

HealthMarkets, Inc.
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November 10, 2009

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**HEALTHMARKETS, INC.
9151 BOULEVARD 26
NORTH RICHLAND HILLS, TEXAS 76180**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
To Be Held December 1, 2009**

Dear Stockholder:

You are cordially invited to attend a Special Meeting of Stockholders of HealthMarkets, Inc., a Delaware corporation (the Company), at the Company's offices located at 9151 Boulevard 26, North Richland Hills, Texas on Tuesday December 1, 2009, at 9:30 a.m., Central Standard Time.

This Information Statement is being delivered in connection with the approval of the Second Amended and Restated HealthMarkets, Inc. 2006 Management Option Plan.

Members of HealthMarkets' Board of Directors have approved, and stockholders holding approximately 90% of our outstanding Common Stock as of October 30, 2009 have indicated that they intend to vote in favor of, the Second Amended and Restated HealthMarkets, Inc. 2006 Management Option Plan. Therefore, the proposal will be assured of receiving the required vote and will be approved at the Special Meeting and will become effective immediately following the Special Meeting.

By Order of the Board of Directors,

PEGGY G. SIMPSON
Corporate Secretary

Date: November 10, 2009

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

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DECEMBER 1, 2009

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**INFORMATION STATEMENT
FOR SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD DECEMBER 1, 2009**

General

This Information Statement is being distributed in connection with a Special Meeting of Stockholders (the Special 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 Tuesday December 1, 2009, at 9:30 a.m., Central Standard Time.

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. We intend to commence distribution of this Information Statement, together with the notice and any accompanying materials, on or about November 10, 2009.

Our Board of Directors has approved, and has recommended that the stockholders approve, a proposal to approve the second amendment and restatement of the HealthMarkets, Inc. 2006 Management Option Plan (the Second Amended and Restated HealthMarkets, Inc. 2006 Management Option Plan) (the Proposal).

Voting

The Board of Directors has selected the close of business on October 30, 2009 (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, the Common Stock), entitled to notice of, and to vote at, the Special Meeting or any adjournment or postponement thereof. Shares of Common Stock outstanding on the record date are the only securities of ours that entitle holders to vote at the Special 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 Special Meeting.

Members of the Board of Directors, members of our management and other significant holders of our Class A-1 Common Stock (collectively, the Consenting Stockholders) owning approximately 90% of our outstanding Common Stock as of the Record Date have indicated that they intend to vote in favor of the adoption of the Second Amended and Restated HealthMarkets, Inc. 2006 Management Option Plan. Because the Consenting Stockholders control more than a majority of the voting power, the Proposal is assured of receiving the required vote and being adopted and, thus, we are not soliciting any proxies from the holders of the Class A-2 Common Stock. The Proposal will be effective immediately following the adjournment of the Special Meeting.

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

How Many Shares of HealthMarkets Common Stock were Outstanding as of the Record Date?

As of October 30, 2009, our record date, 31,026,166.2016 shares of our Common Stock were issued and 29,342,895.6216 shares were outstanding, consisting of 26,772,435.6216 shares of Class A-1 Common Stock and 2,570,460.0000 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.

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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 Special Meeting. However, the stockholders present at the Special Meeting may adjourn the meeting despite the absence of a quorum.

What Vote is Required to Approve the Proposal?

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 Proposal. Abstentions will have the same effect as votes against the Proposal, although abstentions will count toward the presence of a quorum.

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

As indicated above, the Consenting Stockholders have indicated they will vote in favor of the Proposal, thereby ensuring that such Proposal 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 the Proposal Become Effective?

The Proposal will be effective immediately following the completion of the Special Meeting, which is at least 20 days after the mailing of this Information Statement. We are mailing this Statement on or about November 10, 2009 and will hold our Special Meeting on December 1, 2009.

How Can Stockholders Participate in the Meeting?

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

How Will Our Stockholders Know When the Proposal Is Effective?

Those stockholders that attend the Special Meeting will be notified then of the effectiveness of the Proposal. In addition, we will notify our stockholders of the effective date of the Proposal described in this Information Statement when we file our Form 10-K for the fiscal year ended December 31, 2009, which will be the first Annual Report on Form 10-K following the Special 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

SECOND AMENDED AND RESTATED HEALTHMARKETS

2006 MANAGEMENT OPTION PLAN

HealthMarkets, Inc. (the Company or HealthMarkets) is seeking approval of the Second Amended and Restated HealthMarkets 2006 Management Stock Option Plan (the 2006 Plan), in order to: (i) increase the number of shares of the Company s Class A-1 Common Stock issuable under the 2006 Plan, the number of shares issuable to any individual participant in any year and the number of shares that may be granted as incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the Code), in each case, by 1,350,000 from 3,239,741 to 4,589,741 and (ii) permit the grant of restricted shares of Class A-1 Common Stock (Restricted Stock) and restricted stock units denominated in shares of Class A-1 Common Stock (Restricted Stock Units).

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The second amendment and restatement of the 2006 Plan is generally necessary for the Company to continue to attract and retain officers and other key employees and is specifically necessary to make effective (1) the grant of an option to purchase 506,650 shares of the Company's Class A-1 Common Stock to the Company's Chief Executive Officer, Phillip Hildebrand, the grant of 506,650 shares of Restricted Stock to Mr. Hildebrand, the grant of 25,862 shares of Restricted Stock to Mr. Hildebrand, the grant of an option to purchase 303,990 shares of the Company's Class A-1 Common Stock to the Company's Executive Vice President and Chief Administrative Officer, Anurag Chandra and the grant of 303,990 shares of Restricted Stock to Mr. Chandra, in each case, as contemplated by the employment agreement by and between the respective executive and the Company and (2) the grant of additional awards to other officers and key employees who have not yet been identified, which is expected to occur in the future. The Company's Board of Directors (the Board) believes that employees of the Company should continue to receive awards denominated in shares of the Company's Class A-1 Common Stock to provide them with an increased stake in the Company's financial performance, thereby strengthening their alignment with stockholders of the Company.

The following is a summary of the 2006 Plan, as proposed to be further amended and restated, and does not cover all aspects of the 2006 Plan. The summary is qualified in its entirety by the terms of the proposed second amended and restated 2006 Plan set forth as Exhibit A to this Information Statement. Stockholders are encouraged to review Exhibit A in its entirety.

Purpose

The purpose of the 2006 Plan is to attract and retain officers and other key employees for the Company and its subsidiaries and to provide to such persons incentives and rewards for superior performance.

Administration

The 2006 Plan is administered by the Board, which may from time to time delegate all or any part of its authority under the 2006 Plan to a committee of the Board (or subcommittee thereof) consisting of not less than two directors appointed by the Board. If such directors constitute outside directors for purposes of the exemption set forth in Section 162(m)(4)(C) of the Internal Revenue Code (the Code) from the limitation on deductibility imposed by Section 162(m) of the Code (the Performance-Based Exception), such directors (or a subset thereof) will be delegated authority to administer the 2006 Plan. The Board (or, as delegated by the Board, a committee or subcommittee thereof) is authorized to interpret the 2006 Plan and related agreements or documents. Any determination by the Board pursuant to any provision of the 2006 Plan or any related agreements or documents will be final and conclusive. No member of the Board will be liable for any such action or determination made in good faith.

Eligibility

All employees of the Company or any of its subsidiaries, non-employee directors of the Company and any person who has agreed to commence serving in any such capacities within ninety (90) days of the date of grant may be selected by the Board to receive awards under the 2006 Plan. The Board has sole and complete discretion in determining which individuals will participate in the 2006 Plan and the number of shares of Class A-1 Common Stock subject to such awards. While the persons to whom awards will be made in future years and the amounts and nature of such awards cannot be determined at this time, it is presently estimated that approximately 1,300 individuals are eligible to participate in the 2006 Plan. Participants may receive successive awards under the 2006 Plan while restrictions on prior awards are still outstanding.

Maximum Number of Shares; Anti-Dilution Adjustments

Subject to adjustment as discussed below, the number of shares of Class A-1 Common Stock that may be issuable pursuant to awards under the 2006 Plan, as amended and restated, may not exceed in the aggregate 4,589,741 shares of Class A-1 Common Stock. Subject to adjustment as discussed below, and to satisfy the requirements of Section 162(m) of the Code, the number of shares of Class A-1 Common Stock that may be issuable to any single participant during the term of the 2006 Plan pursuant to (i) option rights or (ii) Restricted Stock or

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Restricted Stock Units that are intended to qualify for the Performance-Based Exception (such Restricted Stock or Restricted Stock Units, the Performance-Based Restricted Awards) will not exceed in the aggregate 4,589,741 shares of Class A-1 Common Stock. The total number of available shares of Class A-1 Common Stock that may be issuable upon exercise of option rights intended to be incentive stock options may not exceed 4,589,741. Shares issuable under the 2006 Plan may be shares of original issuance, treasury shares or a combination thereof.

The number of shares available for issuance will be adjusted to account for shares relating to awards that expire, are forfeited or are transferred, surrendered or relinquished upon the payment of any option price by the transfer to the Company of shares of Class A-1 Common Stock or upon satisfaction of any withholding amount. Upon payment in cash of the benefit provided by any award granted under the 2006 Plan, any shares that were covered by that award will again be available for issue or transfer thereunder; *provided, however*, that shares of Class A-1 Common Stock withheld to satisfy tax withholding obligations will be deemed delivered.

The Board will make or provide for substitution or adjustments in the numbers of shares of Class A-1 Common Stock covered by outstanding awards granted, and in the kind and, to the extent applicable, option price of shares covered by outstanding awards and/or such other equitable substitution or adjustments as the Board, in its sole discretion, exercised in good faith, may determine to prevent dilution or enlargement of the rights of participants or optionees that otherwise would result from (a) any stock dividend, extraordinary cash-dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, or (b) any merger, consolidation, spin-off, split-off, spin-out, split-up, reclassification, reorganization, partial or complete liquidation or other distribution of assets, issuance of rights or warrants to purchase securities, or (c) any other corporate transaction or similar event. In addition, in the event of any such transaction or event, the Board (or, as delegated by the Board, a committee or subcommittee thereof) may in its discretion provide for substitutions and adjustments that may include, without limitation, (i) canceling all awards other than option rights in exchange for cash payments equal to the value of the consideration paid to a shareholder of a share of Class A-1 Common Stock in connection with an adjustment event and (ii) with respect to option rights, cancelling such option rights in exchange for cash payments equal to the excess, if any, of the value of the consideration paid to a shareholder of a share of Class A-1 Common Stock over the option price per share subject to such option right in connection with an adjustment event. The Board may also make or provide for adjustments in the aggregate number and class of shares available for issuance under the 2006 Plan as the Board in its sole discretion, exercised in good faith, will determine is appropriate to reflect any transaction or event described above; *provided, however*, that any such adjustment to the number of incentive stock options available for grant will be made only if and to the extent that such adjustment would not cause any option intended to qualify as an incentive stock option to fail so to qualify. The Board may also in its discretion modify the performance criteria or the related minimum acceptable level of achievement applicable to any award, in whole or in part, as the Board deems appropriate and equitable to reflect any adjustment event, except where the effect of the modification would be to cause a Performance-Based Restricted Award to no longer constitute a Performance-Based Restricted Award.

Description of Awards

The Board may, from time to time and upon such terms and conditions as it may determine, authorize the granting to participants of options to purchase shares of Class A-1 Common Stock, Restricted Stock and Restricted Stock Units. Each such grant may utilize any or all of the authorizations, and will be subject to all of the requirements discussed below.

Option Rights

Option rights granted under the 2006 Plan may be (i) options rights that are intended to qualify as incentive stock options under Section 422 of the Code, (ii) options rights that are not intended to be incentive stock options, or (iii) combinations of the foregoing. Each grant will specify the number of shares of Class A-1 Common Stock to

which it pertains, subject to the limitations and adjustments discussed above, and also will specify an option price per share. The option price may not be less than 100% of the Fair Market Value (as defined in the 2006 Plan) on the date of grant, except that the option price of an incentive stock option issued to a Ten Percent Employee (as defined in the 2006 Plan) may not be less than 110% of the Fair Market Value on the date of grant.

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Successive grants may be made to the same participant whether or not any option rights previously granted to such participant remain unexercised. Each grant will specify the period or periods of continuous service by the optionee with the Company or any subsidiary that is necessary before the option rights or installments thereof will become exercisable and may provide for the earlier exercise of such option rights in the event of a Change of Control (as defined in the 2006 Plan) or such other times as the Board may determine. The Board may, at or after the date of grant of any option rights (other than incentive stock options), provide for the payment of dividend equivalents to the optionee.

Any grant of option rights may specify Management Objectives (as defined in the 2006 Plan) that must be achieved as a condition to the exercise of such rights. Management Objectives are measurable performance objective or objectives established, when so determined by the Board, for participants who have received grants of option rights pursuant to the 2006 Plan. Management Objectives may be described in terms of Company-wide objectives or objectives that are related to the performance of the individual participant or of the subsidiary, division, department, region or function within the Company or subsidiary in which the participant is employed. The Management Objectives may be made relative to the performance of other corporations. If the Board determines that a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which it conducts its business, or other events or circumstances render any Management Objectives unsuitable, the Board may in its discretion modify any such Management Objectives or the related minimum acceptable level of achievement, in whole or in part, as the Board deems appropriate and equitable.

No option right will be exercisable more than 10 years from the date of grant (5 years with respect to incentive stock options granted to a Ten Percent Employee) and each grant will be evidenced by an agreement executed on behalf of the Company by an officer and delivered to the optionee and containing such terms and provisions, consistent with the 2006 Plan, as the Board may approve.

Upon termination of a Participant's employment with the Company prior to an IPO (as defined in the 2006 Plan), any shares of Class A-1 Common Stock acquired as a result of the exercise of an option right will generally be subject to the Call Rights as provided in the Stockholders Agreement (as defined in the 2006 Plan). With respect to option rights granted to non-employee directors, in the event of the termination of service on the Board by the holder of any such option rights, other than by reason of disability or death, the then outstanding options rights of such holder may be exercised to the extent that they would be exercisable on the date that is ninety (90) days after the date of such termination and will expire ninety (90) days after such termination, or on their stated expiration date, whichever occurs first. In the event of the death or disability of the non-employee director, each of the then outstanding option rights of such holder may be exercised at any time within one (1) year after such death or disability, but in no event after the expiration date of the term of such option rights. If a non-employee director subsequently becomes an employee of the Company or a subsidiary while remaining a member of the Board, any option rights held under the 2006 Plan by such individual at the time of such commencement of employment will not be affected thereby.

Any grant of option rights may require, as a condition to the exercise, grant or sale thereof, that the participant agree to be bound by (i) any shareholders agreement among all or certain shareholders of the Company that may be in effect at the time of exercise, grant or sale or certain provisions of any such agreement that may be specified by the Company or (ii) any other agreement requested by the Company.

Restricted Stock

Restricted Stock may be granted under the 2006 Plan with such restrictions as the Board may designate. The Board may provide at the time of grant that the vesting of Restricted Stock will be contingent upon the attainment of applicable performance conditions and/or continued service. In the event that the grant or vesting of an award of Restricted Stock is conditioned on the attainment of performance conditions or upon both the attainment of

performance conditions and continued service, the Board may, prior to the time of grant, designate the award as a Performance-Based Restricted Award. The terms and conditions of Restricted Stock awards (including any applicable performance conditions) need not be the same with respect to each participant. During the restriction period, the Board may require that the stock certificates evidencing restricted shares be held by the Company and that the participant deliver a stock power, endorsed in blank, to the shares covered by the award. Except for these

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restrictions and any others imposed by the Board, upon the grant of Restricted Stock under the 2006 Plan, the recipient will have rights of a stockholder with respect to the Restricted Stock, including the right to vote the Restricted Stock; however, whether and to what extent the recipient will be entitled to receive cash or stock dividends paid or made with respect to the Restricted Stock and whether any such dividends will be automatically deferred and/or reinvested in additional restricted stock and held subject to the vesting of the underlying restricted stock, will be set forth in the particular participant's award agreement.

Restricted Stock Units

The Board may grant Restricted Stock Units payable in cash, shares of Class A-1 Common Stock or a mix of cash and shares, conditioned upon continued service and/or the attainment of performance conditions determined by the Board. The Board may provide at the time of grant that the vesting of Restricted Stock Units will be contingent upon the attainment of applicable performance conditions and/or continued service. In the event that the grant or vesting of an award of Restricted Stock Units is conditioned on the attainment of performance conditions or upon both the attainment of performance conditions and continued service, the Board may, prior to the time of grant, designate the award as a Performance-Based Restricted Award. The terms and conditions of Restricted Stock Unit awards (including any applicable performance conditions) need not be the same with respect to each participant. Whether and to what extent the recipient will be entitled to receive cash, shares or other property corresponding to dividends paid on shares with respect to Restricted Stock Units will be set forth in the particular participant's award agreement.

Duration; Amendment

No grant will be made under the 2006 Plan more than 10 years after the date on which the 2006 Plan was first approved by the shareholders of the Company, but all grants made on or prior to such date will continue in effect thereafter subject to the terms thereof and of the 2006 Plan.

The Board may at any time and from time to time amend the 2006 Plan in whole or in part, including, without limitation, to comply with applicable law, stock exchange rules or accounting rules; *provided, however*, that any amendment which must be approved by the stockholders of the Company in order to comply with applicable law will not be effective unless and until stockholder approval has been obtained. The Board may, with the concurrence of the affected participant and as otherwise permitted by the anti-dilution provisions of the 2006 Plan, cancel any agreement evidencing awards granted under the 2006 Plan. In the event of such cancellation, the Board may authorize the granting of new awards under the 2006 Plan (which may or may not cover the same number of shares of Class A-1 Common Stock that had been the subject of the prior award) in such manner, with respect to option rights, at such option price, and subject to such other terms, conditions and discretions as would have been applicable under the 2006 Plan had the award not been granted.

Certain Termination and Other Events

In case of termination of employment or, if the participant is a non-employee director, termination of service on the Board by reason of death, disability or normal or early retirement (as determined by the Board), or in the case of hardship or other special circumstances, of a participant who holds an option right not immediately exercisable in full, unvested Restricted Stock or unvested Restricted Stock Units, or shares of Class A-1 Common Stock subject to any transfer restriction imposed by the 2006 Plan, the Board may, in its sole discretion, accelerate the time at which such award may be exercised or vest, as applicable, or the time when such transfer restriction will terminate or may waive any other limitation or requirement under any such award.

Transferability

Except as the Board may otherwise determine or as set forth in the Stockholders Agreement, no award granted under the 2006 Plan will be transferable by a participant other than by will or the laws of descent and distribution. In addition, except as the Board may otherwise determine, option rights will be exercisable during the optionee's lifetime only by the optionee or by the optionee's guardian or legal representative. The Board also may specify at the date of grant that part or all of the shares of Class A-1 Common Stock that are to be issued or transferred by the

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Company upon the exercise of option rights, the vesting of Restricted Stock or the settlement of Restricted Stock Units will be subject to further restrictions on transfer. A participant who has not become party to the Stockholders Agreement at the time of grant of a Restricted Stock or Restricted Stock Unit award will be required to become party to the Stockholders Agreement as a condition to his receipt of the award.

Federal Income Tax Consequences

The following is a brief summary of certain of the federal income tax consequences of certain transactions under the 2006 Plan based on federal income tax laws in effect on January 1, 2009. This summary is not intended to be exhaustive and does not describe state, local or foreign tax consequences.

Tax Consequences to Participants in respect of Option Rights

In general, (a) no income will be recognized by an optionee at the time a nonqualified option right is granted; (b) at the time of exercise of a nonqualified option right, ordinary income will be recognized by the optionee in an amount equal to the difference between the option price paid for the shares and the fair market value of the shares if they are nonrestricted on the date of exercise; and (c) at the time of sale of shares acquired pursuant to the exercise of a nonqualified option right, any appreciation (or depreciation) in the value of the shares after the date of exercise will be treated as a capital gain (or loss).

No income generally will be recognized by an optionee upon the grant or exercise of an incentive stock option. However, the excess of the fair market value of the shares on the exercise date over the option price is included in the optionee's income for alternative minimum tax purposes. If shares of Class A-1 Common Stock are issued to an optionee pursuant to the exercise of an incentive stock option and no disqualifying disposition of the shares is made by the optionee within two years after the date of grant or within one year after the transfer of the shares to the optionee, then upon the sale of the shares any amount realized in excess of the option price will be taxed to the optionee as a capital gain and any loss sustained will be a capital loss. If shares of Class A-1 Common Stock acquired upon the exercise of an incentive stock option are disposed of before the expiration of either holding period described above, the optionee generally will recognize ordinary income in the year of disposition in an amount equal to any excess of the fair market value of the shares at the time of exercise (or, if less, the amount realized on the disposition of the shares in a sale or exchange) over the option price paid for the shares. Any further gain (or loss) realized by the optionee generally will be taxed as a capital gain (or loss).

Tax Consequences to the Company

To the extent that a participant recognizes ordinary income in the circumstances described above, the Company or the subsidiary for which the participant performs services will be entitled to a corresponding deduction provided that, among other things, the income (1) meets the test of reasonableness, is an ordinary and necessary business expense and is not an excess parachute payment within the meaning of Section 280G of the Code and (2) is not disallowed by the \$1 million limitation on certain executive compensation under Section 162(m) of the Code.

Section 162(m) of the Code

The provisions of Section 162(m) of the Code generally disallow a tax deduction to a publicly-held company for compensation in excess of \$1,000,000 paid to its principal executive officer or any of the three most highly compensated officers other than the principal executive officer or principal financial officer, referred to as the covered individuals, unless the plan and awards pursuant to which any portion of the compensation is paid meet the Performance-Based Exception. Option rights granted under the 2006 Plan should meet the Performance-Based Exception since they must have an exercise price at least equal to fair market value on the date of grant and be granted

to covered individuals by a committee consisting of at least two outside directors, and the 2006 Plan must limit the number of shares that may be the subject of awards granted to any single individual during any calendar year. In addition, the 2006 Plan authorizes the Board to make awards of restricted stock or restricted stock units that are conditioned on the satisfaction of pre-established performance criteria. In the case of Performance-Based Restricted Awards, which are intended to qualify for the Performance-Based Exception, the performance criteria

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that may be applied to an award granted under the 2006 Plan include: stock price, return on equity, assets under management, EBITDA, Adjusted EBITDA, earnings per share, price-earnings multiples, net income, operating income, pre-tax income, sales, net profit after tax, gross profit, operating profit, cash generation, unit volume, return on equity, change in working capital, return on capital revenues, working capital, accounts receivable, productivity, margin, net capital employed, return on assets, stockholder return, return on capital employed, increase in assets, unit volume, sales, internal sales growth, cash flow, market share, relative performance to a comparison group designated by the Board, or strategic business criteria consisting of one or more objectives based on meeting specified revenue goals, market penetration goals, customer growth, geographic business expansion goals, cost targets, goals relating to acquisitions or divestitures or stockholder return with respect to the Company or any subsidiary, division or department of the Company.

While the Company is a publicly-held company and is subject to the provisions of Section 162(m) of the Code, unless otherwise determined by the Board with respect to any particular award, it is intended that the 2006 Plan will comply fully with the applicable requirements of Section 162(m) of the Code so that any awards subject to Section 162(m) of the Code that are granted to covered individuals will qualify for the Performance-Based Exception. If any provision of the 2006 Plan or an award agreement would disqualify the 2006 Plan or would not otherwise permit the 2006 Plan or the award to comply with the Performance-Based Exception as so intended, the provision will be construed or deemed to be amended to conform to the requirements of the Performance-Based Exception to the extent permitted by applicable law and deemed advisable by the Board.

Compliance with Section 409A of the Code

Section 409A of the Code imposes an additional 20% income tax and interest on payments of deferred compensation to recipients that fail to meet certain payment and distribution requirements of Section 409A. To the extent applicable, it is intended that the 2006 Plan and any grants made under the 2006 Plan comply with the provisions of Section 409A of the Code. The 2006 Plan and any grants made under the 2006 Plan will be administered in a manner consistent with this intent, and any provision of the 2006 Plan that would cause the 2006 Plan or any grant made under the 2006 Plan to fail to satisfy Section 409A will have no force and effect until amended to comply with Section 409A (which amendment may be retroactive to the extent permitted by Section 409A). Any reference to Section 409A includes any final regulations, or any other guidance issued by the Secretary of the Treasury or the Internal Revenue Service with respect thereto. There is no penalty imposed on the Company for failure to comply with the payment and distribution requirements of Section 409A.

New Plan Benefits

As noted above, upon approval of the Second Amended and Restated HealthMarkets, Inc. 2006 Management Option Plan, non-qualified options to acquire an aggregate of 506,650 shares of Class A-1 Common Stock will be granted to Mr. Hildebrand under the 2006 Plan, 532,512 shares of Restricted Stock will be granted to Mr. Hildebrand under the 2006 Plan, non-qualified options to acquire an aggregate of 303,990 shares of Class A-1 Common Stock will be granted to Mr. Chandra under the 2006 Plan and 303,990 shares of Restricted Stock will be granted to Mr. Chandra under the 2006 Plan. The table below reflects these awards. In addition, we expect to grant additional awards to other officers and key employees in the future. We have not yet determined the identity of the officers and key employees who may receive such additional awards and the size and type of any individual grants. Accordingly, we cannot presently determine what amounts, if any, will be received by, or allocated to, other participants in the 2006 Plan in future years as such determinations are subject to the discretion of the Board.

New Plan Benefits 2006 Management Option Plan

Name and Position	Dollar Value \$(a)	Options	Restricted Stock
Phillip Hildebrand, Chief Executive Officer	15,360,991	506,650	532,512
Executive Officers as a Group	8,916,027	303,990	303,990
Non-Executive Directors as a Group	0	0	0
Non-Executive Officer Employees as a Group	0	0	0

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- (a) The Company determined the fair value of each stock option to be \$9.96 by using a Black-Scholes option pricing model. The assumptions used in arriving at the fair value of options are as follows: Expected volatility 45.01%; Expected dividend yield 0%; Risk-free interest rate 3.23%; Expected life in years 7.11; Exercise price \$19.37. The Fair Market Value of each of the Company's shares was \$19.37 and was used as the value of each share of the restricted stock awards.

COMPENSATION DISCUSSION AND ANALYSIS

Overview of the Company's Executive Compensation Program

The Company's compensation objectives are to support the Company's overall business strategy and objectives, attract and retain the best possible executive talent, motivate executive officers to achieve the Company's performance objectives, and reward individual performance and contributions. We intend that our executive compensation program will effectively and appropriately compensate our executives and will guide their activities in response to targeted incentives we provide.

Prior to the April 5, 2006 merger in which various investment affiliates of The Blackstone Group, Goldman Sachs Capital Partners and DLJ Merchant Banking (the Private Equity Investors) acquired the Company (the Merger), our compensation programs and policies were administered and overseen by a compensation committee composed entirely of independent directors. Following the Merger, the Executive Compensation Committee (the Committee) (of which Chinh Chu (Chairman), Adrian Jones, Mural R. Josephson and Steven Shulman serve as members) administers the Company's compensation programs and remuneration arrangements for its highest-paid executives. As discussed in more detail above under the heading Compensation Committee Interlocks and Insider Participation in Compensation Decisions, several of the members of the Committee are not considered independent.

Compensation of the executive officers named in the Summary Compensation Table on page 20 below (the Named Executive Officers or the NEOs) for 2008 is generally based on the terms of their employment agreements and, in the case of certain former officers, their separation agreements. Messrs. Colliflower, Gedwed, McQuagge and Plato entered into definitive employment agreements with the Company in connection with the Merger. Mr. Hildebrand, Mr. Erwin, Ms. Coccozza, Mr. Heller, Mr. Fields, Mr. Boxer and Mr. Rydzewski entered into definitive employment agreements in connection with their commencement of employment with the Company in June 2008, September 2008, March 2007, December 2006, October 2007, September 2006 and August 2007, respectively. In connection with the renewal of Mr. Heller's employment agreement, on September 10, 2009, the Company and Mr. Heller agreed to amend the terms of Mr. Heller's employment agreement. The amendment had the effect of reducing the period of Mr. Heller's severance from two years to one year, with a corresponding reduction in the period of Mr. Heller's post-termination non-competition and non-solicitation covenants. In all other respects, the terms of Mr. Heller's employment agreement remained the same.

As more fully described below in New Hildebrand and Erwin Employment Agreements, the Company entered into new employment agreements with Messrs. Hildebrand and Erwin on September 8, 2009, which supersede their previous employment agreements. In connection with their entry into these new employment agreements, Messrs. Hildebrand and Erwin forfeited their previously granted stock option awards and the Company agreed, subject to certain conditions, to grant Mr. Hildebrand new stock option and restricted stock awards. As more fully described below, the new employment agreements also provide the executives with the opportunity to earn certain bonuses in the event that the Company achieves certain goals in connection with opportunities presented by the launch of its Insphere Insurance Solutions, Inc. subsidiary. The Compensation Committee determined that it was in the best interests of the Company to enter into these new agreements with Messrs. Hildebrand and Erwin in order to adjust the overall makeup of their compensation package in order to better align their interests with those of the Company in

connection with opportunities presented by the launch of its Insphere Insurance Solutions, Inc. subsidiary and to increase the retentive value of Mr. Hildebrand's equity compensation awards.

Messrs. Hildebrand, Erwin and Heller are currently employed by the Company and, as such, remain subject to the terms of their employment agreements. Ms. Cocozza and Messrs. Colliflower, Gedwed, Fields, Boxer, Rydzewski, McQuagge and Plato are no longer employed by the Company and are subject to the terms of

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separation agreements. The terms of the employment agreements and separation agreements as in effect as of December 31, 2008 are discussed in further detail below under the heading Employment and Separation Agreements.

New Hildebrand and Erwin Employment Agreements

As noted above, on September 8, 2009, the Company entered into new employment agreements with Messrs. Hildebrand and Erwin. In connection with their entry into these new employment agreements, Messrs. Hildebrand and Erwin agreed to forfeit the stock options previously granted to them by the Company and Mr. Erwin agreed that he will no longer be eligible to participate in the Company's equity-based plans and programs. The agreements are effective as of September 8, 2009, supersede the executive's prior employment agreement with the Company and have the same initial term as the executive's prior employment agreement with the Company: through June 4, 2011 for Mr. Hildebrand and through December 31, 2010 for Mr. Erwin. Each agreement will automatically renew for successive one-year terms unless either party notifies the other that it does not wish to renew the agreement. The new employment agreements provide that (i) Messrs. Hildebrand and Erwin will be entitled to minimum guaranteed bonuses of \$2.4 million and \$787,500 for the Company's 2009 fiscal year, respectively, (ii) Mr. Hildebrand will have a target bonus opportunity of \$2.4 million and a maximum bonus opportunity of \$4.0 million for the Company's 2009 fiscal year, and a target bonus opportunity of \$1.6 million and a maximum bonus opportunity of \$3.2 million thereafter, (iii) Mr. Erwin will have a target bonus opportunity of 150% of his base salary and a maximum bonus opportunity of 250% of his base salary for the Company's 2009 fiscal year and a target bonus opportunity of 100% of his base salary and a maximum bonus opportunity of 200% of his base salary thereafter, (iv) each of the executives is eligible to receive a retention bonus of \$1.0 million, subject to his continued employment with the Company through the earlier of December 31, 2010 or a change of control of the Company (respectively, the Retention Bonus), (v) Mr. Hildebrand is eligible to receive an additional bonus of up to \$3.0 million and Mr. Erwin is eligible to receive an additional bonus of up to \$1.0 million, in each case, subject to the Company's consummation of certain transactions (respectively, the Transaction Bonus), and (vi) the initial long-term incentive awards granted to Messrs. Hildebrand and Erwin will remain outstanding and Mr. Hildebrand remains eligible to receive a cash long-term incentive award of \$1.2 million with respect to the Company's 2009 fiscal year, which will generally vest in three equal installments in 2010, 2011 and 2012 on the anniversary of his commencement of employment with the Company. The Company achieved a National Carrier MDA Goal (as defined in the executive's respective agreements) on October 7, 2009, and, accordingly, Mr. Hildebrand was paid 25% of his Transaction Bonus (\$750,000) on October 12, 2009 and Mr. Erwin was paid 25% of his Transaction Bonus (\$250,000) on October 16, 2009.

Mr. Hildebrand's employment agreement provides that, in the event his employment is terminated by the Company without Cause (as defined in the agreement) or by him for Good Reason (as defined in the agreement), subject to his execution and non-revocation of a release of claims, he will be entitled to the following payments and benefits: (i) an amount equal to the sum of (x) one year's base salary and (y) one times his target bonus for the year of termination, (ii) 12 months of continued health and life insurance benefits, (iii) to the extent then unvested and unpaid, Mr. Hildebrand's initial long-term incentive award will vest and be paid to him, (iv) Mr. Hildebrand's special restricted share award (described below) will vest in full and the other equity awards granted to him in connection with his entry into the agreement (described below) that would have vested if he had remained employed through the first anniversary of the date of termination will vest on the date of termination and all vested options will remain exercisable until the earlier of the expiration of the original term or the first anniversary of the date of termination, however, if the termination occurs in connection with a change of control, the equity awards granted to Mr. Hildebrand will be treated as if they had fully vested as of the date of the change of control and (v) Mr. Hildebrand would remain entitled to relocation, at his choice, to either Arizona or Utah on the same terms as he was relocated to the Dallas/Ft. Worth area if his employment is terminated without Cause or for Good Reason on or prior to June 4, 2011.

In addition, each of Messrs. Hildebrand and Erwin are entitled to the following payments and benefits if his employment is terminated by the Company without Cause (as defined in their respective agreement) or by the executive for Good Reason (as defined in their respective agreement), subject to the executive's execution and non-revocation of a release of claims: (i) if the termination occurs after the last day of the first quarter of any fiscal year, a pro-rata bonus, based upon the achievement of the applicable performance goals and the number of days the

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executive was employed in the applicable performance period, (ii) the executive's Retention Bonus will vest on the date of termination and be paid to the executive within 30 days of the date of termination and (iii) the executive will remain entitled to his Transaction Bonus to the extent the applicable performance goals are achieved.

The new employment agreements contain the same or substantially similar put and call rights (to the extent applicable), golden parachute excise tax provisions, restrictive covenant provisions and set-off provisions as the executives' previous employment agreements with the Company.

In connection with his entry into the new employment agreement, the Company has agreed to grant Mr. Hildebrand an option to purchase 506,650 shares of the Company's Class A-1 common stock and 506,650 restricted shares of the Company's Class A-1 common stock. The Company has also agreed to grant Mr. Hildebrand a special restricted share award in respect of 25,862 shares of the Company's Class A-1 common stock. These equity awards will generally be void if the Company does not obtain shareholder approval of the grants by the earlier of a change of control of the Company or December 31, 2009. The options granted to Mr. Hildebrand will vest in quarterly installments, through June 4, 2014, subject to his continued employment through the applicable vesting date (subject to earlier vesting in the case of certain qualifying terminations). Subject to the achievement of certain performance goals by September 8, 2010, the restricted shares granted to Mr. Hildebrand (other than the special restricted shares granted to Mr. Hildebrand described in the immediately following sentence) will vest on the same schedule as the stock options granted to him. Subject to the achievement of certain performance goals by September 8, 2010, the special restricted shares granted to Mr. Hildebrand will vest as to one-third of the shares subject to the grant on the date the award becomes effective (as described above), and will otherwise be subject to quarterly vesting through June 4, 2012, in each case, subject to his continued employment through the applicable vesting date (subject to earlier vesting in the case of certain qualifying terminations).

Components of Executive Compensation

Historically, we have used a variety of compensation elements to reach our executive compensation program goals. These include base salary, annual bonus compensation, awards of stock and stock options, long-term incentive plan awards, employee benefit plans, and termination and change in control provisions within employment agreements. We also offer limited perquisites to executive officers. Each component of compensation has been designed to complement the other components and, when considered together, to meet the Company's overall compensation objectives; however, there is no pre-established policy or target for the allocation between either cash and non-cash or short-term and long-term incentive compensation.

Base Salaries

Base salary is the primary fixed portion of executive pay. It compensates executives for performing their day-to-day duties and responsibilities. The base salaries of the NEOs for 2008 were based on the terms of their employment agreements, which were entered into in connection with the Merger or their commencement of employment with the Company. Base salaries of the NEOs who are direct reports of the Chief Executive Officer are evaluated annually by the Committee, generally by the end of the first quarter. Mr. Gedwed and his direct reports—Ms. Coccozza and Messrs. Colliflower, Fields, Boxer, McQuagge—did not receive an increase in base salary in the first quarter of 2008. However, in connection with Mr. Field's promotion to President and Chief Operating Officer effective June 1, 2008, the Committee approved an increase in Mr. Field's annual base salary (from \$495,000 to \$800,000), in recognition of his increased responsibilities. Mr. Plato, who separated from the Company in the first quarter of 2008, did not receive an increase in base salary for 2008. Messrs. Heller and Ryzewski received an increase in base salary of 4% and 2%, respectively, representing annual merit increases in recognition of their performance in 2007. Mr. Ryzewski's merit increase took into account the fact that he was employed for only a portion of 2007. Mr. Hildebrand's and Mr. Erwin's employment did not commence until June 2008 and September 2008, respectively, after the Committee's annual

evaluation of base salaries. In March 2009, Mr. Erwin received an increase in base salary of 5% (from \$500,000 to \$525,000), representing an annual merit increase in recognition of his performance.

Table of Contents***Annual Bonus Compensation***

The Company has established an annual bonus compensation plan for employees, including the Named Executive Officers. Under this plan, the Company creates an annual bonus pool (approximately \$9,565,000 in 2008), determines performance targets that must be achieved for the bonus pool to be allocated, and sets a bonus potential for each participant, generally as a percentage of base compensation. The annual bonus compensation plan is designed to achieve the Company's objective of linking compensation to annual performance results, attracting, motivating and retaining high-caliber leadership, and aligning the interests of senior executives and stockholders.

In 2008, the bonus potential established for the Named Executive Officers (other than Messrs. Hildebrand and Erwin, who commenced employment in June 2008 and September 2008, respectively) ranged from 40% to 200% of base salary and was based on the terms of the employment agreements with each NEO.

The performance targets applicable to the 2008 bonus program were initially established in the first quarter of 2008. At its August 5, 2008 meeting, the Committee determined that the performance targets could not be achieved and that it would be in the best interest of the Company to revise the performance targets to a more achievable level. As a result, the Committee established the following performance targets applicable to the 2008 bonus program:

2008 Performance Targets

		Revised	Bonus
Adjusted EBITDA	40% Weighting	EBITDA	Pool
	Target		Funding
	90%	\$ 107,645,000	75%
	100%	\$ 119,605,000	100%
	Original Target	\$ 211,997,000	
Commercial Health Policies Sold	20% Weighting	Revised	Bonus
	Target	Policies	Pool
			Funding
	90%	77,908	75%
	100%	86,565	100%
	Original Target	118,273	
1st Year Persistency (Policies that last 12 months)	20% Weighting	Revised	Bonus
	Target	Persistency	Pool
			Funding
	95%	48.3%	75%
	100%	50.8%	100%
	Original Target	57.3%	125%
Multi-State Market Conduct Exam Deliverables	20% Weighting		Bonus
	Target	Deliverables	Pool
			Funding

In the case of the Adjusted EBITDA and Commercial Health Policies Sold targets, partial achievement at 90% of target would result in the funding of 75% of the portion of the bonus pool attributable to such target. In the case of 1st Year Persistency, partial achievement at 95% of target would result in the funding of 75% of the portion of the bonus pool attributable to such target, and achievement of the original target (in excess of 100% of the revised target) would result in the funding of 125% of the portion of the bonus pool attributable to such target. Funding of the portion of the bonus pool attributable to the Multi-State Market Conduct Exam Deliverables target is subject to achievement at 100% of target.

At its meeting on January 23, 2009, the Committee determined that each of the performance targets applicable to the 2008 bonus program had been achieved at 100%, which made available the entire annual bonus pool for distribution among employees, including the Named Executive Officers. Mr. Hildebrand also reviewed with the Committee his recommendations for 2008 bonus compensation for his direct reports, including his

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recommendation that Mr. Heller receive his maximum bonus opportunity of 100% of base salary, based on Mr. Heller's significant contributions toward achievement of the 2008 performance targets. The Committee approved Mr. Hildebrand's recommendations and awarded Mr. Heller a bonus of 100% of base salary. The annual bonus paid to Mr. Heller is included in the Non-Equity Incentive Plan Compensation column of the Summary Compensation table on page 20 below. At its January 23, 2009 meeting, the Committee also established performance targets applicable to the 2009 bonus program.

Ms. Coccozza and Messrs. Colliflower, Gedwed, Fields, Boxer, Rydzewski, McQuagge and Plato separated from the Company in 2008. As a result, their annual bonus compensation was not addressed at the January 23, 2009 Committee meeting. Rather, pursuant to the terms of their employment agreements, Ms. Coccozza and Messrs. Colliflower, Gedwed, Fields, Boxer and Rydzewski received a pro-rata portion of their 2008 target bonuses in connection with their separation from the Company. Messrs. McQuagge and Plato did not receive 2008 bonuses because they separated from the Company before the last day of the first quarter of 2008. These amounts are included in the "All Other Compensation" column of the Summary Compensation Table on page 20 below.

Pursuant to the terms of their employment agreements as then in effect, Messrs. Hildebrand and Erwin each were entitled to receive a guaranteed bonus for the first twelve (12) months of their employment terms, a pro rata portion of which was paid to each executive in December 2008 and the balance of which was paid to Messrs. Hildebrand and Erwin in June, 2009 and September, 2009, respectively. One-half of the portion of Mr. Erwin's guaranteed first year bonus was payable in the form of shares of the Company's Class A-1 Common Stock based on their fair market value, with the balance payable in cash and, pursuant to the terms of his new employment agreement with the Company, the second portion was paid to him in cash. As described in "New Hildebrand and Erwin Employment Agreements" above, pursuant to the terms of their new employment agreements, Messrs. Hildebrand and Erwin will be entitled to minimum guaranteed bonuses of \$2.4 million and \$787,500 for the Company's 2009 fiscal year, respectively. For the 2009 fiscal year and fiscal years thereafter, Messrs. Hildebrand and Erwin will be eligible to participate in the Company's annual bonus program described above, pursuant to which each executive will have a target bonus opportunity and a maximum bonus opportunity, subject to the achievement of annual performance goals established by the Committee. Specifically, Mr. Hildebrand will have a target bonus opportunity of \$2.4 million and a maximum bonus opportunity of \$4.0 million for the Company's 2009 fiscal year, and a target bonus opportunity of \$1.6 million and a maximum bonus opportunity of \$3.2 million thereafter, and Mr. Erwin will have a target bonus opportunity of 150% of his base salary and a maximum bonus opportunity of 250% of his base salary for the Company's 2009 fiscal year and a target bonus opportunity of 100% of his base salary and a maximum bonus opportunity of 200% of his base salary thereafter. In Mr. Hildebrand's case, if the annual performance goals are achieved, payment will be at no less than the target bonus amount. In each case, the executive's bonus for the 2009 fiscal year will be reduced to take into account portions of the year covered by the executive's initial first year guaranteed bonus paid to Messrs. Hildebrand and Erwin in June, 2009 and September, 2009, respectively.

Stock Options - 2006 Management Stock Option Plan

On May 8, 2006, the Board of Directors adopted the 2006 Management Stock Option Plan (as amended, the "2006 Plan"), in accordance with which options to purchase shares of HealthMarkets' Class A-1 Common Stock may be granted from time to time to officers, employees and non-employee directors of HealthMarkets or any subsidiary. The purpose of the 2006 Plan is to attract and retain officers and other key employees for the Company and its subsidiaries and to provide to such persons incentives and rewards for superior performance. The Committee believes that the Company will be able to enhance the prospects for its business objectives and more closely align the interests of outside directors, officers and key employees with those of the Company's stockholders by providing those individuals with the opportunity to increase their equity interests in the Company on meaningful terms.

In May and June of 2006, the Company granted non-qualified options under the 2006 Plan to Messrs. Colliflower, Gedwed, McQuagge and Plato in connection with the Merger. Option grants to Mr. Hildebrand, Mr. Erwin, Ms. Cocozza, Mr. Heller, Mr. Fields, Mr. Boxer and Mr. Rydzewski were made in connection with their commencement of employment with the Company in June 2008, September 2008, March 2007, December 2006, October 2007, September 2006 and August 2007, respectively. The Named Executives Officers generally have not

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received additional stock option grants. However, in limited cases, the Committee has approved additional grants in recognition of increased responsibilities in connection with a promotion or to recognize past performance. In August 2006, Mr. Colliflower received an additional grant of non-qualified stock options in connection with his promotion to Executive Vice President and General Counsel. In July 2008, Mr. Heller received an additional grant of non-qualified stock options in order to maintain the competitiveness of his compensation relative to the market and to recognize past performance. In addition, as described in New Hildebrand and Erwin Employment Agreements above, in connection with their entry into new employment agreements with the Company in September, 2009, Messrs. Hildebrand and Erwin forfeited their initial equity awards and the Company agreed to grant Mr. Hildebrand additional equity awards, subject to certain conditions.

These options were intended to provide a long-term incentive opportunity to the executives that also linked the interests of the executive with those of the stockholders, as the options provide no value unless the value of the underlying shares increases. The number of stock options granted to a particular executive officer was based on the executive's position and an evaluation of the executive's ability to influence the long-term growth and profitability of the Company. The number of options previously granted to, and shares held by, an officer were not considered in determining the number of options granted in May and June of 2006 to the officer. These options are included in the Grants of Plan Based Awards table on page 22 below. The Committee does not time the grant of stock options in consideration of the release of material non-public information.

Under the 2006 Plan, the option price may not be less than 100% of the Fair Market Value (as defined below) on the date of grant, except that the option price of an incentive stock option issued to an employee who owns Class A-1 Common Stock possessing more than ten percent (10%) of the total combined voting power of all classes of Company stock may not be less than 110% of the Fair Market Value on the date of grant. Under the 2006 Plan, Fair Market Value is defined to mean the fair market value of a share as determined from time to time by the Board in good faith or, in the event of a termination of employment by certain key executives (other than for cause) within six months of an IPO or change of control, the consideration paid per share pursuant to such transaction.

In connection with the extraordinary cash dividend declared on May 3, 2007, and to prevent a dilution of the rights of participants in the 2006 Plan, the Board of Directors approved an adjustment of options granted under the 2006 Plan, pursuant to which the exercise price was reduced by \$10.51 per share the amount of the extraordinary cash dividend.

With the exception of stock options initially granted to Mr. Hildebrand, Mr. Erwin and a limited number of senior executives hired in 2008 and 2009 and the stock options that the Company has committed to grant Mr. Hildebrand, the stock options granted to employees under the 2006 Plan vest in three tranches. One-third of the options vest in 20% increments over five years with an exercise price equal to the fair market value per share at the date of grant (the Time-Based Options). One-third of the options vest in increments of 25%, 25%, 17%, 17% and 16% over five years, provided that certain specified performance targets have been achieved, with an exercise price equal to the fair market value on the date of grant (the Performance-Based Options). The remaining one-third of the options (the Tranche C Options) vest in increments of 25%, 25%, 17%, 17% and 16% over five years with an initial exercise price equal to the fair market value at the date of grant. The exercise price increases 10% each year beginning on the second anniversary of the grant date and ending on the fifth anniversary of the grant date. Options granted to directors (Director Options) vest in 20% increments over five years. Director Options, Time Based Options, Performance-Based Options and Tranche C Options expire ten years following the grant date and become immediately exercisable upon the occurrence of a Change in Control (as defined in the 2006 Plan) if the optionee remains in the continuous employ or service of the Company or any subsidiary until the date of the consummation of such Change in Control.

On May 3, 2007, the Committee established 2007 performance targets applicable to the second 25% vesting tranche of the Performance-Based Options granted during the Company's 2006 fiscal year and the first 25% vesting tranche of the

Performance-Based Options granted during the Company's 2007 fiscal year. The performance targets required that in the twelve (12) months ended December 31, 2007, the Company generate income from continuing operations (before taxes, interest expense and certain other fees and expenses) equal to or in excess of \$230.2 million. At its March 13, 2008 meeting, the Committee determined that the performance targets were unsuitable, as they focused solely on adjusted income and did not otherwise take into account other measures, such as individual

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performance and other Company performance, that would allow the Committee to adequately measure and determine achievement resulting from the favorable operational progress made by the Company and management during the Company's 2007 fiscal year. This progress included the Company's initiative to expand into the Medicare market, progress in resolution of the multi-state market conduct examination and continued success in recruiting talented individuals to fill senior management roles.

In light of such favorable progress, the Committee exercised its discretion provided under the terms of the 2006 Plan to adjust the acceptable level of achievement for the Performance-Based Options that were subject to the 2007 performance targets and determined that 50% of those Performance-Based Options would vest upon satisfaction of the continued employment conditions applicable to those Performance-Based Options and that the remaining 50% of the Performance-Based Options that were subject to the 2007 performance targets (the 2007 Carryover Options) would remain outstanding, subject to vesting contingent upon (i) achievement of the 2008 performance targets established by the Committee and (ii) the continued employment conditions applicable to such Performance-Based Options.

On August 15, 2008, the Committee established the performance targets applicable to the third 17% vesting tranche of the Performance-Based Options granted during the Company's 2006 fiscal year, the second 25% vesting tranche of the Performance-Based Options granted during the Company's 2007 fiscal year and the first 25% vesting tranche of the Performance-Based Options granted during the Company's 2008 fiscal year. The Committee determined that the performance targets described on page 13 above, in the table entitled 2008 Performance Targets, would also be applied to these options. With respect to the 2007 Carryover Options, achievement of all four targets at no less than 100% was required. The Committee adopted a weighted average formula for the remaining unvested options subject to the 2008 performance targets, as more specifically set forth below:

Total Weighted Average of Performance Criteria	Options Granted
100%	100%
80% - 99%	80%
60% - 79%	60%
50% - 60%	50%

Performance targets for 2009 were established by the Committee on January 23, 2009. Performance targets for any Performance-Based Options granted by the Company for future years are expected to be established annually by the Committee.

During 2008, non-qualified options to purchase shares of Class A-1 common stock were granted under the 2006 Plan to certain newly-hired executive officers of the Company, including Messrs. Hildebrand and Erwin, pursuant to the terms of employment agreement with these executives (the Executive Options). The Executive Options generally consist of time-based options, which vest over periods ranging from three to five years, and performance-based options. Mr. Hildebrand received a grant of 990,000 options, one-half of which are time-based options and one-half of which are performance-based options. Mr. Erwin received a grant of 175,000 options, of which 150,000 are time-based options and 25,000 are performance based options. Mr. Hildebrand's time-based options vest in installments, with 20% vesting on the first anniversary of his start date (Effective Date) and the remainder vesting in equal quarterly installments thereafter until the fifth anniversary of his Effective Date. Mr. Erwin's time-based options will vest in installments, with one-third vesting on the first anniversary of his Effective Date and the remainder vesting in equal quarterly installments thereafter until the third anniversary of his Effective Date. The performance based options become exercisable only upon the achievement by the Private Equity Investors and their respective affiliates, based on cash proceeds received, of a 1.6x or greater cash-on-cash return on the value of their equity investment in the Company as of the executive's Effective Date. If the performance-based options have not become exercisable as of the

fourth anniversary of the executive's Effective Date, then exercise of the performance-based options is also subject to achievement by the Private Equity Investors and their respective affiliates of a 15% or greater internal rate of return from and after the Effective Date. The initial exercise price of the Executive Options is equal to the fair market value at the date of grant; however, Mr. Hildebrand's options provide that the initial exercise price for 82,500 of his time-based options and 82,500 of his performance-based options will accrete at a rate of 10% each year beginning on the first anniversary of his Effective Date and ending on the fifth anniversary of his Effective Date. The Executive Options expire ten years

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following the grant date. As described in *New Hildebrand and Erwin Employment Agreements* above, in connection with their entry into new employment agreements with the Company in September, 2009, (i) Messrs. Hildebrand and Erwin forfeited their Executive Options, (ii) the Company agreed to grant Mr. Hildebrand additional equity awards, subject to certain conditions, the vesting terms of which are described in *New Hildebrand and Erwin Employment Agreements* above and (iii) Mr. Erwin agreed that he will no longer be eligible to participate in the Company's equity-based plans and programs.

Stock Options – 1987 Amended and Restated Stock Option Plan

In connection with the Merger, each outstanding option to purchase shares of HealthMarkets Common Stock granted under the Company's 1987 Amended and Restated Stock Option Plan (the *1987 Plan*) became fully vested, and (except with respect to 360,030 options granted under the 1987 Plan that were held by certain executive officers and converted into options to acquire shares of Class A-1 Common Stock) each option granted under the 1987 Plan was cancelled and converted into the right to receive a payment (subject to any applicable withholding taxes) equal to the difference between \$37.00 and the exercise price for the option. Options under the 1987 Plan held by Messrs. Colliflower and Gedwed were settled in connection with their separations from employment. No options remain outstanding under the 1987 Plan and the 1987 Plan was terminated in March, 2009.

Long-Term Incentive Plan Awards

During 2008, the Company granted LTIP Awards to several newly-hired executive officers pursuant to the terms of employment agreement with these executives. Messrs. Hildebrand and Erwin are the only Named Executive Officers to receive LTIP awards in 2008. The LTIP awards are intended to attract and retain key executives and to provide to such persons incentives and rewards for superior performance. The Committee believes that the LTIP awards help align the interests of key executives with those of the Company's stockholders by providing these executives with an opportunity to earn additional compensation based upon achievement of specific performance goals.

Mr. Hildebrand received an initial LTIP award in 2008 consisting of 34,483 shares of the Company's A-1 Common Stock. Subject to his continued employment with the Company (or certain qualifying terminations of his employment), the initial LTIP award will vest in three equal installments on each of the first, second and third anniversaries of Mr. Hildebrand's Effective Date (June 5, 2008), and will be delivered to him on the third anniversary of his Effective Date. The *Stock Awards* column of the Summary Compensation Table on page 20 below reflects the compensation costs associated with Mr. Hildebrand's initial LTIP award recognized for financial statement reporting pursuant to SFAS No. 123(R). Mr. Erwin received an initial LTIP award in 2008 with a target value of \$133,000 which is subject to the achievement of performance goals established by the Subcommittee. Subject to achievement of the performance goals and continued employment with the Company through each applicable vesting date, Mr. Erwin's initial LTIP award will vest in three equal annual installments on each of the first, second and third anniversaries of Mr. Erwin's Effective Date (September 30, 2008).

Messrs. Hildebrand's and Erwin's initial employment agreements with the Company provided that, (i) for the Company's 2009 fiscal year and each fiscal year thereafter during the term of his employment agreement, Mr. Hildebrand would be eligible to receive an annual LTIP with a target value of no less than \$1.2 million and (ii) for the Company's 2010 fiscal year and each fiscal year thereafter during the term of his employment agreement, Mr. Erwin would be eligible to receive an annual LTIP with a target value of no less than \$100,000. These annual LTIP awards will be awarded in cash and will become earned based on the achievement of performance goals established by the Subcommittee. Subject to achievement of the performance goals and continued employment with the Company through each applicable vesting date, the LTIP award will be granted to the executive after the completion of the applicable fiscal year and will vest in three equal annual installments on each of the first three anniversaries of the executive's Effective Date occurring after the end of the applicable fiscal year performance period.

For example, in Mr. Hildebrand's case, if the performance goals are met with respect to the Company's 2009 fiscal year, Mr. Hildebrand will be granted an award in January 2010, which will vest in three equal annual installments in June 2010, June 2011 and June 2012. The annual LTIP will become payable on the third anniversary of the executive's Effective Date occurring after the applicable fiscal year performance period. As described in New Hildebrand and Erwin Employment Agreements above, Mr. Hildebrand's new employment agreement

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provides that he will only be eligible for an annual LTIP award with respect to the Company's 2009 fiscal year and Mr. Erwin's new employment agreement does not provide for his eligibility for annual LTIP awards. Accordingly, the Company is no longer obligated to grant Mr. Hildebrand or Mr. Erwin an annual LTIP award, other than with respect to the Company's 2009 fiscal year in the case of Mr. Hildebrand.

On March 18, 2009, the Subcommittee established performance goals applicable to 2009 annual LTIP awards, including Mr. Hildebrand's 2009 annual LTIP award and Mr. Erwin's initial LTIP award. On April 24, 2009, the Committee approved limited revisions to the performance goals applicable to 2009 annual LTIP awards, intended to clarify the adjustments necessary to establish Adjusted EBITDA. The 2009 performance goals established by the Subcommittee are described below in Proposal 2 to this Information Statement.

HealthMarkets 401(k) and Savings Plan

The Company maintains for the benefit of its and its subsidiaries' employees the HealthMarkets 401(k) and Savings Plan (the "Employee Savings Plan"). The Employee Savings Plan enables eligible employees to make pre-tax contributions to the Employee Savings Plan (subject to overall limitations) and to direct the investment of such contributions among several investment options. The Employee Savings Plan, which is made available to all employees, is intended to assist in attracting and retaining employees by providing them with a tax-advantaged means to save a portion of their earnings for retirement purposes.

During 2008, the Company made certain matching contributions and supplemental contributions to participants' accounts in cash. All contributions made on behalf of the Named Executive Officers were calculated using the same formula as is used for all other eligible employees. Contributions by the Company and its subsidiaries to the Employee Plan currently vest in prescribed increments over a six-year period. Effective April 1, 2008, the Company discontinued supplemental contributions and increased the matching contribution for those employees who elect to participate.

Employee Benefit Plans

The Company offers benefit plans such as vacation, medical, prescription drug, vision, dental and term life insurance coverage to the Named Executive Officers on the same basis as offered to all employees. The Company offers these plans to attract, motivate and retain high-caliber employees.

The Company does not maintain a pension plan or non-qualified deferred compensation plan for executives or its other employees.

Perquisites

Historically, the Company has not made available a broad array of perquisites and personal benefits to its executive officers. The Company has chosen to offer only a very limited number of perquisites to its executives as an incremental benefit to recognize their position within the Company and as an accommodation to certain executives who maintain a residence in States other than the location of their Company office or who might otherwise incur certain expenses associated with the commencement of their employment. In 2008, the Company provided each of Mr. Hildebrand and Mr. Erwin with a relocation benefit of \$75,000, a monthly car allowance (for Mr. Hildebrand), reimbursement for personal travel and/or housing expenses (including reimbursement of rental car expenses for Mr. Erwin) and reimbursement of legal fees incurred in connection with the negotiation of their employment agreements with the Company. The Company also purchased a club membership for use by Mr. Hildebrand for business development and entertainment purposes. Such perquisites were provided pursuant to employment agreements with these executives. The Company reimbursed Messrs. Boxer and Fields for personal travel and housing

expenses incurred in connection with commuting to the Company's headquarters from primary residences in other States. In connection with his relocation to accept employment with the Company, the Company also reimbursed Mr. Rydzewski for closing costs on his new home. The Company furnished these executives with tax gross-ups for income attributable to such payments. The Company believes that these payments enhanced its ability to attract and retain these executives. The Company chose to provide the tax gross-ups to preserve the level of benefits intended to be provided under these arrangements. The value of each of these perquisites is included in the All Other Compensation column of the Summary Compensation Table on page 20 below.

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Prior to his appointment as an officer of the Company in December 2006, Mr. Heller served as an independent agent of the Company's insurance subsidiaries for approximately 15 years, 11 of which he spent as a regional sales leader. Pursuant to his agent contract with the insurance subsidiaries, Mr. Heller is entitled to ongoing commissions for sales production during this period. These amounts are included in the "All Other Compensation" column of the Summary Compensation Table on page 20 below. The Committee did not take Mr. Heller's commissions income into account when setting his compensation for 2008.

Severance and Change of Control Provisions in Employment Agreements

Under the terms of their current employment agreements with the Company, Messrs. Hildebrand, Erwin and Heller the only Named Executive Officers currently employed by the Company are entitled to certain payments in the event of their termination in certain specified circumstances. The payments to which Messrs. Hildebrand and Erwin are entitled under their new employment agreements with the Company are described in "New Hildebrand and Erwin Employment Agreements" above. In connection with the renewal of Mr. Heller's employment agreement, on September 10, 2009, the Company and Mr. Heller agreed to amend the terms of Mr. Heller's employment agreement. The amendment had the effect of reducing the period of Mr. Heller's severance from two years to one year, with a corresponding reduction in the period of Mr. Heller's post-termination non-competition and non-solicitation covenants. As a result, in the event of a qualifying termination of his employment, Mr. Heller would be entitled to receive severance equal to one times his base salary plus target bonus payable in monthly installments, continuation of certain welfare benefits for a period of one year, as well as a pro-rata bonus, based on his target bonus, if such termination occurs after the last day of the first quarter of the applicable fiscal year. Messrs. Hildebrand, Erwin and Heller are entitled to full change-of-control parachute excise tax gross up protection on all payments and benefits due to the executive; provided, however, that following a Change of Control (as defined in the employment agreements), the surviving corporation would be entitled to reduce the executive's payments (but not by more than 10%) if the reduction would allow the avoidance of the imposition of any excise tax associated with the change of control. In addition, each of these executives has agreed to post-termination non-competition and non-solicitation covenants for time periods consistent with the period of their severance. The terms of the employment agreements as in effect on December 31, 2008, including the circumstances under which the executives are entitled to severance, are described in more detail under the heading "Employment and Separation Agreements."

In connection with their separations from the Company, Ms. Cocozza and Messrs. Colliflower, Gedwed, Fields, Boxer, Rydzewski, McQuagge and Plato each executed separation agreements with the Company, the terms of which are described in more detail under the heading "Employment and Separation Agreements."

Generally, currently outstanding stock options provide for post-termination exercise periods ranging from the earlier of ninety (90) calendar days or the remaining term of the option (in the case of voluntary terminations by the employee), to the earlier of one (1) year or the remaining term of the option (in the case of termination due to death or disability, termination by the employee for good reason, or termination by the Company without cause). Termination of employment for cause results in expiration of all options on the date of the termination. However, in the case of performance-based options granted to Messrs. Hildebrand and Erwin, the options will remain exercisable and eligible to vest for one (1) year (and will vest if the performance targets are achieved during this period) and all vested performance-based options will remain exercisable until the earlier of the expiration of the original term or one (1) year from the date of vesting (if vesting occurs during the one (1) year look-forward period).

Provisions addressing a change in control of the Company are contained in various Company plans applicable to the Named Executive Officers as well to other employees. Stock options granted to the NEOs (other than Messrs. Hildebrand and Erwin) under the 2006 Plan provide that upon the occurrence of a Change of Control (as

defined in the 2006 Plan), if the executive has remained in the continuous employ of the Company, and his or her employment terminates for any reason (other than a termination for cause by the Company or a voluntary termination by the employee), the executive may exercise any options exercisable as of the date of the executive's termination or that would have become exercisable if the executive had remained employed until the first anniversary of the date of the employee's termination. With respect to stock options granted under the 2006 Plan

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to Messrs. Hildebrand and Erwin, the time-based options become immediately exercisable upon the occurrence of a Change of Control if the executive remains in the continuous employ of the Company or any subsidiary until the date of the consummation of such Change of Control. The performance-based options will not become exercisable upon a Change of Control but will remain in effect following a Change of Control in which the Private Equity Investors receive marketable securities, provided that the performance targets would have been satisfied if the value of such securities had been included as cash. In this event, the performance-based options will remain in effect following such Change of Control until the earlier of (i) the remaining term of the performance-based options and (ii) the first anniversary of the termination of the executive's employment and, to the extent not already vested, shall become exercisable if, during such period, upon conversion of such securities into cash (or other distribution or disposition) by the Private Equity Investors, the performance targets are satisfied.

With respect to LTIP awards made to Messrs. Hildebrand and Erwin, any outstanding LTIP awards will vest in full upon a Change of Control and will, in certain cases, be paid to the executive upon such Change of Control.

We believe that the change of control arrangements described above benefit the Company and its stockholders by assuring key employees that we are aware of the issues they could face upon a change of control; by providing key employees with financial assurances so that they can perform their jobs with minimum distraction in the face of a pending change of control; by encouraging key employees to stay with the Company while a change of control is occurring, so that an acquiring company can retain individuals who have been key to the Company's success; and by helping the Company recruit employees who may have similar agreements with other companies.

Accounting and Tax Issues

Section 162(m) of the U.S. Internal Revenue Code of 1986, as amended, limits the deductibility of compensation in excess of \$1.0 million paid to the Company's Chairman, principal executive officer or to any of the Company's three other highest-paid executive officers (other than the principal financial officer) unless certain specific and detailed criteria are satisfied. The Committee considers the anticipated tax treatment to the Company and its executive officers in its review and establishment of compensation programs and payments, but has determined that it will not necessarily seek to limit compensation to that amount otherwise deductible under Section 162(m).

COMPENSATION COMMITTEE REPORT

The Executive Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis appearing above. Based on the review and discussions referred to above, the Executive Compensation Committee recommends to the Company's Board of Directors that the Compensation Discussion and Analysis be included in the Company's Information Statement on Schedule 14C.

EXECUTIVE COMPENSATION COMMITTEE

Chinh E. Chu (Chairman)
Adrian M. Jones
Mural R. Josephson
Steven J. Shulman

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The following table summarizes all compensation for services to us and our subsidiaries earned by or awarded or paid to the persons who were the principal executive officer, the principal financial officer, the three other most highly compensated executive officers of the Company serving as such at December 31, 2008, and two other former officers who would have been among the next three most highly compensated executive officers but for the fact that they were not serving at December 31, 2008.

Name	Year	Salary (\$)(1)	Bonus (\$)(2)	Stock Awards (\$)(3)	Option Awards (\$)(4)	Change in Pension Value and Non-Equity Incentive			Total (\$)
						Non-Equity Compensation (\$)(5)	Deferred Compensation Earnings (\$)(6)	All Other Compensation (\$)(18)	
Phillip J. debrand(7) President and Chief Executive Officer	2008 2007 2006	692,308	933,333	233,338	1,524,398			449,336	3,832,711
Steven P. Erwin(8) Executive Vice President and Chief Financial Officer	2008 2007 2006	155,769	166,667		156,926			116,187	595,549
Anthony G. Coccozza(9) Executive Vice President	2008 2007 2006	350,000			6,716			1,833,922	2,190,638
Michael A. Alliflower(10) Executive Vice President and General Counsel	2008 2007(6) 2006(6)	330,000			21,707			1,540,444	1,892,151
Mark V. Heller(11) Vice President	2008 2007(6) 2006(6)	343,200			116,677	300,000		507,429	1,267,306
William J. McDowd(12) Former President and Chief Executive Officer	2008 2007 2006	265,385			536,525			2,492,721	3,294,631
David W. Fields(13)	2008 2007(6) 2006(6)	487,091	750,000		893,337 (134,700)			2,040,965 1,489,112	4,284,303 1,841,500

Former President and Chief Operating Officer	2006(6)							
Michael E. Boxer(14)	2008	273,462		172,595		2,169,384	2,615,44	
Former Executive Vice President and Chief Financial Officer	2007	450,000	450,000	493,461		120,755	1,514,21	
	2006	119,423	160,000	81,127		22,175	382,72	
Philip Rydzewski(15)	2008	285,600		65,302		470,680	821,58	
Former Sr. Vice President and Chief Accounting Officer	2007(6)							
Robert A. Quagge(16)	2008	164,424		407,149		2,247,857	2,819,43	
Former President of the Marketing Group	2007	450,000		1,072,351		16,234	1,538,58	
	2006	400,000	700,000	612,057		3,399,426	5,111,48	
James N. Plato(17)	2008	123,750		7,540		1,203,293	1,334,58	
Former President of Life Insurance Division	2007	325,000	250,000	208,559		17,357	800,91	
	2006	325,000	250,000	758	191,410	1,151,111	1,918,28	