation and employers' liability insurance coverage to businesses in five (5) states of the United States of America (the "Acquisition"). The Acquisition also included SR and SMS, both Louisiana limited liability companies. Stonetrust Realty owns the real estate used by Stonetrust companies. SMS was the Managing General Agent of Stonetrust.

Prior to consummating the Acquisition, Stonetrust Commercial Mutual Holding Insurance Company, was converted into a stock holding company pursuant to a Plan of Conversion and Reorganization filed with the Louisiana Department of Insurance.

The total consideration for the Acquisition was $35 million including an amount due to a former stockholder as explained below, of which $24 million was allocated to the purchase price of all of the authorized shares of capital stock of Stonetrust Holding Company ("Stonetrust Holding") and its subsidiaries (including SCIC and SR), and $11 million was allocated to the purchase price of all of the issued and outstanding membership interests of SMS.

In addition to the $35 million of consideration, the Company also contributed $30 million to Stonetrust Holding for the benefit of Stonetrust (the "Capital Contribution"). The Capital Contribution was made simultaneously with the closing of the transaction.

The purchase consideration for Stonetrust companies was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the acquisition date. Goodwill amounting to $2,427,047 was recognized equal to the excess of the purchase price over the net fair value of identifiable assets acquired and liabilities assumed. Factors contributing to the recognition of goodwill include strategic and synergistic benefits that are expected to be realized as a result of the acquisition. These benefits include insurance market diversification.

As part of the acquisition of Stonetrust, the Company agreed to pay $2.2 million to a former Stonetrust stockholder. This amount will be paid in 220,000 partnership units of Dhandho Holdings Qualified Purchaser LP ("Qualified Purchaser"), one of the Company's stockholders. In consideration for the partnership units issued by Qualified Purchaser, the Company will issue 14.4546 common shares with an estimated value of $2.2 million to Qualified Purchaser. The partnership units that will be issued to the Stonetrust former stockholder are subject to certain hold back provisions and are subject to certain future events as defined in the Acquisition agreement.

In accordance with the Acquisition agreement the partnership units will be issued to the Stonetrust former stockholder as follows:

Date	Number of Units	Valued NAV of $10/unit
January 1, 2015	70,000	$ 700,000
December 31, 2015	50,000	500,000
December 31, 2016	50,000	500,000
December 31, 2017	50,000	500,000
Total	220,000	$ 2,200,000

On January 1, 2015 Qualified Purchaser issued 70,000 partnership units to the Stonetrust former stockholder with a value of $700,000. In consideration for this payment the Partnership received 4.60 common shares of DHC with a value of $700,000.

The Company exercised its hold back rights with respect to the partnership units to be issued on December 31, 2015 because certain of the representations made by the former Stonetrust stockholder did not materialize. Since these partnership units will not be issued in the future, the Company re-evaluated the fair value of the Stonetrust net assets acquired resulting in a decrease in goodwill of $500,000.

The partnership units to be issued in calendar years 2016 and 2017 are subject to the same hold back provisions which will be evaluated at the end of such years. The value of these partnership units amounts to $1 million at December 31, 2015 and is included as amount payable to former stockholder of Stonetrust companies in the accompanying consolidated balance sheet.

BDO

DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. INVESTMENTS

The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair value of investment securities available-for-sale by major security type as of December 31, 2015 are as follows:

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Loss	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government Corporation and agencies	$ 1,719,942	$ 9,468	$ (333)	$ 1,729,077
State and political subdivisions	21,815,575	720,713	(6,693)	22,529,595
Industrial and miscellaneous	17,843,920	20,083	(1,920,088)	15,943,915
Mortgage-backed securities	4,903,960	30,977	(147,760)	4,787,177
Total bonds	46,283,397	781,241	(2,074,874)	44,989,764
Common stocks	87,442,182	5,793,250	(5,402,870)	87,832,562
Preferred stocks	9,147,253	93,129	(215,910)	9,024,472
	96,589,435	5,886,379	(5,618,780)	96,857,034
Total	$ 142,872,832	$ 6,667,620	$ (7,693,654)	$ 141,846,798

The gross unrealized losses and estimated fair value pertaining to investment securities available-for-sale that have been in a continuous unrealized loss position for less than twelve months and for twelve months or more, are as follows:

	December 31, 2015			
	Less Than 12 Months		Over 12 Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government Corporations and Agencies	$ (333)	$ 149,942	$ -	$ -
State and political subdivisions	(5,697)	1,111,745	(996)	98,146
Industrial and miscellaneous	(1,920,088)	14,898,626	-	-
Mortgage-backed securities	(47,640)	3,107,232	(100,120)	830,146
Total bonds	(1,973,758)	19,267,545	(101,116)	928,292
Common stocks	(5,399,264)	52,896,796	(3,567)	3,182
Preferred stocks	(215,949)	4,927,723	-	-
Total	$ (7,588,971)	$ 77,092,064	$ (104,683)	$ 931,474

The amortized cost of bonds and notes as of December 31, 2015 has been reduced by net amortization of premiums of $248,408 to derive the amortized cost of bonds and notes in the accompanying consolidated financial statements.

The assessment of other-than-temporary impairment is performed periodically. Factors considered in determining whether a loss is temporary include the length of time and the extent to which fair value has been below cost, the severity of the impairment, the cause of the impairment and the financial condition and near-term prospects of the issuer, activity in the market of the issuer which may indicate adverse credit conditions, and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

The Company's review for impairment generally entails identification and evaluation of investments that have indications of possible impairment; analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period; discussion of evidential matter, including and evaluation of factors or triggers that could cause individual investments to qualify as having other-than-temporary impairment and those that would not support other-than-temporary impairment; and documentation of the results of these analyses.

For equity securities, management considers the various factors described above, including its intent and ability to hold the equity security for a period of time sufficient for recovery to amortized cost. Where management lacks the intent or ability, the security's decline in fair value is deemed to be other-than-temporary and is recorded in earnings. During the year ended December 31, 2015, the Company recorded other-than-temporary impairment adjustments for equity securities of $15,436,954.

For debt securities that are not deemed to be credit impaired, management performs additional analysis to assess whether it intends to sell or more-likely-than-not would be required to sell the investment before the expected recovery of the amortized cost basis. In most cases, management has asserted that it has no intent to sell and that it believes it is more-likely-than-not that it will not be required to sell the investment before recovery of its amortized cost basis.

For debt securities, a critical component of the evaluation for other-than-temporary impairments is the identification of credit impaired securities where management does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. During the year ended December 31, 2015, the Company recorded an impairment charge of $166,122, related to certain debt securities.

The amortized cost and estimated fair values of investment securities as of December 31, 2015, 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. Mortgage backed securities provide for periodic payments throughout their lives so they are listed in a separate category.

	2015	
	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$ 15,525,808	$ 15,298,417
Due after 1 year through 5 years	13,059,929	11,890,317
Due after 5 years through 10 years	9,092,453	9,069,773
Due after 10 years through 20 years	2,989,609	3,160,307
Due after 20 years	711,638	783,773
	41,379,437	40,202,587
Mortgage-backed securities	4,903,960	4,787,176
	$ 46,283,397	$ 44,989,763

In accordance with regulatory provisions, the Company has pledged bonds with a fair market value of $3,248,795 to various regulatory agencies as of December 31, 2015. Additionally, at December 31, 2015, the Company has pledged bonds with a fair market value of $500,679, as collateral as required by the Company's counterparty in relation to the interest rate swap transaction described in Note 13.

Components of net investment income were as follows for each of the year ended December 31, 2015:

	2015
Interest on bonds	$ 1,321,807
Dividends on equity securities	798,731
Interest on short-term investments, cash, and other	21,812
	2,142,350
Less: investment expenses	(436,037)
Net investment income	$ 1,706,313

4. FAIR VALUE MEASUREMENT

The following table provides information as of December 31, 2015, about the Company's financial assets measured at fair value at the reporting date:

	2015		
	Level 1	Level 2	Level 3
U.S. Treasury securities and obligations of U.S. Government Corporations and Agencies	$ -	$ 1,729,077	$ -
State and political subdivisions	-	22,529,595	-
Industrial and miscellaneous	-	15,943,915	-
Mortgage-backed securities	-	4,787,176	-
Total bonds	$ -	$ 44,989,763	$ -
Common stocks	$ 87,832,562	$ -	$ -
Preferred stocks	$ 8,924,472	$ -	$ 100,000
Derivative instrument - liability	$ -	$ -	$ (134,421)

The Company's investments in common stock and preferred stock are exchanged-listed stocks that are actively traded. Unadjusted quoted prices for these securities are provided to the Company principally by independent pricing services that meet Level 1 criteria. In addition, the Company has certain preferred stocks, which are not actively traded and therefore are included in Level 3.

The Company's available for sale debt securities are carried on a recurring basis at estimated fair value and are obtained from independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. These securities are considered Level 2.

The Company's derivative instruments are measured on a recurring basis through a model used by the primary lender. These instruments are considered Level 3 as they are valued using a discounted cash flow model.

The change in carrying values associated with Level 3 financial instruments for the year ended December 31, 2015, are as follows:

	Only Level 3 Instruments - December 31, 2015						
	Balance at January 1, 2015	Purchases	Sales/Calls Redemptions	Realized Gain	Unrealized Gain/(Loss)	Transfers in and/or Out of Level 3	Balance at December 31, 2015
Preferred stock	$ -	$ 100,000	$ -	$ -	$ -	$ -	$ 100,000
Interest Rate Swap	$ (99,263)	$ -	$ -	$ -	$ (35,158)	$ -	$ (134,421)

Significant Unobservable Input

The table below presents qualitative information for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2015.

	2015		
Fund	Fair Value	Valuation Technique	Unobservable Input
Interest Rate Swap	$ (134,421)	Discounted cash flow	Not applicable
Preferred stock	$ 100,000	Acquisition cost	Not applicable

Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments at December 31, 2015.

	2015	
	Carrying Amount	Fair Value
Cash and cash equivalents	$ 42,426,761	$ 42,426,761
Bonds	$ 44,989,764	$ 44,989,764
Common stocks	$ 87,832,562	$ 87,832,562
Preferred stocks	$ 9,024,472	$ 9,024,472
Premiums receivable, net	$ 20,485,286	$ 20,485,286
Note and mortgage payable	$ 5,976,561	$ 5,976,561
Derivative instrument - liability	$ (134,421)	$ (134,421)

The following methods were used to estimate the fair value of all other financial instruments:

Cash and cash equivalents - carrying values of cash and cash equivalents approximates fair values.

Bonds - fair values are obtained from independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows.

Common and preferred stocks - fair values generally represent quoted market prices for the securities.

Derivative instruments - interest rate swap is valued using discounted cash flows models.

Note and mortgage payable - carrying value reported in the consolidated balance sheets for these financial instruments approximates fair value due to the variable interest rate.

5. CASH AND SHORT-TERM INVESTMENTS

As of December 31, 2015, cash and cash equivalents consists of the following:

	2015
Overnight and demand deposits	$ 14,797,472
Money market funds	27,629,289
Total cash and cash equivalents	$ 42,426,761

6. PROPERTY AND EQUIPMENT

As of December 31, 2015, property and equipment consisted of the following:

	2015	
	Estimated Useful Life (in years)	Amount
Building	39	$ 3,629,659
Building improvements	5-7	677,267
Informations systems	5	3,059,646
Office and computer equipments	3-7	257,204
Less: accumulated depreciation and amortization		(625,878)
Net depreciable assets		6,997,898
Land		930,274
Construction in process		43,093
Total		$ 7,971,265

Construction-in-progress consists of construction cost incurred in connection with improvements to the rental properties which are deferred until completed and put in service. Upon completion and placed in service they are reclassified to rental property and depreciation over its useful life. During the year ended December 31, 2015, the Company wrote-off $527,427 of architect fees recorded as construction in process for improvements that management decided not to complete.

Depreciation expense for the period ended December 31, 2015 amounted to $625,281.

7. DEFERRED POLICY ACQUISITION COSTS

Deferred policy acquisition costs represent those costs that are incremental and directly related to the successful acquisition of new or renewal of existing insurance contracts. The Company defers incremental costs that result directly from the acquisition or renewal of an insurance contract. These costs are deferred and expensed over the life of the related policies. Major categories of the Company's deferred policy acquisition costs are as follows:

	2015
Agents' commissions	$ 814,195
Premium related taxes and assessments	842,254
Total deferred policy acquisition costs	$ 1,656,449

The following summarizes the activity in the deferred policy acquisition costs:

	2015
Balance, beginning of year	$ 1,669,482
Policy acquisition costs deferred	6,655,685
Amortization during the year	(6,668,718)
Balance, end of year	$ 1,656,449

8. OTHER INTANGIBLE ASSETS

The following table reflects the components of other intangible assets as of December 31, 2015:

	2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible asset - Distribution channel	$ 4,724,446	$ (472,445)	$ 4,252,001
Indefinite-lived intangible asset - Tradenames			1,044,349
Total intangible assets			$ 5,296,350

The following table represents the total estimated amortization of intangible assets with definite lives for each of the next five (5) years:

Year Ending December 31,	Amount
2016	$ 472,445
2017	472,445
2018	472,445
2019	472,445
2020	472,445
Thereafter	1,889,776
	$ 4,252,001

As of December 31, 2015, the weighted average remaining life of the intangible assets is approximately 9 years. No significant events or circumstances have occurred that would reduce the fair value of the reporting unit below its carrying amount.

9. UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Unpaid losses and loss adjustment expenses at December 31, 2015 consists of the following:

	2015
Unpaid losses	$ 59,716,565
Unpaid loss adjustment expenses	5,791,404
Total	$ 65,507,969

Activity in the liability for unpaid losses and loss adjustment expenses (LAE) is summarized as follows as of December 31, 2015:

		2015
Reserves for loss and LAE, gross - at January 1	$	53,500,227
Amounts recoverable from reinsurers on unpaid losses		3,041,461
Reserves for loss and LAE, net - at January 1		50,458,766
Net incurred related to:		
Current year		38,009,369
Prior years		5,852,030
Total incurred		43,861,399
Net paid related to:		
Current year		9,529,523
Prior years		21,765,276
Total incurred		31,294,799
Reserves for loss and LAE, net - at December 31		63,025,366
Amounts recoverable from reinsurers on unpaid losses		2,482,603
Reserves for loss and LAE, gross - at December 31	$	65,507,969

The estimated cost of loss and LAE attributable to insured events of prior years' increased by $5,852,030 during 2015. Increases or decreases of this nature occur as the result of claim settlements during current year and as additional information is received regarding individual claims, causing changes from the original estimates of the cost of these claims. Recent loss development trends are also taken into account in evaluating the overall adequacy of unpaid losses and LAE.

SCIC has purchased annuities from life insurers under which claimants are payees under structured settlement agreements. These annuities have been used to reduce unpaid losses by approximately $1,622,000 as of December 31, 2015. SCIC remains liable should the insurers of these annuities fail to perform under the terms of the annuities.

The liability for unpaid losses and loss adjustment expenses as of December 31, 2015 was reviewed by SCIC's internal actuary who concluded that such amounts were reasonable to cover SCIC's obligation for all unpaid losses and loss adjustment expenses.

10. SECURITY DEPOSITS

Security deposits are additional funds available to satisfy policyholder obligations to the Company, if necessary, and are non-interest bearing and refundable upon termination from the Company after all expenses are settled for the policyholder. As of December 31, 2015, policyholder security deposits amount to $1,998,136.

11. REINSURANCE ACTIVITY

A Summary of SCIC's reinsurance arrangements follows:

Period Covered	Company Retention	Per Loss Occurrence Coverage
12/01/00 - 3/31/02	$500,000	Statutory in excess of $500,000
4/01/02 - 3/31/03	See Below	See Below
4/01/03 - 3/31/04	See Below	See Below
4/01/04 - 3/31/05	500,000	$9,500,000 in excess of $500,000
4/01/05 - 12/31/05	500,000	$14,500,000 in excess of $500,000
1/01/06 - 12/31/06	750,000	$14,250,000 in excess of $750,000
1/01/07- 12/31/07	1,000,000	$14,000,000 in excess of $1,000,000
1/01/08 - 12/31/08	1,000,000	$49,000,000 in excess of $1,000,000
1/01/09 - 12/31/09	750,000	$49,250,000 in excess of $750,000
1/01/10 - 12/31/10	1,000,000	$99,000,000 in excess of $1,000,000
1/01/11 - 12/31/11	1,000,000	$49,000,000 in excess of $1,000,000
1/01/12 - 12/31/12	1,000,000	$29,000,000 in excess of $1,000,000
1/01/13 - 12/31/13	750,000	$29,250,000 in excess of $750,000
1/01/14 - 12/31/14	750,000	$39,250,000 in excess of $750,000
1/01/15 - 12/31/15	750,000	$39,250,000 in excess of $750,000

SCIC entered into a reinsurance treaty providing coverage effective April 1, 2002 through March 31, 2003, for an initial layer of 50% of $500,000 in excess of $500,000 per occurrence and an additional layer of $9,000,000 in excess of the first $1,000,000 layer.

SCIC entered into reinsurance treaties providing coverage effective April 1, 2003 through March 31, 2004, for a specific layer of $750,000 in excess of $250,000 per occurrence limited to the SCIC's retention of the greater of $1,000,000 or 7.15% of gross net earned premium and an additional layer for the same period of $9,000,000 in excess of the first $1,000,000 layer.

BDO

The reinsurance contracts do not relieve SCIC from its obligations to policyholders. SCIC evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. As of December 31, 2015, SCIC has approximately $2,482,603 of reinsurance recoverables based on its actuarially determined ultimate losses and loss adjustment expenses payable, which are unsecured. As of December 31, 2015, amounts due from reinsurers for claims actually paid were $36,710.

The effects of reinsurance on premiums written and earned for 2015 are as follows:

	2015	
	Written	**Earned**
Direct	$ 59,856,939	$ 61,734,758
Assumed - assigned risk pools	971,954	971,772
Ceded	(3,327,677)	(3,327,677)
Net	$ 57,501,216	$ 59,378,853

As of December 31, 2015, SCIC has unsecured aggregate reinsurance recoverables amounting to $2,217,000, for unpaid losses and loss adjustment expenses from authorized reinsurers that exceed 3% of policyholders' surplus.

12. DUE FROM RELATED PARTIES

The Company regularly enters into transactions with related parties, at terms and conditions agreed upon by management of the Company and related parties. These amounts are payable and received in the normal course of business and related to operating transactions and cash flows needs. As of December 31, 2015, the Company due from (to) related parties was as follows:

	Due From	Due To	Total
Dhandho Holdings, L.P.	$ 251	$ (20,000)	$ (19,749)
Dhandho Funds	630,275	-	630,275
Total due from/(to) related parties	$ 630,526	$ (20,000)	$ 610,526

The balance is non-interest bearing and has no specific repayment terms.

13. NOTE AND MORTGAGE PAYABLE

Note and mortgage payable at December 31, 2015 consist of:

	2015
Note payable	$ 4,000,000
Mortgage payable	1,976,561
Total	$ 5,976,561

On December 14, 2006, SCIC issued a surplus note in the amount of $4,000,000 in exchange for cash. The note was underwritten by FIN Financial Capital Markets and is administered by Wilmington Trust Company as registrar/paying agent. Each payment of principal and interest may be made only with the prior approval of the Louisiana Insurance Department and only to the extent SCIC has sufficient surplus to make such payment. In the event of a liquidation proceeding, holders of indebtedness, policy claims and prior claims would have greater priority under both the Liquidation Act and terms of the note and, accordingly, would have the right to be paid in full before any payments of interest and principal are made to note holders.

The terms of the surplus note are as follows:

Date Issued:	December 14, 2006
Interest rate:	Fixed at 8.9% until December 15, 2011
	(3 month LIBOR + 4.0% floating rate thereafer)
Carrying value of note:	$ 4,000,000
Date of maturity:	December 15, 2036

On December 15, 2011, SCIC entered into an interest rate swap agreement in connection with the note payable. The swap has a notional amount of $4,000,000 used to minimize the interest rate exposure on the Floating Rate Surplus Note. The interest swap is used to fix the variable interest rate on the associated debt. The agreement provides for quarterly settlements with maturity date on September 15, 2021. The interest rate to be received on this swap agreement is the 90 days LIBOR plus 4%, (4.51% as of December 31, 2015) and the fixed interest rate to be paid is 6.36%.

As of December 31, 2015, the fair value of this instrument is $134,421 and is presented as a liability in the accompanying consolidated balance sheet.

The mortgage is due in 59 monthly installments of $15,366 including interest at 4.5% and a final payment of $1,493,743. The mortgage note is collateralized by land and commercial building owned by SR. Future maturities of the mortgage payable during the next years follow:

Year Ending December 31,		Amount
2016	$	95,969
2017		100,694
2018		105,386
2019		110,296
2020		1,564,216
Total	$	1,976,561

14. EMPLOYEES' SAVINGS PLAN

SCIC sponsors a defined contribution 401(K) plan, which covers all employees who are at least 21 years of age and has six (6) months of service with the SCIC. SCIC contributes 3% of eligible employees compensation into the plan and has the option to contribute additional amounts, if so decided. For the year ending December 31, 2015, SCIC contributed $165,981 to the plan.

15. RENTAL INCOME

SR's main activity consists of leasing its real estate facilities to third parties and to SCIC under operating lease agreements. The leases are generally for a period of five (5) years with an option to renew for an additional period. Rental income earned from tenants during the year ended December 31, 2015 amounted to $507,072, including $147,655 from SCIC.

FASB's authoritative guidance on Leases requires rental income to be recorded on a straight-line basis over the non-cancellable terms of the leases. Certain lease agreements contain escalation clauses. Tenant receivable at December 31, 2015 includes $9,113 for the difference between rental income billed under the contractual terms and the revenue recognized on the straight-line basis.

Future rental commitment under the operating leases as of December 31, 2015 follows:

Year Ending December 31,	Amount
2016	$ 476,905
2017	448,506
2018	263,946
2019	80,070
2020	80,070
Thereafter	233,538
	$ 1,583,035

16. INCOME TAXES

FASB issued authoritative guidance on accounting for uncertainty in income taxes that prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken on income tax returns. Under the authoritative accounting guidance, income tax benefits are recognized and measured based upon a two-step model: 1) a tax position must be more likely than not to be sustained based solely on its technical merits in order to be recognized, and 2) the benefit is measured as the largest dollar amount of that position that is more likely than not to be sustained upon settlement. The difference between the benefit recognized in accordance with this model and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit. No adjustment was required upon adoption of this accounting guidance.

The Company and its subsidiaries are subject to routine audits by the Puerto Rico and U.S. taxing agencies; however, there are currently no audits for any tax periods in progress. The Company and its subsidiaries remain subject to income tax examinations for Puerto Rico and U.S. income taxes generally for calendar years 2013 through 2015.

DHC operates under the provisions of a Tax Exemption Agreement from the Commonwealth of Puerto Rico signed on November 21, 2014 as amended. Under the provisions of the Tax Exemption Agreement, DHC was granted a partial tax exemption from certain Puerto Rico taxes, including income taxes, and municipal taxes, among others applicable to its consulting and investment Income and eligible property. The exemption period is twenty (20) years. All income generated from the eligible activity is taxed for income tax purpose at a flat rate of 4%. The percentage of exemption for municipal license taxes is 60%.

DHC has other subsidiaries organized under the laws of the Commonwealth of Puerto Rico. These subsidiaries are limited liability companies ("LLC"), which are exempt from taxes; the earnings that are subject to tax liability pass-through to the sole stockholder, DHC.

The Component of income tax expense for the year ended December 31, 2015, are as follows:

	2015
Federal:	
Current	$ (1,364,414)
Deferred	(97,906)
U.S. State	(250,954)
Total	$ (1,713,274)

For federal income tax purposes, SMS is treated as a partnership. All profits and losses are passed through to the sole stockholder.

As of December 31, 2015, the Company's net deferred tax asset consists of the following components:

	2015
Deferred tax asset:	
Unearned and advance premium	$ 1,648,012
Discounting of unpaid losses and LAE	1,000,672
Other than temporary impairment	949,605
Allowance for doubtful accounts	194,276
Unrealized loss in investments	936,752
Capital loss carryforward	511,084
Tax loss carryforward	838,085
Other	181,015
Gross deferred tax assets	6,259,501
Valuation allowance	(2,437,523)
Gross deferred tax assets after valuation allowance	3,821,978
Deferred tax liability:	
Deferred policy acquisition costs	563,193
Property and equipment	390,349
Other	20,340
Gross deferred tax liabilities	973,882
Deferred tax asset, net	$ 2,848,096

U.S. GAAP requires the Company to evaluate the recoverability of its deferred tax assets and establish a valuation allowance, if necessary, to reduce the deferred tax asset to an amount that is more likely than not to be realized (a likelihood of more than 50%). In making this evaluation, the Company is required to consider all available evidence, both positive and negative, including objectively verifiable evidence of taxable income in the immediate ensuing years. At December 31, 2015 management recorded a valuation allowance of $2,437,523.

DHC and its subsidiaries have carryforward losses available for reduce future taxable income in Puerto Rico and United States of America as follows:

	Amount	Expiration Date
U.S. Federal Tax:		
Ordinary tax loss	$ 1,863,000	2035
Capital loss	$ 1,309,000	2020
Puerto Rico:		
Ordinary tax loss	$ 1,002,000	2022
Capital loss	$ 1,649,000	2022

The Company recognizes any interest and penalties related to uncertain tax positions in income tax expense; however, there were none during the year ended December 31, 2015.

17. EQUITY AND STATUTORY RESULTS

A comparison of U.S. GAAP and statutory net income and total equity of SCIC as of and for the year ended December 31, 2015, is as follows:

	2015	
	U.S. GAAP	Statutory
Net loss - Year ended December 31, 2015	$ (3,878,045)	$ (3,991,660)
Total equity/capital and surplus - December 31, 2015	$ 48,656,689	$ 48,431,657

SCIC is required by the State of Louisiana Department of Insurance to maintain a minimum capital and surplus of $5,000,000 and is required to obtain prior approval from the State of Louisiana Department of Insurance to pay dividends or any other distributions to its shareholders.

The Louisiana Department of Insurance also imposes minimum risk-based capital requirements that were developed by the National Association of Insurance Commissioner ("NAIC"). The formulas for determining the amount of risk-based capital specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of the enterprise's regulatory total adjusted capital, also defined by the NAIC. Enterprises below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. At December 31, 2015, SCIC's calculation indicated that it exceeded the minimum risk-based capital requirements.

18. COMMITMENTS AND CONTINGENCIES

Commitments

On December 18, 2014, the Company entered into a lease agreement with an unrelated third party for their administrative office facilities for a period of three (3) years commencing January 1, 2015 and ending on December 31, 2017. Rent expense for the year ended December 31, 2015 amounted to $36,725.

The future minimum rental commitments under the term of the lease agreement are as follows:

Year Ending December 31,	Amount
2016	$ 25,780
2017	26,912
	$ 52,692

The Company has a commitment to invest $10 million in Tandem Fund III, L.P. a private limited liability partnership of which $2 million are invested at December 31, 2015.

As of December 31, 2015, SR has commitments under construction contracts amounting to $392,920.

Contingencies

Losses and loss adjustment expenses payable consist of case based estimates of the likely loss exposure to SCIC from all known and open claims, including incurred but not reported ("IBNR") attributable to open years. Such estimates are made by SCIC based on an actuarial study prepared SCIC internal actuary, using comparative payment histories after evaluating the nature of the claimants' injuries. The estimate of the total incurred loss is continually revised as additional information becomes available.

Management believes the provision for losses and loss adjustment expenses payable as of December 31, 2015 is adequate to cover the ultimate liabilities. However, it is more than reasonably possible that a change in these estimates will occur in the near term and that the amount ultimately paid may prove to be more or less than the current estimates of liability and that difference may be significant.

SCIC is subject to guaranty fund and other assessments. In the case of premium-based assessments and loss-based assessments, the assessment is accrued either at the time the premiums were written or at the time losses are incurred. SCIC has accrued a liability for guaranty fund and other assessments of $3,684,268 at December 31, 2015. The liability is included in the taxes, licenses and fees liability. The asset is included in the guaranty funds receivable or on deposit asset and is expected to be realized over the next seven years. The amounts represent management's best estimates based on current information and may change due to many factors, including SCIC's share of the ultimate cost of insolvencies and changes in the assessment rates.

Lawsuits arise against the Company in the normal course of business. Contingent liabilities arising from litigation and other matters are not considered material in relation to the financial position of the Company.

19. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued April 26, 2016, and determined that no events occurred that required further disclosure, other than the matter described below.

As described in Note 3, on January 2016, the Company sold certain equity securities and realized a loss of $14,518,134. This loss was recorded as other-than-temporary loss during the year ended December 31, 2015.

On April 6, 2016, the Governor of the Commonwealth of Puerto Rico ("Commonwealth") signed into law Act 21 known as "Puerto Rico Emergency Moratorium and Financial Rehabilitation" ("the Act"). The Act has four primary objectives:

1) Authorizes the Governor to declare a moratorium on debt service payments for a temporary period as defined in the Act for the debt of the Commonwealth of Puerto Rico, the Government Development Bank ("GDB"), the Economic Development Bank for Puerto Rico ("EDB"), public corporations or any other government instrumentalities.

2) Amends GDB's Enabling Act to include provisions for the appointment of a trustee for the GDB, and create bridge bank provisions and related procedures that are intended to provide an alternative to GDB's liquidation and resolution under existing law.

3) Amends the enabling Act of the EDB and provide updated receivership provisions, clarifies the receiver's powers, and establish priority of expenses and unsecured claims in a receivership.

4) Creates the Fiscal Agency and Financial Authority. This will be structured as an independent public corporation and public instrumentality of the Commonwealth with a board of directors of which one member is appointed by the Governor. The main purpose of the Authority is to act as fiscal agent, financial advisor and reporting agent of the Commonwealth and its public corporations, instrumentalities, municipalities and political subdivisions and to assist such entities with the fiscal and economic emergency of the Commonwealth. The Authority will also oversee all matters related to the restructuring or adjustment of any covered obligation, or otherwise coordinate and implement liability management transactions for any covered obligation.

The Act became effective immediately after its approval by the Governor of Puerto Rico and its provision remains in effect until January 2017.

As of December 31, 2015 the Company has investments in certain bonds of the Commonwealth of Puerto Rico amounting to approximately $337,499. These bonds were considered impaired at December 31, 2015 and therefore their cost was written down to their market value at such date. However due to the provisions of the Act as explained above the future collection of the scheduled debt service payments of the bonds is uncertain at the date of the issuance of the financial statements.

Team Dhandho

MOHNISH PABRAI
Chairman & Chief Executive Officer

San Juan, Puerto Rico

FAHAD MISSMAR, *Chief Financial Officer*
CARLOS ORTIZ, *Finance & Operations Analyst*
JULISSA MORALES, *Administrative Assistant*
ANGELES CHAPARRO, *Administrative Assistant*

Irvine, California

TANVI ARORA, *Vice President, Quantitative Analysis*
FEI LI, *Quantitative Analyst*
YINGZHUO ZHAO, *Quantitative Analyst*
JAYA BHARATH VELICHERLA, *Quantitative Analyst*
KUNAL MALHOTRA, *Quantitative Analyst*
NICKII ALEO, *Administrative Assistant* **LYNN DANN,** *Administrative Assistant*
BETSY HARKER, *Administrative Assistant* **KAREN ADACHI,** *Administrative Assistant*
JULIE TELTSCHER, *Office Manager*

Pune, India

REEMA MUKHERJEE, *Chief Operating Officer*
POOJA KUMARI, *General Manager*
PRIYABRATA BHUYAN, *Quantitative Analyst*
VAIBHAV SHARMA, *Senior Member of Technical Staff*
RAHUL MASKE, *Senior Member of Technical Staff*
DIVYA BANDYOPADHYAY, *Senior Member of Technical Staff*
GANGAPRASAD KOTURWAR, *Member of Technical Staff*
KAPIL GANOO, *Accounts and Admin Officer*

Dhandho Advisory Board

NAVNEET CHUGH, *Fullerton, California*
TERRY ADAMS, *Irvine, California*
SRINI PULAVARTI, *Los Angeles, California*

Auditor & Tax

BDO PUERTO RICO **GRANT THORNTON**
PIETRANTONI MENDEZ & ALVAREZ LLC (PMA)

Broker & Custodian

UBS AG, *The Desai Group*

General Counsel

DENTONS US LLP **CONYERS DILL & PEARMAN, BVI**

DHANDHO

Executive Offices - Banco Popular Building, 206 Tetuán Street, Suite 703, San Juan, Puerto Rico 00902