

CONSECO INC
Form DEF 14A
April 13, 2007

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ☒
Filed by a Party other than the Registrant ☐

Check the appropriate box:

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

CONSECO, INC.

(Name of Registrant as Specified In Its Charter)
Conseco, Inc.

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

Payment of Filing Fee (Check the appropriate box):

- ☒ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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2) Aggregate number of securities to which transaction applies:

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

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Conseco, Inc.
11825 North Pennsylvania Street
Carmel, Indiana 46032
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 22, 2007

Notice Is Hereby Given That the Annual Meeting of Shareholders of Conseco, Inc. (the Company), will be held at the Conseco Conference Center, 530 College Drive, Carmel, Indiana, at 10:00 a.m., Eastern Daylight Time, on May 22, 2007, for the following purposes:

1. To elect ten directors, each for a one-year term ending in 2008;
2. To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2007; and
3. To consider such other matters, if any, as may properly come before the meeting.

Holders of record of outstanding shares of the common stock of the Company as of the close of business on April 4, 2007, are entitled to notice of and to vote at the meeting. Holders of common stock have one vote for each share held of record.

Whether or not you plan to be present at the meeting, *please complete, sign and return the enclosed form of proxy*. No postage is required to return the form of proxy in the enclosed envelope. The proxies of shareholders who attend the meeting in person may be withdrawn, and such shareholders may vote personally at the meeting.

By Order of the Board of Directors

Karl W. Kindig, *Assistant Secretary*

April 12, 2007
Carmel, Indiana

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Conseco, Inc.
11825 North Pennsylvania Street
Carmel, Indiana 46032

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Conseco, Inc. ("Conseco" or the "Company") for the Annual Meeting of Shareholders (the "Annual Meeting") to be held at the Conseco Conference Center, 530 College Drive, Carmel, Indiana on May 22, 2007, at 10:00 a.m., Eastern Daylight Time. It is expected that this Proxy Statement and proxy will be mailed to the shareholders on or about April 16, 2007. **The enclosed proxy is solicited by our Board of Directors.** Proxies are being solicited principally by mail. Directors, officers and regular employees of Conseco may also solicit proxies in person, through the mail or by telecommunications. All expenses relating to the preparation and mailing to the shareholders of the Notice, Proxy Statement and form of proxy are to be paid by Conseco.

If the enclosed form of proxy is properly executed and returned in time for the meeting, the named proxy holders will vote the shares represented by the proxy in accordance with the instructions marked on the proxy. Proxies returned unmarked will be voted for each of the nominees for director (Proposal 1) and for the ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2007 (Proposal 2). A shareholder may revoke a proxy at any time before it is exercised by mailing or delivering to Consecoco a written notice of revocation or a later-dated proxy, or by attending the meeting and voting in person.

Only holders of record of shares of Consecoco's common stock as of the close of business on April 4, 2007, will be entitled to vote at the meeting. On such record date, Consecoco had 151,075,407 shares of common stock outstanding and entitled to vote. Each share of common stock will be entitled to one vote with respect to each matter submitted to a vote at the meeting. The presence in person or by proxy of the holders of a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting is necessary to constitute a quorum.

The election of directors (Proposal 1) will be determined by the plurality of the votes cast by the holders of shares represented (in person or by proxy) and entitled to vote at the Annual Meeting provided a quorum is present. Consequently, the 10 nominees who receive the greatest number of votes cast will be elected as directors of the Company. The vote required to approve the ratification of the appointment of our independent registered public accounting firm (Proposal 2) is the affirmative vote of the holders of a majority of the shares represented and entitled to vote at the Annual Meeting provided a quorum is present. Shares present which are properly withheld as to voting, and shares present with respect to which a broker indicates that it does not have authority to vote (broker non-votes), will not be counted for any purpose other than determining the presence of a quorum at the Annual Meeting. As a result, abstentions from voting or broker non-votes will have the same legal effect as voting against Proposal 2.

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The following table sets forth certain information concerning the beneficial ownership of our common stock as of April 4, 2007 (except as otherwise noted) by each person known to us who beneficially owns more than 5% of the outstanding shares of our common stock, each of our directors, each of our current executive officers that are named in the Summary Compensation Table on page 22 and all of our directors and executive officers as a group.

Title of Class	Name of Beneficial Owner	Shares Beneficially Owned	
		Number	Percentage
Common stock	Hotchkis and Wiley Capital Management, LLC(1)	14,696,400	9.7%
Common stock	Lord, Abbett & Co., LLC(2)	9,511,672	6.3
Common stock	Franklin Mutual Advisers LLC(3)	9,365,879	6.2
Common stock	Massachusetts Financial Services Company(4)	9,201,567	6.1
Common stock	SuttonBrook Capital Management, LLC(5)	8,500,000	5.6
Common stock	R. Glenn Hilliard(6)	1,364,022	*
Common stock	Donna A. James	0	*
Common stock	Debra J. Perry(7)	22,241	*
Common stock	C. James Prieur	200,000	*
Common stock	Philip R. Roberts(8)	29,100	*
Common stock	Neal C. Schneider(8)	29,100	*
Common stock	Michael S. Shannon(8)	39,100	*
Preferred stock, Class B		8,000	*
Common stock	Michael T. Tokarz(8)	29,100	*
Common stock	Doreen A. Wright	0	*
Common stock	John G. Turner(8)	30,100	*
Common stock	Eugene M. Bullis(9)	324,680	*
Common stock	Michael J. Dubes(10)	44,234	*
Common stock	Eric R. Johnson(11)	160,737	*
Common stock	Scott R. Perry(12)	59,920	*
Common stock	All directors and executive officers as a group (21 persons)(13)	2,557,644	1.7

* Less than 1%.

- (1) Based solely on the Amendment No. 1 to Schedule 13G filed with the SEC on February 13, 2007 by Hotchkis and Wiley Capital Management, LLC. The Amendment No. 1 to Schedule 13G reports sole power to vote or direct the vote of 11,174,800 shares and sole power to dispose or to direct the disposition of 14,696,400 shares. The business address for Hotchkis and Wiley Capital Management, LLC is 725 S. Figueroa Street, 39th Floor, Los Angeles, CA 90017.
- (2) Based solely on the Amendment No. 2 to Schedule 13G filed with the SEC on February 12, 2007 by Lord Abbett & Co., LLC. The Amendment No. 2 to Schedule 13G reports sole power to vote or direct the vote of 9,067,972 shares and sole power to dispose or direct the disposition of 9,511,672 shares. The business address for Lord Abbett & Co., LLC is 90 Hudson Street, Jersey City, NJ 07302.
- (3) Based solely on the Schedule 13G filed with the SEC on January 31, 2007 by Franklin Mutual Advisers, LLC. The business address for Franklin Mutual Advisers, LLC is 101 John F. Kennedy Parkway, Short Hills,

NJ 07078.

- (4) Based solely on the Amendment No. 2 to Schedule 13G filed with the SEC on February 8, 2007 by Massachusetts Financial Services Company. The business address for Massachusetts Financial Services Company is 500 Boylston Street, Boston, MA 02116.

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- (5) Based solely on the Schedule 13G filed with the SEC on March 19, 2007 by SuttonBrook Capital Management LLC. The business address for SuttonBrook Capital Management, LLC is 598 Madison Avenue, 6th Floor, New York, NY 10022.
- (6) Includes 98,119 shares held by a charitable foundation, of which Mr. Hilliard is a trustee. He disclaims beneficial ownership of such shares. Also includes options, exercisable currently or within 60 days of April 4, 2007, to purchase 670,000 shares of common stock.
- (7) Includes options, exercisable currently or within 60 days of April 4, 2007, to purchase 12,067 shares of common stock.
- (8) Includes options, exercisable currently or within 60 days of April 4, 2007, to purchase 15,400 shares of common stock.
- (9) Includes options, exercisable currently or within 60 days of April 4, 2007, to purchase 187,500 shares of common stock.
- (10) Includes options, exercisable currently or within 60 days of April 4, 2007, to purchase 10,000 shares of common stock.
- (11) Includes options, exercisable currently or within 60 days of April 4, 2007, to purchase 112,500 shares of common stock.
- (12) Includes options, exercisable currently or within 60 days of April 4, 2007, to purchase 13,500 shares of common stock.
- (13) Includes options, exercisable currently or within 60 days of April 4, 2007, to purchase an aggregate of 1,226,317 shares of common stock held by directors and executive officers.

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**PROPOSAL 1
ELECTION OF DIRECTORS**

Our board of directors is currently comprised of eight members, divided into two classes as follows: Messrs. Prieur, Roberts and Tokarz and Ms. Perry are Class I Directors, and Messrs. Hilliard, Schneider, Shannon and Turner are Class II Directors. The terms of office of the current Class I Directors and the current Class II Directors expire at our 2007 annual meeting of shareholders. Other than the term of office of the initial Class II Directors (which was two years), the term of office of each class of directors will expire at the next succeeding annual meeting of shareholders. Accordingly, all directors are now elected annually for one-year terms. All directors will serve until their successors are duly elected and qualified.

Our board of directors has decided to increase its membership to 10 directors, effective at the annual meeting of shareholders. In addition to the eight current directors who have been nominated, the board has nominated Donna A. James for election as a Class I director and Doreen A. Wright for election as a Class II director. The board of directors engaged a third-party search firm to work with the Governance and Strategy Committee to identify potential board candidates. Ms. James and Ms. Wright were among the potential board candidates identified by the search firm and after conclusion of the search process were unanimous nominees for the board.

Unless authority is specifically withheld, the shares of common stock represented by the enclosed form of proxy will be voted in favor of all nominees. Should any of the nominees become unable to accept election, the persons named in the proxy will exercise their voting power in favor of such person or persons as the board of directors of Consecos may recommend. All of the nominees have consented to being named in this Proxy Statement and to serve if elected. The board of directors knows of no reason why any of its nominees would be unable to accept election.

THE BOARD RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF EACH OF THE NOMINEES FOR DIRECTOR.

Set forth below is information regarding each person nominated for election as a Class I or Class II Director.
Nominees for Election as Class I Directors:

Donna A. James, 49, has been nominated to join our board of directors, effective at the annual meeting of shareholders on May 22. Since March 2006 Ms. James has been President and managing director of Lardon & Associates, a business and executive advisory services firm. Before retiring in 2006, Ms. James worked in various capacities with Nationwide Mutual Insurance Company and its public company subsidiary, Nationwide Financial Services, Inc., beginning in 1981, including President, Nationwide Strategic Investments (2003-2006), Executive Vice President and Chief Administrative Officer (2000-2003) and Senior Vice President and Chief Human Resources Officer (1998-2000). She is also a director of Coca-Cola Enterprises, Inc. and Limited Brands, Inc.

Debra J. Perry, 55, has served as a director of Consecos since June 2004. From 2001 until 2004, she served as senior managing director of global ratings and research at Moody's Investors Service. From 1999 until 2001, Ms. Perry served as chief administrative officer of Moody's Corporation and from 1992 until 1999 she served in a variety of management positions with Moody's including group managing director of the Finance, Securities and Insurance Group (which rated all non-bank financial institutions worldwide). Ms. Perry is also a director of MBIA Inc.

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C. James Prieur, 55, has been chief executive officer and a director since September 2006. Before joining Conseco, Mr. Prieur had been with Sun Life Financial since 1979. He began his career in private placements, then equity and fixed income portfolio management, rising to vice president of investments for Canada in 1988, and then vice president of investments for the U.S. in 1992. In 1997 he was named senior vice president and general manager for all U.S. operations, and became corporate president and chief operating officer in 1999.

Philip R. Roberts, 65, joined our board of directors in September 2003. Mr. Roberts is retired. From 2000 until 2007, Mr. Roberts was principal of Roberts Ventures L.L.C., consultant for merger and acquisition and product development for investment management firms. From 1996 until 2000, Mr. Roberts served as chief investment officer of trust business for Mellon Financial Corporation and headed its institutional asset management businesses from 1990 to 1996.

Michael T. Tokarz, 57, joined our board of directors in September 2003. Mr. Tokarz is the chairman of MVC Capital, Inc. (a registered investment company). In addition, he has been a managing member of the Tokarz Group, LLC (venture capital investments) since 2002. He was a general partner with Kohlberg Kravis Roberts & Co. from 1985 until he retired in 2002. Mr. Tokarz is also a director of Walter Industries, Inc, Idex Corp., and Dakota Growers Pasta Companies, Inc.

Nominees for Election as Class II Directors:

R. Glenn Hilliard, 64, has served as chairman of our board of directors since September 2003. During the period from August 2004 until September 2005, he served as executive chairman and at all other times since September 2003 he has served as non-executive Chairman. Mr. Hilliard has been chairman and chief executive officer of Hilliard Group, LLC, an investment and consulting firm, since 2003. From 1999 until his retirement in 2003, Mr. Hilliard served as chairman, chief executive officer and a member of the executive committee for ING Americas. From 1994 to 1999 he was chairman and CEO of ING North America. Mr. Hilliard is a director of Alea Group Holdings (Bermuda) Ltd. and Trustee of Columbia Funds Series Trust, Columbia Funds Master Investment Trust, Columbia Funds Variable Insurance Trust I (formerly Nations Separate Account Trust) and Banc of America Funds Trust.

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Neal C. Schneider, 62, joined our board of directors in September 2003. Between 2002 and 2003, Mr. Schneider was a partner of Smart and Associates, LLP, a business advisory and accounting firm. Between 2000 and 2002, he was an independent consultant. Until his retirement in 2000, Mr. Schneider spent 34 years with Arthur Andersen & Co., including service as partner in charge of the Worldwide Insurance Industry Practice and the North American Financial Service Practice. Mr. Schneider has been chairman of the board of PMA Capital Corporation since 2003.

Michael S. Shannon, 48, joined our board of directors in September 2003. Mr. Shannon has served as president and chief executive officer of KSL II Management Operations, LLC, dba KSL Resorts (manager of golf courses and destination resorts in the U.S.) since 2004, and he has served as Managing Director of KSL Capital Partners since 2005. He was co-founder of KSL Recreation Corporation and from 1992 to 2004 served as its president and chief executive officer. Before joining our board, Mr. Shannon was lead director of ING Americas. Mr. Shannon currently serves as a director of ING Direct.

John G. Turner, 67, joined our board of directors in September 2003. Mr. Turner has been chairman of Hillcrest Capital Partners, a private equity investment firm since 2002. Mr. Turner served as chairman and CEO of ReliaStar Financial Corp. from 1991 until it was acquired by ING in 2000. After the acquisition he became vice chairman and a member of the executive committee for ING Americas until his retirement in 2002. Mr. Turner is a director of Hormel Foods Corporation and ING Funds.

Doreen A. Wright, 50, has been nominated to join our board of directors, effective with the annual meeting of shareholders on May 22. Ms. Wright has been Senior Vice President and Chief Information Officer of Campbell Soup Company since 2001. Prior to joining Campbell Soup Company, she was Executive Vice President and Chief Information Officer at Nabisco, Inc. from 1999-2001. From 1995 through 1998, Ms. Wright was Senior Vice President, Operations and Systems for Prudential Insurance Company's Prudential Investment Group. From 1984 until 1994, she held various leadership positions at Bankers Trust Company as a Managing Director and Senior Vice President of numerous large-scale institutional customer service and technology groups. Ms. Wright serves on the board of directors of The Riverside Symphonia, is a trustee of the Campbell Soup Foundation and previously served on the board of directors of The Yankee Candle Company.

Board Committees

Audit and Enterprise Risk Committee. The Audit and Enterprise Risk Committee's functions, among others, are to recommend the appointment of independent accountants; review the arrangements for and scope of the audit by the independent accountants; review the independence of the independent accountants; consider the adequacy of the system of internal accounting controls and review any proposed

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corrective actions; review and monitor the Company's compliance with legal and regulatory requirements; and discuss with management and the independent accountants our draft annual and quarterly financial statements and key accounting and/or reporting matters. The Audit and Enterprise Risk Committee currently consists of Messrs. Schneider, Roberts and Turner and Ms. Perry, with Mr. Schneider serving as chairman of the committee and as audit committee financial expert, as defined under Securities and Exchange Commission rules promulgated under the Sarbanes-Oxley Act. All current members of the Audit and Enterprise Risk Committee are independent within the meaning of the regulations adopted by the Securities and Exchange Commission and the listing requirements adopted by the New York Stock Exchange regarding audit committee membership. The current members also satisfy the financial literacy qualifications of the New York Stock Exchange listing standards. The committee met on eight occasions in 2006. A copy of the Audit and Enterprise Risk Committee's charter is available on our website at www.conseco.com.

Governance and Strategy Committee. The Governance and Strategy Committee is responsible for, among other things, establishing criteria for board membership; considering, recommending and recruiting candidates to fill new positions on the board; reviewing candidates recommended by shareholders; and considering questions of possible conflicts of interest involving board members, executive officers and key employees. It is also responsible for developing principles of corporate governance and recommending them to the board for its approval and adoption, and reviewing periodically these principles of corporate governance to insure that they remain relevant and are being complied with. The Governance and Strategy Committee currently consists of Messrs. Tokarz and Shannon and Ms. Perry, with Mr. Tokarz serving as chairman of the committee. All current members of the Governance and Strategy Committee are independent within the meaning of the listing requirements adopted by the New York Stock Exchange regarding nominating committee membership. The committee held three meetings during 2006. A copy of the Governance and Strategy Committee's charter is available on our website at www.conseco.com. The Governance and Strategy Committee does not have a written policy regarding shareholder nominations for director candidates. The Governance and Strategy Committee will, however, consider candidates for director nominees put forward by shareholders. See Shareholder Proposals for 2008 Annual Meeting for a description of the advance notice procedures for shareholder nominations for directors.

Human Resources and Compensation Committee. The Human Resources and Compensation Committee is responsible for, among other things, approving overall compensation policy; recommending to the board the compensation of the chief executive officer and other senior officers; and reviewing and administering our incentive compensation and equity award plans. The Human Resources and Compensation Committee currently consists of Messrs. Turner, Tokarz and Shannon and Ms. Perry, with Mr. Shannon serving as chairman of the committee. All current members of the Human Resources and Compensation Committee are independent within the meaning of the listing requirements adopted by the New York Stock Exchange regarding compensation committee membership. The committee met on 10 occasions in 2006. A copy of the Human Resources and Compensation Committee's charter is available on our website at www.conseco.com.

Investment Committee. The Investment Committee is responsible for, among other things, reviewing investment policies, strategies and programs; reviewing the procedures which Conseco utilizes in determining that funds are invested in accordance with policies and limits approved by it; and reviewing the quality and performance of our investment portfolios and the alignment of asset duration to liabilities. The Investment Committee currently consists of Messrs. Prieur, Schneider and Roberts, with Mr. Roberts serving as chairman of the committee. The committee met on five occasions in 2006. A copy of the Investment Committee's charter is available on our website at www.conseco.com.

Executive Committee. Subject to the requirements of applicable law, including our certificate of incorporation and bylaws, the Executive Committee is responsible for exercising, as necessary, the authority of the board of directors in the management of our business affairs during intervals between board meetings. The Executive Committee currently consists of Messrs. Hilliard, Shannon and Turner, with Mr. Turner serving as chairman of the committee. A copy of the Executive Committee's charter is available on our website at www.conseco.com.

Table of Contents**Director Compensation**

Our non-employee directors currently receive an annual cash retainer of \$70,000. The chairman of the Audit and Enterprise Risk Committee currently receives an additional annual cash fee of \$30,000, and directors who chair one of our other board committees receive an additional annual cash fee of \$20,000. Each member of the Audit and Enterprise Risk Committee (including the chairman) receives an additional annual cash retainer of \$15,000. Cash fees are paid quarterly in advance. Our non-employee directors have also been entitled to receive \$70,000 in annual equity awards. The amount of fees paid to our non-employee directors has not changed since it was first set in September 2003. In addition, the directors, other than our chairman, who joined the Board upon our emergence from bankruptcy in 2003 or within one year thereafter (Messrs. Roberts, Schneider, Shannon, Tokarz and Turner and Ms. Perry) were awarded a one-time equity grant for joining the Board, consisting of 2,000 shares of restricted common stock and an option to purchase 10,000 shares of common stock. The Board's policy is to review and set the compensation of the non-employee directors each year at the annual Board meeting and to make equity awards to those directors at that time. Directors are reimbursed for out-of-pocket expenses including first class airfare incurred in connection with the performance of their responsibilities as directors. The compensation paid in 2006 to our non-employee directors is summarized in the table below:

DIRECTOR COMPENSATION IN 2006

Name	Fees earned or paid in cash(1)	Stock awards(2)	Option awards(3)	All other compensation(4)	Total
R. Glenn Hilliard(5)	\$ 105,000	\$ 3,750,361	\$ 1,381,501	\$ 36,000	\$ 5,272,862
Debra J. Perry	85,000	98,741	39,043		222,784
Philip R. Roberts	105,000	98,000	33,905		236,905
Neal C. Schneider	115,000	98,000	33,905		246,905
Michael S. Shannon	90,000	98,000	33,905		221,905
Michael T. Tokarz	90,000	98,000	33,905		221,905
John G. Turner	105,000	98,000	33,905		236,905

- (1) This column represents the amount of cash compensation paid in 2006 for Board service, for service on the Audit and Enterprise Risk Committee and for chairing a committee.
- (2) This column represents the dollar amount recognized for financial statement reporting purposes with respect to 2006 for the fair value of stock awards granted in 2006 and prior years, in accordance with SFAS 123R. Fair value is calculated using the closing price of Consecro common stock on the date of grant.
- (3) This column represents the dollar amount recognized for financial statement reporting purposes with respect to 2006 for the fair value of stock options granted in 2004 (to all directors) and in 2003 (to Mr. Hilliard only in accordance with his agreement with the Company described below). No options have been granted to the directors since 2004. The fair value was estimated using the Black-Scholes option-pricing model in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004) Share-Based Payment (SFAS 123R). Set forth below is the grant date fair value of each stock award to the non-employee directors in 2006, computed in accordance with SFAS 123R.

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Name	Grant Date	Stock Awards: Number of Shares of Stock	Grant Date Fair Value of Stock Awards
R. Glenn Hilliard	8/2/2006	4,553	\$ 104,947
Debra J. Perry	8/2/2006	3,035	69,957
Philip R. Roberts	8/2/2006	3,035	69,957
Neal C. Schneider	8/2/2006	3,035	69,957
Michael S. Shannon	8/2/2006	3,035	69,957
Michael T. Tokarz	8/2/2006	3,035	69,957
John G. Turner	8/2/2006	3,035	69,957

The directors have the following number of options outstanding at December 31, 2006 Mr. Hilliard (755,000); Ms. Perry (15,400), Mr. Roberts (15,400), Mr. Schneider (15,400), Mr. Shannon (15,400), Mr. Tokarz (15,400) and Mr. Turner (15,400).

- (4) The other compensation shown above for Mr. Hilliard represents the amount paid to him as reimbursement for office expenses in accordance with his agreement with the Company described below.
- (5) The amounts shown for Mr. Hilliard under stock awards and option awards include expenses recorded in 2006 for awards made in 2003 and 2004 pursuant to the terms of Mr. Hilliard's agreement with the Company described below.

On June 18, 2003, our predecessor entered into an agreement with Mr. Hilliard pursuant to which he provided consulting services to our predecessor during the pendency of the Chapter 11 cases and agreed to serve as our non-executive chairman for an initial term of four years following our emergence from bankruptcy. This agreement, which became effective upon our emergence from bankruptcy on September 10, 2003, was negotiated with our predecessor's creditors committee and was approved by the Bankruptcy Court in connection with the approval of the plan of reorganization. The agreement provided for (i) an annual director's fee of \$1,000,000 for the first two years of the term, and director's fees similar to those paid to similarly situated non-executive chairmen for the latter two years of the term; (ii) a signing bonus of 98,119 shares of common stock, which were issued shortly after our emergence from bankruptcy; (iii) a retention bonus of \$1,500,000, which was paid following the first anniversary of our emergence from bankruptcy; (iv) a retention bonus of \$750,000, which was paid following the second anniversary of our emergence from bankruptcy; and (v) a fee of \$60,000 per month to be paid during the period from May 15, 2003 until the Company's emergence from bankruptcy on September 10, 2003 (this monthly fee was waived by Mr. Hilliard on December 30, 2003 in order to avoid any issues with his status as an independent director at that time). Under his agreement, we also issued Mr. Hilliard 500,000 shares of restricted stock and options to purchase 500,000 shares of common stock, all of which were subject to vesting, pursuant to the 2003 Plan. By the terms of that agreement, Mr. Hilliard was also entitled to receive on the one-year anniversary of our emergence from bankruptcy shares of restricted stock and stock options, each in an amount equal to .25% of the outstanding shares of common stock on the one-year anniversary. In connection with the agreement described in the following paragraph, Mr. Hilliard agreed to receive 255,000 shares of restricted stock and options to purchase an additional 255,000 shares (compared to the approximately 375,000 shares of restricted stock and 375,000 options to which he would have been entitled to receive under his initial agreement).

In August 2004, Mr. Hilliard was elected Executive Chairman, and he entered into a revised agreement with Conesco pursuant to which he agreed to serve as Executive Chairman through September 10, 2005. The financial terms of Mr. Hilliard's agreement with the Company did not change materially after he was elected Executive

Chairman. The revised agreement provided for Mr. Hilliard to receive an annual salary of \$1,000,000 and to receive retention bonuses of \$1,500,000 in September 2004 and \$750,000 in September 2005, as had been provided in his original agreement. Effective September 10, 2005, Mr. Hilliard again became Non-Executive Chairman and in accordance with his agreement now receives director's fees

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comparable to those paid to similarly situated non-executive chairs of other corporations as determined by the Board, which the Board has set at 150% of the base cash fees and equity awards paid to the other, non-management directors. Under the agreement, Mr. Hilliard is entitled to a gross-up for excise tax payments under Section 280G of the Internal Revenue Code. In addition, upon a qualifying termination, vesting of previously granted options and restricted stock will occur as if Mr. Hilliard continued to serve through the next September 10th following his separation. Mr. Hilliard is subject to a non-solicitation and non-competition clause throughout the term of the agreement and for one year thereafter.

Board Meetings and Attendance

During 2006, the board of directors met on 14 occasions. All directors attended at least 92 percent of the aggregate meetings of the board and the committees on which they served. The non-management directors regularly meet in executive session without the CEO or any other member of management. Mr. Hilliard presides at such executive sessions. The independent directors also meet periodically in executive session without Mr. Prieur or Mr. Hilliard. Mr. Turner presides at such sessions.

Director Independence

The Board annually determines the independence of directors based on a review by the directors. Although the board of directors has not adopted categorical standards of materiality for independence purposes, no director is considered independent unless the board has determined that he or she has no material relationship with Consecro, either directly or as an officer, shareholder or partner of an organization that has a material relationship with Consecro. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others. The board considers the New York Stock Exchange guidelines in making its determination regarding independence and the materiality of any relationships with Consecro. The board has determined that all current directors other than Mr. Prieur and Mr. Hilliard are independent and that Ms. James and Ms. Wright will also be independent directors.

Approval of Related Party Transactions

Transactions and agreements with related persons (directors and executive officers or members of their immediate families or shareholders owning five percent or more of the Company's outstanding stock) that meet the minimum threshold for disclosure in the proxy statement under applicable SEC rules (generally transactions involving amounts exceeding \$120,000 in which a related person has a direct or indirect material interest) must be approved by the board of directors or a committee comprised of only independent directors. In considering the transaction or agreement, the board or committee will consider all relevant factors including the business reason for the transaction, available alternatives on comparable terms, actual or apparent conflicts of interest and the overall fairness of the transaction to the Company. Any proposed transactions that might be considered a related person transaction are to be raised with the Chairman of the Board or the Chairman of the Governance and Strategy Committee. They will jointly determine whether the proposed transaction should be considered by the full board (recusing any directors with conflicts) or by a board committee of independent directors. Related person transactions are to be approved in advance whenever practicable, but if not approved in advance are to be ratified (if the board or committee considers it appropriate to do so) as soon as practicable after the transaction.

Various Company policies and procedures, including the Code of Business Conduct and Ethics and annual questionnaires completed by all company directors, officers and employees, require disclosure of transactions or relationships that may constitute conflicts of interest or otherwise require disclosure under applicable SEC rules. Any related person transactions that are identified under these additional policies and procedures are to be considered under the policy and procedures described above.

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Code of Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all officers, directors and employees regarding their obligations in the conduct of the Company's affairs. A copy of the Code of Business Conduct and Ethics is available on our website at www.conseco.com. Within the time period specified by the SEC and the New York Stock Exchange, we will post on our website any amendment to our Code of Business Conduct and Ethics and any waiver applicable to our principal executive officer, principal financial officer or principal accounting officer.

Corporate Governance Guidelines

Conseco is committed to best practices in corporate governance. Upon the recommendation of the Governance and Strategy Committee, Conseco adopted a set of Conseco Board Governance Operating Guidelines. A copy of the Conseco Board Governance Operating Guidelines is available on our website at www.conseco.com.

Communications with Directors

Shareholders and other interested parties wishing to communicate directly with Conseco's board of directors or any one or more individual members (including the presiding director or the non-management directors as a group) are welcome to do so by writing to the Conseco Corporate Secretary, 11825 North Pennsylvania Street, Carmel, Indiana, 46032. The Corporate Secretary will forward any communications to the director or directors specified by the shareholder.

In addition, Conseco has a policy that all directors attend the annual meeting of shareholders. All of our directors attended the annual meeting of shareholders held in 2006.

Compensation Committee Interlocks and Insider Participation

Messrs. Shannon, Tokarz and Turner served on the Human Resources and Compensation Committee throughout 2006 and Ms. Perry was appointed in December 2006. None of the members of the Human Resources and Compensation Committee is or has been one of our officers or employees. None of our executive officers serves, or served during 2006, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or Human Resources and Compensation Committee.

Copies of Corporate Documents

In addition to being available on our website at www.conseco.com, we will provide to any person, without charge, a printed copy of our committee charters, Code of Ethics and Board of Governance Operating Guidelines upon request to Conseco Investor Relations, 11825 N. Pennsylvania Street, Carmel, Indiana 46032; telephone (317) 817-2893 or email ir@conseco.com.

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EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Objectives and Strategy

The primary objective of Consecos executive compensation program is to create a meaningful rewards system that balances the interests of executives and shareholders. Specifically, the following are goals of our program:

Reinforce our commitment to our mission and core values by embedding them in all that we do. Our values of Integrity and Customer Focus are essential to all of our customer interactions, and our values of Excellence and Teamwork are essential to how we work. These values, along with the results and behaviors that drive our individual performance, provide the foundation for all our people policies and practices, including our compensation philosophy and programs.

Create a Company culture that encourages executives to make decisions that create value for shareholders by having a meaningful portion of compensation delivered through equity-based incentives;

Use a clear, understandable reward design that allows the Company to attract and retain the top management talent required to continue to improve the Company's performance and build long-term shareholder value;

Offer the opportunity to earn above-market pay when Company and individual performance exceeds expectations; and

Support our compensation programs with strong performance management and communications efforts.

Our compensation programs are administered by our Human Resources and Compensation Committee (the **Committee**) of the Board of Directors, which is comprised solely of independent, non-employee Directors of Consecos. By working with management and its independent compensation advisors (described below), the Committee has developed a comprehensive compensation and benefits strategy that rewards group and individual performance in a manner that the Company believes will drive our long-term success.

Our compensation program is designed to focus on shareholder value creation. This means that we reward performance in areas that are valued by investors, and which tend to improve the Company share price.

Our compensation program is designed to promote a performance-based culture that rewards both overall Company performance and individual accountability. This means that in addition to assessing Company performance as a whole, the Committee considers individual performance and contributions in determining pay levels. For 2006, individual goals represented 20% of an individual's annual incentive (Pay for Performance (**P4P**) plan) opportunity.

In addition to an objective review of external factors, the Committee also considers internal equity among colleagues in determining compensation levels. This means that while the Committee looks at competitive pay data for specific positions, market data is not the sole factor considered in setting pay levels. The Committee also considers factors such as Consecos organizational structure, and the relative roles and responsibilities of individuals. The Committee believes that this approach fosters an environment of cooperation among executives and employees that helps improve sales growth, profitability, and customer satisfaction.

Our compensation program is designed to reward sustainable operational and productivity improvements. This means that (i) our P4P performance goals are set at levels that represent improvement over the prior year and (ii) we set multi-year goals for our Performance Share (**P-Share**) plan.

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Our compensation strategy is to place a significant amount of total compensation at risk in the form of variable pay. This means that for senior executives, a major portion of their total compensation is tied to either financial or stock price performance. As illustrated in our Summary Compensation Table on page 22, base salaries for our named executive officers (*NEOs*) represent between 20% and 50% of total compensation. For the NEOs, target annual incentive opportunities under our P4P plan range from 100% to 125% of the executive's base salary (see chart below), while long-term incentive targets generally comprise at least 50% of total compensation for NEOs.

Our compensation strategy is to provide competitive compensation opportunities commensurate with performance. This means that the Committee assesses the relative pay opportunities vis-à-vis relative performance. If performance goals are met or exceeded, pay should be at or above median. Similarly, if performance targets are not satisfied, actual compensation earned should trail market median levels.

When we make individual compensation decisions, we retain the discretion to make adjustments and modifications based on how well individual associates meet our performance standards for expected achievement of business results, as well as upholding of values or behaviors.

Our compensation strategy is to promote a long-term commitment to the Company. This means that while we believe compensation should have a strong performance link, we also believe the Company benefits from creating a team of tenured, seasoned professionals with significant industry experience. To encourage this long-term commitment, we historically have granted significant awards of stock options that vest over 3 to 4 years, and performance shares and restricted stock which are eligible for delivery after no less than 2 years.

Role of the Compensation Committee

The Committee determines the amounts and elements of compensation for our executive officers and provides overall guidance for our executive compensation policies and programs. Four members of our Board of Directors sit on the Committee, each of whom is an independent director under the New York Stock Exchange listing requirements, the exchange upon which our stock trades. Other Board members may also participate in our consideration of how we pay our employees. The Committee's function is more fully described in its charter which has been approved by our full Board of Directors, and can be found on our website at www.conseco.com.

In making executive compensation decisions, the Committee is generally advised by our independent compensation consultant, Pearl Meyer & Partners (*PM&P*). PM&P was hired by and reports directly to the Committee, and performs all services for our Company at the Committee's direction. PM&P has no contract with the Committee and may be terminated without notice by the Committee at any time. PM&P had no prior relationship with the CEO or any of our Company's senior management at the time of its hiring.

Though retained directly by the Committee, PM&P often interacts with our CEO, EVP of Human Resources, internal securities counsel and the Chief Financial Officer and their staffs to provide the Committee with relevant compensation and performance data for our executives and the Company. In addition, PM&P may seek direct input and feedback from management in preparing their consulting work product prior to presentation to the Committee to confirm information, identify data questions, exchange ideas or other similar issues.

In making its decisions, the Committee collects and considers input from multiple sources. The Committee may ask one or more of our senior executives or non-Committee Board members to attend Committee meetings where executive compensation and Company and individual performance are discussed and evaluated. During these meetings, executives provide insight, suggestions or recommendations regarding executive compensation. Deliberations generally occur with input from the compensation advisor, members of management and other Board members. However, only the four

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independent Committee members vote on decisions made regarding executive compensation, which is done in executive session, with no members of management present.

The next section of this Compensation Discussion and Analysis describes each aspect of our compensation and benefits structure:

Pay level determination of the appropriate pay opportunity;

Pay mix determination of each element of compensation, its purpose and design, and its relationship to the overall pay program; and

Pay-for-performance determination of the performance measures and goals used in the pay programs.

Compensation and Benefits Structure

Pay Level

All employee pay levels, including our NEOs, are determined based on a number of factors, including each individual's roles and responsibilities within our Company, the individual's experience and expertise, the pay levels for peers within the Company, pay levels for similar job functions in the marketplace, the individual's business unit, and our Company as a whole. The Committee is responsible for approving pay levels f