

INDEPENDENCE HOLDING CO  
Form DEF 14A  
April 30, 2009

**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 (Amendment No.        )

Filed by the Registrant  x

Filed by a Party other than the Registrant  o

Check the appropriate box:

- o Preliminary Proxy Statement
- o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o 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)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the

amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**INDEPENDENCE HOLDING COMPANY**

---

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

***To Be Held June 19, 2009***

---

Dear Stockholders:

We cordially invite you to attend the 2009 annual meeting of the stockholders of Independence Holding Company ( IHC ). The meeting will take place at the Hyatt Regency Greenwich, on Friday, June 19, 2009 at 10:00 a.m. local time.

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

The purpose of the meeting is to:

1. elect seven directors, each for a term of one year;
2. ratify the appointment of KPMG LLP as IHC 's independent registered public accounting firm for the fiscal year ending December 31, 2009; and
3. transact any other business that may properly come before the meeting.

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

By order of the Board of Directors,

Adam C. Vandervoort

*Secretary*

April 30, 2009

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

**2009 PROXY STATEMENT**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>INFORMATION ABOUT THE ANNUAL MEETING</b>	2
What is the purpose of the annual meeting?	2
Who is entitled to vote?	2
Why did I receive a notice in the mail regarding the Internet availability of proxy materials instead of a full set of proxy materials?	2
How do I vote by proxy?	2
Am I entitled to vote if my shares are held in street name ?	2
How many shares must be present to hold the meeting?	3
What if a quorum is not present at the meeting?	3
How can I vote my shares in person at the meeting?	3
How can I vote my shares without attending the meeting?	3
Can I change my vote?	3
Who can attend the meeting?	4
Will my vote be kept confidential?	4
Who will count the votes?	4
How does the Board of Directors recommend I vote on the proposals?	4
What if I do not specify how my shares are to be voted?	4
Will any other business be conducted at the meeting?	4
How many votes are required to elect the director nominees?	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 ended December 31, 2009?	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
Section 16(a) Beneficial Ownership Reporting Compliance	6
Significant Stockholders	7
<b>CORPORATE GOVERNANCE MATTERS</b>	8
Corporate Governance Documents	8
Director Independence	8
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>	10
Meetings	10
Committees	10
Attendance at Annual Meeting of Stockholders	10
<b>EXECUTIVE OFFICERS</b>	11
<b>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</b>	12
Compensation Committee Interlocks and Insider Participation	12
Transactions with Management and Other Relationships	12
<b>PROPOSAL 1 - ELECTION OF DIRECTORS</b>	13
<b>DIRECTORS COMPENSATION</b>	15
Director Summary Compensation	15
<b>EXECUTIVE COMPENSATION</b>	16
Compensation Discussion and Analysis	16
Compensation Committee Report	17
Summary Compensation Table	18
Grants of Plan-Based Awards	19
Option Exercises and Stock Vested	20
Outstanding Equity Awards at Fiscal Year-End	21
Nonqualified Deferred Compensation	22

**TABLE OF CONTENTS**

(Continued)

Potential Payments to Named Executive Officers	22
Equity Compensation Plans	23
<b>REPORT OF THE AUDIT COMMITTEE</b>	24
<b>AUDIT AND NON-AUDIT FEES</b>	26
<b>PROPOSAL 2 - RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</b>	27
Appointment of Independent Registered Public Accounting Firm	27
Vote Required for Ratification	27
<b>OTHER MATTERS</b>	28
<b>ADDITIONAL INFORMATION</b>	28
Proxy Solicitation	28
Stockholder Proposals for 2010 Annual Meeting	28

**Independence Holding Company**

**96 Cummings Point Road**

**Stamford, Connecticut 06902**

**(203) 358-8000**

**[www.ihcgroup.com](http://www.ihcgroup.com)**

**2009 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 2009 Annual Meeting of Stockholders. The meeting will take place at the Hyatt Regency Greenwich, on Friday, June 19, 2009 at 10:00 a.m. local time. At the meeting, stockholders will vote on the election of seven directors and the ratification of IHC's independent registered public accounting firm. Stockholders also will consider any other matter that may properly come before the meeting, although we know of no other business to be presented.

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

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

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

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





**INFORMATION ABOUT THE ANNUAL MEETING**

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

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

elect seven directors, each for a term of one year; and

ratify the appointment of KPMG LLP ( KPMG ) as IHC 's independent registered public accounting firm for the fiscal year ending December 31, 2009.

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

**Who is entitled to vote?**

The record date for the meeting is April 20, 2009. Only stockholders of record at the close of business on that date are entitled to vote at the meeting. The only class of stock entitled to be voted at the meeting is 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 15,418,621 shares of IHC common stock outstanding.

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

In accordance with rules recently adopted by the Securities and Exchange Commission (the SEC ), we may now furnish proxy materials, including this proxy statement and our 2008 Annual Report, to our stockholders by providing access to such documents on the Internet instead of mailing printed copies. If you received a Notice by mail, you will not receive a printed copy of the proxy materials. Most stockholders will not receive printed copies of the proxy materials unless they request them. Instead, the Notice, which was mailed to most of our stockholders, will instruct

you as to how you may access and review all of the proxy materials on the Internet. The Notice also instructs you as to how you may submit your proxy on the Internet. If you would like to receive a paper copy of our proxy materials, you should follow the instructions for requesting such materials in the Notice. If you vote by Internet or telephone, please do not mail your proxy card.

**How do I vote by proxy?**

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

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

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

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

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

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

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

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

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

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

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

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

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

the instructions provided in the Notice, or, if you requested to receive printed proxy materials, you can also vote by mail by following the voting instruction card provided to you by your broker, bank, trustee or nominee.

**Can I change my vote?**

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

**Who can attend the meeting?**

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

**Will my vote be kept confidential?**

Yes, your vote will be kept confidential and not disclosed to 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?**

Your Board recommends that you vote:

FOR the election of the seven nominees to the Board of Directors; and

FOR the ratification of the appointment of KPMG as IHC's independent registered public accounting firm for the fiscal year ending December 31, 2009.

**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 seven nominees to the Board of Directors; and

FOR the ratification of the appointment of KPMG as IHC's independent registered public accounting firm for the fiscal year ending December 31, 2009.

**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 meeting is required to elect the seven nominees as directors. This means that the seven nominees will be elected if they receive more affirmative votes than any other person. If you vote  Withheld with respect to one or more nominees, your shares will not be voted with respect to



the person or persons indicated, although they will be counted for purposes of determining whether there is a quorum.

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

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

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

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

**How will abstentions be treated?**

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

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

Broker non-votes will be treated as shares present for quorum purposes. Your broker will be entitled to vote your shares in its discretion on the election of directors (Proposal 1) and the ratification of the appointment of the independent registered public accounting firm for the fiscal year ending December 31, 2009 (Proposal 2), without your voting instructions on these items.

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

The following table sets forth the amount of IHC common stock beneficially owned by each director or nominee, each named executive officer included in the Summary Compensation Table on page 18 and all directors, nominees and executive officers as a group, as of March 31, 2009. Unless otherwise indicated, beneficial ownership is direct and the person indicated has sole voting and investment power.

<u>Name</u>	<u>Number of Shares</u>	<u>Number of Option Shares (1)</u>	<u>Percent of Class (2)</u>
Mr. Edward Netter	---	(3)	--
Mr. Larry R. Graber	40,169		18,333
Mr. Allan C. Kirkman	11,910	(4)	5,940
Mr. John L. Lahey	4,950	(4)	--
Mr. Steven B. Lapin	89,182		--
Mr. James G. Tatum	22,009	(4) (5)	2,970
Mr. Roy T.K. Thung	274,137		205,000
Ms. Teresa A. Herbert	49,599		46,333
Mr. David T. Kettig	62,767		49,667
Mr. Jeffrey C. Smedsrud	80,421		24,999
Mr. Bernon R. Erickson, Jr.	124,800	(6)	8,333
Mr. Scott M. Wood	22		41,667
All directors, nominees for director and executive officers as a group (14 persons)	759,966		407,242
			7.38%

(1)

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

(2)

Based on 15,418,537 shares outstanding on March 31, 2009.

(3)

As described in the table relating to Significant Stockholders, Geneve Holdings, Inc. and certain of its affiliates (collectively, GHI ) are the beneficial owners of 8,155,611 shares of IHC common stock, which represents 52.89% of the outstanding common stock as of March 31, 2009. Mr. Edward Netter, Chairman of the IHC Board, is an executive officer and a director of Geneve Holdings, Inc. Mr. Netter and members of his family have voting control over Geneve Holdings, Inc. Mr. Netter disclaims beneficial ownership as to the shares of IHC common stock owned by GHI.

(4)

Includes 750 unvested shares of restricted stock issued on June 23, 2008, 500 unvested shares of restricted stock issued on June 25, 2007 and 250 unvested shares of restricted stock issued on June 19, 2006 pursuant to IHC s 2006 stock incentive plan. The restricted stock vests ratably over three years after the date of the grant.

(5)

Includes 1,260 shares owned by Mr. Tatum s wife, as to which shares Mr. Tatum disclaims beneficial ownership.

(6)

Includes 3,334 unvested shares of restricted stock issued on June 16,2006 pursuant to IHC s 2006 Stock Incentive Plan. The restricted stock vests ratably over three years after date of grant.

\*

Represents less than 1% of the outstanding common stock.

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

Section 16(a) of the Securities Exchange Act of 1934 requires directors and certain officers of IHC and persons who own more than ten percent 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, 2008.

**Significant Stockholders**

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

	<u>Common Stock</u>	<b>Percentage of Outstanding Shares Beneficially Owned</b>
Geneve Holdings, Inc. (1) 96 Cummings Point Road Stamford, Connecticut 06902	8,155,611	52.89%

(1)

According to (i) information disclosed in Amendment No. 35 to Schedule 13D dated May 9, 2001 of Geneve Holdings, Inc., a private diversified holding company located at 96 Cummings Point Road, Stamford, Connecticut, supplemented by (ii) information provided to IHC by Geneve Holdings, Inc. in response to a questionnaire, a group consisting of Geneve Holdings, Inc. and certain of its affiliates (collectively, GHI ) are the beneficial owners of 8,155,611 shares of IHC common stock. Mr. Edward Netter, Chairman of IHC Board, is an executive officer and a director of Geneve Holdings, Inc. Mr. Netter and members of his family have voting control over Geneve Holdings, Inc. Mr. Netter disclaims beneficial ownership as to the shares of IHC common stock owned by GHI.

To the best knowledge of IHC, Geneve Holdings, Inc. has sole investment and voting power with respect to the shares listed above, and no other person (or persons acting in concert) owns beneficially more than 5% of IHC s common stock.



## 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, IHC's Board has adopted:

•  
a Code of Ethics that applies to IHC's Chief Executive Officer and President, Chief Operating Officers, 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 as its definition of independence the independence standards prescribed in the NYSE Listed Company Manual (the Manual ). Each of Messrs. Kirkman, Tatum 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 2008.

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 the members of the Compensation Committee of the Board (the Compensation Committee ), Mr. Netter is not independent under the independence standards of the NYSE. Additionally, none of Messrs. Lapin, Graber, Netter 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 under the caption Transactions with Related Persons.

### **Audit Committee Financial Expert**

The Board has determined that at least one member of the Audit Committee of the Board (the Audit Committee), Mr. Tatum, is an audit committee financial expert as such term is defined in Item 401(h)(2) 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 his opinion, deals with the functions of the Board or its committees or that he otherwise determines requires the attention of any member, group or committee of the Board. Board members may, at any time, review a log of all correspondence received by 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 is 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.

## MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

### Meetings

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

### Committees

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

#### Audit Committee

#### Compensation Committee

Mr. James G. Tatum (Chairman)

Mr. Edward Netter (Chairman)

Mr. Allan C. Kirkman

Mr. Allan C. Kirkman

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 twelve times during 2008. 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 the compensation of IHC's executive officers and administers IHC's 2006 Stock Incentive Plan, 2003 Stock Incentive Plan, as amended, and 1988 Stock Incentive Plan. The Compensation Committee met one time during 2008. 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 present at the Annual Meeting of Stockholders. Were an IHC director unable to attend the meeting, IHC would endeavor to arrange for the director's participation by teleconference. At last year's annual meeting, every IHC director attended in person.

**EXECUTIVE OFFICERS**

Except for Messrs. Graber and Thung, who serve as (and are nominated to continue as) IHC directors, set forth below is information about each executive officer of IHC, including such officer's name, age, all positions and offices held with IHC and its subsidiaries and principal occupations and business experience during the past five years. 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.

**Mr. Bernon R. Erickson, Jr., 48**

*Chief Health Actuary and Senior Vice President*

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

**Ms. Teresa A. Herbert, 47**

*Chief Financial Officer and Senior Vice President*

Since March 2005, Chief Financial Officer and Senior Vice President; from July 1999 to March 2005, Vice President and Chief Financial Officer; for more than five years prior to July 1999, Vice President and Controller; since March 2001, Vice President of Geneve Corporation; since November 2002, Chief Financial Officer and Senior Vice President of AMIC.

**Mr. David T. Kettig, 50**

*Chief Operating Officer and Senior Vice President*

Since April 2009, Chief Operating Officer and Senior Vice President; from January 2006 to April 2009, Co-Chief Operating Officer and Senior Vice President; from March 2005 to January 2006, Senior Vice President, General Counsel and Secretary; for more than five years before March 2005, Vice President, General Counsel and Secretary; since April 2009, Chief Operating Officer and Senior Vice President of AMIC; from June 2007 to April 2008, Co-Chief Operating Officer and Senior Vice President of AMIC; from November 2002 to June 2007, Chief Operating Officer and Senior Vice President of AMIC; since December 2006, President of Independence American Insurance Company, a wholly owned subsidiary of AMIC.

**Mr. Jeffrey C. Smedsrud, 50**

*Chief Marketing and Strategy Officer and Senior Vice President*

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

**Mr. Henry B. Spencer, 69**

*Vice President Investments*

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

**Mr. Adam C. Vandervoort, 34**

*Vice President, General Counsel and Secretary*

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

## **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

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

Messrs. Kirkman, Netter and Tatum served on the Compensation Committee of the Board during fiscal year 2008.

Mr. Edward Netter was formerly an IHC executive officer. Please see below for additional description of IHC's relationship with Mr. Netter and his immediate family.

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

#### ***With GHI***

IHC and GHI, IHC's controlling stockholder, operate under cost-sharing arrangements pursuant to which certain items are allocated between the two companies. During 2008, IHC paid GHI (or accrued for payment thereto) approximately \$707,331 under such arrangements, and paid or accrued approximately an additional \$138,000 for the first quarter of 2009. Such cost-sharing arrangements include GHI's providing IHC with the use of office space as IHC's corporate headquarters for annual consideration of \$156,430 in 2008. 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 Mr. Edward Netter***

At December 31, 2008, IHC had a \$3.3 million limited partnership investment in a fund associated with Dolphin Limited Partnership III, L.P. ( Dolphin III ). Mr. Donald Netter is the Chairman, Chief Executive Officer and controls the managing member of Dolphin III. Mr. Donald Netter is an immediate family member of Mr. Edward Netter, an IHC director. Pursuant to the relevant partnership agreements, all limited partners are charged quarterly management fees, an annual performance-based incentive allocation and other defined expenses, all of which IHC believes to be comparable to other similar investment management vehicles with which it is familiar.

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

Southern Life and Health Insurance Company ( Southern ) is controlled by GHI. During 2008, IHC and its subsidiaries paid \$282,420 to Southern in connection with Southern's lease of real property to a subsidiary of IHC and provision of certain administrative services, and paid or accrued in respect thereof approximately an additional \$67,183 for the first quarter of 2009.

***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, with the assistance of IHC's Vice President and General Counsel, 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 2008, that was not so reviewed and approved.

### **PROPOSAL 1 ELECTION OF DIRECTORS**

The Board currently consists of seven 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 seven current directors be reelected to the Board. Each of the directors elected at this annual meeting will hold office until the annual meeting of stockholders to be held in 2010 and until his successor is duly elected and qualified.

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

The affirmative vote of a plurality of the votes cast at the meeting is required to elect the seven nominees as directors. This means that the seven 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 SEVEN NOMINEES.**

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

### **NOMINEES FOR ELECTION TO THE BOARD**

**Principal Occupation,**



<b><u>Director, Year First Elected as Director</u></b>	<b><u>Age</u></b>	<b><u>Business and Directorships</u></b>
Mr. Larry R. Graber 2000	59	Since February 2006, Senior Vice President Life and Annuities of IHC; since April 1996, a director and President of Madison National Life Insurance Company, Inc., a wholly owned subsidiary of IHC; since April 1996, a director and President of Southern Life and Health Insurance Company, an insurance company and wholly owned subsidiary of Geneve Holdings, Inc. with principal offices in Homewood, Alabama; for more than the past five years, a director of Standard Security.
Mr. Allan C. Kirkman 1980	65	For more than five years prior to his retirement in October 2005, Executive Vice President of Mellon Bank, N.A., a national bank.

- Mr. John L. Lahey 62 For more than the past twenty years, 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; since 1994, a director of the UIL Holdings Corporation, a publicly held utility holding company with principal offices in New Haven, Connecticut; since June 2006, a director of Standard Security; since 1999, a director of The Aristotle Corporation ( Aristotle ), a publicly held company, controlled by Geneve Holdings, Inc., with principal offices in Stamford, Connecticut. Mr. Lahey also serves as a director of New York City St. Patrick's Day Parade, Inc., and since 2003 has served as a member of the American Bar Association's Council of the Section of Legal Education and Admissions to the Bar.
- 2006
- Mr. Steven B. 63 Since July 1999, Vice Chairman of IHC's Board; for more than five years prior to July 1999, President and Chief Operating Officer of IHC; for more than the past five years, President and Chief Operating Officer and a director of Geneve Corporation; since January 1998, a director of Aristotle; since June 2002, President and Chief Operating Officer of Aristotle.
- Lapin
- 1991
- Mr. Edward Netter 76 Since August 1997, Chairman of the Compensation Committee; for more than the past five years, Chairman of IHC's Board; for more than five years prior to January 2000, Chief Executive Officer of IHC; from December 1990 to November 1993, President of IHC; for more than the past five years, Chairman, Chief Executive Officer and director of Geneve Holdings, Inc.; since January 1998, a director of Aristotle; since July 2002, a director of AMIC.
- 1980
- James G. Tatum, 67 Since June 2002, Chairman of the Audit Committee; since June 2006, a director of C.F.A. Standard Security; since June 2002, a director of Aristotle; 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.
- 2000
- Roy T.K. Thung 65 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; from May 1990 to November 1993, Senior Vice President, Chief Financial Officer and Treasurer of IHC; for more than the past five years, Executive Vice President of Geneve Corporation; since June 2002, a director of Aristotle; since July 2002, a director of AMIC; since November 2002, Chief Executive Officer and President of AMIC.
- 1990



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

an annual retainer of \$25,000;

\$400 for each board or committee meeting attended;

\$5,000 for service as chairman of a board committee; and

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

The following table summarizes compensation paid to IHC's directors during 2008, except for Mr. Roy T.K. Thung, IHC's Chief Executive Officer and President, and Mr. Larry R. Graber, IHC's Senior Vice President - Life and Annuities, for whom compensation is more fully described beginning on page 16 of this proxy statement.

**Director Summary Compensation**

Name	Fees Earned or Paid in Cash	Stock Awards (\$)(1)	Total (\$)
------	-----------------------------------	----------------------------	---------------

Edgar Filing: INDEPENDENCE HOLDING CO - Form DEF 14A

(\$)

Mr. Edward Netter (Chairman) (2)	--	--	--
Mr. Larry R. Graber (2)	--	--	--
Mr. Allan C. Kirkman	\$32,600	\$13,864	\$46,464
Mr. John L. Lahey	\$32,600	\$11,823	\$44,423
Mr. Steven B. Lapin (2)	--	--	--
Mr. James G. Tatum	\$38,000	\$13,864	\$51,864

(1)

Represents amounts expensed for financial statement reporting purposes. The grant date fair value of the stock awards during 2008 to Messrs. Kirkman, Lahey and Tatum was, in each case, \$9,195.

(2)

Messrs. Netter, Graber and Lapin received no compensation in connection with their service as IHC directors during 2008.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### *Compensation Objectives*

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

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

·  
attract and retain individuals of superior ability and managerial talent;

·  
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 recommendations to the Compensation Committee as to cash bonuses for IHC's executive officers (excluding himself), based on an analysis of

IHC's performance in the year ended versus IHC's plan for such year and an analysis of 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 bonuses for all IHC executive officers.

The salaries paid and annual bonuses awarded to IHC's CEO, CFO and the three other most highly compensated executive officers in 2008 (the named executive officers) are set forth in the Summary Compensation Table on page 18.

#### Equity Awards

IHC's 2006 Stock Incentive Plan (the Plan) provides the opportunity for the Compensation Committee to

make equity incentive awards to, among others, IHC's executive officers. 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. Awards to IHC executive officers of equity awards under the Plan are generally made annually at the time the annual bonus is awarded, but also may be made at the time the recipient is hired by IHC or first becomes an executive officer. The Compensation Committee determines the amount of the award with reference to factors including 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.

### Tax Implications

Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), limits IHC's deductions for compensation paid to the named executive officers to \$1 million unless certain requirements are met. The policy of the Compensation Committee with respect to Section 162(m) is to establish and maintain a compensation program which will optimize the deductibility of compensation for IHC. The Compensation Committee, however, reserves the right to use its judgment, where merited by the Compensation Committee's need to respond to changing business conditions or by an executive officer's individual performance, to authorize compensation which may not, in a specific case, be fully deductible to IHC. No named executive officer received compensation in 2008 in excess of the \$1 million limitation provided by Section 162(m) of the Code.

### **Compensation Committee Report**

The Compensation Committee assists the Board in fulfilling its responsibilities with regard to compensation matters, and is responsible for determining the compensation of IHC's executive officers. The Compensation Committee has sole authority to determine the compensation for IHC's Chief Executive Officer. In previous proxy statements, the Compensation Committee submitted reports that sought to describe in detail the philosophy and execution of executive compensation at IHC. In accordance with rules of the SEC that are now effective for this and future proxy statements, the Compensation Discussion and Analysis section of this proxy statement includes this information. The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis section of this proxy statement with management, including our Chief Executive Officer and our Chief Financial Officer. Based on this review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis section be incorporated by reference in IHC's 2008 Annual Report on Form 10-K and included in this proxy statement.

#### Compensation Committee

Mr. Edward Netter, Chairman

Mr. Allan C. Kirkman

Mr. James G. Tatum





### 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 2008 for the years 2008, 2007 and 2006. Amounts reported under the Option Awards column represent expense recorded for financial statement purposes. For additional information as to the calculation of such expense, please see footnote No. 1 to the audited financial statements included in IHC's Annual Report on Form 10-K for the Year Ended December 31, 2008, filed with the SEC on March 16, 2009.

Name and Principal Position	<u>Year</u>	<u>Salary</u> (\$)	<u>Bonus</u> (\$)	Stock <u>Awards</u> (\$)	<u>Option Awards</u> (\$)	Change in Pension Value and Nonqualified Deferred Compensation <u>Earnings</u> (\$)	All Other <u>Compensation</u> (\$)	<u>Total</u> (\$)
Mr. Roy T.K. Thung  <i>Chief Executive Officer and President</i>	2008	\$421,601	\$114,000	\$ (51,018) (1)	\$ 68,083	\$93,937 (2)	\$ 11,161 (3)	\$ 657,764
	2007	\$401,441	\$228,000	\$ (49,362) (1)	\$102,400	\$88,620 (2)	\$ 14,809 (3)	\$ 785,908
	2006	\$370,690	\$380,000	\$102,438 (1)	\$424,962	\$82,133 (2)	\$ 20,753 (3)	\$1,380,976
Ms. Teresa A. Herbert  <i>Chief Financial Officer and Senior Vice President</i>	2008	\$256,134	\$ 47,250	--	\$ 83,211	\$17,182 (4)	\$ 21,355 (5)	\$ 425,132
	2007	\$247,500	\$ 94,500	--	\$ 72,940	\$16,209 (4)	\$ 16,037 (5)	\$ 447,186
	2006	\$219,982	\$135,000 (6)	--	\$115,301	\$ 7,650 (4)	\$ 12,278 (5)	\$ 490,211
Mr. Bernon R. Erickson, Jr.  <i>Chief Health Actuary and Senior Vice President</i>	2008	\$311,565	\$176,488	\$ 70,333 (7)	\$ 22,694	--	\$ 45,150 (8)	\$ 626,230
	2007	--	--	--	--	--	--	--
	2006	--	--	--	--	--	--	--
Mr. Scott M. Wood (9).  <i>Co-Chief Operating</i>	2008	\$374,920	\$ 25,000	--	\$144,361	--	\$ 35,610 (10)	\$ 579,891
	2007	\$364,000	\$ 50,000	--	\$121,667	--	\$ 28,394 (10)	\$ 564,061
	2006	--	\$100,000	--	\$ 65,903	--	\$ 27,312 (10)	\$ 491,132

Edgar Filing: INDEPENDENCE HOLDING CO - Form DEF 14A

<i>Officer and Senior Vice President</i>			\$297,917 (11)						
Mr. David T. Kettig	2008	\$309,000	\$57,500	--	\$ 95,378	\$13,909 (4)	\$18,013 (12)	\$ 493,800	
	2007	\$300,000	\$115,000	--	\$ 85,107	\$13,121 (4)	\$11,062 (12)	\$ 524,290	
<i>Co-Chief Operating Officer and Senior Vice President</i>									
	2006	\$249,051	\$190,000 (13)	--	\$121,891	\$ 9,690 (4)	\$ 4,893 (12)	\$ 575,525	
(1)									

Represents the expense (recovery) recorded for financial statement reporting purposes in connection with stock appreciation rights.

(2)

Represents the increase in the value of Mr. Thung's Retirement Benefits Agreement with IHC for the year indicated.

(3)

Of the amount shown for 2008, \$6,555 represents employer matching contributions to Mr. Thung's 401(k) account, \$3,220 represents reimbursements related to use of automobile and \$1,386 represents life insurance premiums paid by IHC; of the amount shown for 2007, \$8,397 represents reimbursements related to use of automobile and \$6,412 represents employer matching contributions to Mr. Thung's 401(k) account; of the amount shown for 2006, \$14,483 represents reimbursements related to use of automobile and \$6,270 represents employer matching contributions to Mr. Thung's 401(k) account.

(4)

Represents 100% of the annual earnings on nonqualified deferred compensation, not merely the portion attributable to an above-market rate of return.

(5)

Of the amount shown for 2008, \$13,833 represents reimbursements related to use of automobile, \$6,210 represents employer matching contributions to Ms. Herbert's 401(k) account and \$1,312 represents life insurance premiums paid by IHC; of the amount shown for 2007, \$10,299 represents reimbursements related to use of automobile and \$5,737 represents employer matching contributions to Ms. Herbert's 401(k) account; of the amount shown for 2006, \$6,668 represents reimbursements related to use of automobile and \$5,610 represents employer matching contributions to Ms. Herbert's 401(k) account.

(6)

100% of the amount shown represents deferred compensation.

(7)

Represents amounts expensed for financial statement reporting purposes in connection with restricted stock award.

(8)

Of the amount shown, \$25,000 represents reimbursements related to use of automobile, \$10,000 represents

reimbursement for country club dues, \$7,750 represents employer matching contributions to Mr. Erickson's 401(k) account, and \$2,400 represents employer contributions to Mr. Erickson's health savings account.

(9)

Mr. Wood resigned as an officer or employee of IHC and its affiliates during April 2009.

(10)

Of the amount shown for 2008, \$25,000 represents reimbursements related to use of automobile, \$7,750 represents employer matching contributions to Mr. Wood's 401(k) account, \$1,600 represents employer contributions to Mr. Wood's health savings account and \$1,260 represents life insurance premiums paid by IHC; of the amount shown for 2007, \$25,000 represents reimbursements related to use of automobile and \$3,394 represents employer matching contributions to Mr. Wood's 401(k) account; of the amount shown for 2006, \$25,542 represents reimbursements related to use of automobile and \$2,770 represents employer matching contributions to Mr. Wood's 401(k) account.

(11)

Represents payments in connection with the portion of the year for which the named executive officer was an IHC employee.

(12)

Of the amount shown for 2008, \$7,750 represents employer matching contributions to Mr. Kettig's 401(k) account, \$5,800 represents employer contributions to Mr. Kettig's health savings account, \$3,250 represents reimbursement related to use of automobile and \$1,213 represents life insurance premiums paid by IHC; of the amount shown for 2007, \$7,750 represents employer matching contributions to Mr. Kettig's 401(k) account and \$3,312 represents reimbursements related to use of automobile; of the amount shown for 2006, 100% represents employer matching contributions to Mr. Kettig's 401(k) account.

(13)

Of the amount shown, \$47,500 represents deferred compensation.

### Grants of Plan-Based Award

The following table sets forth information regarding grants of plan-based awards made to the named executive officers during 2008.

<u>Name</u>	<u>Award Type</u>	<u>Grant Date</u>	<u>Approval Date</u>	All Other Option Awards:	Exercise or Base Price of <u>Option</u>	Closing Price	Grant Date Fair Value of Stock and
	(1)						

Edgar Filing: INDEPENDENCE HOLDING CO - Form DEF 14A

				Number of Securities Underlying <u>Options</u>  (#)	<u>Awards</u> (\$/Sh)	On <u>Grant Date</u>  (\$/Sh)	<u>Option</u> <u>Awards</u>  (\$)
Mr. Roy T.K. Thung	Stock Option	03/19/2008	03/11/2008	75,000	\$10.99	\$10.99	\$258,000
Ms. Teresa A. Herbert	Stock Option	03/19/2008	03/11/2008	25,000	\$10.99	\$10.99	\$86,000
Mr. Bernon R. Erickson, Jr.	Stock Option	03/19/2008	03/11/2008	25,000	\$10.99	\$10.99	\$86,000
Mr. Scott M. Wood	Stock Option	03/19/2008	03/11/2008	25,000	\$10.99	\$10.99	\$86,000
Mr. David T. Kettig	Stock Option	03/19/2008	03/11/2008	25,000	\$10.99	\$10.99	\$86,000

(1)

Stock options granted to named executive officers vest ratably in three annual installments beginning on the first anniversary of the grant date.

**Option Exercises and Stock Vested**

The following table sets forth for each named executive officer certain information about stock options that were exercised and restricted stock that vested during 2008.

<u>Name</u>	<u>Option Awards</u>		<u>Stock Awards</u>	
	Number of Shares Acquired <u>on Exercise</u> (#) (1)	Value Realized <u>on Exercise</u> (\$)	Number of Shares Acquired <u>on Vesting</u> (#)	Value Realized <u>on Vesting</u> (\$ (2))
Mr. Roy T.K. Thung	187,110	\$380,402	--	--
Ms. Teresa A. Herbert	44,550	\$129,641	--	--
Mr. Bernon R. Erickson, Jr.	--	--	3,333	\$43,062
Mr. Scott M. Wood	--	--	--	--
Mr. David T. Kettig	44,550	\$129,624	--	--

(1)

Reflects gross amount of shares to which awards relate, without netting any shares surrendered to pay exercise price or taxes.

(2)

Represents the fair market value of the shares as of the close of the market on the vesting date, plus accrued dividends.

**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, 2008.

<u>Name</u>	Number of Securities Underlying Unexercised Options (#)	<u>Option Awards</u>			<u>Stock Awards</u>	
		Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not <u>Vested</u> (#)	Market Value of Shares or Units of Stock That Have Not <u>Vested</u> (\$)
Mr. Roy T.K. Thung	180,000	--	\$20.89	5/6/2009	--	--
	--	75,000 (1)	\$10.99	3/19/2013	--	--
Ms. Teresa A. Herbert	--	--	--	--	26,666 (2)	\$0.00 (3)
	18,000	--	\$20.89	5/6/2009	--	--
	10,000	--	\$17.99	11/29/2010	--	--
	10,000	5,000 (4)	\$21.15	6/18/2011	--	--
Mr. Bernon R. Erickson, Jr.	--	25,000 (1)	\$10.99	3/19/2013	--	--
	--	25,000 (1)	\$10.99	3/19/2013	--	--
Mr. Scott M. Wood	33,334	16,666 (4)	\$21.15	6/18/2011	--	--
	--	25,000 (1)	\$10.99	3/19/2013	--	--
Mr. David T. Kettig	18,000	--	\$20.89	5/6/2009	--	--
	10,000	--	\$17.99	11/29/2010	--	--
	13,334	6,666 (4)	\$21.15	6/18/2011	--	--
	--	25,000 (1)	\$10.99	3/19/2013	--	--

(1)



Options granted on 3/19/2008 are exercisable in one-third annual increments beginning 3/19/2009.

(2)

Stock appreciation rights granted on 6/19/2006 are exercisable in one-third annual increments beginning on 6/19/2007.

(3)

Calculated as of December 31, 2008.

(4)

Options granted on 6/19/2006 are exercisable in one-third annual increments beginning 6/19/2007.

### Nonqualified Deferred Compensation

The following table sets forth the non-qualified deferred compensation activity for each named executive officer during 2008. The amounts in the first column represent contributions to deferred compensation during the year 2008.

<u>Name</u>	<u>Executive Contributions in Last Fiscal Year</u>	<u>Aggregate Earnings in Last Fiscal Year</u>	<u>Aggregate Withdrawals/ Distributions</u>	<u>Aggregate Balance at Last Fiscal Year-End</u>
	(\$)	(\$)	(\$)	(\$)
Mr. Roy T.K. Thung	--	--	--	--
Ms. Teresa A. Herbert	--	\$17,182	--	\$303,541
Mr. Bernon R. Erickson, Jr.	--	--	--	--
Mr. Scott M. Wood	--	--	--	--
Mr. David T. Kettig	--	\$13,909	--	\$245,720

### 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, pursuant to which Mr. Thung is entitled to a lump-sum cash payment upon retirement of \$1,659,556.96, increasing on a cumulative, compounding basis of 6% per annum from December 31, 2008. For example, if Mr. Thung's employment by IHC were to cease on December 31, 2010, Mr. Thung would receive a payment in the amount of \$1,864,678.20.

#### *With Mr. Erickson*

Under the terms of his employment agreement with IHC, dated as of April 1, 2007, as amended December 31, 2008, if Mr. Bernon R. Erickson, Jr.'s employment by IHC or its affiliate were to cease under certain circumstances (*e.g.*, involuntary termination without cause), Mr. Erickson would be entitled to receive his base salary through the term of the agreement. For example, had this provision been triggered on January 1, 2009, Mr. Erickson would have been entitled to receive \$311,565 per year, payable in accordance with IHC's standard practices, through March 31, 2010.

***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 December 31, 2008 with respect to compensation plans under which shares of IHC common stock may be issued.

**Equity Compensation Plan Information**

<u>Plan Category</u>	Number of Shares to be Issued Upon Exercise of <u>Outstanding Options</u>	Weighted-Average Exercise Price of <u>Outstanding Options</u>	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected <u>in the First Column</u> )
Equity compensation plans approved by stockholders	759,093	\$17.94	744,383

## 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 is responsible for auditing IHC's financial statements and internal control over financial reporting. 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, 2008 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 (i) IHC's consolidated financial statements, (ii) management's assessment of the effectiveness of internal control over financial reporting and (iii) the effectiveness of internal control over financial reporting. 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 2009.

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

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

**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 2008 and 2007:

	<b>2008</b>	<b>2007</b>
Audit fees	\$1,632,000	\$2,188,200
Audit-related fees	\$110,777	--
Tax fees	--	\$83,000
All other fees	--	--
Total	\$1,742,777	\$2,271,200

*Audit Fees.* Represents fees for professional services provided for the audit of IHC's annual financial statements, the audit of IHC's internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, the review of IHC's quarterly financial statements and audit services provided in connection with other statutory or regulatory filings.

*Audit-related Fees.* Represents fees related to an internal investigation at Insurers Administrative Corporation.

*Tax Fees.* Represents fees for professional services provided primarily for tax compliance.

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. None of the non-audit services above was billed to IHC during 2008 or 2007 without such pre-approval.





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

**Vote Required For Ratification**

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

The ratification of the appointment of KPMG as 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.

**YOUR 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 2010 Annual Meeting**

Stockholder proposals intended to be presented at IHC's 2010 annual meeting must be received by IHC no later than January 1, 2010 to be eligible for inclusion in IHC's proxy statement and form of proxy for next year's 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 2010 annual meeting, IHC's by-laws require stockholders to give advance notice of such proposals. The required notice must be given no more than 90 days and no less than 70 days in advance of the anniversary date of the immediately preceding annual meeting. Accordingly, with respect to IHC's 2010 annual meeting of stockholders, IHC's by-laws require notice to be provided to Independence Holding Company, Attention: Corporate Secretary, 485 Madison Avenue, 14<sup>th</sup> Floor, New York, New York 10022, as early as March 21, 2010 but no later than April 10, 2010. If a stockholder fails to provide timely notice of a proposal to be presented at the 2010 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,

Adam C. Vandervoort  
*Secretary*