

HealthMarkets, Inc.  
Form DEF 14C  
April 16, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**SCHEDULE 14C**

**Information Statement Pursuant to Section 14(c)**  
**of the Securities Exchange Act of 1934**

Check the appropriate box:

- Preliminary Information Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(d)(2))
- Definitive Information Statement

**HealthMarkets, Inc.**

(Name of Registrant as Specified in Its Charter)

**Payment of Filing Fee (Check the appropriate box:)**

- No fee required.
- Fee computed on table below per Exchange Act Rules 14c-5(g) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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

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(4) Date Filed:



**INFORMATION STATEMENT**

April 18, 2012

Dear Fellow Stockholder:

I cordially invite you to attend the 2012 Annual Meeting of Stockholders of HealthMarkets, Inc. The meeting this year will be held at 10:00 a.m., Central Daylight Time, on Thursday, May 10, 2012, at the offices of HealthMarkets, Inc., 9151 Boulevard 26, North Richland Hills, Texas. The attached notice of Annual Meeting and Information Statement describes the items currently anticipated to be acted upon by the stockholders at the Annual Meeting. **Please note that the Board of Directors is not soliciting proxies from the holders of the Class A-2 shares in connection with the Annual Meeting.**

One of the purposes of the Information Statement is to give you important information regarding the HealthMarkets, Inc. Board of Directors and executive management. We urge you to read the Information Statement carefully.

On behalf of the management and directors of HealthMarkets, Inc., I want to thank you for your continued support and confidence in HealthMarkets, Inc. We look forward to seeing you at the 2012 Annual Meeting.

Sincerely,

**KENNETH J. FASOLA**  
*President and Chief Executive Officer*

**HEALTHMARKETS, INC.**

**9151 BOULEVARD 26**

**NORTH RICHLAND HILLS, TEXAS 76180**

**NOTICE OF ANNUAL MEETING**

Dear Stockholder:

You are cordially invited to attend the 2012 Annual Meeting of Stockholders of HealthMarkets, Inc. to be held on Thursday, May 10, 2012 at 10:00 a.m., Central Daylight Time, at the Company's offices located at 9151 Boulevard 26, North Richland Hills, Texas 76180.

This Information Statement is being delivered in connection with the following matters:

1. To elect nine (9) directors to serve until our next annual stockholders meeting;
2. To ratify the appointment of KPMG LLP to serve as the independent registered public accounting firm of HealthMarkets, Inc.; and
3. Any other matters that may properly come before the Annual Meeting or any postponements or adjournments thereof.

Members of the HealthMarkets, Inc. Board of Directors and stockholders holding approximately 88.8% of our outstanding Common Stock as of March 30, 2012, have indicated that they intend to vote in favor of electing the proposed slate of directors and ratifying the appointment of the independent registered public accounting firm of HealthMarkets, Inc. Therefore, the proposals will be assured of receiving the required vote and will be approved at the Annual Meeting and will become effective immediately following the Annual Meeting.

By Order of the Board of Directors,

PEGGY G. SIMPSON  
*Corporate Secretary*

Date: April 18, 2012

**WE ARE NOT ASKING YOU FOR A PROXY AND  
YOU ARE REQUESTED NOT TO SEND US A PROXY.**

**INFORMATION STATEMENT FOR THE 2012 ANNUAL MEETING  
OF STOCKHOLDERS TO BE HELD MAY 10, 2012**

**General**

This Information Statement is being distributed in connection with the 2012 Annual Meeting of Stockholders (the Annual Meeting) of HealthMarkets, Inc., a Delaware corporation (the Company, we, our, us or other words of similar import), to be held at our offices located at 9151 Boulevard 26, North Richland Hills, Texas on May 10, 2012, at 10:00 a.m., Central Daylight Time.

This Information Statement includes information relating to the proposals to be voted on at the Annual Meeting, the voting process, compensation of directors and our most highly paid officers, and other required information.

This Information Statement is being furnished to our stockholders for informational purposes only, and we will bear all of the costs of the preparation and dissemination of this Information Statement. Each person who is receiving this Information Statement also is receiving a copy of our Annual Report on Form 10-K for the year ended December 31, 2011. We intend to commence distribution of this Information Statement, together with the notice and any accompanying materials, on or about April 18, 2012.

Our Board of Directors has approved, and has recommended that the stockholders approve, the following proposals (collectively, the Proposals):

1. The election of the slate of nine (9) directors proposed by our Nominating Committee to serve until the next annual meeting of stockholders and until their respective successors are chosen and qualified;
2. The ratification of the selection of KPMG LLP as the Company's independent registered public accounting firm to audit the accounts of the Company for the fiscal year ending December 31, 2012; and
3. Such other business as may properly come before the Annual Meeting or any postponements or adjournments thereof.

**Important Notice Regarding the Availability of Information Statement Materials for the Annual Meeting of Stockholders to be Held on May 10, 2012.**

1. This Notice of Annual Meeting, Information Statement and our Annual Report on Form 10-K for the year ended December 31, 2011 are available on the About HealthMarkets, Inc. page of the Company's website (<http://www.healthmarketsinc.com>).
2. The following materials are available on the About HealthMarkets, Inc. page of the Company's website (<http://www.healthmarketsinc.com>):
  - a. Notice of Annual Meeting
  - b. Information Statement
  - c. Annual Report on Form 10-K
3. If you do not have access to the Internet or have not received a copy of our Annual Report, you may request a copy of it or any exhibits thereto without charge by writing to our Corporate Secretary, at HealthMarkets, Inc., 9151 Boulevard 26, North Richland Hills, Texas 76180.
4. If you wish to attend the Annual Meeting and need directions, please contact us at (817) 255-5200.

**Merger**

On April 5, 2006, HealthMarkets, Inc. completed its merger (the Merger) providing for the acquisition of the Company by affiliates of a group of private equity investors, including The Blackstone Group, Goldman Sachs

Capital Partners and DLJ Merchant Banking Partners. The stock ownership of each of these private equity firms is set forth below under the caption Security Ownership of Certain Beneficial Owners and Management. As a result of the Merger, holders of record on April 5, 2006 of HealthMarkets common shares (other than shares held by certain members of management and shares held through the HealthMarkets agent stock accumulation plans) received \$37.00 in cash per share.

In the transaction, HealthMarkets public shareholders received aggregate consideration of approximately \$1.6 billion, of which approximately \$985.0 million was contributed as equity by the private equity investors. The balance of the Merger consideration was financed with the proceeds of a \$500.0 million term loan facility extended by a group of banks (which was repaid in full on February 29, 2012), the proceeds of \$100.0 million of trust preferred securities issued in a private placement, and Company cash on hand in the amount of approximately \$42.8 million.

### **Voting**

The Board of Directors has selected the close of business on March 30, 2012 (the Record Date) as the time for determining the holders of record of our Class A-1 Common Stock, par value \$0.01 per share, and Class A-2 Common Stock, par value \$0.01 per share (collectively, Common Stock), entitled to notice of, and to vote at, the Annual Meeting or any adjournment or postponement thereof. Shares of Common Stock outstanding on the record date are the only securities that entitle holders to vote at the Annual Meeting or any adjournment or postponement thereof. Each share of Class A-1 Common Stock and Class A-2 Common Stock is entitled to one vote per share on all matters to be presented at the Annual Meeting.

Members of the Board of Directors, members of management and other significant holders of our Class A-1 Common Stock (collectively, the Consenting Stockholders) own a total of 27,450,452.6216 shares, or approximately 88.8% of our total voting power. Because the Consenting Stockholders have indicated that they will vote in favor of all of the Proposals and because such Consenting Stockholders control more than a majority of the voting power, the Proposals are assured of receiving the required vote and being adopted and, thus, we are not soliciting any proxies from holders of the Class A-2 Common Stock.

Stockholders attending the Annual Meeting are welcome to vote at the Annual Meeting and may address any matters that may properly come before the Annual Meeting.

### **How Many Shares of HealthMarkets Common Stock Were Outstanding as of the Record Date?**

As of March 30, 2012, our record date, 32,182,382.6216 shares of our Common Stock were issued and 30,905,157.6216 shares were outstanding, consisting of 27,921,510.6216 shares of Class A-1 Common Stock and 2,983,647.0000 shares of Class A-2 Common Stock. Each share owned entitles the holder to one vote for each share so held. A list of our Stockholders entitled to vote is available at our executive offices at 9151 Boulevard 26, North Richland Hills, Texas 76180. The telephone number of our executive offices is (817) 255-5200.

### **How Many Shares Are Needed to Constitute a Quorum at the Meeting?**

The presence, in person or by proxy, of stockholders holding at least a majority of the voting power are necessary to constitute a quorum at the Annual Meeting. However, the stockholders present at the Annual Meeting may adjourn the Annual Meeting despite the absence of a quorum.

### **What Vote is Required to Approve the Proposals?**

A plurality of the votes cast is required to elect directors. For all of the other Proposals, the affirmative vote of the holders of a majority of the voting power of the shares present or represented by proxy is required to approve the other Proposals. Abstentions will have the same effect as votes against the Proposals, although abstentions will count toward the presence of a quorum.

**Why Isn't HealthMarkets Required to Solicit Proxies for the Proposals?**

As indicated above, the Consenting Stockholders have indicated they will vote in favor of the Proposals, thereby ensuring that such Proposals will be adopted. Therefore, the solicitation of proxies is not necessary and, in order to eliminate the costs and management time involved, our Board of Directors has decided not to solicit proxies.

**When Will Each Proposal Become Effective?**

The Proposals will be effective immediately following the completion of the Annual Meeting, which is at least 20 days after the mailing of this Information Statement. We are mailing this Statement on or about April 18, 2012 and will hold our Annual Meeting on May 10, 2012.

**How Can Stockholders Participate in the Meeting?**

Each stockholder of record as of the record date can participate in the Annual Meeting personally or through another person or persons designated to act for such stockholder by proxy.

**How Will Our Stockholders Know When the Proposals are Effective?**

Those stockholders that attend the Annual Meeting will be notified then of the effectiveness of the Proposals. In addition, we will notify our stockholders of the effective dates of the Proposals described in this Information Statement when we file our Form 10-Q for the quarter ended June 30, 2012, which will be the first Quarterly Report on Form 10-Q following the Annual Meeting.

**Who Will Pay for the Costs Associated with this Information Statement?**

HealthMarkets will pay all costs associated with distributing this Information Statement, including the costs of printing and mailing.

**No additional action is required by you in connection with the Proposals. However, Section 14(c) of the Securities Exchange Act of 1934 requires the mailing to our stockholders of the information set forth in this Information Statement at least twenty (20) days prior to the earliest date on which the corporate action may be taken.**

**PROPOSAL 1**

**ELECTION OF DIRECTORS**

**Election of Directors**

Nine (9) directors will be elected at the Annual Meeting, each of whom is expected to serve until our next annual meeting of stockholders and until his successor has been duly elected and qualified. All of the nominees are currently directors of the Company, and each nominee has consented to being named as a nominee and to serve, if elected.

In connection with the Merger, we entered into a stockholders agreement with various investment affiliates of The Blackstone Group, Goldman Sachs Capital Partners and DLJ Merchant Banking (the "Private Equity Investors"), as well as certain management stockholders. The Stockholders Agreement provides that the Board of Directors of the Company consist of the following:

up to four directors (plus the number of Non-Investor Directors) nominated or designated by the investment affiliates of Blackstone and any permitted transferee thereof (collectively, the "Blackstone Investor Group");

up to two directors nominated or designated by the investment affiliates of Goldman Sachs and any permitted transferee thereof (collectively, the "GS Investor Group");



one director nominated or designated by the investment affiliates of DLJ Merchant Banking and any permitted transferee thereof (collectively, the DLJ Investor Group, and each of the Blackstone Investor Group, the GS Investor Group and the DLJ Investor Group, a Private Equity Investor Group );

the Company's Chief Executive Officer, or such other executive officer as may be selected, which we refer to as the Management Director, to be nominated by Private Equity Investors holding a majority of the Class A-1 Common Stock held by Private Equity Investors; and

additional directors, which we refer to as the Additional Directors, including directors who may be considered independent under various SEC and stock exchange definitions to the extent deemed necessary or advisable.

The allocation of board representation to the Private Equity Investor Groups will be reduced as the ownership interest of Class A-1 Common Stock of such Private Equity Investor Group is reduced. The Blackstone Investor Group will have the ability to designate a majority of the directors for so long as it holds a majority of the shares of Class A-1 Common Stock issued to the Private Equity Investors in the Merger. Each Private Equity Investor Group will lose its right to designate directors entirely when its ownership of shares of Class A-1 Common Stock is less than the greater of (i) five percent of the shares of Class A-1 Common Stock issued to the Private Equity Investors in the Merger and (ii) three percent of the then-outstanding shares of Class A-1 Common Stock.

Generally, each director will have one vote. However, if the Blackstone Investor Group nominates or designates fewer than the maximum number of directors to which it is entitled, then the Blackstone Investor Group's directors will have aggregate voting power on board matters equal to the maximum number of directors that the Blackstone Investor Group is entitled to nominate or designate divided by the number of directors they have actually nominated or designated.

The Blackstone Investor Group has designated Chinh E. Chu, Jason K. Giordano and David K. McVeigh for nomination as directors. The GS Investor Group has designated Adrian M. Jones for nomination as a director. The DLJ Investor Group has designated R. Neal Pomroy for nomination as a director. Kenneth J. Fasola has been designated as the Management Director. Phillip J. Hildebrand, Mural R. Josephson and Steven J. Shulman have been designated as Additional Directors.

**THE BOARD OF DIRECTORS HAS NOMINATED THE FOLLOWING SLATE OF DIRECTORS TO HEALTHMARKETS BOARD AND HAS RECOMMENDED APPROVAL OF THEIR ELECTION TO SERVE UNTIL THE NEXT ANNUAL MEETING OF ITS STOCKHOLDERS IN 2013 OR UNTIL THEIR RESPECTIVE SUCCESSORS ARE ELECTED AND QUALIFIED. IF A NOMINEE IS UNAVAILABLE FOR ELECTION, THE BOARD MAY REDUCE THE NUMBER OF DIRECTORS TO BE ELECTED AT THE ANNUAL MEETING.**

Name	Age	Biographical Information	Year First Elected Director
<b>Phillip J. Hildebrand</b>	59	Mr. Hildebrand has served as a Director of HealthMarkets, Inc. since June 2008 and as Chairman of the Board since April 1, 2011. He served as CEO of HealthMarkets, Inc. from June 2008 to September 2008, as President and CEO from September 2008 to September 2010, and as CEO from September 2010 to April 1, 2011. Mr. Hildebrand is a member of the Executive Committee, Audit Committee and Compliance & Governance Committee of the Board. He also served as a Director, Chairman and Chief Executive Officer of the Company's insurance subsidiaries from September 2008 to April 1, 2011. He served as a Director and Chief Executive Officer of the Company's Insphere insurance agency subsidiary from June 2009 until April 1, 2011. Prior to joining the Company, from 1975 to 2008, Mr. Hildebrand held several senior management positions with New York Life Insurance Company before retiring in 2008 as Vice Chairman. Mr. Hildebrand currently serves as a Director of DJO Incorporated and previously served as a Director of New York Life subsidiaries in Hong Kong and Taiwan and of MacKay Shields - an institutional investment manager. Mr. Hildebrand also served as a director of The American College, a non-profit private educational institution. He is also a past Director of the Million Dollar Round Table Foundation and LIMRA International.	2008
<b>Kenneth J. Fasola</b>	52	Mr. Fasola currently serves as a Director and as President and CEO of HealthMarkets, Inc. Mr. Fasola previously served as a Director, President and Chief Operating Officer of HealthMarkets, Inc. from September 2010 and to April 1, 2011. Mr. Fasola is a member of the Executive Committee of the Board. He also serves as a Director, President and CEO of the Company's insurance subsidiaries and of the Company's Insphere insurance agency subsidiary. Prior to joining the Company, from 2009 to 2010, Mr. Fasola was responsible for overseeing Humana's individual major medical, specialty and supplemental insurance operations. From 2002 through 2008, Mr. Fasola was with UnitedHealth Group, serving as Chief Executive Officer of Secure Horizons, the nation's largest Medicare Advantage insurer, CEO of UnitedHealth Group's Central Region and President of United Healthcare Lines of Business. From 1990 to 2002, Mr. Fasola held several executive and senior level management positions at Humana, including Chief Operations Officer of Market Operations, Senior Vice President for the Office of the Chairman, and Senior Vice President of Sales, Marketing and Business Development. Mr. Fasola serves on the advisory board of Pennsylvania State University, Schreyer Honors College and previously served on the board of directors of Connexions, Inc., a technology-based business process outsourcing firm.	2010

Name	Age	Biographical Information	Year First Elected Director
<b>Chinh E. Chu</b>	45	Mr. Chu has been a director of the Company since April 2006 and served as Chairman of the Board from April 2006 until July 2006, and from February 2009 to April 1, 2011. Mr. Chu is a member of the Executive Committee, Executive Compensation Committee, and Nominating Committee of the Board. Mr. Chu is a Senior Managing Director of The Blackstone Group LP, which he joined in 1990. He currently serves as a director of Alliant Insurance Services, Inc., Bayview Asset Management, LLC, DJO Incorporated, Catalent Pharma Solutions, Inc., SunGard Data Systems, Inc., Graham Packaging Holdings Company, BlueStar, Bank United and AlliedBarton Security Services. Mr. Chu was formerly a director of Celanese Corporation and Financial Guaranty Insurance Company.	2006
<b>Jason K. Giordano</b>	33	Mr. Giordano has been a director of the Company since February 2009 and is a member of the Audit Committee and Investment Committee of the Board. Mr. Giordano joined The Blackstone Group in 2006 and is a Principal in the Corporate Private Equity Group. Prior to joining Blackstone, Mr. Giordano attended Harvard Business School from 2004 to 2006 and worked in the private equity group at Bain Capital from 2002 to 2004. Prior to that, Mr. Giordano worked as an investment banker with Goldman, Sachs & Co. Mr. Giordano also serves as a director of Pinnacle Foods Group and Polymer Group, Inc.	2009
<b>Adrian M. Jones</b>	47	Mr. Jones has been a director of the Company since April 2006. Mr. Jones is a member of the Executive Committee, Executive Compensation Committee, Investment Committee and the Nominating Committee of the Board. Mr. Jones has been a Managing Director of Goldman, Sachs & Co. since 2002. Mr. Jones joined Goldman, Sachs & Co.'s Investment Banking Division in 1994 and moved to its Merchant Banking Division in 1998. Before joining Goldman Sachs, Mr. Jones served as a lieutenant in the Irish Army and worked at Bank of Boston. Mr. Jones currently serves as a director of Dollar General, Education Management Corporation, Biomet, Signature Hospital Holdings, Michael Foods and Sagittarius Brands.	2006

Name	Age	Biographical Information	Year First Elected Director
<b>Mural R. Josephson</b>	63	Mr. Josephson has been a director of the Company since May 2003 and is a member of the Audit Committee, Executive Compensation Committee and Compliance & Governance Committee of the Board. Following his retirement in October 2002 as Senior Vice President and Chief Financial Officer of Lumbermens Mutual Casualty Company (the lead company of Kemper Insurance Companies), until December 2009, Mr. Josephson served as a consultant to various financial institutions. In July 1998, Mr. Josephson retired as a partner with KPMG LLP after 28 years with the firm. Mr. Josephson was a licensed Certified Public Accountant in Illinois for 30 years, and is a member of the American Institute of Certified Public Accountants. He currently serves as a director of SeaBright Holdings, Inc. (a publicly-traded company providing multi-jurisdictional workers' compensation insurance) and Argo Group International Holdings, Ltd. (a publicly-traded company providing insurance and reinsurance products globally). He previously served as a director of ALPS Corporation and its wholly-owned subsidiary, Attorneys Liability Protection Society, Inc. (a privately-held insurance company that writes attorney errors and omissions coverage).	2003
<b>David K. McVeigh</b>	44	Mr. McVeigh began serving as a member of the Board in February 2009. He also serves as a member of the Compliance & Governance Committee, Investment Committee and Nominating Committee of the Board. Mr. McVeigh joined The Blackstone Group in 2006 and is an Executive Director in the Corporate Private Equity Group. Before joining Blackstone, Mr. McVeigh was a partner with McKinsey and Company, where he was employed from 1994 to 2006. Mr. McVeigh also serves as a director of Biomet and RGIS.	2009
<b>R. Neal Pomroy</b>	51	Mr. Pomroy has served as a director of the Company since April 2010 and is a member of the Executive Committee, Investment Committee and Nominating Committee of the Board. Mr. Pomroy is a Partner and Managing Director and Global Operating Partner of DLJ Merchant Banking Partners, Credit Suisse's flagship private equity investment business. He joined DLJ Merchant Banking Partners in 2004. Prior to joining DLJ Merchant Banking Partners, Mr. Pomroy was a Managing Director with Mercer Management Consulting, head of the Private Equity and Mergers & Acquisition practice - North America, and where he held several senior management positions including the North American Operating Committee and New York Region Head. From 1983 to 1987, Mr. Pomroy worked in leveraged buyout finance and private equity for Bank of Boston. Mr. Pomroy is a Director of DenMat Corporation, Hard Rock Hotel Holdings, LLC, The Service Companies, Inc., Integro, Ltd. and Peachtree Holdings.	2010

Name	Age	Biographical Information	Year First Elected Director
Steven J. Shulman	59	<p>Mr. Shulman began serving as a director of the Company in July 2006. Mr. Shulman is a member of the Executive Compensation Committee and Audit Committee of the Board. He currently is a Senior Advisor of Warburg Pincus, LLC, a private equity firm providing investments in information technology, healthcare, media, communications, energy, financial and business services, and an operating partner at Water Street Healthcare Partners (a middle market private equity firm focused exclusively on healthcare) and Tower 3 Partners (a distressed middle market private equity firm). He previously served as Chairman and CEO of Magellan Health Services, Inc. (Nasdaq:MGLN), a manager of behavioral health and radiology benefits, from 2003 until February 2008. Prior to joining Magellan Health Services, Mr. Shulman founded IHCG, an early-stage healthcare technology venture fund, and served as its Chairman and CEO from 2000 to 2003. Prior to IHCG, he was employed by Prudential Healthcare, Inc. as its Chairman, President and CEO from 1997 to 1999. Mr. Shulman co-founded Value Health, Inc., a NYSE-listed specialty managed healthcare company, and served as a Director and President of its Pharmacy and Disease Management Group from 1987 to 1997. Mr. Shulman also serves as a director of Digital Insurance (a private employee benefit service company), Broadlane (a private healthcare supply chain management company), CareCentrix (a private home healthcare benefits management company), AccessMediquip (a private surgical implant device benefits manager), and HealthPlan Holdings (a healthcare information management company focusing on the individual marketplace).</p>	2006

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**INFORMATION ABOUT THE BOARD OF DIRECTORS**
**Director Compensation for the 2011 Fiscal Year**

The following table shows the compensation paid to our directors for their services during the fiscal year ended December 31, 2011. Directors who are our employees do not receive additional compensation for their services as directors. Accordingly, during 2011, Mr. Fasola received no compensation for his service as a director and Mr. Hildebrand received no compensation for his service as a director during the period in which he was employed by the Company. Messrs. Chu, Giordano, Jones, McVeigh and Pomroy, members of our Board designated by the Private Equity Investors, are not considered to be independent and therefore also do not receive compensation for their services. We provide our independent directors with an annual retainer for Board and Committee membership and have, historically, awarded stock option grants to our independent directors. In 2011, we awarded 7,500 stock option grants to each of our independent directors (Messrs. Josephson and Shulman). We reimburse all directors for travel and lodging expenses they incur in connection with their attendance at directors' meetings and meetings of the stockholders of the Company.

	Fees		Non-Equity		Change in		
	Earned or		Incentive		Pension		
	Paid in	Stock	Option	Plan	Value and	All Other	Total
	Cash	Awards	Awards(4)	Compensation	Deferred	Compensation	(\$)
	(\$)	(\$)	(\$)	(\$)	Compensation	(\$)	(\$)
					Earnings		
Phillip J. Hildebrand(1)	168,750						168,750
Kenneth J. Fasola							
Chinh E. Chu							
Jason K. Giordano							
Adrian M. Jones							
Mural R. Josephson(2)	200,000		33,150				233,150
David K. McVeigh							
R. Neal Pomroy							
Steven J. Shulman(3)	150,000		33,150				183,150

- (1) Following his employment with the Company, Mr. Hildebrand was appointed Chairman of the Board effective April 1, 2011. Mr. Hildebrand receives annual retainers (pro-rated based on the portion of the year that he did not serve as an employee of the Company) for the following: Board membership \$100,000; Chairmanship of the Board \$50,000; Executive Committee membership \$25,000; Audit Committee \$25,000; Compliance and Governance Committee \$25,000. Mr. Hildebrand's director's fees have also been included in the All Other Compensation column of the Summary Compensation Table.
- (2) Mr. Josephson receives annual retainers for the following: Board membership \$100,000; Chairmanship of the Audit Committee \$50,000; Executive Compensation Committee membership \$25,000; Compliance and Governance Committee \$25,000.
- (3) Mr. Shulman receives annual retainers for the following: Board membership \$100,000; Executive Compensation Committee membership \$25,000; Audit Committee \$25,000.
- (4) The independent directors were each granted 7,500 stock options on March 15, 2011. The stock options vest in equal 20% installments on each of the first five anniversaries of the grant date and vest in full upon a Change in Control. The grant date fair value of the stock options was computed in accordance with FASB ASC Topic 718. At December 31, 2011, stock option awards for the independent directors were outstanding as follows: Josephson 4,054 vested options at an exercise price of \$22.55 per share and 7,500 unvested options at an exercise

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price of \$9.25 per share; and Shulman 6,757 vested options at an exercise price of \$22.55 per share and 7,500 unvested options at an exercise price of \$9.25 per share.

### **Background and Experience of Directors**

As discussed above, pursuant to the terms of the Company's Stockholders Agreement, all directors of the Company other than Mr. Fasola (our Management Director), Mr. Hildebrand (our non-management Chairman)

and Messrs. Josephson and Shulman (our independent directors) are nominated or designated by investment affiliates of the Private Equity Investor Groups. We believe that our directors provide an appropriate mix of experience and skills relevant to the size and nature of the Company's business. In particular, Messrs. Chu, Giordano and McVeigh (designated by the Blackstone Investor Group), Mr. Jones (designated by the GS Investor Group) and Mr. Pomroy (designated by the DLJ Investor Group) have significant financial, investment and strategic business planning experience and have served as directors of portfolio companies of the Private Equity Investor Groups. Mr. Hildebrand, our Chairman, has extensive management experience in the insurance industry, having served as a director and CEO of HealthMarkets, Inc. from 2008 to 2011 and, prior to that, for many years in senior management roles and as a director for New York Life Insurance Company or its subsidiaries. Mr. Fasola, our President and Chief Executive Officer, has extensive successful experience in the health insurance industry, honing his skills over a 26-year career that includes senior executive roles with two of the nation's leading health insurance carriers, Humana Inc. and UnitedHealth Group. Our independent directors bring extensive management, financial and/or accounting experience from the insurance and health care industries. Specifically, Mr. Josephson, the Chairman of our Audit Committee, is an audit committee financial expert, as that term is defined under applicable Securities Exchange Act rules, by virtue of his years of experience with a major independent public accounting firm, as well as in various senior management and board positions. Mr. Shulman brings extensive experience as a founder, chairman, chief executive officer and/or director of a number of businesses in the health services and insurance industries.

### **Board Leadership Structure**

Mr. Chu, who is a representative of The Blackstone Group, our majority stockholder, led the Company as Chairman of the Board until April 1, 2011, at which time Mr. Hildebrand was appointed Chairman of the Board. The Chief Executive Officer position is separate from the Chairman position. We believe that the separation of the Chairman and the Chief Executive Officer positions is appropriate for our business and delineates the separate roles of management and directors. In his capacity as Chief Executive Officer, Mr. Fasola provides the day-to-day leadership of the Company. As our Chairman, Mr. Hildebrand is the principal representative of the Board of Directors and leads the Board in the performance of its duties, including presiding over all Board meetings he attends.

### **Role of Board in Risk Oversight**

The Company is exposed to a number of risks, including, among others, economic, financial, operational and regulatory risks. The Company's management is responsible for the day-to-day management of these risks, while the Board as a whole is responsible for the oversight of such risk. The Audit, Executive Compensation, Compliance & Governance and Investment Committees each play an important role in assisting the Board to carry out its oversight responsibilities. The Audit Committee regularly meets with management, members of the Company's internal audit department and the Company's independent registered public accounting firm to address any significant financial risk exposure, including disclosure controls and procedures and internal control over financial reporting. The Executive Compensation Committee assists the Board with risk oversight by administering and evaluating the Company's compensation programs and practices for its highest paid executives, so that these compensation practices meet the Company's objectives and do not encourage employees to take excessive risks. In addition to the evaluation of compensation for the highest paid executives undertaken by the Executive Compensation Committee, a group of management personnel, including representatives from the finance, human resources, internal audit and legal functions, undertake a more comprehensive analysis of all compensation programs for employees of the Company and evaluate whether such compensation programs (after taking into account potential likelihood and impact) present inherent risk and whether, after taking into account mitigating factors (for example, vesting periods, duration of arrangement and number of participants), these compensation programs present any residual risk. The management group conducted this analysis utilizing an online tool to capture the risk assessments for each compensation program. The group then met to review the assessments provided by the online tool and made any necessary adjustments. After conducting this analysis and discussing the results as a group, the management group determined that, consistent with the Executive Compensation Committee's approach to compensation for the Company's highest paid executives, the Company's compensation policies and practices do not create risks that are reasonably likely to have a material



adverse effect on the Company. This analysis was provided to the Executive Compensation Committee and the Committee had the opportunity to review and discuss with members of management.

The Compliance & Governance Committee assists with risk oversight by overseeing, among other things, the Company's compliance and regulatory functions, including oversight of the integrity of the Company's compliance with legal and regulatory requirements and overall compliance program. The Investment Committee coordinates with the Investment/Finance Committee of the Company's insurance subsidiaries in supervising and implementing investments by the Company and these subsidiaries, to ensure that these investments do not present excessive risk to the Company.

#### **Director Independence**

The Board has determined that Messrs. Josephson and Shulman are independent, as that term is defined under the listing standards of the New York Stock Exchange. Mr. Fasola is not independent due to his affiliation with the Company and Mr. Hildebrand is not independent due to his employment with the Company that ended on April 1, 2011. Messrs. Chu, Giordano, Jones, McVeigh, and Pomroy are not independent due to their respective affiliations with the Private Equity Investors.

#### **Annual Meeting Attendance**

We encourage but do not require our directors to attend the Annual Meeting of Stockholders. None of the Company's then directors attended the Annual Stockholder Meeting held May 23, 2011.

#### **Stockholder Communication with Our Board**

All current members of the Company's Board are listed under the heading "About HealthMarkets, Inc." on the Company's website (<http://www.healthmarketsinc.com>). Stockholders may communicate directly with the HealthMarkets Board of Directors, including the Chairman of the Audit Committee, the Chairman of the Nominating Committee and/or the non-Management Directors individually or as a group. All communications should be directed to our Corporate Secretary at HealthMarkets, Inc., 9151 Boulevard 26, North Richland Hills, TX 76180. In addition, we maintain contact information, both telephone and email, on our website under the "Contact Us" link. The envelope for any mailings should clearly indicate the person or persons to whom the Corporate Secretary should forward the communication. Communications will be distributed to the Board, or to any individual director or directors as appropriate, depending on the facts and circumstances outlined in the communications, with the exception of spam, business solicitations and advertisements, product inquiries and suggestions, resumes and other forms of job inquiries, surveys, and obvious "junk" and mass mailings.

#### **Board Meetings, Attendance, and Executive Sessions**

During the fiscal year ended December 31, 2011, the Board of Directors met six (6) times and took action on other occasions by unanimous written consent of its members. Each member of the Board of Directors who held such position in 2011 attended at least 75% in the aggregate of all meetings of the Board and any committee on which such director served. The Board met in executive session during all regularly scheduled meetings, without management present, and plans to continue that practice going forward.

**Board Committees**

To assist the Board in the discharge of its responsibilities, the Company has established a standing Audit Committee, Executive Committee, Investment Committee, Compliance & Governance Committee, Nominating Committee, and Executive Compensation Committee. The following chart shows the current composition of the committees.

<b>Director</b>	<b>Audit</b>	<b>Executive</b>	<b>Investment</b>	<b>Compliance &amp; Governance</b>	<b>Nominating</b>	<b>Executive Compensation</b>
Phillip J. Hildebrand	X	X		X		
Kenneth J. Fasola		X				
Chinh E. Chu		X*			X*	X*
Jason K. Giordano	X		X*			
Adrian M. Jones		X	X		X	X
Mural R. Josephson	X*			X		X
David K. McVeigh			X	X*	X	