

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

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2013

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-35811

**Health Insurance Innovations, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**46-1282634**  
(I.R.S. Employer  
Identification No.)

**15438 N. Florida Avenue, Suite 201**  
**Tampa, FL**  
(Address of Principal Executive Offices)

**33613**  
(Zip Code)

**(877) 376-5831**  
(Registrant's telephone number, including area code)

N/A  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes  No

As of May 10, 2013 the registrant had 5,295,167 shares of Class A common stock, \$0.001 par value, outstanding and 8,566,667 shares of Class B common stock, \$0.001 par value, outstanding.

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[Table of Contents](#)

HEALTH INSURANCE INNOVATIONS, INC.  
(Prior to February 13, 2013 Health Plan Intermediaries, LLC and Subsidiaries)

CONTENTS

<a href="#">PART I—FINANCIAL INFORMATION</a>	<a href="#">3</a>
<a href="#">ITEM 1—FINANCIAL STATEMENTS (Unaudited)</a>	<a href="#">3</a>
<a href="#">Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012</a>	<a href="#">3</a>
<a href="#">Consolidated Statements of Operations for the Three Months Ended March 31, 2013 and 2012</a>	<a href="#">4</a>
<a href="#">Consolidated Statements of Member’s/Stockholders’ Equity for the Three Months Ended March 31, 2013 and 2012</a>	<a href="#">5</a>
<a href="#">Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2013 and 2012</a>	<a href="#">6</a>
<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">7</a>
<a href="#">ITEM 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">22</a>
<a href="#">ITEM 3—Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">34</a>
<a href="#">ITEM 4—Controls and Procedures</a>	<a href="#">34</a>
<a href="#">PART II—OTHER INFORMATION</a>	<a href="#">36</a>
<a href="#">ITEM 1—Legal Proceedings</a>	<a href="#">36</a>
<a href="#">ITEM 1A—Risk Factors</a>	<a href="#">36</a>
<a href="#">ITEM 2—Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">53</a>
<a href="#">ITEM 3—Defaults Upon Senior Securities</a>	<a href="#">53</a>
<a href="#">ITEM 4—Mine Safety Disclosures</a>	<a href="#">53</a>
<a href="#">ITEM 5—Other Information</a>	<a href="#">54</a>
<a href="#">ITEM 6—Exhibits</a>	<a href="#">55</a>
<a href="#">Signatures</a>	<a href="#">56</a>

## PART I—FINANCIAL INFORMATION

## ITEM 1—FINANCIAL STATEMENTS

HEALTH INSURANCE INNOVATIONS, INC.  
(Prior to February 13, 2013 Health Plan Intermediaries, LLC and Subsidiaries)Consolidated Balance Sheets (unaudited)  
(\$ in 000's, except share amounts)

	March 31, 2013	December 31, 2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 31,062	\$ 750
Cash held on behalf of others	4,016	3,839
Credit card transactions receivable	661	588
Short-term investments	18,906	—
Accounts receivable	164	273
Advanced commissions	539	297
Prepaid expenses and other current assets	612	217
Total current assets	55,960	5,964
Property and equipment, net of accumulated depreciation	245	213
Capitalized offering costs	—	1,819
Goodwill	5,906	5,906
Intangible assets, net of accumulated amortization	3,734	3,959
Deferred tax assets	1,266	—
Other assets	28	100
Total assets	<u>\$ 67,139</u>	<u>\$ 17,961</u>
<b>Liabilities and stockholders'/member's equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,482	\$ 2,062
Carriers and vendors payable	2,993	2,790
Commissions payable	1,553	1,533
Current portion of long-term debt	—	813
Current portion of noncompete obligation	142	155
Income taxes payable	2,319	—
Due to member of Health Plan Intermediaries, LLC	—	773
Other current liabilities	301	345
Total current liabilities	8,790	8,471
Long-term debt, less current portion	—	2,481
Noncompete obligation	613	626
Due to related parties pursuant to tax receivable agreement	377	—
Other liabilities	54	45
Total liabilities	9,834	11,623
Commitments and contingencies		
Stockholders'/member's equity:		
Class A common stock (par value \$0.001 per share, 100,000,000 shares authorized; 5,295,167 shares issued and outstanding)	5	—
Class B common stock (par value \$0.001 per share, 20,000,000 shares authorized; 8,566,667 shares issued and outstanding)	9	—
Preferred stock (par value \$0.001 per share, 5,000,000 shares authorized; 0 shares issued and outstanding)	—	—
Additional paid-in capital	23,374	—
Accumulated deficit	(4,059)	—
Member's equity of Health Plan Intermediaries, LLC	—	6,335
Noncontrolling interests	37,976	3
Total stockholders'/member's equity	57,305	6,338
Total liabilities and stockholders'/member's equity	<u>\$ 67,139</u>	<u>\$ 17,961</u>

See accompanying notes.

[Table of Contents](#)

**HEALTH INSURANCE INNOVATIONS, INC.**  
**(Prior to February 13, 2013 Health Plan Intermediaries, LLC and Subsidiaries)**

**CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**  
**(\$ in 000's, except per share data)**

	Three months ended	
	March 31,	
	2013	2012
Revenues (premium equivalents of \$22,084 and \$15,733 for the three months ended March 31, 2013 and 2012, respectively)	\$ 12,471	\$8,523
Third-party commissions	8,037	5,740
Credit cards and ACH fees	265	210
Contract termination expense	5,500	—
General and administrative expenses	4,308	1,423
Depreciation and amortization	244	271
Total operating costs and expenses	18,354	7,644
(Loss) income from operations	\$ (5,883)	\$ 879
Other expense (income):		
Interest expense	38	65
Other expense (income)	428	(6)
Net (loss) income before income taxes	(6,349)	820
Provision for income taxes	1,053	—
Net (loss) income	(7,402)	820
Net loss attributable to noncontrolling interests	(3,343)	—
Net (loss) income attributable to Health Insurance Innovations, Inc. and Health Plan Intermediaries, LLC	\$ (4,059)	\$ 820
<b>Per share data:</b>		
<b>Net loss per share attributable to Health Insurance Innovations, Inc.</b>		
Basic	\$ (0.86)	
Diluted	\$ (0.86)	
<b>Weighted average shares outstanding</b>		
Basic	4,717,731	
Diluted	4,717,731	

See accompanying notes.

**HEALTH INSURANCE INNOVATIONS, INC.**  
**(Prior to February 13, 2013 Health Plan Intermediaries, LLC and Subsidiaries)**

**Consolidated Statements of Member's/Stockholders' Equity (unaudited)**  
**(\$ in 000's, except share data)**

	Health Plan Intermediaries, LLC and Subsidiaries		Health Insurance Innovations, Inc.							
	Member's Equity	Noncontrolling Interest	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated deficit	Noncontrolling Interests	Total Stockholders'/ Member's Equity
			Shares	Amount	Shares	Amount				
<b>Balance as of January 1, 2012</b>	\$ 6,996	\$ —	—	\$ —	—	\$ —	\$ —	\$ —	\$ —	\$ 6,996
Net income	3,349	(89)	—	—	—	—	—	—	—	3,260
Contribution from minority partner	—	92	—	—	—	—	—	—	—	92
Distributions	(4,010)	—	—	—	—	—	—	—	—	(4,010)
<b>Balance as of December 31, 2012</b>	<u>\$ 6,335</u>	<u>\$ 3</u>	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,338</u>
Net loss	(248)	(11)	—	—	—	—	—	—	—	(259)
Contributions	—	10	—	—	—	—	—	—	—	10
Distributions	(171)	—	—	—	—	—	—	—	—	(171)
<b>Balance prior to February 13, 2013</b>	5,916	2	—	—	—	—	—	—	—	5,918
Effects of initial public offering and reorganization	(5,916)	(2)	—	—	—	—	—	—	5,918	—
<b>Balance as of February 13, 2013</b>	—	—	—	—	—	—	—	—	5,918	5,918
Net loss subsequent to February 13, 2013	—	—	—	—	—	—	—	(4,059)	(3,084)	(7,143)
Issuance of Class A common stock in initial public offering, net of issuance costs	—	—	4,666,667	5	—	—	57,751	—	—	57,756
Issuance of Class B common stock in initial public offering	—	—	—	—	8,666,667	9	(36,453)	—	36,444	—
Issuance of Class A common stock in underwriters' exercise of over-allotment option	—	—	100,000	—	—	—	1,302	—	—	1,302
Purchase of Series B Membership interests and exchange and cancellation of Class B common stock	—	—	—	—	(100,000)	—	—	—	(1,302)	(1,302)
Issuance of Class A common stock under equity compensation plans	—	—	528,500	—	—	—	774	—	—	774
<b>Balance as of March 31, 2013</b>	<u>\$ —</u>	<u>\$ —</u>	<u>5,295,167</u>	<u>\$ 5</u>	<u>8,566,667</u>	<u>\$ 9</u>	<u>\$ 23,374</u>	<u>\$ (4,059)</u>	<u>\$ 37,976</u>	<u>\$ 57,305</u>

See accompanying notes.

[Table of Contents](#)

**HEALTH INSURANCE INNOVATIONS, INC.**  
**(Prior to February 13, 2013 Health Plan Intermediaries, LLC and Subsidiaries)**

**Consolidated Statements of Cash Flows (unaudited)**  
**(\$ in 000's)**

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities:</b>		
Net (loss) income	\$ (7,402)	\$ 820
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Stock-based compensation	774	—
Depreciation and amortization	244	271
Loss on extinguishment of debt	71	—
Amortization of deferred financing costs	7	12
Benefit for deferred taxes	(1,266)	—
Changes in operating assets and liabilities:		
(Increase) decrease in cash held on behalf of others	(177)	53
(Increase) decrease in credit card transactions receivable	(73)	99
Decrease in accounts receivable	109	54
Increase in advanced commissions	(242)	(84)
(Increase) decrease in prepaid expenses and other assets	(395)	10
Increase (decrease) in carriers and vendors payable	203	(150)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(103)	167
Increase (decrease) in commissions payable	20	(25)
Increase in due to related parties pursuant to tax receivable agreement	377	—
Increase in income taxes payable	2,319	—
Decrease in amounts due to member of Health Plan Intermediaries, LLC	—	(126)
Net cash (used in) provided by operating activities	(5,534)	1,101
<b>Investing activities:</b>		
Acquisitions of short-term investments	(18,906)	—
Purchases of property and equipment	(51)	(21)
Loans to distributors	(60)	(100)
Proceeds from repayment of loans to distributors	59	50
Payments for deposits	(7)	—
Net cash used in investing activities	(18,965)	(71)
<b>Financing activities:</b>		
Repayments of notes payable	(51)	—
Repayments of long-term debt	(3,294)	(188)
Payments under noncompete obligation	(26)	—
Distributions to member of Health Plan Intermediaries, LLC	(944)	(68)
Payments for equity issuance	(1,643)	(78)
Payments under capital leases	(1)	(1)
Issuance of Class A common stock in initial public offering, net of underwriters' discount	60,760	—
Issuance of Class A common stock in underwriters' exercise of over-allotment option	1,302	—
Purchase of Series B Membership interests	(1,302)	—
Contributions from noncontrolling interests	10	—
Net cash provided by (used in) financing activities	54,811	(335)
Net increase in cash and cash equivalents	30,312	695
Cash and cash equivalents at beginning of period	750	618
Cash and cash equivalents at end of period	<u>\$ 31,062</u>	<u>\$ 1,313</u>
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Capitalized equity issuance costs in accounts payable	\$ 352	\$ —

See accompanying notes.

**HEALTH INSURANCE INNOVATIONS, INC.**  
**(Prior to February 13, 2013 Health Plan Intermediaries, LLC and Subsidiaries)**

**Notes to Consolidated Financial Statements**  
**(Unaudited)**

**1. Organization, Basis of Presentation and Summary of Significant Accounting Policies**

In this quarterly report, unless the context suggests otherwise, references in this report to the “Company,” “we,” “us” and “our” refer (1) prior to the February 13, 2013 initial public offering (“IPO”) of the Class A common stock of Health Insurance Innovations, Inc. and related transactions, to Health Plan Intermediaries, LLC (“HPI”) and its consolidated subsidiaries and (2) after our IPO and related transactions, to Health Insurance Innovations, Inc. and its consolidated subsidiaries. The terms “HII”, “HPIH” and “ICE” refer to the stand-alone entities Health Insurance Innovations, Inc., Health Plan Intermediaries Holdings, LLC, and Insurance Center for Excellence, LLC, respectively. HPIH and ICE are consolidated subsidiaries of HII.

***Business Description and Organizational Structure of the Company***

*Our Business*

We are a developer and administrator of affordable individual health insurance and discount benefit plans that are sold throughout the United States. Our main product, short-term medical (“STM”) insurance, is an alternative to traditional individual major medical plans and generally offers comparable benefits for qualifying individuals. We also offer guaranteed-issue hospital indemnity plans for individuals under the age of 65 and a variety of ancillary products that are frequently purchased together with the STM and hospital indemnity plans as supplements. We design and structure insurance products on behalf of our contracted insurance carrier companies; market them to individuals through a network of distributors; and manage the member relationship through customer service agents. Our sales are primarily executed online and offer real-time fulfillment through our proprietary web-based technology platform, through which we receive credit card and automated clearing house (“ACH”) payments directly from the purchasing customers, whom are referred to as “members,” at the time of sale. In certain cases, premiums are collected from the distributor. The plans are underwritten by contracted insurance carrier companies, and we assume no underwriting or insurance risk.

*Our History*

Our business began operations in 2008, and historically, we operated through HPI. In August 2008, Naylor Group Partners, LLC (“Naylor”) made a capital contribution to HPI in exchange for a 50% ownership interest in HPI. In September 2011, HPI purchased all of the units owned by Naylor for \$5.3 million plus financing costs of \$135,000. HPI financed a portion of the purchase price by entering into a loan agreement with a bank for \$4.3 million. The remaining purchase price was funded with HPI cash and a contribution from Michael Kosloske (“Mr. Kosloske”), our Chairman, President and Chief Executive Officer. Following the purchase, Mr. Kosloske became the sole member of HPI.

*Our Reorganization and the IPO*

In anticipation of our recently completed IPO, on November 7, 2012, HPI assigned the operating assets of our business through a series of transactions to HPIH, and HPIH assumed the operating liabilities of HPI.

Health Insurance Innovations, Inc. was incorporated in the State of Delaware on October 26, 2012 to facilitate the IPO and to become a holding company owning as its principal asset membership interests in HPIH. Since November 2012, we have operated our business through HPIH and its consolidated subsidiaries. See Note 6 for more information about the IPO.

*Our Organizational Structure after the IPO*

Health Insurance Innovations, Inc. has two classes of outstanding capital stock: Class A common stock and Class B common stock. Class A shares represent 100% of the economic rights of the holders of all classes of our common stock to share in our distributions. Class B shares do not entitle their holders to any dividends paid by, or rights upon liquidation of, Health Insurance Innovations, Inc. Shares of our Class A common stock vote together with shares of our Class B common stock as a single class, except as otherwise required by law. Each share of our Class A common stock and our Class B common stock entitles its holder to one vote. As of March 31, 2013, Mr. Kosloske beneficially owns 61.8% of our outstanding Class A common stock and Class B common stock on a combined basis, which equals his combined economic interest in the Company, and has effective control over the outcome of votes on all matters requiring approval by our stockholders.

Health Insurance Innovations, Inc. is a holding company owning as its principal asset Series A Membership Interests in

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## [Table of Contents](#)

HPIH. HPIH has two series of outstanding equity: Series A Membership Interests, which may only be issued to Health Insurance Innovations, Inc., as sole managing member, and Series B Membership Interests. The Series B Membership Interests are held by HPI and Health Plan Intermediaries Sub, LLC (“HPIS”) (a subsidiary of HPI that was formed on October 31, 2012 in connection with the IPO), entities beneficially owned by Mr. Kosloske. As of March 31, 2013, (i) the Series A Membership Interests held by Health Insurance Innovations, Inc. represent 38.2% of the outstanding membership interests, 38.2% of the economic interests and 100% of the voting interests in HPIH and (ii) the Series B Membership Interests held by the entities beneficially owned by Mr. Kosloske represent 61.8% of the outstanding membership interests, 61.8% of the economic interests and no voting interest in HPIH.

Pursuant to and subject to the terms of an exchange agreement and the amended and restated limited liability company agreement of HPIH, holders of Series B Membership Interests, at any time and from time to time, may exchange one or more Series B Membership Interests, together with an equal number of shares of our Class B common stock, for shares of our Class A common stock on a one-for-one basis, subject to equitable adjustments for stock splits, stock dividends and reclassifications.

For greater detail regarding our organizational structure, our capitalization, the exchange agreement referenced above and related matters, see “Item 1. Business—Our History and the Reorganization of Our Corporate Structure” set forth in our annual report on Form 10-K filed with the Securities and Exchange Commission on April 1, 2013.

### *Exchange Agreement*

On February 13, 2013, we entered into an exchange agreement (the “Exchange Agreement”) with the holders of Series B Membership Interests. Pursuant to and subject to the terms of the exchange agreement and the amended and restated limited liability company agreement of Health Plan Intermediaries Holdings, LLC, holders of Series B Membership Interests, at any time and from time to time, may exchange one or more Series B Membership Interests, together with an equal number of shares of our Class B common stock, for shares of our Class A common stock on a one-for-one basis, subject to equitable adjustments for stock splits, stock dividends and reclassifications.

Holders will not have the right to exchange Series B Membership Interests if we determine that such exchange would be prohibited by law or regulation or would violate other agreements to which we may be subject. We may impose additional restrictions on exchange that we determine necessary or advisable so that Health Plan Intermediaries Holdings, LLC is not treated as a “publicly traded partnership” for U.S. federal income tax purposes. If the Internal Revenue Service were to contend successfully that Health Plan Intermediaries Holdings, LLC should be treated as a “publicly traded partnership” for U.S. federal income tax purposes, Health Plan Intermediaries Holdings, LLC would be treated as a corporation for U.S. federal income tax purposes and thus would be subject to entity-level tax on its taxable income.

A holder that exchanges Series B Membership Interests will also be required to deliver an equal number of shares of our Class B common stock. In connection with each exchange, Health Plan Intermediaries Holdings, LLC will cancel the delivered Series B Membership Interests and issue to us Series A Membership Interests on a one-for-one basis. Thus, as holders exchange their Series B Membership Interests for Class A common stock, our interest in Health Plan Intermediaries Holdings, LLC will increase.

We and the exchanging holder will each generally bear our own expenses in connection with an exchange, except that, subject to a limited exception, we are required to pay any transfer taxes, stamp taxes or duties or other similar taxes in connection with such an exchange.

### *Tax Receivable Agreement*

The purchase of Series B Membership Interests (together with an equal number of shares of our Class B common stock) with the net proceeds of the sale of over-allotment shares, as well as subsequent exchanges of Series B Membership Interests, together with an equal number of shares of our Class B common stock, for shares of our Class A common stock, are expected to increase our tax basis in our share of Health Plan Intermediaries Holdings, LLC’s tangible and intangible assets. These increases in tax basis are expected to increase our depreciation and amortization deductions and create other tax benefits and therefore may reduce the amount of tax that we would otherwise be required to pay in the future.

On February 13, 2013, we entered into a tax receivable agreement with the holders of Series B Membership Interests (currently HPI and HPIS, which are beneficially owned by Mr. Kosloske). The agreement requires us to pay to such holders 85% of the cash savings, if any, in U.S. federal, state and local income tax we realize (or are deemed to realize in the case of an early termination payment, a change in control or a material breach by us of our obligations under the tax receivable agreement, as discussed below) as a result of any possible future increases in tax basis described above and of certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement itself. This is our obligation and not an obligation of HPIH. We will benefit from the remaining 15% of any realized cash savings. For purposes of the tax

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## [Table of Contents](#)

receivable agreement, cash savings in income tax is computed by comparing our actual income tax liability with our hypothetical liability had we not been able to utilize the tax benefits subject to the tax receivable agreement itself. The tax receivable agreement became effective upon completion of the IPO and will remain in effect until all such tax benefits have been used or expired, unless the agreement is terminated early, as described below. For further information on the tax receivable agreement, see Note 13.

### ***Basis of Presentation***

The consolidated financial statements reflect the results of operations of HPI through the closing of the IPO on February 13, 2013, and HII subsequent to the IPO.

The consolidated financial statements include our accounts and those of our majority controlled subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Our accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934 and do not include all of the information and notes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation of consolidated financial position, results of operations and cash flows have been included. The year ended December 31, 2012 consolidated balance sheet data was derived from our audited financial statements, but does not include all the disclosures required by GAAP. For further information, refer to our Annual Report on Form 10-K for the year ended December 31, 2012, including the consolidated financial statements and accompanying notes.

Noncontrolling interests are included in the consolidated balance sheets as a component of stockholders’ equity that is not attributable to the equity of HII. We report consolidated net income or loss separately as the amounts of consolidated net income or loss attributable to us and noncontrolling interests.

As an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”), we intend to take advantage of certain temporary exemptions from various reporting requirements, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. Additionally, we are in the process of evaluating the benefits of relying on other exemptions and reduced reporting requirements provided by the JOBS Act. These exemptions will apply for a period of five years following the completion of our IPO although if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of any June 30 before that time, we would cease to be an emerging growth company as of the following December 31.

### **Use of Estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. These estimates also affect the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

### **Significant Accounting Policies**

#### ***Revenue Recognition***

Our revenues consist of commissions earned for health insurance policies and discount benefit plans issued to members, enrollment fees paid by members, and administration fees paid by members as a direct result of our enrollment services. The cash we receive from payments by members are referred to as “premium equivalents.” We report revenues net of premiums remitted to insurance carriers and fees paid for discount benefit plans. Revenues are net of an allowance for policies expected to be cancelled by members during a limited cancellation period. We establish the allowance for estimated policy cancellations through a charge to revenues. The allowance is estimated using historical data to project future experience. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported. We periodically review the adequacy of the allowance and record adjustments as necessary. The net allowance for estimated policy cancellations was \$77,000 and as of March 31, 2013 and December 31, 2012.

Revenue is earned at the time of sale. Commission rates for all of our products are agreed to in advance with the relevant insurance carrier and vary by carrier and policy type. Under our carrier compensation arrangements, the commission rate schedule that is in effect on the policy effective date governs the commissions over the life of the policy. In addition, we earn enrollment and administration fees on policies issued. All amounts due to insurance carriers and discount benefit vendors are reported and paid to them according to the procedures provided for in the contractual agreements between us and the individual carrier or vendor. Risk premiums, representing the amounts due to and remitted to our carriers, are typically reported and remitted to insurance carriers on the 15<sup>th</sup> day of the month following the end of the month in which they are collected.

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## [Table of Contents](#)

In concluding that revenues should be reported on a net basis, we considered Financial Accounting Standards Board (“FASB”) requirements and whether we have the responsibility to provide the goods or services to the customer or if it relies on a supplier to provide the goods or services to the customer. We are not the ultimate party responsible for providing the insurance coverage or discount benefits to the member and, therefore, we are not the primary obligor in the arrangement. The supplier, or insurance carrier, bears the risk for that insurance coverage. We therefore report our revenues net of amounts paid to its contracted insurance carrier companies and discount benefit vendors.

### ***Third-party Commissions***

We utilize a broad network of licensed third-party distributors to sell the plans that we develop. We pay commissions that vary by the type of policy to these distributors based on a percentage of the policy premiums. We also pay fees to the distributors for discount benefit plans issued.

### ***Cash and cash equivalents and short-term investments***

We account for cash on hand and demand deposits with banks and other financial institutions as cash. Short-term, highly liquid investments with original maturities of three months or less are considered cash equivalents. Investments in cash equivalents include, but are not limited to, money market accounts and certificates of deposit with maturities of three months or less.

Periodically, we invest cash on hand in other short-term, highly-liquid investments. Such investments that have maturities greater than three months are classified as short-term investments and include, but are not limited to, certificates of deposit with maturities greater than three months, but less than one year, and certain equity securities. See Note 3 for further information on short-term investments.

### ***Cash Held on Behalf of Others***

In our capacity as policy administrator, we collect premiums from members and distributors and, after deducting our earned commissions, remit these premiums to our contracted insurance carriers, discount benefit vendors and distributors. We hold the unremitted funds in a fiduciary capacity in bank accounts until they are disbursed, and the use of such funds is restricted. These unremitted amounts are reported as cash held on behalf of others in the accompanying consolidated balance sheets with the related liabilities reported as carriers and vendors payable and commissions payable. Cash held on behalf of others was \$4.0 million and \$3.8 million as of March 31, 2013 and December 31, 2012, respectively.

### ***Accounts Receivable***

Accounts receivable represent amounts due to us for premiums collected by a third-party and are generally considered delinquent 15 days after the due date. The underlying insurance contracts are cancelled retroactively if the payment remains delinquent. We have not experienced any credit losses from accounts receivable and not recognized a provision for uncollectible accounts receivable.

### ***Credit Card Transactions Receivable***

Members may pay their policy premiums to us by credit card or through ACH transfers. The credit card vendor remits cash for these transactions to us. Credit card transactions processed by the credit card vendor, but not yet remitted to us, are recorded as credit card transactions receivable. A portion of the amount receivable from these transactions is related to carrier premiums, discount benefit plan fees and third-party commissions. The balance related to carrier premiums, discount benefit plan fees and commissions was \$531,000 and \$484,000 as of March 31, 2013 and December 31, 2012, respectively, and is included in credit card transactions receivable on the accompanying balance sheets.

We incur fees for these transactions that are expensed as incurred.

### ***Advanced Commissions***

Advanced commissions consist of amounts advanced to certain third-party distributors. We perform ongoing credit evaluations of our distributors, all of which are located in the United States. We recover the advanced commissions from future commissions earned on premiums collected. We have not experienced any credit losses from commission advances and, accordingly, have not recognized any provision for bad debt for the periods presented. A fee for the advanced commission of up to 2% of the insurance premium sold is charged to the distributors and recognized as interest income as earned. The interest

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## [Table of Contents](#)

income earned from advanced commissions for the three months ended March 31, 2013 and 2012 was \$19,000 and \$6,000, respectively and is included in other expense (income) on the accompanying consolidated statements of operations. The balance of advanced commissions outstanding was \$539,000 and \$297,000 as of March 31, 2013 and December 31, 2012, respectively.

### ***Capitalization of Offering Costs***

Capitalized offering costs are costs directly attributable to the IPO. Prior to the IPO, we had capitalized \$3.0 million of offering costs. Upon closing of the IPO in February 2013, these costs were netted against the proceeds of the IPO; as such, there was no balance of capitalized offering costs as of March 31, 2013. As of December 31, 2012, the balance of capitalized offering costs was \$1.8 million.

### ***Property and Equipment***

Property and equipment is recorded at cost, less accumulated depreciation, in the accompanying consolidated balance sheets. Depreciation expense for property and equipment was \$19,000 and \$12,000 for the three months ended March 31, 2013 and 2012, respectively and is computed using the straight-line method over the following estimated useful lives:

Computer equipment	5 years
Furniture and fixtures	7 years
Leasehold improvements	Shorter of lease term or estimated useful life

We periodically review long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. No impairment losses were recognized for the periods presented.

### ***Goodwill and Other Intangible Assets***

#### *Goodwill*

Under FASB guidance, the process of evaluating the potential impairment of goodwill involves a two-step process and requires significant judgment at many points during the analysis. In the first step, we determine whether there is an indication of impairment by considering relevant qualitative factors or comparing the fair value of the reporting unit to its carrying amount, including goodwill. Our annual impairment test is performed with a measurement date of October 1. If, based on the first step, we determine that there is an indication of goodwill impairment, we assess the impairment in step two in accordance with FASB guidance.

In the first step, we determine the fair value using a combination of three valuation approaches: the cost approach, the market approach and the income approach. The cost approach uses multiples from publicly available transactional data of acquired comparable target companies. Transactions are identified that have occurred over the past three years in the subject company's industry.

The market approach uses a guideline company methodology which is based upon a comparison of the reporting unit to similar publicly-traded companies within our industry. We derive a market value of invested capital or business enterprise value for each comparable company by multiplying the price per share of common stock of the publicly traded companies by their total common shares outstanding and adding each company's current level of debt. We calculate a business enterprise multiple based on revenue and earnings from each company, then apply those multiples to our revenue and earnings to calculate a business enterprise value. Assumptions regarding the selection of comparable companies are made based on, among other factors, capital structure, operating environment and industry. As the comparable companies were typically larger and more diversified than our business, multiples were adjusted prior to application to our revenues and earnings to reflect differences in margins, long-term growth prospects and market capitalization.

The income approach uses a discounted debt-free cash flow analysis to measure fair value by estimating the present value of future economic benefits. To perform the discounted debt-free cash flow analysis, we develop a pro forma analysis of the reporting unit to estimate future available debt-free cash flow and discounting estimated debt-free cash flow by an estimated industry weighted average cost of capital based on the same comparable companies used in the market approach. Per FASB guidance, the weighted average cost of capital is based on inputs (e.g., capital structure, risk, etc.) from a market participant's perspective and not necessarily from the reporting unit's perspective. Future cash flow is projected based on assumptions for our economic growth, industry expansion, future operations and the discount rate, all of which require significant judgments by management.

After computing a separate business enterprise value under the above approaches, we apply a weighting to them to derive

## Table of Contents

the business enterprise value of the reporting unit. The weightings are evaluated each time a goodwill impairment assessment is performed and give consideration to the relative reliability of each approach at that time. Based on these weightings, we calculated a business enterprise value for the reporting unit. We then added debt-free liabilities of the reporting unit to the calculated business enterprise value to derive an implied fair value of the reporting unit. The implied fair value is then compared to the reporting unit's carrying value. Upon completion of the analysis in step one as of October 1, 2012, we determined that the fair value of business exceeded its respective carrying value. As such, a step two analysis was not required.

Our goodwill balance arose from the acquisition of the Naylor units of HPI, as noted above. The changes in the carrying amounts of goodwill were as follows:

Balance as of January 1, 2012	\$5,906,000
Goodwill acquired	—
Impairment of goodwill	—
Balance as of December 31, 2012	\$5,906,000
Goodwill acquired	—
Impairment of goodwill	—
Balance as of March 31, 2013	<u>\$5,906,000</u>

### Other intangible assets

Other intangible assets consist of our brand, the carrier network and distributor relationships that were recognized in connection with acquisition purchase accounting, as well as capitalized software and a noncompete agreement. Finite-lived intangible assets are amortized over their useful lives from two to seven years.

Major classes of intangible assets as of March 31, 2013 consisted of the following:

	Weighted-average Amortization	Gross Carrying Amount	Accumulated Amortization	Intangible Asset, net
Brand	2	\$ 400,000	\$ 300,000	\$ 100,000
Capitalized software	5	45,000	6,000	39,000
Carrier network	5	40,000	12,000	28,000
Distributor relationships	7	3,610,000	774,000	2,836,000
Noncompete agreement	5	843,000	112,000	731,000
Total intangible assets	6.2	<u>\$4,938,000</u>	<u>\$1,204,000</u>	<u>\$3,734,000</u>

Major classes of intangible assets as of December 31, 2012 consisted of the following:

	Weighted-average Amortization	Gross Carrying Amount	Accumulated Amortization	Intangible Asset, net
Brand	2	\$ 400,000	\$ 250,000	\$ 150,000
Capitalized software	5	45,000	4,000	41,000
Carrier network	5	40,000	10,000	30,000
Distributor relationships	7	3,610,000	645,000	2,965,000
Noncompete agreement	5	843,000	70,000	773,000
Total intangible assets	6.2	<u>\$4,938,000</u>	<u>\$979,000</u>	<u>\$3,959,000</u>

Amortization expense for the three months ended March 31, 2013 and 2012 was \$225,000 and \$259,000, respectively.

### Accounting for Income Taxes

Our former operating entity, HPI, was taxed as an S corporation for income tax purposes. Therefore, we were not subject to entity-level federal or state income taxation prior to the IPO. HPIH is currently taxed as a partnership for federal income tax purposes; as a result, the members pay taxes with respect to their allocable shares of each company's respective net taxable income.

## [Table of Contents](#)

Following the IPO, HPIH continues to operate in the United States as a partnership for U.S. federal income tax purposes. We are subject to U.S. corporate federal, state and local income taxes that are attributable to HII as reflected in our consolidated financial statements. We use the liability method of accounting for income taxes. Significant management judgment is required in determining the provision for income taxes and, in particular, any valuation allowance that is recorded or released against our deferred tax assets.

We evaluate quarterly the positive and negative evidence regarding the realization of net deferred tax assets. The carrying value of our net deferred tax assets is based on our belief that it is more likely than not that we will generate sufficient future taxable income to realize these deferred tax assets.

We account for uncertainty in income taxes, using a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. Such amounts are subjective, as a determination must be made on the probability of various possible outcomes. We reevaluate uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition and measurement could result in recognition of a tax benefit or an additional tax provision.

### ***Fair Value of Financial Instruments***

We measure and report financial assets and liabilities at fair value on a recurring basis. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (referred to as an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value of our financial assets and liabilities is determined by using three levels of input, which are defined as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability
- Level 3: Unobservable inputs for the asset or liability

The categorization of a financial instrument within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

We utilize the market approach to measure the fair value of our financial assets. Our short-term investment in a marketable security, available-for-sale is valued based on Level 1 inputs as it is a publicly-traded mutual fund with a quoted price in an active market. Our noncompete obligation is valued based on Level 2 inputs, and primarily valued using quoted market prices for similar instruments and nonbinding market prices that are corroborated by observable market data. The inputs and fair value are reviewed for reasonableness and may be further validated by comparison to publicly available information or compared to multiple independent valuation sources.

The carrying amounts of financial assets and liabilities reported in the accompanying consolidated balance sheets for cash and cash equivalents, cash held on behalf of others, other short-term investments, credit card transactions receivable, accounts receivable, advanced commissions, carriers and vendors payable, commissions payable, and accounts payable and accrued expenses as of March 31, 2013 approximate fair value because of the short-term duration of these instruments. As of March 31, 2013, our marketable security, available-for-sale and noncompete obligation measured at fair value were as follows:

	Carrying Value as of March 31, 2013	Fair Value Measurement as of March 31, 2013		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Marketable security, available-for-sale	\$ 15,000,000	\$ 15,000,000	\$ —	\$ —
<b>Liabilities:</b>				
Noncompete obligation, including current portion	\$ 755,000	\$ —	\$ 741,000	\$ —

## Table of Contents

As of December 31, 2012, our long-term debt and noncompete obligation measured at fair value were as follows:

	Carrying Value as of December 31, 2012	Fair Value Measurement as of December 31, 2012		
		Level 1	Level 2	Level 3
<b>Liabilities:</b>				
Long-term debt, including current portion	\$ 3,294,000	—	3,314,000	—
Noncompete obligation, including current portion	\$ 781,000	—	779,000	—
	<u>\$ 4,075,000</u>	<u>\$ —</u>	<u>\$ 4,093,000</u>	<u>\$ —</u>

### Recent Accounting Pronouncements

In December 2011, the FASB issued guidance which requires disclosures of both gross and net information about instruments and transactions eligible for offset as well as transactions subject to an agreement similar to a master netting agreement. This guidance was adopted effective January 1, 2013. As this guidance is limited to presentation only, adoption of this guidance did not have a material impact on our financial position or results of operations.

In July 2012, the FASB issued amended guidance relating to goodwill and other intangible assets which permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with GAAP. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then no further action is required. This guidance was adopted effective as of January 1, 2013. Since this guidance only changes the manner in which we assess indefinite-lived intangible assets for impairment, adoption did not have a material effect on our financial position or results of operations.

## 2. Business Acquisitions

### Acquisition of Insurance Center for Excellence, LLC and Other Transactions

On June 1, 2012, HPI and TSG Agency, LLC (“TSG”) acquired ICE. ICE is a call center training facility for the Company’s distributors. In connection with the transaction, HPI received an 80% controlling interest in ICE and was required to contribute \$80,000 in capital contributions, and TSG received a 20% noncontrolling interest in the business and was required to contribute \$20,000 in capital contributions. Subsequent to the initial contributions, HPI contributed an additional \$240,000, and TSG contributed an additional \$60,000, respectively, to ICE during the year ended December 31, 2012. During the three months ended March 31, 2013, we contributed \$40,000 to ICE, and TSG contributed \$10,000 to ICE. As of March 31, 2013, our total investment in ICE is \$360,000, representing an 80% controlling interest. As of March 31, 2013, the required contributions by the controlling and noncontrolling interests were met.

ICE entered into employment agreements with employees of The Amacore Group, Inc. (“Amacore”) contemporaneously with the June 1, 2012 formation of ICE, and at the date of formation, former Amacore employees comprise the full staff of ICE. ICE additionally assumed a month-to-month lease for space that was occupied by Amacore immediately prior to the formation of ICE.

Concurrent with the formation of ICE, ICE additionally entered into a sublease agreement (“Lease Agreement”) with Amacore for additional space effective June 1, 2012. Under the Lease Agreement, ICE assumed all rights, responsibilities, obligations, terms and conditions of the original lease, which expires on April 30, 2015. Amacore agreed to transfer to ICE a security deposit previously paid by Amacore of approximately \$13,000; Amacore contributed \$15,000 to ICE for the purchase of property and equipment; and Amacore contributed certain office and computer equipment, and rights to certain 800 numbers, to Insurance Academy that have minimal value. We are recognizing the consideration provided by Amacore as a lease incentive that is being amortized over the term of the lease on a straight-line basis.

Additionally, concurrent with its June 1, 2012 formation, ICE entered into an Agent Producer Agreement and an Assignment of Commissions Agreement with Amacore (“collectively referred to as Agent Agreement”). Under the Agent Agreement, ICE assigned its commissions with respect to Assurant dental sales to Amacore in return for production incentives, training, marketing materials, commission payments and reporting, advances on commissions and ongoing sales support.

The transaction with Amacore as described above is a business combination, and no assets or liabilities, including intangible assets or goodwill, were recognized other than those described above.

## Table of Contents

In March 2013, we paid \$5.5 million to enter into an agreement to terminate certain contract rights with TSG. As a result of this transaction, Ivan Spinner, who controls TSG, became an employee of the Company. This transaction was expensed during the three months ended March 31, 2013 and had no effect on our ownership percentage of ICE.

### 3. Short-term investments

As of March 31, 2013, short-term investments consisted of the following:

	Carrying Value as of March 31, 2013	Fair Value as of March 31, 2013
Certificates of deposit (1)	\$ 3,906,000	\$ 3,906,000
Marketable security, available-for-sale (2)	15,000,000	15,000,000
	<u>\$ 18,906,000</u>	<u>\$18,906,000</u>

- (1) Certificates of deposit have maturities ranging from three months to one year.  
(2) The marketable security is a fixed-income mutual fund classified as short-term due to our intent to reinvest the balance within one year.

### 4. Accounts Payable and Accrued Expenses

As of March 31, 2013 and December 31, 2012, accounts payable and accrued expenses consisted of the following:

	March 31, 2013	December 31, 2012
Accounts payable	\$ 608,000	\$ 735,000
Accrued refunds	458,000	467,000
Accrued wages	180,000	90,000
Accrued professional fees	150,000	683,000
Accrued credit card and ACH fees	60,000	56,000
Accrued interest	15,000	12,000
Deferred salary	9,000	19,000
Other accruals	2,000	—
Total accounts payable and accrued expenses	<u>\$ 1,482,000</u>	<u>\$ 2,062,000</u>

### 5. Debt

During September 2011, HPI entered into a bank loan agreement with a principal balance of \$4.3 million. The purpose of this loan was to finance a portion of the acquisition of the remaining 50% interest in HPI as discussed in Note 1. At the inception of the loan, borrowings under the facility were secured by all of HPI's assets, including, but not limited to, cash accounts, accounts receivable, and property and equipment. The loan was further secured with a personal unlimited guarantee by Mr. Kosloske and certain real properties owned by Mr. Kosloske. The loan was a self-amortizing five-year loan bearing fixed interest at 5.25% with equal monthly payments of \$81,000, which included principal and interest. Interest expense incurred on the loan during the three months ended March 31, 2013 and 2012 was \$17,000 and \$53,000, respectively.

In connection with the loan, we recorded deferred financing costs which consisted primarily of consulting and legal fees directly related to the loan. These amounts were amortized over the life loan using the effective interest rate method. Amortization expense on the deferred financing costs was approximately \$7,000 and \$12,000 for the three months ended March 31, 2013 and 2012, respectively.

In February 2013, we repaid the \$3.2 million outstanding balance of the loan using a portion of the proceeds of the IPO. The remaining deferred financing costs of \$71,000 were written-off to other expense (income) on the accompanying consolidated statement of operations when the loan was repaid.

### 6. Stockholders' Equity

Refer to the description of the Reorganization Transactions and IPO as described in Note 1 for further information regarding the current capital structure of the Company.

On February 13, 2013, we completed our IPO by issuing 4,666,667 shares of our Class A common stock, par value \$0.001

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## [Table of Contents](#)

per share, at a price to the public of \$14.00 per share of common stock. In addition, we issued 8,666,667 shares of our Class B common stock, of which 8,580,000 shares of Class B common stock were obtained by HPI and 86,667 shares of Class B common stock were obtained by HPIS, of which HPI is the managing member. In addition, we granted the underwriters of the IPO the right to purchase additional shares of Class A common stock to cover over-allotments (the “over-allotment option”).

Holders of each of Class A common stock or Class B common stock are entitled to one vote per share on all matters to be voted upon by the shareholders, and holders of each class will vote together as a single class on all such matters. Holders of shares of our Class A common stock and Class B common stock vote together as a single class on all matters presented to our stockholders for their vote or approval, except as otherwise required by applicable law. As of March 31, 2013, Class A common stockholders have 38.2% of the voting power in HII and Class B common stockholders have 61.8% of the voting power of HII. Holders of shares of our Class A common stock have 100% of the economic interest in HII. Holders of Class B common stock do not have an economic interest in HII.

In accordance with the Exchange Agreement, in March 2013, we received \$1.3 million in proceeds from the issuance of 100,000 shares of Class A common stock through the over-allotment option. We immediately used the proceeds to acquire Series B Membership Interests, together with an equal number of shares of our Class B common stock, from HPI. These Series B Membership Interests were immediately recapitalized into Series A Membership Interests in HPIH.

Upon completion of the IPO, HII became a holding company, the principal asset of which is our interest in HPIH. All of our business is conducted through HPIH. We are the sole managing member of HPIH and have 100% of its voting rights and control.

Our authorized capital stock consists of 100,000,000 shares of Class A common stock, par value \$0.001 per share, 20,000,000 shares of Class B common stock, par value \$0.001 per share and 5,000,000 shares of preferred stock, par value \$0.001 per share.

### *Class A Common Stock*

The determination to pay dividends, if any, to our Class A common stockholders will be made by our board of directors. We do not, however, expect to declare or pay any cash or other dividends in the foreseeable future on our Class A common stock, as we intend to reinvest any cash flow generated by operations in our business. We may enter into credit agreements or other borrowing arrangements in the future that prohibit or restrict our ability to declare or pay dividends on our Class A common stock. In the event of liquidation, dissolution or winding up of HII, the holders of Class A common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding. The holders of our Class A common stock have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the Class A common stock. The rights, preferences and privileges of holders of our common stock will be subject to those of the holders of any shares of our preferred stock we may issue in the future.

### *Class B Common Stock*

Class B common stockholders will not be entitled to any dividend payments. In the event of any dissolution, liquidation, or winding up of our affairs, whether voluntary or involuntary, after payment of our debts and other liabilities and making provision for any holders of our preferred stock that have a liquidation preference, our Class B common stockholders will not be entitled to receive any of our assets. In the event of our merger or consolidation with or into another company in connection with which shares of Class A common stock and Class B common stock (together with the related membership interests) are converted into, or become exchangeable for, shares of stock, other securities or property (including cash), each Class B common stockholder will be entitled to receive the same number of shares of stock as is received by Class A stockholders for each share of Class A stock, and will not be entitled, for each share of Class B stock, to receive other securities or property (including cash). No holders of Class B common stock will have preemptive rights to purchase additional shares of Class B common stock.

### *Preferred Stock*

Our board of directors has the authority to issue shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without further vote or action by the stockholders.

The issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of Health Insurance Innovations, Inc. without further action by the stockholders and may adversely affect the voting and other rights of the holders of Class A common stock. At present, we have no plans to issue any preferred stock.

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[Table of Contents](#)

**7. Variable Interest Entities**

As of March 31, 2013, we had a variable interest in HPIH, and HPIH is a variable interest entity (“VIE”), pursuant to FASB guidance. HPIH is a VIE as the voting rights of the investors are not proportional to their obligations to absorb the expected losses of HPIH. We hold 100% of the voting power in HPIH, but own less than 50% of the total membership interest, and the other members of HPIH hold no voting rights in HPIH, but own more than 50% of the membership interest. Further, substantially all of the activities of HPIH are conducted on behalf of a membership with disproportionately few voting rights.

We have concluded that we are the primary beneficiary of HPIH, and, therefore, should consolidate HPIH since we have both power and benefits over HPIH. We have the power to direct the activities of HPIH that most significantly impact the entity’s economic performance. Pursuant to the Third Amended and Restated Limited Liability Company Agreement of Health Plan Intermediaries Holdings, LLC, we are the sole managing member of HPIH, operate the business, have 100% of the voting power and control the management of HPIH. Our minority equity interest in HPIH obligates us to absorb losses of HPIH and gives us the right to receive benefits from HPIH related to the day-to-day operations of the entity, both of which could potentially be significant to HPIH. As such, our maximum exposure to loss as a result of our involvement in this VIE are 100% of the operating income or loss of the VIE.

**8. Stock-based Compensation**

Effective February 7, 2013, we maintain one active stock-based incentive plan, the Health Insurance Innovations, Inc. Long Term Incentive Plan (the “LTIP”), under which stock options, stock appreciation rights (“SARs”), restricted shares and other types of equity and cash incentive awards may be granted to employees, non-employee directors and service providers. The LTIP expires after ten years, unless prior to that date the maximum number of shares available for issuance under the plan has been issued or our board of directors terminates this plan. There are 1,250,000 shares of common stock reserved for issuance under the LTIP.

We recognize expense for stock-based compensation based upon estimated grant date fair value. For grants of options or SARs, we apply the Black-Scholes option-pricing model in determining the fair value of share-based payments to employees. The resulting compensation expense is recognized over the requisite service period. The requisite service period is the period during which an employee is required to provide service in exchange for an award, which often is the vesting period. Compensation expense is recognized only for those awards expected to vest, with forfeitures estimated based on our historical experience and future expectations. All stock-based compensation expense is classified within general and administrative expense in the consolidated statements of operations. None of the stock-based compensation was capitalized during the three months ended March 31, 2013.

The fair value of SARs granted during the first three months of 2013 was based upon the Black-Scholes option-pricing model. The expected term of the awards represents the estimated period of time until exercise, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. For 2013, the expected stock price volatility was determined using a peer group of public companies within our industry as it is not practicable for the Company to estimate its own volatility due to the lack of a liquid market and active market trades. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant with an equivalent remaining term. The Company has not paid dividends in the past and does not currently plan to pay any dividends in the foreseeable future. The Black-Scholes option-pricing model was used with the following weighted average assumptions:

Risk-free rate	0.9%
Expected life	4.5 years
Volatility	45.5%
Expected dividend	none

The following table summarizes SARs and restricted shares granted during the three months ended March 31 (in thousands):

2013		2012	
SARs Issued	Restricted Shares Issued	SARs Issued	Restricted Shares Issued
150	529	—	—

## Table of Contents

The following table summarizes stock-based compensation expense for the three months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31,	
	2013	2012
SARs	\$ 42	\$ —
Restricted shares	732	—
	<u>\$ 774</u>	<u>\$ —</u>

The following table summarizes unrecognized stock-based compensation and the weighted average period over which such stock-based compensation is expected to be recognized as of March 31, 2013 (in thousands):

		Remaining
		years
SARs	\$ 762	3.0
Restricted shares	6,589	4.0
	<u>\$7,351</u>	

These amounts do not include the cost of any additional awards that may be granted in future periods nor any changes in our forfeiture rate. There were no SARs exercised during the three months ended March 31, 2013.

We did not have any income tax benefits realized from activity involving stock options, stock appreciation rights, or restricted shares for the three months ended March 31, 2013.

### 9. Net Loss per Share

The computations of basic and diluted net loss per share attributable to Health Insurance Innovations, Inc. for the three months ended March 31, 2013 were as follows:

Basic net loss available to common shareholders	\$ (4,059)
Average shares - basic	4,717,731
Effect of dilutive securities:	
Restricted shares	—
SARs	—
Average shares - diluted	<u>4,717,731</u>
Basic net loss per share attributable to Health Insurance Innovations, Inc	\$ (0.86)
Diluted net loss per share attributable to Health Insurance Innovations, Inc	\$ (0.86)

Potential common shares are included in the diluted net loss per share calculation when dilutive. Potential common shares consist of Class A common stock issuable through restricted stock grants and stock appreciation rights and are calculated using the treasury stock method.

The following securities were not included in the calculation of diluted net loss (income) per share because such inclusion would be anti-dilutive (in thousands):

	Three months ended March 31,	
	2013	2012
Restricted shares	464	—
SARs	150	—

### 10. Income Taxes

Our former operating entity, HPI, was taxed as an S corporation for income tax purposes. Therefore, we have not been subject to entity-level federal or state income taxation prior to the IPO. HPIH and HPIS are currently taxed as partnerships for federal income tax purposes; as a result, the members of HPIH pay taxes with respect to their allocable shares of each company's respective net taxable income.

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## [Table of Contents](#)

Following the IPO, HPIH and HPIS continue to operate in the United States as partnerships for U.S. federal income tax purposes. We are subject to U.S. corporate federal, state and local income taxes that are reflected in our consolidated financial statements. The effective tax rate for the three months ended March 31, 2013 was (16.6)%. Provision for income taxes was \$1.1 million for the three months ended March 31, 2013.

HII's effective tax rate includes a rate benefit attributable to the fact that HPIH and HPIS operate as limited liability companies which are not subject to federal or state income tax. Accordingly, a portion of HII's earnings attributable to the noncontrolling interest are not subject to corporate level taxes. Additionally, our effective tax rate includes a valuation allowance placed on a portion of our deferred tax assets, as our belief is that it is more likely than not that a portion of our deferred tax assets will not be realized to offset future taxable income, and we project to have a current tax liability for the current year.

Our effective tax rate includes a rate benefit attributable to the fact that our subsidiaries operate as limited liability companies which are not subject to federal or state income tax. Accordingly, a portion of our earnings attributable to the non-controlling interest are not subject to corporate level taxes.

As of December 31, 2012, we did not have any balance of gross unrecognized tax benefits, and as such, no amount would favorably affect the effective income tax rate in any future periods. For the three months ended March 31, 2013, there was no change to our total gross unrecognized tax benefit. We believe that there will not be a significant increase or decrease to the uncertain tax positions within 12 months of the reporting date.

## **11. Commitments and Contingencies**

### **Leases**

We lease office space, which includes certain equipment under operating leases, which expire in 2015. The operating lease agreements contain rent holidays and rent escalation provisions. Rent holidays and rent escalation provisions are considered in determining straight-line rent expense to be recorded over the lease term. The difference between cash rent payments and straight-line rent expense was \$61,000 and \$63,000 as of March 31, 2013 and December 31, 2012, respectively. Total rent expense under all operating leases, which includes equipment, was \$53,000 and \$26,000 for the three months ended March 31, 2013 and 2012, respectively, and is included in general and administrative expenses in the accompanying consolidated statements of operations.

We also entered into capital lease obligations to finance certain equipment. The leases have terms expiring beginning in 2015. The balance of the equipment and the corresponding liability was \$7,000 as of March 31, 2013 and December 31, 2012 and are included in property and equipment and other liabilities, respectively, in the accompanying consolidated balance sheet.

### **Call and Put Option for ICE**

In accordance with the ICE operating agreement, we have the right of first refusal to purchase any membership units that another member may desire to transfer. Written notice shall be provided to us and contain a full description of the proposed transfer including the type of transfer, the units of the proposed transfer, purchase price and payment method of proposed transfer, and the true identity of the parties involved in the proposed transfer. If we desire to purchase all or a portion of the units proposed to be transferred, we must give a binding written notice of the exercise of our option along with the specific number of units we intend to purchase. We have 60 days after we provide notice to close the purchase.

In the event of Ivan Spinner's death or disability or a change of control of TSG ("Termination Event"), we additionally have the option to repurchase all the membership units of TSG or its affiliates. At any time a TSG Affiliate, i.e., TSG, Ivan Spinner and any permitted transferee of TSG or Ivan Spinner, collectively referred to as "TSG Affiliates" may elect to sell to us all of the units owned by the TSG Affiliates by delivering a single written notice to us. We then have a period of 10 days following receipt of such notice by delivering a written notice to TSG to either (1) elect to purchase all of the TSG Affiliate units or (2) elect to sell to TSG all of the units owned by us and our permitted transferees. In the event we do not deliver the aforementioned notice, we shall be deemed to have agreed to purchase all of the TSG Affiliate units. Transfers with respect to a Termination Event or TSG Affiliate are based upon fair market value as determined by a nationally recognized independent appraiser.

### **BimSym Agreements**

On August 1, 2012, we entered into a software assignment agreement ("Agreement") with BimSym eBusiness Solutions, Inc. ("BimSym") for our exclusive ownership of all rights, title and interest in the technology platform ("A.R.I.E.S. System") developed by BimSym and utilized by us. As a result of the executed Agreement, we purchased the A.R.I.E.S. System for \$45,000. The consideration of \$45,000 was capitalized and recorded as an intangible asset. In connection with this agreement, we simultaneously entered into a master services agreement for the technology, under which we are required to make monthly payments of \$26,000 for five years. After the five-year term, this agreement automatically renews for one-year terms unless 60 days' notice is given by us.

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## [Table of Contents](#)

Additionally, we also entered into an exclusivity agreement with BimSym whereby neither BimSym nor any of its affiliates will create, market or sell a software, system or service with the same or similar functionality as that of A.R.I.E.S. System under which we are required to make monthly payments of \$16,000 for five years. The present value of these payments was capitalized and recorded as an intangible asset with a corresponding liability on the accompanying consolidated balance sheet as of March 31, 2013.

### **Legal Proceedings**

As of March 31, 2013, we had no significant outstanding legal proceedings. We are subject to certain legal proceedings and claims that may arise in the ordinary course of business. In the opinion of management, we do not have a potential liability related to any current legal proceedings and claims that would individually, or in the aggregate, have a material adverse effect on our financial condition, liquidity, results of operations, or cash flows.

### **12. Segments**

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources and in assessing our performance. Our chief operating decision-maker is considered to be the chief executive officer ("CEO"). The CEO reviews our financial information in a manner substantially similar to the accompanying consolidated financial statements. In addition, our operations, revenues, and decision-making functions are based solely in the United States. Therefore, management has concluded that we operate in one operating and geographic segment.

### **13. Related Party Transactions**

#### *Health Plan Intermediaries, LLC*

HPI, by virtue of its Series B Membership interests in HPIH, of which we are managing member, is a related party, and the beneficial interests in HPI are held by Mr. Kosloske. During the three months ended March 31, 2013, HPIH paid distributions of \$944,000 to HPI. All such distributions occurred prior to the IPO. During the three months ended March 31, 2012, there were no contributions from, or distributions to, HPI.

#### *Insurance Academy for Excellence, LLC*

In August 2012, we entered into a promissory note with Ivan Spinner who controls TSG, the 20% owner of ICE, in the amount of \$100,000 for the purpose of funding advanced commissions. The note is non-interest bearing and requires equal monthly payments of \$25,000 beginning September 20, 2012 and ending December 20, 2012. This loan was modified on October 18, 2012 whereby the November and December payments were deferred to January 2, 2013 and February 1, 2013, respectively. As of December 31, 2012, the outstanding balance on this note was \$50,000, and as of March 31, 2013, there was no outstanding balance on this note. In addition, on March 14, 2013, the Company terminated its contract rights with TSG for an aggregate cash price of \$5.5 million. In conjunction with the transaction, Ivan Spinner joined HII as an employee.

#### *Tax Receivable Agreement*

On February 13, 2013, we entered into a tax receivable agreement with the holders of Series B Membership Interests, which are beneficially owned by Mr. Kosloske, that provides for payments, from time to time, of 85% of the amount of the benefits, if any, that we are deemed to realize as a result of increases in tax basis and certain other tax benefits related to our entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. These payment obligations are obligations of HII and not of HPIH. For the purposes of the tax receivable agreement, the benefit deemed realized by us will be computed by comparing our actual income tax liability (calculated with certain assumptions) to the amount of such taxes that we would have been required to pay had there been no increase to the tax basis of the assets of HPIH as a result of the purchase or exchanges and certain other assumptions. The term of the tax receivable agreement will continue until all such tax benefits have been utilized or expired, unless HII exercises its right to terminate the tax receivable agreement for an amount based on the agreed payments remaining to be made under the agreement or HII breaches any of its material obligations under the tax receivable agreement in which case all obligations will generally be accelerated and due as if HII had exercised its right to terminate the agreement. Any potential future payments will be calculated using the market value of our Class A common stock at the time of the relevant exchange and prevailing tax rates in future years and will be dependent on us generating sufficient future taxable income to realize the benefit. Payments are generally due under the tax receivable agreement within a specified period of time following the filing of our tax return for the taxable year with respect to which payment of the obligation arises.

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[Table of Contents](#)

As of March 31, 2013, we have made no such payments under the tax receivable agreement. As of March 31, 2013, we would be obligated to pay Mr. Kosloske \$377,000 if our taxes payable on our subsequent annual tax return filings are shown to be reduced as result of an increase in our tax basis due to the issuance of 100,000 shares of Class A common stock subsequent to the IPO under the IPO underwriters' option. See Note 6 for further information on this issuance of Class A common stock.

## ITEM 2—MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

*We have made statements in Management’s Discussion and Analysis of Financial Condition and Results of Operations below, “Part II. -Item 1A. Risk Factors,” and in other sections of this report that are forward-looking statements. All statements other than statements of historical fact included in this quarterly report are forward-looking statements. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “may,” “might,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential” or “continue,” the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include projections of our future financial performance, our anticipated growth strategies, anticipated trends in our business and other future events or circumstances. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements and other future events or circumstances to differ materially from the results, level of activity, performance or achievements, events or circumstances expressed or implied by the forward-looking statements, including those factors discussed “Part II. - Item 1A. Risk Factors.” You should specifically consider the numerous risks outlined under “Part II. - Item 1A. Risk Factors.”*

*Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance, achievements, events or circumstances. We are under no duty to update any of these forward-looking statements after the date of this report to conform our prior statements to actual results or revised expectations.*

#### **Business**

In this quarterly report, unless the context suggests otherwise, references in this report to the “Company,” “we,” “us” and “our” refer (1) prior to the February 13, 2013 initial public offering (“IPO”) of the Class A common stock of Health Insurance Innovations, Inc. and related transactions, to Health Plan Intermediaries, LLC (“HPI”) and its consolidated subsidiaries and (2) after our IPO and related transactions, to Health Insurance Innovations, Inc. and its consolidated subsidiaries. The terms “HII”, “HPIH” and “ICE” refer to the stand-alone entities Health Insurance Innovations, Inc., Health Plan Intermediaries Holdings, LLC, and Insurance Center for Excellence, LLC, respectively. HPIH and ICE are consolidated subsidiaries of HII.

We are a leading developer and administrator of affordable, web-based individual health insurance plans and ancillary products. Our highly scalable, proprietary, web-based technology platform allows for mass distribution of and online enrollment in our large and diverse portfolio of affordable health insurance offerings.

Our technology platform provides customers, who we refer to as members, immediate access to our products through our distribution partners anytime, anyplace. The health insurance products we develop are underwritten by insurance carrier companies, and we assume no underwriting, insurance or reimbursement risk. Members can price and tailor product selections to meet their needs, buy policies and print policy documents and identification cards in real-time. Our sales are executed online and offer instant electronic fulfillment. Our technology platform uses abbreviated online applications, some with health questionnaires, to provide an immediate accept or reject decision on applications for all products that we offer. Once an application is accepted, individuals can use our automated payment system to complete the enrollment process and obtain instant electronic access to their policy fulfillment documents, including the insurance policy, benefits schedule and identification cards. We receive credit card and Automated Clearing House (“ACH”) payments directly from members at the time of sale. Our technology platform provides significant operating leverage as we add members and reduces the costs associated with marketing, selling, underwriting and administering policies.

We are an industry leader in the sale of 12-month short-term medical (“STM”) insurance plans, an alternative to traditional individual major medical (“IMM”) plans which provide lifetime renewable coverage. STM plans generally offer qualifying individuals comparable benefits for fixed short-term durations of six or 12 months at approximately half the cost of IMM plans. While applications for IMM insurance may take up to 60 days to process, STM plans feature a streamlined underwriting process offering immediate coverage options. We also offer guaranteed-issue hospital indemnity plans for individuals under the age of 65, which pay fixed cash benefits for covered procedures and services, and a variety of ancillary products such as pharmacy benefit cards, dental plans, vision plans and cancer/critical illness plans that are frequently purchased as supplements to STM and hospital indemnity plans. We design and structure insurance products on behalf of insurance carrier companies, market them to individuals through our large network of distributors and manage member relations via our online member portal, which is available 24 hours a day, seven days a week. Our online enrollment process allows us to aggregate and analyze consumer

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## [Table of Contents](#)

data and purchasing habits to track market trends and drive product innovation. We have established relationships with several highly rated insurance carriers, including Starr Indemnity & Liability Company, Companion Life, United States Fire, ING, Markel and CIGNA, among others.

We have established a large independent distribution network that consists of 54 licensed agent call centers and 274 wholesalers that work with over 8,965 licensed brokers. Our data-driven product design, technology platform and extensive distribution network have enabled us to grow our revenues from \$8.5 million for the three months ended March 31, 2012 to \$12.5 million for the three months ended March 31, 2013.

We focus on the large and under-penetrated segment of the U.S. population who are uninsured or underinsured, which includes individuals who are unable to afford traditional IMM premiums, individuals not covered by employer-sponsored insurance plans, such as those who are self-employed as well as small business owners and their employees, and underserved “gap populations” that require insurance due to changes caused by life events, such as new graduates, divorcees, early retirees, military discharges, the unemployed, part-time and seasonal employees and temporary workers. Our target market consists of approximately 64 million Americans, including approximately 50 million Americans who were uninsured in 2010, according to the U.S. Census Bureau, and approximately 14 million non-elderly Americans who purchased individual health insurance plans in 2010, according to a 2010 Kaiser Family Foundation survey. As of March 31, 2013, we had approximately 24,000 STM members. We expect the number of uninsured and underinsured to significantly increase due to the rising costs and burdensome underwriting requirements of traditional IMM plans and a decline in employer-sponsored health insurance programs due to rising benefit plan costs.

As of March 31, 2013, we had approximately 24,000 STM plans in force, compared with approximately 20,000 on March 31, 2012, with an average monthly retention rate of 79% from March 31, 2012 to March 31, 2013. We earn our revenues from commissions and fees related to the sale of products to our members. Our ancillary products have created several additional revenue streams and resulted in a significant portion of our business being generated by monthly member renewals. For the three months ended March 31, 2013, our premium equivalents and revenue were \$22.1 million and \$12.5 million, respectively, compared to \$15.7 million and \$8.5 million for the three months ended March 31, 2012, representing increases of 41% and 47% in premium equivalents and revenues, respectively. For the three months ended March 31, 2013, EBITDA was \$(6.1) million, compared to \$1.2 million for the three months ended March 31, 2012.

For more detail about the use of premium equivalents and EBITDA as business metrics and a reconciliation of premium equivalents to revenues, see “Key Business Metrics” below.

Participants in the health insurance industry are focused on the potential implications of the Patient Protection and Affordable Care Act (“PPACA” or “Healthcare Reform”) legislation in January 2014. This legislation is expected to have extensive impacts on the provisions of health insurance plans that can be sold to individuals and the resulting economics to insurers. Starting in the second quarter of 2013, some industry participants are taking advantage of a PPACA loophole and modifying individual major medical policy terms, premiums and commissions paid to distributors. Some of these actions have had the effect of increasing competition with our insurance products or simply causing confusion among health plan distributors and consumers. It is unclear when and to what extent these factors will abate, but management expects this loophole to close as January 2014 approaches. Very positive year over year growth is still expected but the rate of growth in our core medical policy sales has slowed. However, we remain confident in the appeal of our product offerings, and expect increased growth once PPACA is fully implemented.

## **Our Corporate Structure**

### *Overview*

Health Insurance Innovations, Inc. is a holding company that was incorporated as a Delaware corporation on October 26, 2012 for the purpose of facilitating an initial public offering of common equity and to become the sole managing member of Health Plan Intermediaries Holdings, LLC and subsidiaries (“Holdings”). Its principal asset is a controlling equity interest in Holdings. On February 7, 2013, a registration statement filed with the U.S. Securities and Exchange Commission (“SEC”) related to shares of Class A common stock of HII was declared effective and the price of such shares was set at \$14.00 per share. The IPO closed on February 13, 2013. Prior to the IPO, HII had not engaged in any business or other activities except in connection with its formation and the IPO.

After the effective date of the registration statement but prior to the completion of the IPO, the limited liability company agreement of Holdings was amended and restated to modify its capital structure by replacing the different classes of interests previously held by the Holdings owners to a single new class of units called “Series B Membership Interests.” In addition, each Series B Membership Interest holder received one share of the HII’s Class B common stock. We and our then-existing owners also entered into an exchange agreement under which (subject to the terms of the exchange agreement) they have the right to exchange their Series B Membership Interests together with an equal number of shares of our Class B common stock, for shares of our Class A common stock on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends and reclassifications. These transactions are collectively referred to as the “Reorganization Transactions.”

The Company, as a result of the IPO and the related Reorganization Transactions, became the sole managing member of, and has a controlling equity interest in, Holdings. As the sole managing member of Holdings, HII operates and controls all of the business and affairs of Holdings and, through Holdings and its subsidiaries, conducts our business. HII consolidates the financial results of Holdings and its subsidiaries, and records non-controlling interest for the economic interest in Holdings held by the non-controlling Series B Membership Interests holders. As of March 31, 2013, the non-controlling Series B Membership Interests holders’ ownership percentage is 61.8%.

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## [Table of Contents](#)

### *History*

The Company was formed as HPI, a Florida limited liability company. In August 2008, the Naylor Group Partners, LLC (“Naylor”) made a capital contribution to HPI in exchange for a 50% ownership interest in HPI. In September 2011, HPI purchased all of the units owned by Naylor for \$5.3 million plus financing costs of \$135,000 (the “Naylor Acquisition”). HPI financed a portion of the purchase price by entering into a loan agreement with a bank for \$4.3 million. The remaining purchase price was funded with HPI cash and a contribution from Michael Kosloske (“Mr. Kosloske”), our chairman, president and chief executive officer and the sole member of HPI.

In June 2012, we and a minority partner acquired the Insurance Center for Excellence (“ICE”), which conducts call center sales operations and trains third-party insurance agents to sell our products. We own an 80% interest in ICE, which has been consolidated in the accompanying consolidated financial statements. See Note 2 of the accompanying consolidated financial statements for further information related to this acquisition.

In October 2012, HII was incorporated in the State of Delaware to facilitate our recently completed IPO.

On November 7, 2012, interests in the assets and liabilities of HPI were transferred to two subsidiaries, HPIH (99.0099%) and Health Plan Intermediaries Sub, LLC (“HPIS”) (0.9901%), each of which was created in October 2012. On November 8, 2012, a capital contribution of \$12,010 was made to HPIS from Health Plan Intermediaries II, LLC, a related party, and that cash along with the 0.9901% interest was contributed by HPIS to HPIH in exchange for a 1.0% interest in HPIH.

We expect that future exchanges of Series B Membership Interests (together with an equal number of our Class B common shares) for shares of our Class A common stock (which Series B Membership Interests will immediately be recapitalized into Series A Membership Interests) will result in increases in the tax basis in our share of the tangible and intangible assets of HPIH. We expect that these increases in tax basis, which would not have been available but for our new holding company structure, will reduce the amount of tax that we would otherwise be required to pay in the future. We will be required to pay a portion of the cash savings we actually realize from such increase (or are deemed to realize in the case of an early termination payment by us, a change in control or a material breach by us of our obligations under a tax receivable agreement to the existing and certain future holders of Series B Membership Interests (HPI and HPIS, which are beneficially owned by Mr. Kosloske), pursuant to the tax receivable agreement. Furthermore, payments under the tax receivable agreement will give rise to additional tax benefits and therefore additional payments under the tax receivable agreement itself. HPIH is currently taxed as a partnership for federal income tax purposes; as a result, the members of HPIH pay taxes with respect to their allocable shares of its net taxable income. The earnings of HII are subject to federal income taxation.

### **Factors Affecting Our Results of Operations**

As the managing general underwriter of our individual health insurance plans and ancillary products, we receive all amounts due in connection with our plans on behalf of the providers of the services. We refer to these total collections as premium equivalents, which typically represent a combination of premiums, fees for discount benefit plans (a non-insurance benefit product that supplements or enhances an insurance product), fees for distributors and our enrollment fees. From premium equivalents, we remit risk premium, representing the amounts we collect and remit to carriers on their behalf, and amounts earned by discount benefit plan providers, who we refer to as third-party obligors, such carriers and third-party obligors being the ultimate parties responsible for providing the insurance coverage or discount benefits to the member. Our revenues consist of the balance of the premium equivalents.

We collect premium equivalents upon the initial sale of the plan and then monthly upon each subsequent periodic payment under such plan. We receive most premium equivalents through online credit card or ACH processing. As a result, we have limited accounts receivable. We remit the risk premium to the applicable carriers and the amounts earned by third-party obligors on a monthly basis based on the respective compensation arrangements.

Commission revenue and fees attributable to revenues from STM plans and hospital indemnity policies represented substantially all of our revenues for the periods presented. Our commissions represent premiums and fees for discount benefit plans, net of risk premium and amounts earned by third-party obligors, respectively. We recognize commissions as we collect the premiums and fees for discount benefit plans.

Commission rates for all insurance plans are approved in advance by the relevant carrier. Our commission rates and the length of the commission period typically vary by carrier and plan type. Under our carrier compensation arrangements, the commission rate schedule that is in effect on the policy effective date will govern the commissions over the life of the plan.

We continue to receive a commission payment until the plan expires or is terminated. Accordingly, a portion of our monthly revenues is predictable on a month-to-month basis and revenues increase in direct proportion to the growth we experience in the number of plans in force.

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## [Table of Contents](#)

We pay fees to distributors for their services in selling our plans, which are included in our operating costs and expenses.

### Key Business Metrics

In addition to traditional financial metrics, we rely upon the following key business metrics to evaluate our business performance and facilitate long-term strategic planning:

#### *Premium equivalents*

We define this metric as the cash received from our members to purchase our products. All amounts not paid out as risk premium to carriers or paid out to other third-party obligors are considered to be revenues for financial reporting purposes. We have included premium equivalents in this report because it is a key measure used by our management to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget and to develop short- and long-term operational plans. In particular, the inclusion of premium equivalents can provide a useful measure for period-to-period comparisons of our business. However, premium equivalents does not represent, and should not be considered as, an alternative to revenues, as determined in accordance with U.S. generally accepted accounting principles (“GAAP”). Premium equivalents has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP.

The following table presents a reconciliation of premium equivalents to revenues for the three months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31,	
	2013	2012
Premium equivalents	\$ 22,084	\$ 15,733
Less risk premium	(9,100)	(6,889)
Less amounts earned by third-party obligors	(513)	(321)
Revenues	<u>\$ 12,471</u>	<u>\$ 8,523</u>

#### *Plans in force*

We consider a plan to be in force when we have issued a member his or her insurance policy or discount benefit plan and have collected the applicable premium payments and/or discount benefit fees. Our plans in force are an important indicator of our expected revenues, as we receive a monthly commission for up to six months for our six-month STM plan, up to 12 months for our 12-month STM plan and often more than 12 months for our hospital indemnity and discount benefit plans, provided that the policy or discount benefit plan is not cancelled. A member may be enrolled in more than one policy or discount benefit plan simultaneously. A plan becomes inactive upon notification to us of termination of its policy or discount benefit plan, when the member’s policy or discount benefit plan expires or following non-payment of premiums or discount benefit fees when due. The following table presents the number of our policies in force by product type as of March 31, 2013 and 2012:

	As of March 31,		Change (%)
	2013	2012	
	(in thousands, except percentages)		
STM	24,459	20,044	22.0%
Hospital indemnity	8,714	5,370	62.3%
Ancillary products	<u>26,372</u>	<u>13,631</u>	93.5%
Total	<u>59,545</u>	<u>39,045</u>	52.5%

#### *EBITDA*

We define this metric as net income before interest expense, income taxes and depreciation and amortization. We have included EBITDA in this report because it is a key measure used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget and to develop short- and long-term operational plans. In particular, the exclusion of certain expenses in calculating EBITDA can provide a useful measure for period-to-period comparisons of our business. However, EBITDA does not represent, and should not be considered as, an alternative to net income or cash flows from operations, each as determined in accordance with GAAP. Other companies may calculate EBITDA differently than we do. EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP.

## [Table of Contents](#)

The following table presents a reconciliation of net (loss) income to EBITDA for the three months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31,	
	2013	2012
Net (loss) income (1)	\$ (7,402)	\$ 820
Interest expense	38	65
Depreciation and amortization	244	271
Provision for income taxes	1,053	—
EBITDA	\$ (6,067)	\$ 1,156

- (1) Net loss for the three months ended March 31, 2013 includes a one-time expense of \$5.5 million related to the termination of contract rights with TSG, a managing general agent of the Company. For further information, see “Comparison of the Three Months Ended March 31, 2013 and 2012” below and Note 2 of the accompanying consolidated financial statements.

### **Key Components of Our Statements of Operations**

#### ***Revenues***

Our revenues consist primarily of commissions earned for our insurance policies and discount benefit plans issued to members, enrollment fees paid by members and administration fees paid by members as a direct result of our enrollment services. We recognize revenues upon the member’s acceptance of a policy. We expect our revenues to increase as we add new members.

#### ***Operating Costs and Expenses***

Operating costs and expenses consist of fees and commissions paid to distributors for selling our products to members, credit card or ACH processing fees and general and administrative expenses. We expect our operating costs and expenses to represent a decreasing percentage of our revenues due to the scalable nature of our technology platform that allows for mass distribution and online enrollment of our products, requiring less maintenance and incremental costs.

#### ***Third-party Commissions***

Our third-party commissions consist of fees and commissions paid to distributors for selling our products to members, which we pay monthly for existing members and on a weekly basis for new members. We expect third-party commissions as a percentage of revenue to remain generally consistent with prior periods.

#### ***Credit Card and ACH Fees***

Our credit card and ACH fees are fees paid to our banks and processors for the collection of credit card and ACH payments. We expect credit card and ACH fees as a percentage of revenue to remain generally consistent with prior periods.

#### ***General and Administrative Expenses***

Our general and administrative expenses primarily consist of personnel costs, which represent salaries, bonuses, commissions, stock-based compensation, payroll taxes and benefits. General and administrative expenses also include selling and marketing expenses and travel costs associated with obtaining new distributor relationships. In addition, these expenses also include expenses for outside professional services and technology expenses, including legal, audit and financial services and the maintenance of our administrative technology platform. General and administrative expenses have increased due to the anticipated growth of our business and infrastructure and the costs associated with becoming a public company, including costs associated with SEC reporting and compliance, developing and maintaining internal controls over financial reporting, insurance, investor relations and other related costs.

#### ***Contract Termination Expense***

Contract termination expense relates to a payment of \$5.5 million to terminate certain contract rights with TSG Agency, LLC (“TSG”), a managing general agent for the Company. This transaction was treated as a current period expense on the accompanying consolidated statement of operations pursuant to Financial Accounting Standards Board (“FASB”) guidance.

#### ***Depreciation and Amortization***

Depreciation and amortization expense is primarily a function of amortization of the intangible assets acquired as a result of the Acquisition described above as well as depreciation of property and equipment used in our business.

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## [Table of Contents](#)

### ***Interest Expense***

Interest expense primarily consists of interest incurred on our outstanding bank note. On February 13, 2013, we repaid our term loan with a portion of the net proceeds raised from the IPO.

### ***Other Expense (Income)***

Other income includes expenses payable to Mr. Kosloske pursuant to the tax receivable agreement, fees charged to distributors for advanced commissions, whereby we pay distributors commissions on policies sold in advance of when they would ordinarily be due to the distributor. These advanced commissions are made to distributors with an established track record of selling our products. Advanced commission fees range from 0% up to 2% of the premiums for each month that we advance commissions. Advanced commissions to a distributor are based upon the number of future months of expected premium equivalent multiplied by a distributor's commission rate. We expect other income to increase as we expand our advanced commission structure with the application of the net proceeds of the IPO.

### ***Provision for Income Taxes***

Our former operating entity, HPI, is taxed as an S corporation for income tax purposes. Therefore, we have not been subject to entity-level federal or state income taxation prior to the IPO. HPIH is currently taxed as a partnership for federal income tax purposes; and as a result, the members pay taxes with respect to their allocable shares of HPIH's respective net taxable income.

Following the IPO, HPIH continues to operate in the United States as partnerships for U.S. federal income tax purposes. We are subject to U.S. corporate federal, state and local income taxes that are reflected in our consolidated financial statements.

### ***Noncontrolling Interests***

Upon completion of the IPO, we became a holding company, the principal asset of which is our interest in HPIH. All of our business is conducted through HPIH. We are the sole managing member of HPIH and have 100% of the voting rights and control. As of March 31, 2013, we have a 38.2% economic interest in HPIH, and HPI possesses a 61.8% economic interest in HPIH. Net loss attributable to HII includes \$774,000 of stock-based compensation and our income tax provision of \$1.1 million. HPI's interest in HPIH is reflected as a noncontrolling interest on our accompanying financial statements.

On June 1, 2012, we and TSG acquired ICE. ICE is a call center training facility for our distributors. Pursuant to the terms of the transaction, we contributed \$80,000 in cash, and TSG contributed \$20,000 in cash to the newly created limited liability company. In connection with the transaction, we received an 80% controlling interest in ICE and TSG received a 20% noncontrolling interest in ICE. The intent of this transaction was to attract potential call center managers and educate them on our model and best practices with the ultimate goal of these call centers joining our distribution network. During the three months ended March 31, 2013, we contributed \$40,000, and TSG contributed \$10,000, to ICE. As of March 31, 2013, our total investment in ICE is \$360,000, representing an 80% controlling interest.

[Table of Contents](#)

**Results of Operations**

The following table is a summary of our statements of operations as a percentage of our total revenues.

	Three Months Ended March 31,	
	2013	2012
Revenues	100.0%	100.0%
Third-party commissions	64.4%	67.3%
Credit cards and ACH fees	2.1%	2.5%
Contract termination expense	44.1%	0.0%
General and administrative expenses	34.5%	16.7%
Depreciation and amortization	2.0%	3.2%
Total operating costs and expenses	147.1%	89.7%
Other expense (income):		
Interest expense	0.3%	0.8%
Other expense (income)	3.4%	-0.1%
Net (loss) income before income taxes	-50.8%	9.6%
Provision for income taxes	8.4%	0.0%
Net (loss) income	-59.2%	9.6%
Net loss attributable to noncontrolling interests	-26.8%	0.0%
Net (loss) income attributable to Health Insurance Innovations, Inc. and Health Plan Intermediaries, LLC (1)	-32.4%	9.6%

- (1) As of March 31, 2013, our only material asset is the ownership of approximately 38.2% of the Membership Interests in HPIH, and our only business is to act as the sole managing member of HPIH. Accordingly, we consolidate the financial results of HPIH into our financial statements. The remaining 61.8% ownership interests held by the other members of HPIH, consisting of HPI and HPIS, are accounted for as a non-controlling interest in our consolidated financial statements. Additionally, TSG's 20% non-controlling interest in ICE is accounted for as a non-controlling interest in our consolidated financial statements. See Note 1 of the accompanying consolidated financial statements for further information on our basis of presentation.

**Comparison of Three Months Ended March 31, 2013 and 2012**

The following table presents our historical results of operations and the changes in these results in dollars and as a percentage for the periods presented:

	Three Months Ended March 31,			
	2013	2012	Changes (\$)	Change (%)
	(in thousands, except percentages)			
Revenues	\$ 12,471	\$ 8,523	\$ 3,948	46.3%
Third-party commissions	8,037	5,740	2,297	40.0%
Credit cards and ACH fees	265	210	55	26.2%
Contract termination expense	5,500	—	5,500	—
General and administrative expenses	4,308	1,423	2,885	202.7%
Depreciation and amortization	244	271	(27)	-10.0%
Total operating costs and expenses	18,354	7,644	10,710	140.1%
Other expense (income):				
Interest expense	38	65	(27)	-41.5%
Other expense (income):	428	(6)	434	—
Net (loss) income before income taxes	(6,349)	820	(7,169)	—
Income tax expense	1,053	—	1,053	—
Net (loss) income	(7,402)	820	(8,222)	—
Net loss attributable to noncontrolling interests	(3,343)	—	(3,343)	—
Net (loss) income attributable to Health Insurance Innovations, Inc.	\$ (4,059)	\$ 820	\$ (4,879)	—

**Revenues**

Revenues for the three months ended March 31, 2013 were \$12.5 million, an increase of \$3.9 million, or 46.3%,

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## [Table of Contents](#)

compared to three months ended March 31, 2012. The increase was primarily due to a 52.5% increase in the number of policies in force. The number of hospital indemnity and ancillary policies in force as of March 31, 2013 and 2012 increased as we increased our focus on the sales of our other products to complement our STM sales.

### ***Third-party Commissions***

Third-party commissions for the three months ended March 31, 2013 were \$8.0 million, an increase of \$2.3 million, or 40.0%, compared to three months ended March 31, 2012. The increase in third-party commissions was primarily due to an increase in the number of plans in force. Third-party commissions represented 64.4% of revenues for the three months ended March 31, 2013 as compared to 67.3% of revenues for the three months ended March 31, 2012. This decrease is primarily due to higher revenues from STM policies, which generally have lower commissions.

### ***Credit Card and ACH Fees***

Credit card and ACH fees for the three months ended March 31, 2013 were \$265,000, an increase of \$55,000 or 26.2%, compared to the three months ended March 31, 2012. The increase in credit card and ACH fees was primarily due to the increase in the number of plans in force. Credit card and ACH fees represented 2.1% and 2.5% of revenues for the three months ended March 31, 2013 and 2012, respectively.

### ***General and Administrative Expenses***

General and administrative expenses for the three months ended March 31, 2013 were \$4.3 million, an increase of \$2.9 million, compared to three months ended March 31, 2012. The increase in general and administrative expenses was attributable to the expansion of our business, our preparations for our IPO and our subsequent status as a publicly-traded company. Professional fees increased \$1.1 million for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012, including a \$414,000 increase in legal fees, a \$334,000 increase in other professional fees and a \$325,000 increase in accounting and financial consulting costs. We incurred \$774,000 in stock-based compensation expense as a result of the long-term incentive plan that was implemented during the three months ended March 31, 2013 and is based on grants tied to our Class A common stock. In addition, as the result of the expansion of our board of directors, director and officer insurance expense increased by \$96,000, as compared to the three months ended March 31, 2012, and we incurred \$49,000 in director compensation. Personnel costs, exclusive of stock-based compensation expense, increased \$464,000 as the result of an increase in our payroll in conjunction with our business expansion and other administrative expenses associated with operating "ICE" of approximately \$317,000.

### ***Depreciation and Amortization***

Depreciation and amortization expense for the three months ended March 31, 2013 were \$244,000, a decrease of \$27,000, compared to three months ended March 31, 2012. The decrease in depreciation and amortization expense occurred as the three months ended March 31, 2012 included amortization of intangible assets that were fully amortized as of June 2012. This decrease was partially offset by the acquisition of amortizable intellectual property rights in August 2012.

### ***Other Expense (Income)***

Interest expense for the three months ended March 31, 2013 was \$38,000, a decrease of \$27,000, compared to three months ended March 31, 2012. Interest expense decreased due to the bank loan agreement that we repaid in full subsequent to the closing of our IPO.

Other expense for three months ended March 31, 2013 was \$428,000, as compared to other income of \$6,000 for three months ended March 31, 2012. Other expense for the three months ended March 31, 2013 included \$377,000 of expense payable to Mr. Kosloske under the tax receivable agreement, a \$71,000 loss on extinguishment of debt, offset by \$19,000 of fees charged to distributors for advanced commissions. See Notes 1 and 13 of the accompanying consolidated financial statements for further information on the tax receivable agreement.

### ***Provision for Income Taxes***

Provision for income taxes was \$1.1 million for the three months ended March 31, 2013, reflecting a (16.6%) effective tax rate, as compared to no provision for income taxes during the three months ended March 31, 2012, at which time we operated a limited liability company.

HII's effective tax rate includes a rate benefit attributable to the fact that HPIH and HPIS operate as limited liability

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## [Table of Contents](#)

companies which are not subject to federal or state income tax. Accordingly, a portion of HII's earnings attributable to the noncontrolling interest are not subject to corporate level taxes. Additionally, our effective tax rate includes a valuation allowance placed on a portion of our deferred tax assets, as our belief is that it is more likely than not that a portion of our deferred tax assets will not be realized to offset future taxable income, and we project to have a current tax liability for the current year.

### **Liquidity and Capital Resources**

#### ***General***

As of March 31, 2013, we had \$31.1 million of cash and cash equivalents and \$18.9 million of short-term investments. Our balance of cash and cash equivalents increased as a result of the IPO. Historically, we have funded our operations cash flows from operations and, to a lesser extent, working capital and borrowings, as described below.

We experienced negative cash flows from operations during the three months ended March 31, 2013. We expect that we will generate positive cash flows from operations in future periods and on an annual basis, although this may fluctuate significantly on a quarterly basis. We believe that our available cash and cash flows expected to be generated from operations will be adequate to satisfy our current and planned operations for at least the next 12 months.

Prior to the IPO, during the three months ended March 31, 2013, HPIH paid \$944,000 in distributions to HPI. During the three months ended March 31, 2012, HPI paid distributions to members of \$68,000.

On February 13, 2013, we completed the IPO by issuing 4,666,667 shares of our Class A common stock, par value \$0.001, to the public at a price of \$14.00 per share common stock. Upon completion of the IPO, HII obtained a 35% membership interest, a 35% economic interest and 100% of the voting interest in HPIH. The aggregate gross proceeds from the shares of Class A common stock sold by us were \$65.3 million. The aggregate net proceeds to us from the offering were approximately \$60.8 million, after deducting an aggregate of \$4.5 million in underwriting discounts and commissions paid to the underwriters and incurred in connection with the offering. See Note 6 of the accompanying unaudited consolidated financial statements for further information on the IPO.

On March 14, 2013, we entered into an agreement to terminate certain contract rights with TSG, a managing general agent of the Company, for an aggregate cash price of \$5.5 million. Pursuant to FASB guidance, the full amount plus transaction costs were expensed during the three months ended March 31, 2013. We do not expect to incur any material future expenses associated with the transaction.

#### ***Our Indebtedness***

*Term Loan Agreement.* In September 2011, we entered into a bank loan agreement with a third-party bank with a principal amount of \$4.3 million. The purpose of this bank loan was to finance the acquisition of the remaining 50% interest in HPI. For further information on this acquisition see Note 1. "Overview-History" and Note 2 of the accompanying unaudited consolidated financial statements. Borrowings under the loan were secured by all of our assets and by a personal unlimited guarantee by Mr. Kosloske and Lori Kosloske ("Mrs. Kosloske"), our Chief Broker Compliance Officer and Mr. Kosloske's wife, and certain real properties owned by Mr. Kosloske and Mrs. Kosloske.

On February 13, 2013, we repaid the remaining \$3.2 million outstanding balance of the term loan, using a portion of the proceeds of the IPO.

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## [Table of Contents](#)

### **Cash Flows**

The following summary of cash flows for the periods indicated has been derived from our financial statements included elsewhere in this report (in thousands):

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
<b>Statement of cash flows data:</b>		
Net cash (used in) provided by operating activities	\$ (5,534)	\$ 1,101
Net cash used in investing activities	(18,965)	(71)
Net cash provided by (used in) provided by financing activities	\$ 54,811	(335)
Net increase in cash and cash equivalents	<u>\$ 30,312</u>	<u>\$ 695</u>

### **Cash Flows from Operating Activities**

We experienced negative cash flows from operating activities during the three months ended March 31, 2013 and positive cash flow from operating activities during the three months ended March 31, 2012. The cash used in operating activities for the three months ended March 31, 2013 was primarily attributable to the \$5.5 million contract termination expense described above and the increase in general and administrative expenses, partially offset by an increase in revenues. Our primary source of cash from operating activities is from the collection of premium equivalents. With the exception of the one-time contract termination expense during the three months ended March 31, 2013, our primary uses of cash for operating activities are for commissions to distributors, compensation-related expenditures, settlement of accounts payable to vendors and to fund our advanced commission structure.

### **Cash Flows from Investing Activities**

Our primary investing activities have consisted of purchases of equipment and loans to our distributors. Our capital expenditures primarily consist of purchases of computer equipment, furniture and fixtures and computer software. In the future, we expect that we will continue to incur capital expenditures to support our expanding operations.

During the three months ended March 31, 2013, cash used in investing activities was \$19.0 million as compared to \$71,000 for the three months ended March 31, 2012. This change was primarily due to the acquisitions of short-term investments of \$18.9 million to temporarily invest a portion of the net IPO proceeds prior to their deployment in other areas of our operations.

### **Cash Flows from Financing Activities**

Our financing activities included the IPO, repayments of debt, payment of fees for equity issuance, capital contributions from members and distributions of earnings to our members.

During the three months ended March 31, 2013, cash provided by financing activities was \$54.8 million as compared to cash used in financing activities of \$335,000 for the three months ended March 31, 2012. Cash provided by financing activities during the three months ended March 31, 2013 consisted of \$60.8 million in proceeds from the IPO, net of underwriting discounts and commissions of \$4.5 million, partially offset by payments made on debt and other obligations of \$3.4 million, payments for equity issuance costs of \$1.6 million, and \$944,000 of distributions to members of HPI prior to the IPO. Cash used in financing activities for the three months ended March 31, 2012 consisted of payments on debt and other obligations in the amount of \$188,000, payments for equity issuance costs of \$78,000 and \$68,000 in distributions made to members.

### **Off-Balance Sheet Arrangements**

As of March 31, 2013, we had not entered into any off-balance sheet arrangements, other than the operating leases noted above.

### **Critical Accounting Policies**

Our financial statements are prepared in accordance with GAAP. The preparation of these financial statements requires our management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the applicable periods. We base our estimates, assumptions and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances. Different assumptions and judgments could change the estimates used in the preparation of our financial statements, which, in turn, could change the results from those reported. We evaluate our estimates, assumptions and judgments on an ongoing basis. The critical accounting estimates, assumptions and judgments that we believe have the most significant impact on our financial statements are described below.

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## [Table of Contents](#)

We have elected under the JOBS Act to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. As a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates.

### ***Revenue Recognition***

Our revenues consist primarily of commissions earned for our insurance policies and discount benefit plans issued to members, enrollment fees paid by members and administration fees paid by members as a direct result of our enrollment services. The member's payment includes a combination of premiums, fees for discount benefit plans, fees for distributors and enrollment fees, which are collectively referred to as "premium equivalents." Reported revenues are net of risk premium remitted to insurance carriers and amounts earned by third-party obligors. Commissions and fees attributable to the sale of STM plans and hospital indemnity policies represent substantially all our revenues for the periods presented. Revenues are net of an allowance for policies expected to be cancelled by members during a limited cancellation period. We establish the allowance for estimated policy cancellations through a charge to revenue. The allowance is estimated using historical data to project future experience. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported. We periodically review the adequacy of the allowance and record adjustments as necessary. The net allowance for estimated policy cancellations was \$77,000 as of March 31, 2013 and December 31, 2012.

Revenue is earned at the time of sale. Commission rates for all of our products are agreed to in advance with the relevant insurance carrier and vary by carrier and policy type. Under our carrier compensation arrangements, the commission rate schedule that is in effect on the policy effective date governs the commissions over the life of the policy. In addition, we earn enrollment and administration fees on policies issued.

We report our revenues net of amounts paid to our contracted insurance carrier companies and third-party obligors as we are not the ultimate party responsible for providing the insurance coverage or discount benefits to the member. As a result, we recognize the net amount of revenues earned as the agent in these transactions.

### ***Goodwill and Other Intangible Assets***

#### *Goodwill*

Under the FASB guidance, the process of evaluating the potential impairment of goodwill involves a two-step process and requires significant judgment at many points during the analysis. In the first step, we determine whether there is an indication of impairment by considering relevant qualitative factors or comparing the fair value of the reporting unit to its carrying amount, including goodwill. Our annual impairment test is performed with a measurement date of October 1. If, based on the first step, we determine that there is an indication of goodwill impairment, we assess the impairment in step two in accordance with the FASB guidance.

In the second step, we determine the fair value using a combination of three valuation approaches: the cost approach, the market approach and the income approach. The cost approach uses multiples from publicly available transactional data of acquired comparable target companies. Transactions are identified that have occurred over the past three years in the subject Company's industry. The market approach uses a guideline company methodology which is based upon a comparison of the reporting unit to similar publicly-traded companies within our industry. We derive a market value of invested capital or business enterprise value for each comparable company by multiplying the price per share of common stock of the publicly traded companies by their total common shares outstanding and adding each company's current level of debt. We calculate a business enterprise multiple based on revenue and earnings from each company, then apply those multiples to our revenue and earnings to calculate a business enterprise value. Assumptions regarding the selection of comparable companies are made based on, among other factors, capital structure, operating environment and industry. As the comparable companies were typically larger and more diversified than our business, multiples were adjusted prior to application to our revenues and earnings to reflect differences in margins, long-term growth prospects and market capitalization.

The income approach uses a discounted debt-free cash flow analysis to measure fair value by estimating the present value of future economic benefits. To perform the discounted debt-free cash flow analysis, we develop a pro forma analysis of the reporting unit to estimate future available debt-free cash flow and discounting estimated debt-free cash flow by an estimated industry weighted average cost of capital based on the same comparable companies used in the market approach. Per the FASB guidance, the weighted average cost of capital is based on inputs (e.g., capital structure, risk, etc.) from a market participant's perspective and not necessarily from the reporting unit's perspective. Future cash flow is projected based on assumptions for our economic growth, industry expansion, future operations and the discount rate, all of which require significant judgments by management.

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## [Table of Contents](#)

After computing a separate business enterprise value under the above approaches, we apply a weighting to them to derive the business enterprise value of the reporting unit. The weightings are evaluated each time a goodwill impairment assessment is performed and give consideration to the relative reliability of each approach at that time. Based on these weightings, we calculated a business enterprise value for the reporting unit. We then add debt-free liabilities of the reporting unit to the calculated business enterprise value to derive an implied fair value of the reporting unit. The implied fair value is then compared to the reporting unit's carrying value. Upon completion of the analysis in step one as of October 1, 2012, we determined that the fair value of the business exceeded its respective carrying value. As such, a step two analysis was not required.

### *Other intangible assets*

Our intangible assets consist of in-force members, our brand, the carrier network, distributor relationships, capitalized software and a non-compete agreement. Finite-lived intangible assets are amortized over their useful lives from two to seven years.

### *Advanced Commissions*

Advanced commissions consist of amounts advanced to certain third-party distributors. We began advancing commissions in November 2011. We perform ongoing credit evaluations of our distributors, all of which are located in the United States. We recover the advanced commissions from future commissions earned on premiums collected. We have not experienced any credit losses from commission advances and accordingly, have not recognized any provision for bad debt expense at December 31, 2012. A fee for the advanced commission of up to 2% of the insurance premiums advanced is charged to the distributors and recognized as other income as earned. Advanced commissions outstanding as of March 31, 2013 and December 31, 2012 were \$539,000 and \$297,000, respectively.

### *Property and Equipment*

Property and equipment is carried at cost, less accumulated depreciation. Depreciation expense for property and equipment is computed using the straight-line method over the estimated useful lives of the respective assets, with two to three years for computer equipment and seven years for furniture and fixtures. Leasehold improvements are depreciated over the shorter of the lease term or estimated useful life. We periodically review long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. No impairment losses were recognized for the periods presented.

### *Accounting for Income Taxes*

Our former operating entity, HPI, is taxed as an S corporation for income tax purposes. Therefore, we have not been subject to entity-level federal or state income taxation prior to the IPO. HPIH is currently taxed as a partnership for federal income tax purposes; as a result, the members pay taxes with respect to their allocable shares of each company's respective net taxable income.

Following the IPO, HPIH continues to operate in the United States as a partnership for U.S. federal income tax purposes. We are subject to U.S. corporate federal, state and local income taxes that are reflected in our consolidated financial statements. We use the liability method of accounting for income taxes. Significant management judgment is required in determining the provision for income taxes and, in particular, any valuation allowance that is recorded or released against our deferred tax assets.

We evaluate quarterly the positive and negative evidence regarding the realization of net deferred tax assets. The carrying value of our net deferred tax assets is based on our belief that it is more likely than not that we will generate sufficient future taxable income to realize these deferred tax assets.

We account for uncertainty in income taxes, using a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is subjective to estimate such amounts, as a determination must be made on the probability of various possible outcomes. We reevaluate uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition and measurement could result in recognition of a tax benefit or an additional tax provision.

### *Fair Value of Financial Instruments*

We measure and report financial assets and liabilities at fair value on a recurring basis. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (referred to as an exit price) in the principal or

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## [Table of Contents](#)

most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value of our financial assets and liabilities is determined by using three levels of input, which are defined as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability
- Level 3: Unobservable inputs for the asset or liability

The categorization of a financial instrument within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

We utilize the market approach to measure the fair value of their financial assets. Our short-term investment in a marketable security, available-for-sale is valued based on Level 1 inputs as it is a publicly-traded mutual fund with a quoted price in an active market. Our noncompete obligation is valued based on Level 2 inputs, and primarily valued using quoted market prices for similar instruments and nonbinding market prices that are corroborated by observable market data. The inputs and fair value are reviewed for reasonableness and may be further validated by comparison to publicly available information or compared to multiple independent valuation sources.

The carrying amounts of financial assets and liabilities reported in the accompanying consolidated balance sheets for cash and cash equivalents, cash held on behalf of others, other short-term investments, credit card transactions receivable, accounts receivable, advanced commissions, carriers and vendors payable, commissions payable, and accounts payable and accrued expenses as of March 31, 2013 and December 31, 2012 approximate fair value because of the short-term duration of these instruments.

### **Recent Accounting Pronouncements**

In December 2011, the FASB issued guidance which requires disclosures of both gross and net information about instrument and transactions eligible for offset as well as transactions subject to an agreement similar to a master netting agreement. We adopted this guidance effective as of January 1, 2013. As this guidance is limited to presentation only, adoption of this guidance did not have a material impact on our financial position or results of operations.

In July 2012, the FASB issued amended guidance relating to goodwill and other intangible assets, which permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with GAAP. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then no further action is required. We adopted this guidance effective as of January 1, 2013. Since this guidance only changes the manner in which we assess indefinite-lived intangible assets for impairment, adoption did not expected to have a material effect on our financial position or results of operations.

### **Legal and Other Contingencies**

We are a party to various legal actions incidental to our business. At this time, our management does not expect the results of any of the legal actions to be material to our financial position or results of operations.

### **ITEM 3— QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a smaller reporting company we are not required to provide the information required by this Item.

### **ITEM 4— CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

##### *Disclosure Controls and Procedures*

The Company has evaluated, under the supervision of the Company's principal executive officer and the principal financial officer, the effectiveness of its disclosure controls and procedures as of March 31, 2013. The term "disclosure controls and

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## [Table of Contents](#)

procedures” (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) means controls and other procedures of a company that are designed to ensure that information a company is required to disclose in reports that are filed or submitted under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) accumulated and communicated to a company’s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Based on this evaluation, the Company’s principal executive officer and principal financial officer concluded that the Company’s disclosure controls and procedures were not effective as of March 31, 2013, due to a material weakness (as defined under standards established by the Public Company Accounting Oversight Board) in the controls over the design and operation of the financial statement close process, which process impacts most of the Company’s significant accounts included in the financial statements. The deficiencies in the design and operation of the financial statement close process that resulted in the material weakness included the following:

- lack of a formal process for reviewing period-end cutoff of revenues and expenses to ensure amounts are captured in the period earned or incurred under the accrual basis of accounting;
- no process in place to ensure all expenses incurred during the period are accrued as of the month-end date, including expenses for which estimates are required;
- absence of a mechanism through which the accounting implications of significant, unusual or non-routine events and transactions are formally evaluated; and
- no process to ensure formally executed agreements regarding all significant arrangements with third parties and others are obtained.

As discussed below, we are taking steps to remedy this material weakness.

### **Changes in Internal Control Over Financial Reporting**

We are taking steps to address the material weakness described above by hiring additional personnel with technical accounting expertise, implementing improved procedures and controls and by implementing enhanced training for our finance and accounting personnel to familiarize them with our accounting policies. The material weakness will be ongoing until these controls are fully implemented, and we will not be able to confirm that we have remediated this material weakness until our newly implemented procedures have been working for a sufficient period of time.

If the remedial policies and procedures we implement and resources we hire are insufficient to address the identified material weakness, or if additional material weaknesses or significant deficiencies in our internal controls are discovered in the future, we may fail to meet our future reporting obligations, our financial statements may contain material misstatements and our operating results may be adversely affected.

Except for these changes in response to the material weakness identified above, there were no changes in the Company’s internal control over financial reporting during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## PART II—OTHER INFORMATION

### ITEM 1—LEGAL PROCEEDINGS

We are not currently a party to any material litigation proceedings. From time to time, however, we may be a party to litigation and subject to claims incident to the ordinary course of business. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

### ITEM 1A—RISK FACTORS

#### Risks Relating to Our Business and Industry

***The market for health insurance in the United States is rapidly evolving, which makes it difficult to forecast demand for our products.***

The market for health insurance in the United States is rapidly evolving. Accordingly, our future financial performance will depend in part on growth in this market and on our ability to adapt to emerging demands in this market. We believe demand for our products has been driven in large part by recent regulatory changes, broader use of the Internet and advances in technology. It is difficult to predict with any precision the future growth rate and size of our target market. The rapidly evolving nature of the market in which we operate, as well as other factors that are beyond our control, reduce our ability to evaluate accurately our long-term outlook and forecast annual performance. A reduction in demand for our products caused by lack of acceptance, technological challenges, competing offerings or other factors would result in a lower revenue growth rate or decreased revenue, either of which could negatively impact our business and results of operations. In addition, our business, financial condition and results of operations may be adversely affected if government regulations related to healthcare is not implemented in accordance with our expectations and we cannot successfully execute our growth strategies. For example, our STM plans are currently classified as “short-term limited duration” plans under the PPACA. Accordingly, “short-term limited duration” plans are exempt under PPACA from the minimum MLR thresholds and “must-carry” pre-existing conditions requirements, the requirements for the extension of dependent coverage, certain documentation, reporting and appeals process requirements and the prohibitions against excessive waiting periods, lifetime or annual limits, rescissions and more generally, discrimination against individuals and discrimination on the provision of health care. If our STM plans were no longer classified as short-term limited duration plans, or we were not able to take advantage of certain current exemptions for any other reason, our business could be negatively affected.

***If we are unable to retain our members, our business and results of operations would be harmed.***

Our revenue is primarily derived from commissions that insurance carriers pay to us for the health insurance plans and products that we market and that remain in effect. When one of these plans or products is cancelled, or if we otherwise do not remain the administrator of record on the policy, we no longer receive the related commission revenue. Members may choose to discontinue their insurance policies for a number of reasons. For example, members may determine that they cannot afford our products or may decide not to renew their policies due to future increases in premiums. In addition, our members may choose to purchase new plans or products using a different administrator if, for example, they are not satisfied with our customer service or the plans or products that we offer. Further, members may discontinue their policies because they no longer need STM insurance because, for example, they have received coverage through an employer or spouse. Insurance carriers may also terminate health insurance plans or products purchased by our members for a variety of reasons. Our cost in acquiring a new member is substantially greater than the cost involved in maintaining our relationship with an existing member. If we are not able to successfully retain existing members and limit member turnover, our revenue and operating margins could be adversely affected.

***Our business would be harmed if we lose our relationships with insurance carriers, fail to maintain good relationships with insurance carriers, become dependent upon a limited number of insurance carriers or fail to develop new relationships with insurance carriers.***

We typically enter into contractual agency relationships with insurance carriers that are non-exclusive and terminable on short notice by either party for any reason. In many cases, insurance carriers also have the ability to amend the terms of our agreements unilaterally on short notice. Insurance carriers may be unwilling to underwrite our health insurance plans or products or may amend our agreements with them for a variety of reasons, including for competitive or regulatory reasons. Insurance carriers may decide to rely on their own internal distribution channels, including traditional in-house agents, carrier websites or other sales channels, or to market their own plans or products, and, in turn, could limit or prohibit us from marketing their plans or products. Insurance carriers may decide not to underwrite insurance plans or products in the individual health insurance market in certain geographies or altogether. The termination or amendment of our relationship with an insurance carrier could reduce the variety of health insurance plans or products we offer. We also could lose a source of, or be

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## [Table of Contents](#)

paid reduced commissions for, future sales and could lose renewal commissions for past sales. Our business could also be harmed if we fail to develop new carrier relationships or are unable to offer members a wide variety of health insurance plans and products.

The private health insurance industry in the United States has experienced substantial consolidation over the past several years, resulting in a decrease in the number of insurance carriers. For example, for the three months ended March 31, 2013, Starr Indemnity & Liability Company accounted for 31% of our premium equivalents, United States Fire accounted for 25% of our premium equivalents, and Companion Life accounted for 33% of our premium equivalents. In the future, it may become necessary for us to offer insurance plans and products from a reduced number of insurance carriers or to derive a greater portion of our revenue from a more concentrated number of carriers as our business and the health insurance industry evolve. Each of these insurance carriers may terminate our agreements with them, and, in some cases, as a result of the termination we may lose our right to receive future commissions for policies we have sold. In addition, one or more of our carrier companies could experience a failure of its business due to a decline in sales volumes, unavailability of reinsurance, failure of business strategy or otherwise. Should our dependence on a smaller number of insurance carriers increase, whether as a result of the termination of carrier relationships, further insurance carrier consolidation, business failure, bankruptcy or any other reason, we may become more vulnerable to adverse changes in our relationships with our carriers, particularly in states where we offer health insurance plans and products from a relatively small number of carriers or where a small number of insurance carriers dominate the market. The termination, amendment or consolidation of our relationships with our insurance carriers could harm our business, results of operations and financial condition.

***Our business would be harmed if we lose our relationships with distributors, fail to maintain good relationships with distributors, become dependent upon a limited number of distributors or fail to develop new relationships with distributors.***

We depend on distributors to sell our products. We typically enter into contractual agency relationships with distributors that are non-exclusive and terminable on short notice by either party for any reason. In many cases, distributors also have the ability to amend the terms of our agreements unilaterally on short notice. Distributors may be unwilling to sell our health insurance plans or products or may amend our agreements with them for a variety of reasons, including for competitive or regulatory reasons. For example, distributors may decide to sell plans and products that bring them a higher commission than our plans and products or may decide not to sell STM plans at all. Because we rely on a diverse distributor network to sell our products, any loss of relationships with distributors or failure to maintain good relationships with distributors could harm our business, results of operations and financial condition. Further, we believe that we must grow our distributor network in order to achieve our growth plans. If we are unable to grow our distributor network and develop new relationships with distributors, our revenue could be adversely impacted.

***We depend on relationships with third-parties for certain services that are important to our business. An interruption or cessation of such services by any third party could have a material adverse effect on our business.***

We depend on a number of third-party relationships to enhance our business. For instance, state regulations may require that individuals enroll in group programs or associations in order to access certain insurance products, benefits and services. We have entered into relationships with such associations in order to provide individuals access to our products. For example, we have an agreement with Med-Sense Guaranteed Association, or Med-Sense, a non-profit association that provides membership benefits to individuals and gives members access to certain of our products. Under the agreement, we primarily market membership in the association and collect certain fees and dues on its behalf. In return, we have sole access to its membership list, and Med-Sense exclusively endorses the insurance products that we offer. Members of the association are given access to a wide variety of our products that are otherwise unavailable to non-members. For the year ended December 31, 2012, approximately 80.9% of our business was derived from individuals who became members of Med-Sense. We intend to establish an affiliation with Savers Choice of America, an association offering similar benefits, as an alternative to Med-Sense. We intend to have several of our carriers issue policies to Savers Choice of America members beginning in the first half of 2013. While we believe we could replace Med-Sense with other group programs or associations, there can be no assurance we could find such a replacement on a timely basis or at all. If we were to lose our relationship with Med-Sense and were unable to find another group program or association on a timely basis or at all, this would have a material adverse effect on our business.

In addition, we develop and maintain strategic relationships with our partners in order for them to market our products to their end users. While we have entered into agreements with certain partners pursuant to which our products may be made available to their end-users, such agreements are not exclusive and generally do not obligate the partner to market or distribute our service. For example, we have entered into an agreement with MasterCard whereby MasterCard, through its approved pre-paid card member networks, will assist us in targeting and acquiring new leads for marketing our products. Under such agreement, MasterCard will use good-faith efforts to identify prospective leads.

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## [Table of Contents](#)

Our ability to offer our services and operate our business is therefore dependent on maintaining our relationships with third-party partners, particularly Med-Sense, and entering into new relationships to meet the changing needs of our business. Any deterioration in our relationships with such partners, or our failure to enter into agreements with partners in the future would harm our business, results of operations and financial condition. If our partners are unable or unwilling to provide the services necessary to support our business, or if our agreements with such partners are terminated, our operations could be significantly disrupted. We may also incur substantial costs, delays and disruptions to our business in transitioning such services to ourselves or other third-party partners. In addition, third-party partners may not be able to provide the services required in order to meet the changing needs of our business.

***Insurance carriers could reduce the commissions paid to us or change their plan pricing practices in ways that reduce the commissions paid to us, which could harm our revenue and results of operations.***

Our commission rates are negotiated between us and each carrier. Insurance carriers have altered, and may in the future alter, the contractual relationships we have with them, either by renegotiation or unilateral action. Also, insurance carriers may adjust their commission rates to comply with regulatory guidelines. If these contractual changes result in reduced commissions, our revenue may decline. For example, on June 1, 2011, we entered into a new contract with Starr Indemnity & Liability Company which replaced a previous contract with Starr Global Accident and Health Insurance Agency, LLC to provide similar services for slightly lower commission rates. The reduced commissions had no material impact on our revenue or results of operations, however, as the contract also provided for additional administrative fees paid to us to offset the lower commission rates.

In addition, insurance carriers periodically adjust the premiums they charge to individuals for their insurance policies. These premium changes may cause members to cancel their existing policies and purchase a replacement policy from a different insurance carrier, either through our platform or through another administrator. We may receive a reduced commission or no commission at all when a member purchases a replacement policy. Also, because insurance rates may vary between insurance carriers, plans and enrollment dates, changes in our enrollment mix may impact our commission revenue. Future changes in carrier pricing practices could harm our business, results of operations and financial condition.

***We face intense competition and compete with a broad range of market participants within the health insurance industry. If competition increases, our growth and profits may decline.***

The market for selling individual health insurance and ancillary products is highly competitive and, except for regulatory considerations, there are limited barriers to entry. Currently, we believe the cost-effective, high-quality STM solutions that we distribute to the individual health insurance market are somewhat rare among our competitors. However, if we achieve our goal of becoming a leader in the distribution of individual health insurance products, we believe that competition for our business model will substantially increase. Because the barriers to entry in our markets are not substantial and members have the flexibility to select new health insurance providers, we believe that the addition of new competitors, or the adoption of our business model by existing competitors, may occur relatively quickly.

We compete with entities and individuals that offer and sell products similar to ours utilizing traditional distribution channels, including insurance agents and brokers across the United States who sell health insurance products in their communities. Some local agents use “lead aggregator” services that use the Internet to find individuals interested in purchasing health insurance and are compensated for referring those individuals to a traditional insurance agent. In addition to health insurance brokers and agents, many insurance carriers directly market and sell their plans and products to individuals through call centers and their own websites. Although we offer health insurance plans and products for many of these insurance carriers, they also compete with us by offering their plans and products directly to individuals or may elect to compete with us by offering their plans and products directly to individuals in the future. We may not be able to compete successfully against our current or future competitors. Some of our current and potential competitors have longer operating histories in the health insurance industry, access to larger customer bases, greater name recognition and significantly greater financial, technical, marketing and other resources than we do. As compared to us, our current and future competitors may be able to:

- undertake more extensive marketing campaigns for their brands and services;
- devote more resources to website and systems development;
- negotiate more favorable commission rates; and
- better attract potential employees, marketing partners and third-party service providers.

Further, there are many alternatives to the individual health insurance products that we currently provide. We can make no assurances that we will be able to compete effectively with the various individual health insurance products that are currently available or may become available in the future. Competitive pressures may result in our experiencing increased marketing costs and loss of market share, or may otherwise harm our business, results of operations and financial condition.

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## [Table of Contents](#)

### ***Changes and developments in the health insurance system in the United States, in particular the implementation of Healthcare Reform, could harm our business.***

Our business depends upon the private sector of the U.S. insurance system, its role in financing healthcare delivery, and insurance carriers' use of, and payment of commissions to, agents, brokers and other organizations to market and sell health insurance plans and products.

Healthcare Reform contains provisions that have changed and will continue to change the industry in which we operate in substantial ways. Many aspects of Healthcare Reform do not take effect until 2014, although certain provisions currently are effective, such as medical loss ratio requirements for individual, family and small business health insurance and a prohibition against using pre-existing health conditions as a reason to deny health coverage for children. In addition, state governments have adopted, and will continue to adopt, changes to their existing laws and regulations in light of Healthcare Reform and related regulations. Future changes may not be beneficial to us.

Notwithstanding the recent U.S. Supreme Court decision largely upholding the constitutionality of Healthcare Reform, certain key members of Congress have expressed a desire to withhold the funding necessary to implement Healthcare Reform as well as the desire to repeal or amend all or a portion of Healthcare Reform. Any partial or complete repeal or amendment or implementation difficulties, or uncertainty regarding such events, could increase our costs of compliance and adversely affect our results of operations and financial condition. The implementation of Healthcare Reform could have negative effects on us, including:

- increasing our competition;
- reducing or eliminating the need for health insurance agents and brokers and/or demand for the health insurance that we sell through the manner in which the federal government and the states implement health insurance exchanges and the process for receiving subsidies and cost-sharing credits;
- decreasing the number of types of health insurance plans and products that we sell, as well as the number of insurance carriers offering such plans and products;
- causing insurance carriers to change the benefits and/or premiums for the plans and products they sell;
- causing insurance carriers to reduce the amount they pay for our services or change their relationships with us in other ways;
- causing STM policies to be subject to MLR threshold requirements; or
- causing STM policies to be subject to "must carry" pre-existing condition requirements.

Any of these effects could materially harm our business, results of operations and financial condition. For example, the manner in which the federal government and the states implement Healthcare Reform could substantially increase our competition and member turnover and substantially reduce the number of individuals who purchase insurance through us. Various aspects of Healthcare Reform could cause insurance carriers to limit the type of health insurance plans and products we are able to sell and the geographies in which we are able to sell them. Changes in the law could also cause insurance carriers to exit the business of selling insurance plans and products in a particular jurisdiction, to eliminate certain categories of products or to attempt to move members into new plans and products for which we receive lower commissions. If insurance carriers decide to limit our ability to sell their plans and products or determine not to sell individual health insurance plans and products altogether, our business, results of operations and financial condition would be materially harmed.

Based upon our understanding of the Health Reform rules, many of the health insurance products that we sell will not be deemed qualified insurance policies under the PPACA requirements. These requirements impose a penalty upon individuals and families that do not purchase qualified policies. However, based upon industry sources and our own analysis, we believe that the cost of the insurance policies that we sell, together with any penalties that individuals or families may be required to pay, will be less than the cost of the guaranteed-issue health insurance policies that will be available through health exchanges established in accordance with PPACA.

### ***Compliance with the strict regulatory environment applicable to the health insurance industry and the specific products we sell is difficult and costly. If we fail to comply with the numerous laws and regulations that are applicable to our business, our business and results of operations would be harmed.***

The health insurance industry is heavily regulated by each state in the United States. For instance, state regulators require us to maintain a valid license in each state in which we transact health insurance business and further require that we adhere to sales, documentation and administration practices specific to each state. In addition, each distributor who transacts health insurance business on our behalf must maintain a valid license in one or more states. Because we do business in the majority of states and the District of Columbia, compliance with health insurance-related laws, rules and regulations is difficult and imposes significant costs on our business. Each jurisdiction's insurance department typically has the power, among other things, to:

- grant and revoke licenses to transact insurance business;
- conduct inquiries into the insurance-related activities and conduct of agents and agencies;
- require and regulate disclosure in connection with the sale and solicitation of health insurance;

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## [Table of Contents](#)

- authorize how, by which personnel and under what circumstances insurance premiums can be quoted and published and an insurance policy sold;
- determine which entities can be paid commissions from carriers;
- regulate the content of insurance-related advertisements, including web pages;
- approve policy forms, require specific benefits and benefit levels and regulate premium rates;
- impose fines and other penalties; and
- impose continuing education requirements on agents and employees.

Although we believe we are currently in compliance with applicable insurance laws and regulations, due to the complexity, periodic modification and differing interpretations of insurance laws and regulations, we may not have always been, and we may not always be, in compliance with such laws and regulations. Failure to comply could result in significant liability, additional department of insurance licensing requirements or the revocation of licenses in a particular jurisdiction, which could significantly reduce our revenue, increase our operating expenses, prevent us from transacting health insurance business in a particular jurisdiction and otherwise harm our business, results of operations and financial condition. Moreover, an adverse regulatory action in one jurisdiction could result in penalties and adversely affect our license status or reputation in other jurisdictions due to the requirement that adverse regulatory actions in one jurisdiction be reported to other jurisdictions. Even if the allegations in any regulatory or other action against us are proven false, any surrounding negative publicity could harm member, distributor or health insurance carrier confidence in us, which could significantly damage our reputation. Because some members, distributors and health insurance carriers may not be comfortable with the concept of purchasing health insurance using the Internet, any negative publicity may affect us more than it would others in the health insurance industry and would harm our business, results of operations and financial condition.

In addition, we may in the future receive inquiries from state insurance regulators regarding our marketing and business practices. We may modify our practices in connection with any such inquiry. Any modification of our marketing or business practices in response to future regulatory inquiries could harm our business, results of operations or financial condition.

***Regulation of the sale of health insurance is subject to change, and future regulations could harm our business and results of operations.***

The laws and regulations governing the offer, sale and purchase of health insurance are subject to change, and future changes may be adverse to our business. For example, once health insurance pricing is set by the carrier and approved by state regulators, it is fixed and not generally subject to negotiation or discounting by insurance companies or agents. Additionally, state regulations generally prohibit carriers, agents and brokers from providing financial incentives, such as rebates, to their members in connection with the sale of health insurance. As a result, we do not currently compete with carriers or other agents and brokers on the price of the health insurance products offered on our website. We are also currently allowed to base our revenue structure on various commissions and fees, including commissions from insurance premiums and enrollment, monthly administrative fees and discount benefit fees. However, future laws and regulations could negatively adjust the commissions and fees we receive. If current laws or regulations change, we could be forced to reduce prices, commissions and fees or provide rebates or other incentives for the health insurance products sold through our online platform, which would harm our business, results of operations and financial condition.

Because we use the Internet as our distribution platform, we are subject to additional insurance regulatory risks. In many cases, it is not clear how existing insurance laws and regulations apply to Internet-related health insurance advertisements and transactions. To the extent that new laws or regulations are adopted that conflict with the way we conduct our business, or to the extent that existing laws and regulations are interpreted adversely to us, our business, results of operations and financial condition would be harmed.

***Our business may not grow if individuals are not informed about the availability and accessibility of affordable health insurance.***

Numerous health insurance plans and products are available to individuals in any given market. Most of these plans and products vary by price, benefits and other policy features. Health insurance terminology and provisions are often confusing and difficult to understand. As a result, researching, selecting and purchasing health insurance can be a complex process. We believe that this complexity has contributed to a perception held by many individuals that individual health insurance is prohibitively expensive and difficult to obtain. If individuals are not informed about the availability and accessibility of affordable health insurance, our business may not grow and our results of operations and financial condition would be harmed.

***Changes in the quality and affordability of the health insurance plans and products that carriers offer to us for sale through our technology platform could harm our business and results of operations.***

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## [Table of Contents](#)

The demand for health insurance marketed through our technology platform is affected by, among other things, the variety, quality and price of the health insurance plans and products we offer. If health insurance carriers do not continue to allow us to sell a variety of high-quality, affordable health insurance plans and products in our markets, or if their offerings are limited or terminated as a result of consolidation in the health insurance industry, the implementation of Healthcare Reform or otherwise, our sales may decrease and our business, results of operations and financial condition would be harmed.

***If we are not able to maintain and enhance our name recognition, our business and results of operations will be harmed.***

We believe that maintaining and enhancing our name recognition is critical to our relationships with existing members, distributors and carriers and to our ability to attract new members, distributors and carriers. The promotion of our name may require us to make substantial investments and we anticipate that, as our market becomes increasingly competitive, these marketing initiatives may become increasingly difficult and expensive. Our marketing activities may not be successful or yield increased revenue, and to the extent that these activities yield increased revenue, the increased revenue may not offset the expenses we incur and our results of operations could be harmed. If we do not successfully maintain and enhance our name recognition, our business may not grow and we could lose our relationships with carriers, distributors and/or members, which would harm our business, results of operations and financial condition.

In addition, we cannot be certain of the impact of media coverage on our business. If it were to be reduced, the number of distributors selling our products could decrease, and our cost of acquiring members could increase, both of which could harm our business, results of operations and financial condition.

***If individuals or carriers opt for more traditional or alternative channels for the purchase and sale of health insurance, our business will be harmed.***

Our success depends in part upon widespread individual and carrier acceptance of the Internet as a marketplace for the purchase and sale of health insurance. Individuals and carriers may choose to depend more on traditional sources, such as individual agents, or alternative sources may develop, including as a result of Healthcare Reform. Our future growth, if any, will depend in part upon:

- the growth of the Internet as a commerce medium generally, and as a market for individual health insurance plans and services specifically;
- individuals' willingness to conduct their own health insurance research;
- our ability to make the process of purchasing health insurance online an attractive alternative to traditional and new means of purchasing health insurance;
- our ability to successfully and cost-effectively market our services as superior to traditional or alternative sources for health insurance to a sufficiently large number of individuals; and
- carriers' willingness to use us and the Internet as a distribution channel for health insurance plans and products.

If individuals and carriers determine that other sources of health insurance and health insurance applications are superior, our business will not grow and our results of operations and financial condition would be harmed.

***Any legal liability, regulatory penalties, or negative publicity for the information on our platform or that we otherwise distribute or provide will likely harm our business and results of operations.***

We provide information on our platform, through our call center partners and in other ways regarding health insurance in general and the health insurance plans and products we market and sell, including information relating to insurance premiums, coverage, benefits, provider networks, exclusions, limitations, availability, plan comparisons and insurance company ratings. A significant amount of both automated and manual effort is required to maintain the considerable amount of insurance plan information on our platform. We also regularly provide health insurance plan information in the scripts used by our customer call center partners. If the information we provide on our platform, through our customer call center partners or otherwise is not accurate or is construed as misleading, or if we do not properly assist individuals and businesses in purchasing health insurance, members, carriers and others could attempt to hold us liable for damages, our relationships with carriers could be terminated and regulators could attempt to subject us to penalties, revoke our licenses to transact health insurance business in a particular jurisdiction, and/or compromise the status of our licenses to transact health insurance business in other jurisdictions, which could result in our loss of our commission revenue. In the ordinary course of operating our business, we have received complaints that the information we provided was not accurate or was misleading. Although in the past we have resolved these complaints without significant financial cost, we cannot guarantee that we will be able to do so in the future. In addition, these types of claims could be time-consuming and expensive to defend, could divert our management's attention and other resources and could cause a loss of confidence in our services. As a result, these claims could harm our business, results of operations and financial condition.

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## [Table of Contents](#)

In the ordinary course of our business, we may receive inquiries from state regulators relating to various matters. We may in the future become involved in litigation in the ordinary course of our business. If we are found to have violated laws or regulations, we could lose our relationship with carriers and be subject to various fines and penalties, including revocation of our licenses to sell insurance, and our business, results of operations and financial condition would be materially harmed. We would also be harmed to the extent that related publicity damages our reputation as a trusted source of information relating to health insurance and its affordability. It could also be costly to defend ourselves regardless of the outcome. As a result, inquiries from regulators or our becoming involved in litigation could adversely affect our business, results of operations and financial condition.

***If we do not continue to attract new individual customers, we may not achieve our revenue projections, and our results of operations would be harmed.***

In order to grow our business, we must continually attract new distributors and individual customers. Our ability to do so depends in large part on the success of our sales and marketing efforts. Potential individual customers may seek out other options for purchasing insurance. Therefore, we must demonstrate that our products provide a viable solution for individual customers to obtain high quality coverage at an attractive price and provide a valuable business opportunity to our distributors. If we fail to provide high quality solutions and convince individual customers and distributors of our value proposition, we may not be able to retain existing customers or attract new individual customers. Additionally, there is no guarantee that the market for our services will grow as we expect. If the market for our services declines or develops more slowly than we expect, or if the number of individual customers or distributors that use our solutions declines or fails to increase as we expect, our revenue, results of operations, financial condition, business and prospects could be harmed.

***Advanced commission arrangements between us and some of our distributors expose us to the credit risks of such distributors and may increase our costs and expenses, which could in turn have an adverse effect on our business, financial condition, and results of operations.***

We make advanced commission payments to some of our licensed distributors in order to assist them with the cost of lead acquisition. As of March 31, 2013, we had a prepayment balance for advanced commissions of approximately \$539,000 under such contracts. Part of our strategy is to expand the practice of paying advanced commissions, so we expect such balance to increase significantly in the future. In all such cases where we make advanced commission payments, we receive collateral and personal guarantees. At a minimum, our collateral includes a claim against all future compensation owed to the distributor for all products sold. As a result, our claims for such payments would rank as secured claims. Depending on the amount of future compensation owed to the distributor, we could be exposed to the credit risks of our distributors in the event of their insolvency or bankruptcy. Where the amount owed to us exceeds the value of the collateral, our claims against the defaulting distributors would rank below those of other secured creditors, which would undermine our chances of obtaining the return of our advance commission payments. We may not be able to recover such advanced payments and we may suffer losses should the distributors fail to fulfill their sales obligations under the contracts. Accordingly, any of the above scenarios could harm our business, results of operations and financial condition.

***Seasonality may cause fluctuations in our financial results.***

The number of member enrollments through our technology platform has generally increased in our third fiscal quarter. Conversely, we have generally experienced a decline in member enrollments in our fourth fiscal quarter. Although we believe that these trends may be influenced by an increase in new enrollments of college graduates in the third quarter and a decrease in new enrollments due to call center closures and reduced operating hours in the fourth quarter, we believe that the sale of health insurance plans and products through the Internet is still in its early stages, and, therefore, the reasons for these seasonal patterns are not entirely apparent. As the use of the Internet for the purchase and sale of health insurance becomes more widely accepted, other seasonality trends may develop and the existing seasonality and member behavior that we experience may change. Any seasonality that we experience may cause fluctuations in our financial results.

***If we are unable to successfully introduce new technology solutions or services or fail to keep pace with advances in technology, our business, financial condition and results of operations will be adversely affected.***

Our business depends on our ability to adapt to evolving technologies and industry standards and introduce new technology solutions and services accordingly. If we cannot adapt to changing technologies, our technology solutions and services may become obsolete, and our business would suffer. Because the healthcare insurance market is constantly evolving, our existing technology may become obsolete and fail to meet the requirements of current and potential members. Our success will depend, in part, on our ability to continue to enhance our existing technology solutions and services, develop new technology that addresses the increasingly sophisticated and varied needs of our members and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. The development of our online platform entails significant technical and business risks. We may not be successful in developing, using, marketing, or

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## [Table of Contents](#)

maintaining new technologies effectively or adapting our technology to evolving customer requirements or emerging industry standards, and, as a result, our business and reputation could suffer. We may not be able to introduce new technology solutions on schedule, or at all, or such solutions may not achieve market acceptance. We also engage third-party vendors to develop, maintain and enhance our technology solutions, and our ability to develop and implement new technologies is therefore dependent on our ability to engage suitable vendors. We may also need to license software or technology from third parties in order to maintain, expand or modify our technology platform. However, there is no guarantee we will be able to enter into such agreements on acceptable terms or at all. Moreover, competitors may develop competitive products that could adversely affect our results of operations. A failure by us to introduce new solutions or to introduce these solutions on schedule could have an adverse effect on our business, financial condition and results of operations.

***Our failure to obtain, maintain and enforce the intellectual property rights on which our business depends could have a material adverse effect on our business, financial condition and results of operations.***

We rely upon intellectual property laws in the United States, and non-disclosure, confidentiality and other types of agreements with our employees, members and other parties, to establish, maintain and enforce our intellectual property and proprietary rights. However, any of our owned or licensed intellectual property rights could be challenged, invalidated, circumvented, infringed or misappropriated, our trade secrets and other confidential information could be disclosed in an unauthorized manner to third-parties, or our intellectual property rights may not be sufficient to permit us to take advantage of current market trends or otherwise to provide us with competitive advantages, which could result in costly redesign efforts, discontinuance of certain offerings or other competitive harm. Efforts to enforce our intellectual property rights may be time consuming and costly, distract management's attention and resources and ultimately be unsuccessful. In addition, such efforts may result in our intellectual property rights being challenged, limited in scope, or declared invalid or unenforceable. Moreover, our failure to develop and properly manage new intellectual property could adversely affect our market positions and business opportunities.

We may not be able to obtain, maintain and enforce the intellectual property rights that may be necessary to protect and grow our business and to provide us with a meaningful competitive advantage. Also, some of our business and services may rely on technologies and software developed by or licensed from third-parties, and we may not be able to maintain our relationships with such third-parties or enter into similar relationships in the future on reasonable terms or at all. Our failure to obtain, maintain and enforce our intellectual property rights could therefore have a material adverse effect on our business, financial condition and results of operations.

***Assertions by third-parties that we violate their intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.***

Third-parties may claim that we, our members, our licensees or parties indemnified by us are infringing upon or otherwise violating their intellectual property rights. Such claims may be made by competitors seeking to obtain a competitive advantage or by other parties. Additionally, in recent years, individuals and groups have begun purchasing intellectual property assets for the purpose of making claims of infringement and attempting to extract settlements from companies like ours. Any claims that we violate a third-party's intellectual property rights can be time consuming and costly to defend and distract management's attention and resources, even if the claims are without merit. Such claims may also require us to redesign affected products and services, enter into costly settlement or license agreements or pay costly damage awards, or face a temporary or permanent injunction prohibiting us from marketing or providing the affected products and services. Even if we have an agreement to indemnify us against such costs, the indemnifying party may be unable to uphold its contractual obligations. If we cannot or do not license the infringed technology at all, license the technology on reasonable terms or substitute similar technology from another source, our revenue and earnings could be adversely impacted.

In addition, we may use open source software in connection with our products and services. Companies that incorporate open source software into their products have, from time to time, faced claims challenging the ownership of open source software and/or compliance with open source license terms. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software or noncompliance with open source licensing terms. Some open source software licenses require users who distribute open source software as part of their software to publicly disclose all or part of the source code to such software and/or make available any derivative works of the open source code on unfavorable terms or at no cost. Any requirement to disclose our proprietary source code or pay damages for breach of contract could have a material adverse effect on our business, financial condition and results of operations.

Assertions by third-parties that we violate their intellectual property rights could therefore have a material adverse effect on our business, financial condition and results of operations.

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## [Table of Contents](#)

### ***If we fail to effectively manage our growth, our business and results of operations could be harmed.***

We have expanded our operations significantly since 2008. This has increased the significant demands on our management, our operational and financial systems and infrastructure and other resources. If we do not effectively manage our growth, the quality of our services could suffer. In order to successfully expand our business, we must effectively integrate, develop and motivate new employees, and we must maintain the beneficial aspects of our corporate culture. We may not be able to hire new employees quickly enough to meet our needs. If we fail to effectively manage our hiring needs and successfully integrate our new hires, our efficiency and ability to meet our forecasts and our employee morale, productivity and retention could suffer, and our business and results of operations could be harmed. We also need to continue to improve our existing systems for operational and financial management, including our reporting systems, procedures and controls. These improvements could require significant capital expenditures and place increasing demands on our management. We may not be successful in managing or expanding our operations or in maintaining adequate financial and operating systems and controls. If we do not successfully manage these processes, our business and results of operations will be harmed.

### ***If we are unable to maintain a high level of service, our business and prospects may be harmed.***

One of the key attributes of our business is providing high quality service to our carriers, distributors and members. We may be unable to sustain these levels of service, which would harm our reputation and our business. Alternatively, we may only be able to sustain high levels of service by significantly increasing our operating costs, which would materially adversely affect our results of operations. The level of service we are able to provide depends on our personnel to a significant extent. Our personnel must be well-trained in our processes and able to handle customer calls effectively and efficiently. Any inability of our personnel to meet our demand, whether due to absenteeism, training, turnover, disruptions at our facilities, bad weather, power outages or other reasons, could adversely impact our business. If we are unable to maintain high levels of service performance, our reputation could suffer and our results of operations and prospects would be harmed.

### ***We are subject to privacy and data protection laws governing the transmission, security and privacy of health information, which may impose restrictions on the manner in which we access personal data and subject us to penalties if we are unable to fully comply with such laws.***

Numerous federal, state and international laws and regulations govern the collection, use, disclosure, storage and transmission of individually identifiable health information. These laws and regulations, including their interpretation by governmental agencies, are subject to frequent change. These regulations could have a negative impact on our business, for example:

- HIPAA and its implementing regulations were enacted to ensure that employees can retain and at times transfer their health insurance when they change jobs, and to simplify healthcare administrative processes. The enactment of HIPAA also expanded protection of the privacy and security of personal health information and required the adoption of standards for the exchange of electronic health information. Among the standards that the Department of Health and Human Services has adopted pursuant to HIPAA are standards for electronic transactions and code sets, unique identifiers for providers, employers, health plans and individuals, security, electronic signatures, privacy and enforcement. Failure to comply with HIPAA could result in fines and penalties that could have a material adverse effect on us.
- The HITECH Act, enacted as part of the American Recovery and Reinvestment Act of 2009, also known as the “Stimulus Bill,” effective February 22, 2010, sets forth health information security breach notification requirements and increased penalties for violation of HIPAA. The HITECH Act requires individual notification for all breaches, media notification of breaches of over 500 individuals and at least annual reporting of all breaches to the Department of Health and Human Services. The HITECH Act also replaced the prior penalty system of one tier of penalties of \$100 per violation and an annual maximum of \$25,000 with a four-tier system of sanctions for breaches. Penalties now range from the original \$100 per violation and an annual maximum of \$25,000 for the first tier to a fourth-tier minimum of \$50,000 per violation and an annual maximum of \$1.5 million. Failure to comply with the HITECH Act could result in fines and penalties that could have a material adverse effect on us.
- Other federal and state laws restricting the use and protecting the privacy and security of individually identifiable information may apply, many of which are not preempted by HIPAA.
- Federal and state consumer protection laws are increasingly being applied by the United States Federal Trade Commission, or FTC, and states’ attorneys general to regulate the collection, use, storage and disclosure of personal or individually identifiable information, through websites or otherwise, and to regulate the presentation of website content.

We are required to comply with federal and state laws governing the transmission, security and privacy of individually identifiable health information that we may obtain or have access to in connection with the provision of our services. Despite

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## [Table of Contents](#)

the security measures that we have in place to ensure compliance with privacy and data protection laws, our facilities and systems, and those of our third-party vendors and subcontractors, are vulnerable to security breaches, acts of vandalism or theft, computer viruses, misplaced or lost data, programming and human errors or other similar events. Due to the recent enactment of the HITECH Act, we are not able to predict the extent of the impact such incidents may have on our business. Our failure to comply may result in criminal and civil liability because the potential for enforcement action against business associates is now greater. Enforcement actions against us could be costly and could interrupt regular operations, which may adversely affect our business. While we have not received any notices of violation of the applicable privacy and data protection laws and believe we are in compliance with such laws, there can be no assurance that we will not receive such notices in the future.

Under the HITECH Act, as a business associate we may also be liable for privacy and security breaches and failures of our subcontractors. Even though we provide for appropriate protections through our agreements with our subcontractors, we still have limited control over their actions and practices. A breach of privacy or security of individually identifiable health information by a subcontractor may result in an enforcement action, including criminal and civil liability, against us. In addition, numerous other federal and state laws protect the confidentiality of individually identifiable information as well as employee personal information, including state medical privacy laws, state social security number protection laws, and federal and state consumer protection laws. These various laws in many cases are not preempted by HIPAA and may be subject to varying interpretations by the courts and government agencies, creating complex compliance issues for us and our members and potentially exposing us to additional expense, adverse publicity and liability, any of which could adversely affect our business.

***Our business is subject to online security risks, and if we are unable to safeguard the security and privacy of confidential data, our reputation and business will be harmed.***

Our services involve the collection and storage of confidential information of members and the transmission of this information to carriers. For example, we collect names, addresses, social security, bank account and credit card numbers, and information regarding the medical history of members in connection with their applications for insurance. In certain cases such information is provided to third-parties, for example to the service providers who provide hosting services for our technology platform, and we may therefore be unable to control the use of such information or the security protections employed by such third-parties. We may be required to expend significant capital and other resources to protect against security breaches or to alleviate problems caused by security breaches. Despite our implementation of security measures, techniques used to obtain unauthorized access or to sabotage systems change frequently. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any compromise or perceived compromise of our security (or the security of our third-party service providers who have access to our members' confidential information) could damage our reputation and our relationship with our members, distributors and carriers, could reduce demand for our services and could subject us to significant liability as well as regulatory action. In addition, in the event that new data security laws are implemented, or our carrier or other partners determine to impose new requirements on us relating to data security, we may not be able to timely comply with such requirements, or such requirements may not be compatible with our current processes. Changing our processes could be time consuming and expensive, and failure to timely implement required changes could result in our inability to sell health insurance plans and products in a particular jurisdiction or for a particular carrier, or subject us to liability for non-compliance.

***Our services present the potential for embezzlement, identity theft or other similar illegal behavior by our employees or subcontractors with respect to third-parties.***

Among other things, our services involve handling information from members, including credit card information and bank account information. Our services also involve the use and disclosure of personal information that could be used to impersonate third-parties or otherwise gain access to their data or funds. If any of our employees or subcontractors takes, converts or misuses such funds, documents or data, we could be liable for damages, and our business reputation could be damaged. In addition, we could be perceived to have facilitated or participated in illegal misappropriation of funds, documents or data and therefore be subject to civil or criminal liability. Any such illegal activity by our employees or subcontractors could have an adverse effect on our business, financial condition and results of operations.

***System failures or capacity constraints could harm our business and results of operations.***

The performance, reliability and availability of our technology platform, customer service call center and underlying network infrastructures are critical to our financial results and our relationship with members, distributors and insurance carriers. Although we regularly attempt to enhance and maintain our technology platform, customer service call center and system infrastructure, system failures and interruptions may occur if we are unsuccessful in these efforts or experience difficulties with transitioning existing systems to upgraded systems, if we are unable to accurately project the rate or timing of increases in our platform traffic or customer service call center call volume or for other reasons, some of which are completely outside our control. Significant failures and interruptions, particularly during peak enrollment periods, could harm our business, results of operations and financial condition.

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## [Table of Contents](#)

We rely in part upon third-party vendors, including data center and bandwidth providers, to operate and maintain our technology platform. We cannot predict whether additional network capacity will be available from these vendors as we need it, and our network or our suppliers' networks might be unable to achieve or maintain a sufficiently high capacity of data transmission to allow us to process health insurance applications in a timely manner or effectively download data, especially if our platform traffic increases. Any system failure that causes an interruption in, or decreases the responsiveness of, our services could impair our revenue-generating capabilities, harm our image and subject us to potential liability. Our database and systems are vulnerable to damage or interruption from human error, earthquakes, fire, floods, power loss, telecommunications failures, physical or electronic break-ins, computer viruses, acts of terrorism, other attempts to harm our systems and similar events.

We depend upon third-parties, including telephone service providers and third-party software providers, to operate our customer service call center. Any failure of the systems upon which we rely in the operation of our customer service call center could negatively impact sales as well as our relationship with members, which could harm our business, results of operations and financial condition.

***We rely on third-party vendors to develop, host, maintain, service and enhance our technology platform.***

We rely on third-party vendors to develop, host, maintain, support and enhance our technology platform. In particular, we are party to an agreement with BimSym pursuant to which BimSym provides various professional services relating to our A.R.I.E.S. technology platform, including hosting, support, maintenance and development services. Our ability to offer our services and operate our business is therefore dependent on maintaining our relationships with third-party vendors, particularly BimSym, and entering into new relationships to meet the changing needs of our business. Any deterioration in our relationships with such vendors, or our failure to enter into agreements with vendors in the future would harm our business, results of operations and financial condition. If our vendors are unable or unwilling to provide the services necessary to support our business, or if our agreements with such vendors are terminated, our operations could be significantly disrupted. We may also incur substantial costs, delays and disruptions to our business in transitioning such services to ourselves or other third-party vendors. In addition, third-party vendors may not be able to provide the services required in order to meet the changing needs of our business.

***Carriers and distributors depend upon third-party service providers to access our online platform, and our business and results of operations could be harmed as a result of technical difficulties experienced by these service providers.***

Carriers and distributors using our online platform depend upon Internet and other service providers for access to our platform. Many of these service providers have experienced significant outages, delays and other difficulties in the past and could experience them in the future. Any significant interruption in access to our technology platform or increase in our platform's response time as a result of these difficulties could damage our relationship with carriers, distributors and existing and potential members and could harm our business, results of operations and financial condition.

***Economic conditions and other factors beyond our control may negatively impact our business, results of operations and financial condition.***

Our revenue depends upon demand for our insurance products, which can be influenced by a variety of factors beyond our control. We have no control over the economic and other factors that influence such demand. We cannot be certain of the future impact that the recent recession will have on our business. A further softening of demand for our products and the services offered by us, whether caused by changes in individual preferences or the regulated environment in which we operate, or by a weak economy, including as a result of recent disruptions in the global financial markets or a decrease in general consumer confidence, will result in decreased revenue and growth. Members may attempt to reduce expenses by canceling existing plans and products purchased through us, not purchasing new plans and products through us or purchasing plans with lower premiums for which we receive lower commissions. A continuing negative economic environment could also adversely impact the carriers whose plans and products are offered on our platform, and they may, among other things, determine to reduce their commission rates, increase premiums or reduce benefits, any of which could negatively impact our business, results of operations and financial condition.

To the extent the economy or other factors adversely impact our member retention, the number or type of insurance applications submitted through us and that are approved by carriers, or the commissions that we receive from carriers, our rate of growth will decline and our business and results of operations will be harmed.

***The loss of any member of our management team and our inability to make up for such loss with a qualified replacement could harm our business.***

Competition for qualified management in our industry is intense. Many of the companies with which we compete for management personnel have greater financial and other resources than we do or are located in geographic areas which may be considered by some to be more desirable places to live. If we are not able to retain any of our key management personnel, our business could be harmed.

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## [Table of Contents](#)

### ***Our acquisitions and other strategic transactions may be difficult to integrate, divert management resources, result in unanticipated costs or dilute our stockholders.***

Part of our continuing business strategy is to acquire or invest in, companies, products or technologies that complement our current products, enhance our market coverage, technical capabilities or production capacity, or offer growth opportunities or make other strategic transactions. For example, in March 2013, we completed a transaction with TSG Agency, LLC and its principal, Ivan Spinner, which is further described above in “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—General.” Such acquisitions and other strategic transactions could pose numerous risks to our operations, including:

- difficulty integrating the purchased operations, technologies or products;
- incurring substantial unanticipated integration costs;
- assimilating the acquired businesses may divert significant management attention and financial resources from our other operations and could disrupt our ongoing business;
- acquisitions could result in the loss of key employees, particularly those of the acquired operations;
- difficulty retaining or developing the acquired businesses’ customers;
- acquisitions could adversely affect our existing business relationships with suppliers and members;
- failing to realize the potential cost savings or other financial benefits and/or the strategic benefits of the acquisitions; and
- incurring liabilities from the acquired businesses for infringement of intellectual property rights or other claims, and we may not be successful in seeking indemnification for such liabilities or claims.

The TSG transaction poses some of these risks, including the potential that TSG and Mr. Spinner might not generate the revenues that we anticipate and that we might not retain Spinner for a sufficient time period to realize anticipated benefits.

In connection with these acquisitions or other strategic transactions, we could incur debt, amortization expenses related to intangible assets, large and immediate write-offs, assume liabilities or issue stock that would dilute our current stockholders’ percentage of ownership. We may not be able to complete acquisitions or integrate the operations, products or personnel gained through any such acquisition without a material adverse effect on our business, financial condition and results of operations.

### ***The requirements of being a public company may strain our resources and distract our management, which could make it difficult to manage our business, particularly after we are no longer an “emerging growth company.”***

We are required to comply with various regulatory and reporting requirements, including those required by the Securities and Exchange Commission (the “SEC”). Complying with these reporting and other regulatory requirements will be time-consuming and will result in increased costs to us and could have a negative effect on our business, financial condition and results of operations.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934 (as amended, the “Exchange Act”) and the requirements of the Sarbanes-Oxley Act of 2002 (as amended, the “Sarbanes-Oxley Act”). These requirements may place a strain on our systems and resources. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal controls over financial reporting. To maintain and improve the effectiveness of our disclosure controls and procedures, we will need to commit significant resources, hire additional staff and provide additional management oversight. We will be implementing additional procedures and processes for the purpose of addressing the standards and requirements applicable to public companies. Sustaining our growth also will require us to commit additional management, operational and financial resources to identify new professionals to join our company and to maintain appropriate operational and financial systems to adequately support expansion. These activities may divert management’s attention from other business concerns, which could have a material adverse effect on our business, financial condition and results of operations.

As an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”), we intend to take advantage of certain temporary exemptions from various reporting requirements, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. In addition, we have elected under the JOBS Act to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies.

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## [Table of Contents](#)

When these exemptions cease to apply, we expect to incur additional expenses and devote increased management effort toward ensuring compliance with them. We cannot predict or estimate the amount of additional costs we may incur as a result of becoming a public company or the timing of such costs.

### **Risks Related to Our Structure**

***We are a holding company and our only material asset is our interest in Health Plan Intermediaries Holdings, LLC and, accordingly, we are dependent upon distributions from Health Plan Intermediaries Holdings, LLC to pay taxes and other expenses.***

We are a holding company and have no material assets other than our ownership of Series A Membership Interests of Health Plan Intermediaries Holdings, LLC. We have no independent means of generating revenue. Health Plan Intermediaries Holdings, LLC is treated as a partnership for U.S. federal income tax purposes and, as such, is not itself be subject to U.S. federal income tax. Instead, its net taxable income is generally allocated to its members, including us, *pro rata* according to the number of membership interests each member owns. Accordingly, we incur income taxes on our proportionate share of any net taxable income of Health Plan Intermediaries Holdings, LLC and also incur expenses related to our operations. We intend to cause Health Plan Intermediaries Holdings, LLC to distribute cash to its members, including us, in an amount at least equal to the amount necessary to cover their respective tax liabilities, if any, with respect to their allocable share of the net income of Health Plan Intermediaries Holdings, LLC and to cover dividends, if any, declared by us, as well as any payments due under the tax receivable agreement, as described below. To the extent that we need funds to pay our tax or other liabilities or to fund our operations, and Health Plan Intermediaries Holdings, LLC is restricted from making distributions to us under applicable agreements, laws or regulations or does not have sufficient cash to make these distributions, we may have to borrow funds to meet these obligations and operate our business, and our liquidity and financial condition could be materially adversely affected. To the extent that we are unable to make payments under the income tax receivable agreement for any reason, such payments will be deferred and will accrue interest until paid.

***We will be required to pay the existing and certain future holders of Series B Membership Interests most of the tax benefits that we may receive as a result of the purchase of Series B Membership Interests with the net proceeds of the sale of over-allotment shares, future exchanges of Series B Membership Interests for our Class A common stock and payments made under the tax receivable agreement itself, and the amounts we pay could be substantial.***

We expect that the purchase of Series B Membership Interests (together with an equal number of shares of our Class B common stock) with the net proceeds of the sale of over-allotment shares, as well as any future exchanges of Series B Membership Interests (together with an equal number of shares of our Class B common stock) for shares of our Class A common stock, will result in increases in the tax basis in our share of the tangible and intangible assets of Health Plan Intermediaries Holdings, LLC. Any such increases in tax basis could reduce the amount of tax that we would otherwise be required to pay in the future.

We entered into a tax receivable agreement with the members of Health Plan Intermediaries Holdings, LLC (Health Plan Intermediaries, LLC and Health Plan Intermediaries Sub, LLC, which are beneficially owned by Mr. Kosloske) and certain future members of Health Plan Intermediaries Holdings, LLC, pursuant to which we will pay them 85% of the amount of the cash savings, if any, in U.S. federal, state and local income tax that we realize (or are deemed to realize in the case of an early termination payment by us, a change in control or a material breach by us of our obligations under the tax receivable agreement, as discussed below) as a result of these possible increases in tax basis resulting from our purchases or exchanges of Series B Membership Interests as well as certain other benefits attributable to payments under the tax receivable agreement itself. Any actual increases in tax basis, as well as the amount and timing of any payments under the tax receivable agreement, cannot be predicted reliably at this time. The amount of any such increases and payments will vary depending upon a number of factors, including the timing of exchanges, the price of our Class A common stock at the time of the exchanges, the amount, character and timing of our income and the tax rates then applicable. The payments that we may be required to make pursuant to the tax receivable agreement could be substantial for periods in which we generate taxable income. See notes 1 and 10 of the accompanying consolidated financial statements for further information on the tax receivable agreement.

In addition, the tax receivable agreement provides that in the case that we exercise our right to early termination of the tax receivable agreement or in the case of a change in control or a material breach by us of our obligations under the tax receivable agreement, the tax receivable agreement will terminate, and we will be required to make a payment equal to the present value of future payments under the tax receivable agreement, which payment would be based on certain assumptions, including those relating to our future taxable income. In these situations, our obligations under the tax receivable agreement could have a substantial negative impact on our liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset

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## [Table of Contents](#)

sales, other forms of business combinations or other changes of control. These provisions of the tax receivable agreement may result in situations where Mr. Kosloske may have interests that differ from or are in addition to those of other shareholders. Because we are controlled by Mr. Kosloske, Mr. Kosloske will have effective control over the outcome of votes on all matters requiring approval by our stockholders and accordingly actions that affect such obligations under the tax receivable agreement may be taken even if other stockholders oppose them.

If the Internal Revenue Service successfully challenges the tax basis increases, we will not be reimbursed for any payments made under the tax receivable agreement (although future payments under the tax receivable agreement, if any, would be adjusted to reflect the result of any such successful challenge by the Internal Revenue Service). As a result, in certain circumstances, we could be required to make payments under the tax receivable agreement in excess of our cash tax savings.

***We may not be able to realize all or a portion of the tax benefits that are expected to result from the purchase of Series B Membership Interests with the net proceeds of the sale of over-allotment shares, future exchanges of Series B Membership Interests for our Class A common stock and payments made under the tax receivable agreement itself.***

Our ability to benefit from any depreciation or amortization deductions or to realize other tax benefits that we currently expect to be available as a result of the increases in tax basis created by the purchase of Series B Membership Interests (together with an equal number of shares of our Class B common stock) with the net proceeds of the sale of any over-allotment shares, as well as any future exchanges of Series B Membership Interests (together with an equal number of shares of our Class B common stock) for our Class A common stock, and our ability to realize certain other tax benefits attributable to payments under the tax receivable agreement itself depend on a number of assumptions, including that we earn sufficient taxable income each year during the period over which such deductions are available and that there are no adverse changes in applicable law or regulations. If our actual taxable income were insufficient and/or there were adverse changes in applicable law or regulations, we may be unable to realize all or a portion of these expected benefits and our cash flows and stockholders' equity could be negatively affected.

### **Risks Related to Ownership of Our Class A Common Stock**

***There may not be an active, liquid trading market for our Class A common stock.***

Prior to February 2013, there was no public market for shares of our Class A common stock. We cannot predict the extent to which investor interest in our Company will lead to the development of an active trading market on the NASDAQ Global Market or how liquid that market may become. If an active trading market does not develop, you may have difficulty selling any shares of our Class A common stock that you purchase.

***We expect that our stock price will fluctuate significantly, and you may not be able to resell your shares at or above the purchase price.***

The trading price of our Class A common stock is likely to be volatile and subject to wide price fluctuations in response to various factors, including:

- market conditions in the broader stock market in general, or in our industry in particular;
- actual or anticipated fluctuations in our quarterly financial and results of operations;
- our ability to satisfy our ongoing capital needs and unanticipated cash requirements, particularly with respect to our advanced commissions structure;
- additional indebtedness incurred in the future;
- introduction of new products and services by us or our competitors;
- issuance of new or changed securities analysts' reports or recommendations;
- sales of large blocks of our stock;
- a relatively small number and percentage of shares available for active trading;
- additions or departures of key personnel;
- regulatory developments;
- litigation and governmental investigations; and
- economic and political conditions or events.

These and other factors may cause the market price and demand for our Class A common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of Class A common stock and may otherwise negatively

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## [Table of Contents](#)

affect the liquidity of our Class A common stock. In addition, when the market price of a stock has been volatile, holders of that stock have at times instituted securities class action litigation against the company that issued the stock. If any of our stockholders brought a lawsuit against us, we could incur substantial costs defending the lawsuit. Such a lawsuit could also divert the time and attention of our management from our business.

The trading market for our Class A common stock may also be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover us downgrades our stock, or if our results of operations do not meet their expectations, our stock price could decline.

***If a substantial number of shares become available for sale and are sold in a short period of time, the market price of our Class A common stock could decline.***

If our existing stockholders sell substantial amounts of our Class A common stock in the public market, the market price of our Class A common stock could decrease significantly. The perception in the public market that our existing stockholders might sell shares of Class A common stock could also depress our market price. As of May 10, 2013, we have 5,295,167 shares of Class A common stock outstanding of which 4,766,667 shares are available for active trading. In addition, some of our employees and directors hold stock options that are subject to lock-up agreements and Rule 144 holding period requirements. The market price of shares of our Class A common stock may drop significantly when the restrictions on resale by our existing stockholders lapse. A decline in the price of shares of our Class A common stock might impede our ability to raise capital through the issuance of additional shares of our Class A common stock or other equity securities.

***We are a “controlled company” within the meaning of the rules of the NASDAQ Global Market and, as a result, qualify for, and intend to rely on, exemptions from certain corporate governance requirements. You will not have the same protections afforded to stockholders of companies that are subject to such requirements.***

Entities controlled by Michael W. Kosloske, our Chairman, President and Chief Executive Officer, control a majority of the combined voting power of all classes of our voting stock. As a result, we are a “controlled company” within the meaning of the corporate governance standards of the NASDAQ Global Market. Under NASDAQ Global Market rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a “controlled company” and may elect not to comply with certain corporate governance requirements, including:

- the requirement that a majority of the board of directors consist of independent directors;
- the requirement that we have a nominating and corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities;
- the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities; and
- the requirement for an annual performance evaluation of the nominating and corporate governance and compensation committees.

We intend to utilize these exemptions if we continue to qualify as a “controlled company.” Although we currently have a majority of independent directors, our nominating and corporate governance and compensation committees do not consist entirely of independent directors and such committees will not be subject to annual performance evaluations. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the NASDAQ Global Market.

***We are controlled by entities associated with Mr. Kosloske, whose interests may differ from those of our public stockholders.***

We are controlled by entities associated with Mr. Kosloske. Mr. Kosloske beneficially owns in the aggregate approximately 61.8% of the combined voting power of our common stock based on the number of shares of Class A common stock outstanding as of March 31, 2013. As a result of this ownership, Mr. Kosloske has effective control over the outcome of votes on all matters requiring approval by our stockholders, including the election of directors, the adoption of amendments to our certificate of incorporation and bylaws and approval of a sale of the company and other significant corporate transactions, including such corporate transactions that may affect our obligations under the tax receivable agreement. See “We will be required to pay the existing and certain future holders of Series B Membership Interests most of the tax benefits that we may receive as a result of the purchase of Series B Membership Interests with the net proceeds of the sale of over-allotment shares, future exchanges of Series B Membership Interests for our Class A common stock and payments made under the tax receivable agreement itself, and the amounts we pay could be substantial.” Mr. Kosloske can also take actions that have the effect of

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## [Table of Contents](#)

delaying or preventing a change in control of us or discouraging others from making tender offers for our shares, which could prevent stockholders from receiving a premium for their shares. These actions may be taken even if other stockholders oppose them.

***The market price of our Class A common stock could decline due to the large number of shares of Class A common stock eligible for future sale upon the exchange of Series B Membership Interests.***

The market price of our Class A common stock could decline as a result of sales of a large number of shares of our Class A common stock eligible for future sale upon the exchange of Series B Membership Interests (together with an equal number of shares of our Class B common stock), or the perception that such sales could occur. These sales, or the possibility that these sales may occur, may also make it more difficult for us to raise additional capital by selling equity securities in the future, at a time and price that we deem appropriate.

As of May 10, 2013, 5,295,167 Series A Membership Interests and 8,566,667 Series B Membership Interests of Health Plan Intermediaries Holdings, LLC are outstanding. Each Series B Membership Interest, together with one share of our Class B common stock, is exchangeable for one share of Class A common stock. We have entered into a registration rights agreement with Health Plan Intermediaries, LLC and Health Plan Intermediaries Sub, LLC pursuant to which we granted them registration rights with respect to their shares of Class A common stock delivered in exchange for their Series B Membership Interests.

***Some provisions of Delaware law, our amended and restated certificate of incorporation and amended and restated bylaws and the beneficial ownership of a majority of our shares by one person may deter third-parties from acquiring us.***

Our amended and restated certificate of incorporation and amended and restated bylaws provide for, among other things:

- restrictions on the ability of our stockholders to fill a vacancy on the board of directors;
- prohibit stockholder action by written consent after the date on which Mr. Kosloske ceases to beneficially own at least a majority of all of the outstanding shares of our capital stock entitled to vote;
- prohibit cumulative voting in the election of directors, which would otherwise allow holders of less than a majority of stock to elect some directors;
- provide that special meetings of stockholders may be called only by the board of directors, the chairman of the board of directors or the chief executive officer; provided, however, if Mr. Kosloske beneficially owns at least a majority of all of the outstanding shares of our capital stock entitled to vote, special meetings of stockholders may be called by the holders of a majority of the total voting power of our then outstanding capital stock;
- establish advance notice procedures for the nomination of candidates for election as directors or for proposing matters that can be acted upon at stockholder meetings;
- provide that on and after the date Mr. Kosloske collectively ceases to beneficially own a majority of all of the outstanding shares of our capital stock entitled to vote, (a) directors may be removed only for cause and only upon the affirmative vote of holders of at least 75% of all of the outstanding shares of our capital stock entitled to vote, and (b) certain provisions of our amended and restated certificate of incorporation may only be amended upon the affirmative vote of holders of at least 75% of all of the outstanding shares of our capital stock entitled to vote; and
- the authorization of undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval. As of May 10, 2013, Mr. Kosloske beneficially owned 61.8% of the combined voting power of our common stock.

These anti-takeover defenses, the beneficial ownership of a majority of our shares by one person and other factors could discourage, delay or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and cause us to take other corporate actions that you desire.

***We do not anticipate paying any cash dividends in the foreseeable future.***

We currently intend to retain our future earnings, if any, for the foreseeable future, to repay indebtedness and to fund the development and growth of our business. We do not intend to pay any dividends to holders of our Class A common stock. As a result, capital appreciation in the price of our Class A common stock, if any, will be your only source of gain on an investment in our Class A common stock.

***We have identified a material weakness in our internal control over financial reporting that, if not corrected, could result in material misstatements in our financial statements.***

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## [Table of Contents](#)

In connection with the preparation of our financial statements for the years ended December 31, 2012 and 2011 and for the nine months ended September 30, 2012 and the three months ended March 31, 2013, we identified a certain matter involving our internal control over financial reporting that constitutes a material weakness under standards established by the Public Company Accounting Oversight Board (“PCAOB”). The PCAOB defines a material weakness as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company’s annual or interim financial statements will not be prevented or detected on a timely basis.

We identified a material weakness where we did not have effective controls over the design and operation of the financial statement close process, which process impacts most of our significant accounts included in the financial statements. The deficiencies in the design and operation of the financial statement close process that resulted in the material weakness included the following:

- lack of a formal process for reviewing period-end cutoff of revenues and expenses to ensure amounts are captured in the period earned or incurred under the accrual basis of accounting;
- no process in place to ensure all expenses incurred during the period are accrued as of the month-end date, including expenses for which estimates are required;
- absence of a mechanism through which the accounting implications of significant, unusual or non-routine events and transactions are formally evaluated; and
- no process to ensure formally executed agreements regarding all significant arrangements with third parties and others are obtained.

We are taking steps to address this material weakness by hiring additional personnel with technical accounting expertise and by implementing enhanced training for our finance and accounting personnel to familiarize them with our accounting policies. However, the material weakness will be ongoing until these controls are fully implemented and we will not be able to confirm that we have remediated this material weakness until our newly implemented procedures have been working for a sufficient period of time. As a result of this and similar activities, management’s attention may be diverted from other business concerns, which could have a material adverse effect on our business, financial condition and results of operations.

If the remedial policies and procedures we implement and resources we hire are insufficient to address the identified material weakness, or if additional material weaknesses or significant deficiencies in our internal controls are discovered in the future, we may fail to meet our future reporting obligations, our financial statements may contain material misstatements and our operating results may be adversely affected.

***Our internal controls over financial reporting may not be effective and our independent registered public accounting firm may not be able to certify as to their effectiveness, which could have a significant and adverse effect on our business and reputation.***

We are not currently required to comply with SEC rules that implement Section 404(b) of the Sarbanes-Oxley Act and are therefore not required to make a formal assessment of the effectiveness of our internal controls over financial reporting for that purpose. We will be required, pursuant to the Exchange Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting for the first fiscal year beginning after February 13, 2013, the effective date of our initial public offering.

When evaluating our internal controls over financial reporting, we may identify material weaknesses that we may not be able to remediate in time to meet the applicable deadline imposed upon us for compliance with the requirements of Section 404 of the Sarbanes-Oxley Act. In addition, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude, on an ongoing basis, that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. We cannot be certain as to the timing of completion of our evaluation, testing and any remediation actions or the impact of the same on our operations. If we are not able to implement the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner or with adequate compliance, we may be subject to sanctions or investigation by regulatory authorities, such as the SEC. As a result, there could be a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. In addition, we may be required to incur costs in improving our internal control system and the hiring of additional personnel. Any such action could negatively affect our results of operations and cash flows.

***We are an “emerging growth company” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our Class A common stock less attractive to investors.***

We are an “emerging growth company,” as defined in the JOBS Act, and we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth

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## [Table of Contents](#)

companies” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, which may increase the risk that weaknesses or deficiencies in our internal control over financial reporting go undetected, and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, which may make it more difficult for investors and securities analysts to evaluate our Company. In addition, we have elected under the JOBS Act to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. As a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates. We cannot predict if investors will find our Class A common stock less attractive if we rely on these exemptions. If some investors find our Class A common stock less attractive as a result, there may be a less active trading market for our Class A common stock and our stock price may be more volatile. We may take advantage of these reporting exemptions until we are no longer an emerging growth company, which in certain circumstances could be up to five years.

***We have broad discretion in using the net proceeds of our recent initial public offering, and we may not effectively expend the proceeds.***

We used the net proceeds of our recent initial public offering to repay all of the outstanding debt, and intend to use the remaining net proceeds to provide the funds necessary to expand our advanced commission structure and for general corporate purposes, including acquisitions. We have significant flexibility and broad discretion in applying the net proceeds, and we may not apply them effectively. Our management might not be able to yield a significant return, if any, on any investment of the net proceeds. You do not have the opportunity to influence our decisions on how to use the net proceeds.

***Our business and stock price may suffer as a result of our lack of public company operating experience.***

We were a privately-held company from the beginning of our operations in 2008 until February 2013. Our lack of public company operating experience may make it difficult to forecast and evaluate our future prospects. If we are unable to execute our business strategy, either as a result of our inability to effectively manage our business in a public company environment or for any other reason, our prospects, financial condition and results of operations may be harmed.

## **ITEM 2—UNREGISTERD SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On February 7, 2013, a registration statement (Registration No. 333-185596) relating to our initial public offering of our Class A common stock was declared effective by the Securities and Exchange Commission. Under this registration statement, we registered 4,666,667 shares of our Class A common stock, and another 700,000 shares subject to the over-allotment option of the underwriters of the initial public offering. The offering closed on February 13, 2013. All 4,666,667 shares of Class A common stock registered under the registration statement and 100,000 shares covered by the over-allotment option were sold at a price to the public of \$14.00 per share.

The offering did not terminate until after the sale of all of the shares registered on the registration statement. The aggregate gross proceeds from the shares of Class A common stock sold by us were \$65.3 million. The aggregate net proceeds to us from the offering were approximately \$60.8 million, after deducting an aggregate of \$4.5 million in underwriting discounts and commissions paid to the underwriters and other expenses incurred in connection with the offering.

As of March 31, 2013, we had used \$3.2 million of the net proceeds to pay all of our outstanding debt under our loans from a third-party bank. We used \$1.3 million of the proceeds from the sale of shares through the over-allotment option to acquire Series B Membership Interests, together with an equal number of shares of our Class B common stock, from Health Plan Intermediaries, LLC, which is controlled by Mr. Kosloske, our Chairman, President, and Chief Executive Officer, which Series B Membership Interests were immediately recapitalized into Series A Membership Interests. We also used \$5.5 million of the net proceeds to complete the transaction with TSG and Spinner. We expect to use the remaining proceeds of the offering to expand our advanced commission structure and for general corporate purposes, including potential acquisitions that are complementary to our business or enable us to enter new markets or provide new products or services. The remaining proceeds are currently held in short-term, highly liquid investment accounts, or certificates of deposit.

## **ITEM 3—DEFAULTS UPON SENIOR SECURITIES**

None.

## **ITEM 4—MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5—OTHER INFORMATION**

On May 10, 2013 our board of directors approved a form of indemnification agreement to be entered into with each of our directors and executive officers.

The indemnification agreement generally provides the indemnitee with protection to the fullest extent permitted by the Delaware General Corporation Law. The indemnification agreement requires us, among other things, (i) to indemnify the indemnitee against certain liabilities that may arise by reason of his status or service as a director, an officer or in another specified capacity, (ii) to advance expenses to the indemnitee and (iii) to the extent insurance is maintained, to cover the indemnitee under our director and officer liability insurance policies.

The foregoing description of the indemnification agreement does not purport to be complete and is qualified in its entirety by reference to the form of indemnification agreement, a copy of which is filed as Exhibit 10.1 hereto and incorporated herein by reference.

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[Table of Contents](#)

**ITEM 6—EXHIBITS**

<b>Exhibit No.</b>	<b><u>Description</u></b>
10.1*	Form of Indemnification Agreement
10.2*	Form of Restricted Stock Award Agreement
10.3*	Form of Stock Appreciation Rights Award Agreement (Non-Employee Director; Stock-Settled)
31.1*	Certification of Principal Executive Officer pursuant to Rule 13a-14(a).
31.2*	Certification of Principal Financial Officer pursuant to Rule 13a-14(a).
32*	Section 1350 Certifications
100.INS#	XBRL Instance Document
101.SCH#	XBRL Taxonomy Extension Schema Document
101.CAL#	XBRL Taxonomy Calculation Linkbase Document
101.LAB#	XBRL Taxonomy Label Linkbase Document
101.PRE#	XBRL Taxonomy Presentation Linkbase Document
101.DEF#	XBRL Taxonomy Definition Document

\* Document is filed with this Form 10-Q.

# Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HEATH INSURANCE INNOVATIONS, INC.

May 15, 2013

/s/ Michael W. Kosloske

**MICHAEL W. KOSLOSKE**  
**PRESIDENT AND CHIEF EXECUTIVE OFFICER**  
**(PRINCIPAL EXECUTIVE OFFICER)**

May 15, 2013

/s/ Michael D. Hershberger

**MICHAEL D. HERSHBERGER**  
**CHIEF FINANCIAL OFFICER, TREASURER AND SECRETARY**  
**(PRINCIPAL FINANCIAL OFFICER)**

May 15, 2013

/s/ Joan Rodgers

**JOAN RODGERS**  
**CHIEF ACCOUNTING OFFICER**  
**(PRINCIPAL ACCOUNTING OFFICER)**

## FORM OF INDEMNIFICATION AGREEMENT

This Indemnification Agreement (this "Agreement") is made effective as of [           , 201   ], by and between Health Insurance Innovations, Inc., a Delaware corporation (the "Corporation") and [           ] ("Indemnitee").

WHEREAS, increased corporate litigation has subjected officers and directors to litigation risks and expenses, and the limitations on the availability of director and officer liability insurance may make it increasingly difficult for the Corporation to attract and retain the most capable persons reasonably available to serve as officers and/or directors of the Corporation; and

WHEREAS, the Corporation desires to provide Indemnitee with specific contractual assurance of Indemnitee's rights to full indemnification against litigation risks and expenses (regardless, among other things, of any amendment to or revocation of the Corporation's Certificate of Incorporation (the "Certificate of Incorporation") or the Corporation's Bylaws (the "Bylaws") or the Operating Agreement of Health Plan Intermediaries Holdings, LLC (the "Operating Agreement") or any change in the ownership of the Corporation or the composition of its Board of Directors); and

WHEREAS, the Corporation intends that this Agreement provide Indemnitee with greater protection than that which is provided by the Certificate of Incorporation and Bylaws; and

WHEREAS, Indemnitee's willingness to serve as an officer and/or director, as the case may be, of the Corporation is predicated, in substantial part, upon the Corporation's willingness to indemnify him or her in accordance with the principles reflected above, to the fullest extent permitted by the laws of the State of Delaware, and upon the other undertakings set forth in this Agreement; and

WHEREAS, the indemnifications provisions set forth in this Agreement are not exclusive and thereby contemplate that contracts may be entered into between the Corporation and its directors, officers and other persons with respect to indemnification; and

WHEREAS, in order to induce Indemnitee to serve as an officer and/or director, as the case may be, of the Corporation, the Corporation has determined and agreed to enter into this Agreement with Indemnitee.

NOW, THEREFORE, in consideration of the mutual promises made in this Agreement, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Corporation and Indemnitee hereby agree as follows:

**1. Indemnification.**

(a) Third Party Proceedings. The Corporation shall indemnify Indemnitee if Indemnitee is or was a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that Indemnitee is or was, or has agreed to become, an officer and/or director, as the case may be, of the Corporation, or any subsidiary of the Corporation, by reason of any actual or alleged error or misstatement or misleading statement made or suffered by Indemnitee, by reason of any action or inaction on the part of Indemnitee while an officer and/or director, as the case may be, of the Corporation, or by reason of the fact that Indemnitee is or was serving at the request of the Corporation as an officer and/or director, as the case may be, of another corporation, partnership, joint venture, trust or other enterprise (including without limitation employee benefit plans and administrative committees thereof), against expenses (including reasonable attorneys' fees and disbursements), damages

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(compensatory, exemplary, punitive or otherwise), costs of attachment or similar bonds, judgments, fines and amounts paid in settlement (if such settlement is approved in advance by the Corporation, such approval not to be unreasonably withheld), in each case actually and reasonably incurred by Indemnitee in connection with such action, suit or proceeding if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe Indemnitee's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation, or, with respect to any criminal action or proceeding, that Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

(b) Proceedings by or in the Right of the Corporation. The Corporation shall indemnify Indemnitee if Indemnitee was or is a party or is threatened to be made a party to any threatened, pending or completed action or proceeding by or in the right of the Corporation or any subsidiary of the Corporation to procure a judgment in its favor by reason of the fact that Indemnitee is or was, or has agreed to become, an officer and/or director, as the case may be, of the Corporation, or any subsidiary of the Corporation, by reason of any actual or alleged error or misstatement or misleading statement made or suffered by Indemnitee, by reason of any action or inaction on the part of Indemnitee while an officer and/or director, as the case may be, or by reason of the fact that Indemnitee is or was serving at the request of the Corporation as an officer and/or director, as the case may be, of another corporation, partnership, joint venture, trust or other enterprise (including without limitation employee benefit plans and administrative committees thereof), against expenses (including reasonable attorneys' fees and disbursements), damages (compensatory, exemplary, punitive or otherwise), costs of attachment or similar bonds, judgments, fines and, to the fullest extent permitted by law, amounts paid in settlement (if such settlement is approved in advance by the Corporation, such approval not to be unreasonably withheld), in each case to the extent actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such action or suit if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation and its stockholders, except that no indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been finally adjudicated by a final, unappealable order or judgment by a court having jurisdiction over the parties and the subject matter of the dispute from which no further right of appeal exists to be liable to the Corporation in the performance of Indemnitee's duty to the Corporation and its stockholders unless and only to the extent that the court in which such action or proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

(c) Mandatory Payment of Expenses. To the extent that Indemnitee has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 1(a) or Section 1(b) or the defense of any claim, issue or matter therein, Indemnitee shall be indemnified against expenses (including reasonable attorneys' fees and disbursements) actually and reasonably incurred by Indemnitee in connection therewith.

(d) Witness. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of the fact that Indemnitee is or was an officer and/or director, as the case may be, of the Corporation or was serving at the request of the Corporation as an officer and/or director, as the case may be, of another corporation, partnership, joint venture, trust or other enterprise (including without limitation employee benefit plans and administrative committees thereof), a witness in any action, suit or proceeding to which Indemnitee is not a party, Indemnitee shall be indemnified against all expenses (including reasonable attorneys' fees and disbursements) actually and reasonably incurred by Indemnitee in connection therewith.

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(e) Serving at the Request of the Corporation. For purposes of this Agreement, if Indemnitee should serve as an officer and/or director, as the case may be, of another corporation, partnership, joint venture, trust or other enterprise (including without limitation employee benefit plans and administrative committees thereof) it will be conclusively presumed in the case of any of the foregoing that are “affiliates” of the Corporation as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended) that Indemnitee was serving at the request of the Corporation.

## **2. Expenses, Indemnification Procedure.**

(a) Advancement of Expenses. The Corporation shall pay all expenses incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of any civil or criminal action, suit or proceeding referred to in Section 1 hereof (including amounts actually paid in settlement of any such action, suit or proceeding), as such expenses are incurred and in advance of the final disposition of such action, suit or proceeding. Indemnitee hereby undertakes to repay such amounts advanced only if, and to the extent that, it shall ultimately be determined that Indemnitee is not entitled to be indemnified by the Corporation as authorized hereby by a final, unappealable order or judgment by a court having jurisdiction over the parties and the subject matter of the dispute from which no further right of appeal exists. Indemnitee’s undertaking hereunder need not be secured and shall be accepted without reference to Indemnitee’s financial ability to make repayment if and to the extent that it shall ultimately be determined as provided in this Agreement that Indemnitee is not entitled to be indemnified under this Agreement or otherwise.

(b) Notice/Cooperation by Indemnitee. Indemnitee shall give the Corporation notice in writing as soon as practicable of any claim made against Indemnitee for which indemnification will or could be sought under this Agreement; provided, however, that the omission so to notify an officer of the Corporation will not relieve the Corporation from any obligation which it may have to Indemnitee under this Agreement or otherwise unless and only to the extent that such omission can be shown to have prejudiced the Corporation. Notice to the Corporation shall be directed to the Chief Executive Officer of the Corporation and shall be given in accordance with the provisions of Section 9(d) below. In addition, Indemnitee shall give the Corporation such information and cooperation as it may reasonably require and as shall be within Indemnitee’s power.

(c) Procedure. Any indemnification and advances provided for in Section 1 and this Section 2 shall be made no later than thirty (30) days after receipt of the written request of Indemnitee. If a claim under this Agreement, under any statute, or under any provision of the Certificate of Incorporation or Bylaws or the Operating Agreement providing for indemnification, is not paid in full by the Corporation (or, in the case of the Operating Agreement, by Health Plan Intermediaries Holdings, LLC) within thirty (30) days after a written request for payment thereof has first been received by the Corporation (or, if pursuant to the Operating Agreement, by Health Plan Intermediaries Holdings, LLC), Indemnitee may, but need not, at any time thereafter bring an action against the Corporation to recover the unpaid amount of the claim and, subject to Section 8 of this Agreement, Indemnitee shall also be entitled to be paid for the expenses (including reasonable attorneys’ fees and disbursements) of bringing such action. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in connection with any action, suit or proceeding in advance of its final disposition) that Indemnitee has not met the standards of conduct which make it permissible under applicable law for the Corporation to indemnify Indemnitee for the amount claimed, but in such case, it shall be presumed that Indemnitee has at all times acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation and the burden of proving such defense shall be on the Corporation. Indemnitee shall be entitled to receive interim payments of expenses pursuant to Section 2(a) unless and

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until such defense may be finally adjudicated by a final, unappealable order or judgment by a court having jurisdiction over the parties and the subject matter of the dispute from which no further right of appeal exists. Indemnitee shall be presumed to have acted in good faith if Indemnitee's action is based on the records or books of account of the Corporation, including financial statements, or on information supplied to an Indemnitee by the officers of the Corporation in the course of their duties, or on the advice of legal counsel for the Corporation or on information or records given or reports made to the Corporation by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Corporation. In addition, the knowledge and/or actions, or failure to act, of any director, officer, agent or employee of the Corporation, unless affiliated with Indemnitee, shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement. Furthermore, the Corporation shall conclusively be presumed to have entered into this Agreement and assumed the obligations imposed on it to induce Indemnitee to accept the position of, or to continue as an officer and/or director, as the case may be, of the Corporation. It is the parties' intention that if the Corporation contests Indemnitee's right to indemnification, the question of Indemnitee's right to indemnification shall be for the court to decide, and neither the failure of the Corporation (including its Board of Directors, any committee or subgroup of the Board of Directors, independent legal counsel, or its stockholders) to have made a determination that indemnification of Indemnitee is proper in the circumstances because Indemnitee has met the applicable standard of conduct required by applicable law, nor an actual determination by the Corporation (including its Board of Directors, any committee or subgroup of the Board of Directors, independent legal counsel, or its stockholders) that Indemnitee has not met such applicable standard of conduct, shall create a presumption that Indemnitee has or has not met the applicable standard of conduct.

(d) Notice to Insurers. If, at the time of the receipt of a notice of a claim pursuant to Section 2(b) hereof, the Corporation has director and officer liability insurance in effect, the Corporation shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies (unless Indemnitee's involvement in such proceeding is solely as a witness or there is otherwise no basis for asserting coverage). The Corporation shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

(e) Selection of Counsel. In the event the Corporation shall be obligated under Section 2(a) hereof to pay the expenses of any proceeding against Indemnitee, the Corporation, if appropriate, shall be entitled to assume the defense of such proceeding with counsel reasonably satisfactory to Indemnitee, upon the delivery to Indemnitee of written notice of its election so to do. After delivery of such notice and the retention of such counsel by the Corporation, the Corporation will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the same proceeding, provided that (i) Indemnitee shall have the right to employ counsel in any such proceeding at Indemnitee's expense; and (ii) if (A) the employment of counsel by Indemnitee has been previously authorized by the Corporation, (B) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Corporation and Indemnitee in the conduct of any such defense, (C) the Corporation shall not, in fact, have employed counsel to assume the defense of such proceeding or (D) the Corporation is not financially or legally able to perform its indemnification obligations, then the fees and expenses of Indemnitee's counsel shall be at the expense of the Corporation.

(f) Settlement. The Corporation shall not settle any action or claim in any manner which would impose any penalty or limitation on Indemnitee that would not be indemnifiable hereunder or for which indemnification would not be provided by the Corporation without Indemnitee's written consent.

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### **3. Additional Indemnification Rights, Nonexclusivity, Contribution.**

(a) Scope. Notwithstanding any other provision of this Agreement, the Corporation hereby agrees to indemnify the Indemnitee to the fullest extent permitted by law, notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Certificate of Incorporation, the Bylaws, the Operating Agreement or by statute. In the event of any change, after the date of this Agreement, in any applicable law, statute, or rule which expands the right of a Delaware corporation to indemnify an officer or member of its board of directors, such changes shall be deemed to be within the purview of Indemnitee's rights and the Corporation's obligations under this Agreement. In the event of any change in any applicable law, statute or rule which narrows the right of a Delaware corporation to indemnify an officer or member of its board of directors, such changes, to the extent not otherwise required by such law, statute or rule to be applied to this Agreement shall have no effect on this Agreement or the parties' rights and obligations hereunder.

(b) Nonexclusively. The indemnification provided by this Agreement shall not be deemed exclusive of any rights to which Indemnitee may be entitled under the Certificate of Incorporation, the Bylaws, any agreement (including the Operating Agreement), any vote of stockholders or disinterested members of the Corporation's Board of Directors, the General Corporation Law of the State of Delaware, or otherwise, both as to action in Indemnitee's official capacity and as to action in another capacity while holding such office. The indemnification provided under this Agreement shall continue as to Indemnitee for any action taken or not taken while serving in an indemnified capacity even though he or she may have ceased to serve in any such capacity at the time of any action, suit or other covered proceeding.

(c) Contribution in Event of Joint Liability.

(i) Subject to Section 1 hereof, in respect of any action, suit or proceeding in which the Corporation is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), the Corporation shall pay, in the first instance, the entire amount of any judgment or settlement of such action, suit or proceeding without requiring Indemnitee to contribute to such payment and the Corporation hereby waives and relinquishes any right of contribution it may have against Indemnitee. The Corporation shall not enter into any settlement of any action, suit or proceeding in which the Corporation is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding) unless such settlement provides for a full and final release of all claims asserted against Indemnitee.

(ii) If, for any reason, Indemnitee shall elect or be required to pay all or any portion of any judgment or settlement in any action, suit or proceeding in which the Corporation is jointly liable with Indemnitee and for which the Corporation would otherwise be obligated to indemnify Indemnitee under this Agreement, the Corporation shall, to the extent permitted by applicable law, contribute to the amount of such indemnifiable losses, judgments, fines and amounts paid in settlement (if such settlement is approved in advance in writing by the Corporation, which approval shall not be unreasonably withheld) actually and reasonably incurred and paid or payable by Indemnitee in proportion to the relative benefits received by the Corporation and all officers, directors or employees of the Corporation other than Indemnitee, on the one hand, and Indemnitee, on the other hand, from the transaction from which such action, suit or proceeding arose; provided, however, that the proportion determined on the basis of relative benefit may, to the extent necessary to conform to law, be further adjusted by reference to the relative fault of the Corporation and all officers, directors or employees of the Corporation other than other indemnitees who are jointly liable with Indemnitee, on the one hand, and all indemnitees, including Indemnitee, on the other hand, in connection with the events that resulted in such indemnifiable losses, judgments, fines or settlement amounts, as well as any other equitable considerations which the law may require to be considered. The relative fault of the Corporation and all officers, directors or employees of the Corporation, other than Indemnitee, on the one

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hand, and Indemnitee, on the other hand, shall be determined by reference to, among other things, the degree to which their actions were motivated by intent to gain personal profit or advantage, the degree to which their liability is primary or secondary and the degree to which their conduct is active or passive.

(iii) The Corporation hereby agrees to fully indemnify and hold Indemnitee harmless from any claims of contribution which may be brought by officers, directors or employees of the Corporation who may be jointly liable with Indemnitee.

**4. Partial Indemnification.** If Indemnitee is entitled under any provision of this Agreement to indemnification by the Corporation for some or a portion of the expenses, judgments, fines or penalties actually or reasonably incurred in the investigation, defense, appeal or settlement of any civil or criminal action, suit or proceeding, but not, however, for the total amount thereof, the Corporation shall nevertheless indemnify Indemnitee for the portion of such expenses, judgments, fines or penalties to which Indemnitee is entitled. If Indemnitee is not wholly successful in an action, suit or proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such action, suit or proceeding, the Company shall indemnify Indemnitee for all indemnifiable losses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Section 4 and without limitation, the termination of any claim, issue or matter in such an action, suit or proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

**5. Mutual Acknowledgment.** Both the Corporation and the Indemnitee acknowledge that in certain instances, Federal law or applicable public policy may prohibit the Corporation from indemnifying its officers and directors under this Agreement or otherwise. Indemnitee understands and acknowledges that the Corporation may be required in the future to undertake to the Securities and Exchange Commission to submit the question of indemnification to a court in certain circumstances for a determination of the Corporation's right under public policy to indemnify Indemnitee and, in that event, the Indemnitee's rights and the Corporation's obligations hereunder shall be subject to that determination.

**6. Director and Officer Liability Insurance.** The Corporation shall, from time to time, make the good faith determination whether or not it is practicable for the Corporation to obtain and maintain a policy or policies of insurance with a reputable insurance corporation providing the Indemnitee with coverage for losses from wrongful acts, and to ensure the Corporation's performance of its indemnification obligations under this Agreement. In all policies of director and officer liability insurance, Indemnitee shall be named as an insured in such a manner as to provide Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Corporation's officers and directors. Notwithstanding the foregoing, the Corporation shall have no obligation to obtain or maintain such insurance if the Corporation determines in good faith that such insurance is not reasonably available, if the premium costs for such insurance are disproportionate to the amount of coverage provided, if the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit, or if Indemnitee is covered by similar insurance maintained by a parent or subsidiary of the Corporation. The Corporation shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

**7. Severability.** Nothing in this Agreement is intended to require or shall be construed as requiring the Corporation to do or fail to do any act in violation of applicable law. The Corporation's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable as provided in this Section 7. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent

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jurisdiction, then the Corporation shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

**8. Exceptions.** Any other provision herein to the contrary notwithstanding, the Corporation shall not be obligated pursuant to the terms of this Agreement:

(a) Claims Initiated by Indemnitee. To indemnify or advance expenses to Indemnitee with respect to proceedings or claims initiated or brought voluntarily by Indemnitee and not by way of defense, except with respect to proceedings brought to establish or enforce a right to indemnification under this Agreement or any other statute or law or otherwise as required under Section 145 of the Delaware General Corporation Law, but such indemnification or advancement of expenses may be provided by the Corporation in specific cases if the Board of Directors finds it to be appropriate;

(b) Lack of Good Faith. To indemnify Indemnitee for any expenses incurred by Indemnitee with respect to any proceeding instituted by Indemnitee to enforce or interpret this Agreement, if a court having jurisdiction over the parties and the subject matter of the dispute determines by a final, unappealable order or judgment from which no further right of appeal exists, that each of the material assertions made by Indemnitee in such proceeding was not made in good faith or was frivolous; or

(c) Claims Under Section 16(b). To indemnify Indemnitee for expenses or the payment of profits on account of any suit in which a final, unappealable decision is rendered by a court having jurisdiction over the parties and the subject matter of the dispute for an accounting of profits made from the purchase and sale by Indemnitee of securities of the Corporation in violation of Section 16(b) of the Securities Exchange Act of 1934, as amended, or any similar successor statute.

**9. Miscellaneous.**

(a) Governing Law. This Agreement shall be construed under and enforced in accordance with the internal substantive laws of the State of Delaware. Any litigation arising out of or incidental to this Agreement shall be initiated only in a court of competent jurisdiction located within the State of Delaware. Each party hereby consents to the personal jurisdiction of the State of Delaware, acknowledges that venue is proper in any state or Federal court in the State of Delaware, agrees that any action related to this Agreement must be brought in a state or Federal court in the State of Delaware and waives any objection that may exist, now or in the future, with respect to any of the foregoing.

(b) Entire Agreement; Enforcement of Rights. This Agreement sets forth the entire agreement and understanding of the parties relating to the subject matter herein and merges all prior discussions between them. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing signed by the parties to this Agreement. The failure by either party to enforce any rights under this Agreement shall not be construed as a waiver of any rights of such party.

(c) Construction. This Agreement is the result of negotiations between and has been reviewed by each of the parties hereto and their respective counsel, if any; accordingly, this Agreement shall be deemed to be the product of all of the parties hereto, and no ambiguity shall be construed in favor of or against any one of the parties hereto.

(d) Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given on the date of personal delivery; or on the date of electronic confirmation of receipt, if sent by telecopier; or three (3) days after deposit in the United States mail, if mailed by certified or registered mail, return receipt requested (postage prepaid); or one (1) day after delivery by a reputable overnight courier (delivery charges prepaid), as follows:

(i) If to Indemnitee, to the address set forth below Indemnitee's signature hereto.

(ii) If to the Corporation, to:

Health Insurance Innovations, Inc.  
15438 N. Florida Avenue, Suite 201  
Tampa, Florida 33613  
Attention: Chief Executive Officer  
Fax: (877) 376-5832

with a copy sent at the same time and by the same means to:

Health Insurance Innovations, Inc.  
15438 N. Florida Avenue, Suite 201  
Tampa, Florida 33613  
Attention: Chief Financial Officer  
Fax: (877) 376-5832

with a copy sent at the same time and by the same means to:

Hill Ward Henderson  
3700 Bank of America Plaza  
101 East Kennedy Boulevard  
Tampa, FL 33602  
Attention: David S. Felman  
Telephone: 813-221-3900  
Fax: 813-221-2900

or to such other address as may have been furnished to Indemnitee by the Corporation or to the Corporation by Indemnitee, as the case may be.

(e) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

(f) Successors and Assigns. This Agreement shall be binding upon the Corporation and its successors and assigns, and inure to the benefit of Indemnitee and Indemnitee's heirs, legal representatives and assigns.

(g) Modification and Waiver. No supplement, modification, termination or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

(h) Subrogation. In the event of payment under this Agreement, the Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Corporation to effectively bring suit to enforce such rights.

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IN WITNESS WHEREOF, the parties hereto have executed this Indemnification Agreement as an instrument under seal as of the day and year set forth on the first page of this Agreement.

**HEALTH INSURANCE INNOVATIONS, INC.**

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Name:  
Title:

**INDEMNITEE:**

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Name:  
Address:

HEALTH INSURANCE INNOVATIONS, INC.  
LONG TERM INCENTIVE PLAN

Restricted Stock Award Agreement

You have been granted Restricted Stock (this "Award") on the following terms and subject to the provisions of Attachment A and the Long Term Incentive Plan (the "Plan") of Health Insurance Innovations, Inc. (the "Company"). Unless defined in this Award Agreement (including Attachment A, this "Agreement"), capitalized terms will have the meanings assigned to them in the Plan. In the event of a conflict among the provisions of the Plan, this Agreement and any descriptive materials provided to you, the provisions of the Plan will prevail.

Participant

\_\_\_\_\_

Number of Shares Underlying Award

\_\_\_\_\_ Shares (to the extent not vested as of any applicable date, the "Restricted Shares")

Grant Date

\_\_\_\_\_, 20\_\_

Vesting Schedule

(subject to Section 3 of Attachment A)

Vesting

Subject to Section 3 of Attachment A, \_\_\_% of the Shares underlying this Award shall vest and become non-forfeitable on \_\_\_\_\_ of each of \_\_\_\_\_.

**Restricted Stock Award Agreement  
Terms and Conditions**

**Grant to:** \_\_\_\_\_

Section 1. *Grant of Restricted Stock Award.* Subject to the terms and conditions of the Plan and this Agreement, the Company hereby grants this Award to the Participant on the Grant Date on the terms set forth on the cover page of this Agreement, as more fully described in this Attachment A. This Award is granted under the Plan, which is incorporated herein by this reference and made a part of this Agreement.

Section 2. *Issuance of Shares.*

(a) *Generally.* The Restricted Shares shall be evidenced by entry into the register of members of the Company; *provided, however,* that the Committee may determine that the Restricted Shares shall be evidenced in such other manner as it deems appropriate, including the issuance of a share certificate or certificates. In the event that any share certificate is issued in respect of the Restricted Shares, such certificate shall (i) be registered in the name of the Participant, (ii) bear an appropriate legend referring to the terms, conditions and restrictions applicable to the Restricted Shares and (iii) be held in custody by the Company.

(b) *Voting Rights.* The Participant shall have voting rights with respect to the Restricted Shares.

(c) *Dividends.* All cash and other dividends and distributions, if any, that are paid with respect to the Restricted Shares shall be paid to the Participant at the time that the portion of this Award to which such dividends or other distributions relate vests and becomes nonforfeitable.

(d) *Transferability.* Unless and until the Restricted Shares become vested in accordance with this Agreement, the Restricted Shares shall not be assigned, sold, transferred or otherwise be subject to alienation by the Participant, and any purported assignment, sale, transfer or other alienation not permitted hereunder shall be void.

(e) *Section 83(b) Election.* If the Participant chooses, the Participant may make an election under Section 83(b) of the Code with respect to the Restricted Shares, which would cause the Participant currently to recognize income for U.S. federal income tax purposes in an amount equal to the excess (if any) of the Fair Market Value of the Restricted Shares (determined as of the Grant Date) over the amount, if any, that the Participant paid for the Restricted Shares, which excess will be subject to U.S. federal income tax. The form for making a Section 83(b) election is available from the Company at the address indicated in Section 4(a). **The Participant acknowledges that (i) the Participant is solely responsible for the decision whether or not to make a Section 83(b) election, and the Company is not making any recommendation with respect thereto, (ii) it is the Participant's sole responsibility to timely file the Section 83(b) election within 30 days after the Grant Date, if the Participant decides to make such election, and (iii) if the Participant does not make a valid and timely Section**

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**83(b) election, the Participant will be required to recognize ordinary income at the time of vesting on any future appreciation on the Restricted Shares.**

(f) *Withholding Requirements.* The Company may withhold any tax (or other governmental obligation) that becomes due with respect to the Restricted Shares (or any dividend or distribution thereon), and the Participant shall make arrangements satisfactory to the Company to enable the Company to satisfy all such withholding requirements. Notwithstanding the foregoing, the Committee, in its sole discretion, may permit the Participant to satisfy any such withholding requirement by transferring to the Company pursuant to such procedures as the Committee may require, effective as of the date on which such requirement arises, a number of vested Shares owned and designated by the Participant having an aggregate Fair Market Value as of such date that is equal to the minimum amount required to be withheld. If the Committee permits the Participant to satisfy any such withholding requirement pursuant to the preceding sentence, the Company shall remit to the Internal Revenue Service and appropriate state and local revenue agencies, for the credit of the Participant, an amount of cash withholding equal to the Fair Market Value of the Shares transferred to the Company as provided above.

*Section 3. Vesting; Change in Control; Forfeiture upon Termination of Service.*

(a) *Vesting.* The Restricted Shares shall vest and become non-forfeitable (subject to Section 3(b)) in accordance with the Vesting Schedule set forth on the cover page of this Agreement; provided that the Restricted Shares shall vest on any date in such Vesting Schedule only if no Termination of Service occurs with respect to the Participant on or prior to such vesting date. In the event of the Participant's Termination of Service at any time and for any reason, the unvested Restricted Shares shall be forfeited in their entirety without any payment to the Participant.

(b) *Termination for Cause.* In the event of the Participant's Termination of Service for Cause (as determined by the Committee in good faith), all of the Participant's Shares of Restricted Stock granted under this Agreement, including those that are otherwise vested, shall be forfeited in their entirety simultaneously with the Termination of Service without any payment to the Participant.

(c) *Change of Control.* If the Participant holds Restricted Shares at the time a Change in Control occurs, the Restricted Shares shall become 100% vested and non-forfeitable on the date of the Change in Control immediately prior to the consummation thereof.

(d) *Effect of Vesting.* Subject to the provisions of this Agreement, upon the vesting of any of the Restricted Shares, the restrictions under this Award with respect to such Shares shall lapse. Subject to any applicable Lock Up Agreement, such Shares shall be fully assignable, saleable and transferable by the Participant, and the Company shall deliver such Shares to the Participant by transfer to the Depository Trust Company for the benefit of the Participant or by delivery of a share certificate registered in the Participant's name and such transfer shall be evidenced in the register of members of the Company.

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Section 4. *Change in Control.* Without limiting the Committee's power under the Plan, upon the occurrence of a Change in Control, the Committee is authorized (but not obligated) to make adjustments to the terms and conditions of the Restricted Shares without the need for the consent of the Participant, including, without limitation, the following (or any combination thereof):

(a) The Committee may provide for the continuation or assumption of the Restricted Shares and this Agreement by the acquiring or successor entity (or parent thereof), including the Company if it is the surviving entity, or for the substitution of the Restricted Shares and this Agreement with a substitute award with terms comparable to the Restricted Shares and this Agreement (in each case with appropriate adjustments as to the number and type of Shares (or other securities) underlying the Award or substitute award). The determination of such appropriate adjustments and comparability shall be made by the Committee.

(b) The Committee may provide for the cancellation of all or any portion of the Restricted Shares for value (payable in the form of cash, stock, securities, other property or any combination thereof) based upon the price per Share received or to be received by other stockholders of the Company in the Change in Control transaction.

Section 5. *Miscellaneous Provisions.*

(a) *Notices.* All notices, requests and other communications under this Agreement shall be in writing and shall be delivered in person (by courier or otherwise), mailed by certified or registered mail, return receipt requested, or sent by facsimile transmission, as follows:

if to the Company, to:

Health Insurance Innovations, Inc.  
15438 N. Florida Avenue, Suite 201  
Tampa, Florida, 33613  
Attention: Michael W. Kosloske  
Telecopy: (877) 376-5832  
with a copy to (which shall not constitute notice hereunder):  
Gary Raeckers

if to the Participant, to the address that the Participant most recently provided to the Company,

or to such other address or facsimile number as such party may hereafter specify for the purpose by notice to the other parties hereto. All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5:00 p.m. on a business day in the place of receipt. Otherwise, any such notice, request or communication shall be deemed received on the next succeeding business day in the place of receipt.

(b) *Entire Agreement.* This Agreement, the Plan and any other agreements referred to herein and therein and any attachments referred to herein or therein, constitute the entire agreement and understanding between the parties in respect of the subject matter hereof and

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supersede all prior and contemporaneous arrangements, agreements and understandings, both oral and written, whether in term sheets, presentations or otherwise, between the parties with respect to the subject matter hereof.

(c) *Amendment; Waiver.* No amendment or modification of any provision of this Agreement shall be effective unless signed in writing by or on behalf of the Company and the Participant, except that the Committee may amend or modify this Agreement without the Participant's consent in accordance with the provisions of the Plan or as otherwise set forth in this Agreement. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition whether of like or different nature. Any amendment or modification of or to any provision of this Agreement, or any waiver of any provision of this Agreement, shall be effective only in the specific instance and for the specific purpose for which made or given.

(d) *Assignment.* Neither this Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable by the Participant.

(e) *Successors and Assigns; No Third Party Beneficiaries.* This Agreement shall inure to the benefit of and be binding upon the Company and the Participant and their respective heirs, successors, legal representatives and permitted assigns. Nothing in this Agreement, expressed or implied, is intended to confer on anyone other than the Company and the Participant, and their respective heirs, successors, legal representatives and permitted assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

(f) *Counterparts.* This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

(g) *Plan.* The Participant acknowledges and understands that material definitions and provisions concerning this Award and the Participant's rights and obligations with respect thereto are set forth in the Plan. The Participant has read carefully, and understands, the provisions of the Plan.

(h) *Governing Law.* The Agreement shall be governed by the laws of the State of Florida, without application of the conflicts of law principles thereof.

(i) *No Right to Continued Service.* The granting of the Award evidenced hereby and this Agreement shall impose no obligation on the Company or any Affiliate to continue the service of the Participant and shall not lessen or affect the right that the Company or any Affiliate may have to terminate the service of such Participant.

(j) *WAIVER OF JURY TRIAL.* EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

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IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first written above.

**HEALTH INSURANCE INNOVATIONS, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PARTICIPANT**

Name: \_\_\_\_\_

HEALTH INSURANCE INNOVATIONS, INC.  
LONG TERM INCENTIVE PLAN

Stock Appreciation Rights Award Agreement  
(Non-Employee Director; Stock-Settled)

You have been granted Stock Appreciation Rights (this "Award") on the following terms and subject to the provisions of Attachment A and the Long Term Incentive Plan (the "Plan") of Health Insurance Innovations, Inc. (the "Company"). Unless defined in this Award Agreement (including Attachment A, this "Agreement"), capitalized terms will have the meanings assigned to them in the Plan. In the event of a conflict among the provisions of the Plan, this Agreement and any descriptive materials provided to you, the provisions of the Plan will prevail.

**Participant** \_\_\_\_\_

**Number of Stock Appreciation Rights** \_\_\_\_\_ (each a "SAR")

**Exercise Price per SAR** \$ \_\_\_\_\_

**Grant Date** \_\_\_\_\_, 20\_\_\_\_

**Expiration Date** \_\_\_\_\_, 20\_\_\_\_, subject to earlier termination under Section 2(d) of Attachment A.

**Vesting Schedule**  
(subject to Section 2(c) of Attachment A)

**Vesting** Subject to Section 2(c) of Attachment A, \_\_\_\_% of the SARs shall vest and become exercisable on \_\_\_\_\_ of each of \_\_\_\_\_.

**Stock Appreciation Rights Award Agreement  
(Non-Employee Director; Stock-Settled)  
Terms and Conditions**

**Grant to:** \_\_\_\_\_

Section 1. *Grant of Stock Appreciation Rights.* Subject to the terms and conditions of the Plan and this Agreement, the Company hereby grants this Award to the Participant on the Grant Date on the terms set forth on the cover page of this Agreement, as more fully described in this Attachment A. This Award is granted under the Plan, which is incorporated herein by this reference and made a part of this Agreement.

Section 2. *Terms of SAR.*

(a) *Generally.* Subject to the terms and conditions of this Agreement and the Plan, each SAR constitutes an unfunded and unsecured promise of the Company to deliver to Participant, at the time such SAR is validly exercised, an amount, payable in the form of Shares, equal to the excess of (i) the Fair Market Value of one Share on the date of exercise, over (ii) the Exercise Price per SAR set forth on the cover page of this Agreement (the “**Spread**”).

(b) *Exercisability.* Subject to the terms and conditions of this Agreement and the Plan, a SAR may be exercised only after if it has vested and become exercisable under Section 2(c), and only before it has terminated under Section 2(d).

(c) *Vesting.*

(i) The SARs shall vest and become exercisable in accordance with the Vesting Schedule set forth on the cover page of this Agreement; provided that the SARs shall vest on any date in such Vesting Schedule only if no Termination of Service occurs with respect to the Participant on or prior to such vesting date. If a Termination of Service occurs, all unvested SARs shall terminate in accordance with Section 2(d)(ii).

(ii) If the Participant holds unvested SARs at the time a Change in Control occurs, the SARs shall become 100% vested and exercisable on the date of the Change in Control immediately prior to the consummation thereof.

(d) *Termination.* The SARs shall terminate at the time of termination set forth below:

(i) All of the SARs shall terminate at 5:00 p.m., Eastern time, on the Expiration Date set forth on the cover page of this Agreement, unless earlier terminated under subsections (ii)–(v) below.

(ii) In the event of the Participant’s Termination of Service at any time and for any reason, the SARs, to the extent that they are not vested and exercisable at the time of the Termination of Service, shall terminate simultaneously with the Termination of Service.

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(iii) In the event of the Participant's Termination of Service for cause (as determined by the Committee in good faith), all of the SARs shall terminate simultaneously with the Termination of Service, including to the extent that the SARs are otherwise vested and exercisable at the time of the Termination of Service.

(iv) In the event of the Participant's Termination of Service by reason of his or her death or Disability, the SARs, to the extent that they are otherwise vested and exercisable at the time of the Termination of Service, shall terminate at 5:00 p.m., Eastern time, on the date that is one year after the date of the Termination of Service.

(v) In the event of the Participant's Termination of Service for any reason not specified in subsections (iii) or (iv) above, the SARs, to the extent that they are otherwise vested and exercisable at the time of the Termination of Service, shall terminate at 5:00 p.m., Eastern time, on the date that is ninety (90) days after the date of the Termination of Service.

Upon termination, all affected SARs shall automatically be forfeited to the Company without consideration, and, if otherwise vested and exercisable, shall cease to be exercisable. For clarity, in no event shall any SAR be exercisable after the Expiration Date set forth on the cover page of this Agreement.

(e) *Transferability.* The SARs, and the Participant's rights under this Agreement, shall not be assigned, sold, transferred or otherwise be subject to alienation by the Participant, other than by will or the law of descent and distribution, and any purported assignment, sale, transfer or other alienation not permitted hereunder shall be void. During the Participant's lifetime, the SARs shall be exercisable only by the Participant.

### Section 3. *Exercise.*

(a) *When to Exercise.* Except as otherwise provided in the Plan or this Agreement, the Participant (or in the case of exercise after the Participant's death or incapacity, the Participant's guardian, legal representative, heir or legatee, as the case may be) may exercise his or her SARs that are then exercisable under Section 2, in whole or in part, by following the procedures set forth in this Section 3. If partially exercised, the Participant (or in the case of exercise after the Participant's death or incapacity, the Participant's guardian, legal representative, heir or legatee, as the case may be) may thereafter exercise the remaining unexercised portion of the SARs, to the extent that they are then exercisable under Section 2, by following the procedures set forth in this Section 3.

(b) *Election to Exercise.* To exercise the SARs, the Participant (or in the case of exercise after the Participant's death or incapacity, the Participant's guardian, legal representative, heir or legatee, as the case may be) must deliver to the Secretary of the Company (or his or her designee) a written notice (or notice through another previously approved method, which could include a web-based or e-mail system) which sets forth the number of SARs being exercised, together with any additional documents as the Company may require. Each such notice must

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satisfy whatever then-current procedures apply to the SARs and must contain such representations, warranties and covenants as the Company requires. If someone other than the Participant exercises the SARs, then such person must submit documentation reasonably acceptable to the Company verifying that such person has the legal right to exercise the SARs.

(c) *Date of Exercise.* The SARs shall be deemed to be exercised on the business day that the Company receives a fully executed and completed exercise notice. If an exercise notice is received on a day that is not a business day, or is received after 5:00 p.m., Eastern time, on a business day, then the SARs shall be deemed to be exercised on the first business day immediately following the day such notice is received by the Company.

(d) *Settlement.* Upon a valid exercise of SARs, the Participant shall be entitled to receive that number of Shares determined by dividing (i) (1) the total number of SARs then being exercised, multiplied by (2) the Spread on the date of exercise, by (ii) the Fair Market Value of one Share on the date of exercise.

(e) *Fractional Shares.* No fractional Shares shall be issued upon exercise of SARs, and if the number of Shares otherwise issuable under Section 3(d) upon an exercise of SARs includes a fraction of a Share, then upon such exercise the Participant shall be entitled to receive (i) the number of Shares determined under Section 3(d), rounded down to the nearest whole Share, plus (ii) an amount of cash equal to the Fair Market Value of one Share on the date of exercise, multiplied by such fraction of a Share.

(f) *Withholding Requirements.* The delivery of Shares upon settlement of SARs is conditioned on the Participant making arrangements satisfactory to the Company to enable the Company to satisfy all tax (or other governmental obligation) withholding requirements. In the event that there is any such withholding requirement upon an exercise of SARs, the Committee may, in its sole discretion and pursuant to such procedures as the Committee may require, permit the Participant to satisfy any such withholding requirement by having the Company withhold from the number of Shares otherwise issuable to the Participant upon such exercise a number of Shares having an aggregate Fair Market Value equal to the minimum amount required to be withheld. If the Committee permits the Participant to satisfy any such withholding requirement pursuant to the preceding sentence, the Company shall remit to the Internal Revenue Service and appropriate state and local revenue agencies, for the credit of the Participant, an amount of cash withholding equal to the Fair Market Value of the Shares withheld by the Company as provided above.

(g) *Compliance with Law and Regulations.* The SARs, their exercise and the obligation of the Company to issue Shares in settlement thereof are subject to all applicable federal and state laws, rules and regulations, including securities laws, to approvals by any government or regulatory agency as may be required, and to the rules, regulations and other requirements of the stock market or exchange upon which the Shares are then quoted, traded or listed. The Participant may not exercise a SAR if such exercise would violate any securities laws or other applicable law, rule, regulation or requirement.

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Section 4. *No Rights of Stockholder.* A holder of a SAR, as such, shall not be entitled to vote or receive dividends or be deemed the holder of the Shares underlying the SAR for any purpose, nor shall anything contained in this Agreement be construed to confer upon the holder of a SAR, as such, any of the rights or obligations of a stockholder of the Company, unless and until Shares are actually issued to and held of record by such holder upon settlement of the SARs following valid exercise thereof.

Section 5. *Change in Control.* Without limiting the Committee's power under the Plan, upon the occurrence of a Change in Control, the Committee is authorized (but not obligated) to make adjustments to the terms and conditions of the SARs without the need for the consent of the Participant, including, without limitation, the following (or any combination thereof):

(a) The Committee may provide for the continuation or assumption of the SARs and this Agreement by the acquiring or successor entity (or parent thereof), including the Company if it is the surviving entity, or for the substitution of the SARs and this Agreement with a substitute award with terms comparable to the SARs and this Agreement (in each case with appropriate adjustments as to the Exercise Price and the number and type of Shares (or other securities) underlying the Award or substitute award). The determination of such appropriate adjustments and comparability shall be made by the Committee.

(b) The Committee may provide for the cancellation of all or any portion of the SARs for their Intrinsic Value (payable in the form of cash, stock, securities, other property or any combination thereof) based upon the price per Share received or to be received by other stockholders of the Company in the Change in Control transaction. If at the time of a Change in Control such Intrinsic Value is equal to or less than zero (i.e., the Exercise Price of the SARs equals or exceeds the price per Share received or to be received by other stockholders of the Company in the Change in Control transaction), then the Committee may provide for the cancellation of the SARs without the payment of any consideration therefor.

Section 6. *Miscellaneous Provisions.*

(a) *Notices.* All notices, requests and other communications under this Agreement (other than a notice of exercise, which shall be provided in accordance with Section 3) shall be in writing and shall be delivered in person (by courier or otherwise), mailed by certified or registered mail, return receipt requested, or sent by facsimile transmission, as follows:

if to the Company, to:

Health Insurance Innovations, Inc.  
15438 N. Florida Avenue, Suite 201  
Tampa, Florida, 33613  
Attention: Michael W. Kosloske  
Telecopy: (877) 376-5832

with a copy to (which shall not constitute notice hereunder):  
Gary Raeckers

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if to the Participant, to the address that the Participant most recently provided to the Company,

or to such other address or facsimile number as such party may hereafter specify for the purpose by notice to the other parties hereto. All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5:00 p.m. on a business day in the place of receipt. Otherwise, any such notice, request or communication shall be deemed received on the next succeeding business day in the place of receipt.

(b) *Entire Agreement.* This Agreement, the Plan and any other agreements referred to herein and therein and any attachments referred to herein or therein, constitute the entire agreement and understanding between the parties in respect of the subject matter hereof and supersede all prior and contemporaneous arrangements, agreements and understandings, both oral and written, whether in term sheets, presentations or otherwise, between the parties with respect to the subject matter hereof.

(c) *Amendment; Waiver.* No amendment or modification of any provision of this Agreement shall be effective unless signed in writing by or on behalf of the Company and the Participant, except that the Committee may amend or modify this Agreement without the Participant's consent in accordance with the provisions of the Plan or as otherwise set forth in this Agreement. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition whether of like or different nature. Any amendment or modification of or to any provision of this Agreement, or any waiver of any provision of this Agreement, shall be effective only in the specific instance and for the specific purpose for which made or given.

(d) *Successors and Assigns; No Third Party Beneficiaries.* This Agreement shall inure to the benefit of and be binding upon the Company and the Participant and their respective heirs, successors, legal representatives and permitted assigns. Nothing in this Agreement, expressed or implied, is intended to confer on anyone other than the Company and the Participant, and their respective heirs, successors, legal representatives and permitted assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

(e) *Counterparts.* This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

(f) *Plan.* The Participant acknowledges and understands that material definitions and provisions concerning this Award and the Participant's rights and obligations with respect thereto are set forth in the Plan. The Participant has read carefully, and understands, the provisions of the Plan.

(g) *Governing Law.* The Agreement shall be governed by the laws of the State of Florida, without application of the conflicts of law principles thereof.

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(h) *No Right to Continued Service.* The granting of the Award evidenced hereby and this Agreement shall impose no obligation on the Company or any Affiliate to continue the service of the Participant and shall not lessen or affect the right that the Company or any Affiliate may have to terminate the service of such Participant.

(i) *WAIVER OF JURY TRIAL.* EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

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IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first written above.

**HEALTH INSURANCE INNOVATIONS, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PARTICIPANT**

\_\_\_\_\_  
Name: \_\_\_\_\_

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael W. Kosloske, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Health Insurance Innovations, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2013

/s/ Michael W. Kosloske  
MICHAEL W. KOSLOSKE  
PRESIDENT AND CHIEF EXECUTIVE OFFICER  
(PRINCIPAL EXECUTIVE OFFICER)

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael D. Hershberger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Health Insurance Innovations, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2013

/s/ Michael D. Hershberger

MICHAEL D. HERSHBERGER  
CHIEF FINANCIAL OFFICER, TREASURER AND  
SECRETARY  
(PRINCIPAL FINANCIAL OFFICER)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF  
THE SARBANES-OXLEY ACT OF 2002**

Each of the undersigned in connection with this quarterly report of Health Insurance Innovations, Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the undersigned's knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d));
- and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: May 15, 2013

/s/ Michael W. Kosloske  
MICHAEL W. KOSLOSKE  
PRESIDENT AND CHIEF EXECUTIVE OFFICER  
(PRINCIPAL EXECUTIVE OFFICER)

/s/ Michael D. Hershberger  
MICHAEL D. HERSHBERGER  
CHIEF FINANCIAL OFFICER, TREASURER AND  
SECRETARY  
(PRINCIPAL FINANCIAL OFFICER)

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to Health Insurance Innovations, Inc. and will be retained by Health Insurance Innovations, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

