CNO Financial Group, Inc.
Form PRE 14A
March 15, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x   Filed by a Party other than the Registrant ¨

Check the appropriate box:

x

Preliminary Proxy Statement

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Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

¨

Definitive Proxy Statement

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Definitive Additional Materials

¨

Soliciting Material under §240.14a-12

CNO FINANCIAL GROUP, INC.

(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

..

No fee required.

..

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(4)

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(1)

Amount Previously Paid:

(2)

Form, Schedule or Registration Statement No.:

(3)

Filing Party:

(4)

Date Filed:

CNO Financial Group, Inc.
11825 North Pennsylvania Street
Carmel, Indiana 46032

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held May 8, 2013

NOTICE IS HEREBY GIVEN THAT the Annual Meeting of Shareholders of CNO Financial Group, Inc. (the Company), will be held at the CNO Conference Center, 11825 North Pennsylvania Street, Carmel, Indiana, at 8:00 a.m., Eastern Daylight Time, on May 8, 2013, for the following purposes:

1. To elect nine directors, each for a one-year term ending in 2014;

2. To approve an amendment to the Company s Amended and Restated Certificate of Incorporation to extend NOL protective amendment to preserve the value of tax net operating losses and certain other tax losses;

3. Ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for 2013;

4. To cast a non-binding advisory vote to approve executive compensation; and

5. 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 March 11, 2013, are entitled to notice of and to vote at the meeting. Holders of common stock have one vote for each share held of record.

In accordance with the rules of the Securities and Exchange Commission (the SEC), on or about March __, 2013, we either mailed you a Notice of Internet Availability of Proxy Materials (Notice) notifying you how to vote online and how to electronically access a copy of this Proxy Statement and the Company s Annual Report to Shareholders (together referred to as the Proxy Materials) or mailed you a complete set of the Proxy Materials. If you have not received but would like to receive printed copies of these documents, including a proxy card in paper format, you should follow the instructions for requesting such materials contained in the Notice.

Management and the Board of Directors respectfully request that (if you received a paper copy of the Proxy Materials) you date, sign and return the enclosed proxy card in the postage-paid envelope so that we receive the proxy card prior to the Annual Meeting, or, if you prefer, follow the instructions on your proxy card or Notice for submitting a proxy electronically or by telephone. If your shares are held in the name of a bank, broker or other holder of record, please follow the procedures as described in the voting form they send to you. If you attend the meeting in person you may withdraw your proxy and vote personally at the meeting.

By Order of the Board of Directors

Karl W. Kindig, *Senior Vice President and Secretary*

March __, 2013
Carmel, Indiana

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CNO Financial Group, 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 (the Board) of CNO Financial Group, Inc. (CNO or the Company) for the Annual Meeting of Shareholders (the Annual Meeting) to be held at the CNO Conference Center, 11825 North Pennsylvania Street, Carmel, Indiana on May 8, 2013, at 8:00 a.m., Eastern Daylight Time. We expect to send the Notice or the Proxy Materials and proxy to shareholders on or about March __, 2013.

Solicitation of Proxies

The proxies are solicited by the Board of Directors. Proxies may be solicited by mail, telephone, internet or in person. Proxies may by solicited by the CNO Directors and officers. All expenses relating to the preparation and distribution to shareholders of the Notice, the Proxy Materials and the form of proxy are to be paid by CNO.

If the form of proxy is properly executed and delivered in time for the Annual Meeting, the named proxy holders will vote the shares represented by the proxy in accordance with the instructions marked on the proxy. Each shareholder may appoint a person (who need not be a shareholder), other than the persons named in the proxy, to represent him or her at the Annual Meeting by properly completing a proxy. In either case, such completed proxy should be returned in the envelope provided to you for that purpose (if you have requested or received a paper copy of the Proxy Materials) for delivery no later than May 7, 2013. Proxies received that are unmarked will be voted for each of the Board s nominees for director (Proposal 1), for the approval of the amendment to the Company s Amended and Restated Certificate of Incorporation to extend NOL protective amendment to preserve the value of tax net operating losses and certain other tax losses (the Extended NOL Protective Amendment) (Proposal 2), for ratification of the appointment of the Company s independent registered public accounting firm (Proposal 3), and for approval of the compensation paid to our Named Executive Officers (Proposal 4). A shareholder may revoke a proxy at any time before it is exercised by mailing or delivering to CNO a written notice of revocation or a later-dated proxy, or by attending the Annual Meeting and voting in person.

Record Date and Voting

Only holders of record of shares of CNO s common stock as of the close of business on March 11, 2013, will be entitled to vote at the Annual Meeting. On such record date, CNO had 223,718,646 shares of common stock outstanding and entitled to vote at the Annual Meeting. Each share of common stock will be entitled to one vote with respect to each matter submitted to a vote at the Annual 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.

On or about March __, 2013, we either mailed you a Notice notifying you how to vote online and how to electronically access a copy of the Proxy Materials or mailed you a complete set of the Proxy Materials. If

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you have not received but would like to receive printed copies of these documents, including a proxy card in paper format, you should follow the instructions for requesting such materials contained in the Notice. %The following sets forth how a shareholder can vote over the Internet, by telephone or by mail:

Voting By Internet

If you hold your shares in street name (that is, if you hold your shares through a broker, bank or other holder of record), you can vote at www.proxyvote.com, 24 hours a day, seven days a week. You will need the 12-digit Control Number included on your Notice or your paper voting instruction form (if you received a paper copy of the Proxy Materials).

Voting By Telephone

If you hold your shares in street name, you can vote using a touch-tone telephone by calling the toll-free number included on your paper voting instruction form (if you received a paper copy of the Proxy Materials), 24 hours a day, seven days a week. You will need the 12-digit Control Number included on your paper voting instruction form.

If you hold your shares in street name, you may also submit voting instructions to your bank, broker or other holder of record. In most instances, you will be able to do this over the Internet, by telephone, or by mail. Please refer to the information from your bank, broker or other holder of record on how to submit voting instructions.

The Internet and telephone voting procedures, which comply with Delaware law and the SEC rules, are designed to authenticate shareholders identities, to allow shareholders to vote their shares and to confirm that their instructions have been properly recorded.

Voting By Mail

If you have received a paper copy of the Proxy Materials by mail, you may complete, sign, date and return by mail the paper proxy card or voting instruction form sent to you in the envelope provided to you with your Proxy Materials or voting instruction form.

Deadline for Submitting Votes By Internet, Telephone or Mail

If you hold your shares through a bank or brokerage account, proxies submitted over the Internet or by telephone as described above must be received by 11:59 p.m., Eastern Daylight Time, on May 7, 2013.

Proxies submitted by mail should be returned in the envelope provided to you with your paper proxy card or voting instruction form, and must be received no later than May 7, 2013.

If you want to vote in person at the Annual Meeting and you hold your shares in street name, you must obtain a legal proxy from your bank, broker or other holder of record authorizing you to vote. You must then bring the legal proxy to the Annual Meeting.

Please note that you may receive multiple copies of the Notice or Proxy Materials (electronically and/or by mail). These materials may not be duplicates as you may receive separate copies of the Notice or Proxy Materials for each type of account in which you hold shares. Please be sure to vote all of your shares in each of your accounts in accordance with the directions on the proxy card(s) and/or voting instruction form(s) that you receive. In the case of duplicate votes for shares in a particular account, your last vote is the one that counts.

Votes Required

The election of each director (Proposal 1) will be determined by the vote of the majority of the votes cast (where the number of votes cast for a director exceeds the number of votes cast against that director) by the holders of shares represented (in person or by proxy) and entitled to vote on the subject matter provided a quorum is present. The vote required to approve the Extended NOL Protective Amendment (Proposal 2) is a majority of the outstanding shares. The vote required to approve the ratification of the appointment of the Company s independent registered public accounting firm (Proposal 3) and the advisory vote to approve executive compensation (Proposal 4), and any other proposal properly brought before the Annual Meeting, is the affirmative vote of a majority of the shares represented (in person or by proxy) and entitled to vote on the applicable subject matter. Abstentions from voting will have no impact on the election of directors (Proposal 1) and will have the same legal effect as voting against each other proposal.

Abstentions and shares represented by broker non-votes , as described below, are counted as present and entitled to vote for the purpose of determining a quorum. A broker non-vote occurs if you hold your shares in street name and do not provide voting instructions to your broker on a proposal and your broker does not have discretionary authority to vote on such proposal. Under current New York Stock Exchange rules, your broker will not have discretionary authority to vote your shares at the Annual Meeting with respect to Proposal 1 (election of nine directors as listed in this Proxy Statement), Proposal 2 (approval of the Extended NOL Protective Amendment) and Proposal 4 (advisory vote to approve executive compensation). Broker non-votes will have no effect on the outcome of Proposals 1, 3 and 4, but will have the effect of voting against Proposal 2. Your broker will have discretion to vote your uninstructed shares on Proposal 3 (ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for 2013).

[IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON MAY 8, 2013

This Proxy Statement (including all attachments), the Company s Annual Report to Shareholders (which includes the Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission (SEC) on February 19, 2013) (which is not deemed to be part of the official proxy soliciting materials), and any amendments to the foregoing materials that are required to be provided to shareholders are available at www.proxyvote.com.] Shareholders may obtain copies of the Proxy Statement, Annual Report to Shareholders (including financial statements and schedules thereto) and form of proxy relating to this or future meetings of the Company s shareholders, free of charge on our Internet website at www.CNOinc.com in the Investors SEC Filings section, by calling 317-817-2893 or by sending the Company an email at ir@CNOinc.com. For directions to the Company s 2013 Annual Meeting, please call us at 317-817-2893.

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SECURITIES OWNERSHIP

The following table sets forth certain information concerning the beneficial ownership of our common stock as of March 11, 2013 (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 and nominees, each of our current executive officers that are named in the Summary Compensation Table on page 33 and all of our current directors, nominees and executive officers as a group. Shares of our common stock subject to options that are currently exercisable or exercisable within 60 days of March 11, 2013 are deemed to be outstanding and to be beneficially owned by the person holding the options for the purpose of computing the percentage ownership of that person or group of persons but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

		Shares Beneficially Owned	
Title of Class	**Name of Beneficial Owner**	**Number**	**Percentage**
Common stock	Dimensional Fund Advisors LP(1)	19,377,524	8.5%
Common stock	Paulson & Co. Inc.(2)	16,751,527	7.6
Common stock	Columbia Wanger Asset Management, LLC(3)	16,177,000	7.1
Common stock	The Vanguard Group(4)	13,019,508	5.7
Common stock	Capital World Investors(5)	11,900,000	5.2
Common stock	Huber Capital Management LLC(6)	11,807,409	5.2
Common stock	Edward J. Bonach(7)	665,159	*
Common stock	Ellyn L. Brown	10,964	*
Common stock	Robert C. Greving	20,616	*
Common stock	Mary R. (Nina) Henderson	7,174	*
Common stock	R. Keith Long(8)	2,085,865	*
Common stock	Neal C. Schneider(9)	101,299	*
Common stock	Frederick J. Sievert	84,616	*
Common stock	Michael T. Tokarz(9)	100,336	*
Common stock	John G. Turner(9)	96,336	*
Common stock	Frederick C. Crawford	192,000	*
Common stock	Eric R. Johnson(10)	635,019	*
Common stock	Christopher J. Nickele(11)	364,161	*
Common stock	Scott R. Perry(12)	601,596	*
Common stock	All directors and executive officers as a group (18 persons)(13)	6,246,374	2.8

* Less than 1%.

(1) Based solely on Amendment No. 1 to Schedule 13G filed with the SEC on February 11, 2013 by Dimensional Fund Advisors LP. The Amendment No. 1 to Schedule 13G reports sole power to vote or direct the vote of 19,075,973 shares and sole power to dispose or direct the disposition of 19,377,524 shares. The business address for Dimensional Fund Advisors LP is Palisades West, Building One, 6300 Bee Cave Road, Austin, TX 78746.

(2) Based solely on Amendment No. 4 to Schedule 13D filed with the SEC on March 14, 2013 by Paulson & Co. Inc. The business address for Paulson & Co. Inc. is 1251 Avenue of the Americas, New York, NY 10020.

(3) Based solely on Amendment No. 8 to Schedule 13G filed with the SEC on February 14, 2013 by Columbia Wanger Asset Management, LLC. The Amendment No. 8 to Schedule 13G reports sole power to vote or direct the vote of 15,872,000 shares and sole power to dispose or direct the disposition of 16,177,000 shares. The business address for Columbia Wanger Asset Management, LLC is 227 West Monroe Street, Suite 3000, Chicago, IL 60606.

(4) Based solely on Schedule 13G filed with the SEC on February 12, 2013 by The Vanguard Group. The Schedule 13G reports sole power to vote or direct the vote of 331,171 shares, sole power to dispose or direct the disposition of 12,700,337 shares, and shared power to dispose or direct the disposition of 319,171 shares. The business address for The Vanguard Group is 100 Vanguard Blvd., Malvern, PA 19355.

(5) Based solely on Schedule 13G filed with the SEC on February 13, 2013 by Capital World Investors. The Schedule 13G reports sole power to vote or direct the vote of 11,900,000 shares and sole power to dispose or direct the disposition of 11,900,000 shares. The business address for Capital World Investors is 333 South Hope Street, Los Angeles, CA 90071.

(6) Based solely on Schedule 13G filed with the SEC on February 12, 2013 by Huber Capital Management LLC. The Schedule 13G reports sole power to vote or direct the vote of 6,329,812 shares, shared power to vote or direct the vote of 1,032,201 shares, and sole power to dispose or direct the disposition of 11,807,409 shares. The business address for Huber Capital Management LLC is 2321 Rosecrans Ave., Suite 3245, El Segundo, CA 90245.

(7) Includes options, exercisable currently or within 60 days of March 11, 2013, to purchase 232,250 shares of common stock.

(8) Includes 133,465 shares held directly by Mr. Long, 807,272 shares of common stock owned by Otter Creek Partners I, LP and 1,145,128 shares of common stock owned by Otter Creek International Ltd. Mr. Long is the majority stockholder of Otter Creek Management, Inc., the general partner of Otter Creek Partners I, LP, and by virtue of such ownership Mr. Long has the power to vote and dispose of the shares held by Otter Creek Partners I, LP and therefore may be deemed to be the beneficial owner of those shares. Otter Creek Management, Inc., as an investment advisor of Otter Creek International Ltd., may be deemed to be the beneficial owner of shares held by Otter Creek International Ltd. Mr. Long expressly disclaims beneficial ownership of the shares held by Otter Creek International Ltd.

(9) Includes options, exercisable currently or within 60 days of March 11, 2013, to purchase 15,400 shares of common stock.

(10) Includes options, exercisable currently or within 60 days of March 11, 2013, to purchase 480,050 shares of common stock.

(11) Includes options, exercisable currently or within 60 days of March 11, 2013, to purchase 185,700 shares of common stock.

(12) Includes options, exercisable currently or within 60 days of March 11, 2013, to purchase 314,450 shares of common stock.

(13) Includes options, exercisable currently or within 60 days of March 11, 2013, to purchase an aggregate of 2,081,800 shares of common stock held by directors and executive officers.

PROPOSAL 1

ELECTION OF DIRECTORS

Nine individuals will be elected to the Board at the Annual Meeting for one-year terms expiring at the 2014 annual meeting of shareholders. Each nominee listed below is currently a member of the Board. All directors will serve until their successors are duly elected and qualified.

Director Qualifications and Experience

In considering candidates for the Board, the Governance and Nominating Committee reviews the experience, skills, attributes and qualifications of the current Board members and other potential candidates to ensure that the Board has the skills and experience to properly oversee the interests of the Company. In doing so, the Governance and Nominating Committee considers the experience, skills, attributes and qualifications of candidates in these areas:

- Insurance and financial services industry;
- Accounting or other financial management;
- Investments;
- Legal and regulatory;
- Actuarial;
- Management including service as a chief executive officer or manager of business units or functions;
- Marketing;
- Talent management; and
- Experience as a director of other companies.

The key experiences, skills, qualifications and skills of each of the nominees are included in their individual biographies below.

Consideration is also given to each nominee s independence, financial literacy, personal and professional accomplishments and experience in light of the needs of the Company. For incumbent directors, past performance on the Board and contributions to their respective committees are also considered. The Governance and Nominating Committee and the Board seek directors with qualities that will contribute to the goal of having a well-rounded, diverse Board that functions well as a unit and is able to satisfy its oversight responsibilities effectively. The Governance and Nominating Committee expects each of the directors to have proven leadership, sound judgment, high ethical standards and a commitment to the success of the Company.

The Governance and Nominating Committee does not have a specific diversity policy with respect to Board candidates, but it strongly believes that the Board should have a variety of differences in viewpoints, professional experiences, educational background, skills, race, gender and age, and considers issues of diversity and background in its process of selecting candidates for the Board.

Board Nominees

Should any of the nominees become unable to accept election, the persons named in the proxy will have the right to exercise their voting power in favor of such person or persons as the Board may recommend. All of the nominees have consented to being named in this Proxy Statement and to serve if elected. The Board knows of no reason why any of its nominees would be unable to accept election.

The Governance and Nominating Committee will consider candidates for director nominees put forward by shareholders. See Shareholder Proposals for 2014 Annual Meeting for a description of the advance notice procedures for shareholder nominations for directors.

Set forth below is information regarding each person nominated by the Board for election as a director.

Nominees for Election as Directors:

Edward J. Bonach, 59, has been chief executive officer and a director since October 1, 2011 and served as chief financial officer of the Company from May 2007 until January 2012. Mr. Bonach joined CNO from National Life Group, where he served as executive vice president and chief financial officer. Before joining National Life in 2002, he was with Allianz Life for 23 years, where his positions included President Reinsurance Division and chief financial officer. He is a Fellow of the Society of Actuaries, a member of the American Academy of Actuaries, and a Chartered Enterprise Risk Analyst. With respect to Mr. Bonach s nomination for re-election, the Board and the Governance and Nominating Committee considered his experience as chief executive officer and chief financial officer of the Company and his extensive insurance, actuarial and executive management experience.

Ellyn L. Brown, 63, joined our Board in May 2012. Until her retirement from full-time law practice, Ms. Brown practiced corporate and securities law, most recently as principal of Brown & Associates, a boutique law and consulting firm that provided operations, regulatory and governance services to financial services industry clients and other clients that operated in heavily regulated, high-scrutiny environments. Ms. Brown has been a member of the board of directors of NYSE Euronext, Inc. (and predecessor entities) since 2005, and also is a member of the board of NYSE Regulation, the entity that oversees NYSE market regulation. She is also a member of the board of directors of Walter Investment Management Corp. Ms. Brown served as a governor of the Financial Industry Regulatory Authority from 2007-2012 and served from 2007-2011 as a trustee of the Financial Accounting Foundation, the parent entity of the Financial Accounting Standards Board and the Governmental Accounting Standards Board. With respect to Ms. Brown s nomination for re-election, the Board and the Governance and Nominating Committee considered her extensive financial industry, legal and regulatory experience.

Robert C. Greving, 61, joined our Board in May 2011. Mr. Greving is the retired executive vice president, chief financial officer and chief actuary for Unum Group, having held those positions from 2005 to 2009. Mr. Greving also served as president of Unum International Ltd., Bermuda. Before becoming executive vice president and chief financial officer of Unum Group in 2003, he held senior vice president, finance, and chief actuary positions with Unum Group and with The Provident Companies, Inc., which merged with Unum Group. His duties prior to retirement included directing all aspects of the finance and actuarial responsibilities for the corporate and nine insurance subsidiary insurance companies of Unum Group. He previously held senior positions with PennCorp Dallas Operations, Southwestern Life Insurance Company, American Founders Insurance Company, Aegon USA and Horace Mann Life Insurance Company during his 35 years in the insurance industry. He is a Fellow of the Society of Actuaries. With respect to Mr. Greving s nomination for re-election, the Board and the Governance and Nominating Committee considered his extensive experience with the management of companies in the life, health, disability and annuity lines of business and in particular with the actuarial, financial and investment disciplines.

Mary R. (Nina) Henderson, 62, joined our Board in August 2012. Ms. Henderson is the managing partner of Henderson Advisory, a consulting practice providing marketing perspective and business evaluation to investment management firms in the consumer products and food industries. Previously she was a corporate vice president of Bestfoods and president of Bestfoods Grocery. During her 30-year career with Bestfoods, and its predecessor company CPC International, Ms. Henderson held a wide variety of international and North American general management and executive marketing positions. Ms. Henderson has been a director of Walter Energy, Inc. since February 2013. She previously served as a director of Del Monte Foods Company (2002 2011), The Equitable Companies (1996 2000), AXA Financial (2001 2011), Pactiv Corporation (2000 2010), Royal Dutch Shell plc and its predecessor company The Shell Transport and Trading Company (2001 2009) and the Hunt Corporation (1991 2002). With respect to Ms. Henderson s nomination, the Board and the Governance and Nominating Committee considered her management leadership experience, consumer marketing background, and her experience as a director of companies in a variety of industries, including insurance.

R. Keith Long, 64, joined our Board in May 2009. Mr. Long founded Otter Creek Management, Inc. in 1991 and since that date has served as its president and chief executive officer. Otter Creek Management, Inc. is the investment advisor for two hedge funds, Otter Creek Partners I, LP and Otter Creek International Ltd. Mr. Long has 35 years of experience in investment analysis in both fixed income and equities. His experience prior to founding Otter Creek Management, Inc. includes 10 years as a fixed income analyst, trader and arbitrageur, and eight years as an equity portfolio manager. His previous employers include Morgan Stanley, Kidder Peabody, Tradelink, Mesirow Financial and Lionel Edie & Co. He is the former chairman of the board of Financial Industries, Inc., a life insurance company, and the former chairman of Financial Institutions, Inc., a property and casualty insurance company. With respect to Mr. Long s nomination for re-election, the Board and the Governance and Nominating Committee considered his extensive investment experience and prior experience in the insurance industry.

Neal C. Schneider, 68, joined our Board in September 2003. Mr. Schneider served from 2003 until 2010 as the non-executive chairman of the board of PMA Capital Corporation, whose subsidiaries provide insurance products, including workers compensation and other commercial property and casualty lines of insurance, as well as fee-based services. He also served on the executive, audit and governance committees for PMA Capital. 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. Between 2000 and 2002, he was an independent consultant and between 2002 and 2003, Mr. Schneider was a partner of Smart and Associates, LLP, a business advisory and accounting firm. With respect to Mr. Schneider s nomination for re-election, the Board and the Governance and Nominating Committee considered his extensive knowledge and experience in accounting and financial matters, particularly with respect to insurance companies, and in corporate governance.

Frederick J. Sievert, 65, joined our Board in May 2011. Mr. Sievert is the retired President of New York Life Insurance Company, having served in that position from 2002 through 2007. Mr. Sievert shared responsibility for overall company management in the Office of the Chairman, from 2004 until his retirement in 2007. Mr. Sievert joined New York Life in 1992 as senior vice president and chief financial officer. In 1995 he was promoted to executive vice president and was elected to the New York Life board of directors in 1996. Prior to joining New York Life, Mr. Sievert was a senior vice president for Royal Maccabees Life Insurance Company, a subsidiary of the Royal Insurance Group of London, England. Mr. Sievert is a Fellow of the Society of Actuaries. He has been a director of Reinsurance Group of America, Incorporated since 2010. With respect to Mr. Sievert s nomination for re-election, the Board and the Governance and Nominating Committee considered his extensive insurance, actuarial and executive management experience.

Michael T. Tokarz, 63, joined our Board 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. He is a senior investment professional with over 30 years of lending and investment experience including diverse leveraged buyouts, financings, restructurings and dispositions. Mr. Tokarz has served on the boards of publicly traded companies for over 20 years and during the last five years has served as a director of Dakota Growers Pasta Companies, Inc. (2004 2010), MVC Capital, Inc. (2004 present), Mueller Water Products, Inc. (2006 present), Idex Corporation (1987 present) Walter Energy, Inc. (2006 present) and Walter Investment Management Corp. (2009 present). Mr. Tokarz is a certified public accountant. With respect to Mr. Tokarz s nomination for re-election, the Board and the Governance and Nominating Committee considered his extensive knowledge and executive management experience in banking and finance, investments and corporate governance.

John G. Turner, 73, joined our Board in September 2003. He launched Hillcrest Capital Partners, a private equity investment firm, in 2002 and has been its chairman since that date. During his 50-year career in the insurance industry, Mr. Turner served as chairman and chief executive officer 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 of ING Americas until his retirement in 2002. Mr. Turner served as a director of Hormel Foods Corporation from 2000 to 2011, a director of Shopko Stores, Inc. from 1999 to 2005 and a director of ING funds from 2000 to 2007. Mr. Turner is a Fellow of the Society of Actuaries and a member of the American Academy of Actuaries. With respect to Mr. Turner s nomination for re-election, the Board and the Governance and Nominating Committee considered his extensive insurance industry, executive management, investment management, actuarial and regulatory experience.

Voting for Directors; Required Vote

The election of each director will be determined by the vote of the majority of the votes cast (where the number of votes cast for a director exceeds the number of votes cast against that director) by the holders of shares of common stock present in person, or represented by proxy, and entitled to vote on the proposal at the Annual Meeting.

In an uncontested election of directors at which a quorum is present, any incumbent director who fails to receive a majority of the votes cast (where the number of votes cast for a director exceeds the number of votes cast against that director) shall offer to tender his or her resignation to the Board. In such event, the Governance and Nominating Committee will consider the offer and make a recommendation to the Board whether to accept or reject the resignation or whether other action should be taken. The Board will publicly disclose its decision and rationale within 90 days from the certification of the election results.

Recommendation of our Board of Directors

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE ELECTION TO THE BOARD OF EACH OF THE COMPANY S DIRECTOR NOMINEES LISTED ABOVE.

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 corrective actions; review and monitor the Company s compliance with legal and regulatory requirements; discuss with management and the independent accountants our draft annual and quarterly financial statements and key accounting and/or reporting matters; and oversight of management s processes for managing enterprise risk. The Audit and Enterprise Risk Committee currently consists of Mr. Greving, Ms. Henderson, Mr. Long and Mr. Schneider, with Mr. Greving serving as chairman of the committee. Based on their experience, Mr. Greving and Mr. Schneider each qualify as an audit committee financial expert, as defined under SEC 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 SEC including Section 10A(m)(3) of the Securities Exchange Act of 1934 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 11 occasions in 2012. A copy of the Audit and Enterprise Risk Committee s charter is available on our website at *www.CNOinc.com.*

Governance and Nominating Committee. The Governance and Nominating 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 Nominating Committee currently consists of Mr. Tokarz, Ms. Brown, Mr. Schneider and Mr. Sievert, with Mr. Tokarz serving as chairman of the committee. All current members of the Governance and Nominating Committee are independent within the meaning of the listing requirements adopted by the New York Stock Exchange regarding nominating committee membership. The committee held nine meetings during 2012. A copy of the Governance and Nominating Committee s charter is available on our website at *www.CNOinc.com.*

Human Resources and Compensation Committee. The Human Resources and Compensation Committee is responsible for, among other things, approving overall compensation philosophy and strategy; evaluating the performance of the chief executive officer and recommending to the Board the compensation of the chief executive officer; reviewing and approving on an annual basis the evaluation process and compensation structure for the Company s other executive officers as recommended by the chief executive officer; ensuring that appropriate programs and procedures are established to provide for the development, selection, retention and succession of officers and key personnel; and reviewing and administering our incentive compensation and equity award plans. The report of the Human Resources and Compensation Committee appears on page 32 of this Proxy Statement. The Human Resources and Compensation Committee currently consists of

Mr. Sievert, Ms. Brown, Mr. Tokarz and Mr. Turner, with Mr. Sievert serving as committee chair. 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 and qualify as non-employee directors for purposes of Rule 16b-3 of the Securities Exchange Act of 1934 and as outside directors for purposes of Section 162(m) of the Internal Revenue Code. The committee met on 10 occasions in 2012. A copy of the Human Resources and Compensation Committee s charter is available on our website at *www.CNOinc.com.*

Investment Committee. The Investment Committee is responsible for, among other things, reviewing investment policies, strategies and programs; reviewing the procedures which the Company 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 Mr. Long, Mr. Bonach, Ms. Henderson and Mr. Turner, with Mr. Long serving as chairman of the committee. The committee met on five occasions in 2012. A copy of the Investment Committee s charter is available on our website at *www.CNOinc.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 in the management of our business affairs during intervals between Board meetings. The Executive Committee currently consists of Mr. Schneider, Mr. Bonach and Mr. Greving, with Mr. Schneider serving as chairman of the committee. A copy of the Executive Committee s charter is available on our website at *www.CNOinc.com.*

Director Compensation

Our non-employee directors currently receive an annual cash retainer of $75,000. Our non-executive chairman receives a fee equal to 175% of the base cash fees and equity awards paid to the other non-employee directors. The chairs of the Audit and Enterprise Risk Committee and the Human Resources and Compensation Committee each currently receive an additional annual cash fee of $30,000, and directors who chair one of our other Board committees (other than the Executive Committee) 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. In addition to the cash payments, our non-employee directors currently receive $75,000 in annual equity awards, which vest immediately upon grant. Mr. Long declined the stock award portion of the annual director fees in 2012 and Mr. Murphy declined all director fees. The Board s policy is to review and set the compensation of the non-employee directors each year at the Board meeting that follows the Annual 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 2012 to our non-employee directors is summarized in the table below:

DIRECTOR COMPENSATION IN 2012

Name	Fees Earned or Paid in Cash(1)	Stock Awards(2)	Total
Ellyn L. Brown	$ 66,630	$ 74,994	$141,624
Robert C. Greving	120,000	74,994	194,994
Mary R. (Nina) Henderson	59,918	57,535	117,453
R. Keith Long	110,000	0	110,000
Charles W. Murphy	0	0	0
Neal C. Schneider	146,250	131,246	277,496
Frederick J. Sievert	101,868	74,994	176,862
Michael T. Tokarz	95,000	74,994	169,994
John G. Turner	78,132	74,994	153,126

(1)

This column represents the amount of cash compensation paid in 2012 for Board service, for service as non-executive chairman, for service on the Audit and Enterprise Risk Committee and for chairing a committee, as applicable.

(2) The amounts in this column are computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 (ASC 718) and represent the grant date fair values for shares of common stock awarded. On May 9, 2012, Mr. Schneider received an award of 19,188 shares of common stock and Ms. Brown and Messrs. Greving, Sievert, Tokarz and Turner received an award of 10,964 shares of common stock. On August 1, 2012, Ms. Henderson received an award of 7,174 shares of common stock, representing the pro rata portion of the annual stock award for the period from the date she joined the Board until the date of the 2013 annual meeting. These awards vested immediately upon grant.

The directors had the following number of options outstanding at December 31, 2012 Mr. Schneider (15,400), Mr. Tokarz (15,400) and Mr. Turner (15,400). The average exercise price for the options held by the directors is $20.22.

Board Leadership Structure

CNO has a non-executive, independent director, who serves as chairman of the Board. Mr. Schneider was elected Chairman in 2011 and currently serves in that capacity. The Board believes that its leadership structure, with a non-executive chairman position separate from the chief executive officer, provides appropriate, independent oversight of management and the Company. The non-executive chairman of the Board (1) presides at all meetings of the Board and shareholders; (2) presides during regularly held sessions with only the independent directors; (3) encourages and facilitates active participation of all directors; (4) develops the calendar of and agendas for Board meetings in consultation with the chief executive officer and other members of the Board; (5) determines, in consultation with the chief executive officer, the information that should be provided to the Board in advance of the meeting; and (6) performs any other duties requested by the other members of the Board.

As discussed below, all members of our Board are independent other than Mr. Bonach, our chief executive officer. As CEO, Mr. Bonach, subject to the direction of the Board, is in charge of the business and affairs of CNO and is our chief policy making officer. Our Board and its committees play an active role in overseeing the Company s business. The directors bring a broad range of leadership, business and professional experience to the Board and actively participate in Board discussions. The Board believes that having a non-executive chairman and a Board comprised almost entirely of independent, non-employee directors best serves the interests of our shareholders and the Company.

Board Meetings and Attendance

During 2012, the Board met on 16 occasions. Each director attended at least 75% of the aggregate of the meetings of the Board and Board committees on which he served. The independent directors regularly meet in executive session without the chief executive officer or any other member of management. The non-executive chairman presides at such executive sessions.

In addition, CNO has a policy that all directors attend the annual meeting of shareholders. All of our directors attended the annual meeting of shareholders held in 2012.

Director Independence

The Board annually determines the independence of directors based on a review by the directors. Although the Board 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 CNO, either directly or as an officer, shareholder or partner of an organization that has a material relationship with CNO. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others. The Board considers the Company s Corporate Governance Guidelines, the applicable rules and regulations of the Securities and Exchange Commission and the listing standards of the New York Stock Exchange in making its determination regarding independence and the materiality of any relationships with CNO. The Board has determined that all current directors other than Mr. Bonach are independent.

Board s Role in Risk Oversight

Enterprise risk management is integral to our business. The Board is responsible for overseeing the Company s risk profile and management s processes for managing risk. The oversight of certain risks, including those relating to the Company s capital structure and capital management is done by the full Board. The Board has delegated primary responsibility for many aspects of the Board s risk oversight to the Audit and Enterprise Risk Committee. The Audit and Enterprise Risk Committee receives reports at its meetings and oversees management s processes for managing enterprise risk, including the risk management process associated with financial controls, insurance reserves, legal, regulatory and compliance risks, and the overall risk management structure, process and function. Other Board committees oversee risk management related to specific functions. The Investment Committee oversees investment and asset-liability management risk. The Human Resources and Compensation Committee oversees risks associated with our compensation programs so that incentives are not provided for inappropriate risk taking, as further discussed below.

Our leadership strongly supports an active and engaged risk management process. CNO has established an enterprise risk management committee comprised of senior management from business units and functions throughout the Company. This enterprise risk management committee meets at least once each quarter and is co-chaired by the chief executive officer and the chief financial officer. The Company has a senior vice president who is responsible for the coordination of enterprise risk management activities. Reports on different aspects of the Company s enterprise risk management are provided to the Board, to the Audit and Enterprise Risk Committee and to other Board committees, as appropriate, on a regular basis.

As part of its risk oversight responsibilities, the Board and its committees review policies and processes that senior management uses to manage the Company s risk exposure. In doing so, the Board and its committees review the Company s overall risk function and senior management s establishment of appropriate systems and processes for managing insurance risk, interest rate and asset-liability management risk, credit and counterparty risk, liquidity risk, operational risk and reputational risk.

Relationship of Compensation Policies and Practices to Risk Management

The Human Resources and Compensation Committee has reviewed our compensation programs and believes that they carefully balance risks and rewards and do not incentivize inappropriate risk taking. Our incentive plans include multiple performance measures, most of which are financial in nature, and are designed to hold employees accountable for sustained improvement in the core operating performance of the Company. We structure our pay to include both fixed and variable compensation and our variable compensation is capped at no more than two times the target opportunities. In addition, our officers compensation aligns them with shareholder interests through equity-based awards with multiple year vesting.

Approval of Related Party Transactions

Under the Company s written policy, transactions and agreements with related persons (directors, director nominees 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 or a committee comprised solely of 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 Nominating 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 process described above.

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.CNOinc.com*. Within the time period specified, and to the extent required, 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 (there have been no such waivers).

Corporate Governance Guidelines

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

Director Stock Ownership Guidelines

The Board has adopted guidelines regarding ownership of CNO common stock by the directors. These guidelines provide for each director to own shares of common stock with a value of at least three times his or her annual base cash compensation, and directors are given five years from the date of their initial election to reach that level of ownership. Based on the current base cash compensation for directors of $75,000 per year, the ownership guidelines call for each director to own shares with a value of at least $225,000. As of March 11, 2013, all directors who have served on the Board for at least five years met these stock ownership guidelines.

Succession Planning

The Board is actively involved with the Company s talent management process. Annually, the Board reviews the Company s leadership team, which includes a detailed discussion of succession plans for the chief executive officer and other members of executive and senior management. In addition, the Board regularly discusses the Company s plans for talent development, with a focus on high potential individuals who are in the position to make the most significant contributions to the Company and to serve as its future leaders.

Communications with Directors

Shareholders and other interested parties wishing to communicate directly with the Board or any one or more individual members (including the chairman of the Board or the non-management directors as a group) are welcome to do so by writing to the CNO 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 or other interested party.

Compensation Committee Interlocks and Insider Participation

During 2012, directors who served on the Human Resources and Compensation Committee included the current members (Ms. Brown and Messrs. Sievert, Tokarz and Turner). None of the members of the Human Resources and Compensation Committee during 2012 is or has been one of our officers or employees. None of our executive officers serves, or served during 2012, 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 or Human Resources and Compensation Committee.

Copies of Corporate Documents

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

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

Business Overview

CNO Financial Group, Inc. is a Fortune 1000 insurance holding company, with more than $4 billion in annual revenues. CNO s insurance companies are leading providers of supplemental health insurance, life insurance and annuities to working American families and seniors.

CNO delivered very positive financial and operational results in 2012. Net operating income* per share increased 13% over the previous year, driven in part by increases in our Bankers Life and Washington National segments. The Combined Value of New Business, a measure of the present value of expected profits from sales, was up 10% over 2011. GAAP Investment Income grew over 1%, from $1,341.9 million to $1,370.1 million, despite sustained low interest rates. The consolidated statutory risk-based capital ratio of our insurance subsidiaries increased 9 percentage points to 367%, and book value per common share, excluding accumulated other comprehensive income (loss), increased to $17.39 from $15.88.

Additionally, during 2012, we returned significant value to shareholders through our share buyback program and initiated a shareholder dividend program, paying common stock dividends of $13.9 million. Our debt-to-total capital ratio, excluding accumulated other comprehensive income at December 31, 2012 was 20.7 percent, an increase of 240 basis points from December 31, 2011. The increase in such ratio primarily resulted from the completion of our recapitalization transactions. We earned positive ratings actions by all of the major ratings agencies, including three upgrades.

Our mission is to be a premier provider of life insurance, supplemental health products and annuities to America s middle-income consumers with a focus on the retirement ages, while providing value to our

shareholders. We believe that our focus on middle-income families and retirees will position us favorably to capitalize on the future growth in these markets. We believe we can accomplish this mission through the effective execution of the following business strategies:

- remain focused on the needs of our retirement age and middle income market customers;
- expand and improve the efficiency of our distribution channels;
- seek profitable growth;
- pursue operational efficiencies and cost reduction opportunities;
- continue to manage and where possible reduce the risk profile of our business;
- effectively deploy excess capital; and
- develop and incentivize our management team to ensure that we retain the executive talent needed to achieve our strategic objectives.

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* For a definition of net operating income and for reconciliations of this measure to the corresponding measure under generally accepted accounting principles (GAAP), see Information Related to Certain Non-GAAP Financial Measures on page 55 of this Proxy Statement.

Summary of Key Actions, Decisions and Results in 2012

Merit (base salary) increases for the majority of officers (vice president level and above), including the Named Executive Officers: Reflecting general market trends, the performance of the individuals and current base salary to the market, the Human Resources and Compensation Committee (the Committee) approved base salary increases, ranging from 4.1% to 9.4%, to three of the five Named Executive Officers in 2012. The 9.4% increase was to the CEO reflecting his overall performance and base salary level in relation to the market.

Eliminated Combined Operating Expense and Business Segment ROAC as a metric for the P4P (Pay for Performance annual incentive Plan), *and shifted to Operating ROE*. CNO has positioned itself as a mature, stable organization. With a focus on creating more value for the shareholders, our P4P in 2012 rewards the achievement of a strong ROE with a focus on increasing our ability to generate profit.

Continued to include a mix of stock options, performance shares and restricted stock: Prior to 2010, our annual equity grant consisted of stock options and performance shares (P-Shares). Beginning with the 2010 equity grant and continuing through the 2012 grant, we provided restricted stock in addition to stock options and P-Shares. The addition of restricted stock in the annual equity grant was intended to promote retention and to balance the mix of our equity vehicles; however, the performance-related vehicles (stock options and P-Shares) still constitute a majority of the annual equity grant.

2012 2014 P-Shares added Relative TSR as a performance metric: The performance metrics for our 2012 P-Share award were bifurcated between three-year average Pre Tax Operating Income and relative TSR for our comparator group. The 2012 award metrics are weighted 50% for cumulative Pre Tax Operating Income and 50% for relative TSR.

Newly hired Chief Financial Officer: Frederick Crawford was named Executive Vice President, Chief Financial Officer for the Company, effective January 23, 2012. Additional information can be found in the Compensation of the new Chief Financial Officer on page 30.

Strong 2012 P4P results: Driven by strong financial results of the Company and our operating segments, including a 13% increase in net operating income per diluted share, P4P payouts ranged from 131% to 167% of target for the Named Executive Officers.

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2010 2012 P-Shares earned: At the end of the performance period (December 31, 2012), the performance goal for the 2010 2012 P-Share grant was achieved at maximum levels. Accordingly, 150% of the P-Shares were earned and vested from this grant.

Initiated a shareholder dividend program: After nearly a twelve year absence, the Company initiated a dividend program, recognizing the Company s financial strength, and confidence in driving continued growth and capital generation.

These key actions, decisions and results delivered the following compensation for our Named Executive Officers in 2012:

NEO Compensation Resulting from Key 2012 Actions and Decisions

Named Executive Officer	January 1, 2012 Base Salary	Merit (Base Salary) Increase	December 31, 2012 Base Salary	2012 P4P Payout(2)	Sign-On Bonus(3)	LTI Award Value(4)
Edward Bonach, Chief Executive Officer	$800,000	9.4%	$875,000	$1,825,000		$2,187,900
Frederick Crawford, EVP, Chief Financial Officer(5)	(1)	(1)	$550,000	$ 902,525	$450,000	$2,378,725
Scott Perry, Chief Business Officer and President Bankers Life	$525,000	5.0%	$551,250	$ 883,509		$ 972,567
Eric Johnson, President 40|86 Advisors	$500,000	0%	$500,000	$ 771,800		$ 729,802
Christopher Nickele, President, Other CNO Business/EVP, Product Management	$360,500	4.1%	$375,281	$ 489,849		$ 790,261

(1) Mr. Crawford joined the Company as EVP, CFO effective January 23, 2012.

(2) P4P, or Pay for Performance , is our annual management cash incentive plan.

(3) Mr. Crawford received a one-time sign-on bonus upon his commencement as EVP, CFO.

(4) Expressed as the grant date fair value of stock options, performance shares and restricted stock granted in February 2012.

(5) Mr. Crawford s long-term incentive value includes a one-time grant of stock options and restricted stock with a grant date fair value of $1,316,045 made upon his commencement as EVP, CFO.

Summary of Compensation Governance Practices

The Committee strives to maintain good governance standards in our compensation practices. They include:

Stock Ownership Guidelines: In May 2011, the Committee approved stock ownership guidelines for the Chief Executive Officer and the senior executive officers who report to him.

No significant perquisites offered: Our executives participate in broad-based Company-sponsored benefits programs on the same basis as other full-time associates.

Change in control agreements are governed by double trigger arrangements: All employment agreements and equity award agreements for Named Executive Officers and other senior executives require a termination of employment in addition to a change in control of the Company before change in control benefits are triggered.

No Supplemental Executive Retirement Programs (SERPs) offered: We do not offer SERPs to our current executives.

Independence of executive compensation consultant (Aon Hewitt): The Committee has engaged an independent, executive compensation advisor, taking SEC and NYSE guidelines into consideration. Aon Hewitt does not provide any compensation-related services to management and had no prior relationship with our Chief Executive Officer or other Named Executive Officers.

Independence of Committee Members: All Committee members are independent.

Percent of Variable and Performance-Based Pay: Variable pay comprises between 71% and 79% of Total Direct Compensation (as described below) for our Named Executive Officers, with the majority of variable pay composed of long-term incentives.

Continued to utilize a Governor in the Annual Incentive Plan: In 2012, we continued a policy adopted in 2009 which limits P4P payments on non-income-related metrics when we do not achieve overall threshold in Combined In-force EBIT.

Strong Clawback Rights: Our P4P and Long-term Incentive (LTI) plans have clawback provisions that include recapture rights of any incentive amount paid or vested in the event that the Committee determines that the achievement of performance goals was based on incorrect data, errors, omissions or fraud.

Assessing level of risk: The Committee annually assesses the level of risk associated with our incentive plans.

Ongoing succession planning: The Committee regularly engages throughout the year in in-depth discussions regarding succession planning and talent development of our executives.

Philosophy, Objectives and Role of Human Resources and Compensation Committee

Philosophy

The Committee, which is comprised solely of independent, non-employee Directors, has developed a philosophy and a comprehensive compensation strategy to reward overall and individual performance that drives long-term success for our shareholders.

Our compensation philosophy consists of the following guiding principles:

Pay for Performance: Rewards will vary based on company, business segment and individual performance.

Target Total Rewards Position: The overall rewards will be competitive by targeting compensation at approximately the median of the relevant comparator group with additional compensation for achieving superior performance.

Relevant Comparator Group: We will utilize a relevant comparator group of companies in the insurance/financial services industry and general industry where appropriate, taking both asset size and revenue into consideration, which includes the best available data for comparison with our peers and companies with which we compete for executive talent.

Pay for Performance Objectives

The Committee strives to provide a clear reward program that allows us to attract, incentivize and retain seasoned executive talent with the significant industry experience required to continue to improve our performance and build long-term shareholder value. To achieve this, our programs are designed to:

Reward sustainable operational and productivity improvements. This means that (1) we set performance goals under our P4P plan at targeted performance levels for key financial metrics and (2) we set multi-year performance goals for our P-Share (performance share) awards;

Align the interests of our executives with those of our shareholders by rewarding shareholder value creation;

Integrate with the Company-wide annual performance management program of individual goal setting and formal evaluation;

Provide for discretion to make adjustments and modifications based upon how well individual executives meet our performance standards for expected achievement of business results, as well as uphold our values and leadership behaviors; and

Offer the opportunity to earn above-market compensation when overall and individual performances exceed expectations.

Target Total Rewards and Selection of the Comparator Groups

In setting target executive compensation opportunities, our Committee looks at Total Annual Cash (which is comprised of base salary and target cash incentives) and Total Direct Compensation (which is the sum of Total Annual Cash and long-term incentives). Our long-term incentives may include annual stock option awards as well as restricted stock and P-Share awards. The Committee intends to compensate our executives at approximately the 50th percentile (meaning within a range of +/- 15% of the 50th percentile dollar value) for total direct compensation, for the achievement of target performance, with additional compensation opportunities for the achievement of superior results.

The Committee assesses competitive market compensation annually using a number of sources. In determining the competitive compensation levels, at the recommendation of the independent compensation consultant, the Committee reviews targeted proxy data from a select group of peer companies identified below for the Named Executive Officers, and also compares our other executives to the Diversified Insurance Study published by Towers Watson. Both of these sources provide a much more focused analysis of very specific industry peers with whom the Company competes for talent. We will continue to use our peer companies for the Named Executive Officers as the relevant comparator group and all other executives will be compared to the Towers Watson Diversified Industry Study in 2013.

Peer Companies:

American Financial Group, Inc.	Principal Financial Group, Inc.
Assurant, Inc.	Protective Life Corporation
Cincinnati Financial Corporation	Reinsurance Group of America Incorporated
Delphi Financial Group, Inc.	StanCorp Financial Group, Inc.
Genworth Financial, Inc.	Torchmark Corporation
HCC Insurance Holdings, Inc.	Universal American Corp.
Kemper Corporation	Unum Group
Lincoln National Corporation	

Although aggregate pay levels are generally consistent with our compensation philosophy, it is possible that pay levels for specific individuals may be above or below the targeted competitive benchmark levels based on a number of factors, including each individual s role and responsibilities within our Company, the individual s experience and expertise, the pay levels for peers within the Company, and the pay levels for similar job functions in the marketplace. The Committee is responsible for approving all compensation programs for our senior executive officers. In determining executive compensation, the Committee considers all forms of compensation and benefits, and uses appropriate tools such as tally sheets and market studies to review the value delivered to each executive through each component of compensation.

Tally sheets provide a vehicle for the Committee to examine external market practices and compare them to our internal evaluations and decisions. Our tally sheets capture and report:

Competitive external market data on a base salary, Total Annual Cash and Total Direct Compensation basis;

Individual Total Annual Cash compensation including annual salary, target bonus opportunity, and actual bonus paid;

Long-term equity grants and their vesting status and value at a hypothetically established share price; and

Employment agreement terms and conditions.

Competitive market data is used as a reference point, and we avoid automatic adjustments based on annual competitive benchmarking data, since we believe a given executive s compensation should also reflect Company-specific factors such as the relative importance of the role within the organization, the compensation for other positions at the same level, and individual factors such as experience, expertise, and individual performance.

In addition to the objective review of external factors, the Committee also considers internal equity among colleagues when determining executive compensation levels. This means that, although the Committee examines 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 our organizational structure and the relative roles and responsibilities of individuals within that structure. The Committee believes that this approach fosters an environment of cooperation among executives that improves sales growth, profitability and customer satisfaction.

Realized total compensation in any year may be significantly above or below the target compensation levels depending on whether our incentive goals were attained and whether shareholder value was created. In some cases, the amount and structure of compensation results from negotiations with executives at the time they were hired, which may reflect competitive pressures to attract and hire quality executive talent in the insurance industry. To help attract and retain such talent, the Committee also seeks to provide a level of benefits in line with those of comparable publicly traded companies without matching such benefits item by item.

Role of the Human Resources and Compensation Committee

The Committee determines the components and amount of compensation for our executive officers and provides overall guidance for our employee compensation policies and programs. In addition, the Committee actively monitors our executive development and succession planning activities related to our senior executives and other members of management. Currently, there are four members of our Board of Directors who 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. From time to time, other Board members may also participate in the Committee s meetings, though these ad hoc participants do not participate in making pay decisions. The full Board of Directors receives regular reports of Committee deliberations and decisions and, at least once annually, the full Board reviews the Committee s written evaluation of the Chief Executive Officer s performance evaluation and compensation. The Committee s functions are more fully described in its charter, which can be found on our website at *www.CNOinc.com*.

The Committee has the authority under its charter to retain outside consultants or other experts. In making executive compensation decisions, the Committee receives advice from its independent compensation consultant, Aon Hewitt. The Committee evaluates Aon Hewitt s independence annually, and pursuant to the SEC s rules and the NYSE s recently approved rules, concluded that no conflict of interest existed in connection with the services Aon Hewitt performed for the Committee in 2012. As an independent consultant, any services performed by Aon Hewitt for our Company are at the Committee s direction. Aon Hewitt did not have a prior relationship with the Chief Executive Officer or any of our executive officers at the time the

Committee initially engaged Aon Hewitt in October 2008. Other than its services to the Committee, Aon Hewitt does not provide any other compensation-related services to our management.

Although Aon Hewitt is retained directly by the Committee, Aon Hewitt personnel interact with our executive officers as needed, specifically the Chief Executive Officer, Executive Vice President of Human Resources, Executive Vice President and General Counsel, and Chief Financial Officer, and their staffs to provide the Committee with relevant compensation and performance data for our executives and the Company. In addition, Aon Hewitt personnel may interact with management to confirm information, identify data questions, and/or exchange ideas.

As requested by the Committee, Aon Hewitt s services to the Committee in 2012 included:

- Providing competitive analysis of total compensation components for our senior executive officers, including our Named Executive Officers;
- Researching and presenting competitive and emerging compensation practices and regulatory issues;
- Attending Committee meetings, in person and telephonically;
- Reviewing and evaluating changes to the executive compensation philosophy and proposed plan changes; and
- Assisting with the assessment of the risk analysis of our compensation plans.

In making its decisions, the Committee collects and considers input from multiple sources. The Committee may ask senior executive officers to attend Committee meetings where executive compensation, overall 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 Aon Hewitt, members of management and other Board members. However, only the members of the Committee make decisions regarding executive compensation. In the case of the Chief Executive Officer s compensation, these decisions are submitted to the full Board for its review and approval.

The Compensation Committee reviewed the results of the shareholder vote on the Say on Pay proposal from the 2012 Annual Meeting, at which approximately 98.5% of the votes cast were for approval of the Company s 2011 executive compensation as described in last year s proxy statement. After consideration of the positive voting results and its discussion with Aon Hewitt, the Committee determined that its approach to compensation is balanced and effective and made no fundamental changes to the program for fiscal year 2012.

Compensation Components

Our compensation program is composed of the following components:

- Base Salary

Annual cash incentives (P4P)

Long-term equity incentives (stock options, P-Shares and restricted stock)

Benefits

Table 1 summarizes information about the target level of 2012 Total Annual Cash (TAC) and Total Direct Compensation (TDC) for our Named Executive Officers. This table differs from the Summary Compensation Table on page 33 in that values generally represent target amounts and equity grants which are part of our normal long-term incentive program for 2012 only. Further discussion about these compensation components can be found later in this section. Each component is discussed with a brief description of the strategy, plan design and plan performance. This table does not reflect the one-time bonus or grant date fair values of the stock options and restricted stock awards granted in 2012 to Mr. Crawford upon becoming CFO, details of which can be found in the Compensation of the new Chief Financial Officer section below.

Table 1 Summary of Components of TDC in 2012 at Target(1)

Named Executive Officer	Base Salary	Target Incentive (% of Salary)	Target Total Annual Cash	Stock Option Value(2)	P-Share Value(2)	Restricted Stock Value(2)	Total LTI Value(2)	
Edward Bonach, Chief Executive Officer	$875,000	125%	$1,968,750	$1,195,446	$497,545	$494,909	$2,187,900	$
% Change vs. 2011(4)(5)	*9%*		*35%*				*117%*	
% of TDC	*21%*		*47%*				*53%*	
Fred Crawford, EVP, Chief Financial Officer	$550,000	100%	$1,100,000	$ 580,760	$241,600	$240,320	$1,062,680(7)	$
% Change vs. 2011(4)(6)								
% of TDC	*25%*		*51%*				*49%*	
Scott Perry, Chief Business Officer and President Bankers Life & Casualty	$551,250	100%	$1,102,500	$ 531,309	$221,215	$220,043	$ 972,567	$
% Change vs. 2011(4)	*5%*		*8%*				*11%*	
% of TDC	*27%*		*53%*				*47%*	
Eric Johnson, President 40|86 Advisors	$500,000	100%	$1,000,000	$ 398,482	$166,100	$165,220	$ 729,802	$
% Change vs. 2011(4)	*0%*		*0%*				*17%*	
% of TDC	*29%*		*58%*				*42%*	
Christopher Nickele, President Other CNO Business/EVP, Product Management	$375,281	100%	$ 750,562	$ 431,833	$179,690	$178,738	$ 790,261	$
% Change vs. 2011(4)	*4%*		*4%*				*5%*	
% of TDC	*24%*		*49%*				*51%*	

(1) Annual Incentive expressed as Target levels, value of equity expressed as grant date fair value.

(2) Represents stock option, performance share and restricted stock grant date fair values granted in 2012; actual value earned will depend on stock price appreciation and achievement of performance metrics at time of vesting. Valuation methodology is discussed later in this document.

(3) Target TDC includes Target TAC and the Total LTI Value provided at the time of the annual grant.

(4) The 2012 mix of equity vehicles remained the same from 2011 with stock options, P-Shares and restricted stock.

(5) Mr. Bonach completed his first full year as CEO in 2012. 2011 compensation included his pay as both CFO and CEO.

(6) Mr. Crawford joined as EVP, CFO on January 23, 2012.

(7) Does not include the stock options and restricted stock granted in 2012 to Mr. Crawford upon becoming EVP, CFO.

Compensation Mix

In delivering compensation to our Named Executive Officers, the mix of pay is heavily weighted to variable, performance-based pay (currently between 71% and 79% of Target TDC, with the majority of variable pay composed of long-term incentives) with base salary comprising a relatively small portion of Target TDC

(between 21% and 29%) for all the Named Executive Officers. The focus of the pay mix on variable pay elements continues to support our objectives of pay for performance and shareholder value creation.

The pie charts below summarize the 2012 annual compensation pay mix at target for our Chief Executive Officer and other Named Executive Officers:

(1) Does not reflect the stock options and restricted stock granted in 2012 to Mr. Crawford upon becoming EVP, CFO.

Base Salaries

Strategy

In establishing base salaries, the Committee begins by targeting the 50th percentile of the competitive market and adjusts upwards or downwards as appropriate to reflect each position s responsibilities and each individual s experience level, unique skills or competencies. Base salaries generally range from the 25th percentile (for recently promoted employees or those who otherwise have less experience in the current position) to the 75th percentile (for high performers with significant industry experience) of the competitive market data. Annual reviews of executives base salaries consider numerous factors, including:

Job responsibilities;

Impact on the development and achievement of our strategic initiatives;

- Competitive labor market pressures;
- Company performance for the prior 12 months;
- Individual performance for the prior 12 months, as expressed in the executive s performance review; and
- Salaries paid for comparable positions within our relevant comparator group.

No specific weighting of these factors is used. However, given our desire for a performance-based culture, the Committee s use of discretion generally results in increases for our top performers and little or no increases in base salary for average or lower performing employees.

2012 Merit Increases

Based on Company performance, a review of general trends, and an analysis of positioning relative to the comparator market data, the Committee awarded base salary increases to three of the Named Executive Officers in addition to most of the other executives in February 2012.

- Mr. Bonach s base salary increase of 9.4% not only recognized his individual performance in 2011 as the CFO and CEO, but adjusted for below market comparability for CEO base salary market pay levels.
- Mr. Perry and Mr. Nickele s increases of 5.0% and 4.1%, respectively, reflected their overall performance and base salaries in relation to the market pay levels for their respective positions.

Annual Cash Incentives

Strategy

Our annual incentive plan, the Pay for Performance Plan (P4P), is designed to focus on and reward achievement of annual performance goals. It is the broadest of our management incentive programs, covering our Named Executive Officers and other key employees. All participants in the P4P plan, including our Named Executive Officers, are assigned target incentive opportunities expressed as a percentage of base salary.

2012 Pay for Performance (P4P) Plan Design

During February 2012, the Committee reviewed the P4P plan design for 2012 in order to ensure alignment between shareholder and participant interests, to keep senior executives focused on the financial performance of the enterprise, to improve alignment with financial metrics that participants influence and to select operational/business metrics that drive financial success. This review was accomplished by focusing on the selection of appropriate performance metrics and the determination of performance levels which would contribute to financial success. As a result of this review, most performance metrics and weightings remained the same, except that Combined Operating Expense and Business Segment ROAC metrics were eliminated and shifted to Operating ROE. Additional metrics which continued to be part of 2012 incentive plans applicable to Named Executive Officers include:

- Operating Earnings Per Share (EPS), defined as net after tax operating income divided by the average number of diluted shares outstanding. Operating earnings exclude the impact of realized gains (losses), loss on extinguishment of debt, fair value changes due to fluctuations in the interest rates used to discount embedded derivatives related to our fixed index annuities and changes to our valuation allowance for deferred taxes. The Committee believes Operating EPS is a key measure of our operating performance, is less impacted by events that are unrelated to the underlying fundamentals of the business and is directly impacted by management during the calendar year.
- Combined and Business Segment In-force Earnings Before Interest and Taxes (EBIT), where Combined In-force EBIT is a corporate roll-up of individual business segment In-force EBIT. In-force EBIT includes pre-tax revenues and expenses associated with the sales of insurance products that were completed more than one year before the end of the reporting period, but excludes the impact of realized gains (losses), loss on extinguishment of debt, and fair value changes due to fluctuations in the interest rates used to discount embedded

derivatives related to our fixed index annuities. In the Committee s view, this metric enhances line of sight for our operating management and increases their focus on improving the longer-term core profitability of our operations. In-force EBIT excludes the impacts of activities related to the generation of New Business.

Combined and Business Segment Value of New Business (VNB), which calculates the present value of expected profits from product sales. The selection of VNB is based on the Committee s desire to have an increased focus on growing the economic value of sales from the most profitable products as opposed to top-line sales.

Operating ROE, which is net operating income divided by average GAAP Equity, excluding accumulated other comprehensive income and the GAAP value of net operating loss carryforwards. This metric represents the Committee s desire to encourage efficient use of capital.

GAAP Yield, which is period investment income (net of investment expenses), divided by average invested assets for the same period.

GAAP Investment Income, which is the income earned on general account invested assets, net of investment expenses.

Limiting the number of metrics to no more than five for any individual participant enhances the simplicity and effectiveness of the P4P plan. The program is designed to pay additional compensation when the Company achieves superior performance.

Our plan design rewards a threshold level of financial performance which corresponds to 25% of target payout; target level of performance which provides 100% of target payout; and a maximum level of performance which provides a payout of 200% of target. Any payout between these financial performance goals is determined through straight line interpolation between the appropriate levels of performance. Consistent with our compensation philosophy, target annual incentive levels are established to generate Total Annual Cash compensation at competitive market median levels. Further, in 2012, we continued a policy that the threshold level of performance for Combined In-force EBIT must be achieved before there can be any above-target payouts with respect to other financial and operational metrics. This policy limits incentive payments on non-income-related metrics when threshold operating earnings are not achieved by the enterprise.

Although we have a large net operating loss carry-forward (as a result of our emergence from bankruptcy in 2003), the Committee continues to administer the P4P and long-term incentive plans so that payments qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code. However, the Committee does reserve the right to make discretionary awards that do not qualify as performance-based compensation under Section 162(m) to the extent it deems it necessary or advisable to do so.

Table 2 summarizes the 2012 financial metrics and weightings for our Named Executive Officers under the P4P plan:

Table 2 Summary of 2012 P4P Metrics and Weightings for Named Executive Officers

Named Executive Officer	Metric	Weighting	Metric	Weighting	Metric	Weighting	Metric	Weighting	Metric Weighting
Edward Bonach	Operating EPS	50%	Combined In-force EBIT	15%	Operating ROE	20%	Combined Value of New Business	15%	
Frederick Crawford	Operating EPS	50%	Combined In-force EBIT	15%	Operating ROE	20%	Combined Value of New Business	15%	
Scott Perry	Operating EPS	40%	Combined In-force EBIT	15%	Operating ROE	15%	Combined Value of New Business	30%	
Eric Johnson	Operating EPS	50%	GAAP Yield	25%	GAAP Investment Income	25%			
Christopher Nickele									

Named Executive Officer	Metric Weighting	Metric Weighting	Metric Weighting	Metric Weighting	Metric Weighting
	Operating EPS 20%	Combined In-force EBIT 15%	Operating ROE 20%	Combined Value of New Business 25%	OCB Operating EBIT 20%

2012 P4P Plan Performance

The primary purpose of P4P is to reward for core annual operating performance. Under the terms of that 2010 Pay For Performance Plan (P4P Plan) as approved by shareholders, the Committee has the authority to adjust performance goals for various items (including litigation losses) as the Committee determines to be required to properly reflect the year s operating results. During 2012, we recorded charges totaling $64 million related to legacy litigation. After reviewing each of the individual charges, the Committee determined that $47.6 million of the legacy litigation charges related to events prior to the Company s emergence from bankruptcy would be excluded from fiscal 2012 financial results for purposes of determining 2012 P4P payouts.

The Committee based its adjustment decision upon its belief that by excluding these legacy litigation losses, the P4P payout more accurately reflects the Company s core financial performance in fiscal 2012. Another factor taken into account was the reaction of shareholders to these charges. The Company s share price increased 49% during 2012 despite the legacy litigation charges, which we believe indicates that the Company s shareholders did not consider these charges to be indicative of the Company s operating performance for the year.

The legacy litigation charges were not excluded from calculations for the 2010-2012 P Share calculation nor will they be excluded for any future P-Share calculation. The Committee believes that such adjustments should be considered in the annual incentive plan (P4P) when they would lead to an award that does not reflect the level of annual operating performance but that management should generally be responsible for such charges over the long-term.

In adjusting for the $47.6 million of legacy litigation charges, Operating EPS, Operating ROE, Combined and OCB EBIT increased. These related adjustments resulted in an aggregate P4P payout of approximately 143% of target, which aligns with the success of the Company s actual operating performance for fiscal year 2012 and maintains the pay to performance alignment of the Plan.

Table 3 provides a summary of 2012 performance targets and actual results for our Named Executive Officers under the P4P plan.

Table 3 Summary of 2012 P4P Performance Targets and Actual Results for Named Executive Officers

	Performance Targets			
Metric	**Threshold**	**Target**	**Maximum**	**YE Actual Results(1)**
Corporate				
Operating EPS	$ 0.63	$ 0.69	$ 0.74	$ 0.79
Combined In-force EBIT	$ 510.0 MM	$ 540.0 MM	$ 580.0 MM	$ 570.9 MM
Operating ROE	5.83%	6.10%	6.37%	6.90%
Combined Value of New Business	$ 68.0 MM	$ 75.1 MM	$ 82.0 MM	$ 75.0 MM
OCB				
Operating EBIT	$ 16.0 MM	$ 30.0 MM	$ 45.0 MM	$ 1.2 MM
40|86 Advisors				
GAAP Yield	5.80%	5.86%	6.10%	6.00%
GAAP Investment Income	$ 1,275.0 MM	$ 1,316.0 MM	$ 1,450.0 MM	$ 1,370.1 MM

(1) Year end actual results are adjusted as discussed in the 2012 P4P Plan Performance section above.

Table 4 provides the threshold, target and maximum payouts for each of our Named Executive Officers under the P4P plan.

Table 4 Summary of 2012 P4P Opportunities for Named Executive Officers

Named Executive Officer	Threshold Payout (as % of Salary)	Target Payout (as % of Salary)	Maximum Payout (as % of Salary)
Edward Bonach(1)	31.25%	125%	250%
Frederick Crawford	25%	100%	200%
Scott Perry	25%	100%	200%
Eric Johnson	25%	100%	200%
Christopher Nickele	25%	100%	200%

(1) Mr. Bonach s P4P opportunity is higher to reflect competitive norms for the Chief Executive Officer position.

The Committee applied discretion, based on business and individual performance, in calculating the 2012 P4P actual bonus payouts to our Named Executive Officers.

Table 5 sets forth the actual bonuses paid out for 2012 to the Named Executive Officers pursuant to our P4P plan.

Table 5 2012 P4P Target and Actual Bonuses

Named Executive Officer	Target Amount	Actual Amount
Edward Bonach	$ 1,093,750	$ 1,825,000
Frederick Crawford	550,000	902,525
Scott Perry	551,250	883,509
Eric Johnson	500,000	771,800
Christopher Nickele	375,281	489,849

Long-Term Equity Incentives

Design and Strategy

The Committee uses long-term equity incentives to balance the short-term focus of the P4P program by tying rewards to performance achieved over multi-year periods. Under the Amended and Restated Long-Term Incentive Plan, the Committee may grant a variety of long-term incentive awards, including stock options, stock appreciation rights, restricted stock or restricted stock units, and performance shares or units, settled in cash or stock. We currently use stock options, performance shares, and restricted stock as our long-term compensation vehicles.

To focus executives efforts on longer-term results, we have historically granted awards of stock options that generally vest over three years, performance shares that vest at the end of a three-year period, and restricted stock awards that vest after no less than two years. Recent stock option grants vest in equal installments in the second and third years from the anniversary date of grant, and performance shares are measured over a three-year performance period at which time they will vest only if the financial goals have been achieved. Unless otherwise noted, grants to our Named Executive Officers have vesting schedules identical to those for other executives. To be eligible to vest in long-term equity incentive awards, employees must generally continue to work for us through the vesting dates or satisfy the definition of Retirement adopted in 2011.

Our current granting process involves developing long-term incentive grant values (by position level) for groups of executives, including our Named Executive Officers. Within these general grant guidelines, individual awards may be adjusted up or down to reflect the performance of the executive and his or her potential to contribute to the success of our initiatives to create shareholder value, as well as other individual considerations. The Committee also assesses aggregate share usage and dilution levels in comparison to general industry norms. Through this method, the Committee believes it is mindful of total cost, grants awards that are competitive within the market, promotes internal equity and reinforces our philosophy of pay for performance.

The Committee reviews and approves individual grants for the Named Executive Officers as well as all stock option, performance share (P-Share) and restricted stock grants made to other executives under the purview of the Committee. Annual grants for all officers are reviewed and approved at the Committee s scheduled meeting at approximately the same time each year and may be granted only with an exercise price at or above the closing market price of our common stock on the date of grant (Fair Market Value). Interim or off-cycle grants are reviewed and approved by the Committee and granted at the closing market price of our common stock on the date of approval for executives under the purview of the Committee. The Chief Executive Officer has been authorized by the Committee to utilize a designated number of shares each year to

grant equity awards to non-Section 16 executives to attract, reward, motivate and/or retain such employees, as deemed necessary by the CEO. Such awards are periodically reviewed by the Committee.

Equity Grants in 2012

The Committee established the annual target for all long-term equity incentive grants based on competitive market data. The approach was intended to deliver median Total Direct Compensation using a combination of stock options, P-Shares and restricted stock. In 2012, the Committee reinstated its practice of using a 15-day average of our stock price to calculate the number of shares granted to each executive. We continued to use a Black-Scholes valuation model as in previous years.

In 2012, we granted a mix of stock options (50%), P-Shares (25%) and restricted stock (25%). This mix was designed to address retention concerns and balance the mix of equity vehicles used, although the performance elements (stock options and P-Shares) make up the majority of total long-term equity incentives. The P-Shares awarded in 2012 are bifurcated and subject to meeting goals based on average Pre-Tax Operating Income (as defined below) and relative TSR for our comparator group over the course of the three-year performance period ending December 31, 2014 and have up-side opportunity of 150% of the target award. Dividends are paid on vested and unvested shares of restricted stock and earned P-Shares.

Table 6 shows the annual equity awards granted to our Named Executive Officers in 2012 (excluding new-hire grants for Mr. Crawford associated with becoming CFO).

Table 6 2012 Annual Equity Grants

	2012 Grant		
Named Executive Officer	**Stock Options**	**Restricted Shares**	**Performance Shares**
Edward Bonach	207,900	65,900	65,900
Grant Date Fair Value:	*$1,195,446*	*$494,909*	*$497,545*
Frederick Crawford(1)	101,000	32,000	32,000

	2012 Grant		
Grant Date Fair Value:	*$ 580,760*	*$240,320*	*$241,600*
Scott Perry	92,400	29,300	29,300
Grant Date Fair Value:	*$ 531,309*	*$220,043*	*$221,215*