

INDEPENDENCE HOLDING CO  
Form DEF 14A  
October 11, 2016

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

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  
 **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to §240.14a-12

**INDEPENDENCE HOLDING COMPANY**  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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**INDEPENDENCE HOLDING COMPANY**

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***NOTICE OF ANNUAL MEETING OF STOCKHOLDERS***

To Be Held on November 11, 2016

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Dear Stockholders:

We cordially invite you to attend the 2016 Annual Meeting of Stockholders of Independence Holding Company ( IHC or the Company ). Our 2016 Annual Meeting will be held on Friday, November 11, 2016 at 10:00 a.m. EDT and will be our third completely virtual meeting of stockholders. You will be able to attend the 2016 Annual Meeting, vote, and submit your questions during the meeting via live webcast by visiting [www.virtualshareholdermeeting.com/IHC2016](http://www.virtualshareholdermeeting.com/IHC2016). To enter the meeting, you must have your twelve-digit control number that is shown on the proxy card accompanying this Proxy Statement. You will not be able to attend the Annual Meeting in person.

Details regarding logging onto and attending the meeting over the website and the business to be conducted are described in the Proxy Card included with this Proxy Statement. We have also made available a copy of our 2015 Annual Report with this Proxy Statement. We encourage you to read our Annual Report. It includes our audited financial statements and provides information about our business and products.

The purpose of the meeting is to:

1. elect nine directors, each for a term of one year;
2. ratify the appointment of RSM US LLP as IHC's independent registered public accounting firm for the fiscal year ending December 31, 2016;

3. adopt the 2016 Stock Incentive Plan; and
4. transact any other business that may properly come before the meeting.

Only stockholders of record at the close of business on September 19, 2016 may vote at the meeting or any postponements or adjournments of the meeting.

By order of the Board of Directors,

Loan Nisser  
*Vice President and Secretary*

October 11, 2016

**HOW TO VOTE: Your vote is important. Whether or not you plan to attend the meeting, we hope you will vote as soon as possible. You may vote over the Internet, as well as by telephone or, if you requested to receive printed proxy materials, by mailing a proxy or voting instruction card. Please review the instructions on each of your voting options described in this Proxy Statement as well as in the proxy card. Your vote is important, no matter how many shares you owned on the record date. A return envelope is enclosed for your convenience and needs no postage if mailed in the United States.**

**2016 PROXY STATEMENT****TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>INFORMATION ABOUT THE ANNUAL MEETING</b>	2
What is the purpose of the annual meeting and why is it being held over the Internet?	2
Who is entitled to vote?	2
How do I vote by proxy?	2
Am I entitled to vote if my shares are held in street name ?	2
How many shares must be present to hold the online meeting?	2
What if a quorum is not present at the online meeting?	3
What do I need in order to be able to attend the online meeting?	3
How can I vote my shares during the online meeting?	3
How can I vote my shares without attending the online meeting?	3
Is there a deadline for submitting proxies electronically or by telephone or mail?	3
Can I revoke my proxy and change my vote?	3
Who can participate in the online meeting?	3
Will my vote be kept confidential?	4
Who will count the votes?	4
How does the Board of Directors recommend I vote on the proposals?	4
What if I do not specify how my shares are to be voted?	4
Will any other business be conducted at the meeting?	4
How many votes are required to elect the director nominees?	4
What happens if a nominee is unable to stand for election?	5
How many votes are required to ratify the appointment of IHC's independent registered public accounting firm for the fiscal year ending December 31, 2016?	5
How many votes are required to adopt the 2016 Stock Incentive Plan?	5
How will abstentions be treated?	5
How will broker non-votes be treated?	5
<b>STOCK OWNERSHIP</b>	6
Directors and Executive Officers	6
Significant Stockholders	6
Section 16(a) Beneficial Ownership Reporting Compliance	7
<b>CORPORATE GOVERNANCE MATTERS</b>	8
Corporate Governance Documents	8
Director Independence	8
Board Leadership Structure	8
Board Role in Risk Oversight	9
Audit Committee Financial Expert	9
Executive Sessions of Non-Management Directors	9
Communications with Directors	9
Nomination of Director Candidates	9
<b>MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS</b>	11
Meetings	11
Committees	11
Attendance at Annual Meeting of Stockholders	11

<b>EXECUTIVE OFFICERS</b>	11
<b>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</b>	12
Director Independence	12
Compensation Committee Interlocks and Insider Participation	12
Transactions with Management and Other Relationships	12
<b>PROPOSAL 1 - ELECTION OF DIRECTORS</b>	14
Nominees for Election to the Board	14
<b>DIRECTORS COMPENSATION</b>	18

Director Summary Compensation	18
<b>EXECUTIVE COMPENSATION</b>	19
Compensation Discussion and Analysis	19
Compensation Committee Report	22
Compensation Risk Assessment	22
Summary Compensation Table	22
Outstanding Equity Awards at Fiscal Year-End	23
Potential Payments to Named Executive Officers	24
Stock Incentive Plans	26
Equity Compensation Plans	26
<b>REPORT OF THE AUDIT COMMITTEE</b>	27
<b>AUDIT AND NON-AUDIT FEES</b>	28
Vote Required for the Election of Directors	28
<b>PROPOSAL 2 - RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</b>	29
Appointment of Independent Registered Public Accounting Firm	29
Vote Required for Ratification	29
<b>PROPOSAL NO. 3: APPROVAL OF THE 2016 STOCK INCENTIVE PLAN</b>	30
Background	30
Summary of the 2016 Stock Incentive Plan	30
Vote Required for Adoption	35
<b>OTHER MATTERS</b>	36
<b>ADDITIONAL INFORMATION</b>	36
Proxy Solicitation	36
Stockholder Proposals for 2017 Annual Meeting	36

Appendix A - 2016 Stock Incentive Plan



**INDEPENDENCE HOLDING COMPANY**

**96 Cummings Point Road**

**Stamford, Connecticut 06902**

**(203) 358-8000**

**www.ihcgroup.com**

**2016 PROXY STATEMENT**

IHC's Board of Directors (the Board) is furnishing you this proxy statement in connection with the solicitation of proxies on its behalf for the 2016 Annual Meeting of Stockholders to be held via live webcast on the Internet at [www.virtualshareholdermeeting.com/IHC2016](http://www.virtualshareholdermeeting.com/IHC2016). The meeting will take place on Friday, November 11, 2016 at 10:00 a.m. EDT. At the meeting, stockholders will vote on the following proposals: election of nine directors, the ratification of IHC's independent registered public accounting firm, and adoption of the 2016 Stock Incentive Plan. Stockholders also will consider any other matter that may properly come before the meeting, although we know of no other business to be presented.

At the online meeting, stockholders will vote on the following proposals:

1. elect nine directors, each for a term of one year;
2. ratify the appointment of RSM US LLP as IHC's independent registered public accounting firm for the fiscal year ending December 31, 2016;
3. adopt the 2016 Stock Incentive Plan; and
4. transact any other business that may properly come before the meeting.

Stockholders also will consider any other matter that may properly come before the meeting, although we know of no other business to be presented.

By submitting your proxy (via the Internet, telephone or mail), you authorize Ms. Teresa A. Herbert, IHC's Chief Financial Officer and Senior Vice President, and Ms. Loan T. Nisser, IHC's Vice President and Secretary, to represent you and vote your shares at the meeting in accordance with your instructions. They also may vote your shares to adjourn the meeting and will be authorized to vote your shares at any postponements or adjournments of the meeting.

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IHC's 2015 Annual Report, which includes IHC's audited financial statements as well as its Quarterly Report for the fiscal quarter ended June 30, 2016, is being made available to IHC's stockholders concurrently herewith (the Reports). Although the Reports are being made available concurrently with this proxy statement, they do not constitute a part of the proxy solicitation materials and are not incorporated by reference into this proxy statement.

We are first sending the proxy statement, form of proxy and accompanying materials to stockholders on or about October 11, 2016.

We will be hosting the 2016 Annual Meeting live via the Internet. A summary of the information you need to attend the meeting online is provided below:

Any stockholder can attend the 2016 Annual Meeting live via the Internet at [www.virtualshareholdermeeting.com/IHC2016](http://www.virtualshareholdermeeting.com/IHC2016);

Webcast starts at 10:00 a.m. EDT;

Stockholders may vote and submit questions while attending the 2016 Annual Meeting on the Internet; and

Stockholders need a twelve-digit control number to join the 2016 Annual Meeting.

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

**INFORMATION ABOUT THE ANNUAL MEETING**

**What is the purpose of the 2016 Annual Meeting and why is it being held over the Internet?**

At the 2016 Annual Meeting, the stockholders will be asked to:

1. elect nine directors, each for a term of one year;
2. ratify the appointment of RSM US LLP as IHC's independent registered public accounting firm for the fiscal year ending December 31, 2016;
3. adopt the 2016 Stock Incentive Plan; and
4. transact any other business that may properly come before the meeting.

The 2016 Annual Meeting is being held on a virtual-only basis in order to reach the broadest number of stockholders possible and to save costs relative to holding a physical meeting. A number of prominent publicly traded Delaware companies have held virtual-only meetings.

**Who is entitled to vote?**

The record date for the meeting is September 19, 2016. Only stockholders of record at the close of business on that date are entitled to vote at the meeting. The only class of stock entitled to be voted at the meeting is IHC common stock. Each outstanding share of common stock is entitled to one vote for all matters before the meeting. At the close of business on the record date, there were 17,067,875 shares of IHC common stock outstanding.

**How do I vote by proxy?**

If you properly complete, sign and date the accompanying proxy card or voting instruction card and return it in the enclosed envelope, it will be available for examination on the Internet through the virtual web conference during the annual meeting.

Please note that there are separate telephone and Internet arrangements depending on whether you are a registered stockholder (that is, if you hold your stock in your own name) or you hold your shares in street name (that is, in the

name of a brokerage firm or bank that holds your securities account). In either case, you must follow the procedures described in the proxy card.

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

If your shares are held by a bank, brokerage firm or other nominee, you are considered the beneficial owner of shares held in street name. If your shares are held in street name, the proxy materials are being made available to you by your bank, brokerage firm or other nominee (the record holder), along with voting instructions. As the beneficial owner, you have the right to direct your record holder how to vote your shares, and the record holder is required to vote your shares in accordance with your instructions. If you do not give instructions to your record holder, it will nevertheless be entitled to vote your shares in its discretion on the ratification of the appointment of the independent registered public accounting firm (Proposal 2), but not on the election of directors or the 2016 Stock Incentive Plan (Proposal 1 and Proposal 3).

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

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

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

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

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

**What do I need in order to be able to attend the online meeting?**

The Company will be hosting the 2016 annual meeting live online. You can attend the 2016 annual meeting live online at [www.virtualshareholdermeeting.com/IHC2016](http://www.virtualshareholdermeeting.com/IHC2016). The webcast will start at 10:00 a.m. EDT. You may vote and submit questions while attending the meeting online. You will need the twelve-digit control number included on your proxy card in order to be able to enter the meeting.

**How can I vote my shares during the online meeting?**

Shares held in your name as the stockholder of record may be voted by you, while the polls remain open, at [www.virtualshareholdermeeting.com/IHC2016](http://www.virtualshareholdermeeting.com/IHC2016) during the meeting. You will need your twelve-digit control number found in the proxy card. Shares held beneficially in street name may be voted by you at the meeting only if you obtain a legal proxy from the broker, bank, trustee or nominee that holds your shares giving you the right to vote the shares. Even if you plan to attend the online meeting, we recommend that you also submit your proxy or voting instructions as described below so that your vote will be counted if you later decide not to attend the online meeting.

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

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

**Is there a deadline for submitting proxies electronically or by telephone or mail?**

Proxies submitted electronically or by telephone as described above must be received by 11:59 pm EDT on November 10, 2016. Proxies submitted by mail should be received before 10:00 am EDT on November 10, 2016.

**Can I revoke my proxy and change my vote?**

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

**Who can participate in the online meeting?**

Only stockholders eligible to vote or their authorized representatives in possession of a valid twelve-digit control number will be admitted as participants to the online meeting.

**Will my vote be kept confidential?**

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

required by law;

you expressly request disclosure on your proxy; or

there is a proxy contest.

**Who will count the votes?**

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

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

The Board of Directors recommends that you vote:

FOR the election of the nine nominees to the Board;

FOR the ratification of the appointment of RSM US LLP as IHC's independent registered public accounting firm for the fiscal year ending December 31, 2016; and

- 

FOR the adoption of the 2016 Stock Incentive Plan.

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

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

FOR the election of the nine nominees to the Board;

FOR the ratification of the appointment of RSM US LLP as IHC's independent registered public accounting firm for the fiscal year ending December 31, 2016; and

- 

FOR the adoption of the 2016 Stock Incentive Plan.

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

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



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

The affirmative vote of a plurality of the votes cast at the online meeting is required to elect the nine nominees as directors. This means that the nine nominees will be elected if they receive more affirmative votes than any other person. The proxy card enables you to vote FOR all nominees proposed by the Board, to WITHHOLD authority for all nominees or to vote FOR ALL EXCEPT one or more of the nominees being proposed. Voting for all nominees except those you list on the proxy card is the equivalent of withholding your vote for those directors you have listed. If you vote Withheld with respect to one or more nominees, your shares will not be voted with respect to the person or persons indicated.

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

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

**How many votes are required to ratify the appointment of IHC's independent registered public accounting firm for the fiscal year ending December 31, 2016?**

The ratification of the appointment of RSM US LLP as IHC's independent registered public accounting firm for the fiscal year ending December 31, 2016 requires the affirmative vote of a majority of the shares present at the online meeting or by proxy and entitled to vote. The proxy card enables you to vote FOR or AGAINST the proposal or ABSTAIN from voting on the proposal. Abstentions will have the same practical effect as votes against the proposal.

**How many votes are required to adopt the 2016 Stock Incentive Plan?**

The approval of the adoption of the 2016 Stock Incentive Plan requires the affirmative vote of a majority of the shares present at the meeting or by proxy and entitled to vote. The proxy card enables you to vote FOR or AGAINST the proposal or ABSTAIN from voting on the proposal. Abstentions will have the same practical effect as votes against the proposal.

**How will abstentions be treated?**

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

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

Broker non-votes will be treated as shares present for quorum purposes. Your broker will be entitled to vote your shares in its discretion on the ratification of the appointment of the independent registered public accounting firm for the fiscal year ending December 31, 2016 (Proposal 2) without your voting instructions, but not on the election of directors (Proposal 1) or the adoption of the 2016 Stock Incentive Plan (Proposal 3).



**STOCK OWNERSHIP****Directors and Executive Officers**

The following table sets forth certain information concerning the number of shares of our common stock beneficially owned based on 17,067,875 issued and outstanding shares of common stock as of September 19, 2016 (the Record Date ) by: (i) each of our directors, and (ii) each of our named executive officers.

Beneficial ownership is determined in accordance with SEC rules and generally includes voting or investment power with respect to securities. Other than as described in the notes to the table, we believe that all persons named in the table have sole voting and investment power with respect to shares beneficially owned by them. All share ownership figures include shares issuable upon exercise of options or warrants exercisable within 60 days of the Record Date, which are deemed outstanding and beneficially owned by such person for purposes of computing his or her percentage ownership, but not for purposes of computing the percentage ownership of any other person.

The address of each individual named below is c/o IHC at 96 Cummings Point Road, Stamford, Connecticut 06902.

<u>Name of Beneficial Owner</u>	<u>Number of Shares</u>	<u>Percent of Class</u>
Mr. Larry R. Graber	100,285 (1)	*
Ms. Teresa A. Herbert	131,987 (2)	*
Mr. David T. Kettig	158,285 (3)	*
Mr. Allan C. Kirkman	24,651	*
Mr. John L. Lahey	20,625	*
Mr. Steven B. Lapin	122,162 (4)	*
Mr. Ronald I. Simon	---	---
Mr. James G. Tatum	36,651	*
Mr. Roy T. K. Thung	545,750 (5)	3.1%
All directors, nominees for director and executive officers as a group (8 persons)	1,140,396	6.5%

\*

Represents less than 1% of the outstanding common stock.

(1)

Includes 55,000 shares of common stock underlying stock options exercisable within sixty (60) days from the date hereof.

(2)

Includes 74,800 shares of common stock underlying stock options exercisable within sixty (60) days from the date hereof. Excludes the 9,145,226 shares of common stock held by Geneve Holdings, Inc., of which the named individual is an officer.

(3)

Includes 66,300 shares of common stock underlying stock options exercisable within sixty (60) days from the date hereof.

(4)

Excludes the 9,145,226 shares of common stock held by Geneve Holdings, Inc., of which the named individual is an officer.

(5)

Includes 258,500 shares of common stock underlying stock options exercisable within sixty (60) days from the date hereof. Excludes the 9,145,226 shares of common stock held by Geneve Holdings, Inc., of which the named individual is an officer.

### **Significant Stockholders**

The following table sets forth certain information concerning the number of shares of our common stock beneficially owned, based on 17,067,875 issued and outstanding shares of common stock as of the Record Date, by certain persons known by IHC to own beneficially more than five percent of the outstanding shares of IHC common stock.

Beneficial ownership is determined in accordance with SEC rules and generally includes voting or investment power with respect to securities. Other than as described in the notes to the table, we believe that all persons named in the table have sole voting and investment power with respect to shares beneficially owned by them. All share ownership figures include shares issuable upon exercise of options or warrants exercisable within 60 days of the Record Date, which are deemed outstanding and beneficially owned by such person for purposes of computing its percentage ownership, but not for purposes of computing the percentage ownership of any other person.

<u>Name</u>	<u>Number of Shares</u>	<u>Percent of Class</u>
Geneve Holdings, Inc. (1)	9,145,226	53.58%
Dimensional Fund Advisors LP. (2)	968,331	5.67%

(1)

According to (i) information disclosed in Amendment No. 35 to Schedule 13D dated May 9, 2001 of Geneve Holdings, Inc. ( GHI ), a private diversified financial holding company, supplemented by (ii) information provided to IHC by GHI in response to a questionnaire. GHI is a member of a group consisting of itself and certain of its affiliates that together hold the shares of common stock of IHC. The address of GHI is 96 Cummings Point Road, Stamford, Connecticut 06902.

(2)

According to information disclosed in Form 13F, reporting as of June 30, 2016 (the Form 13F ), Dimensional Fund Advisors LP, an investment adviser registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts (such investment companies, trusts and accounts, collectively referred to as the Funds ). In certain cases, subsidiaries of Dimensional Fund Advisors LP may act as an adviser or sub-adviser to certain Funds. In its role as investment advisor, sub-adviser and/or manager, Dimensional Fund Advisors LP or its subsidiaries (collectively, Dimensional ) possess voting and/or investment power over the securities of IHC that are owned by the Funds, and may be deemed to be the beneficial owner of the shares of IHC held by the Funds. However, all shares of IHC s common stock reported in the Form 13F are owned by the Funds. Dimensional disclaims beneficial ownership of such securities. In addition, its filing of the Form 13F shall not be construed as an admission that it or any of its affiliates is the beneficial owner of any securities covered by the Form 13F for any other purposes than Section 13(f) of the Securities Exchange Act of 1934, as amended. The address of Dimensional Fund Advisors LP is Palisades West, Building 1, 6300 Bee Cave Road, Austin, Texas 78746.

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

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires directors and certain officers of IHC and persons who own more than ten percent (10%) of IHC common stock to file with the U.S. Securities and Exchange Commission ( SEC ) initial reports of beneficial ownership (Form 3) and reports of subsequent changes in their beneficial ownership (Form 4 or Form 5) of IHC s common stock. Such directors, officers and

greater-than-ten-percent stockholders are required to furnish IHC with copies of the Section 16(a) reports they file. The SEC has established specific due dates for these reports, and IHC is required to disclose in this proxy statement any late filings or failures to file.

Based solely upon a review of the copies of the Section 16(a) reports (and any amendments thereto) furnished to IHC and written representations from certain reporting persons that no additional reports were required, IHC believes that its directors, reporting officers and greater-than-ten-percent stockholders complied with all these filing requirements for the fiscal year ended December 31, 2015.

## CORPORATE GOVERNANCE MATTERS

### Corporate Governance Documents

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

.

a Code of Business Ethics that applies to IHC's Chief Executive Officer and President, Chief Operating Officer, Chief Financial Officer, controller and other IHC employees performing similar functions (the Code of Ethics );

.

a Corporate Code of Conduct that applies to all employees, officers and directors of IHC and its subsidiaries and affiliates (the Code of Conduct );

.

Corporate Governance Guidelines ( Guidelines ) to advance the functioning of the Board and its committees and set forth the Board's expectations as to how it should perform its functions; and

.

written charters for its Audit and Compensation Committees of the Board (the Charters ).

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



## **Director Independence**

As a company listed on the New York Stock Exchange ( NYSE ), IHC uses the definition of independence prescribed in the NYSE Listed Company Manual (the Manual ). Each of Messrs. Kirkman, Tatum, Lahey and Simon met such independence requirements. The Board has affirmatively determined that none of them had any material relationship with IHC at all applicable times during 2015.

IHC qualifies as a controlled company, as defined in Section 303A.00 of the Manual, because more than 50% of IHC's voting power is held by Geneve Holdings, Inc. ( GHI ). Therefore, IHC is not subject to certain NYSE requirements that would otherwise require IHC to have: (i) a majority of independent directors on the Board (Manual Section 303A.01); (ii) compensation of IHC's executive officers determined by a compensation committee composed solely of independent directors (Manual Section 303A.04); or (iii) director nominees selected, or recommended for the Board's selection, by a nominating committee composed solely of independent directors (Manual Section 303A.05).

Of IHC's directors, none of Ms. Herbert, Messrs. Graber, Kettig, Lapin and Thung is independent under the NYSE's standards.

For each independent director, after reasonable investigations and in reliance on representations by such independent director to IHC, IHC believes there is no transaction, relationship or arrangement between each such director not disclosed in this proxy statement under the caption Certain Relationships and Related Transactions.

## **Board Leadership Structure**

The Board understands that there is no single, generally accepted approach to providing Board leadership and that given the dynamic and competitive environment in which we operate, the right Board leadership structure may vary as circumstances warrant. To this end, the Board has no policy mandating the combination or separation of the roles of Chairman and CEO and believes the matter should be discussed and considered from time to time as circumstances change. Currently, Mr. Roy T.K. Thung is both our CEO and Chairman.

## **Board Role in Risk Oversight**

The Board administers its risk oversight function directly and through its Audit Committee. The Board and the Audit Committee regularly discuss with management, and the Company's independent auditors and internal auditor, our major risk exposures, their potential financial impact on the Company, and the steps we take to manage these risks.

In general, management is responsible for the day-to-day management of the risks the Company faces, while the Board, acting as a whole and through the Audit Committee, has responsibility for the oversight of risk management. In its risk oversight role, the Board has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. Senior management attends the regular quarterly meetings of the Board and is available to address questions and concerns raised by the Board on risk management-related and other matters.

The Audit Committee assists the Board in fulfilling its oversight responsibilities with respect to risk management in the areas of financial reporting, internal controls and compliance with legal and regulatory requirements. In addition, the Audit Committee discusses policies with respect to risk assessment and risk management with management, internal audit and the independent auditors.

The Audit Committee assists the Board with oversight of risk management by reviewing the Company's financial statements and meeting with the Company's independent auditors and internal auditor at regularly scheduled meetings of the Audit Committee, to review their reports on the adequacy and effectiveness of our internal audit and internal control systems, and discusses with management the Company's major financial risks and exposures and the steps management has taken to monitor and control such risks and exposures.

## **Audit Committee Financial Expert**

The Board has determined that at least one member of the Audit Committee, Mr. Tatum, is an audit committee financial expert as such term is defined in Item 407(d)(5)(ii) of Regulation S-K promulgated by the SEC.

## **Executive Sessions of Non-Management Directors**

Non-management Board members meet without management present at least twice annually, at regularly scheduled executive sessions. At least once a year, such meetings include only the independent members of the Board. Mr. Kirkman presides over meetings of the non-employee and independent directors.

### **Communications with Directors**

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

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

### **Nomination of Director Candidates**

In light of GHI's majority voting power, the Board has determined that the Board, rather than a nominating committee, is the most appropriate body to identify director candidates and select nominees for presentation at the annual meeting of stockholders. In making nominations, the Board seeks candidates with outstanding business experience who will bring such experience to the management and direction of IHC. The minimum criteria employed by the Board in its selection

of candidates are set forth in the Guidelines, along with certain other factors that inform the selection process. All directors serving on the Board participate in the consideration of director nominees. Furthermore, in light of GHI's voting power, the Board has determined that no policy with respect to consideration of candidates recommended by security holders other than GHI's would be appropriate.

The Board does not have a formal policy with respect to diversity. However, the Board seeks to have a Board that reflects an appropriate balance of knowledge, experience, skills, expertise and diversity, as applicable to our industry. The Board assesses its achievement of diversity through the review of Board composition as part of the Board's annual self-assessment process.

## MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

### Meetings

During 2015, the Board held four formal meetings. Each director attended at least 75% of the aggregate of: (i) the total number of meetings of the Board; and (ii) the total number of meetings held by all committees of the Board on which he served, during the applicable period.

### Committees

The Board has standing Audit and Compensation Committees. Committee memberships are as follows:

#### Audit Committee

#### Compensation Committee

Mr. James G. Tatum (Chairman)

Mr. Allan C. Kirkman (Chairman)

Mr. Allan C. Kirkman

Mr. John L. Lahey

Mr. John L. Lahey

Mr. James G. Tatum

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

The Audit Committee met four times during 2015. Each of its members meets the independence requirements of the NYSE and applicable SEC rules and regulations. The Audit Committee and the Board have determined that each member of the Audit Committee is financially literate and that Mr. Tatum qualifies as an audit committee financial expert, as such term is defined in Item 401(h)(2) of Regulation S-K promulgated by the SEC.

**Compensation Committee.** The Compensation Committee assists the Board in fulfilling its responsibilities with regard to compensation matters, is responsible for determining or ratifying (as the case may be) the compensation of IHC's executive officers and administers IHC's 2006 Stock Incentive Plan and will administer IHC's 2016 Stock Incentive Plan. The Compensation Committee met three times during 2015. The Compensation Committee has sole authority to determine the compensation for IHC's Chief Executive Officer and President.

#### **Attendance at Annual Meeting of Stockholders**

Each IHC director is expected to be online for the Annual Meeting of Stockholders. At last year's annual meeting, every IHC director attended online.

### **EXECUTIVE OFFICERS**

Except for Ms. Herbert and Messrs. Graber, Kettig and Thung, who serve as (and are nominated to continue as) IHC directors, there is no executive officer of IHC. IHC's officers are elected by the Board, each to serve until his or her successor is elected and has qualified, or until his or her earlier resignation, removal from office or death.

Information about each executive officer of IHC, including such officer's name, age, all positions and offices held with IHC and its material affiliates and principal occupations and business experience during the past five years is set forth in the section entitled Proposal 1.

## **CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

### **Director Independence**

As a company listed on the New York Stock Exchange ( NYSE ), IHC uses the definition of independence prescribed in the NYSE Listed Company Manual (the Manual ). Each of Messrs. Kirkman, Tatum, Simon and Lahey met such independence requirements. The Board has affirmatively determined that none of them had any material relationship with IHC at all applicable times during 2015.

IHC qualifies as a controlled company, as defined in Section 303A.00 of the Manual, because more than 50% of IHC's voting power is held by GHI. Therefore, IHC is not subject to certain NYSE requirements that would otherwise require IHC to have: (i) a majority of independent directors on the Board (Manual Section 303A.01); (ii) compensation of IHC's executive officers determined by a compensation committee composed solely of independent directors (Manual Section 303A.04); or (iii) director nominees selected, or recommended for the Board's selection, by a nominating committee composed solely of independent directors (Manual Section 303A.05).

Of IHC's directors, none of Ms. Herbert or Messrs. Graber, Kettig, Lapin or Thung is independent under the NYSE's standards.

For each independent director, after reasonable investigations and in reliance on representations by such independent director to IHC, IHC believes there is no transaction, relationship or arrangement between each such director not disclosed in this annual report under the caption Certain Relationships and Related Transactions.

### **Compensation Committee Interlocks and Insider Participation**

Messrs. Kirkman, Lahey and Tatum served on the Compensation Committee of the Board during fiscal year 2015.

### **Transactions with Management and Other Relationships**

*With Geneve Holdings, Inc.*

IHC and Geneve Holdings, Inc. ( GHI ), IHC 's controlling stockholder, operate under cost-sharing arrangements pursuant to which certain items are allocated between the two companies. During 2015, IHC paid GHI (or accrued for payment thereto) approximately \$456,000 under such arrangements, and paid or accrued an additional \$225,000 for the first six months of 2016. Such cost-sharing arrangements include GHI 's providing IHC with the use of office space as IHC 's corporate headquarters for annual consideration of \$155,000 in 2015. The foregoing arrangement is subject to the annual review and approval of the Audit Committee, and IHC 's management believes that the terms thereof are no less favorable than could be obtained by IHC from unrelated parties on an arm 's-length basis.

***With Southern Life and Health Insurance Company***

Southern Life and Health Insurance Company ( Southern Life ) is controlled by GHI. During 2015, IHC and its subsidiaries paid approximately \$25,000 to Southern Life for certain cost-sharing arrangements and accrued an additional \$12,000 for the first six months of 2016.

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

Section 5.7 of IHC 's by-laws provide that no contract or transaction between IHC and one or more of its directors or officers (or their affiliates) is *per se* void (or voidable) if, among other things, the material facts as to the relevant relationships and interests were disclosed to the Board (or the relevant committee thereof) and the transaction in question was approved by a majority of the disinterested directors voting on the matter. The Audit Committee 's charter requires the Audit Committee to review and approve all interested-party transactions, and IHC 's other governance documents specifically prohibit various conflicts of interest and impose disclosure requirements in connection with any potential conflict of interest.



The Audit Committee has reviewed and approved each of the related-party transactions set forth above. IHC is not aware of any transaction reportable under paragraph (a) of Item 404 of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended, in respect of 2015, that was not so reviewed and approved.

**PROPOSAL 1**

**ELECTION OF DIRECTORS**

The Board currently consists of nine members. All of IHC's directors are elected at each annual meeting of stockholders and hold office until the next annual meeting of stockholders. The Board proposes that each of the nine current directors be re-elected, or elected in the case of Ms. Herbert and Mr. Simon, to the Board. Each of the directors elected at this annual meeting will hold office until the annual meeting of stockholders to be held in 2017 and until his or her successor is duly elected and qualified. The Company believes that its Board as a whole should encompass a range of talent, skill, diversity, and expertise enabling it to provide sound guidance with respect to the Company's operations and interests. In addition to considering a candidate's background and accomplishments, candidates are reviewed in the context of the current composition of the Board and the evolving needs of our businesses.

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

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

**NOMINEES FOR ELECTION TO THE BOARD**

**Director, Year First Elected  
as Director**

**Age**

**Principal Occupation, Business and Directorships and  
Qualifications**

Mr. Larry R. Graber	67	Since March 2012, Chief Life and Annuity Actuary and Senior Vice President of IHC; for more than five years prior thereto, Senior Vice President Life and Annuities of IHC; for more than the past five years, a director and President of Madison National Life Insurance Company, Inc., a wholly owned subsidiary of IHC; for more than the past five years, a director and President of Southern Life and Health Insurance Company, an insurance company and wholly owned subsidiary of Geneve Holdings, Inc., the controlling stockholder of IHC, with principal offices in Homewood, Alabama; for more than the past five years, a director of Standard Security Life Insurance Company of New York, a wholly
2000		

owned subsidiary of IHC.

Mr. Allan C.  
Kirkman

1980

73

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Graber should serve as one of IHC's directors are his extensive experience in many facets of the insurance business, particularly relating to the acquisition and administration of blocks of life insurance.

For more than the past five years, a member of each of the Audit Committee and the Compensation Committee; since March 2011, Chairman of the Compensation Committee. For more than five years prior to his retirement in October 2005, Executive Vice President of Mellon Bank, N.A.

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Kirkman should serve as one of IHC's directors are his extensive experience in diverse, complex businesses and transactions, including those involving public companies in the financial services fields.

Mr. David T. Kettig 2011 57 Since April 1, 2016, Executive Vice President of IHC; since February 2015, Chief Operating Officer and Acting General Counsel of IHC; from April 2009 to April 1, 2016, Chief Operating Officer and Senior Vice President of IHC; since August 2013, President of American Independence Corp., formerly a public company traded on Nasdaq and majority-owned subsidiary of IHC ( AMIC ) that was merged out of existence on August 31, 2016; from April 2009 to March 2012, Chief Operating Officer and Senior Vice President of AMIC; since March 2011, a director of AMIC; for more than the past five years, President and a director of Independence American Insurance Company, an indirect wholly owned subsidiary of IHC; since March 2012, President and since May 2012, a director of Standard Security Life Insurance Company of New York, a wholly owned subsidiary of IHC.

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Kettig should serve as one of IHC s directors are his extensive experience in diverse, complex businesses and transactions, corporate governance, legal affairs, risk management, and insurance.

Mr. John L. Lahey 2006 70 For more than the past five years, a member of the Audit Committee; since March 2011, a member of the Compensation Committee; since March 1987, President of Quinnipiac University, a private university located in Hamden, Connecticut; since 1995, a member of the Board of Trustees of Yale-New Haven Hospital, a hospital located in New Haven, Connecticut; between 1994 and December 2015, a director of the UIL Holdings Corporation, a publicly held utility holding company with principal offices in New Haven, Connecticut; since December 2015, a director, Audit and Compliance Committee member, and Executive Committee member of Avangrid, Inc., a diversified energy and utility company that is the successor-in-interest by merger to UIL Holdings Corporation, with principal offices in New Haven, Connecticut; since 2004, a director of Alliance for Cancer Gene Therapy, the only national non-profit organization committed exclusively to cancer gene and cell therapy research; since June 2006, a director of Standard Security Life Insurance Company of New York, a wholly owned subsidiary of IHC. Mr. Lahey also serves as a director and Chairman of the Board of the New York City St. Patrick s Day Parade, Inc.

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Lahey should serve as one of IHC s directors are his extensive executive experience in major organizations and his valuable expertise in management and corporate governance.

Mr. Steven B. Lapin 1991 71 For more than the past five years, Vice Chairman of the Board of Directors of IHC; for more than the past five years, Chairman, Chief Executive Officer and President of Geneve Holdings, Inc. ( GHI ), the controlling stockholder of IHC; for more than the past five years, Chairman, Chief Executive Officer and President of Geneve Corporation, a wholly owned subsidiary of GHI; for more than the past five years, a

director of American Independence Corp., formerly a public company traded on Nasdaq and majority-owned subsidiary of IHC that was merged out of existence on August 31, 2016; for more than the past five years, a director of Madison National Life Insurance Company, Inc., a wholly owned subsidiary of IHC; for more than the past five years, a director of Standard Security Life Insurance Company of New York, a wholly owned subsidiary of IHC.

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Lapin should serve as one of IHC's directors are his extensive experience in diverse, complex businesses and transactions, corporate governance of public companies, risk management and insurance.

James G. Tatum, C.F.A. 74 Since June 2002, Chairman of the Audit Committee; for more than the past five years, member of the Compensation Committee; for more than the past five years, a director of Standard Security Life Insurance Company of New York, a wholly owned subsidiary of IHC; for more than the past five years, sole proprietor of J. Tatum Capital, LLC, a registered investment advisor, located in Birmingham, Alabama, managing funds primarily for individual and trust clients; Chartered Financial Analyst for more than twenty-five years; since March 2011, a director of American Independence Corp., formerly a public company traded on Nasdaq and majority-owned subsidiary of IHC ( AMIC ) that was merged out of existence on August 31, 2016; since March 2011, a member of the Audit Committee of AMIC.

2000

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Tatum should serve as one of IHC s directors are his extensive executive experience in major organizations and has valuable expertise with financial issues, risk management and oversight.

Mr. Roy T.K. Thung 72 Since March 2011, Chief Executive Officer, President and Chairman of the Board; since January 2000, Chief Executive Officer of IHC; since July 1999, President of IHC; for more than five years prior to July 1999, Executive Vice President and Chief Financial Officer of IHC; for more than the past five years, Executive Vice President of Geneve Corporation, a private company controlled by IHC s controlling stockholder; since July 2002, a director of American Independence Corp., formerly a public company traded on Nasdaq and majority-owned subsidiary of IHC ( AMIC ) that was merged out of existence on August 31, 2016; from November 2002 until March 2012, Chief Executive Officer and President of AMIC; since March 2012, Chief Executive Officer of AMIC; for more than five years prior to April 2016, Chief Executive Officer and Chairman of the Board of Standard Security Life Insurance Company of New York, a wholly owned subsidiary of IHC ( SSL ); for more than the past five years, director of SSL; for more than the past five years, Chairman of the Board of Madison National Life Insurance Company, Inc., a wholly owned subsidiary of IHC.

1990

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Thung should serve as one of IHC s directors are his extensive experience in diverse, complex businesses and transactions, including involving public companies in the insurance industry.

Mr. Ronald I. Simon 2016 77 From August 1997 until April 1999, Chairman of the Board of American Independence Corp., formerly a public company traded on Nasdaq and majority-owned subsidiary of IHC ( AMIC ) that was merged out of existence on August 31, 2016; from April 1999 to February 2001, Vice Chairman of the Board of AMIC; from February 2001 through May 2001, Acting Chairman of the Board, Chief Executive Officer and Chief Financial Officer of AMIC; since January 2003, Chairman of the Compensation Committee of AMIC; since January 2005, a member of the Audit Committee of AMIC; since 2011, Chairman of the Audit Committee of AMIC; from May 1997 through April 2000, Executive Vice President and Chief Financial Officer, and from September 1999 to September 2001, a director, of Western Water Company, which owned and developed water rights in the western United States; from May 1999 through July 2002, when the company was acquired by Schering, AG, a director of Collateral Therapeutics, Inc., a developer of non-surgical gene therapy procedures for the treatment of cardiovascular diseases; from January 2006 through January 2009, a director of Cardium Therapeutics, a company formed to acquire and further develop the procedures originally developed by Collateral Therapeutics; from August 2001 through June 2002, Chief Financial Officer of Wingcast, Inc., a joint venture of Ford Motor Company and Qualcomm, Inc.; from April 2003 through April 2005, director of BDI Investment Corp., a closely held regulated investment company; from March 2003 through February 2006, a director of WFS Financial, Inc., one of the nation s largest independent automobile finance companies; since August 2007, a director and member of the Audit and Compensation Committees, and Chairman of the Corporate Governance Committee, of Ellington Financial, LLC, a specialty finance company specializing in acquiring and managing mortgage-related assets; since May 2013, a director and member of the Audit and Compensation Committees, and Chairman of the Corporate Governance Committee, of Ellington Residential Mortgage REIT.

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Simon should serve as one of IHC s directors are his extensive experience in finance and senior management, and in growing successful organizations with entrepreneurial company cultures.

Ms. Teresa A. Herbert 2016 55 For more than the past five years, Chief Financial Officer and Senior Vice President; for more than the past five years, Vice President of Finance of Geneve Corporation, a private company controlled by Geneve Holdings, Inc., a private diversified holding company; for more than the past five years, Chief Financial Officer and Senior Vice President of American Independence Corp., formerly a public company traded on Nasdaq and majority-owned subsidiary of IHC ( AMIC ) that was merged out of existence on August 31, 2016; since March 2011, a director of AMIC.

The experiences, qualifications, attributes or skills that led the Board to conclude that Ms. Herbert should serve as one of IHC's directors are her extensive financial and accounting experience with companies that have complex organizational structures and involve intercompany transactions.



**DIRECTORS COMPENSATION**

The general policy of the Board is that compensation for independent directors should be a mix of cash and equity. IHC does not pay management directors for board service in addition to their regular employee compensation. The Compensation Committee has the primary responsibility for reviewing and considering any revisions to director compensation.

During 2016, each non-employee (outside) director will be paid:

an annual retainer of \$36,000;

\$1,500 for each board or committee meeting attended;

\$9,000 for service as chairman of a board committee; and

2,475 restricted shares of IHC common stock, vesting ratably over the three annual anniversaries of the award, and contingent upon continuing service as a director.

The following table summarizes compensation paid to IHC's directors during 2015 except for Mr. Roy T.K. Thung, IHC's Chief Executive Officer and President, Mr. David T. Kettig, Chief Operating Officer, Executive Vice President and Acting General Counsel, and Mr. Larry R. Graber, Chief Life and Annuity Actuary and Senior Vice President, for whom compensation was previously disclosed.

**Director Summary Compensation**

<b>Name</b>	<b>Fees Earned or Paid</b>		<b>Total</b>
	<b>in Cash</b>	<b>Stock Awards</b>	
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Mr. Allan C. Kirkman	63,000	29,156	92,156
Mr. John L. Lahey	54,000	29,156	83,156

Mr. Steven B. Lapin (1)	-	-	-
Mr. James G. Tatum	63,000	29,156	92,156

(1)

Mr. Lapin received no compensation in connection with his service as an IHC director during 2015.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### *Say-on-Pay and Say-on-Frequency*

The Compensation Committee considered the voting results of the advisory, non-binding say-on-pay vote at IHC's 2014 Annual Meeting of Stockholders in connection with the discharge of its responsibilities. IHC's stockholders expressed their support of the compensation for our CEO, CFO and the three other most-highly compensated officers in respect of 2013, with a substantial majority of the votes cast voting to approve the compensation of IHC's named executive officers described in IHC's 2014 proxy statement. Following the Compensation Committee's review and consideration of this stockholder support, as well as the other factors discussed in more detail below, we determined to make no changes to our approach to executive compensation.

At IHC's 2011 Annual Meeting of Stockholders, a majority of IHC's stockholders voted for say-on-pay proposals to occur every three years. In light of this voting result on the frequency of say-on-pay proposals, the Board decided that IHC will present say-on-pay proposals every three years until the next required vote on the frequency of stockholder votes on named executive officer compensation. Accordingly, we held such a vote at our 2014 Annual Meeting of Stockholders and we currently expect to hold the next say-on-pay vote at IHC's 2017 Annual Meeting of Stockholders. We currently expect the next stockholder vote on the frequency of stockholder votes on named executive officer compensation to also occur at IHC's 2017 Annual Meeting of Stockholders.

#### *Compensation Objectives*

Compensation of each of IHC's executive officers is intended to be based on performance of IHC and the executive. The Compensation Committee has responsibility for establishing and reviewing the compensation of IHC's CEO and for reviewing the compensation for all of IHC's executive officers.

In establishing executive officer compensation, the following are among the Compensation Committee's objectives:

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attract and retain individuals of superior ability and managerial talent;  
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ensure compensation is aligned with IHC's corporate strategies, business objectives and the long-term interests of IHC's stockholders; and

enhance incentives to increase IHC's stock price and maximize stockholder value by providing a portion of total compensation in IHC equity and equity-related instruments.

IHC's overall compensation program is structured to attract, motivate and retain highly qualified executive officers by paying them competitively, consistent with IHC's success and their contributions to such success. To this end, base salary and bonus are designed to reward annual achievements and to be commensurate with an executive's scope of responsibilities, demonstrated leadership abilities and management experience and effectiveness. Other elements of compensation focus on motivating and challenging IHC's executive officers to achieve superior, long-term, sustained results.

### *Implementation of Objectives*

#### Salaries

The salary of an IHC executive officer is based on his or her level of responsibility, experience and qualifications and recent performance. Adjustments to salary are made in response to changes in any of the foregoing factors and changes in market conditions. Executive officer salaries are typically reviewed by the Compensation Committee every twelve months. The Compensation Committee has sole authority to determine the compensation for IHC's Chief Executive Officer. Neither the Compensation Committee nor IHC has retained a compensation consultant or similar organization for assistance in reviewing or setting executive officer salaries or other compensation.

#### Cash Bonuses

Following the close of each fiscal year, IHC's Chief Executive Officer and President makes determinations that are communicated to the Compensation Committee as to cash bonuses for IHC's executive officers (excluding himself), based on an analysis of: (i) any contractual commitments set forth in an employment agreement; (ii) IHC's performance in the year

ended versus IHC's plan for such year; and (iii) a subjective evaluation of a variety of factors as to each executive officer's individual contribution during the year. The Compensation Committee then convenes outside the presence of the Chief Executive Officer and President and, following appropriate deliberation, approves or ratifies bonuses for all IHC executive officers.

The salaries paid and annual bonuses awarded to IHC's named executive officers in respect of 2015 are set forth in the Summary Compensation Table.

### Equity Awards

IHC's 2006 Stock Incentive Plan (the "2006 Plan") provided the opportunity for the Compensation Committee to make equity incentive awards to, among others, IHC's executive officers. While there are outstanding grants under the 2006 Plan, it has expired and no new grants may be made under it. The Board of Directors initially approved a 2016 Stock Incentive Plan, and approved a slightly modified version of the 2016 Stock Incentive Plan on September 23, 2016 (the "2016 Plan") on substantially the same terms as the 2006 Plan, and it is being submitted for stockholder approval at the annual meeting. The following describes the 2016 Plan and is largely consistent with the 2006 Plan.

The types of equity awards that may be granted under the 2016 Plan are: (i) options; (ii) share appreciation rights ("SARs"); (iii) restricted shares, restricted share units (which are shares granted after certain vesting conditions are met) and unrestricted shares; (iv) deferred share units; and (v) performance awards. The Compensation Committee determines the type and amount of the award with reference to factors that include the present value of the award relative to the executive officer's salary and anticipated cash bonus, the anticipated importance of the executive's position to IHC's future results, and the size of the executive's total compensation relative both to other executives within IHC and to compensation levels at other companies.

Within the limitations of the 2016 Plan, the Compensation Committee may modify an award to: (i) accelerate the rate at which an option or SAR may be exercised (including, without limitation, permitting an option or SAR to be exercised in full without regard to the installment or vesting provisions or whether the option or SAR is at the time exercisable); (ii) accelerate the vesting of any award; (iii) extend or renew outstanding awards; or (iv) accept the cancellation of outstanding awards. However, the Compensation Committee may not, without stockholder approval, cancel an outstanding option that is underwater for the purpose of reissuing the option to a grantee within six months thereafter at a lower exercise price, or granting a replacement award of a different type. Notwithstanding the foregoing provision, no modification of an outstanding award can materially and adversely affect a grantee's rights thereunder, unless the grantee provides written consent, there is an express 2016 Plan provision permitting the Compensation Committee to act unilaterally to make the modification, or the Compensation Committee reasonably concludes that the modification is not materially adverse to the grantee.

### *Options*

Incentive stock options ("ISOs") and non-incentive stock options ("Non-ISOs") may be granted under the 2016 Plan. At the sole discretion of the Compensation Committee, any option may be exercisable, in whole or in part, immediately

upon the grant thereof, or only after the occurrence of a specified event, or only in installments, which installments may vary. The term of any option may not exceed ten years from the grant date; *provided, however*, that in the case of an ISO granted to an employee of IHC or any of its affiliates who owns stock representing more than ten percent (10%) of the voting stock on the grant date ( Employee Ten Percent Holder ), the term of the ISO shall not exceed five years from the grant date. The exercise price of an option is determined by the Compensation Committee in its sole discretion; *provided, however*, that if an ISO is granted to an Employee Ten Percent Holder, the per share exercise price shall not be less than 110% of the closing price per share on the NYSE on the grant date ( Fair Market Value ); and *provided further* that for all other options, the per share exercise price shall not be less than 100% of the Fair Market Value on the grant date. Neither IHC nor the Compensation Committee can allow for a repricing without stockholder approval.

Each of IHC's named executive officers holds stock options, having varying exercise prices and expiration dates (based on the date granted). Please see the information set forth in the tables below for additional information. IHC does not have a target level of stock ownership applicable to any of its employees, including the named executive officers.

#### *Share Appreciation Rights (SARs)*

The Compensation Committee may grant SARs either concurrently with the grant of an option or with respect to an outstanding option (in which case the SAR will extend to all or a portion of the shares covered by the related option, the

exercise price is the same as the exercise price of the related option, and the SAR is exercisable at such time or times, and to the extent, that the related option will be exercisable), or independent of any option. The Compensation Committee may also grant SARs that are exercisable only upon or in respect of a change in control (as defined in the Plan) or any other specified event. The per share exercise price of a SAR cannot be less than 100% of the Fair Market Value, and the SARs may only be exercised when the Fair Market Value of the shares underlying the SAR exceeds the exercise price of the SAR. Neither IHC nor the Compensation Committee can allow for a repricing without stockholder approval.

#### *Restricted Shares, Restricted Share Units and Unrestricted Shares*

Subject to applicable law, an award of restricted shares will be granted to each non-employee director of IHC on the date immediately following each annual meeting of IHC's stockholders. One-third of those restricted shares will vest on each of the next three annual anniversaries of the date the restricted shares were awarded. In the event that a non-employee director terminates his or her membership on the Board for any reason, the director will immediately forfeit any unvested restricted shares.

At any time within the thirty-day period (or other shorter or longer period that the Compensation Committee selects in its sole discretion) in which a grantee who is a member of a select group of management or highly compensated employees receives an initial award of either restricted shares or restricted share units, the Compensation Committee may permit the grantee to irrevocably elect to defer the receipt of all or a percentage of the shares that would otherwise be transferred to the grantee upon the vesting of such award.

#### *Deferred Share Units*

The Compensation Committee may permit any director, consultant or member of a select group of management or highly compensated employees to irrevocably elect to forego the receipt of cash or other compensation (including shares), and in lieu thereof to have IHC credit to an internal Plan account a number of deferred share units having a Fair Market Value equal to the shares and other compensation deferred.

#### *Performance Awards*

The Compensation Committee may grant a performance award based on one or more of the following to measure IHC, affiliate, and/or business unit performance during a specified performance period: (i) gross or net premiums; (ii) profit margin; (iii) insured lives; (iv) basic, diluted, or adjusted earnings per share; (v) sales or revenue; (vi) earnings before interest, taxes, and other adjustments (in total or on a per share basis); (vii) basic or adjusted net income; (viii) returns on equity, assets, capital, revenue or similar measure; (ix) economic value added; (x) working capital; (xi) total stockholder return; and (xii) product development, product market share, research, licensing, litigation, human resources, information services, mergers, acquisitions, or sales of assets of affiliates or business units. Performance measures may vary from performance period to performance period and from grantee to grantee.

A grantee will be eligible to receive payment in respect of a performance award only to the extent that the performance measure(s) for such award is achieved, and it is determined that all or some portion of such grantee's award has been earned for the performance period. The Compensation Committee reviews whether, and to what extent, the performance measure(s) for a particular performance period (of not less than one fiscal year) have been achieved and, if so, determines the amount of the performance award to be paid. The Compensation Committee may use negative discretion to decrease, but not increase, the amount of the award otherwise payable based upon such performance.

At any time prior to the date that is at least six months before the close of a performance period (or shorter or longer period that the Compensation Committee selects), the Compensation Committee may permit a grantee who is a member of a select group of management or highly compensated employees to irrevocably elect to defer the receipt of all or a percentage of the cash or shares that would otherwise be transferred to the grantee upon the vesting of a performance award.

#### Termination, Rescission and Recapture of Awards

Each award under the Plan granted to an employee is intended to align such employee's long-term interest with those of IHC. Therefore, if the employee discloses confidential or proprietary information of IHC, provides services to a competitor of IHC, solicits a non-administrative employee of IHC, or has engaged in activities which conflict with IHC's interests (including any breaches of fiduciary duty or the duty of loyalty), the employee is acting contrary to IHC's long-term interests. Accordingly, except as otherwise expressly provided in an award agreement, IHC may terminate any outstanding, unexercised, unexpired, unpaid, or deferred awards, rescind any exercise, payment or delivery pursuant to the award, or recapture any common stock (whether restricted or unrestricted) or proceeds from the employee's sale of shares issued



pursuant to the award. Notwithstanding the foregoing, IHC may, in its sole and absolute discretion, choose not to terminate, rescind or recapture upon the occurrence of any of the foregoing events.

### Tax Implications

Section 162(m)(1) of the Tax Code limits the amount a publicly-held corporation may deduct for compensation paid to the CEO and certain named executive officers to \$1 million per year per executive, makes an exception for performance-based compensation and commissions, and excludes the compensation paid to former covered executives once they are no longer covered.

### **Compensation Committee Report**

The Compensation Committee assists the Board in fulfilling its responsibilities with regard to compensation matters, and is responsible for establishing and approving the compensation of IHC's executive officers. The Compensation Committee has sole authority to determine the compensation for IHC's Chief Executive Officer. The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis section of the Form 10-K for IHC's fiscal year ended December 31, 2015 with management, including our Chief Executive Officer and our Chief Financial Officer.

#### Compensation Committee

Mr. Allan C. Kirkman (Chairman)  
Mr. John L. Lahey  
Mr. James G. Tatum

### **Compensation Risk Assessment**

The Compensation Committee considered the Company's compensation policies and practices and concluded that they did not need to be modified.

### **Summary Compensation Table**

The following table lists the annual compensation for IHC's CEO, CFO and its three other most highly compensated executive officers in 2015 for the years 2015, 2014 and 2013.

Name and Principal	Position	Year	Change in Pension Value and		Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
			Salary	Bonus						
			(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Mr. Roy T.K. Thung		2015	452,737	338,800	-	-	804,000 (1)	141,247 (4)	19,932	1,756,716
<i>Chief Executive Officer,</i>		2014	443,885	338,000	-	158,400 (2)	855,000 (1)	133,252 (4)	28,583	1,957,120
<i>President and Chairman</i>		2013	437,348	308,000	-	264,825 (3)	(350,000) (1)	125,709 (4)	20,558	806,440
Ms. Teresa A. Herbert		2015	275,821	173,250	-	-	-	-	22,252	471,323
<i>Chief Financial Officer</i>		2014	270,436	157,500	-	42,570 (2)	-	-	23,871	494,377
		2013	266,455	135,000	-	88,275 (3)	-	-	23,182	512,912
Mr. David T. Kettig		2015	352,728	275,000	-	-	-	-	25,217	652,945
<i>Chief Operating Officer</i>		2014	345,456	250,000	-	47,520 (2)	-	-	19,448	662,424
		2013	340,000	210,000	-	88,275 (3)	-	-	19,373	657,648
Mr. Michael Kemp		2015	328,079	325,000	-	-	-	-	26,030	679,109
<i>Chief Underwriting Officer</i>		2014	321,295	376,680	-	-	-	-	23,533	721,508
		2013	316,200	210,000	-	-	-	-	22,942	549,142

Mr. Larry R. Graber	2015	279,091	293,120	-	-	-	-	31,863	604,074
<i>Chief Life and Annuity</i>	2014	273,619	130,000	-	24,750	(2)	-	33,072	461,441
<i>Actuary</i>	2013	269,575	130,000	-	88,275	(3)	-	27,949	515,799

(1)

Represents strategic and long term incentive earnings as a result of Mr. Thung's Employment Agreement with IHC for the year indicated. IHC is party to the Officer Employment Agreement by and between IHC and Mr. Roy T.K. Thung, IHC's Chief Executive Officer, President and Chairman of the Board of Directors, dated as of May 11, 2011. Under the agreement, Mr. Thung is entitled to an incentive payment upon the disposition of any strategic asset of IHC equal to 3% of the amount above which the consideration received by IHC for such disposition exceeds the book value of such asset as of March 31, 2011. In addition, any termination of the agreement other than for cause triggers an incentive payment to Mr. Thung in respect of such appreciation in the overall book value of IHC. The initial term of Mr. Thung's employment agreement was two years from the date it was entered into, but, by its terms, will be automatically extended for successive two-year periods unless one hundred twenty days prior notice of non-renewal is given by IHC. In accordance with the terms of the agreement, Mr. Thung received a cash incentive payment of \$288,728 in 2015 as a result of the coinsurance and sale transaction with National Guardian Life Insurance Company on July 31, 2015. Had the strategic and long-term incentive provisions of Mr. Thung's agreement been triggered on December 31, 2015, Mr. Thung would have received \$2,370,272.

(2)

Represents the modification of fully vested options during 2014 to extend their expiration date. The amount reported is the incremental fair value of the modified award as of the modification date.

(3)

Represents the modification of fully vested options during 2013 to extend their expiration date and impose a new, two-year vesting period. The amount reported is the incremental fair value of the modified award as of the modification date.

(4)

Represents the increase (decrease) in the value of Mr. Thung's Retirement Benefits Agreement with IHC for the year indicated. Refer to Potential Payments to Named Executive Officers for additional information regarding this agreement.

**Outstanding Equity Awards at Fiscal Year-End**

The following table sets forth for each named executive officer certain information about unexercised stock options and unvested shares of restricted stock held as of December 31, 2015.

Name	Option Awards			Stock Awards		
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Market Value of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
R o y T . K . Thung	176,000	-	\$9.09	January 5, 2017	-	-
	16,500	-	\$7.11	March 16, 2016 (1)	-	-
	82,500	-	\$9.99	March 19, 2018	-	-
Teresa A. Herbert	47,300	-	\$9.09	January 5, 2017	-	-
	11,000	-	\$7.11	March 16, 2016 (1)	-	-
	27,500	-	\$9.99	March 19, 2018	-	-
D a v i d T . Kettig	45,300	-	\$9.09	January 5, 2017	-	-
	11,000	-	\$7.11	March 16, 2016 (1)	-	-
	27,500	-	\$9.99	March 19, 2018	-	-
Michael Kemp	7,150	-	\$7.86	August 10, 2016 (2)	-	-
	11,000	-	\$7.28	November 9, 2016 (2)	-	-

	14,850	-	\$9.75	March 15, 2017 (2)	-	-
	12,000	-	\$9.46	December 17, 2017 (2)	-	-
Larry R. Graber	27,500	-	\$9.09	January 5, 2017	-	-
	11,000	-	\$7.11	March 16, 2016 (1)	-	-
	27,500	-	\$9.99	March 19, 2018	-	-

(1)

Stock appreciation rights granted on March 31, 2011 were fully vested as of December 31, 2015.

(2)

Stock appreciation rights granted on August 10, 2011, November 9, 2011, March 15, 2012, and December 17, 2012 were fully vested as of December 31, 2015.

The following table sets forth information about the number and value of option exercises and vested stock awards for each named executive officer during the year 2015.

Name	Option Exercises and Stock Vested			
	Option Awards		Stock Awards	
	Number of shares acquired on exercise (#)	Value realized on exercise (\$)	Number of shares acquired on vesting (#)	Value realized on vesting (\$)
Roy T.K. Thung	-	-	-	-
Teresa A. Herbert	-	-	-	-
David T. Kettig	7,500	28,518	-	-
Michael Kemp	-	-	-	-
Larry R. Graber	-	-	-	-

#### Potential Payments to Named Executive Officers

*With Mr. Thung*

IHC is party to a Retirement Benefits Agreement with Mr. Roy T.K. Thung, dated as of September 30, 1991, and amended by amendments dated as of December 20, 2002, June 17, 2005 and December 31, 2008, respectively, pursuant to which Mr. Thung is entitled to a lump-sum cash payment upon a separation from service from IHC of \$1,659,557, increasing on a cumulative, compounding basis of 6% per annum from December 31, 2008. Separation from service is as defined under U.S. Treasury Regulations 1.409A-1(h)(1), and would generally include Mr. Thung's death, retirement or any other termination of employment, including permanent disability. For example, had this provision been triggered on December 31, 2015, Mr. Thung would have been entitled to receive a payment of \$2,495,360.

IHC is party to the Officer Employment Agreement by and between IHC and Mr. Roy T.K. Thung, IHC's Chief Executive Officer, President and Chairman of the Board of Directors, dated as of May 11, 2011. Under this employment agreement, if Mr. Thung's employment by IHC or its affiliate were to cease under certain circumstances, Mr. Thung would be entitled to receive a lump-sum severance amount equal to the average annual aggregate total compensation received by Mr. Thung during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Mr. Thung to IHC and its affiliates. The circumstances under which such severance would be paid are: (i) Mr. Thung's employment by IHC being involuntarily terminated under circumstances that would not constitute cause (examples of cause being Mr. Thung's material failure to follow IHC's lawful directions, material failure to follow IHC's corporate policies, breach of the non-compete covenants in the employment agreement or his engaging in unlawful behavior that would damage IHC or its reputation); (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with IHC's material breach of its obligations under the employment agreement, IHC's non-renewal of the employment agreement or change in control of IHC or its ultimate parent); or; (iii) upon Mr. Thung's death or permanent disability. In addition, under the agreement, Mr. Thung is also entitled to strategic and long-term incentive payments which are included in the Summary Compensation Table above. The initial term of Mr. Thung's employment agreement is two years from the date it was entered into, but, by its terms, it will be

automatically extended for successive two-year periods unless one hundred twenty days prior notice of non-renewal is given by IHC. For example, had the severance provisions of Mr. Thung's agreement been triggered on December 31, 2015, Mr. Thung would have been entitled to receive approximately \$64,961 per month for thirty-nine months (approximately \$2,533,479 in the aggregate).

***With Ms. Herbert***

IHC is party to the Officer Employment Agreement, by and between IHC and Ms. Teresa A. Herbert, IHC's Chief Financial Officer and Senior Vice President, dated as of April 18, 2011. Under this employment agreement, if Ms. Herbert's employment by IHC or its affiliate were to cease under certain circumstances, Ms. Herbert would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Ms. Herbert during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Ms. Herbert to IHC and its affiliates, not to exceed twenty-four months. The circumstances under which such severance would be paid are (i) Ms. Herbert's employment by IHC being involuntarily terminated under circumstances that would not constitute cause (examples of cause being Ms. Herbert's material failure to follow IHC's lawful directions, material failure to follow IHC's corporate policies, breach of the non-compete covenants in the employment agreement or her engaging in unlawful behavior that would damage IHC or its reputation), or (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with IHC's (or its successor's) material breach of its obligations under the employment agreement or upon IHC's non-renewal of the employment agreement). The initial term of Ms. Herbert's employment agreement is two years from the date it was entered into, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days prior notice of non-renewal is given by IHC. For example, had the severance provision in Ms. Herbert's agreement been triggered on December 31, 2015, Ms. Herbert would have been entitled to receive approximately \$36,340 per month for twenty-four months (\$872,160 in the aggregate).

***With Mr. Kettig***

IHC is party to the Officer Employment Agreement, by and among IHC, Standard Security Life, and Mr. David T. Kettig, IHC's Chief Operating Officer, Executive Vice President and Acting General Counsel, dated as of April 18, 2011. Under this employment agreement, if Mr. Kettig's employment by SSL or its affiliate were to cease under certain circumstances, Mr. Kettig would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Mr. Kettig during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Mr. Kettig to IHC and its affiliates, not to exceed twenty-four months. The circumstances under which such severance would be paid are (i) Mr. Kettig's employment by SSL being involuntarily terminated under circumstances that would not constitute cause (examples of cause being Mr. Kettig's material failure to follow SSL's or IHC's lawful directions, material failure to follow SSL's or IHC's corporate policies, breach of the non-compete covenants in the employment agreement or his engaging in unlawful behavior that would damage SSL, IHC or their respective reputations), or (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with SSL's (or its successor's) material breach of its obligations under the employment agreement or upon

SSL's non-renewal of the employment agreement). The initial term of Mr. Kettig's employment agreement is two years from the date it was entered into, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days' prior notice of non-renewal is given by SSL. For example, had the severance provision in Mr. Kettig's agreement been triggered on December 31, 2015, Mr. Kettig would have been entitled to receive approximately \$48,576 per month for twenty-four months (\$1,165,824 in the aggregate).

***With Mr. Kemp***

IHC was party to the Officer Employment Agreement, by and among IHC, Risk Solutions, and Mr. Michael Kemp, IHC's Chief Underwriting Officer and Senior Vice President, dated as of May 22, 2012. Under this employment agreement, if Mr. Kemp's employment by Risk Solutions or its affiliate were to cease under certain circumstances, Mr. Kemp would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Mr. Kemp during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) 3.5 plus a number of months equal to the aggregate number of years of service of Mr. Kemp to IHC and its affiliates, not to exceed twenty-four months. The circumstances under which such



severance would be paid were (i) Mr. Kemp's employment by Risk Solutions being involuntarily terminated under circumstances that would not constitute cause (examples of cause being Mr. Kemp's material failure to follow Risk Solutions' or IHC's lawful directions, material failure to follow Risk Solutions' or IHC's corporate policies, breach of the non-compete covenants in the employment agreement or his engaging in unlawful behavior that would damage Risk Solutions, IHC or their respective reputations), or (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with Risk Solutions (or its successor's) material breach of its obligations under the employment agreement or upon Risk Solutions non-renewal of the employment agreement). The severance provision in Mr. Kemp's agreement was triggered on March 31, 2016 with the sale of Risk Solutions and Mr. Kemp was paid a lump sum of \$598,473.

### ***With Mr. Graber***

IHC is party to the Officer Employment Agreement, by and among IHC, Madison National Life, and Mr. Larry R. Graber, IHC's Chief Life and Annuity Actuary and Senior Vice President, dated as of April 18, 2011. Under this employment agreement, if Mr. Graber's employment by MNL or its affiliate were to cease under certain circumstances, Mr. Graber would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Mr. Graber during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Mr. Graber to IHC and its affiliates, not to exceed twenty-four months.

The circumstances under which such severance would be paid are (i) Mr. Graber's employment by MNL being involuntarily terminated under circumstances that would not constitute cause (examples of cause being Mr. Graber's material failure to follow MNL's or IHC's lawful directions, material failure to follow MNL's or IHC's corporate policies, breach of the non-compete covenants in the employment agreement or his engaging in unlawful behavior that would damage MNL, IHC or their respective reputations), or (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with MNL's (or its successor's) material breach of its obligations under the employment agreement or upon MNL's non-renewal of the employment agreement). The initial term of Mr. Graber's employment agreement is two years from the date it was entered into, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days' prior notice of non-renewal is given by MNL. For example, had the severance provision in Mr. Graber's agreement been triggered on December 31, 2015, Mr. Graber would have been entitled to receive approximately \$37,057 per month for nineteen months (\$704,083 in the aggregate).

### **Stock Incentive Plans**

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

### **Equity Compensation Plans**

The following table sets forth certain information as of October 11, 2016 with respect to compensation plans under which shares of IHC common stock may be issued. IHC's 2006 Stock Incentive Plan expired by its terms on April 17, 2016.

**Equity Compensation Plan Information**

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in the First Column)
Equity compensation plans approved by stockholders	574,830	\$9.35	0

## REPORT OF THE AUDIT COMMITTEE

The Audit Committee assists the Board in oversight of the financial reporting process, including the effectiveness of internal accounting and financial controls and procedures, and controls over the accounting, auditing and quality of financial reporting practices of IHC. The Audit Committee operates under a written charter adopted by the Board.

Management of IHC has primary responsibility for the financial reporting process, the preparation of financial statements in conformity with U.S. generally accepted accounting principles, the system of internal controls and the establishment of procedures designed to insure compliance with accounting standards and applicable laws and regulations. KPMG was responsible for auditing IHC's financial statements for its fiscal year ended December 31, 2015. The Audit Committee's responsibility is to monitor and review these processes and procedures. Audit Committee members are not professionally engaged in the practice of accounting or auditing. The Audit Committee relies on the information provided to it, including the representations of management that the financial statements have been prepared with integrity and objectivity, and the representations of management and the opinion of KPMG that such financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.

The Audit Committee also reviewed the Report of Management on Internal Control over Financial Reporting contained in IHC's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 prior to filing such report with the SEC, as well as KPMG's Reports of Independent Registered Public Accounting Firm (also included in IHC's Annual Report on Form 10-K) and KPMG's reports related to the audit of IHC's consolidated financial statements. The Audit Committee continues to oversee IHC's efforts related to its internal control over financial reporting and management's preparations for the evaluation in 2016.

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

The Audit Committee appointed KPMG as IHC's independent registered public accounting firm for the year ended 2015 after reviewing the firm's performance and independence from management.

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

The Audit Committee reviewed with KPMG, which is responsible for auditing IHC's financial statements and for expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States, its judgment as to the quality, not just the acceptability, of IHC's accounting principles and such other matters as are required to be discussed with the Audit Committee under Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 16, Communications with Audit Committees. In addition, the Audit Committee has received from KPMG written disclosures regarding the auditors' independence required by PCAOB Ethics and Independence Rule 3526, Communication with Audit Committees Concerning Independence, and has discussed with KPMG its independence from the Company and its management. In concluding that KPMG is independent, the Audit Committee considered whether the non-audit services provided by the independent auditors in 2015 were compatible with its independence.

Based on these reviews and discussions, the Audit Committee recommended to the Board that IHC's audited financial statements be included in IHC's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

*Audit Committee Members*

Mr. James G. Tatum (Chairman)

Mr. Allan C. Kirkman

Mr. John L. Lahey

**AUDIT AND NON-AUDIT FEES**

The following table sets forth fees for services KPMG provided to IHC during 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Audit fees	\$2,725,000	\$1,533,000
Audit-related fees	177,000	68,000
Tax fees	-	-
All other fees	-	-
Total	\$2,902,000	\$1,601,000

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

*Audit-related Fees.* Audit related fees include fees for accounting and reporting consultations for transactions completed during 2015.

The Audit Committee has determined that the provision of non-audit services by KPMG is compatible with maintaining KPMG's independence. Any such engagement of KPMG to provide non-audit services to IHC must be pre-approved by the Audit Committee.

**Vote Required For the Election of Directors**

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

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF EACH OF THE NINE NOMINEES.**



**PROPOSAL 2**

**RATIFICATION OF THE APPOINTMENT OF  
THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**Appointment of Independent Registered Public Accounting Firm**

KPMG audited IHC's annual financial statements for the year ended December 31, 2015. On September 13, 2016, the Audit Committee dismissed KPMG as IHC's independent registered public accounting firm. On October 3, 2016, the Audit Committee appointed RSM US LLP ( RSM ) to be IHC's independent registered public accounting firm for the fiscal year ending December 31, 2016. The stockholders are asked to ratify this appointment at the annual meeting. Representatives of RSM will be present at the meeting.

**Vote Required For Ratification**

The Audit Committee is responsible for selecting IHC's independent registered public accounting firm. Accordingly, stockholder approval is not required to appoint RSM as IHC's independent registered public accounting firm for 2016. The Board believes, however, that submitting the appointment of RSM to the stockholders for ratification is a matter of good corporate governance. If the stockholders do not ratify the appointment, the Audit Committee will review its future selection of the independent registered public accounting firm.

The ratification of the appointment of RSM as IHC's independent registered public accounting firm requires the affirmative vote of a majority of the shares present at the meeting in person or by proxy and entitled to vote.

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

### **PROPOSAL 3**

#### **APPROVAL OF THE 2016 STOCK INCENTIVE PLAN**

##### **Background**

Subject to stockholder approval, the Board of Directors has adopted the Independence Holding Company 2016 Stock Incentive Plan (the 2016 Plan ) and is proposing that the 2016 Plan be approved by the Company's stockholders at the Annual Meeting to enable the Company to design appropriate awards and incentives for the persons eligible to participate in the 2016 Plan. The exact amounts and nature of the proposed awards under the 2016 Plan have not yet been determined, although the 2016 Plan permits grants of stock options, stock appreciation rights ( SARs ), restricted stock or units, deferred share units, and performance awards (collectively, Awards ). A copy of the 2016 Plan is set forth in full in Appendix A to this proxy statement, and the following description of the 2016 Plan is qualified in its entirety by reference to Appendix A.

The Board of Directors believes that the 2016 Plan is an important factor in attracting, retaining and motivating employees, consultants, agents, and directors of the Company and its corporate affiliates. The Board believes that the Company needs the flexibility both to have an increased reserve of common stock available for future equity-based awards, and to make future awards in a form other than stock options.

The 2016 Plan will reserve 1,300,000 shares of Common Stock for future awards to eligible employees, consultants, agents, and directors of the Company and its corporate affiliates. The Board of Directors recognizes the need for this future reserve because no shares remain available for awards under the Company's 2006 Stock Incentive Plan (the 2006 Plan ) as the 2006 Plan has expired. Stockholder approval of the 2016 Plan will enable the Company to make awards that qualify as performance-based compensation that is exempt from the deduction limitation set forth under Section 162(m) of the Code. Subject to certain exceptions, Section 162(m) generally limits corporate income tax deductions to \$1,000,000 annually for compensation paid to each of the Chief Executive Officer and the other four highest paid executive officers of the Company.

If the 2016 Plan is approved by the stockholders, the Board intends to cause the shares of Common Stock that will become available for issuance under the 2016 Plan to be registered on applicable registration statements to be filed with the Securities and Exchange Commission ( SEC ), at the Company's expense. Stockholder approval of the 2016 Plan will not affect Awards issued under the 2006 Plan, which will remain in full force and effect.

##### **Summary of 2016 Stock Incentive Plan**



The following summary is not intended to be complete and reference should be made to Appendix A for a complete statement of the terms and provisions of the 2016 Plan. Capitalized terms used in this summary and not otherwise defined in this proxy statement will have the meanings ascribed to such terms in the 2016 Plan.

*Purpose.* The purpose of the 2016 Plan is to attract, retain and motivate select employees, officers, directors, consultants, and advisors of the Company and its affiliates (referred to collectively as *Eligible Persons* ) and to provide incentives and rewards to *Eligible Persons* for superior performance.

*Shares Subject to the 2016 Plan.* The 2016 Plan provides that no more than 1,300,000 shares of Common Stock may be issued pursuant to Awards under the 2016 Plan. These shares shall be authorized but unissued shares, or shares that the Company has reacquired or otherwise holds in treasury or in a trust. The number of shares available for Awards, as well as the terms of outstanding Awards, are subject to adjustment as provided in the 2016 Plan for stock splits, stock dividends, recapitalizations and other similar events. Shares of Common Stock that are subject to any Award that expires, or is forfeited, cancelled or becomes unexercisable will again be available for subsequent Awards, except as prohibited by law.

*Administration.* Either the Board of Directors or a committee appointed by the Board will administer the 2016 Plan. The Board of Directors and any committee exercising discretion under the 2016 Plan are referred to as the *Committee*. The Board of Directors may, at any time, appoint additional members to the *Committee*, remove and replace members of the *Committee*, with or without cause, and fill vacancies on the *Committee*. To the extent permitted by law, the *Committee* may authorize one or more persons who are reporting persons for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, (or other officers) to make Awards to *Eligible Persons* who are not reporting persons for purposes of Rule

16b-3 under the Securities Exchange Act of 1934, as amended (or other officers whom the Company has specifically authorized to make Awards). With respect to decisions involving an Award intended to satisfy the requirements of Section 162(m) of the Code, the Committee is to consist of two or more directors who are outside directors for purposes of that Code section. The Committee may delegate administrative functions to individuals who are reporting persons for purposes of Rule 16b-3 of the Exchange Act, officers or employees of the Company or its affiliates.

Subject to the terms of the 2016 Plan, the Committee has express authority to determine the Eligible Persons who will receive Awards, the number of shares of Common Stock, units or dollars to be covered by each Award, and the terms and conditions of Awards. The Committee has broad discretion to prescribe, amend, and rescind rules relating to the 2016 Plan and its administration, to interpret and construe the 2016 Plan and the terms of all Award agreements, and to take all actions necessary or advisable to administer the 2016 Plan. Within the limits of the 2016 Plan, the Committee may accelerate the vesting of any Award, allow the exercise of unvested Awards, and may modify, replace, cancel or renew them.

The 2016 Plan provides that the Company and its affiliates will indemnify members of the Committee and their delegates against any claims, liabilities or costs arising from the good faith performance of their duties under the 2016 Plan. The 2016 Plan releases these individuals from liability for good faith actions associated with the 2016 Plan's administration.

*Options Grant Limitations.* The Committee may grant options that are intended to qualify as incentive stock options ( ISOs ) only to employees, and may grant all other Awards to Eligible Persons. The 2016 Plan and the discussion below use the term Participant to refer to an Eligible Person who has received an Award. The 2016 Plan provides that for any calendar year not more than 200,000 shares of Common Stock may be issued to any Participant under the 2016 Plan pursuant to Awards in the form of stock options and SARs, provided that non-employee directors may receive Awards covering no more than 10,000 shares during any calendar year.

*Options.* Options granted under the 2016 Plan provide Participants with the right to purchase shares of Common Stock at a predetermined exercise price. The Committee may grant options that are intended to qualify as ISOs or options that are not intended to so qualify ( Non-ISOs ). The 2016 Plan also provides that ISO treatment may not be available for options that become first exercisable in any calendar year to the extent the value of the underlying shares that are the subject of the option exceed \$100,000 (based upon the fair market value of the shares of Common Stock on the option grant date).

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

*Exercise Price for Options and SARs.* The exercise price of ISOs, Non-ISOs, and SARs may not be less than 100% of the fair market value on the grant date of the shares of Common Stock subject to the Award (110% of fair market value for ISOs granted to employees who, at the time of grant, own more than 10% of the Company's outstanding shares of Common Stock). As of the Record Date, the closing price of a share of Common Stock on the New York Stock Exchange was \$17.12 per share.

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

*Restricted Shares, Restricted Share Units, Unrestricted Shares and Deferred Share Units.* Under the 2016 Plan, the Committee may grant restricted shares that are forfeitable until certain vesting requirements are met, may grant restricted share units which represent the right to receive shares of Common Stock after certain vesting requirements are met, and may grant unrestricted shares as to which the Participant's interest is immediately vested. For restricted Awards, the 2016 Plan provides the Committee with discretion to determine the terms and conditions under which a Participant's interest in such

Awards becomes vested. The 2016 Plan provides for deferred share units in order to permit certain directors, consultants, agents, or select members of management to defer their receipt of compensation payable in cash or shares of Common Stock (including shares that would otherwise be issued upon the vesting of restricted shares and restricted share units). Deferred share units represent a future right to receive shares of Common Stock.

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

*Performance Awards.* The 2016 Plan authorizes the Committee to grant performance-based awards in the form of Performance Units that the Committee may or may not designate as Performance Compensation Awards that are intended to be exempt from Code section 162(m) limitations. In either case, Performance Awards vest and become payable based upon the achievement, within the specified period of time, of performance objectives applicable to the individual, the Company or any affiliate. Performance Awards are payable in shares of Common Stock, cash or some combination of the two; subject to an individual Participant limit, respectively, of 60,000 shares of Common Stock and of a cash amount equal to \$1,500,000 per performance period. The Committee decides the length of performance periods, but the periods may not be less than one fiscal year of the Company.

With respect to Performance Compensation Awards, the 2016 Plan requires that the Committee specify in writing the performance period to which the Award relates, and an objective formula by which to measure whether and the extent to which the Award is earned on the basis of the level of performance achieved with respect to one or more performance measures. Once established for a performance period, the performance measures and performance formula applicable to the Award may not be amended or modified in a manner that would cause the compensation payable under the Award to fail to constitute performance-based compensation under Code section 162(m).

Under the 2016 Plan, the possible performance measures for Performance Compensation Awards include basic, diluted or adjusted earnings per share; sales or revenue; earnings before interest, taxes and other adjustments (in total or on a per share basis); basic or adjusted net income; returns on equity, assets, capital, revenue or similar measure; gross premium; profit margin; economic value added; working capital; total stockholder return; and product development, product market share, research, licensing, litigation, human resources, information services, mergers, acquisitions, and sales of assets of affiliates or business units. Each measure will be, to the extent applicable, determined in accordance with generally accepted accounting principles as consistently applied by the Company (or such other standard applied by the Committee) and, if so determined by the Committee, and in the case of a Performance Compensation Award, to the extent permitted under Code section 162(m), adjusted to omit the effects of extraordinary items, gain or loss on the disposal of a business segment, unusual or infrequently occurring events and transactions and cumulative effects of changes in accounting principles. Performance measures may vary from performance period to performance period, and from Participant to Participant, and may be established on a stand-alone basis, in tandem or in the alternative.

*Income Tax Withholding.* As a condition for the issuance of shares of Common Stock pursuant to Awards, the 2016 Plan requires satisfaction of any applicable federal, state, local or foreign withholding tax obligations that may arise in connection with the Award or the issuance of shares of Common Stock.

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

*Certain Corporate Transactions.* The Committee shall equitably adjust the number of shares covered by each outstanding Award, and the number of shares that have been authorized for issuance under the 2016 Plan but as to which no Awards have yet been granted or that have been returned to the 2016 Plan upon cancellation, forfeiture or expiration of an Award, as well as the price per share covered by each such outstanding Award, to reflect any increase or decrease in the number of issued shares resulting from a stock split, reverse stock split, stock dividend, combination, recapitalization or reclassification of the shares of Common Stock, or any other increase or decrease in the number of issued shares effected

without receipt of consideration by the Company. In the event of any such transaction or event, the Committee may provide in substitution for any or all outstanding Options under the 2016 Plan such alternative consideration (including securities of any surviving entity) as it may in good faith determine to be equitable under the circumstances and may require in connection therewith the surrender of all Options so replaced. In any case, such substitution of securities will not require the consent of any person who is granted options pursuant to the 2016 Plan.

In addition, in the event or in anticipation of a Change in Control (as defined in the 2016 Plan), the Committee may at any time in its sole and absolute discretion and authority, without obtaining the approval or consent of the Company's stockholders or any Participant with respect to his or her outstanding Awards (except to the extent an Award provides otherwise), take one or more of the following actions: (a) arrange for or otherwise provide that each outstanding Award will be assumed or substituted with a substantially equivalent award by a successor corporation or a parent or subsidiary of such successor corporation; (b) accelerate the vesting of Awards for any period (and may provide for termination of unexercised Options and SARs at the end of that period) so that Awards shall vest (and, to the extent applicable, become exercisable) as to the shares of Common Stock that otherwise would have been unvested and provide that repurchase rights of the Company with respect to shares of Common Stock issued upon exercise of an Award shall lapse as to the shares of Common Stock subject to such repurchase right; (c) arrange or otherwise provide for payment of cash or other consideration to Participants in exchange for the satisfaction and cancellation of outstanding Awards; or (d) terminate upon the consummation of the transaction, provided that the Committee may in its sole discretion provide for vesting of all or some outstanding Awards in full as of a date immediately prior to consummation of the Change of Control. To the extent that an Award is not exercised prior to consummation of a transaction in which the Award is not being assumed or substituted, such Award shall terminate upon such consummation.

Notwithstanding the above, in the event a Participant holding an Award assumed or substituted by the successor corporation in a Change in Control is Involuntarily Terminated (as defined in the 2016 Plan) by the successor corporation in connection with, or within 12 months (or other period either set forth in an Award Agreement, or as increased thereafter by the Committee to a period longer than 12 months) following consummation of, the Change in Control, then any assumed or substituted Award held by the terminated Participant at the time of termination shall accelerate and become fully vested (and exercisable in full in the case of Options and SARs), and any repurchase right applicable to any shares of Common Stock subject to such assumed or substituted Award shall lapse in full. The acceleration of vesting and lapse of repurchase rights provided for in the previous sentence shall occur immediately prior to the effective date of the Participant's termination.

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

*Term of 2016 Plan; Amendments and Termination.* The term of the 2016 Plan is ten years from September 23, 2016, the date it was approved by the Board. The Board may from time to time, amend, alter, suspend, discontinue or terminate the 2016 Plan; provided that no amendment, suspension or termination of the 2016 Plan shall materially and

adversely affect Awards already granted unless (1) it relates to an adjustment pursuant to certain transactions that change the Company's capitalization, (2) it is otherwise mutually agreed between the Participant and the Committee, or (3) the Committee determines in good faith, before a Change in Control, that the modification is not materially adverse to the Participant. Furthermore, neither the Company nor the Committee shall, without stockholder approval, allow for a repricing within the meaning of the federal securities laws applicable to proxy statement disclosures. In addition, the Committee may not cancel an outstanding option whose exercise price is greater than Fair Market Value at the time of cancellation for the purpose of reissuing the option to the participant at a lower exercise price or granting a replacement award of a different type. Notwithstanding the foregoing, the Committee may amend the 2016 Plan to eliminate provisions which are no longer necessary as a result of changes in tax or securities laws or regulations, or in the interpretation thereof.

*Expected Tax Consequences.* The following is a brief summary of certain tax consequences of certain transactions under the 2016 Plan. This summary is not intended to be complete and does not describe state or local tax consequences.

*U.S. Federal Income Tax Consequences.* Under the United States Internal Revenue Code, the Company will generally be entitled to a deduction for federal income tax purposes at the same time and in the same amount as the ordinary

income that Participants recognize pursuant to Awards (subject to the Participant's overall compensation being reasonable, and to the discussion below with respect to Code section 162(m)). For Participants, the expected U.S. federal income tax consequences of Awards are as follows:

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

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

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

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

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



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

Income Taxes and Deferred Compensation. The 2016 Plan provides that participants are solely responsible and liable for the satisfaction of all taxes and penalties that may arise in connection with Awards (including any taxes arising under Section 409A of the Code), and that the Company will not have any obligation to indemnify or otherwise hold any Participant harmless from any or all of such taxes. Nevertheless, the 2016 Plan authorizes the Committee to organize any deferral program, to require deferral election forms, and to grant or to unilaterally modify any Award in a manner that (i) conforms with the requirements of Section 409A of the Code, (ii) that voids any Participant election to the extent it would violate Section 409A of the Code, and (iii) for any distribution election that would violate Section 409A of the Code, to make distributions pursuant to the Award at the earliest to occur of a distribution event that is allowable under Section 409A of the Code or any distribution event that is both allowable under Section 409A of the Code and is elected by the Participant, with the Committee's consent, in accordance with Section 409A.

*General Tax Law Considerations.* The preceding paragraphs are intended to be merely a summary of certain important tax law consequences concerning a grant of options under the 2016 Plan and the disposition of shares issued thereunder in existence as of the date of this Proxy Statement. Special rules may apply to the Company's officers, directors or greater than ten percent stockholders. Participants in the 2016 Plan should review the current tax treatment with their individual tax advisors at the time of grant, exercise or any other transaction relating to an Award or the underlying shares.

*New Plan Benefits.* The Committee will grant Awards under the 2016 Plan at its discretion. Consequently, it is not possible to determine at this time the amount or dollar value of Awards to be provided under the 2016 Plan, other than to note that the Committee has not granted Awards that are contingent upon the approval of the 2016 Plan.

### **Vote Required For Adoption**

The adoption of the 2016 Plan firm requires the affirmative vote of a majority of the shares present at the meeting in person or by proxy and entitled to vote.

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

## **OTHER MATTERS**

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

## **ADDITIONAL INFORMATION**

### **Proxy Solicitation**

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

### **Stockholder Proposals for 2017 Annual Meeting**

Stockholder proposals intended to be presented at IHC's 2017 annual meeting must be received by IHC no later than reasonable time in advance of the date of the 2017 Annual Meeting, which in IHC's opinion would be no less than 120 days before that date (pursuant to Rule 14a-8 of the Exchange Act) to be eligible for inclusion in IHC's proxy statement and form of proxy for next year's meeting. IHC has yet to determine the date of its 2017 Annual Meeting. Proposals should be addressed to Independence Holding Company, Attention: Corporate Secretary, 485 Madison Avenue, 14<sup>th</sup> Floor, New York, New York 10022.

For any proposal that is not submitted for inclusion in next year's proxy statement (as described in the preceding paragraph), but is instead sought to be presented directly at the 2017 annual meeting, the federal securities laws require stockholders to give advance notice of such proposals. The required notice must (pursuant to Rule 14a-4 of the Exchange Act), be given no less than a reasonable time in advance of the date of the 2017 Annual Meeting, which in IHC's opinion would be no less than 45 days before that date. IHC has yet to determine the date of its 2017 annual meeting. Any such notice must be provided to Independence Holding Company, Attention: Corporate Secretary, 485 Madison Avenue, 14<sup>th</sup> Floor, New York, New York 10022. If a stockholder fails to provide timely notice of a

proposal to be presented at the 2017 Annual Meeting, the chairman of the meeting will declare it out of order and disregard any such matter.

By order of the Board of Directors,

Loan Nisser  
*Vice President and Secretary*

**INDEPENDENCE HOLDING COMPANY**

**2016 STOCK INCENTIVE PLAN**

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**Plan Document**

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**1. Establishment, Purpose, and Types of Awards**

Independence Holding Company (the *Company*) hereby establishes this equity-based incentive compensation plan to be known as the Independence Holding Company 2016 Stock Incentive Plan (hereinafter referred to as the *Plan*), in order to provide incentives and awards to select Employees, Directors, Consultants and advisors of the Company and its Affiliates. The Plan permits grants of the following types of awards (*Awards*), according to the Sections of the Plan listed here:

Section 6	Options
Section 7	Share Appreciation Rights ( <i>SARs</i> )
Section 8	Restricted Shares, Restricted Share
Section 9	Units, and Unrestricted Shares
Section 10	Deferred Share Units
	Performance Awards

The Plan is not intended to affect and shall not affect any stock options, equity-based compensation, or other benefits that the Company or its Affiliates may have provided, or may separately provide in the future pursuant to any agreement, plan, or program that is independent of this Plan.

**2. Defined Terms**

Terms in the Plan that begin with an initial capital letter have the defined meaning set forth in *Exhibit A*, unless defined elsewhere in this Plan or the context of their use clearly indicates a different meaning.

**3. Shares Subject to the Plan**

Subject to the provisions of Section 13(a) of the Plan, the maximum number of Shares that the Company may issue for all Awards is 1,300,000 Shares, and the maximum number of Shares that may be awarded as ISOs under the Plan is 1,300,000 Shares. For all Awards, the Shares issued pursuant to the Plan may be authorized but unissued Shares, Shares that the Company has reacquired or otherwise holds in treasury, or Shares held in a trust. The aggregate number of Shares issued under the Plan at any time shall equal only the number of Shares actually issued upon exercise or settlement of an Award.

Shares that are subject to an Award that for any reason expires, is forfeited, is cancelled, or becomes unexercisable, and Shares that are for any other reason not paid or delivered under the Plan shall again, except to the extent prohibited by Applicable Law, be available for subsequent Awards under the Plan.

#### **4. Administration**

(a) *General.* The Committee shall administer the Plan in accordance with its terms, provided that the Board may act in lieu of the Committee on any matter. The Committee shall hold meetings at such times and places as it may determine and shall make such rules and regulations for the conduct of its business as it deems advisable. In the absence of a duly appointed Committee or if the Board otherwise chooses to act in lieu of the Committee, the Board shall function as the Committee for all purposes of the Plan.

(b) *Committee Composition.* The Board shall appoint the members of the Committee. If and to the extent permitted by Applicable Law, the Committee may authorize one or more officers or Directors to make Awards to Eligible Persons who are not Reporting Persons (or other officers whom the Committee has specifically authorized to make Awards). The Board may at any time appoint additional members to the Committee, remove and replace members of the Committee with or without Cause, and fill vacancies on the Committee however caused.

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

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

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

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

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

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

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

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

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

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

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

## 5. Eligibility

(a) *General Rule.* The Committee may grant ISOs only to Employees (including officers who are Employees) of the Company or any Affiliate that is a parent corporation or subsidiary corporation within the meaning of Section 424 of the Code, and may grant all other Awards to any Eligible Person. A Participant who has been granted an Award may be granted an additional Award or Awards if the Committee shall so determine, if such person is otherwise an Eligible Person and if otherwise in accordance with the terms of the Plan.



(b) *Grant of Awards.* Subject to the express provisions of the Plan, the Committee shall determine from the class of Eligible Persons those individuals to whom Awards under the Plan may be granted, the number of Shares subject to each Award, the price (if any) to be paid for the Shares or the Award and, in the case of Performance Awards, in addition to the matters addressed in Section 10 below, the specific objectives, goals and performance criteria that further define the Performance Award. Each Award shall be evidenced by an Award Agreement signed by the Company and, if required by the Committee, by the Participant. The Award Agreement shall set forth the material terms and conditions of the Award established by the Committee, and each Award shall be subject to the terms and conditions set forth in Sections 23, 24, and 25 unless otherwise specifically provided in an Award Agreement.

(c) *Limits on Awards.* During each calendar year of the Plan, no Participant may receive Options or SARs that relate to more than 200,000 Shares. During each calendar year of the Plan, no non-employee Director of the Company may be granted Awards covering more than 10,000 Shares. The Committee may adjust these limitations pursuant to Section 13(a) below.

(d) *Replacement Awards.* Subject to Applicable Law (including any associated Stockholder approval requirements), the Committee may, in its sole discretion and upon such terms as it deems appropriate, require as a condition of the grant of an Award to a Participant that the Participant surrender for cancellation some or all of the Awards that have previously been granted to the Participant under this Plan or otherwise. An Award that is conditioned upon such surrender may or may not be the same type of Award, may cover the same (or a lesser or greater) number of Shares as such surrendered Award, may have other terms that are determined without regard to the terms or conditions of such surrendered Award, and may contain any other terms that the Committee deems appropriate. In the case of Options, these other terms may not involve an Exercise Price that is lower than the Exercise Price of the surrendered Option, unless the Company's stockholders approve the grant itself or the program under which the grant is made pursuant to the Plan.

## **6. Option Awards**

(a) *Types; Documentation.* Subject to Section 5(a), the Committee may in its discretion grant Options pursuant to Award Agreements that are delivered to Participants. Each Option shall be designated in the Award Agreement as an ISO or a Non-ISO, and the same Award Agreement may grant both types of Options. At the sole discretion of the Committee, any Option may be exercisable, in whole or in part, immediately upon the grant thereof, or only after the occurrence of a specified event, or only in installments, which installments may vary. Options granted under the Plan may contain such terms and provisions not inconsistent with the Plan that the Committee shall deem advisable in its sole and absolute discretion.

(b) *ISO \$100,000 Limitation.* To the extent that the aggregate Fair Market Value of Shares with respect to which Options designated as ISOs first become exercisable by a Participant in any calendar year (under this Plan and any

other plan of the Company or any Affiliate) exceeds \$100,000, such excess Options shall be treated as Non-ISOs. For purposes of determining whether the \$100,000 limit is exceeded, the Fair Market Value of the Shares subject to an ISO shall be determined as of the Grant Date. In reducing the number of Options treated as ISOs to meet the \$100,000 limit, the most recently granted Options shall be reduced first. In the event that Section 422 of the Code is amended to alter the limitation set forth therein, the limitation of this Section 6(b) shall be automatically adjusted accordingly.

(c) *Term of Options.* Each Award Agreement shall specify a term at the end of which the Option automatically expires, subject to earlier termination provisions contained in Section 6(h) hereof; provided, that, the term of any Option may not exceed ten years from the Grant Date. In the case of an ISO granted to an Employee who is a Ten Percent Holder on the Grant Date, the term of the ISO shall not exceed five years from the Grant Date.

(d) *Exercise Price.* The exercise price of an Option shall be determined by the Committee in its sole discretion and shall be set forth in the Award Agreement, provided that:

(i) if an ISO is granted to an Employee who on the Grant Date is a Ten Percent Holder, the per Share exercise price shall not be less than 110% of the Fair Market Value per Share on the Grant Date, and

(ii) for all other Options, such per Share exercise price shall not be less than 100% of the Fair Market Value per Share on the Grant Date.

Except as otherwise provided in Section 13(a), without prior stockholder approval: (i) the exercise price of an Option may not be reduced, directly or indirectly, (ii) an Option may not be cancelled in exchange for cash, other Awards, or Options or

SARs with an exercise price that is less than the exercise price of the original Option, or otherwise, and (iii) the Company may not repurchase an Option for value (in cash, substitutions, cash buyouts, or otherwise) from a Participant if the current Fair Market Value of the Shares underlying the Option is lower than the exercise price per share of the Option.

(e) *Exercise of Option.* The times, circumstances and conditions under which an Option shall be exercisable shall be determined by the Committee in its sole discretion and set forth in the Award Agreement. The Committee shall have the discretion to determine whether and to what extent the vesting of Options shall be tolled during any unpaid leave of absence; provided, however, that in the absence of such determination, vesting of Options shall be tolled during any such leave approved by the Company.

(f) *Minimum Exercise Requirements.* An Option may not be exercised for a fraction of a Share. The Committee may require in an Award Agreement that an Option be exercised as to a minimum number of Shares, provided that such requirement shall not prevent a Participant from purchasing the full number of Shares as to which the Option is then exercisable.

(g) *Methods of Exercise.* Prior to its expiration pursuant to the terms of the applicable Award Agreement, and subject to the times, circumstances and conditions for exercise contained in the applicable Award Agreement, each Option may be exercised, in whole or in part (provided that the Company shall not be required to issue fractional shares), by delivery of written notice of exercise to the secretary of the Company accompanied by the full exercise price of the Shares being purchased. In the case of an ISO, the Committee shall determine the acceptable methods of payment on the Grant Date and it shall be included in the applicable Award Agreement. The methods of payment that the Committee may, in its sole discretion, accept or commit to accept in an Award Agreement include:

(i) cash or check payable to the Company (in U.S. dollars);

(ii) other Shares that (A) are owned by the Participant who is purchasing Shares pursuant to an Option, (B) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which the Option is being exercised, (C) were not acquired by such Participant pursuant to the exercise of an Option, unless such Shares have been owned by such Participant for at least six months or such other period as the Committee may determine, (D) are all, at the time of such surrender, free and clear of any and all claims, pledges, liens and encumbrances, or any restrictions which would in any manner restrict the transfer of such shares to or by the Company (other than such restrictions as may have existed prior to an issuance of such Shares by the Company to such Participant), and (E) are duly endorsed for transfer to the Company;

(iii) a broker assisted cashless exercise program that the Committee may approve, from time to time in its discretion, pursuant to which a Participant may concurrently provide irrevocable instructions (A) to such Participant's broker or dealer to effect the immediate sale of the purchased Shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the exercise price of the Option plus all applicable taxes required to be withheld by the Company by reason of such exercise, and (B) to the Company to deliver the certificates for the purchased Shares directly to such broker or dealer in order to complete the sale;

(iv) a reduction in the number of Shares otherwise deliverable to a Participant upon exercise of an Option having a Fair Market Value as of the exercise date sufficient to cover the full exercise price of the Shares being purchased pursuant to such Option plus all applicable taxes required to be withheld by the Company by reason of such exercise; or

(v) any combination of the foregoing methods of payment.

The Company shall not be required to deliver Shares pursuant to the exercise of an Option until payment of the full exercise price therefore is received by the Company.

(h) *Termination of Continuous Service.* The Committee may establish and set forth in the applicable Award Agreement the terms and conditions on which an Option shall remain exercisable, if at all, following termination of a Participant's Continuous Service. The Committee may waive or modify these provisions at any time. To the extent that a Participant is not entitled to exercise an Option at the date of his or her termination of Continuous Service, or if the Participant (or other person entitled to exercise the Option) does not exercise the Option to the extent so entitled within the time specified in the Award Agreement or below (as applicable), the Option shall terminate and the Shares underlying the unexercised portion of the

Option shall revert to the Plan and become available for future Awards. In no event may any Option be exercised after the expiration of the Option term as set forth in the Award Agreement.

The following provisions shall apply to the extent an Award Agreement does not specify the terms and conditions upon which an Option shall terminate when there is a termination of a Participant's Continuous Service:

(i) Termination other than Upon Disability or Death or for Cause. In the event of termination of a Participant's Continuous Service (other than as a result of Participant's death, Disability, Retirement or termination for Cause), the Participant shall have the right to exercise an Option at any time within 90 days following such termination date to the extent the Participant was entitled to exercise such Option at the date of such termination.

(ii) Disability. In the event of termination of a Participant's Continuous Service as a result of his or her being Disabled, the Participant shall have the right to exercise an Option at any time within one year following such termination date to the extent the Participant was entitled to exercise such Option at the date of such termination.

(iii) Retirement. In the event of termination of a Participant's Continuous Service as a result of Participant's Retirement, the Participant shall have the right to exercise the Option at any time within six months following such termination date to the extent the Participant was entitled to exercise such Option at the date of such termination.

(iv) Death. In the event of the death of a Participant during the period of Continuous Service since the Grant Date of an Option, or within thirty days following termination of the Participant's Continuous Service, the Option may be exercised, at any time within one year following the date of the Participant's death, by the Participant's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent the right to exercise the Option had vested at the date of death or, if earlier, the date the Participant's Continuous Service terminated.

(v) Cause. If the Committee determines that a Participant's Continuous Service terminated due to Cause, the Participant shall immediately forfeit the right to exercise any Option, and it shall be considered immediately null and void.

(i) Reverse Vesting. The Committee, in its sole discretion, may allow a Participant to exercise unvested Non-ISOs, in which case the Shares then issued shall be Restricted Shares having analogous vesting restrictions to the unvested Non-ISOs.

## 7. Share Appreciation Rights (SARs)

(a) *Grants*. The Committee may in its discretion grant SARs to any Eligible Person pursuant to Award Agreements, in any of the following forms:

(i) SARs related to Options. The Committee may grant SARs either concurrently with the grant of an Option or with respect to an outstanding Option, in which case the SAR shall extend to all or a portion of the Shares covered by the related Option. An SAR shall entitle the Participant who holds the related Option, upon exercise of the SAR and surrender of the related Option, or portion thereof, to the extent the SAR and related Option each were previously unexercised, to receive payment of an amount determined pursuant to Section 7(e) below. Any SAR granted in connection with an ISO will contain such terms as may be required to comply with the provisions of Section 422 of the Code and the regulations promulgated thereunder.

(ii) SARs Independent of Options. The Committee may grant SARs that are independent of any Option subject to such conditions as the Committee may in its discretion determine, which conditions will be set forth in the applicable Award Agreement.

(iii) Limited SARs. The Committee may grant SARs exercisable only upon or in respect of a Change in Control or any other specified event, and such limited SARs may relate to or operate in tandem or combination with or substitution for Options or other SARs, or on a stand-alone basis, and may be payable in cash or Shares based on the spread between the exercise price of the SAR and the Fair Market Value of the Shares underlying the SAR on the date of exercise.

(b) *Exercise Price*. The per Share exercise price of an SAR shall be determined in the sole discretion of the Committee, shall be set forth in the applicable Award Agreement, and shall be no less than 100% of the Fair Market Value of one Share

on the Grant Date. The exercise price of an SAR related to an Option shall be the same as the exercise price of the related Option. Except as otherwise provided in Section 13(a), without prior stockholder approval: (i) the exercise price of a SAR may not be reduced, directly or indirectly, (ii) a SAR may not be cancelled in exchange for cash, other Awards, or Options or SARs with an exercise price that is less than the exercise price of the original SAR, and (iii) the Company may not repurchase a SAR for value (in cash, substitutions, cash buyouts, or otherwise) from a Participant if the current Fair Market Value of the Shares underlying the SAR is lower than the exercise price per share of the SAR.

(c) *Exercise of SARs.* Unless the Award Agreement otherwise provides, an SAR related to an Option will be exercisable at such time or times, and to the extent, that the related Option will be exercisable; provided that the Award Agreement shall not, without the approval of the stockholders of the Company, provide for a vesting period for the exercise of the SAR that is more favorable to the Participant than the exercise period for the related Option. An SAR may not have a term exceeding ten years from its Grant Date. An SAR granted independently of any other Award will be exercisable pursuant to the terms of the Award Agreement. Whether an SAR is related to an Option or is granted independently, the SAR may only be exercised when the Fair Market Value of the Shares underlying the SAR exceeds the exercise price of the SAR.

(d) *Effect on Available Shares.* All SARs that may be settled in Shares shall be counted in full against the number of Shares available for Awards under the Plan, regardless of the number of Shares actually issued upon settlement of the SARs.

(e) *Payment.* Upon exercise of an SAR related to an Option and the attendant surrender of an exercisable portion of any related Award, the Participant will be entitled to receive payment of an amount determined by multiplying:

(i) the excess of the Fair Market Value of a Share on the date of exercise of the SAR over the exercise price per Share of the SAR, by

(ii) the number of Shares with respect to which the SAR has been exercised.

Notwithstanding the foregoing, an SAR granted independently of an Option (i) may limit the amount payable to the Participant to a percentage, specified in the Award Agreement but not exceeding one-hundred percent (100%), of the amount determined pursuant to the preceding sentence, and (ii) shall be subject to any payment or other restrictions that the Committee may at any time impose in its discretion, including restrictions intended to conform the SARs with Section 409A of the Code.

(f) *Form and Terms of Payment.* Subject to Applicable Law, the Committee may, in its sole discretion, settle the amount determined under Section 7(e) above solely in cash, solely in Shares (valued at their Fair Market Value on the date of exercise of the SAR), or partly in cash and partly in Shares, with cash paid in lieu of fractional shares. Unless otherwise provided in an Award Agreement, all SARs shall be settled in Shares as soon as practicable after exercise.

(g) *Termination of Employment or Consulting Relationship.* The Committee shall establish and set forth in the applicable Award Agreement the terms and conditions on which an SAR shall remain exercisable, if at all, following termination of a Participant's Continuous Service. The provisions of Section 6(h) above shall apply to the extent an Award Agreement does not specify the terms and conditions upon which an SAR shall terminate when there is a termination of a Participant's Continuous Service.

## **8. Restricted Shares, Restricted Share Units, and Unrestricted Shares**

(a) *Grants.* The Committee may in its sole discretion grant restricted Shares ( Restricted Shares ) to any Eligible Person and shall evidence such grant in an Award Agreement that is delivered to the Participant and that sets forth the number of Restricted Shares, the purchase price for such Restricted Shares (if any), and the terms upon which the Restricted Shares may become vested. In addition, the Company may in its discretion grant to any Eligible Person the contractual right to receive Shares after certain vesting requirements are met ( Restricted Share Units ), and shall evidence such grant in an Award Agreement that is delivered to the Participant and that sets forth the number of Shares (or formula, that may be based on future performance or conditions, for determining the number of Shares) that the Participant shall be entitled to receive upon vesting and the terms upon which the Shares subject to a Restricted Share Unit may become vested. The Committee may condition any Award of Restricted Shares or Restricted Share Units to a Participant on receiving from the Participant such further assurances and documents as the Committee may require to enforce the restrictions. In addition, the Committee may grant Awards hereunder in the form of unrestricted shares ( Unrestricted Shares ), which shall vest in full upon the date of



grant or such other date as the Committee may determine or which the Committee may issue pursuant to any program under which one or more Eligible Persons (selected by the Committee in its sole discretion) elect to pay for such Shares or to receive Unrestricted Shares in lieu of cash bonuses that would otherwise be paid.

(b) *Vesting and Forfeiture.* The Committee shall set forth in an Award Agreement granting Restricted Shares or Restricted Share Units, the terms and conditions under which the Participant's interest in the Restricted Shares or the Shares subject to Restricted Share Units will become vested and non-forfeitable. Except as set forth in the applicable Award Agreement or the Committee otherwise determines, upon termination of a Participant's Continuous Service for any other reason, the Participant shall forfeit his or her Restricted Shares and Restricted Share Units.

(c) *Issuance of Restricted Shares Prior to Vesting.* The Company shall issue stock certificates that evidence Restricted Shares pending the lapse of applicable restrictions, and that bear a legend making appropriate reference to such restrictions. Except as set forth in the applicable Award Agreement or the Committee otherwise determines, the Company or a third party that the Company designates shall hold such Restricted Shares and any dividends that accrue with respect to Restricted Shares pursuant to Section 8(e) below.

(d) *Issuance of Shares upon Vesting.* As soon as practicable after vesting of a Participant's Restricted Shares (or right to receive Shares underlying Restricted Share Units) and the Participant's satisfaction of applicable tax withholding requirements, the Company shall release to the Participant, free from the vesting restrictions, one Share for each vested Restricted Share (or issue one Share free of the vesting restriction for each vested Restricted Share Unit), unless an Award Agreement provides otherwise. No fractional shares shall be distributed, and cash shall be paid in lieu thereof.

(e) *Dividends Payable on Vesting.* Unless otherwise provided in an Award Agreement, whenever unrestricted Shares are issued to a Participant pursuant to Section 8(d) above, the Participant shall also receive, with respect to each Share issued, (i) a number of Shares equal to the stock dividends which were declared and paid to the holders of Shares between the Grant Date and the date such Share is issued, and (ii) a number of Shares having a Fair Market Value (on the date of each cash dividend payment date) equal to any cash dividends that were paid to the holders of Shares based on a record date between the Grant Date and the date such Share is issued. No fractional shares shall be distributed, and cash shall be paid in lieu thereof.

(f) *Section 83(b) Elections.* A Participant may make an election under Section 83(b) of the Code (the Section 83(b) Election ) with respect to Restricted Shares.

(g) *Deferral Elections.* To the extent permitted by the Committee, an Eligible Person who is a Director, Consultant, or member of a select group of management or highly compensated employees may elect to defer, in the manner described in Section 9(a), all or a percentage of the Shares (and any related dividends) that would otherwise be transferred to the Eligible Person on settlement of an Award of Restricted Shares or Restricted Share Units. If the Participant makes this election, the Shares subject to the election, and any associated dividends and interest, shall be credited to an account established pursuant to Section 9(a) hereof on the date such Shares would otherwise have been released or issued to the Participant pursuant to Section 8(d) above.

## 9. Deferred Share Units

(a) *Elections to Defer.* The Committee may permit any Eligible Person who is a Director, Consultant or member of a select group of management or highly compensated employees to irrevocably elect, on a form provided by and acceptable to the Committee (the Election Form ), to forego the receipt of cash or other compensation (including Shares) to be paid to the Participant in settlement of an Award (other than an Award for Options, SARs, Deferred Share Units, or Restricted Shares for which a Section 83(b) Election has been made), and in lieu thereof to have the Company credit to an internal Plan account (the Account ) a number of deferred share units ( Deferred Share Units ) having a Fair Market Value equal to the Shares and other compensation deferred. These credits will be made at the end of each calendar month during which compensation is deferred. The Committee may allow an Eligible Person to make a deferral election with respect to eligible Awards made for the following calendar year during an election period established by the Committee and ending no later than December 31 of the calendar year immediately preceding the calendar year during which an Award is made. Notwithstanding the foregoing, in the case of the first year in which an Eligible Person becomes eligible to participate in the Plan (taking into account any plan required to be aggregated with the Plan under Treasury Regulation Section 1.409A-1(c)), the Committee may allow the Eligible Person to make a deferral election during an election period established by the Committee and ending no later than

30 days after the Eligible Person first becomes eligible to participate in the Plan with respect to eligible Awards made after the deferral election. The Committee may unilaterally make Awards in the form of Deferred Share Units (other than with respect to an Award for Options, SARs, or Restricted Shares for which a Section 83(b) Election has been made), regardless of whether or not the Participant foregoes other compensation.

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

(c) *Issuances of Shares*. The Company shall provide a Participant with one Share for each Deferred Share Unit in five substantially equal annual installments that are issued before the last day of each of the five calendar years that end after the date on which the Participant's Continuous Service terminates, unless:

(i) the Participant has properly elected a different form of distribution, on a form approved by the Committee, that permits the Participant to select any combination of a lump sum and annual installments that are completed within ten years following termination of the Participant's Continuous Service, and

(ii) the Company received the Participant's distribution election form at the time the Participant elects to defer the receipt of cash or other compensation pursuant to Section 9(a),

Notwithstanding the foregoing, a Participant will be permitted to make a subsequent election to delay the time of payment or to change the form of payment to a lump sum or substantially equal annual installments not exceeding ten years, provided that any subsequent election (i) will not take effect until one year after the date the subsequent election is made, (ii) is delivered to the Company at least one year before the date on which distributions are otherwise scheduled to commence pursuant to the Participant's initial election, and (iii) defers the commencement of distributions by at least five years from the originally scheduled commencement date.

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

(d) *Crediting of Dividends*. Unless otherwise provided in an Award Agreement, whenever Shares are issued to a Participant pursuant to Section 9(c) above, the Participant shall also receive, with respect to each Share issued, (i) a number of Shares equal to any stock dividends which were declared and paid to the holders of Shares between the date the Shares were credited to the Participant's Account under Section 9(a) and the date such Shares are issued to the Participant, and (ii) a number of Shares having a Fair Market Value (on the date of each cash dividend payment date)

equal to any cash dividends that were paid to the holders of Shares based on a record date between the date the Shares were credited to the Participant's Account under Section 9(a) and the date such Shares are issued.

(e) *Emergency Withdrawals.* In the event a Participant suffers an unforeseeable emergency within the contemplation of this Section and Section 409A of the Code, the Participant may apply to the Company for an immediate distribution of all or a portion of the Participant's Deferred Share Units. The unforeseeable emergency must result from a sudden and unexpected illness or accident of the Participant, the Participant's spouse, or a dependent (within the meaning of Section 152(a) of the Code) of the Participant, casualty loss of the Participant's property, or other similar extraordinary and unforeseeable conditions beyond the control of the Participant. Examples of purposes which are not considered unforeseeable emergencies include post-secondary school expenses or the desire to purchase a residence. In no event will a distribution be made to the extent the unforeseeable emergency could be relieved through reimbursement or compensation by insurance or otherwise, or by liquidation of the Participant's nonessential assets to the extent such liquidation would not itself cause a severe financial hardship. The amount of any distribution hereunder shall be limited to the amount necessary to relieve the Participant's unforeseeable emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution. The Committee shall determine whether a Participant has a qualifying unforeseeable emergency and the amount which qualifies for distribution, if any. The Committee may require evidence of the purpose and amount of the need, and may establish such application or other procedures as it deems appropriate.

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

## 10. Performance Awards

(a) *Performance Units.* Subject to the limitations set forth in paragraph (c) hereof, the Committee may in its discretion grant Performance Units to any Eligible Person and shall evidence such grant in an Award Agreement that is delivered to the Participant, which sets forth the terms and conditions of the Award.

(b) *Performance Compensation Awards.* Subject to the limitations set forth in paragraph (c) hereof, the Committee may, at the time of grant of a Performance Unit, designate such Award as a Performance Compensation Award (payable in cash or Shares) in order that such Award constitutes qualified performance-based compensation under Code Section 162(m), in which event the Committee shall have the power to grant such Performance Compensation Award upon terms and conditions that qualify it as qualified performance-based compensation within the meaning of Code Section 162(m). With respect to each such Performance Compensation Award, the Committee shall establish, in writing within the time required under Code Section 162(m), a Performance Period, Performance Measure(s), and Performance Formula(e) (each such term being hereinafter defined).

A Participant shall be eligible to receive payment in respect of a Performance Compensation Award only to the extent that the Performance Measure(s) for such Award is achieved and the Performance Formula(e) as applied against such Performance Measure(s) determines that all or some portion of such Participant's Award has been earned for the Performance Period. As soon as practicable after the close of each Performance Period, the Committee shall review and certify in writing whether, and to what extent, the Performance Measure(s) for the Performance Period have been achieved and, if so, determine and certify in writing the amount of the Performance Compensation Award to be paid to the Participant and, in so doing, may use negative discretion to decrease, but not increase, the amount of the Award otherwise payable to the Participant based upon such performance.

(c) *Limitations on Performance Compensation Awards.* The maximum Performance Compensation Award that any one Participant may receive for any one Performance Period shall not together exceed 60,000 Shares and \$1,500,000 in cash.

(d)

*Definitions.*

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

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

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

(e) *Deferral Elections.* At any time prior to the date that is at least six months before the close of a Performance Period (or longer period that the Committee selects) with respect to an Award of either Performance Units or Performance Compensation, the Committee may permit a Participant who is a member of a select group of management or highly compensated employees to irrevocably elect, on a form provided by and acceptable to the Committee, to defer the receipt of all or a percentage of the cash or Shares that would otherwise be transferred to the Participant upon the vesting of such Award, provided that (i) the Participant performs services for the Company from the later of the beginning of the Performance Period or the date the performance criteria is established through the date the deferral election is made, and (ii) the compensation has not become readily ascertainable (within the meaning of Treasury Regulation Section 1.409A-2(a)(8)). If the Participant makes this deferral election, the cash or Shares subject to the election, and any associated interest and dividends, shall be credited to an account established pursuant to Section 9 hereof on the date such cash or Shares would otherwise have been released or issued to the Participant pursuant to Section 10(a) or Section 10(b) above.

## 11. Taxes

(a) *General.* As a condition to the issuance or distribution of Shares pursuant to the Plan, the Participant (or in the case of the Participant's death, the person who succeeds to the Participant's rights) shall make such arrangements as the Company may require for the satisfaction of any applicable federal, state, local or foreign withholding tax obligations that may arise in connection with the Award and the issuance of Shares. The Company shall not be required to issue any Shares until such obligations are satisfied. If the Committee allows the withholding or surrender of Shares to satisfy a Participant's tax withholding obligations, the Committee shall not allow Shares to be withheld to the extent such withholding would either (i) exceed the maximum individual statutory tax rates in the jurisdictions applicable to the Participant, or (ii) exceed the minimum amount of tax required to be withheld with the result that equity classification for accounting purposes is lost.

(b) [Reserved].

(c) *Special Rules.* In the case of a Participant other than an Employee (or in the case of an Employee where the next payroll payment is not sufficient to satisfy such tax obligations, with respect to any remaining tax obligations), in the absence of any other arrangement and to the extent permitted under Applicable Law, the Participant shall be deemed to have elected to have the Company withhold from the Shares or cash to be issued pursuant to an Award that number of Shares having a Fair Market Value determined as of the applicable Tax Date (as defined below) or cash equal to the amount required to be withheld. For purposes of this Section 11, the Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined under the Applicable Law (the Tax Date).

(d) *Surrender of Shares.* If permitted by the Committee, in its discretion, a Participant may satisfy applicable tax withholding and employment tax obligations associated with an Award by surrendering Shares to the Company (including Shares that would otherwise be issued pursuant to the Award) that have a Fair Market Value determined as of the applicable Tax Date equal to an amount up to the maximum statutory tax rate in the applicable jurisdictions or, if less, the maximum amount of tax permitted to be withheld without equity classification for accounting purposes being lost. In the case of Shares previously acquired from the Company that are surrendered under this Section 11, such Shares must have been owned by the Participant for more than six months on the date of surrender (or such longer period of time the Company may in its discretion require).

(e) *Income Taxes and Deferred Compensation.* Participants are solely responsible and liable for the satisfaction of all taxes and penalties that may arise in connection with Awards (including any taxes arising under Section 409A of the Code), and the Company shall not have any obligation to indemnify or otherwise hold any Participant harmless from any or all of such taxes. The Committee shall have the discretion to organize any deferral program, to require deferral election forms, and to grant or to unilaterally modify any Award in a manner that (i) conforms with the requirements of Section 409A of the Code with respect to compensation that is deferred and that vests after December 31, 2004, (ii) that voids any Participant election to the extent it would violate Section 409A of the Code, and (iii) for any distribution election that would violate Section 409A of the Code, to make distributions pursuant to the Award at the earliest to occur of a distribution event that is allowable under Section 409A of the Code or any distribution event that is both allowable under Section 409A of the Code and is elected by the Participant, subject to any valid second election to defer, provided that the Committee permits second elections to defer in accordance with Section 409A(a)(4)(C). The Committee shall have the sole discretion to interpret the requirements of the Code, including Section 409A, for purposes of the Plan and all Awards.



## 12. Non-Transferability of Awards

(a) *General.* Except as set forth in this Section 12, or as otherwise approved by the Committee, Awards may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent or distribution, or in the case of a Non-ISO, pursuant to a domestic relations order as defined under Rule 16a-12 under the Exchange Act. The designation of a beneficiary by a Participant will not constitute a transfer. An Award may be exercised, during the lifetime of the holder of an Award, only by such holder, the duly-authorized legal representative of a Participant who is Disabled, a transferee permitted by this Section 12, or except as would cause an ISO to lose such status, by a bankruptcy trustee.

(b) *Limited Transferability Rights.* Notwithstanding anything else in this Section 12, the Committee may in its discretion provide in an Award Agreement that an Award relating to Non-ISOs, SARs settled only in Shares, Restricted Shares, or Performance Shares may be transferred, on such terms and conditions as the Committee deems appropriate, either (i) by instrument to the Participant's Immediate Family (as defined below), (ii) by instrument to an inter vivos or testamentary trust (or other entity) in which the Award is to be passed to the Participant's designated beneficiaries, or (iii) by gift to charitable institutions. Each Restricted Share shall be non-transferable until such share becomes non-forfeitable. Any transferee of the Participant's rights shall succeed and be subject to all of the terms of the applicable Award Agreement and the Plan. Immediate Family means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, and shall include adoptive relationships.

## 13. Adjustments Upon Changes in Capitalization, Merger or Certain Other Transactions

(a) *Changes in Capitalization.* The Committee shall equitably adjust (including in any case by rounding up to the nearest whole share) the number of Shares covered by each outstanding Award, the number of Shares that have been authorized for issuance under the Plan but as to which no Awards have yet been granted or that have been returned to the Plan upon cancellation, forfeiture, or expiration of an Award, the limit on Awards set forth in Section 5(c) or the price per Share covered by each such outstanding Award, to reflect: (i) a stock-split, reverse stock-split, stock or extraordinary cash dividend, combination, recapitalization, or exchange or reclassification of the Shares or (ii) by reason of any merger, consolidation, spinoff or other corporate reorganization in which the Company is the surviving corporation. In the event of any such transaction or event, the Committee may provide in substitution for any or all outstanding Awards under the Plan such alternative consideration (including securities of any surviving entity) as it may in good faith determine to be equitable under the circumstances and may require in connection therewith the surrender of all Awards so replaced. In any case, such substitution of securities shall not require the consent of any person who is granted Awards pursuant to the Plan. Any adjustment made by the Committee pursuant to this Section 13(a) shall be binding and final. Except as expressly provided herein, or in an Award Agreement, if the Company issues for consideration shares of stock of any class or securities convertible into shares of stock of any class, the issuance shall not affect, and no adjustment by reason thereof shall be required to be made with respect to the number or price of Shares subject to any Award.

(b) [Reserved].

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

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

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

(iii) arrange or otherwise provide for the payment of cash or other consideration to Participants in exchange for the satisfaction and cancellation of outstanding Awards;

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

(v) with respect to an Option or SAR with an exercise price that equals or exceeds the price per Share to be received by the other stockholders of the Company in the Change in Control, the Committee may in its discretion, cancel any such outstanding Option or SAR without payment of consideration therefor; or

(vi) make such other modifications, adjustments or amendments to outstanding Awards or this Plan as the Committee deems necessary or appropriate, subject however to the terms of Section 15(a) below.

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

(d) *Certain Distributions.* Subject to Code Section 409A, in the event of any distribution to the Company's stockholders of securities of any other entity or other assets (other than dividends payable in cash or stock of the Company) without receipt of consideration by the Company, the Committee may, in its discretion, appropriately adjust the price per Share covered by each outstanding Award to reflect the effect of such distribution.

#### **14. Time of Granting Awards.**

The date of grant ( Grant Date ) of an Award shall be the date on which the Committee makes the determination granting such Award or such other date as is determined by the Committee and set forth in the Award Agreement, provided that in the case of an ISO, the Grant Date shall be the later of the date on which the Committee makes the determination granting such ISO or the date of commencement of the Participant's employment relationship with the Company.

**15. Modification of Awards and Substitution of Options.**

(a) *Modification, Extension, and Renewal of Awards.* Subject to Code Section 409A and within the limitations of the Plan, the Committee may modify an Award to accelerate the rate at which an Option or SAR may be exercised (including without limitation permitting an Option or SAR to be exercised in full without regard to the installment or vesting provisions of the applicable Award Agreement or whether the Option or SAR is at the time exercisable, to the extent it has not previously been exercised), to accelerate the vesting of any Award, to extend or renew outstanding Awards or to accept the cancellation of outstanding Awards to the extent not previously exercised. Notwithstanding the foregoing provision, no modification of an outstanding Award shall materially and adversely affect such Participant's rights thereunder, unless either the Participant provides written consent, there is an express Plan provision permitting the Committee to act unilaterally to make the modification, or the Committee reasonably concludes that the modification is not materially adverse to the Participant.

(b) *Substitution of Options.* Notwithstanding any inconsistent provisions or limits under the Plan, in the event the Company or an Affiliate acquires (whether by purchase, merger or otherwise) all or substantially all of outstanding capital stock or assets of another corporation or in the event of any reorganization or other transaction, the Committee may substitute Options and SARs for options and stock appreciation rights under the plan of the acquired company in the manner described in Treasury Regulation Section 1.409A-1 and, with respect to ISOs, Treasury Regulation Section 1.424-1.

**16. Term of Plan.**

The Plan shall continue in effect for a term of ten (10) years from its effective date as determined under Section 20 below, unless the Plan is sooner terminated under Section 17 below.

**17. Amendment and Termination of the Plan.**

(a) *Authority to Amend or Terminate.* Subject to Applicable Law, the Board may from time to time amend, alter, suspend, discontinue, or terminate the Plan.

(b) *Effect of Amendment or Termination.* No amendment, suspension, or termination of the Plan shall materially and adversely affect Awards already granted unless either it relates to an adjustment or modification pursuant to Section 13 or 15(a) above, or it is otherwise mutually agreed between the Participant and the Committee, which agreement must be in writing and signed by the Participant and the Company. Notwithstanding the foregoing, the Committee may amend the Plan to eliminate provisions, which are no longer necessary as a result of changes in tax or securities laws or regulations, or in the interpretation thereof.

**18. Conditions upon Issuance of Shares.**

Notwithstanding any other provision of the Plan or any agreement entered into by the Company pursuant to the Plan, the Company shall not be obligated, and shall have no liability for failure, to issue or deliver any Shares under the Plan unless such issuance or delivery would comply with Applicable Law, with such compliance determined by the Company in consultation with its legal counsel.

**19. Reservation of Shares.**

The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

**20. Effective Date.**

This Plan shall become effective on the date of its approval by the Board; provided that this Plan shall be submitted to the Company's stockholders for approval, and if not approved by the stockholders in accordance with Applicable Law (as determined by the Committee in its sole discretion) within one year from the date of approval by the Board, this Plan and any Awards shall be null, void, and of no force and effect. Awards granted under this Plan before approval of this Plan by the stockholders shall be granted subject to such approval, and no Shares shall be distributed before such approval.

**21. Controlling Law.**

All disputes relating to or arising from the Plan shall be governed by the internal substantive laws (and not the laws of conflicts of laws) of the State of Delaware, to the extent not preempted by United States federal law. If any provision of this Plan is held by a court of competent jurisdiction to be invalid, illegal or unenforceable, the remaining provisions shall continue to be fully effective.

**22. Laws and Regulations.**

(a) *U.S. Securities Laws.* This Plan, the grant of Awards, and the exercise of Options and SARs under this Plan, and the obligation of the Company to sell or deliver any of its securities (including, without limitation, Options, Restricted Shares, Restricted Share Units, Unrestricted Shares, Deferred Share Units, and Shares) under this Plan shall be subject to all Applicable Law. In the event that the Shares are not registered under the Securities Act of 1933, as amended (the Act), or any applicable state securities laws prior to the delivery of such Shares, the Company may require, as a condition to the issuance thereof, that the persons to whom Shares are to be issued represent and warrant in writing to the Company that such Shares are being acquired by him or her for investment for his or her own account and not with a view to, for resale in connection with, or with an intent of participating directly or indirectly in, any distribution of such Shares within the meaning of the Act, and a legend to that effect may be placed on the certificates representing the Shares. The Company shall be under

no obligation to effect the registration pursuant to the Act of any Shares to be issued hereunder or to effect similar compliance under any state law.

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

### **23. No Stockholder Rights.**

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

### **24. No Employment Rights.**

The Plan shall not confer upon any Participant any right to continue an employment, service or consulting relationship with the Company, nor shall it affect in any way a Participant's right or the Company's right to terminate the Participant's employment, service, or consulting relationship at any time, with or without Cause.

### **25. Termination, Rescission and Recapture of Awards.**

Notwithstanding any other provision of the Plan, but subject to any contrary terms set forth in any Award Agreement, this Section shall only apply to a Participant who is, on the Award Date, an Employee of the Company or its Affiliates, and shall automatically cease to apply to any Participant from and after his or her termination of Continuous Service after a Change in Control.

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

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

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



to enable the Company to secure all right, title and interest in such intellectual property in the United States and in any foreign country.

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

(e) If the Company determines, in its sole and absolute discretion, that (i) a Participant has violated any of the Conditions or (ii) during his or her Continuous Service, or within 1 year or such longer period as set forth in any written employment agreement between the Company and the Participant after his or her termination for any reason, a Participant (a) has rendered services to, or otherwise directly or indirectly engaged in or assisted, any organization or business that, in the judgment of the Company in its sole and absolute discretion, violates any restrictions set forth in (1) any written employment agreement to which the Participant is a party or (2) any of the Company's policies or procedures; (b) has solicited any non-administrative employee of the Company to terminate employment with the Company; or (c) has engaged in activities which are materially prejudicial to or in conflict with the interests of the Company, including any breaches of fiduciary duty or the duty of loyalty, then the Company may, in its sole and absolute discretion, impose a Termination, Rescission, and/or Recapture with respect to any or all of the Participant's relevant Awards, Shares, and the proceeds thereof.

(f) Within ten days after receiving notice from the Company of any such activity, the Participant shall deliver to the Company the Shares acquired pursuant to the Award, or, if Participant has sold the Shares, the gain realized, or payment received as a result of the rescinded exercise, payment, or delivery; provided, that if the Participant returns Shares that the Participant purchased pursuant to the exercise of an Option (or the gains realized from the sale of such Common Stock), the Company shall promptly refund the exercise price, without earnings, that the Participant paid for the Shares. Any payment by the Participant to the Company pursuant to this Section 25 shall be made either in cash or by returning to the Company the number of Shares that the Participant received in connection with the rescinded exercise, payment, or delivery. It shall not be a basis for Termination, Rescission or Recapture if after termination of a Participant's Continuous Service, the Participant purchases, as an investment or otherwise, stock or other securities of such an organization or business, so long as (i) such stock or other securities are listed upon a recognized securities exchange or traded over-the-counter, and (ii) such investment does not represent more than a five percent (5%) equity interest in the organization or business.

(g) Notwithstanding the foregoing provisions of this Section, the Company has sole and absolute discretion not to require Termination, Rescission and/or Recapture, and its determination not to require Termination, Rescission and/or Recapture with respect to any particular act by a particular Participant or Award shall not in any way reduce or eliminate the Company's authority to require Termination, Rescission and/or Recapture with respect to any other act or Participant or Award. Nothing in this Section shall be construed to impose obligations on the Participant to refrain

from engaging in lawful competition with the Company after the termination of employment that does not violate subsections (b) or (c) of this Section, other than any obligations that are part of any separate agreement between the Company and the Participant or that arise under applicable law.

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

(i) Notwithstanding any provision of this Section, if any provision of this Section is determined to be unenforceable or invalid under any applicable law, such provision will be applied to the maximum extent permitted by applicable law, and shall automatically be deemed amended in a manner consistent with its objectives to the extent necessary to conform to any limitations required under applicable law. Furthermore, if any provision of this Section is illegal under any applicable law, such provision shall be null and void to the extent necessary to comply with applicable law.

## **26. Expenses and Receipts.**

The expenses of the Plan shall be paid by the Company. Any proceeds received by the Company in connection with any Award will be used for general corporate purposes.

**27. Clawback.**

Any Award that is subject to recovery under any Applicable Law, government regulation or rule or listing standard of any stock exchange, will be subject to such deductions and clawback as may be required to be made pursuant to such Applicable Law, government regulation or rule or listing standard of any stock exchange (or any policy adopted by the Company pursuant to any such Applicable Law, government regulation or rule or listing standard of any stock exchange).

**28. Code Section 409A Compliance.**

All Awards granted under this Plan are intended to comply with or to be exempt from Code Section 409A and will be construed accordingly. However, the Company will not be liable to any Participant or beneficiary with respect to any adverse tax consequences arising under Code Section 409A or other provision of the Code. All terms of this Plan that are undefined or ambiguous must be interpreted in a manner that is consistent with Code Section 409A if necessary to comply with Code Section 409A. A Participant's right to receive any installment payments under this Plan or an Award Agreement will be treated as a right to receive a series of separate payments for purposes of Code Section 409A. To the extent that (i) a Participant is determined to be a specified employee within the meaning of Code Section 409A, (b) any amounts payable under this Plan or an Award Agreement represent amounts that are subject to Code Section 409A, and (c) such amounts are payable solely on the Participant's separation from service within the meaning of Code Section 409A, then such amounts will not be payable to the Participant before the date that is six months after the Participant's separation from service (or, if earlier, the date of the Participant's death), to the extent necessary to avoid the imposition of tax penalties on the Participant under Code Section 409A. Payments subject to the preceding sentence to which the Participant would otherwise be entitled during the first six months following the Participant's separation date will be accumulated and paid on the first business day that is six months after the separation date.

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**Exhibit A: Definitions**

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As used in the Plan, the following definitions shall apply:

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

**Applicable Law** means the legal requirements relating to the administration of options and share-based plans under applicable U.S. federal and state laws, the Code, any applicable stock exchange or automated quotation system rules or regulations (to the extent the Committee determines that compliance therewith is desirable or appropriate), and the applicable laws of any other country or jurisdiction where Awards are granted, as such laws, rules, regulations and requirements shall be in place from time to time.

**Award** means any award made pursuant to the Plan, including awards made in the form of an Option, an SAR, a Restricted Share, a Restricted Share Unit, an Unrestricted Share, a Deferred Share Unit, and a Performance Award, or any combination thereof, whether alternative or cumulative, authorized by and granted under this Plan.

**Award Agreement** means any written document setting forth the terms of an Award that has been authorized by the Committee, which may, in the discretion of the Committee, be transmitted electronically to the Participant. The Committee shall determine the form or forms of documents to be used, and may change them from time to time for any reason.

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

**Cause** has the meaning set forth in any employment, severance or other agreement governing the relationship between the relevant Participant and the Company in effect as of the date the event giving rise to Cause occurred. In the absence of such a provision, Cause means: (i) any material violation by the Participant of the terms of any agreement between the Participant and the Company, including without limitation, any employment or non-competition agreement; (ii) the Participant's conviction of, or plea of guilty or no contest to, any crime (whether or not involving the Company) constituting a felony in the jurisdiction involved; (iii) conduct of the Participant related to the Participant's employment with the Company for which either criminal or civil penalties against the Participant or the Company may be sought; (iv) material violation of the Company's policies, including, without limitation, those relating to sexual harassment, the disclosure or misuse of confidential information, or those set forth in Company manuals or statements of policy; (v) serious neglect or misconduct in the performance of the Participant's duties for the Company or willful or repeated failure or refusal to perform such duties; or (vi) material violation of state or federal securities laws.

Any rights the Company may have hereunder in respect of the events giving rise to Cause shall be in addition to the rights the Company may have under any other agreement with a Participant or at law or in equity. Any determination of whether a Participant's employment is (or is deemed to have been) terminated for Cause shall be made by the Committee in its sole discretion, which determination shall be final and binding on all parties. If, subsequent to a Participant's termination of employment (whether voluntary or involuntary) without Cause, it is discovered that the Participant's employment could have been terminated for Cause, such Participant's employment shall be deemed to have been terminated for Cause. A Participant's termination of employment for Cause shall be effective as of the date of the occurrence of the event giving rising to Cause, regardless of when the determination is made.

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

(i) any Person or related Group of Persons (as such terms are used in Sections 13(d) and 14(d)(2) of the Exchange Act), other than (A) Geneve Holdings, Inc. and/or any of its Affiliates or (B) any employee benefit plan sponsored by the

Company, is or becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 50% of the total combined voting power of all classes of capital stock of the Company normally entitled to vote for the election of directors of the Company;

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

(iii) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company;

(iv) the consummation of the sale or disposition by the Company of all or substantially all of the Company's assets, in one transaction or a series of related transactions; or

(v) a majority of the members of the Board are replaced during any twelve-month period by directors whose appointment or election was not endorsed by a majority of the members of the Board as of immediately prior to the date of such appointment or election.

However, in no event shall a Change in Control be deemed to have occurred, with respect to a Participant, if the Participant is part of a purchasing group which consummates the Change in Control transaction. The Participant shall be deemed part of a purchasing group for purposes of the preceding sentence if the Participant is an equity participant or has agreed to become an equity participant in the purchasing company or group (except for (a) passive ownership of less than 5% of the stock of the purchasing company or (b) ownership of equity participation in the purchasing company or group which is otherwise not deemed to be significant, as determined prior to the Change in Control by a majority of the non-employee Directors of the Company). The Board has final authority to determine the exact date on which a Change in Control has been deemed to have occurred under subparagraphs (i), (ii), (iii), (iv) and (v) above. In addition, notwithstanding anything in the Plan to the contrary, to the extent an amount forming all or a portion of an Award represents deferred compensation under Section 409A of the Code that becomes payable upon the occurrence of a Change in Control (including a termination of the Plan or an Award Agreement upon a Change in Control), a Change in Control will not be considered to have occurred unless the event constitutes a change in control event under Section 409A of the Code.

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

**Committee** means one or more committees or subcommittees of the Board appointed by the Board to administer the Plan in accordance with Section 4 above. With respect to any decision involving an Award intended to satisfy the requirements of Section 162(m) of the Code, the Committee shall consist solely of two or more Directors of the Company who are outside directors within the meaning of Section 162(m) of the Code. With respect to any decision involving an Award relating to a Reporting Person, the Committee shall consist of two or more Directors who are non-employee directors within the meaning of Rule 16b-3.

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

**Consultant** means any Person, including an advisor, who is engaged by the Company or any Affiliate to render services and is compensated for such services.

**Continuous Service** means the absence of any interruption or termination of service as an Employee, Director, Consultant, or agent. Continuous Service shall not be considered interrupted in the case of: (i) sick leave; (ii) military leave; (iii) any other leave of absence approved by the Committee, provided that such leave is for a period of not more than 90 days, unless reemployment upon the expiration of such leave is guaranteed by contract or statute, or unless provided otherwise pursuant to Company policy adopted from time to time; (iv) changes in status from Director to advisory director or emeritus status; or (v) in the case of transfers between locations of the Company or between the Company, its Affiliates or their respective successors. Changes in status between service as an Employee, Director, Consultant, and an agent will not constitute an interruption of Continuous Service.

**Deferred Share Units** mean Awards pursuant to Section 9 of the Plan.

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

**Disabled** means a condition under which a Participant:

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

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

The determination of whether a Participant is Disabled shall be determined under procedures established by the Committee. The Committee may rely on any determination that a Participant is Disabled for purposes of benefits under any long-term disability plan maintained by the Company or any Affiliate in which a Participant participates.

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

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

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



**Fair Market Value** means, as of any date (the Determination Date ): (i) the closing price of a Share on the New York Stock Exchange (the Exchange ) on the Determination Date, or, if Shares were not traded on the Determination Date, then on the nearest preceding trading day during which a sale occurred in each case as reported in *The Wall Street Journal* or such other source as the Committee deems reliable; or (ii) if such Shares are not traded on the Exchange but are quoted on NASDAQ Stock Market or a successor quotation system, the closing price for the Shares on NASDAQ Stock Market or a successor quotation system on the Determination Date in each case as reported in *The Wall Street Journal* or such other source as the Committee deems reliable; or (iii) if such stock is not traded on the Exchange or quoted on NASDAQ Stock Market but is otherwise traded on the over-the-counter market, the mean between the representative bid and asked prices on the Determination Date; or (iv) if subsections (i)-(iii) do not apply, the fair market value established in good faith by the Board.

**Grant Date** has the meaning set forth in Section 14 of the Plan.

**Incentive Share Option or ISO** hereinafter means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code, as designated in the applicable Award Agreement.

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

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

**Option** means any stock option granted pursuant to Section 6 of the Plan.

**Participant** means any holder of one or more Awards, or the Shares issuable or issued upon exercise of such Awards, under the Plan.

**Performance Awards** mean Performance Units and Performance Compensation Awards granted pursuant to Section 10.

**Performance Compensation Awards** mean Awards granted pursuant to Section 10(b) of the Plan.

**Performance Unit** means Awards granted pursuant to Section 10(a) of the Plan which may be paid in cash, in Shares, or such combination of cash and Shares as the Committee in its sole discretion shall determine.

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

**Plan** means this Independence Holding Company 2016 Stock Incentive Plan.

**Reporting Person** means an officer, Director, or greater than ten percent stockholder of the Company within the meaning of Rule 16a-2 under the Exchange Act, who is required to file reports pursuant to Rule 16a-3 under the Exchange Act.

**Restricted Shares** mean Shares subject to restrictions imposed pursuant to Section 8 of the Plan.

**Restricted Share Units** mean Awards granted pursuant to Section 8 of the Plan.

**“Retirement”** means a Participant’s voluntary termination of service with the Company occurring on or after the date (i) the Participant has attained age 59 ½, and (ii) the sum of the Participant’s age and length of service with the

Company equals at least 69 ½ years.

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

**“SAR” or “Share Appreciation Right”** means Awards granted pursuant to Section 7 of the Plan.

**“Share”** means a share of common stock of the Company, as adjusted in accordance with Section 13 of the Plan.

**Ten Percent Holder** means a Person who owns stock representing more than ten percent (10%) of the combined voting power of all classes of stock of the Company or any parent corporation or subsidiary corporation (as those terms are defined in Code Section 424).

**Unrestricted Shares** mean Shares awarded pursuant to Section 8 of the Plan.

**As approved by the Board of**

**Directors on September 23, 2016.**