

CONSECO INC

FORM 10-Q (Quarterly Report)

Filed 11/14/97 for the Period Ending 09/30/97

Address	11825 N PENNSYLVANIA ST CARMEL, IN 46032
Telephone	3178176100
CIK	0000719241
SIC Code	6321 - Accident and Health Insurance
Industry	Insurance (Life)
Sector	Financial
Fiscal Year	12/31

CONSECO INC

FORM 10-Q (Quarterly Report)

Filed 11/14/1997 For Period Ending 9/30/1997

Address	11825 N PENNSYLVANIA ST CARMEL, Indiana 46032
Telephone	317-817-6100
CIK	0000719241
Industry	Insurance (Life)
Sector	Financial
Fiscal Year	12/31

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

Form 10-Q

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

For the quarterly period ended September 30, 1997

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

For the transition period from to

Commission File Number 1-9250

Conseco, Inc.

Indiana

State of Incorporation

No. 35-1468632

IRS Employer Identification No.

11825 N. Pennsylvania Street
Carmel, Indiana 46032

Address of principal executive offices

(317) 817-6100

Telephone

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

Shares of common stock outstanding as of October 31, 1997: 188,414,549

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CONSECO, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
(Dollars in millions)

ASSETS

	September 30, 1997 ----	December 31, 1996 ----
	(unaudited)	
Investments:		
Actively managed fixed maturities at fair value (amortized cost: 1997 - \$20,676.5; 1996 - \$17,203.3).....	\$21,065.3	\$17,307.1
Equity securities at fair value (cost: 1997 - \$225.7; 1996 - \$97.6).....	238.5	99.7
Mortgage loans.....	308.8	356.0
Credit-tenant loans.....	570.1	447.1
Policy loans.....	634.7	542.4
Other invested assets	449.3	259.6
Short-term investments.....	773.6	281.6
Assets held in separate accounts.....	606.7	337.6
	-----	-----
Total investments.....	24,647.0	19,631.1
Accrued investment income.....	360.6	296.9
Cost of policies purchased.....	2,581.8	2,015.0
Cost of policies produced.....	841.8	544.3
Reinsurance receivables.....	787.9	504.2
Income tax assets.....	87.4	8.8
Goodwill (net of accumulated amortization: 1997 - \$139.0; 1996 - \$83.2).....	3,251.4	2,200.8
Property and equipment (net of accumulated depreciation: 1997 - \$83.7; 1996 - \$69.7)	157.7	110.5
Other assets.....	422.4	301.1
	-----	-----
Total assets.....	\$33,138.0 =====	\$25,612.7 =====

(continued on next page)

The accompanying notes are an integral part of the consolidated financial statements.

CONSECO, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET, continued
(Dollars in millions)

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 1997 ----- (unaudited)	December 31, 1996 -----
Liabilities:		
Insurance liabilities:		
Interest sensitive products.....	\$15,659.6	\$14,795.5
Traditional products.....	5,347.9	3,180.1
Claims payable and other policyholder funds.....	1,265.4	1,056.3
Unearned premiums.....	442.6	272.4
Investment borrowings.....	1,308.9	383.4
Other liabilities.....	1,449.9	709.5
Liabilities related to separate accounts	606.7	337.6
Commercial paper.....	492.9	-
Notes payable.....	1,876.8	1,094.9
	-----	-----
Total liabilities.....	28,450.7	21,829.7
	-----	-----
Minority interest:		
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts.....	900.0	600.0
Mandatorily redeemable preferred stock of subsidiary.....	-	97.0
Common stock of subsidiary.....	.7	.7
Shareholders' equity:		
Preferred stock.....	122.0	267.1
Common stock and additional paid-in capital (no par value, 500,000,000 shares authorized, shares issued and outstanding: 1997 - 188,009,367; 1996 - 167,128,228).....	2,452.5	2,029.6
Unrealized appreciation (depreciation) of securities:		
Fixed maturity securities (net of applicable deferred income taxes: 1997 - \$79.3; 1996 - \$21.5).....	147.2	39.8
Other investments (net of applicable deferred income taxes: 1997 - \$1.4; 1996 - \$(.5)).....	2.6	(.9)
Retained earnings.....	1,062.3	749.7
	-----	-----
Total shareholders' equity.....	3,786.6	3,085.3
	-----	-----
Total liabilities and shareholders' equity.....	\$33,138.0	\$25,612.7
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

CONSECO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS
(Dollars in millions)
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	1997	1996	1997	1996
Revenues:				
Insurance policy income:				
Traditional products.....	\$ 778.8	\$351.0	\$2,121.4	\$1,033.4
Interest sensitive products.....	107.0	100.8	319.5	159.8
Net investment income.....	460.6	364.8	1,314.7	926.7
Net investment gains.....	116.4	6.9	137.3	9.8
Fee revenue and other income.....	20.7	10.8	50.1	38.5
Nonrecurring income.....	-	-	-	30.4
Total revenues.....	1,483.5	834.3	3,943.0	2,198.6
Benefits and expenses:				
Insurance policy benefits.....	594.8	313.8	1,581.7	858.3
Change in future policy benefits.....	23.6	3.9	105.2	15.9
Amounts added to annuity and financial product policyholder account balances:				
Interest.....	176.4	173.6	518.0	445.9
Other amounts added to variable and equity-indexed annuity products....	32.4	11.1	70.6	28.5
Interest expense on notes payable.....	24.7	30.4	76.0	84.6
Interest expense on short-term investment borrowings.....	9.4	6.5	17.7	15.1
Amortization related to operations.....	92.3	61.2	310.8	160.7
Amortization related to investment gains.....	43.8	3.3	70.4	15.6
Nonrecurring charges.....	62.4	-	71.7	-
Other operating costs and expenses.....	148.5	99.0	419.1	221.0
Total benefits and expenses.....	1,208.3	702.8	3,241.2	1,845.6
Income before income taxes, minority interest and extraordinary charge.	275.2	131.5	701.8	353.0
Income tax expense.....	106.9	49.8	261.8	134.1
Income before minority interest and extraordinary charge	168.3	81.7	440.0	218.9
Minority interest:				
Distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts.....	13.0	-	34.6	-
Dividends on preferred stock of subsidiaries.....	.8	2.3	3.3	7.4
Equity in earnings of subsidiaries.....	-	.1	-	18.4
Income before extraordinary charge	154.5	79.3	402.1	193.1
Extraordinary charge on extinguishment of debt, net of taxes and minority interest.....	.7	1.2	6.2	18.6
Net income.....	153.8	78.1	395.9	174.5
Less amounts applicable to preferred stock:				
Charge related to induced conversions.....	-	-	13.2	-
Preferred stock dividends.....	2.2	5.5	6.7	22.7
Net income applicable to common stock.....	\$ 151.6	\$ 72.6	\$ 376.0	\$ 151.8

(continued on next page)

The accompanying notes are an integral part of the consolidated financial statements.

CONSECO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS, continued
(Dollars in millions, except per share data)
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	1997	1996	1997	1996
	----	----	----	----
Earnings per common share and common equivalent share:				
Primary:				
Weighted average shares outstanding.....	210,978,000	143,171,000	209,742,000	115,890,000
Income before extraordinary charge.....	\$.73	\$.55	\$1.85	\$1.58
Extraordinary charge.....	-	.01	.03	.16
	----	----	----	----
Net income.....	\$.73	\$.54	\$1.82	\$1.42
	====	====	====	====
Fully diluted:				
Weighted average shares outstanding.....	212,106,000	158,061,000	210,193,000	134,740,000
Income before extraordinary charge.....	\$.73	\$.50	\$1.85	\$1.43
Extraordinary charge.....	-	.01	.03	.14
	----	----	----	----
Net income.....	\$.73	\$.49	\$1.82	\$1.29
	====	====	====	====

The accompanying notes are an integral part of the consolidated financial statements.

CONSECO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Dollars in millions)
(unaudited)

	Nine months ended September 30,	
	1997	1996
	-----	-----
Preferred stock:		
Balance, beginning of period.....	\$ 267.1	\$ 283.5
Issuance of convertible preferred stock.....	-	267.1
Conversion of preferred stock into common shares.....	(145.1)	(283.2)
Redemption of preferred stock for cash.....	-	(.3)
	-----	-----
Balance, end of period.....	\$ 122.0	\$ 267.1
	=====	=====
Common stock and additional paid-in capital:		
Balance, beginning of period.....	\$2,029.6	\$ 157.2
Amounts related to stock options and employee benefit plans.....	180.6	21.4
Tax benefit related to issuance of shares under stock option plans.....	82.5	18.4
Conversion of convertible debentures into common shares.....	154.4	-
Conversion of preferred stock into common shares.....	145.1	283.2
Issuance of shares in merger with Life Partners Group, Inc.....	-	586.8
Issuance of shares in merger with Capitol American Financial Corporation.....	115.7	-
Issuance of shares in merger with Pioneer Financial Services, Inc.....	342.5	-
Cost of issuance of preferred stock.....	(3.3)	(9.4)
Cost of shares acquired charged to common stock and additional paid-in capital.....	(590.4)	(3.1)
Other.....	(4.2)	-
	-----	-----
Balance, end of period.....	\$2,452.5	\$1,054.5
	=====	=====
Unrealized appreciation (depreciation) of securities:		
Fixed maturity securities:		
Balance, beginning of period.....	\$ 39.8	\$ 112.6
Change in unrealized appreciation (depreciation).....	107.4	(159.3)
	-----	-----
Balance, end of period.....	\$ 147.2	\$ (46.7)
	=====	=====
Other investments:		
Balance, beginning of period.....	\$ (.9)	\$.1
Change in unrealized appreciation (depreciation).....	3.5	(.4)
	-----	-----
Balance, end of period.....	\$ 2.6	\$ (.3)
	=====	=====
Retained earnings:		
Balance, beginning of period.....	\$ 749.7	\$ 558.3
Net income	395.9	174.5
Cost of shares acquired charged to retained earnings.....	(26.1)	(22.9)
Amounts applicable to preferred stock:		
Charge related to induced conversion of convertible preferred stock.....	(13.2)	-
Dividends on preferred stock.....	(6.7)	(22.7)
Dividends on common stock.....	(37.3)	(5.9)
	-----	-----
Balance, end of period.....	\$1,062.3	\$ 681.3
	=====	=====
Total shareholders' equity.....	\$3,786.6	\$1,955.9
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

CONSECO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in millions)
(unaudited)

	Nine months ended September 30,	
	1997	1996
	-----	-----
Cash flows from operating activities:		
Net income.....	\$ 395.9	\$ 174.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and depreciation.....	395.2	190.7
Income taxes.....	94.6	(4.4)
Insurance liabilities.....	(81.8)	58.7
Amounts added to annuity and financial product policyholder account balances.....	588.6	474.4
Fees charged to insurance liabilities.....	(318.2)	(158.9)
Accrual and amortization of investment income.....	(34.6)	(27.2)
Deferral of cost of policies produced.....	(442.7)	(237.0)
Nonrecurring items.....	71.7	(30.4)
Minority interest.....	-	17.3
Extraordinary charge on extinguishment of debt.....	9.5	28.6
Net investment gains.....	(137.3)	(9.8)
Other.....	(16.9)	(34.2)
	-----	-----
Net cash provided by operating activities.....	524.0	442.3
	-----	-----
Cash flows from investing activities:		
Sales of investments.....	11,453.1	4,954.0
Maturities and redemptions.....	450.2	521.0
Purchases of investments.....	(12,673.0)	(5,852.8)
Purchase of Life Partners Group, Inc.....	-	(9.5)
Purchase of property and casualty insurance brokerage businesses.....	-	(12.0)
Purchase of additional shares of American Life Holdings, Inc.....	-	(165.0)
Purchase of preferred stock of American Life Holdings, Inc.....	-	(12.6)
Purchase of mandatorily redeemable preferred stock of subsidiary.....	(98.4)	-
Repurchase of equity securities by Bankers Life Holding Corporation.....	-	(27.7)
Cash held by Life Partners Group, Inc. before consolidation.....	-	79.1
Acquisition of Capitol American Financial Corporation, net of cash held at date of merger.....	(522.1)	-
Cash held by Pioneer Financial Services, Inc. at date of merger.....	44.2	-
Acquisition of Colonial Penn Life Insurance Company and Providential Life Insurance Company and certain other assets, net of cash held at date of purchase.....	11.3	-
Other.....	(5.0)	(56.5)
	-----	-----
Net cash used by investing activities.....	(1,339.7)	(582.0)
	-----	-----
Cash flows from financing activities:		
Issuance of Company-obligated mandatorily redeemable preferred stock of subsidiary trusts.....	296.7	-
Issuance of shares related to stock options and employee benefit plans.....	46.4	16.3
Issuance of convertible preferred stock.....	-	257.7
Issuance of commercial paper, net.....	492.9	-
Issuance of notes payable.....	1,858.4	853.3
Redemption of preferred shares.....	-	(.3)
Payments on notes payable.....	(1,554.8)	(987.5)
Payments to repurchase equity securities of Conseco.....	(496.8)	(21.5)
Investment borrowings.....	925.5	169.8
Deposits to insurance liabilities.....	1,426.7	1,266.5
Withdrawals from insurance liabilities.....	(1,629.2)	(1,366.4)
Charge related to induced conversion of convertible preferred stock.....	(13.2)	-
Dividends paid.....	(44.9)	(25.8)
	-----	-----
Net cash provided by financing activities.....	1,307.7	162.1
	-----	-----
Net increase in short-term investments.....	492.0	22.4
Short-term investments, beginning of period.....	281.6	189.9
	-----	-----
Short-term investments, end of period.....	\$ 773.6	\$ 212.3
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

CONSECO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following notes should be read in conjunction with the notes to consolidated financial statements included in the 1996 Form 10-K of Consecoco, Inc. ("We", "Consecoco" or the "Company").

BASIS OF PRESENTATION

The unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring items, which are necessary to present fairly Consecoco's financial position and results of operations on a basis consistent with that of our prior audited consolidated financial statements. We have reclassified certain amounts from the prior periods to conform to the 1997 presentation. We have restated all share and per-share amounts for the two-for-one stock splits distributed on February 11, 1997, and April 1, 1996.

In preparing financial statements in conformity with generally accepted accounting principles ("GAAP"), we are required to make estimates and assumptions that significantly affect various reported amounts. For example, we use significant estimates and assumptions in calculating the cost of policies produced, the cost of policies purchased, goodwill, insurance liabilities, liabilities related to litigation, guaranty fund assessment accruals and deferred income taxes. If our future experience differs materially from these estimates and assumptions, our financial statements could be affected.

Consolidation issues. Consecoco's ownership of Bankers Life Holding Corporation ("BLH") was 88 percent at December 31, 1995, and increased to 90.5 percent at March 31, 1996, as a result of share repurchases by BLH. On December 31, 1996, we completed the purchase of BLH common shares we did not previously own in a transaction pursuant to which BLH merged with a wholly owned subsidiary of Consecoco (the "BLH Merger"). The accounts of BLH are consolidated with Consecoco's accounts for all periods in the accompanying consolidated financial statements.

We were required to use step-basis accounting when we acquired the BLH common shares at the various acquisition dates. The assets and liabilities of BLH included in Consecoco's consolidated balance sheet represent the following combination of values: (i) the portion of BLH's net assets acquired by Consecoco in the November 1992 acquisition made by Consecoco Capital Partners, L.P. is valued as of that acquisition date; (ii) the portion of BLH's net assets acquired in 1993, 1995 and the first quarter of 1996 is valued as of the dates of their purchase; and (iii) the portion of BLH's net assets acquired in the BLH Merger is valued as of December 31, 1996.

Consecoco Capital Partners II, L.P. ("Partnership II"), Consecoco's second investment partnership, acquired American Life Holdings, Inc. ("ALH") on September 29, 1994. Because Consecoco was the sole general partner of Partnership II, Consecoco controlled Partnership II and ALH even though our ownership interest was less than 50 percent. Because of this control, Consecoco's consolidated financial statements were required to include the accounts of ALH. Immediately after the acquisition of ALH, Consecoco, through its direct investment and through its equity interests in the investments made by BLH and other affiliates, had approximately a 27 percent ownership interest in ALH. Consecoco's ownership interest in ALH increased to 36 percent in 1995.

On September 30, 1996, we purchased all of the common shares of ALH we did not previously own from Partnership II for \$165.0 million in cash (the "ALH Stock Purchase") and Partnership II was terminated. We were required to use step-basis accounting when we acquired the shares of ALH common stock in the ALH Stock Purchase and for our previous acquisitions. As a result, the assets and liabilities of ALH included in Consecoco's consolidated balance sheet represent the following combination of values: (i) the portion of ALH's net assets acquired by Consecoco in the initial acquisition of ALH made by Partnership II is valued as of September 29, 1994; (ii) the portion of ALH's net assets acquired on November 30, 1995 is valued as of that date; and (iii) the portion of ALH's net assets acquired in the ALH Stock Purchase is valued as of September 30, 1996.

On August 2, 1996, we completed the acquisition (the "LPG Merger") of Life Partners Group, Inc. ("LPG") and LPG became a wholly owned subsidiary of Consecoco. On December 17, 1996, we completed the acquisition (the "ATC Merger") of American Travellers Corporation ("ATC") and ATC was merged with and into Consecoco, with Consecoco being the surviving corporation. On December 23, 1996, we completed the acquisition (the "THI Merger") of Transport Holdings Inc. ("THI") and THI was merged with and into Consecoco with Consecoco being the surviving corporation. On March 4, 1997, we completed the acquisition (the "CAF Merger") of Capitol American Financial Corporation ("CAF") and CAF became a wholly owned subsidiary of Consecoco. On May 30, 1997, we completed the acquisition (the "PFS Merger") of Pioneer Financial Services, Inc. ("PFS") and PFS became a wholly owned subsidiary of Consecoco. On September 30, 1997, we completed the acquisition (the "Colonial Penn Purchase") of Colonial Penn Life Insurance Company and Providential Life Insurance Company and certain other assets (collectively referred to as "Colonial Penn"). Colonial Penn became a wholly owned subsidiary of Consecoco. The accounts of LPG are consolidated with Consecoco effective July 1,

CONSECO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1996; the accounts of ATC and THI are consolidated effective December 31, 1996; the accounts of CAF are consolidated effective January 1, 1997; the accounts of PFS are consolidated effective April 1, 1997; and the accounts of Colonial Penn are consolidated effective September 30, 1997.

ADJUSTMENT TO ACTIVELY MANAGED FIXED MATURITY SECURITIES

We classify fixed maturity securities into three categories: "actively managed" (which are carried at estimated fair value), "trading account" (which are carried at estimated fair value) and "held to maturity" (which are carried at amortized cost). We did not classify any fixed maturity securities in the held to maturity or trading categories at September 30, 1997.

Adjustments to carry actively managed fixed maturity securities at fair value have no effect on our earnings. We record them, net of tax and other adjustments, as an adjustment to shareholders' equity. "Unrealized appreciation of fixed maturity securities, net" in shareholders' equity at September 30, 1997, and December 31, 1996, consisted of the following:

	September 30, 1997			December 31, 1996		
	Cost basis	Effect of fair value adjustments	Carrying value	Cost basis	Effect of fair value adjustments	Carrying value
	-----	-----	-----	-----	-----	-----
			(Dollars in millions)			
Actively managed fixed maturity securities.....	\$20,676.5	\$ 388.8	\$21,065.3	\$17,203.3	\$103.8	\$17,307.1
Other balance sheet items:						
Cost of policies purchased.....	2,715.5	(133.7)	2,581.8	2,059.2	(44.2)	2,015.0
Cost of policies produced.....	863.3	(21.5)	841.8	542.6	1.7	544.3
Amounts related to assets held in trust under reinsurance agreements (included in other liabilities).....	-	(7.1)	(7.1)	-	-	-
Income tax assets.....	166.7	(79.3)	87.4	30.3	(21.5)	8.8
		-----			-----	
Unrealized appreciation of fixed maturity securities, net.....		\$ 147.2			\$ 39.8	
		=====			=====	

FINANCIAL INSTRUMENTS

Conseco has entered into interest rate swap agreements which expire in 2002. Such agreements effectively convert the fixed cost the Company incurs on \$200.0 million of Company-obligated mandatorily redeemable preferred securities of subsidiary trusts to a variable rate during the next five years. Under the agreements, Conseco receives a weighted average fixed rate of 6.82 percent and pays a floating rate based on LIBOR, determined quarterly. At September 30, 1997, the weighted average floating rate was approximately 5.79 percent. Unrealized gains of \$3.8 million related to the interest rate swap agreements are not reflected in the consolidated financial statements.

In 1996, we introduced equity-indexed annuity products, which provide a guaranteed base rate of return with a higher potential return linked to the performance of a broad-based equity index. We also implemented a hedging program under which we purchase Standard & Poor's 500 Index Call Options ("S&P Options"). We buy S&P Options to offset potential increases in policyholder account balances for equity-indexed annuity policies resulting from increases in the index to which the products are linked. We include the cost of the S&P Options in the pricing of the equity-indexed annuity products. We reflect changes in the values of the S&P Options, which fluctuate in relation to changes in policyholder account balances for these annuities, in net investment income.

During the nine months ended September 30, 1997, net investment income increased by \$33.6 million as a result of changes in the value of the S&P Options. Such investment income was substantially offset by amounts added to policyholder account balances for annuities and financial products. The value of the S&P Options was \$38.2 million at September 30, 1997. We classify such instruments as other invested assets.

CONSECO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

If the counterparties of the aforementioned derivative financial instruments do not meet their obligations, Consecoco could have a loss. Consecoco limits its exposure to such a loss by diversifying among several counterparties believed to be strong and creditworthy. At September 30, 1997, all of the counterparties were rated A or higher by Standard & Poor's Corporation.

In conjunction with its investment in a consumer financing company, Consecoco has guaranteed up to \$10.0 million of the financing company's indebtedness to its primary lender through 1998. Consecoco believes the likelihood of a significant loss from the guarantee is remote.

ACQUISITIONS

Capitol American Financial Corporation

On March 4, 1997, we completed the CAF Merger. We exchanged each outstanding share of CAF common stock for the right to receive \$30.75 in cash plus 0.1647 of a share of Consecoco common stock. We paid \$549.3 million (including acquisition expenses of \$10.7 million) in cash and issued 3.0 million shares of Consecoco common stock (including .1 million common equivalent shares issued in exchange for CAF's outstanding options) having a value of approximately \$115.7 million. We also assumed a \$31.0 million note payable of CAF, which we repaid on the merger date.

CAF, through its insurance subsidiaries, underwrites, markets and distributes individual and group supplemental health and accident insurance. CAF's principal insurance subsidiary is Capitol American Life Insurance Company ("CALI"), an Arizona-domiciled insurance company. CALI is licensed to sell its products in 47 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands, and markets its products through a sales force consisting of independent agents, agent organizations and brokers.

Pioneer Financial Services, Inc.

On May 30, 1997, we completed the PFS Merger. We exchanged each outstanding share of PFS common stock for .7077 of a share of Consecoco common stock. We issued 8.6 million shares of Consecoco common stock (including .2 million common equivalent shares issued in exchange for PFS's outstanding options) having a value of approximately \$342.5 million. We assumed PFS's convertible subordinated notes, which became convertible into 3.1 million shares of Consecoco common stock, having a value of \$140.9 million (of which \$86.1 million, representing the principal amount outstanding, is included in notes payable and \$54.8 million, representing the additional value attributable to the conversion feature, is included in other liabilities). We also assumed a \$21.3 million note payable of PFS, which we repaid on the merger date.

PFS, through its insurance subsidiaries, underwrites life insurance, annuities and health insurance in selected niche markets throughout the United States.

Colonial Penn

On September 30, 1997, we completed the Colonial Penn Purchase from Leucadia National Corporation ("Leucadia") for \$460.0 million in cash and notes payable. The Colonial Penn Purchase was funded with: (i) \$60.0 million in cash which was borrowed under our bank credit facility; and (ii) notes payable to Leucadia (the "Leucadia Notes") totaling \$400.0 million. The Leucadia Notes bear interest at the one month LIBOR rate plus a margin of .50 percent payable semi-annually. Such rate was 6.16 percent at September 30, 1997. The Leucadia Notes mature on January 2, 2003. The Leucadia Notes may be put back to Consecoco by the holder at any time after December 31, 1997, in the event that: (i) all or substantially all of Leucadia's assets are sold; or (ii) there is an acquisition of beneficial ownership of Leucadia's securities representing 20 percent or more of the voting securities of Leucadia. In addition, the Leucadia Notes are puttable (in whole or in increments of \$10 million of par value) at any time on or after September 30, 1999, at a discount to par. The discount rate is equal to (i) 3 percent of the then outstanding principal balance during the period September 30, 1999, through September 29, 2000; (ii) 2 percent of the then outstanding principal balance during the period September 30, 2000, through September 29, 2001; and (iii) 1 percent of the then outstanding principal balance thereafter prior to maturity. The Leucadia Notes and accrued interest thereon are secured by standby letters of credit totaling \$420.0 million. Such letters of credit expire on September 30, 1998, but may be extended in one-year increments through 2003. The Company pays a fee on the letters of credit based upon the ratings by Standard & Poors and Duff & Phelps on the Company's senior notes. At September 30, 1997, such fee was .20 percent per annum on the \$420.0 million of outstanding letters of credit.

CONSECO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Colonial Penn is principally engaged in the sale of "graded benefit life" insurance policies through direct marketing and Medicare supplement insurance through independent agents.

Effect of Merger Transactions on Consolidated Financial Statements

We used purchase accounting to account for the CAF Merger effective January 1, 1997, the PFS Merger effective April 1, 1997, and the Colonial Penn Purchase effective September 30, 1997. We allocated the cost to acquire CAF, PFS, and Colonial Penn to the assets and liabilities acquired based on their fair values as of their effective dates, and recorded the excess of the total purchase cost over the fair value of the liabilities we assumed as goodwill. We based this allocation on a preliminary determination of the fair value of the assets and liabilities we acquired. We may adjust this allocation when we make a final determination of such values. We do not expect any adjustment to be material, however.

The above acquisitions affected the consolidated balance sheet and consolidated statement of cash flows as of the effective date of the respective transactions as follows (dollars in millions):

	CAF Merger -----	PFS Merger -----	Colonial Penn -----
Fixed maturities.....	\$ 808.4	\$ 1,007.4	\$ 579.0
Equity securities.....	9.4	30.9	2.9
Policy loans.....	-	83.9	12.7
Accrued investment income.....	8.6	16.4	10.7
Cost of policies purchased.....	411.9	253.9	155.8
Reinsurance receivables.....	-	207.6	36.3
Goodwill.....	330.7	308.2	271.1
Income tax assets (liabilities).....	(57.4)	29.4	(4.2)
Insurance liabilities.....	(824.0)	(1,474.0)	(657.1)
Notes payable.....	(31.0)	(107.4)	(402.2)
Common stock and additional paid-in capital.....	(115.7)	(342.5)	-
Other.....	(18.8)	(58.0)	(16.3)
	-----	-----	-----
Cash (provided) used	\$ 522.1	\$ (44.2)	\$ (11.3)
	=====	=====	=====

The Company intends to significantly reduce the operating expenses of recently acquired companies including LPG, THI, ATC, CAF and PFS by centralizing most of their operations with those of its other companies. Accordingly, most of the employees of LPG, THI, ATC, CAF and several employees of PFS will either be terminated or relocated. The following estimated liabilities related to these terminations and relocations were included in the costs to acquire these companies: LPG - \$8.2 million; ALH - \$3.3 million; ATC - \$5.2 million; THI - \$7.8 million; CAF - \$11.2, million; and PFS - \$30.3 million. At September 30, 1997, we had completed all terminations and relocations planned for LPG, ALH, THI and CAF, and we had paid all amounts established as a liability for such plans, consisting primarily of employee severance benefits. There have been no significant adjustments to the estimated liabilities established for termination and relocation costs. If the ultimate costs to complete these plans are less than the estimated liability, we will reflect the difference as an adjustment to the liabilities assumed (with a corresponding adjustment to goodwill). If the ultimate costs to complete these plans are more than the estimated liability, we will adjust the liability (with a corresponding adjustment to goodwill), if such adjustment is determined within one year of the respective merger date. Thereafter, we will include any additional amounts in the determination of the Company's net income.

REINSURANCE

Prior to its acquisition by Consec, a subsidiary of PFS entered into certain reinsurance arrangements under which the subsidiary retained the assets and related insurance liabilities, but not the risks associated with the business. Such assets and liabilities each totaled approximately \$210 million at September 30, 1997. The PFS subsidiary does not participate in the realized gains and losses on the assets held in trust under these arrangements. Accordingly, we have established an amount due to the reinsurer (classified as other liabilities) of \$7.1 million at September 30, 1997, representing the unrealized gain related to actively managed fixed maturities held in trust under these agreements (with a corresponding reduction to unrealized appreciation).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

COMMERCIAL PAPER PROGRAM

We instituted a commercial paper program in April 1997 to lower our borrowing costs and improve our liquidity. Borrowings under our commercial paper program averaged approximately \$497.5 million during the period April 24, 1997 through September 30, 1997. The weighted average interest rate on such borrowings was 5.85 percent at September 30, 1997. Maximum permitted borrowings under our revolving credit facility are reduced by the aggregate outstanding commercial paper of Conseco. At September 30, 1997, we could borrow up to an additional \$150 million under our revolving credit facility or commercial paper program.

CHANGES IN NOTES PAYABLE

Notes payable of the Company were as follows:

	Interest rate	September 30, 1997	December 31, 1996
	-----	----	----
		(Dollars in millions)	
Borrowings under revolving credit agreements.....	5.99% (1)	\$ 755.0	\$ 465.0
Bank credit facility.....	5.92% (2)	200.0	-
Leucadia Notes.....	6.16% (2)	400.0	-
Senior notes due 2003.....	8.125%	170.0	170.0
Senior notes due 2004.....	10.5%	191.6	200.0
Subordinated notes due 2004.....	11.25%	10.9	98.1
Convertible subordinated debentures due 2005.....	6.5%	32.6	102.8
Convertible subordinated notes due 2003.....	6.5%	86.1	-
Other.....	Various	24.1	45.2
		-----	-----
Total principal amount.....		1,870.3	1,081.1
Unamortized net premium.....		6.5	13.8
		-----	-----
Total.....		\$1,876.8	\$1,094.9
		=====	=====

- (1) Current weighted average rate at September 30, 1997.
(2) Current rate at September 30, 1997.

1997 changes in notes payable

On September 30, 1997, the Company entered into a \$200.0 million credit facility with a syndicate of banks. The credit facility bears interest at LIBOR plus .295 percent and matures on March 31, 1998. The proceeds from the credit facility were used: (i) to finance a portion of the Colonial Penn Purchase; (ii) to redeem all of the \$2.16 Redeemable Cumulative Preferred Stock of a subsidiary formerly held by minority interests; and (iii) for general corporate purposes.

The Leucadia Notes were issued in conjunction with the Colonial Penn Purchase. (See Acquisitions: Colonial Penn).

In the first nine months of 1997, we repurchased \$87.2 million par value of the 11.25 percent subordinated notes due 2004 for \$100.5 million. We recognized an extraordinary charge of \$5.6 million (net of a \$3.0 million tax benefit) as a result of such repurchases.

During the first nine months of 1997, we repurchased \$8.4 million par value of the 10.5 percent senior notes due 2004 for \$9.8 million. We recognized an extraordinary charge of \$.6 million (net of \$.3 million tax benefit) as a result of such repurchases.

During the first nine months of 1997, we induced the conversion of \$64.8 million par value of convertible subordinated debentures due 2005 (acquired in conjunction with the ATC Merger) into 5.0 million shares of Conseco common stock. We paid \$4.4 million to induce the holders to convert. In addition, we repurchased \$4.0 million par value of the convertible debentures for \$12.2

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million. The extraordinary charge recognized as a result of the inducement payment and repurchases was not significant since such amount approximated amounts reflected in the fair value of the debentures which was recorded as a liability at the ATC Merger date. At September 30, 1997, we included the value of the remaining convertible debentures in excess of the principal balance (the value attributable to the conversion feature) of \$46.4 million in other liabilities. An additional \$1.4 million par value of the convertible debentures was converted into .1 million shares of Consecos common stock at the option of the holders during the nine months ended September 30, 1997.

The convertible subordinated notes due 2003 were acquired in conjunction with the PFS Merger (see Acquisitions: Pioneer Financial Services, Inc.).

During the third quarter of 1997, we repurchased for \$24.0 million the remaining \$23.2 million par value of 12.75 percent senior subordinated notes due 2002. Such notes had been assumed in connection with the LPG Merger. No extraordinary charge was recognized as a result of such repurchases, since the notes also had a carrying value of \$24.0 million.

1996 changes in notes payable

In January 1996, we repaid \$245.0 million principal amount of borrowings under a credit agreement using the proceeds of the sale of convertible preferred stock. As a result of the prepayment and amendments to the credit agreement (including substantive modifications of the maturity date and interest rate terms), we recognized an extraordinary charge of \$9.3 million (net of a \$5.0 million tax benefit) representing the unamortized debt issuance costs related to the prior agreement.

We borrowed \$50 million under the credit agreement to finance a portion of both the ALH Stock Purchase and an additional capital contribution to ALH of \$125.0 million (the "ALH Capital Contribution"), which was used by ALH to retire the outstanding principal amount under its senior credit facility. We recognized an extraordinary charge of \$.3 million, net of taxes of \$.1 million, related to such early retirement. We also borrowed \$148.7 million to retire LPG's bank credit facilities existing at the acquisition date. At September 30, 1996, the principal balance borrowed under the credit agreement was \$460 million.

On the date of the LPG Merger, LPG's notes payable included \$87.8 million par value of senior subordinated notes due in 2002. In connection with the LPG Merger, Consecos guaranteed LPG's obligations under such notes.

We borrowed \$100.0 million under a new bridge loan facility effective September 30, 1996. The proceeds were used to finance a portion of the ALH Capital Contribution.

In connection with the ALH Stock Purchase, Consecos guaranteed ALH's obligations under the senior subordinated notes due in 2004.

In March 1996, BLH completed a tender offer pursuant to which it repurchased \$148.3 million principal balance of its 13 percent senior subordinated notes for \$173.2 million. The repurchased notes had a carrying value of \$157.8 million. In the first quarter of 1996, we recognized an extraordinary charge of \$8.1 million (net of a \$4.3 million tax benefit) representing the unamortized debt issuance costs related to the prior agreement. During the second quarter of 1996, BLH repurchased \$.1 million par value of its 13 percent senior subordinated notes; no material loss was realized. In addition, BLH borrowed \$140.0 million under its revolving credit facility to finance a portion of the ALH Stock Purchase.

CHANGES IN PREFERRED STOCK

During the first nine months of 1997, the holders of 2,374,300 shares of Preferred Redeemable Increased Dividend Equity Securities Convertible Preferred Stock ("PRIDES") converted such shares into 8.1 million shares of common stock. We paid \$13.2 million to induce these conversions. We recorded this payment in the consolidated financial statements as a dividend paid to such holders.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CHANGES IN COMMON STOCK

Changes in the number of shares of common stock outstanding for the first nine months of 1997 were as follows:

Balance, December 31, 1996.....	167,128,228
Stock options exercised.....	12,035,648
Shares issued in conjunction with the CAF Merger.....	2,881,597
Shares issued in conjunction with the PFS Merger.....	8,382,617
Common shares converted from convertible subordinated debentures.....	5,134,848
Common shares converted from PRIDES.....	8,120,106
Common stock acquired under option exercise and repurchase programs.....	(15,798,563)
Shares issued under employee benefit and compensation plans.....	124,886

Balance, September 30, 1997.....	188,009,367
	=====

In the second quarter of 1997, Consecos implemented an option exercise program under which its chief executive officer and four of its executive vice presidents exercised outstanding options to purchase approximately 9.1 million shares of Consecos common stock. The options exercised would otherwise have remained exercisable until various dates through 2006. As a result of the exercise, we recorded a tax benefit of \$80.0 million (net of payroll taxes incurred of \$3.5 million). The tax deduction relating to this benefit was equal to the aggregate taxable income reported by the executives as a result of the exercise. The tax benefit is reflected as an increase to additional paid-in capital. The executives paid for the exercise price of the options by tendering 3.0 million previously owned shares. We withheld 2.8 million exercised shares to cover federal and state taxes owed by the executives as a result of the exercise transaction. No cash was exchanged and we issued approximately 3.3 million shares of common stock to the executives, net of withheld shares. We also granted to the executive officers new options to purchase a total of 5.8 million shares at a weighted average price of \$39.48 per share (the market price per share on the grant dates) to replace the shares surrendered for taxes and the exercise price.

In April 1997, we commenced a new program to repurchase up to 5 million Consecos common shares in open market or negotiated transactions. In June 1997, the program was expanded to 10 million shares. The timing and terms of the purchases were determined based on market conditions and other considerations. Under the program, we repurchased 10.0 million shares in the second and third quarters of 1997 for \$387.9 million.

We allocated the \$616.5 million cost of the shares we repurchased in connection with the stock option exercise program and share repurchase program to shareholders' equity accounts as follows: (i) \$590.4 million to common stock and additional paid-in capital (such allocation was based on the value we received for shares issued in our recent acquisitions); and (ii) \$26.1 million to retained earnings.

CHANGES IN MINORITY INTEREST

Minority interest represents the interests in our subsidiaries owned by other investors. Minority interest at September 30, 1997, included: (i) \$900.0 million par value of Company-obligated mandatorily redeemable preferred securities of subsidiary trusts; and (ii) \$.7 million interest in the common stock of a subsidiary.

Effective March 31, 1997, Consecos Financing Trust III, a subsidiary of Consecos, issued 300,000 Capital Securities at \$1,000 per security. Each Capital Security will pay cumulative cash distributions at the annual rate of 8.796 percent of the stated \$1,000 liquidation amount per security payable semi-annually commencing October 1, 1997. The Capital Securities are fully and unconditionally guaranteed by Consecos as to distributions and other payments. Consecos Financing Trust III used the proceeds of the offering to acquire an equivalent amount of 8.796% Subordinated Deferrable Interest Debentures due April 1, 2027 (the "Debentures") issued by Consecos. Consecos, in turn, used the net proceeds from the issuance of the Debentures of approximately \$296.7 million (after underwriting and associated costs) to repay bank debt. The sole asset of Consecos Financing Trust III is the Debentures. We can cause the Capital Securities to be redeemed (at our option) at a price equal to the greater of:

(i) the principal amount; or (ii) the sum of the present values of the principal amount and scheduled interest payments from the redemption date to the maturity date. The Debentures are subordinated to all of our senior indebtedness and mature on April 1, 2027.

CONSECO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes in minority interest during the first nine months of 1997 and 1996 are summarized below:

	1997	1996
	----	----
	(Dollars in millions)	
Minority interest, beginning of period.....	\$697.7	\$ 403.3
Changes in investments made by minority shareholders:		
Issuance of Company-obligated mandatorily redeemable preferred securities of subsidiary trusts.....	300.0	-
Repurchase of mandatorily redeemable preferred stock of a subsidiary.....	(93.4)	-
Mandatorily redeemable preferred stock of a subsidiary held by PFS prior to the PFS Merger.....	(2.7)	-
ALH Stock Purchase.....	-	(131.2)
Purchase of ALH's 1994 Series Preferred Stock.....	-	(12.6)
Preferred stock of a subsidiary of ALH held by LPG at the date of the LPG Merger.....	-	(6.5)
Repurchase by BLH of its common stock.....	-	(18.7)
Minority interests' equity in the change in financial position of the Company's subsidiaries:		
Net income.....	37.9	25.8
Unrealized depreciation of securities	-	(103.8)
Dividends.....	(37.9)	(8.5)
Amortization of value in excess of par of mandatorily redeemable preferred stock of a subsidiary.....	(.9)	-
	-----	-----
Minority interest, end of period	\$900.7	\$ 147.8
	=====	=====

During the first nine months of 1997, we completed the purchase of all of the \$2.32 Redeemable Cumulative Preferred Stock and \$2.16 Redeemable Cumulative Preferred Stock of a subsidiary formerly held by minority interests. As a result, securities having an amortized cost of \$47.7 million were sold from a segregated account which resulted in net investment gains of \$3.7 million.

DIRECTOR, EXECUTIVE AND SENIOR OFFICER STOCK PURCHASE PLAN

The Director, Executive and Senior Officer Stock Purchase Plan is designed to encourage direct, long-term ownership of Conseco common stock by Board members, executive officers and certain senior officers. Under the program, up to 8.0 million shares of Conseco common stock were authorized to be purchased in open market or negotiated transactions with independent parties. At September 30, 1997, 7.2 million shares had been purchased under the plan and the remaining .8 million shares were repurchased in October 1997. Purchases were financed by personal loans to the participants from a bank. Such loans are collateralized by the Conseco common stock purchased. Conseco guaranteed the loans, but has recourse to the participants if it incurs a loss under the guarantee. In addition, we provide loans to the participants for interest payments under the bank loans. At September 30, 1997, the bank loans guaranteed by Conseco totaled \$210.4 million, the loans provided by Conseco for interest totaled \$6.2 million and the common stock that collateralizes the loans had a fair value of \$353.2 million.

CONSOLIDATED STATEMENT OF CASH FLOWS

The following non-cash items were not reflected in the consolidated statement of cash flows in 1997: (i) the issuance of Conseco common stock valued at \$342.5 million in the PFS Merger; (ii) the issuance of Conseco common stock valued at \$115.7 million in the CAF Merger; (iii) the acquisition of Conseco common stock of \$119.7 million pursuant to the tender of shares under the option exercise program; (iv) the issuance of Conseco common stock under stock option and employee benefit plans of \$134.1 million; (v) the tax benefit of \$82.5 million related to the issuance of Conseco common stock under employee benefit plans; (vi) the conversion of \$145.1 million of PRIDES into 8.1 million shares of Conseco common stock; (vii) the conversion of \$66.2 million par value of convertible debentures into 5.1 million shares of Conseco common stock with a recorded value of \$154.4 million; and (viii) the issuance of the Leucadia Notes in connection with the Colonial Penn Purchase. The following non-cash items were not reflected in the consolidated statement of cash flows in 1996: (i) the issuance of Conseco common stock valued at \$586.8 million in the LPG Merger; (ii) the conversion of Series D preferred stock of Conseco with a value of \$283.2 million into 16.9 million shares; (iii) the acquisition of \$25.0 million par value of Conseco's 8.125% senior notes and \$6.5 million par value of preferred stock of ALH that

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were held by LPG prior to the LPG Merger; (iv) the issuance of \$19.6 million of Consecos common stock to employee benefit plans; and (v) the tax benefit of \$18.4 million related to the issuance of Consecos common stock under employee benefit plans.

RECENTLY ISSUED ACCOUNTING STANDARDS

In February 1997, the Financial Accounting Standards Board ("FASB") released Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"). SFAS 128 changes the guidelines for computing earnings per share, effective with our December 31, 1997, consolidated financial statements. SFAS 128 will eliminate the presentation of primary and fully diluted earnings per share and replace them with basic and diluted earnings per share. The new basic earnings per share differs from the current primary calculation in that it excludes common stock equivalents in computing shares outstanding. The new diluted earnings per share calculation assumes that the proceeds received upon the conversion of all dilutive options and warrants are used to repurchase the Company's common shares at the average market price of such shares during the period. Under the current fully diluted calculation, such repurchases are assumed to occur at the higher of the average market price or the ending market price. If SFAS 128 had been in effect, we would have reported the following earnings per share amounts for the three and nine months ended September 30, 1997 and 1996:

	Three months ended September 30,		Nine months ended September 30,	
	1997	1996	1997	1996
Basic net income per share.....	\$.81	\$.61	\$2.03	\$1.60
Diluted net income per share.....	.73	.50	1.82	1.32

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130") and Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), both of which are effective for financial statements issued for periods beginning after December 15, 1997. SFAS 130 will require companies to disclose comprehensive income in their financial statements. In addition to items included in net income, comprehensive income will include items currently charged or credited directly to shareholders' equity, such as the change in unrealized appreciation (depreciation) of securities. Implementing SFAS 130 will not change our reported net income, but will increase the prominence of changes in the items listed in the previous sentence.

SFAS 131 establishes new standards for reporting about operating segments and products and services, geographic areas and major customers. Under SFAS 131, segments are to be defined consistent with the basis management uses internally to assess performance and allocate resources. Implementing SFAS 131 will have no impact on the consolidated financial amounts we report, although some of our segment disclosures will change.

PENDING MERGER

On September 22, 1997, we announced a definitive agreement under which we will acquire Washington National Corporation ("Washington National"), a national provider of life insurance, annuities and specialty health insurance. In the merger, each share of Washington National common stock would be converted into the right to receive \$33.25 in cash, for a total transaction value of approximately \$410 million. We expect to finance the acquisition by incurring additional indebtedness. Completion of the transaction, which is subject to customary terms and conditions, including approval by stockholders of Washington National and regulatory approvals, is expected by December 31, 1997. Washington National had total assets of approximately \$2.8 billion at September 30, 1997.

YEAR 2000 CONVERSION COSTS

We, like other companies, have initiated a corporate-wide program to assure that all of our computer systems will function properly in the year 2000. For some of our companies, our most effective solution will be to assure timely completion of the previously planned conversions of their older systems to more modern, year 2000 - compliant systems used by our other companies. In some cases, our most effective solution will be to purchase new, more modern systems; these costs will be capitalized as assets and amortized over their expected useful lives. In other cases, we will modify existing systems, thereby incurring costs that will be charged to operating expense. Although we have not completed our assessment of the total expected costs specifically related to the year 2000 conversion, we do not

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expect that amounts expensed over the next three years (much of which relates to salaries of our permanent employees who have responsibilities for routine systems maintenance) will have a significant effect on our financial position or results of operations. We began to incur expense related to this program several years ago. The expenses incurred during the first nine months of 1997 totaled \$1.7 million. We expect our year 2000 program to be completed on a timely basis.

CONSECO, INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion highlights material factors affecting our results of operations and significant changes in our balance sheet. Many of the changes in 1997 and 1996 affecting our results of operations were caused by the LPG Merger, the ALH Stock Purchase, the ATC Merger, the THI Merger, the BLH Merger, the CAF Merger, the PFS Merger and various financings described in the notes to the consolidated financial statements included herein and the notes to the consolidated financial statements included in our 1996 Form 10-K. These transactions, as well as the Colonial Penn Purchase (completed on September 30, 1997), also caused significant changes in our balance sheet during these periods. This discussion should be read in conjunction with the consolidated financial statements and notes included herein and in our 1996 Form 10-K.

RESULTS OF OPERATIONS

We conduct and manage our business through five segments, reflecting our major lines of insurance business and target markets: (i) supplemental health insurance; (ii) annuities; (iii) life insurance; (iv) individual and group major medical insurance; and (v) other.

Consolidated Results and Analysis

The following table and narrative summarize the consolidated results of our operations:

	Three months ended September 30,		Nine months ended September 30,	
	1997	1996	1997	1996
	(Dollars in millions, except per share data)			
Operating earnings.....	\$152.2	\$79.6	\$407.9	\$181.8
Net investment gains (losses), net of related costs, amortization and taxes.....	42.8	(.3)	39.0	(6.4)
Nonrecurring items.....	(40.5)	-	(44.8)	17.7
	-----	-----	-----	-----
Income before extraordinary charge.....	154.5	79.3	402.1	193.1
Extraordinary charge.....	.7	1.2	6.2	18.6
	-----	-----	-----	-----
Net income.....	153.8	78.1	395.9	174.5
Less amounts applicable to preferred stock:				
Charge related to induced conversions.....	-	-	13.2	-
Preferred stock dividends.....	2.2	5.5	6.7	22.7
	-----	-----	-----	-----
Net income applicable to common stock.....	\$151.6	\$72.6	\$376.0	\$151.8
	=====	=====	=====	=====
Per fully diluted common share:				
Weighted average shares outstanding (in millions).....	212.1	158.1	210.2	134.7
	=====	=====	=====	=====
Operating earnings.....	\$.72	\$.50	\$1.94	\$1.35
Net investment gains (losses), net of related costs, amortization and taxes.....	.20	-	.18	(.05)
Nonrecurring items.....	(.19)	-	(.21)	.13
Charge related to induced conversion of preferred stock.....	-	-	(.06)	-
	-----	-----	-----	-----
Income before extraordinary charge.....	.73	.50	1.85	1.43
Extraordinary charge.....	-	.01	.03	.14
	-----	-----	-----	-----
Net income.....	\$.73	\$.49	\$1.82	\$1.29
	=====	=====	=====	=====

CONSECO, INC. AND SUBSIDIARIES

Our third quarter 1997 operating earnings were \$152.2 million, or 72 cents per fully diluted share, up 91 percent and 44 percent, respectively, over the third quarter of 1996. Operating earnings during the first nine months of 1997 were \$407.9 million, or \$1.94 per fully diluted share, up 124 percent and 44 percent, respectively, over the first nine months of 1996. Operating earnings increased primarily as a result of the LPG Merger (completed effective July 1996), the ALH Stock Purchase (September 1996), the ATC Merger (December 1996), the THI Merger (December 1996), the BLH Merger (December 1996), the CAF Merger (January 1997) and the PFS Merger (April 1997). The percentage increase in operating earnings was greater than the percentage increase in operating earnings per fully diluted share primarily because of the 34 percent increase in common shares or equivalents outstanding during the third quarter of 1997 and the 56 percent increase during the first nine months of 1997. These increases resulted from shares issued as part of the LPG Merger, the ATC Merger, the THI Merger, the CAF Merger and the PFS Merger, partially offset by the repurchases of Conseco common stock.

Net income of \$153.8 million in the third quarter of 1997, or 73 cents per fully diluted share, included: (i) net investment gains (net of related costs, amortization and taxes) of \$42.8 million, or 20 cents per share; (ii) nonrecurring charges totaling \$40.5 million, or 19 cents per share, related to the Company's Medicare supplement business in Massachusetts; and (iii) an extraordinary charge of \$.7 million, or nil per share, related to the early retirement of debt. The Massachusetts insurance department has been unwilling to approve reasonable rate increases to Medicare supplement providers. Conseco is discontinuing the sale of new Medicare supplement policies in Massachusetts and in the third quarter wrote down the cost of policies purchased and produced and accrued additional claim reserves related to its inforce Massachusetts Medicare supplement business. Conseco is appealing the department's rating actions to the Supreme Court of Massachusetts. Net income of \$78.1 million for the third quarter of 1996, or 49 cents per fully diluted share, included: (i) net investment losses (net of related costs, amortization and taxes) of \$.3 million, or nil per share; and (ii) an extraordinary charge of \$1.2 million, or 1 cent per share, related to early retirement of debt.

Net income of \$395.9 million in the first nine months of 1997, or \$1.82 per fully diluted share, included: (i) net investment gains (net of related costs, amortization and taxes) of \$39.0 million, or 18 cents per fully diluted share; (ii) an extraordinary charge of \$6.2 million, or 3 cents per share, related to early retirement of debt; (iii) a charge of 6 cents per share related to the induced conversion of preferred stock (treated as a preferred stock dividend); and (iv) nonrecurring items totaling \$44.8 million, or 21 cents per share, related to the previously discussed third quarter actions on the Company's Massachusetts Medicare supplement business and to the death of an executive officer in the second quarter of 1997. Net income of \$174.5 million in the first nine months of 1996, or \$1.29 per fully diluted share, included: (i) net investment losses (net of related costs, amortization and taxes) of \$6.4 million, or 5 cents per share; (ii) nonrecurring income totaling \$17.7 million, or 13 cents per share, primarily arising from the sale of our investment in Noble Broadcast Group, Inc.; and (iii) an extraordinary charge of \$18.6 million, or 14 cents per share, related to the early retirement of debt.

Total revenues include net investment gains of \$116.4 million and \$6.9 million in the third quarters of 1997 and 1996, respectively. Excluding net investment gains, total revenues were \$1,367.1 million in the third quarter of 1997, up 65 percent from \$827.4 million in the third quarter of 1996. Total revenues include net investment gains of \$137.3 million and \$9.8 million during the first nine months of 1997 and 1996, respectively. Excluding net investment gains, total revenues were \$3,805.7 million in the first nine months of 1997, up 74 percent from \$2,188.8 million in the first nine months of 1996. Total revenues in the 1997 periods include revenues of ATC, THI, CAF and PFS in the periods subsequent to their acquisitions. Total revenues in the nine-month period of 1996 include: (i) revenues of LPG for the third quarter of 1996; and (ii) nonrecurring income of \$30.4 million primarily arising from the sale of our investment in Noble Broadcast Group, Inc.

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First Nine Months of 1997 Compared to the First Nine Months of 1996 and the Third Quarter of 1997 Compared to the Third Quarter of 1996:

The following tables and narratives summarize the results of our operations by business segment.

	Three months ended September 30,		Nine months ended September 30,	
	1997	1996	1997	1996
	(Dollars in millions)			
Income before income taxes, minority interest and extraordinary charge:				
Supplemental health:				
Operating income	\$120.2	\$ 28.7	\$307.4	\$ 94.7
Net investment gains (losses), net of related costs and amortization.....	11.3	.4	6.5	(.2)
Nonrecurring items.....	(62.4)	-	(62.4)	-
	-----	-----	-----	-----
Income before income taxes, minority interest and extraordinary charge.....	69.1	29.1	251.5	94.5
	-----	-----	-----	-----
Annuities:				
Operating income	78.1	59.8	223.9	186.7
Net investment gains, net of related costs and amortization	48.6	4.8	49.8	1.1
	-----	-----	-----	-----
Income before income taxes, minority interest and extraordinary charge.....	126.7	64.6	273.7	187.8
	-----	-----	-----	-----
Life insurance:				
Operating income.....	65.1	53.1	183.4	89.0
Net investment gains (losses), net of related costs and amortization.....	8.5	(1.6)	6.8	(3.0)
	-----	-----	-----	-----
Income before income taxes, minority interest and extraordinary charge.....	73.6	51.5	190.2	86.0
	-----	-----	-----	-----
Individual and group major medical:				
Operating income.....	12.2	11.1	33.1	20.3
Net investment gains, net of related costs and amortization.....	.1	-	.1	-
	-----	-----	-----	-----
Income before income taxes, minority interest and extraordinary charge.....	12.3	11.1	33.2	20.3
	-----	-----	-----	-----
Other:				
Operating income.....	18.8	5.7	47.3	24.7
Net investment gains (losses), net of related costs and amortization.....	4.1	-	3.7	(3.7)
Nonrecurring items.....	-	-	(9.3)	30.4
	-----	-----	-----	-----
Income before income taxes, minority interest and extraordinary charge.....	22.9	5.7	41.7	51.4
	-----	-----	-----	-----
Interest and other corporate expenses.....	(29.4)	(30.5)	(88.5)	(87.0)
	-----	-----	-----	-----
Consolidated earnings:				
Operating income.....	265.0	127.9	706.6	328.4
Net investment gains (losses), net of related costs and amortization.....	72.6	3.6	66.9	(5.8)
Nonrecurring items.....	(62.4)	-	(71.7)	30.4
	-----	-----	-----	-----
Income before income taxes, minority interest and extraordinary charge.....	275.2	131.5	701.8	353.0
	-----	-----	-----	-----
Income tax expense.....	106.9	49.8	261.8	134.1
	-----	-----	-----	-----
Income before minority interest and extraordinary charge.....	168.3	81.7	440.0	218.9
	-----	-----	-----	-----
Minority interest in consolidated subsidiaries:				
Distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts.....	13.0	-	34.6	-

Dividends on preferred stock of subsidiaries.....	.8	2.3	3.3	7.4
Equity in earnings of subsidiaries.....	-	.1	-	18.4
	-----	-----	-----	-----
Income before extraordinary charge.....	154.5	79.3	402.1	193.1
Extraordinary charge on extinguishment of debt, net of taxes and minority interest.....	.7	1.2	6.2	18.6
	-----	-----	-----	-----
Net income.....	\$153.8	\$ 78.1	\$395.9	\$174.5
	=====	=====	=====	=====

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Supplemental health:

	Three months ended September 30,		Nine months ended September 30,	
	1997	1996	1997	1996

	(Dollars in millions)			
Premiums collected:				
Medicare supplement (first year).....	\$ 31.7	\$ 17.1	\$ 75.4	\$ 53.9
Medicare supplement (renewal).....	177.7	133.3	511.3	409.6
	-----	-----	-----	-----
Subtotal - Medicare supplement.....	209.4	150.4	586.7	463.5
	-----	-----	-----	-----
Long-term care (first year).....	35.1	12.7	108.7	38.0
Long-term care (renewal).....	129.1	36.6	375.0	104.1
	-----	-----	-----	-----
Subtotal - long-term care.....	164.2	49.3	483.7	142.1
	-----	-----	-----	-----
Specified disease (first year).....	11.3	-	34.2	-
Specified disease (renewal).....	86.2	-	255.1	-
	-----	-----	-----	-----
Subtotal - specified disease.....	97.5	-	289.3	-
	-----	-----	-----	-----
Total supplemental health premiums collected.....	\$471.1	\$199.7	\$1,359.7	\$605.6
	=====	=====	=====	=====
Insurance policy income.....	\$472.9	\$202.9	\$1,363.0	\$604.4
Net investment income.....	64.8	16.4	184.9	49.8
	-----	-----	-----	-----
Total revenues (a).....	537.7	219.3	1,547.9	654.2
	-----	-----	-----	-----
Insurance policy benefits and change in future policy benefits.....	301.2	133.9	875.1	408.6
Amortization related to operations.....	43.0	24.4	148.7	63.5
Interest expense on investment borrowings.....	1.5	.3	2.8	.8
Other operating costs and expenses.....	71.8	32.0	213.9	86.6
	-----	-----	-----	-----
Total benefits and expenses (a).....	417.5	190.6	1,240.5	559.5
	-----	-----	-----	-----
Operating income before income taxes, minority interest and extraordinary charge.....	120.2	28.7	307.4	94.7
Net investment gains (losses), net of related costs and amortization.....	11.3	.4	6.5	(.2)
Nonrecurring expense.....	(62.4)	-	(62.4)	-
	-----	-----	-----	-----
Income before income taxes, minority interest and extraordinary charge	\$ 69.1	\$ 29.1	\$ 251.5	\$ 94.5
	=====	=====	=====	=====
Benefit ratios:				
Medicare supplement products.....	68.6%	68.0%	70.3%	69.2%
Long-term care products.....	56.3	59.5	59.2	61.9
Specified disease products.....	66.3	-	60.6	-
	-----	-----	-----	-----

(a) Revenues exclude net investment gains; benefits and expenses exclude amortization related to net investment gains.

General: This segment includes Medicare supplement and long-term care insurance products primarily sold to senior citizens. Through December 31, 1996, the supplemental health operations consist solely of BLH's Medicare supplement and long-term care products, distributed through a career agency force. Beginning January 1, 1997, this segment includes the specified disease products of THI and CAF and the long-term care products of ATC; these products are distributed through professional independent producers. Beginning April 1, 1997, this segment includes the Medicare supplement and long-term care products of PFS; these products are also distributed through professional independent producers. The profitability of this segment largely depends on the overall level of sales, persistency of inforce business, claim experience and expense management.

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Premiums collected by this segment in the third quarter of 1997 were \$471.1 million, up 136 percent over 1996. Premiums collected in the first nine months of 1997 were \$1,359.7 million, up 125 percent over 1996. The increases are primarily due to the recent acquisitions.

Medicare supplement policies accounted for 43 percent of this segment's collected premiums in the first nine months of 1997 compared to 77 percent in 1996. The change in mix of premiums collected reflects the long-term care and specified disease premiums collected by THI, ATC, CAF and PFS. Collected premiums on Medicare supplement policies increased 39 percent in the third quarter of 1997, to \$209.4 million, and increased 27 percent in the first nine months of 1997, to \$586.7 million. Annualized new business premiums were \$51.7 million and \$32.8 million, respectively. Medicare supplement premiums collected by the recently acquired companies were \$132.0 million in the first nine months of 1997. The sales of Medicare supplement premiums have been affected by steps taken to improve profitability by increasing premium rates and changing the commission structure and underwriting criteria for these policies and by increased competition from alternative providers, including HMOs.

Premiums collected on long-term care policies increased 233 percent, to \$164.2 million, in the third quarter of 1997 and increased 240 percent, to \$483.7 million, in the first nine months of 1997. Annualized new business premiums in the first nine months of 1997 and 1996 were \$107.1 million and \$32.1 million, respectively. Long-term care premiums collected by the recently acquired companies were \$318.1 million in the first nine months of 1997. The increase in long-term care premiums collected in 1997 reflects the acquisition of recently acquired companies, new product introductions, the competitiveness of our products, the success of agent cross-selling activities, increased consumer awareness and demand, and improved persistency on a larger base of renewal premiums.

Premiums collected on specified disease policies in the third quarter of 1997 and in the first nine months of 1997 were \$97.5 million and \$289.3 million, respectively. Such premiums were collected by the recently acquired companies.

Insurance policy income is comprised of premiums earned on the segment's policies, and has increased consistent with the explanations provided above for premiums collected.

Net investment income increased 295 percent, to \$64.8 million, in the third quarter of 1997 and increased 271 percent, to \$184.9 million, in the first nine months of 1997. Such investment income fluctuates when changes occur in: (i) the amount of average invested assets supporting insurance liabilities; and (ii) the yield earned on invested assets. During the first nine months of 1997, the segment's average invested assets increased to \$3.2 billion from approximately \$.9 billion in 1996, primarily as a result of the recent acquisitions. The annualized net yield on invested assets was 7.6 percent in the first nine months of 1997 and 1996.

Insurance policy benefits and change in future policy benefits increased in the third quarter of 1997 and the first nine months of 1997 as a result of the business in force acquired in the recent acquisitions. In the third quarter of 1997, the Medicare supplement loss ratio (the ratio of policy benefits to insurance policy income for Medicare supplement policies) increased by .6 percentage points, to 68.6 percent. In the first nine months of 1997, the loss ratio increased by 1.1 percentage points, to 70.3 percent. These increases reflect a higher incidence of claims incurred during the 1997 periods. The loss ratios consistently incurred by the recently acquired companies have exceeded those of other Consec companies.

In the third quarter of 1997, the long-term care loss ratio (the ratio of policy benefits to insurance policy income for long-term care policies) fell by 3.2 percentage points, to 56.3 percent. In the first nine months of 1997, the loss ratio fell by 2.7 percentage points, to 59.2 percent. These decreases reflect a lower incidence of claims incurred during the 1997 periods.

The ratio of policy benefits to insurance policy income for specified disease policies increased in the third quarter of 1997. Our continued review of the adequacy of claim liabilities indicated the need to increase the liability for losses incurred in prior periods. Such products were not sold by Consec in 1996.

Amortization related to operations includes amortization of: (i) the cost of policies produced; (ii) the cost of policies purchased; and (iii) goodwill related to this segment's business. Amortization increased primarily because of increased balances subject to amortization resulting from the recent acquisitions.

The cost of policies produced represents the cost of producing new business. This cost varies with, and is primarily related to, the production of new business. Costs deferred may represent amounts paid in the period new business is written (such as underwriting costs and first year commissions) or in periods after the business is written (such as commissions paid in subsequent years in excess of ultimate commissions paid).

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Interest expense on investment borrowings is primarily affected by changes in investment borrowing activities.

Other operating costs and expenses increased in the 1997 periods with the increased business of the recently acquired companies.

Net investment gains (losses), net of related costs and amortization often fluctuate from period to period. Net investment gains (losses) affect the timing of the amortization of cost of policies purchased and the cost of policies produced. As a result of net investment gains (losses) from the sales of fixed maturity investments, related amortization of cost of policies purchased and cost of policies produced totaled \$.6 million and \$.1 million in the third quarters of 1997 and 1996, respectively. Such amortization totaled \$1.5 million and \$.4 million in the first nine months of 1997 and 1996, respectively.

Nonrecurring expense for the three months ended September 30, 1997 includes an increase to claim reserves of \$41.5 million and the write-off of cost of policies produced and cost of policies purchased of \$20.9 million related to Medicare supplement business in the State of Massachusetts. Regulators in that state have not allowed premium increases for Medicare supplement products necessary to avoid losses on the business. We are currently appealing those rate actions to the Supreme Court of the State of Massachusetts, but in the meanwhile, we are ceasing to write new Medicare supplement business in Massachusetts and are taking all steps possible to control the losses being incurred on the existing Medicare supplement business in force. The adjustments recorded in the third quarter reflect a write-off of all costs of business purchased and produced related to the Massachusetts Medicare supplement policies and an accrual of loss reserves to reflect the losses we expect to incur before rates are permitted to return to levels that will avoid losses on the business.

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Annuities:

	Three months ended September 30,		Nine months ended September 30,	
	1997	1996	1997	1996
	(Dollars in millions)			
Premiums collected:				
Equity-indexed flexible premium deferred annuities (first year).....	\$ 49.0	\$ -	\$ 80.3	\$ -
Market value adjusted flexible premium deferred annuities (first year)....	26.6	46.8	102.8	146.8
Market value adjusted flexible premium deferred annuities (renewal).....	3.0	5.2	11.5	16.3
Traditional flexible premium deferred annuities (first year).....	71.4	90.2	219.3	241.1
Traditional flexible premium deferred annuities (renewal).....	16.9	38.1	60.5	68.9
	-----	-----	-----	-----
Subtotal - flexible premium deferred annuities.....	166.9	180.3	474.4	473.1
	-----	-----	-----	-----
Variable annuities (first year).....	34.5	9.7	76.4	25.2
Variable annuities (renewal).....	10.9	9.5	32.9	31.6
	-----	-----	-----	-----
Subtotal - variable annuities.....	45.4	19.2	109.3	56.8
	-----	-----	-----	-----
Equity-indexed single premium deferred annuities (first year).....	69.6	31.3	179.3	33.0
Market value adjusted single premium deferred annuities (first year).....	9.3	26.8	31.3	26.8
Traditional single premium deferred annuities (first year).....	79.0	139.5	287.7	507.2
	-----	-----	-----	-----
Subtotal - single premium deferred annuities.....	157.9	197.6	498.3	567.0
	-----	-----	-----	-----
Single premium immediate annuities (first year).....	55.6	42.8	155.7	147.7
	-----	-----	-----	-----
Total annuity premiums collected.....	\$425.8	\$439.9	\$1,237.7	\$1,244.6
	=====	=====	=====	=====
Insurance policy income.....	\$ 27.3	\$ 19.2	\$ 71.0	\$ 58.6
Net investment income:				
General account invested assets.....	239.2	236.4	710.9	655.0
S&P Options.....	13.4	-	33.6	-
Separate account assets.....	19.5	11.1	37.5	28.5
	-----	-----	-----	-----
Total revenues (a).....	299.4	266.7	853.0	742.1
	-----	-----	-----	-----
Insurance policy benefits and change in future policy benefits.....	16.4	17.9	51.1	50.0
Amounts added to policyholder account balances:				
Annuity products other than those listed below.....	136.9	138.3	403.7	384.7
Equity-indexed products.....	12.9	-	33.1	-
Variable annuity products.....	19.5	11.1	37.5	28.5
Amortization related to operations.....	24.4	24.9	72.5	55.6
Interest expense on investment borrowings.....	5.4	4.3	10.1	10.9
Other operating costs and expenses.....	5.8	10.4	21.1	25.7
	-----	-----	-----	-----
Total benefits and expenses (a).....	221.3	206.9	629.1	555.4
	-----	-----	-----	-----
Operating income before income taxes, minority interest and extraordinary charge.....	78.1	59.8	223.9	186.7
Net investment gains, net of related costs and amortization.....	48.6	4.8	49.8	1.1
	-----	-----	-----	-----
Income before income taxes, minority interest and extraordinary charge.....	\$126.7	\$ 64.6	\$ 273.7	\$ 187.8
	=====	=====	=====	=====
Weighted average gross interest spread on annuity products (b).....	2.9%	2.9%	3.0%	3.0%
	===	===	===	===

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- (a) Revenues exclude net investment gains; benefits and expenses exclude amortization related to net investment gains.
 - (b) Excludes: (i) variable annuity products where the credited amount is based on investment income from segregated investments; and (ii) equity-indexed products where the credited amount is dependent upon the investment income from S&P Options.

General: This segment includes single-premium deferred annuities ("SPDAs"), flexible-premium deferred annuities ("FPDAs"), single-premium immediate annuities ("SPIAs") and variable annuities sold through both career agents and professional independent producers. The profitability of this segment largely depends on the investment spread earned (i.e., the excess of investment earnings over interest credited on annuity deposits), the persistency of inforce business, and expense management. In addition, comparability between periods is affected by: (i) the LPG Merger, effective July 1, 1996; and (ii) to a lesser extent, the PFS Merger.

Premiums collected by this segment in the third quarter of 1997 were \$425.8 million, down 3.2 percent over 1996. Premiums collected by this segment in the first nine months of 1997 were \$1,237.7 million, down .6 percent over 1996. Annuity premiums collected by recently acquired companies were \$31.7 million in the third quarter of 1997 and \$96.2 million in the first nine months of 1997.

SPDA collected premiums decreased 20 percent, to \$157.9 million, in the third quarter of 1997 and decreased 12 percent, to \$498.3 million, in the first nine months of 1997. The demand for SPDA products offered by all insurance companies decreased during 1997, when relatively low interest rates made other investment products more attractive. We introduced an equity-indexed SPDA in July 1996 to appeal to consumers' desire for alternative investment products with returns linked to equities. The accumulation value of these annuities is guaranteed to increase on a cumulative basis at a rate of approximately 3 percent, but the increase may be higher based on a percentage of the change in the S&P 500 Index during each year of their term. To provide for the higher increase, we purchase S&P Options, the values of which change as the benefits accrue to these annuities as a result of the equity-indexed return feature. Total collected premiums for this product were \$69.6 million in the third quarter of 1997 and \$179.3 million the first nine months of 1997.

FPDA collected premiums decreased 7.4 percent, to \$166.9 million, in the third quarter of 1997 and increased .3 percent, to \$474.4 million, in the first nine months of 1997. In January 1997, we introduced an equity-indexed FPDA similar to the SPDA product described above. Collected premiums for this product were \$49.0 million in the third quarter of 1997 and \$80.3 million in the first nine months of 1997. FPDAs are similar to SPDAs in many respects, except FPDAs allow more than one premium payment.

We offer deferred annuity products with a "market value adjustment" feature designed to provide us with additional protection from early terminations during a period of rising interest rates by reducing the surrender value payable upon a full surrender of the policy in excess of the allowable penalty-free withdrawal amount. Conversely, during a period of declining interest rates, the market value adjustment feature would increase the surrender value payable to the policyholder. Annuity premiums collected with this feature represent 12 percent and 15 percent of total annuity premiums collected during the nine month periods ended September 30, 1997 and 1996, respectively.

SPIA collected premiums increased 30 percent, to \$55.6 million in the third quarter of 1997 and increased 5.4 percent, to \$155.7 million, in the first nine months of 1997. The increases are primarily the result of increases in SPIAs purchased with the proceeds of redeemed annuity contracts.

Variable annuity collected premiums increased 136 percent, to \$45.4 million, in the third quarter of 1997 and increased 92 percent, to \$109.3 million, in the first nine months of 1997. Variable annuities offer contract holders a rate of return based upon the specific investment portfolios into which premiums may be directed. The popularity of such annuities has increased recently as a result of the desire of investors to invest in common stocks. In addition, in 1996 we began to offer more investment options for variable annuity deposits and expanded our variable annuity marketing efforts. Profits on variable annuities are derived from the fees charged to contract holders, rather than from the investment spread.

Insurance policy income includes: (i) premiums received on some of the SPIA policies that incorporate significant mortality features; (ii) the cost of insurance and expenses charged to annuity policies; and (iii) surrender charges earned on annuity policy withdrawals. In accordance with GAAP, premiums on annuity contracts without mortality features are not reported as revenues; instead, they are reported as deposits to insurance liabilities. Insurance policy income rose primarily because of increased surrender charges collected (changes in cost of insurance and expenses charged to annuity policies were not significant). Surrender charges

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were \$17.7 million in the third quarter of 1997 and \$11.9 million in the third quarter of 1996. Such charges were \$47.5 million in the first nine months of 1997 compared to \$29.7 million in the first nine months of 1996. Annuity policy withdrawals were \$1,255.0 million in the first nine months of 1997 and \$1,061.4 million in the first nine months of 1996. The increase in policy withdrawals and surrender charges generally corresponds to the aging and the growth of our annuity business in force. In addition, policyholders are using the systematic withdrawal features available in several of our annuity policies, and more policyholders are surrendering in order to invest in alternative investments. Total withdrawals and surrenders during the nine month periods were approximately 11.0 percent of insurance liabilities related to surrenderable policies in 1997 and 10.4 percent in 1996.

Net investment income on general account invested assets (excluding income on separate account assets related to variable annuities and the change in the value of S&P Options related to equity-indexed products) increased 1.2 percent, to \$239.2 million, in the third quarter of 1997 and increased 8.5 percent, to \$710.9 million, in the first nine months of 1997. These increases primarily reflect the increase in general account invested assets acquired in conjunction with the recent acquisitions. The segment's average invested assets increased 1.3 percent in the third quarter of 1997 compared to 1996 and the annualized yield earned on average invested assets was approximately 7.9 percent during both quarterly periods. The segment's average invested assets increased 11 percent in the first nine months of 1997 and the annualized yield earned on average invested assets decreased .2 percentage points to 7.8 percent in the first nine months of 1997.

Net investment income from S&P Options is substantially offset by a corresponding charge to amounts added to policyholder account balances for equity-indexed products. Such income fluctuates based on the performance of the Standard & Poor's 500 index to which such products are linked.

Net investment income from separate account assets is offset by a corresponding charge to amounts added to policyholder account balances for variable annuity products. Such income fluctuates in relationship to total separate account assets and the return earned on such assets.

Insurance policy benefits and change in future policy benefits relate solely to annuity policies that incorporate significant mortality features. The changes are not significant.

Amounts added to policyholder account balances for interest on annuity products decreased 1.0 percent, to \$136.9 million, in the third quarter of 1997 and increased 4.9 percent, to \$403.7 million, in the first nine months of 1997. Such decrease in the third quarter is due to a .1 percentage point decrease in average crediting rates to 4.9 percent partially offset by a .9 percent increase in the amount of annuity business in force. The increase in the nine month period is primarily due to a larger amount of annuity business in force as a result of recent acquisitions offset by a decrease in crediting rates. The weighted average crediting rates for these annuity liabilities decreased .2 percentage points to 4.8 percent in the first nine months of 1997.

Amounts added to policyholder account balances related to the change in value of the S&P index related to equity-indexed products fluctuate as the benefits accrue on these products as a result of the equity-indexed return feature. Such amounts are substantially offset by the net investment income from the S&P Options.

Amounts added to policyholder account balances for variable annuity products are equal to the net investment income on separate account assets.

Amortization related to operations includes amortization of: (i) the cost of policies produced; (ii) the cost of policies purchased; and (iii) goodwill related to this segment's business. The amount of amortization decreased primarily because of the changes in the balances of the cost of policies purchased and cost of policies produced as a result of net investment gains recognized during 1997, partially offset by the increase in balances subject to amortization as a result of recent acquisitions.

Interest expense on investment borrowings is primarily affected by changes in investment borrowing activities.

Other operating costs and expenses of this segment have been favorably affected by the consolidation of all annuity operations in Consecos Carmel, Indiana, facilities.

Net investment gains, net of related costs and amortization often fluctuate from period to period. Selling securities at a gain and reinvesting the proceeds at lower yields may, absent other management action, tend to decrease future investment yields. The

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Company believes, however, that the following factors mitigate the adverse effect of such decreases on net income: (i) we recognize additional amortization of cost of policies purchased and cost of policies produced in order to reflect reduced future yields (thereby reducing such amortization in future periods); (ii) we can reduce interest rates credited to some products, thereby diminishing the effect of the yield decrease on the investment spread; and (iii) the investment portfolio grows as a result of reinvesting the investment gains. As a result of the sales of fixed maturity investments, related amortization of the cost of policies purchased and the cost of policies produced totaled \$36.0 million and \$3.0 million in the third quarters of 1997 and 1996, respectively. Such amortization totaled \$56.7 million and \$13.8 million in the first nine months of 1997 and 1996, respectively.

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Life insurance:

	Three months ended September 30,		Nine months ended September 30,	
	1997	1996	1997	1996
	(Dollars in millions)			
Premiums collected:				
Universal life (first year).....	\$ 23.5	\$ 31.7	\$ 73.1	\$ 38.4
Universal life (renewal).....	83.2	79.5	251.2	122.1
	-----	-----	-----	-----
Subtotal - universal life.....	106.7	111.2	324.3	160.5
	-----	-----	-----	-----
Traditional life (first year).....	14.9	4.3	32.0	9.5
Traditional life (renewal).....	49.5	29.6	131.9	86.3
	-----	-----	-----	-----
Subtotal - traditional life.....	64.4	33.9	163.9	95.8
	-----	-----	-----	-----
Total life premiums collected.....	\$171.1	\$145.1	\$488.2	\$256.3
	=====	=====	=====	=====
Insurance policy income:				
Premiums earned on traditional life products.....	\$ 67.3	\$ 36.8	\$167.6	\$ 98.4
Mortality charges and administrative fees.....	88.8	85.2	262.4	123.5
Surrender charges.....	2.6	3.2	10.2	5.5
	-----	-----	-----	-----
Total insurance policy income.....	158.7	125.2	440.2	227.4
	-----	-----	-----	-----
Net investment income.....	115.4	96.8	326.0	180.8
	-----	-----	-----	-----
Total revenues (a).....	274.1	222.0	766.2	408.2
	-----	-----	-----	-----
Insurance policy benefits and change in future policy benefits.....	128.0	88.8	330.9	172.3
Interest added to financial product policyholder account balances.....	39.6	35.3	114.4	61.2
Amortization related to operations.....	17.7	17.2	69.2	20.7
Interest expense on investment borrowings.....	2.4	1.8	4.5	3.1
Other operating costs and expenses.....	21.3	25.8	63.8	61.9
	-----	-----	-----	-----
Total benefits and expenses (a).....	209.0	168.9	582.8	319.2
	-----	-----	-----	-----
Operating income before income taxes, minority interest and extraordinary charge.....	65.1	53.1	183.4	89.0
	-----	-----	-----	-----
Net investment gains (losses), net of related costs and amortization.....	8.5	(1.6)	6.8	(3.0)
	-----	-----	-----	-----
Income before income taxes, minority interest and extraordinary charge.....	\$ 73.6	\$ 51.5	\$190.2	\$ 86.0
	=====	=====	=====	=====

(a) Revenues exclude net investment gains (losses); benefits and expenses exclude amortization related to net investment gains (losses).

General: This segment includes traditional life and universal life products sold through both career agents and professional independent producers. The segment's operations were significantly affected by the LPG Merger effective July 1, 1996, and, to a lesser extent, the PFS Merger effective April 1, 1997. The profitability of this segment largely depends on the investment spread earned (for universal life and other investment products), the persistency of inforce business, claim experience and expense management.

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Premiums collected by this segment in the third quarter of 1997 were \$171.1 million, up 18 percent over 1996. Premiums collected by this segment in the first nine months of 1997 were \$488.2 million, up 90 percent over 1996. Such fluctuations reflect the recent acquisitions.

Universal life product collected premiums decreased 4.0 percent, to \$106.7 million, in the third quarter of 1997 and increased 102 percent, to \$324.3 million, in the first nine months of 1997. Universal life product premiums collected by the recently acquired companies were: (i) \$85.0 million and \$86.0 million in the third quarters of 1997 and 1996, respectively; and (ii) \$258.0 million and \$86.0 million (representing premiums collected by LPG only during the period after its acquisition on July 1, 1996) in the first nine months of 1997 and 1996, respectively.

Traditional life product collected premiums increased 90 percent, to \$64.4 million, in the third quarter of 1997, and increased 71 percent, to \$163.9 million, in the first nine months of 1997. The recently acquired companies collected \$74.0 million of traditional life product premiums in the first nine months of 1997. Such premiums collected in the third quarter of 1996 include \$5.1 million collected by LPG after the LPG Merger.

Insurance policy income includes: (i) premiums received on traditional life products; (ii) the mortality charges and administrative fees earned on universal life insurance; and (iii) surrender charges earned on terminated universal life insurance policies. All three categories have increased primarily as a result of recent acquisitions. In accordance with GAAP, premiums on universal life products are accounted for as deposits to insurance liabilities. Revenues are earned over time in the form of investment income on policyholder account balances, surrender charges and mortality and other charges deducted from the policyholders' account balances.

Net investment income increased 19 percent, to \$115.4 million, in the third quarter of 1997 and 80 percent, to \$326.0 million, in the first nine months of 1997. Such investment income fluctuates with changes in: (i) the amount of average invested assets supporting insurance liabilities; and (ii) the yield earned on invested assets. The segment's average invested assets increased 79 percent, to approximately \$5.3 billion, in the first nine months of 1997; the net yield on invested assets increased by .1 percentage points, to 8.1 percent. Invested assets increased primarily as a result of the growth in insurance liabilities from the recent acquisitions.

Insurance policy benefits and change in future policy benefits increased in 1997. The recent acquisitions produced a larger amount of business in force on which benefits are incurred. There were no material fluctuations in claim experience during the periods.

Interest added to financial product policyholder account balances increased 12 percent, to \$39.6 million, in the third quarter of 1997 and increased 87 percent, to \$114.4 million, in the first nine months of 1997. Such expense fluctuates with changes in: (i) the amount of insurance liabilities for universal life products; and (ii) the interest rate credited to such products. Such average liabilities increased 91 percent, to \$3.2 billion, in the first nine months of 1997. The interest rate credited decreased by .2 percentage points, to 4.8 percent, in the first nine months of 1997. The recent acquisitions caused an increase in insurance liabilities for universal life products.

Amortization related to operations includes amortization of (i) the cost of policies produced; (ii) the cost of policies purchased; and (iii) goodwill related to this segment's business. The amount of amortization was primarily affected by the increase in balances subject to amortization as a result of the recent acquisitions, net of the effect of reductions in the balances of the cost of policies purchased and cost of policies produced resulting from net investment gains recognized during 1997.

Interest expense on investment borrowings is affected by changes in investment borrowing activities.

Other operating costs and expenses have increased 3 percent, to \$63.8 million, in the first nine months of 1997 as a result of the increased block of business related to this segment. Third quarter expenses reflect expense reductions realized as a result of the consolidation of certain operations.

Net investment gains (losses), net of related costs and amortization often fluctuate from period to period. Net investment gains (losses) affect the timing of the amortization of cost of policies purchased and the cost of policies produced. As a result of net investment gains (losses) from the sales of fixed maturity investments, related amortization of cost of policies purchased and cost of policies produced totaled \$7.2 million and \$.1 million in the third quarters of 1997 and 1996, respectively. Such amortization totaled \$12.0 million and \$1.3 million in the first nine months of 1997 and 1996, respectively.

CONSECO, INC. AND SUBSIDIARIES

Individual major medical and group:

	Three months ended September 30,		Nine months ended September 30,	
	1997	1996	1997	1996
	(Dollars in millions)			
Premiums collected:				
Individual (first year).....	\$ 23.5	\$ 1.8	\$ 42.9	\$ 4.7
Individual (renewal).....	39.3	10.8	88.8	34.6
	-----	-----	-----	-----
Subtotal - individual.....	62.8	12.6	131.7	39.3
	-----	-----	-----	-----
Group (first year).....	22.2	-	44.9	-
Group (renewal).....	127.6	72.1	334.4	215.5
	-----	-----	-----	-----
Subtotal - group.....	149.8	72.1	379.3	215.5
	-----	-----	-----	-----
Total individual major medical and group premiums collected.....	\$212.6	\$ 84.7	\$511.0	\$254.8
	=====	=====	=====	=====
Insurance policy income.....	\$213.0	\$ 91.5	\$522.5	\$262.0
Net investment income.....	5.0	2.3	11.1	6.6
	-----	-----	-----	-----
Total revenues (a).....	218.0	93.8	533.6	268.6
	-----	-----	-----	-----
Insurance policy benefits and changes in future policy benefits.....	161.9	73.0	401.2	225.1
Amortization related to operations.....	5.4	4.4	14.2	11.8
Interest expense on investment borrowings.....	.1	-	.2	-
Other operating costs and expenses.....	38.4	5.3	84.9	11.4
	-----	-----	-----	-----
Total benefits and expenses (a).....	205.8	82.7	500.5	248.3
	-----	-----	-----	-----
Operating income before income taxes, minority interest and extraordinary charge.....	12.2	11.1	33.1	20.3
Net investment gains, net of related costs and amortization.....	.1	-	.1	-
	-----	-----	-----	-----
Income before income taxes, minority interest and extraordinary charge.....	\$ 12.3	\$ 11.1	\$ 33.2	\$ 20.3
	=====	=====	=====	=====
Benefit ratio.....	76%	80%	77%	86%
	==	==	==	==

(a) Revenues exclude net investment gains; benefits and expenses exclude amortization related to net investment losses.

General: This segment includes individual and group major medical health insurance products. The segment's operations were significantly affected by the PFS Merger. The profitability of this business depends largely on the overall persistency of the business inforce, claim experience and expense control.

Premiums collected by this segment in the third quarter of 1997 were \$212.6 million, up 151 percent over the third quarter of 1996. Premiums collected by this segment in the first nine months of 1997 were \$511.0 million, up 101 percent from the first nine months of 1996. Premiums collected by the recently acquired companies were \$125.5 million in the third quarter of 1997 and \$255.2 million in the first nine months of 1997. Excluding these premiums collected by the recently acquired companies, this segment's premiums collected (primarily related to products that we are not currently emphasizing) for the nine month period have increased slightly. Over the last several years, a number of steps were taken to improve the profitability of such business, including changes in product, price, underwriting and agent compensation.

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Group premiums increased 108 percent, to \$149.8 million, in the third quarter of 1997 and 76 percent, to \$379.3 million, in the first nine months of 1997. The recently acquired companies collected \$153.5 million of group premiums in the first nine months of 1997. Excluding such premiums, the increase reflects new policies and rate increases, net of premium decreases from policy lapses.

Individual health premiums increased 398 percent, to \$62.8 million, in the third quarter of 1997 and 235 percent, to \$131.7 million, in the first nine months of 1997. The recently acquired companies collected \$101.7 million of individual health premiums in the first nine months of 1997. Excluding such premiums, the decrease reflects policy lapses in response to rate increases.

Insurance policy income is comprised of premiums earned on the segment's policies, and has fluctuated consistent with the explanations provided above for premiums collected.

Net investment income increased 117 percent, to \$5.0 million, in the third quarter of 1997 and increased 68 percent, to \$11.1 million, in the first nine months of 1997. Such investment income fluctuated primarily in relationship to the amount of average invested assets supporting this segment's insurance liabilities. Average invested assets increased as a result of the recent acquisitions.

Insurance policy benefits and change in future policy benefits fluctuate in relationship to the amount of segment business inforce and the incidence of claims. The ratio of policy benefits to insurance policy income was 76 percent in the third quarter of 1997 and 77 percent for the first nine months of 1997. Such ratio was approximately 80 percent in the third quarter of 1996 and 86 percent for the first nine months of 1996. The decrease reflects the premium rate increases effected on certain blocks during 1996 and the more profitable blocks acquired with recent acquisitions.

Amortization related to operations includes amortization of: (i) the cost of policies produced; (ii) the cost of policies purchased; and (iii) goodwill related to this segment's business. The recent acquisitions increased the balances subject to amortization.

Interest expense on investment borrowings is affected by changes in investment borrowing activities.

Other operating costs and expenses fluctuated primarily as a result of expenses of recently acquired companies.

Net investment gains, net of related costs and amortization, often fluctuate from period to period.

CONSECO, INC. AND SUBSIDIARIES

Other:	Three months ended September 30,		Nine months ended September 30,	
	----- 1997 -----	----- 1996 -----	----- 1997 -----	----- 1996 -----
	(Dollars in millions)			
Premiums collected:				
Other (first year).....	\$.4	\$.6	\$ 1.3	\$ 1.8
Other (renewal).....	17.7	19.4	59.6	64.9
	-----	-----	-----	-----
Total other premiums collected.....	\$18.1	\$20.0	\$ 60.9	\$66.7
	=====	=====	=====	=====
Insurance policy income.....	\$13.8	\$12.8	\$ 44.3	\$40.5
Net investment income.....	3.3	1.9	10.8	6.0
Fee revenue and other income.....	20.7	10.8	50.1	38.5
	-----	-----	-----	-----
Total revenues (a).....	37.8	25.5	105.2	85.0
	-----	-----	-----	-----
Insurance policy benefits and changes in future policy benefits.....	10.7	4.2	28.4	18.4
Amortization related to operations.....	1.8	3.7	6.2	9.2
Interest expense on investment borrowings.....	-	-	.1	-
Other operating costs and expenses.....	6.5	11.9	23.2	32.7
	-----	-----	-----	-----
Total benefits and expenses (a).....	19.0	19.8	57.9	60.3
	-----	-----	-----	-----
Operating income before income taxes, minority interest and extraordinary charge.....	18.8	5.7	47.3	24.7
Net investment gains (losses), net of related costs and amortization.....	4.1	-	3.7	(3.7)
Nonrecurring items.....	-	-	(9.3)	30.4
	-----	-----	-----	-----
Income before income taxes, minority interest and extraordinary charge.....	\$22.9	\$ 5.7	\$ 41.7	\$51.4
	=====	=====	=====	=====

(a) Revenues exclude net investment gains (losses); benefits and expenses exclude amortization related to net investment gains (losses).

General: This segment includes various other health insurance products. The profitability of this business depends largely on the overall persistency of the business inforce, claim experience and expense management.

The segment also includes the fee revenue generated by our non-life subsidiaries, including the investment advisory fees earned by CCM and commissions earned for insurance and investment product marketing and distribution. Such amounts exclude the fees for services we provide to our consolidated subsidiaries. The profitability of the fee-based business depends on the total fees generated and expense management.

Premiums collected by this segment in the third quarter of 1997 were \$18.1 million, down 9.5 percent over the third quarter of 1996. Premiums collected by this segment in the first nine months of 1997 were \$60.9 million, down 8.7 percent from the first nine months of 1996. We are not currently emphasizing the sale of these products, although our inforce business continues to be profitable.

Insurance policy income is comprised of premiums earned on the segment's policies, and has fluctuated consistent with the explanations provided above for premiums collected.

Net investment income increased 74 percent, to \$3.3 million, in the third quarter of 1997 and increased 80 percent, to \$10.8 million, in the first nine months of 1997. Such investment income increased as a result of the income earned on nontraditional investments held by this segment.

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Fee revenue and other income includes: (i) fees for investment management and mortgage origination and servicing; and (ii) commissions earned for insurance and investment product marketing and distribution. Such amounts exclude the fees for services we provide to our consolidated subsidiaries. Fee revenue and other income increased 30 percent, to \$50.1 million, for the first nine months of 1997. We earned higher fees for investment management and slightly higher commissions for marketing and distributing insurance and investment products.

Insurance policy benefits and change in future policy benefits fluctuate in relationship to the amount of segment business inforce and the incidence of claims.

Amortization related to operations includes amortization of: (i) the cost of policies produced; (ii) the cost of policies purchased; and (iii) goodwill related to this segment's business. The decrease in amortization is consistent with the declining balance of cost of policies purchased and cost of policies produced associated with the business included in this segment

Interest expense on investment borrowings is affected by changes in investment borrowing activities.

Other operating costs and expenses have been decreasing in recent periods as a result of our decreased emphasis on growth related to the block of insurance business included in this segment.

Net investment gains (losses), net of related costs and amortization often fluctuate from period to period. Net investment gains (losses) affect the timing of the amortization of cost of policies purchased and the cost of policies produced. As a result of net investment gains (losses) from the sales of fixed maturity investments, related amortization of cost of policies purchased and cost of policies produced totaled \$.1 million in the third quarter of 1996. There was no such amortization in the third quarter of 1997. Such amortization totaled \$.2 million and \$.1 million in the first nine months of 1997 and 1996, respectively.

Nonrecurring items in 1997 represent expenses incurred related to the death of an executive officer in the second quarter. Nonrecurring items in 1996 represent income from the sale of our investment in Noble Broadcast Group, Inc.

Other components of income before income taxes, minority interest and extraordinary charge:

In addition to the income of the five operating segments, income before income taxes, minority interest and extraordinary charge is affected by interest and other corporate expenses.

Interest and other corporate expenses were \$29.4 million in the third quarter of 1997 and \$30.5 million in the third quarter of 1996. Interest and other corporate expenses were \$88.5 million in the first nine months of 1997 and \$87.0 million in the first nine months of 1996. Interest expense is the largest component of these expenses. Interest expense was \$24.7 million in the third quarter of 1997 and \$30.4 million in the third quarter of 1996. Interest expense was \$76.0 million in the first nine months of 1997 and \$84.6 million in the first nine months of 1996. Such interest expense fluctuates in relationship to the average debt outstanding during each period and the interest rates thereon.

SALES

In accordance with GAAP, insurance policy income shown in our consolidated statement of operations consists of premiums received for policies that have life contingencies or morbidity features. For annuity and universal life contracts without such features, premiums collected are not reported as revenues, but rather are reported as deposits to insurance liabilities. Revenues for these products are recognized over time in the form of investment income and surrender or other charges.

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Total premiums collected by our business segments were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	1997	1996	1997	1996
	(Dollars in millions)			
Supplemental health.....	\$ 471.1	\$199.7	\$1,359.7	\$ 605.6
Annuities.....	425.8	439.9	1,237.7	1,244.6
Life insurance.....	171.1	145.1	488.2	256.3
Individual major medical and group.....	212.6	84.7	511.0	254.8
Other.....	18.1	20.0	60.9	66.7
	-----	-----	-----	-----
Total premiums collected.....	\$1,298.7	\$889.4	\$3,657.5	\$2,428.0
	=====	=====	=====	=====

Fluctuations in premiums collected are discussed above under "Results of Operations - First Nine Months of 1997 Compared to the First Nine Months of 1996 and the Third Quarter of 1997 Compared to the Third Quarter of 1996." Our recent acquisitions have had a significant effect on premiums collected in the 1997 periods.

LIQUIDITY AND CAPITAL RESOURCES

Changes in the consolidated balance sheet between December 31, 1996, and September 30, 1997, reflect growth through operations, changes in the fair value of actively managed fixed maturity securities and the following capital and financing transactions described in the notes to the consolidated financial statements: (i) the CAF Merger; (ii) the issuance of \$300 million of Company- obligated mandatorily redeemable preferred securities of subsidiary trusts; (iii) the repurchase of senior subordinated notes and senior notes with a par value of \$118.8 million; (iv) the conversion of convertible debentures acquired in the ATC Merger into Consecos common stock; (v) the conversion of PRIDES into Consecos common stock; (vi) the repurchase of mandatorily redeemable preferred stock of a subsidiary; (vii) the PFS Merger; (viii) the Colonial Penn Purchase; (ix) common stock repurchases; and (x) the issuance of commercial paper and notes payable.

In accordance with Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities ("SFAS 115"), we record our actively managed fixed maturity investments at estimated fair value. At September 30, 1997, the carrying value of such investments was increased by \$388.8 million as a result of the SFAS 115 adjustment, compared to an increase of \$103.8 million at December 31, 1996.

Minority interest increased as a result of the issuance of \$300.0 million of Company-obligated mandatorily redeemable preferred securities of subsidiary trusts, partially offset by Consecos purchases of mandatorily redeemable preferred stock of a subsidiary with a carrying value of \$93.4 million.

The increase in shareholders' equity in the first nine months of 1997 resulted from: (i) Consecos common stock issued in the CAF Merger with a value of \$115.7 million; (ii) Consecos common stock issued in the PFS Merger with a value of \$342.5 million; (iii) net income of \$395.9 million; (iv) the conversion of convertible debentures into Consecos common stock with a value of \$154.4 million; (v) amounts related to stock options and employee benefit plans (including the tax benefit thereon) of \$263.1 million and (vi) the increase in net unrealized appreciation of \$110.9 million. These increases were partially offset by: (i) repurchases of common stock for \$616.5 million; and (ii) charges related to the induced conversion of convertible preferred stock and dividends totaling \$57.2 million.

Dividends declared on common stock for the nine months ended September 30, 1997, were 18.75 cents per share. In July 1997, Consecos Board of Directors increased the quarterly cash dividend on the Company's common stock to 12.5 cents per share from 3.125 cents per share, effective with the dividend payment on October 1, 1997.

The Company has a definitive agreement to acquire Washington National for approximately \$410 million (see "Pending Merger" in the notes to the consolidated financial statements included herein). We expect to finance the acquisition by incurring additional indebtedness.

CONSECO, INC. AND SUBSIDIARIES

The following table summarizes certain financial ratios as of and for the nine months ended September 30, 1997, and as of and for the year ended December 31, 1996:

	September 30, 1997 ----	December 31, 1996 ----
Book value per common share:		
As reported.....	\$19.49	\$16.86
Excluding unrealized appreciation (depreciation) (a).....	18.71	16.62
Ratio of earnings to fixed charges:		
As reported.....	2.13X	1.65X
Excluding interest on annuities and financial product policyholder account balances (b).....	7.94X	4.55X
Ratio of earnings to fixed charges, preferred dividends and distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts:		
As reported.....	1.86X	1.51X
Excluding interest added to annuity and financial product policyholder account balances (b).....	4.20X	3.06X
Ratio of adjusted statutory earnings to cash interest (c):		
As reported.....	1.63X	1.54X
Excluding interest added to annuity and financial product policyholder account balances (b).....	5.82X	4.56X
Ratio of adjusted statutory earnings to cash interest and distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts (d):		
As reported.....	1.49X	1.53X
Excluding interest on annuities and financial product policyholder account balances (b).....	3.45X	4.34X
Ratio of total debt to total capital:		
As reported.....	.34X	.22X
Excluding unrealized appreciation (a).....	.34X	.23X
Ratio of debt and Company-obligated mandatorily redeemable preferred securities of subsidiary trusts to total capital (e):		
As reported.....	.46X	.35X
Excluding unrealized appreciation (a).....	.47X	.35X

(a) Excludes the effect of reporting fixed maturity securities at fair value.

(b) These ratios are included to assist the reader in analyzing the impact of interest added to annuity and financial product policyholder account balances (which is not generally required to be paid in cash in the period it is recognized). Such ratios are not intended to, and do not represent the following ratios prepared in accordance with GAAP: (i) the ratio of earnings to fixed charges; (ii) the ratio of earnings to fixed charges, preferred dividends and distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts; (iii) the ratio of adjusted statutory earnings to cash interest; or (iv) the ratio of adjusted statutory earnings to cash interest and distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts.

(c) Statutory earnings represent: (i) gain from operations of our consolidated life insurance companies before interest (including, for purposes of the "as reported" ratio, interest on annuities and financial products) and income taxes as reported for statutory accounting purposes; plus (ii) income before interest and income taxes of all non-life companies. Cash interest includes interest

CONSECO, INC. AND SUBSIDIARIES

(including, for purposes of the "as reported" ratio, interest on annuities and financial products) of Consec and its consolidated subsidiaries.

- (d) Statutory earnings represent: (i) gain from operations of our consolidated life insurance companies before interest (including, for purposes of the "as reported" ratio, interest on annuities and financial products) and income taxes as reported for statutory accounting purposes; plus (ii) income before interest and income taxes of all non-life companies. Cash interest includes interest (including, for purposes of the "as reported" ratio, interest on annuities and financial products) of Consec and its consolidated subsidiaries. Distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts include such distributions before income taxes of Consec and its consolidated subsidiaries.
- (e) Represents the ratio of debt and the Company-obligated mandatorily redeemable preferred securities of subsidiary trusts to the sum of shareholders' equity, notes payable, minority interest and the Company-obligated mandatorily redeemable preferred securities of subsidiary trusts.

INVESTMENTS

At September 30, 1997, the amortized cost and estimated fair value of fixed maturity securities (all of which were actively managed) were as follows:

	Amortized cost ----	Gross unrealized gains -----	Gross unrealized losses -----	Estimated fair value -----
	(Dollars in millions)			
United States Treasury securities and obligations of United States government corporations and agencies.....	\$ 811.6	\$ 11.3	\$.3	\$ 822.6
Obligations of states and political subdivisions and foreign government obligations.....	342.5	10.6	1.4	351.7
Public utility securities.....	2,011.2	63.7	27.9	2,047.0
Other corporate securities.....	10,571.6	260.7	33.1	10,799.2
Mortgage-backed securities.....	6,939.6	117.3	12.1	7,044.8
	-----	-----	-----	-----
Total fixed maturity securities	\$20,676.5	\$463.6	\$74.8	\$21,065.3
	=====	=====	=====	=====

The following table sets forth the investment ratings of fixed maturity securities at September 30, 1997 (designated categories include securities with "+" or "-" rating modifiers). The category assigned is the highest rating by a nationally recognized statistical rating organization, or as to \$745.2 million fair value of fixed maturities not rated by such firms, the rating assigned by the National Association of Insurance Commissioners ("NAIC"). For purposes of the table, NAIC Class 1 securities are included in the "A" rating; Class 2, "BBB"; Class 3, "BB" and Classes 4 to 6, "B and below."

Investment rating -----	Percent of	
	Fixed maturities -----	Total investments -----
AAA.....	38%	33%
AA.....	7	6
A.....	24	20
BBB.....	25	21
	---	---
Investment grade.....	94	80
	---	---
BB.....	3	3
B and below.....	3	2
	---	---
Below investment grade.....	6	5
	---	---
Total fixed maturities.....	100%	85%
	===	==

CONSECO, INC. AND SUBSIDIARIES

At September 30, 1997, our below investment grade fixed maturity securities had an amortized cost of \$1,163.7 million and an estimated fair value of \$1,187.3 million.

During the first nine months of 1997, we recorded \$1.2 million in writedowns of fixed maturity securities as a result of changes in conditions which caused us to conclude that a decline in fair value of the investments was other than temporary. There were no such writedowns during the first nine months of 1996. At September 30, 1997, fixed maturity securities in default as to the payment of principal or interest had an aggregate amortized cost of \$5.4 million and a fair value of \$4.4 million.

Sales of invested assets (primarily fixed maturity securities) during the first nine months of 1997 generated proceeds of \$11.5 billion, and net investment gains of \$139.2 million. Sales of invested assets during the first nine months of 1996 generated proceeds of \$5.0 billion, and net investment gains of \$11.7 million. Net investment gains in 1997 and 1996 also included \$.7 million and \$1.9 million, respectively, of writedowns related to mortgage loans.

At September 30, 1997, fixed maturity investments included \$7.0 billion of mortgage-backed securities (or 33 percent of all fixed maturity securities). The yield characteristics of mortgage-backed securities differ from those of traditional fixed-income securities. Interest and principal payments occur more frequently, often monthly. Mortgage-backed securities are subject to risks associated with variable prepayments. Prepayment rates are influenced by a number of factors which cannot be predicted with certainty, including the relative sensitivity of the underlying mortgages backing the assets to changes in interest rates; a variety of economic, geographic and other factors; and the repayment priority of the securities in the overall securitization structures.

In general, prepayments on the underlying mortgage loans, and the securities backed by these loans, increase when the level of prevailing interest rates declines significantly relative to the interest rates on such loans. Mortgage-backed securities purchased at a discount to par will experience an increase in yield when the underlying mortgages prepay faster than expected. These securities purchased at a premium that prepay faster than expected will incur a reduction in yield. When interest rates decline, the proceeds from the prepayment of mortgage-backed securities are likely to be reinvested at lower rates than we were earning on the prepaid securities. When interest rates increase, prepayments on mortgage-backed securities decrease as fewer underlying mortgages are refinanced. When this occurs, the average maturity and duration of the mortgage-backed securities increase, which decreases the yield on mortgage-backed securities purchased at a discount because the discount is realized as income at a slower rate and increases the yield on those purchased at a premium as a result of a decrease in the annual amortization of the premium.

The following table sets forth the par value, amortized cost and estimated fair value of mortgage-backed securities, summarized by interest rates on the underlying collateral at September 30, 1997:

	Par value -----	Amortized cost -----	Estimated fair value -----
(Dollars in millions)			
Below 7 percent.....	\$1,717.6	\$1,663.0	\$1,678.6
7 percent - 8 percent.....	4,177.6	4,123.0	4,195.5
8 percent - 9 percent.....	719.8	690.6	702.7
9 percent and above.....	457.4	463.0	468.0
	-----	-----	-----
Total mortgage-backed securities.....	\$7,072.4	\$6,939.6	\$7,044.8
	=====	=====	=====

CONSECO, INC. AND SUBSIDIARIES

The amortized cost and estimated fair value of mortgage-backed securities at September 30, 1997, summarized by type of security, were as follows (dollars in millions):

Type	Amortized cost	Estimated fair value Amount	Percent of fixed maturities
Pass-throughs and sequential and targeted amortization classes.....	\$4,907.4	\$4,974.9	24%
Planned amortization classes and accretion directed bonds.....	64.4	68.0	-
Support classes.....	43.2	46.4	-
Accrual (Z tranche) bonds.....	1,409.3	1,428.1	7
Subordinated classes	515.3	527.4	2
	\$6,939.6	\$7,044.8	33%
	=====	=====	==

Pass-throughs and sequential and targeted amortization classes have similar prepayment variability. Pass-throughs historically provide the best liquidity in the mortgage-backed securities market and provide the best price/performance ratio in a highly volatile interest rate environment. This type of security is also frequently used as collateral in the dollar-roll market. Sequential classes pay in a strict sequence; all principal payments received by the collateralized mortgage obligations ("CMOs") are paid to the sequential tranches in order of priority. Targeted amortization classes provide a modest amount of prepayment protection when prepayments on the underlying collateral increase from those assumed at pricing. Thus, they offer slightly better call protection than sequential classes or pass-throughs.

Planned amortization classes and accretion directed bonds are some of the most stable and liquid instruments in the mortgage-backed securities market. Planned amortization class bonds adhere to a fixed schedule of principal payments as long as the underlying mortgage collateral experiences prepayments within an expected range. Changes in prepayment rates are first absorbed by support classes. This insulates the planned amortization classes from the consequences of faster prepayments (average life shortening) and slower prepayments (average life extension).

Support classes absorb the prepayment risk from which planned amortization and targeted amortization classes are protected. As such, they are usually extremely sensitive to prepayments. Most of our support classes are higher average life instruments that generally will not lengthen if interest rates rise further and will have a tendency to shorten if interest rates decline. However, since these bonds have costs below their par values, higher prepayments will have the effect of increasing yields.

Accrual bonds are CMOs structured such that the payment of coupon interest is deferred until principal payments begin. On each accrual date, the principal balance is increased by the amount of the interest (based upon the stated coupon rate) that otherwise would have been payable. As such, these securities act like zero coupon bonds until cash payments begin. Cash payments typically do not commence until earlier classes in the CMO structure have been retired, which can be significantly influenced by the prepayment experience of the underlying mortgage loan collateral in the CMO structure. Because of the zero coupon element of these securities and the potential uncertainty as to the timing of cash payments, their market values and yields are more sensitive to changing interest rates than are other CMOs, pass-through securities and coupon bonds.

Subordinated CMO classes have both prepayment and credit risk. The subordinated classes are used to enhance the credit quality of the senior securities and as such, rating agencies require that this support not deteriorate due to the prepayment of the subordinated securities. The credit risk of subordinated classes is derived from the negative leverage of owning a small percentage of the underlying mortgage loan collateral while bearing a majority of the risk of loss due to homeowner defaults.

At September 30, 1997, the balance of mortgage loans was comprised of 94 percent commercial loans, 3 percent residual interests in collateralized mortgage obligations and 3 percent residential loans. Less than 1.5 percent of mortgage loans were noncurrent (loans which are two or more scheduled payments past due) at September 30, 1997.

Investment borrowings averaged approximately \$431.2 million during the first nine months of 1997, compared to approximately \$371.6 million during the same period of 1996 and were collateralized by investment securities with fair values approximately equal

CONSECO, INC. AND SUBSIDIARIES

to the loan value. The weighted average interest rate on such borrowings was 5.6 percent and 5.4 percent during the first nine months of 1997 and 1996, respectively.

STATUTORY INFORMATION

Statutory accounting practices prescribed or permitted for our insurance subsidiaries by regulatory authorities differ from generally accepted accounting principles. Our life insurance subsidiaries reported the following amounts to regulatory agencies at September 30, 1997, after appropriate eliminations of intercompany accounts among such subsidiaries (dollars in millions):

Statutory capital and surplus	\$1,583.2
Asset valuation reserve ("AVR").....	319.7
Interest maintenance reserve ("IMR").....	337.9
Portion of surplus debenture carried as a liability	99.2

Total.....	\$2,340.0
	=====

The ratio of such consolidated statutory account balances to consolidated statutory liabilities (excluding AVR, IMR, the portion of surplus debentures carried as a liability, liabilities from separate account business and short-term collateralized borrowings) was 11.3 percent at September 30, 1997, and 9.8 percent at December 31, 1996.

Combined statutory net income of our life insurance subsidiaries included in the Conseco Consolidated Statutory Statement (after appropriate eliminations of intercompany amounts among such subsidiaries) was \$204.9 million in the first nine months of 1997 and \$147.4 million in the first nine months of 1996.

The statutory capital and surplus of the insurance subsidiaries include surplus debentures of the parent holding companies totaling \$795.5 million. Payments of interest and principal on such debentures are generally subject to the approval of the insurance department of the subsidiary's state of domicile. During the first nine months of 1997, our life insurance subsidiaries made scheduled principal payments on surplus debentures of \$72.9 million.

State insurance laws generally restrict the ability of insurance companies to pay dividends or make other distributions. Net assets of our life insurance subsidiaries, determined in accordance with GAAP, aggregated approximately \$8.8 billion at December 31, 1996. During the first nine months of 1997, our life insurance subsidiaries paid ordinary dividends of \$76.3 million to the parent holding companies. During the remainder of 1997, the life insurance subsidiaries may pay additional dividends of \$98.5 million without the permission of state regulatory authorities.

FORWARD-LOOKING STATEMENTS

All statements, trend analyses and other information contained in this report and elsewhere (such as in other filings by the Company with the Securities and Exchange Commission, press releases, presentations by the Company or its management or oral statements) relative to markets for the Company's products and trends in the Company's operations or financial results, as well as other statements including words such as "anticipate," "believe," "plan," "estimate," "expect," "intend," and other similar expressions, constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results to be materially different from those contemplated by the forward-looking statements. Such factors include, among other things: (i) general economic conditions and other factors, including prevailing interest rate levels, stock market performance and health care inflation, which may affect the ability of the Company to sell its products, the market value of the Company's investments and the lapse rate and profitability of the Company's policies; (ii) the Company's ability to achieve anticipated levels of operational efficiencies at recently acquired companies, as well as through other cost-saving initiatives; (iii) customer response to new products, distribution channels and marketing initiatives; (iv) mortality, morbidity, usage of health care services and other factors which may affect the profitability of the Company's insurance products; (v) changes in the federal income tax laws and regulations which may affect the relative tax advantages of some of the Company's products; (vi) increasing competition in the sale of the Company's products; (vii) regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) bank sales and underwriting of insurance products, regulation of the sale, underwriting and pricing of insurance products, and health care regulation affecting the Company's health insurance products; (viii) the availability and terms of future acquisitions; and (ix) the risk factors or uncertainties listed from time to time in the Company's other filings with the Securities and Exchange Commission.

CONSECO, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

- a) Exhibits.
 - 10.1.3 (b) Amendment No. 2 to Employment Agreement between the Registrant and Rollin M. Dick.
 - 10.1.4 (b) Amendment No. 2 to Employment Agreement between the Registrant and Donald F. Gongaware.
 - 10.1.10 (b) Amendment No. 2 to Employment Agreement between the Registrant and Ngairé E. Cuneo.
 - 10.1.11 Employment Agreement dated September 8, 1997, between the Registrant and John J. Sabl.
 - 11.1 Computation of Earnings Per Share - Primary.
 - 11.2 Computation of Earnings Per Share - Fully Diluted.
 - 27.0 Financial Data Schedule.

b) Reports on Form 8-K. None.

CONSECO, INC. AND SUBSIDIARIES

SIGNATURE

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

CONSECO, INC.

Dated: November 14, 1997

By: /s/ ROLLIN M. DICK

Rollin M. Dick
Executive Vice President and
Chief Financial Officer
(authorized officer and principal
financial officer)

AMENDMENT NO. 2 TO EMPLOYMENT AGREEMENT

Amendment No. 2 is made to that certain Employment Agreement dated July 1, 1991, as amended by Amendment No. 1 dated March 12, 1996 (as so amended, the "Employment Agreement"), between Conseco, Inc. (the "Company") and Rollin M. Dick ("Executive").

NOW, THEREFORE, in consideration of the mutual covenants contained herein and in the Employment Agreement, Company and Executive agree as follows:

1. Amendment to Section 6(e). Section 6(e) of the Employment Agreement, which relates to reimbursement of medical expenses, shall be amended by removing the words "Three Thousand Dollars (\$3,000)" and replacing them with the words "Ten Thousand Dollars (\$10,000)".
2. Amendment to Section 12. The last paragraph of Section 12 of the Employment Agreement shall be amended and restated in its entirety to read as follows:

In the event that Executive makes an election pursuant to this

Section to receive a lump sum severance allowance of the amount described in clauses (a) and (b), then, in addition to such amount, he shall receive (i) in addition to the benefits provided under any retirement or pension benefit plan maintained by the Company, the benefits he would have accrued under such benefit plan if he had remained in the employ of the Company and such plan had remained in effect for 60 calendar months after his termination, which benefits will be paid concurrently with, and in addition to, the benefits provided under such benefit plan, and (ii) the employee benefits (including, but not limited to, coverage under any medical insurance and split-dollar life insurance arrangements or programs) to which he would have been entitled under all employee benefit plans, programs or arrangements maintained by the Company if he had remained in the employ of the Company and such plans, programs or arrangements had remained in effect for 60 calendar months after his termination; or the value of the amounts described in clauses (i) and (ii) next preceding. The amount of the payments described in the preceding sentence shall be determined and such payments shall be distributed as soon as it is reasonably possible.

3. Amendment to Section 13. Section 13 of the Employment Agreement shall be amended and restated in its entirety to read as follows:

13. Tax Indemnity Payments. To the extent that any payments made to Executive pursuant to Section 11, 12 or 14 constitute an "excess parachute

payment", as such term is defined in Section 280G(b)(1) of the Internal Revenue Code, as amended (the "Code"), the Company shall pay to Executive an amount equal to (x) divided by (y), where (x) is the aggregate dollar amount of excise taxes Executive becomes obligated to pay on such "excess parachute payments" pursuant to Section 4999 of the Code and (y) is 1- $[\cdot 2 +$ the maximum federal income tax rate for single individuals applicable for the year in which Executive receives the payment provided under this Section]; it being the intent of this Section that if Executive incurs any such excise tax, the payments to him shall be grossed up in full for such excise tax, so that the amount he retains after paying all federal income taxes due with respect to payments to him under this Agreement is the same as what he would have retained if Section 280G of the Code had not been applicable.

4. Except as modified by this Amendment No. 2 and any previous addenda or amendment not in conflict herewith, the parties confirm that the Employment Agreement remains in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the Company and Executive have executed this Amendment No. 2 to be effective this 29th day of October, 1997.

CONSECO, INC.

By: */s/STEPHEN C. HILBERT*

Stephen C. Hilbert,
Chairman of the Board

"Company"

/s/ROLLIN M. DICK

Rollin M. Dick

"Executive"

AMENDMENT NO. 2 TO EMPLOYMENT AGREEMENT

Amendment No. 2 is made to that certain Employment Agreement dated July 1, 1991, as amended by Amendment No. 1 dated March 12, 1996 (as so amended, the "Employment Agreement"), between Conseco, Inc. (the "Company") and Donald F. Gongaware ("Executive").

NOW, THEREFORE, in consideration of the mutual covenants contained herein and in the Employment Agreement, Company and Executive agree as follows:

1. Amendment to Section 6(e). Section 6(e) of the Employment Agreement, which relates to reimbursement of medical expenses, shall be amended by removing the words "Three Thousand Dollars (\$3,000)" and replacing them with the words "Ten Thousand Dollars (\$10,000)".
2. Amendment to Section 12. The last paragraph of Section 12 of the Employment Agreement shall be amended and restated in its entirety to read as follows:

In the event that Executive makes an election pursuant to this

Section to receive a lump sum severance allowance of the amount described in clauses (a) and (b), then, in addition to such amount, he shall receive (i) in addition to the benefits provided under any retirement or pension benefit plan maintained by the Company, the benefits he would have accrued under such benefit plan if he had remained in the employ of the Company and such plan had remained in effect for 60 calendar months after his termination, which benefits will be paid concurrently with, and in addition to, the benefits provided under such benefit plan, and (ii) the employee benefits (including, but not limited to, coverage under any medical insurance and split-dollar life insurance arrangements or programs) to which he would have been entitled under all employee benefit plans, programs or arrangements maintained by the Company if he had remained in the employ of the Company and such plans, programs or arrangements had remained in effect for 60 calendar months after his termination; or the value of the amounts described in clauses (i) and (ii) next preceding. The amount of the payments described in the preceding sentence shall be determined and such payments shall be distributed as soon as it is reasonably possible.

3. Amendment to Section 13. Section 13 of the Employment Agreement shall be amended and restated in its entirety to read as follows:

13. Tax Indemnity Payments. To the extent that any payments made to Executive pursuant to Section 11, 12 or 14 constitute an "excess parachute

payment", as such term is defined in Section 280G(b)(1) of the Internal Revenue Code, as amended (the "Code"), the Company shall pay to Executive an amount equal to (x) divided by (y), where (x) is the aggregate dollar amount of excise taxes Executive becomes obligated to pay on such "excess parachute payments" pursuant to Section 4999 of the Code and (y) is 1- $[\cdot 2 +$ the maximum federal income tax rate for single individuals applicable for the year in which Executive receives the payment provided under this Section]; it being the intent of this Section that if Executive incurs any such excise tax, the payments to him shall be grossed up in full for such excise tax, so that the amount he retains after paying all federal income taxes due with respect to payments to him under this Agreement is the same as what he would have retained if Section 280G of the Code had not been applicable.

4. Except as modified by this Amendment No. 2 and any previous addenda or amendment not in conflict herewith, the parties confirm that the Employment Agreement remains in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the Company and Executive have executed this Amendment No. 2 to be effective this 29th day of October, 1997.

CONSECO, INC.

By: /s/STEPHEN C. HILBERT

Stephen C. Hilbert,
Chairman of the Board

"Company"

/s/DONALD F. GONGAWARE

Donald F. Gongaware

"Executive"

AMENDMENT NO. 2 TO EMPLOYMENT AGREEMENT

Amendment No. 2 is made to that certain Employment Agreement dated August 17, 1992, as amended by Amendment No. 1 dated March 12, 1996 (as so amended, the "Employment Agreement"), between Conseco, Inc. (the "Company") and Ngaire E. Cuneo ("Executive").

NOW, THEREFORE, in consideration of the mutual covenants contained herein and in the Employment Agreement, Company and Executive agree as follows:

1. Amendment to Section 6(e). Section 6(e) of the Employment Agreement, which relates to reimbursement of medical expenses, shall be amended by removing the words "Three Thousand Dollars (\$3,000)" and replacing them with the words "Ten Thousand Dollars (\$10,000)".
2. Amendment to Section 12. The last paragraph of Section 12 of the Employment Agreement shall be amended and restated in its entirety to read as follows:

In the event that Executive makes an election pursuant to this

Section to receive a lump sum severance allowance of the amount described in clauses (a) and (b), then, in addition to such amount, he shall receive (i) in addition to the benefits provided under any retirement or pension benefit plan maintained by the Company, the benefits he would have accrued under such benefit plan if he had remained in the employ of the Company and such plan had remained in effect for 60 calendar months after his termination, which benefits will be paid concurrently with, and in addition to, the benefits provided under such benefit plan, and (ii) the employee benefits (including, but not limited to, coverage under any medical insurance and split-dollar life insurance arrangements or programs) to which he would have been entitled under all employee benefit plans, programs or arrangements maintained by the Company if he had remained in the employ of the Company and such plans, programs or arrangements had remained in effect for 60 calendar months after his termination; or the value of the amounts described in clauses (i) and (ii) next preceding. The amount of the payments described in the preceding sentence shall be determined and such payments shall be distributed as soon as it is reasonably possible.

3. Amendment to Section 13. Section 13 of the Employment Agreement shall be amended and restated in its entirety to read as follows:

13. Tax Indemnity Payments. To the extent that any payments made to Executive pursuant to Section 11, 12 or 14 constitute an "excess parachute

payment", as such term is defined in Section 280G(b)(1) of the Internal Revenue Code, as amended (the "Code"), the Company shall pay to Executive an amount equal to (x) divided by (y), where (x) is the aggregate dollar amount of excise taxes Executive becomes obligated to pay on such "excess parachute payments" pursuant to Section 4999 of the Code and (y) is 1- $[\cdot 2 +$ the maximum federal income tax rate for single individuals applicable for the year in which Executive receives the payment provided under this Section]; it being the intent of this Section that if Executive incurs any such excise tax, the payments to him shall be grossed up in full for such excise tax, so that the amount he retains after paying all federal income taxes due with respect to payments to him under this Agreement is the same as what he would have retained if Section 280G of the Code had not been applicable.

4. Except as modified by this Amendment No. 2 and any previous addenda or amendment not in conflict herewith, the parties confirm that the Employment Agreement remains in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the Company and Executive have executed this Amendment No. 2 to be effective this 29th day of October, 1997.

CONSECO, INC.

By: /s/STEPHEN C. HILBERT

Stephen C. Hilbert,
Chairman of the Board

"Company"

/s/NGAIRE E. CUNEO

Ngaire E. Cuneo
"Executive"

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of the 8th day of September, 1997, between CONSECO, INC., an Indiana corporation (hereinafter called the "Company"), and John J. Sabl (hereinafter called "Executive").

RECITALS

WHEREAS, the services of Executive, his managerial and professional experience, and his knowledge of the affairs of the Company are of great value to the Company; and

WHEREAS, the Company deems it to be essential for it to have the benefit and advantage of the services of the Executive for an extended period;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants contained herein, the parties agree as follows:

1. Employment. The Company hereby employs Executive and Executive hereby accepts employment upon the terms and conditions hereinafter set forth.
2. Term. The effective date of this Agreement shall be September 8, 1997. Subject to the provisions for termination as provided in Section 10 hereof, the term of this Agreement shall be the period beginning September 8, 1997, and ending December 31, 2002, (hereinafter called the "Basic Employment Period").
3. Duties. Executive is engaged by the Company in an executive capacity as its chief legal officer. Executive shall report to the Chief Executive Officer regarding the performance of his duties and shall be subject to the direction and control of the Board of Directors of the Company (sometimes referred to herein as the "Board") and the Chief Executive Officer. Executive's position with the Company shall be Executive Vice President, General Counsel and Secretary, and such other positions as may be determined from time to time by the Board.
4. Extent of Services. Executive, subject to the direction and control of the Chief Executive Officer and the Board, shall have the power and authority commensurate with his executive status and necessary to perform his duties hereunder. The Company agrees to provide to Executive such assistance and work accommodations as are suitable to the character of his positions with the Company and adequate for the performance of his duties. Executive shall devote his entire employable time, attention and best efforts to the business of the Company, and shall not, without the consent of the Company, during the term of this Agreement be actively engaged in any other business activity, whether or not such business activity is pursued for gain, profit or other pecuniary advantage; but this shall not be construed as preventing Executive from investing his assets in such form or manner as will not require any services on the part of Executive in the operation of the

affairs of the companies in which such investments are made. For purposes of this Agreement, full-time employment shall be the normal work week for individuals in comparable executive positions with the Company.

5. Compensation. As compensation for services hereunder rendered during the term hereof, Executive shall receive (a) a base salary ("Base Salary") of One Million Dollars (\$1,000,000) per year payable in equal installments in accordance with the Company's payroll procedure for its salaried employees. Salary payments shall be subject to withholding of taxes and other appropriate and customary amounts. Executive may receive increases in his Base Salary from time to time, based upon his performance in his executive and management capacity. The amounts of any such salary increases shall be approved by the Board or the Compensation Committee of the Board upon the recommendation of the Chief Executive Officer.

(b) In addition to Base Salary, Executive may receive such other bonuses or incentive compensation as the Compensation Committee or the Board may approve from time to time, upon the recommendation of the Chief Executive Officer; provided, that Executive shall receive a cash bonus of at least Seven Hundred Fifty Thousand Dollars (\$750,000) for each calendar year (or a pro rata portion thereof, based on the portion of the year worked, for any part of a calendar year worked).

6. Fringe Benefits.

(a) Executive shall be entitled to participate in such existing employee benefit plans and insurance programs offered by the Company, or which it may adopt from time to time, for this executive management or supervisory personnel generally, in accordance with the eligibility requirements for participation therein. Nothing herein shall be construed so as to prevent the Company from modifying or terminating any employee benefit plans or programs, or employee fringe benefits, it may adopt from time to time.

(b) During the term of this Agreement, the Company shall pay Executive a monthly automobile allowance in the amount of Six Hundred Dollars (\$600). In addition, the Company shall pay directly or shall reimburse Executive for normal and reasonable automobile operating expenses, such as maintenance, repairs and cost of fuel, that he incurs in using his automobile in the performance of his duties under this Agreement.

(c) Executive shall be entitled to four (4) weeks vacation with pay for each year during the term hereof.

(d) Executive may incur reasonable expenses for promoting the Company's business, including expenses for entertainment, travel, and similar items. The Company shall reimburse Executive for all such reasonable expenses upon Executive's periodic presentation of an itemized account of such expenditures.

(e) The Company shall, upon periodic presentation of satisfactory evidence and to a maximum of Ten Thousand Dollars (\$10,000) per each year of this Agreement, reimburse Executive for reasonable medical expenses incurred by Executive and his dependents which are not otherwise covered by health insurance provided to Executive under Section 6(a).

(f) During the term of this Agreement, the Company shall at its expense maintain a term life insurance policy or policies on the life of Executive in the face amount of Five Hundred Thousand Dollars (\$500,000), payable to such beneficiaries as Executive may designate.

7. Disability. If Executive shall become physically or mentally disabled during the term of this Agreement to the extent that he shall be unable to perform his duties and services for and on behalf of the Company, and such disability shall continue for a period in excess of one (1) month, the salary then payable to Executive pursuant to the foregoing Section 5 shall be paid to Executive for six (6) calendar months. Thereafter, Executive shall receive fifty percent (50%) of his salary as determined pursuant to Section 5 during the continuance of his disability during the term hereof, reduced by any monthly disability insurance benefits he may received from disability insurance purchased on his behalf by the Company. Executive's full compensation shall be reinstated upon his return to performance of his duties and services.

For purposes of this paragraph, disability shall exclude disabilities arising from: (a) chronic depressive use of intoxicants, drugs or narcotics, or (b) intentional self-inflicting injury or intentionally self-induced sickness; or (c) a proven unlawful act or enterprise on the part of Executive.

8. Disclosure of Information. Executive acknowledges that in and as a result of his employment with the Company, he has been and will be making use of, acquiring and/or adding to confidential information of the Company of a special and unique nature and value. As a material inducement to the Company to enter into this Agreement and to pay to Executive the compensation stated in Section 5, as well as any additional benefits stated herein, Executive covenants and agrees that he shall not, at any time during or following the term of his employment, directly or indirectly, divulge or disclose for any purpose whatsoever, any confidential information that has been obtained by or disclosed to him as a result of his employment with the Company. Upon the termination of this Agreement, Executive shall return all materials obtained from or belonging to the Company which he may have in his possession or control. In the event of a breach or threatened breach by Executive of the provisions of this Section, the Company shall be entitled to an injunction restraining Executive from utilizing or disclosing, in whole or in part, such material, or from rendering any service to any person, firm, corporation, association, or other entity to which such material might be useful, and/or any and all persons directly or indirectly acting for or with Executive. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to the Company for such breach or threatened breach, including the recovery of damages from Executive.

9. Covenants Against Competition and Solicitation. Executive acknowledges that the services he is to render to the Company are of a special and unusual character, with a unique value to the Company, the loss of which cannot adequately be compensated by damages or an action at law. In view of the unique value to the Company of the services of Executive for which the Company has contracted hereunder, because of the confidential information to be obtained by, or disclosed to, Executive as hereinabove set forth, and as a material inducement to the Company to enter into this Agreement and to pay to Executive the compensation stated in Section 5, as well as any additional benefits stated herein, and other good and valuable consideration, Executive covenants and agrees that throughout the Basic Employment Period, Executive shall not, directly or indirectly, anywhere in the United States of America (i) render any services, as an agent, independent contractor, consultant or otherwise, or become employed or compensated by, any other corporation, person or entity engaged in the business of selling or providing life or accident and health insurance products or services; (ii) in any manner compete with the Company or any of its subsidiaries; (iii) solicit or attempt to convert to other insurance carriers providing these same or similar products or services provided by the Company and its subsidiaries, any customers or policyholders of the Company, or any of its subsidiaries; or (iv) solicit for employment or employ any employee of the Company or any of its subsidiaries. The covenants of Executive in this Section 9 shall be void and unenforceable in the event of a Control Termination of this Agreement as defined in Section 10 below.

10. Termination.

(a) Either the Company or Executive may terminate this Agreement at any time for any reason upon written notice to the other. This Agreement shall also terminate upon the death of Executive.

(b) In the event this Agreement is terminated by the Company and such termination is not for "just cause" as defined in (e) below and does not constitute a Control Termination as defined in (d) below, Executive shall be entitled to receive his Base Salary, as determined pursuant to Section 5(a) hereof, for the remainder of the Basic Employment Period and all other unpaid amounts previously accrued or awarded pursuant to any other provision of this Agreement.

(c) In the event this Agreement is terminated by the death of Executive, is terminated by the Company for "just cause" as defined in (e) below, or is terminated by Executive and such termination does not constitute a Control Termination as defined in (d) below, Executive shall be entitled to receive his Base Salary as provided in Section 5(a) accrued but unpaid as of the date of termination, and all other unpaid amounts previously accrued or awarded pursuant to any other provision of this Agreement.

(d) The term "Control Termination" as used herein shall mean (a) termination of this Agreement by the Company in anticipation of or following a "change in control" of the Company (as defined below), or (b) termination of this Agreement by

Executive following "change in control" of the Company (as defined below) upon the occurrence of any of the following events:

- (i) significant change in the nature or scope of Executive's authorities or duties from those described in Section 3, a reduction in his total compensation from that provided in Section 5, or a breach by the Company of any other provision of this Agreement; or
- (ii) reasonable determination by Executive that, as a result of a change in circumstances significantly affecting his position, he is unable to exercise the authorities, powers, functions or duties attached to his position and contemplated by Section 3 of this Agreement, or
- (iii) the Company's principal executive offices are moved outside the geographic area comprised of Marion County, Indiana, and the seven contiguous counties.

The term "change in control" shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934 (the "Act") as revised effective January 20, 1987, or, if Item 6(e) is no longer in effect, any regulations issued by the Securities and Exchange Commission pursuant to the Act which serve similar purposes; provided that, without limitation,

(x) such a change in control shall be deemed to have occurred if and when either (A) except as provided in (y) below, any "person" (as such term is used in Sections 13(d) and 14(d) of the Act) is or becomes a "beneficial owner" (as such term is defined in Rule 13d-3 promulgated under the Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities entitled to vote with respect to the election of its Board of Directors or (B) as the result of a tender offer, merger, consolidation, sale of assets, or contest for election of directors, or any combination of the foregoing transactions or events, individuals who were members of the Board of Directors of the Company immediately prior to any such transaction or event shall not constitute a majority of the Board of Directors following such transaction or event, and

(y) no change of control shall be deemed to have occurred if and when either (A) any such change is the result of a transaction which constitutes a "rule 13e-3 transaction" as such term is defined in Rule 13e-3 promulgated under the Act or (B) any such person becomes, with the approval of the Board of Directors of the Company, the beneficial owner of securities of the Company representing 25% or more but less than 50% of the combined voting power of the Company's then outstanding securities entitled to vote with respect to the election of its Board of Directors and in connection therewith represents, and at all times continues to

represent, in a filing, as amended, with the Securities and Exchange Commission on Schedule 13D or Schedule 13G (or any successor Schedule thereto) that "such person has acquired such securities for investment and not with the purpose nor with the effect of changing or influencing the control of the Company, nor in connection with or as a participant in any transaction having such purpose or effect", or words of comparable meaning and import. The designation by any such person, with the approval of the Board of Directors of the Company, of a single individual to serve as a member of, or observer at meetings of, the Company's Board of Directors, shall not be considered "changing or influencing the control of the Company" within the meaning of the immediately preceding clause (B), so long as such individual does not constitute at any time more than one-third of the total number of directors serving on such Board.

(e) For purposes of this Agreement "just cause" shall mean and include:

(i) Executive's breach of any provisions of this Agreement, or his use of alcohol or drugs which interferes with the performance of his duties hereunder or which compromises the integrity and reputation of the Company, its employees, and products;

(ii) Executive's conviction by a court of law, or admission that he is guilty, or a felony or other crime involving moral turpitude;

(iii) Executive's absence from his employment other than as a result of Section 7 hereof, for whatever cause, for a period of more than one (1) month, without prior written consent from the Company;

(iv) Executive becomes incompetent or is reasonably unable to undertake and discharge the duties and responsibilities of his position; or

(v) Executive's gross negligence, willful malfeasance or fraud or dishonesty in performing his services on behalf of the Company pursuant to this Agreement.

11. Payments for Control Termination. In the event of a Control Termination of this Agreement, the Company shall pay Executive and provide him with the following:

(a) During the remainder of the Basic Employment Period, the Company shall continue to pay Executive his Base Salary at the same rate as payable immediately prior to the date of termination plus the estimated amount of any bonuses to which he would have been entitled had he remained in the employ of the Company and a change in control of the Company had not occurred.

(b) During the remainder of the Basic Employment Period, Executive shall continue to be treated as an employee under the provisions of all incentive

compensation arrangements applicable to the Company's executive employees. In addition, Executive shall continue to be entitled to all benefits and service credits for benefits under medical, insurance and other employee benefit plans, programs and arrangements of the Company as if he were still employed under this Agreement and a change in control of the Company had not occurred.

(c) If, despite the provisions of paragraph (b) above, benefits under any employee benefit plan shall not be payable or provided under any such plan to Executive, or his dependents, beneficiaries and estate, because he is no longer an employee of the Company, the Company itself shall, to the extent necessary, pay or provide for payment of such benefits and service credits for such benefits to Executive, his dependents, beneficiaries and estate.

(d) If, despite the provisions of paragraph (b) above, benefits or the right to accrue further benefits under any stock option or other incentive compensation arrangement shall not be provided under any such arrangement to Executive, or his dependents, beneficiaries and estate, because he is no longer an employee of the Company, the Company shall, to the extent necessary, pay or provide for payment of such benefits to Executive, his dependents, beneficiaries and estate.

12. Severance Allowance. In the event of a Control Termination of this Agreement, Executive may elect, within 60 days after such Control Termination, to be paid a lump sum severance allowance, in lieu of the termination payments provided for in Section 11 above, in an amount which is equal to the sum of the amounts determined in accordance with the following clauses (a) and (b):

(a) an amount equivalent to salary payments for 60 calendar months at the rate of Base Salary which he would have been entitled to receive in accordance with Section 5(a); and

(b) an amount equivalent to 60 calendar months of bonus at the greater of (i) the monthly rate of the bonus payment for the bonus period immediately prior to this termination date, or (ii) the monthly rate of the estimated amount of the bonus for the period which includes his termination date.

In the event that Executive makes an election pursuant to this Section to receive a lump sum severance allowance of the amount described in clauses (a) and (b), then, in addition to such amount, he shall receive (i) in addition to the benefits provided under any retirement or pension benefit plan maintained by the Company, the benefits he would have accrued under such benefit plan if he had remained in the employ of the Company and such plan had remained in effect for 60 calendar months after his termination, which benefits will be paid concurrently with, and in addition to, the benefits provided under such benefit plan, and (ii) the employee benefits (including, but not limited to, coverage under any medical insurance and split-dollar life insurance arrangements or programs) to which he would have been entitled under all employee benefit plans, programs or arrangements

maintained by the Company if he had remained in the employ of the Company and such plans, programs or arrangements had remained in effect for 60 calendar months after his termination; or the value of the amounts described in clauses

(i) and (ii) next preceding. The amount of the payments described in the preceding sentence shall be determined and such payments shall be distributed as soon as it is reasonably possible.

13. Tax Indemnity Payments. To the extent that any payments made to Executive pursuant to Section 11, 12 or 14 constitute an "excess parachute payment", as such term is defined in Section 280G(b)(1) of the Internal Revenue Code, as amended (the "Code"), the Company shall pay to Executive an amount equal to (x) divided by (y), where (x) is the aggregate dollar amount of excise taxes Executive becomes obligated to pay on such "excess parachute payments" pursuant to Section 4999 of the Code and (y) is 1-~~1~~.2+ the maximum federal income tax rate for single individuals applicable for the year in which Executive receives the payment provided under this Section]; it being the intent of this Section that if Executive incurs any such excise tax, the payments to him shall be grossed up in full for such excise tax, so that the amount he retains after paying all federal income taxes due with respect to payments to him under this Agreement is the same as what he would have retained if Section 280G of the Code had not been applicable.

14. Payment for Options and Stock. In the event of a Control Termination of this Agreement, Executive may also elect, within sixty (60) days after such Control Termination, to receive a lump sum payment from the Company in return for surrender by the Executive of all or any portion of the options then outstanding held by the Executive to purchase shares of common stock of the Company ("Unexercised Options") and all or any portion of the common stock of the Company then owned by Executive (the "Owned Stock"). For purposes of this provision, Unexercised Options shall include all outstanding options whether or not they are exercisable at the time of the election by Executive hereunder. For each Unexercised Option to purchase one share of common stock, the Company shall pay to Executive an amount equal to the highest per share fair market value of the common stock on any day during the period beginning six (6) months prior to the date of Executive's election pursuant to this Section. To compensate Executive for his loss of the potential future speculative value of the Unexercised Options, there shall be no deduction of Executive's exercise price per share for each Unexercised Option from the amount to be received by him pursuant to the foregoing sentence. For each share of Owned Stock, the Company shall pay to Executive the highest fair market value per share of the common stock on any date during the period beginning six (6) months prior to the date of Executive's election pursuant to this Section. The payment due from the Company pursuant to this Section shall be made to Executive within ten (10) days after the date of his election hereunder, against execution and delivery by Executive to the Company of an appropriate agreement confirming his surrender of the Unexercised Options and the certificates duly endorsed by Executive for the Owned Stock.

15. Character of Termination Payments. The amounts payable to Executive upon any termination of this Agreement shall be considered severance pay in consideration of past services rendered on behalf of the Company and his continued

service from the date hereof to the date he becomes entitled to such payments. Executive shall have no duty to mitigate his damages by seeking other employment and, should Executive actually receive compensation from any such other employment, the payments required hereunder shall not be reduced or offset by any such other compensation.

16. Right of First Refusal to Purchase Stock. Executive agrees that the Company shall have throughout the Basic Employment Period the right of first refusal to purchase all or any portion of the shares of the Company's common stock owned by him (the "Shares") at the following price:

(a) in the event of a bona fide offer for the Shares, or any part thereof, received by Executive from any other person (a "Third Party Offer"), the price to be paid by the Company shall be the price set forth in such Third Party Offer; and

(b) in the event Executive desires to sell the Shares, or any part thereof, in the public securities market, the price to be paid by the Company shall be the last sale price quoted on the New York Stock Exchange (or any other exchange or national market system upon which price quotations for the Company's common stock are regularly available) for the Company's common stock on the last business day preceding the date on which Executive notifies the Company of such desire.

In the event Executive shall receive a Third Party Offer which he desires to accept, he shall deliver to the Company a written notification of the terms thereof and the Company shall have a period of 48 hours after such delivery in which to notify Executive of its desire to exercise its right of first refusal hereunder.

In the event Executive desires to sell any portion of the Shares in the public market he shall deliver to the Company a written notification of the amount of Shares he desires to sell, and the Company shall have a period of 24 hours after such delivery to notify Executive of its desire to exercise its right of first refusal hereunder with respect to such amount of Shares.

Upon each exercise by the Company of its right of first refusal hereunder, it shall make payment to Executive for the Shares in accordance with standard practice in the securities brokerage industry. After each failure by the Company to exercise its right of first refusal hereunder, Executive may proceed to complete the sale of Shares pursuant to the Third Party Offer or in the open market in accordance with his notification to the Company, but his failure to complete such sale within two weeks after his notification to the Company shall reinstate the Company's right of first refusal with respect thereto and require a new notification to the Company.

17. Arbitration of All Disputes. Any controversy or claim arising out of or relating to this Agreement or the breach thereof, shall be settled by arbitration in the City of Indianapolis, Indiana, in accordance with the laws of the State of Indiana by three arbitrators, one of whom shall be appointed by the Company, one by Executive and the

third of whom shall be appointed by the first two arbitrators. If the first two arbitrators cannot agree on the appointment of a third arbitrator, then the third arbitrator shall be appointed by the Chief Judge of the United States District Court for the Southern District of Indiana. The arbitration shall be conducted in accordance with the rules of the American Arbitration Association, except with respect to the selection of arbitrators which shall be as provided in this Section. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that it shall be necessary or desirable for Executive to retain legal counsel and/or incur other costs and expenses in connection with the enforcement of any and all of his rights under this Agreement, the Company shall pay (or Executive shall be entitled to recover from the Company, as the case may be) his reasonable attorneys' fees and costs and expenses in connection with the enforcement of any arbitration award in court, regardless of the final outcome, unless the arbitrators shall determine that under the circumstances recovery by Executive of all or a part of any such fees and costs and expenses would be unjust.

18. Notices. Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and if sent by registered mail to his residence, in the case of Executive, or to the business office of its Chief Executive Officer, in the case of the Company.

19. Waiver of Breach and Severability. The waiver by either party of a breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach by either party. In the event any provision of this Agreement is found to be invalid or unenforceable, it may be severed from the Agreement and the remaining provisions of the Agreement shall continue to be binding and effective.

20. Entire Agreement. This instrument contains the entire agreement of the parties and supersedes all prior agreements between them. This agreement may not be changed orally, but only by an instrument in writing signed by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought.

21. Binding Agreement and Governing Law; Assignment Limited. This Agreement shall be binding upon and shall inure to the benefit of the parties and their lawful successors in interest and shall be construed in accordance with and governed by the laws of the State of Indiana. This Agreement is personal to each of the parties hereto, and neither party may assign nor delegate any of its rights or obligations hereunder without the prior written consent of the other.

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

CONSECO, INC.

By: /s/ STEPHEN C. HILBERT

Stephen C. Hilbert
Chairman of the Board

"Company"

/s/ JOHN J. SABL

John J. Sabl
"Executive"

CONSECO, INC. AND SUBSIDIARIES

COMPUTATION OF EARNINGS PER SHARE - PRIMARY
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	1997	1996	1997	1996
Shares outstanding, beginning of period.....	187,210,297	83,733,248	167,128,228	81,031,828
Weighted average shares issued (acquired) during the period:				
Shares issued in conjunction with mergers.....	-	32,181,978	9,003,627	10,727,326
Shares issued under employee benefit and compensation plans..	81	-	109,019	-
Exercise of stock options.....	686,118	312,774	5,975,539	2,563,012
Shares issued upon conversion of preferred stock.....	-	3,604,264	6,538,031	1,721,262
Shares issued upon conversion of convertible debentures.....	115,307	-	4,498,509	-
Treasury stock acquired.....	(197,849)	(15,984)	(8,305,664)	(1,179,900)
Common equivalent shares related to:				
Stock options at average market price	8,437,147	6,186,680	10,090,352	5,170,238
Employee stock plans	2,301,808	2,223,684	2,222,422	2,115,724
PRIDES.....	6,823,926	14,944,374	7,001,962	13,741,008
Convertible debentures.....	5,600,756	-	5,480,314	-
	-----	-----	-----	-----
Weighted average primary shares outstanding.....	210,977,591	143,171,018	209,742,339	115,890,498
	=====	=====	=====	=====
Net income for primary earnings per share:				
Net income as reported.....	\$153,788,000	\$ 78,078,000	\$395,922,000	\$174,487,000
Less amounts applicable to preferred stock:				
Charge related to induced conversions.....	-	-	(13,201,000)	-
Preferred stock dividends.....	-	(790,000)	-	(9,807,000)
	-----	-----	-----	-----
Net income for primary earnings per share.....	\$153,788,000	\$ 77,288,000	\$382,721,000	\$164,680,000
	=====	=====	=====	=====
Net income per primary common share.....	\$.73	\$.54	\$1.82	\$1.42
	====	====	====	====

CONSECO, INC. AND SUBSIDIARIES

COMPUTATION OF EARNINGS PER SHARE - FULLY DILUTED
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	1997	1996	1997	1996
Weighted average primary shares outstanding.....	210,977,591	143,171,018	209,742,339	115,890,498
Incremental common equivalent shares:				
Related to options and employee stock plans	1,128,237	1,593,916	450,966	2,784,570
Related to convertible preferred stock.....	-	13,295,688	-	16,064,922
	-----	-----	-----	-----
Weighted average fully diluted shares outstanding.....	212,105,828	158,060,622	210,193,305	134,739,990
	=====	=====	=====	=====
Net income for fully diluted earnings per share.....	\$153,788,000	\$ 78,078,000	\$382,721,000	\$174,487,000
	=====	=====	=====	=====
Net income per fully diluted common share.....	\$.73	\$.49	\$1.82	\$1.29
	====	====	====	====

ARTICLE 7

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FORM 10-Q FOR CONSECO, INC. DATED SEPTEMBER 30, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS	
FISCAL YEAR END	DEC 31 1997	
PERIOD END	SEP 30 1997	
DEBT HELD FOR SALE	21,065,300	
DEBT CARRYING VALUE	0	
DEBT MARKET VALUE	0	
EQUITIES	238,500	
MORTGAGE	878,900	1
REAL ESTATE	0	
TOTAL INVEST	24,647,000	
CASH	0	
RECOVER REINSURE	787,900	
DEFERRED ACQUISITION	3,423,600	2
TOTAL ASSETS	33,138,000	
POLICY LOSSES	21,007,500	
UNEARNED PREMIUMS	442,600	
POLICY OTHER	957,700	
POLICY HOLDER FUNDS	307,800	
NOTES PAYABLE	1,876,800	
PREFERRED MANDATORY	900,000	
PREFERRED	122,000	
COMMON	2,452,500	
OTHER SE	1,212,100	3
TOTAL LIABILITY AND EQUITY	33,138,000	
PREMIUMS	2,440,900	
INVESTMENT INCOME	1,314,700	
INVESTMENT GAINS	137,300	
OTHER INCOME	50,100	
BENEFITS	2,275,500	4
UNDERWRITING AMORTIZATION	325,400	5
UNDERWRITING OTHER	419,100	
INCOME PRETAX	701,800	
INCOME TAX	261,800	
INCOME CONTINUING	440,000	
DISCONTINUED	0	
EXTRAORDINARY	(6,200)	
CHANGES	0	
NET INCOME	395,900	
EPS PRIMARY	1.82	
EPS DILUTED	1.82	
RESERVE OPEN	0	
PROVISION CURRENT	0	
PROVISION PRIOR	0	
PAYMENTS CURRENT	0	
PAYMENTS PRIOR	0	
RESERVE CLOSE	0	
CUMULATIVE DEFICIENCY	0	

¹ Includes \$570,100 of credit tenant loans.

² Includes \$2,581,800 of cost of policies purchased.

³ Includes retained earnings of \$1,062,300 and net unrealized appreciation of securities of \$149,800.

⁴ Includes insurance policy benefits of \$1,581,700, change in future policy benefits of \$105,200 and amounts added to annuity and financial product policyholder account balances of \$588,600.

⁵ Includes amortization of cost of policies purchased of \$175,900 and cost of policies produced of \$79,100 and amortization related to investment gains of \$70,400.

