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CNO FINANCIAL GROUP, INC.

FORM 10-Q
(Quarterly Report)

Filed 11/10/08 for the Period Ending 09/30/08

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Telephone	3178176100
CIK	0001224608
Symbol	CNO
SIC Code	6321 - Accident and Health Insurance
Industry	Insurance (Life)
Sector	Financial
Fiscal Year	12/31

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

Form 10-Q

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

For the quarterly period ended September 30, 2008

**[ ] 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 001-31792

Conseco, Inc.

Delaware	75-3108137
State of Incorporation	IRS Employer Identification No.
11825 N. Pennsylvania Street Carmel, Indiana 46032	(317) 817-6100
Address of principal executive offices	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 [X] No [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes [ ] No [X]

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court: Yes [X] No [ ]

Shares of common stock outstanding as of October 29, 2008: 184,751,551

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CONSECO, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(Dollars in millions)

ASSETS

	September 30, 2008 (unaudited)	December 31, 2007
Investments:		
Actively managed fixed maturities at fair value (amortized cost: September 30, 2008 - $21,040.4; December 31, 2007 - $20,992.7)	$18,925.9	$20,510.9
Equity securities at fair value (cost: September 30, 2008 - $34.0; December 31, 2007 - $34.0)	34.2	34.5
Mortgage loans	2,348.9	2,086.0
Policy loans	362.0	370.4
Trading securities	280.5	665.8
Other invested assets	93.4	134.3
Total investments	22,044.9	23,801.9
Cash and cash equivalents - unrestricted	352.3	407.5
Cash and cash equivalents - restricted	12.0	21.1
Accrued investment income	351.5	319.3
Value of policies inforce at the Effective Date	1,631.1	1,722.8
Cost of policies produced	1,859.0	1,423.0
Reinsurance receivables	3,412.4	3,592.8
Income tax assets, net	2,042.8	1,909.4
Assets held in separate accounts	22.0	27.4
Other assets	333.7	289.6
Total assets	$32,061.7	$33,514.8

(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, 2008 (unaudited)	December 31, 2007
Liabilities:		
Liabilities for insurance products:		
Interest-sensitive products	$13,175.6	$13,169.4
Traditional products	12,738.1	12,537.4
Claims payable and other policyholder funds	965.9	928.0
Liabilities related to separate accounts	22.0	27.4
Other liabilities	444.6	510.0
Investment borrowings	823.9	913.0
Notes payable - direct corporate obligations	1,187.6	1,193.7
Total liabilities	29,357.7	29,278.9
Commitments and Contingencies		
Shareholders' equity:		
Common stock ($0.01 par value, 8,000,000,000 shares authorized, shares issued and outstanding: September 30, 2008 - 184,725,949; December 31, 2007 - 184,652,017)	1.9	1.9
Additional paid-in capital	4,076.0	4,068.6
Accumulated other comprehensive loss	(1,137.7)	(273.3)
Retained earnings (accumulated deficit)	(236.2)	438.7
Total shareholders' equity	2,704.0	4,235.9
Total liabilities and shareholders' equity	$32,061.7	$33,514.8

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

CONSECO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(Dollars in millions, except per share data)

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007 (Restated)	2008	2007 (Restated)
Revenues:				
Insurance policy income	$ 886.8	$ 822.0	$2,634.1	$2,352.6
Net investment income (loss):				
General account assets	359.5	392.6	1,069.3	1,152.7
Policyholder and reinsurer accounts and other special-purpose portfolios	(24.3)	3.2	(71.9)	50.4
Net realized investment losses	(270.6)	(55.6)	(549.5)	(118.8)
Fee revenue and other income	4.9	8.5	13.8	17.5
Total revenues	956.3	1,170.7	3,095.8	3,454.4
Benefits and expenses:				
Insurance policy benefits	885.1	885.8	2,639.6	2,628.5
Interest expense	22.5	33.3	74.1	84.8
Amortization	81.5	92.1	303.5	323.7
Costs related to a litigation settlement	-	16.4	-	64.4
Loss related to an annuity coinsurance transaction	-	76.5	-	76.5
Gain on reinsurance recapture	(30.5)	-	(30.5)	-
Other operating costs and expenses	134.9	151.9	434.3	447.9
Total benefits and expenses	1,093.5	1,256.0	3,421.0	3,625.8
Loss before income taxes	(137.2)	(85.3)	(325.2)	(171.4)
Income tax expense (benefit):				
Tax benefit on period income	(46.4)	(32.6)	(111.5)	(63.0)
Valuation allowance for deferred tax assets	91.2	-	461.2	-
Net loss	(182.0)	(52.7)	(674.9)	(108.4)
Preferred stock dividends	-	-	-	14.1
Net loss applicable to common stock	$ (182.0)	$ (52.7)	$ (674.9)	$ (122.5)
Loss per common share:				
Basic:				
Weighted average shares outstanding	184,726,000	187,733,000	184,688,000	169,270,000
Net loss	$(.98)	$(.28)	$(3.65)	$(.72)
Diluted:				
Weighted average shares outstanding	184,726,000	187,733,000	184,688,000	169,270,000
Net loss	$(.98)	$(.28)	$(3.65)	$(.72)

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)

	Total	Preferred stock	Common stock and additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings (accumulated deficit)
Balance, January 1, 2008	$ 4,235.9	$ -	$4,070.5	$ (273.3)	$ 438.7
Comprehensive loss, net of tax:					
Net loss	(674.9)	-	-	-	(674.9)
Change in unrealized appreciation (depreciation) of investments (net of applicable income tax benefit of $482.1)	(864.4)	-	-	(864.4)	-
Total comprehensive loss	(1,539.3)				
Stock option and restricted stock plans	7.4	-	7.4	-	-
Balance, September 30, 2008	$ 2,704.0	$ -	$4,077.9	$(1,137.7)	$(236.2)
Balance, January 1, 2007 (Restated)	$ 4,700.1	$ 667.8	$3,469.5	$ (72.6)	$ 635.4
Comprehensive loss, net of tax:					
Net loss	(108.4)	-	-	-	(108.4)
Change in unrealized appreciation (depreciation) of investments (net of applicable income tax benefit of $136.1)	(243.9)	-	-	(243.9)	-
Total comprehensive loss	(352.3)				
Cost of shares acquired	(64.3)	-	(64.3)	-	-
Stock option and restricted stock plans	12.3	-	12.3	-	-
Change in unrecognized net loss related to deferred compensation plan (net of applicable income tax expense of $.2 million)	.5	-	-	.5	-
Reduction of tax liabilities related to various contingencies recognized at the fresh-start date in conjunction with adoption of FIN 48	6.0	-	6.0	-	-
Cumulative effect of accounting change	(2.7)	-	-	-	(2.7)
Conversion of preferred stock into common shares	-	(667.8)	667.8	-	-
Dividends on preferred stock	(14.1)	-	-	-	(14.1)
Balance, September 30, 2007 (Restated)	$ 4,285.5	$ -	$4,091.3	$ (316.0)	$ 510.2

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, 2008	Nine months ended September 30, 2007
Cash flows from operating activities:		
Insurance policy income	$ 2,380.7	$ 2,088.9
Net investment income	992.5	1,206.8
Fee revenue and other income	13.8	17.5
Net sales (purchases) of trading securities	373.6	(135.5)
Insurance policy benefits	(2,095.6)	(1,682.7)
Interest expense	(77.9)	(80.2)
Policy acquisition costs	(357.1)	(368.0)
Other operating costs	(452.8)	(495.5)
Taxes	(.7)	(1.9)
Net cash provided by operating activities	776.5	549.4
Cash flows from investing activities:		
Sales of investments	5,472.8	5,069.6
Maturities and redemptions of investments	633.5	817.6
Purchases of investments	(6,986.3)	(6,843.2)
Change in restricted cash	9.1	(1.8)
Other	(20.8)	(15.0)
Net cash used by investing activities	(891.7)	(972.8)
Cash flows from financing activities:		
Issuance of notes payable	-	200.0
Issuance of common stock	-	3.4
Payments to repurchase common stock	-	(64.3)
Payments on notes payable	(6.5)	(5.6)
Amounts received for deposit products	1,308.7	1,440.2
Withdrawals from deposit products	(1,153.1)	(1,620.3)
Investment borrowings	(89.1)	495.4
Dividends paid on preferred stock	-	(19.0)
Net cash provided by financing activities	60.0	429.8
Net increase (decrease) in cash and cash equivalents	(55.2)	6.4
Cash and cash equivalents, beginning of period	407.5	385.9
Cash and cash equivalents, end of period	$ 352.3	$ 392.3

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

The following notes should be read together with the notes to the consolidated financial statements included in the 2007 Form 10-K of Conseco, Inc.

Conseco, Inc., a Delaware corporation ("CNO"), is a holding company for a group of insurance companies operating throughout the United States that develop, market and administer supplemental health insurance, annuity, individual life insurance and other insurance products. CNO became the successor to Conseco, Inc., an Indiana corporation (our "Predecessor"), in connection with our bankruptcy reorganization which became effective on September 10, 2003 (the "Effective Date"). The terms "Conseco", the "Company", "we", "us", and "our" as used in this report refer to CNO and its subsidiaries or, when the context requires otherwise, our Predecessor and its subsidiaries. We focus on serving the senior and middle-income markets, which we believe are attractive, high growth markets. We sell our products through three distribution channels: career agents, professional independent producers (some of whom sell one or more of our product lines exclusively) and direct marketing.

PLAN TO TRANSFER SENIOR HEALTH INSURANCE COMPANY OF PENNSYLVANIA TO AN INDEPENDENT TRUST

On August 11, 2008, Conseco and CDOC, Inc. ("CDOC"), a wholly owned subsidiary of Conseco (and together with Conseco, the "Conseco Parties"), entered into a Transfer Agreement with Senior Health Care Transition Trust (the "Transition Trust"), pursuant to which the Conseco Parties would transfer the stock of Senior Health Insurance Company of Pennsylvania ("Senior Health", formerly known as Conseco Senior Health Insurance Company prior to its name change in October 2008) to an independent trust to be named Senior Health Care Oversight Trust (the "Independent Trust") for the exclusive benefit of Senior Health's long-term care policyholders. Consummation of the transaction, which is conditioned upon receipt of the approval of the Pennsylvania Insurance Department, is expected to occur in the fourth quarter of 2008.

In addition to the transfer of the Senior Health stock, the Conseco Parties have agreed to contribute $175 million of additional capital to Senior Health and the Independent Trust. On the consummation date, the aforementioned $175.0 million capital contribution is expected to be primarily in the form of cash and a note payable of $125.0 million. The note is expected to be unsecured; have a five-year maturity date; a 6 percent interest rate; and require annual principal payments of $25.0 million.

To effect the transfer of the Senior Health stock to the Independent Trust, Conseco has formed the Transition Trust, which has filed for regulatory approval of the transfer with the Pennsylvania Insurance Department. Upon receipt of such approval and satisfaction of all other closing conditions, the Transition Trust will merge with and into the Independent Trust.

Conseco expects to record accounting charges totaling approximately $1.1 billion related to the transaction, comprised of Senior Health's equity (as calculated in accordance with generally accepted accounting principles), an additional valuation allowance for deferred tax assets and the capital contribution to Senior Health and the Independent Trust. The accounting charges are summarized as follows (dollars in millions):

Charges recognized in the second quarter of 2008:	
Recognition of unrealized losses on investments expected to be transferred to the Independent Trust	$ 205.7 (a)
Increase to deferred tax valuation allowance based on recent results which have had a significant impact on taxable income and the expected effects of the proposed transaction	298.0
Total charges recognized in the second quarter of 2008	503.7
Charges recognized in the third quarter of 2008:	
Recognition of unrealized losses on investments expected to be transferred to the Independent Trust	174.8 (a)
Gain on reinsurance recapture, net of tax	(19.8)
Total charges recognized in the third quarter of 2008	155.0
Charges expected to be recognized upon the completion of the transaction:	
Write-off of remaining shareholder's equity of Senior Health and transaction expenses	225.0 (a) (b)
Additional capital contribution	175.0 (a)
Total charges recognized upon the completion of the transaction	400.0
Total expected charges	$1,058.7

(a) Amount is before the potential tax benefit. A deferred tax valuation allowance will be established for all future potential tax benefits generated by these charges since management has concluded that it is more likely than not that such tax benefits will not be utilized to offset future taxable income.

(b) Amount will be based on the actual shareholder's equity of Senior Health at the completion of the transaction and the actual expenses incurred to complete the transaction. Such final amount will be different than the estimate provided in this summary.

In the third quarter of 2008, Senior Health recaptured a block of previously reinsured long-term care business which is expected to be included in the business transferred to the Independent Trust. The recapture of this block resulted in a $30.5 million pretax gain.

OUT-OF-PERIOD ADJUSTMENTS

We recorded the net effects of certain out-of-period adjustments which decreased our net income by: (i) $1.8 million (or one cent per diluted share) in the third quarter of 2008; and (ii) $2.1 million (or one cent per diluted share) in the first nine months of 2008.

RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

As previously disclosed in our 2007 Form 10-K, we restated our financial statements for the years ended December 31, 2006 and 2005, along with affected Selected Consolidated Financial Data for 2004 and 2003, and quarterly financial information for 2006 and the first three quarters of 2007. Such conclusion was based on the significance of errors identified in 2007 during the procedures performed in an effort to remediate the material weakness in internal controls disclosed in our 2006 Form 10-K and subsequent quarterly filings with the U.S. Securities and Exchange Commission (the "SEC").

The most significant errors related to adjustments to insurance policy benefits and the liabilities for insurance products in the specified disease and life blocks in the Conseco Insurance Group segment and in the long-term care block of business in the Other Business in Run-off segment identified in 2007 during the aforementioned remediation procedures.

We reviewed certain actuarial valuation processes for approximately 2,400 types of policy forms, encompassing insurance products that accounted for more than 80 percent of the total liabilities for the business subject to the remediation procedures.

The errors we discovered through our remediation procedures had the effect of reducing shareholders' equity at December 31, 2006 by $20.6 million, as summarized below (dollars in millions):

	Understatement (overstatement) of shareholders' equity at December 31, 2006	
Coding errors in actuarial system related to specified disease return of premium features	$ 25.6	(i)
Error related to certain specified disease policies for which return of premium is payable upon first occurrence of claim	(15.9)	(ii)
Error in reserve factors for certain specified disease policies	(20.4)	(iii)
Error related to certain specified disease policies for which return of premium benefit is not reduced for claims	(18.0)	(iv)
Inconsistent performance of procedure to identify terminated long-term care policies	10.7	(v)
Coding errors in actuarial system related to universal life policies	7.9	(vi)
Error related to certain universal life policies with bonus features	(6.5)	(vii)
Errors identified through outlier procedures	(14.4)	(viii)
Other errors	(1.0)	(ix)
Total errors before income tax effect	(32.0)	
Income tax effect	11.4	
Total errors after income tax	$(20.6)	

(i) The coding in our administrative system related to specified disease policies with a return of premium feature that had been subject to an exchange in the past was inaccurate. This resulted in an overstatement of insurance policy liabilities. This error relates to business in our Conseco Insurance Group segment. The $25.6 million total for this item includes the $19.3 million adjustment previously disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations - Conseco Insurance Group in our Form 10-Q for the quarterly period ended March 31, 2007.

(ii) Insurance policy liabilities for certain specified disease policies with a return of premium feature that is payable upon the earlier of the first occurrence of a covered claim or a specified date had not considered the first occurrence provision. This error resulted in an understatement of these reserves. This error relates to business in our Conseco Insurance Group segment.

(iii) A key factor used to determine specified disease insurance liabilities for certain policies sold by one of our insurance subsidiaries prior to its acquisition by Conseco was incorrectly set to zero. This resulted in no insurance policy liability being established for these policies. This error relates to business in our Conseco Insurance Group segment. The $20.4 million total for this item includes the $18.3 million adjustment previously

disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations - Conseco Insurance Group in our Form 10-Q for the quarterly period ended September 30, 2007.

(iv) Insurance policy liabilities for certain specified disease policies with a return of premium provision had been calculated as if the benefit would be reduced by claims paid during the term of the policy, when such offset provision was not applicable to the policies. This error resulted in an understatement of insurance policy liabilities and relates to business in our Conseco Insurance Group segment.

(v) The procedures we had established to identify terminations of long-term care policies due to the death of the insured were not being performed in a consistent manner. This error resulted in an overstatement of insurance policy liabilities and relates to business in our Other Business in Run-off segment.

(vi) Certain coding errors in the actuarial valuation system for universal life policies had resulted in an overstatement of insurance policy liabilities. This error relates to business in our Bankers Life segment.

(vii) Provisions in certain universal life products that provided for future bonus credits were not being reflected in the amortization of the value of policies inforce. These errors resulted in an overstatement of the value of policies inforce and relates to our Bankers Life segment.

(viii) We perform various procedures in an effort to identify potential errors in our insurance policy liabilities by reviewing amounts that had unusual reserve or benefit balances. These procedures resulted in the identification of certain specified disease, long-term care and life policies with incorrect insurance policy liabilities. The errors include an understatement of reserves of $9.1 million in our Conseco Insurance Group segment and $5.3 million in our Other Business in Run-off segment.

(ix) Other miscellaneous errors that resulted in an misstatement of certain insurance policy liabilities and insurance intangible balances. No single error resulted in adjustments exceeding $5.0 million. The errors relate to our Bankers Life, Conseco Insurance Group and Other Business in Run-off segments.

In addition, on February 28, 2008, the SEC's Office of the Chief Accountant informed us that the use of a method which prospectively changes reserve assumptions for long-term care policies when premium rate increases differ significantly from original assumptions is not consistent with the guidance of Statement of Financial Standards No. 60, "Accounting and Reporting by Insurance Enterprises" ("SFAS 60").

As a result, if premium rate increases reflect a change in our previous rate increase assumptions, the new assumptions are not reflected prospectively in our reserves. Instead, the additional premium revenue resulting from the rate increase is recognized as earned and original assumptions continue to be used to determine changes to liabilities for insurance products unless a premium deficiency exists.

Our restatement of previously issued financial statements for the year ended December 31, 2006 and quarterly information for 2006 and the first three quarters of 2007, included adjustments to eliminate the use of the prospective revision methodology. After the elimination of the additional reserves we established based on the prospective revision methodology, our liabilities for insurance products for long-term care policies in the two business segments with these blocks (Bankers Life and Other Business in Run-off) were not deficient in the aggregate, but our estimates of future earnings indicated that profits would be recognized in early periods and losses in later periods. In accordance with paragraph 37 of SFAS 60, we increased the liabilities for insurance products over the period of profits, by an amount necessary to offset losses that are expected to be recognized in later periods.

During our process to restate our previously issued financial statements, we also corrected previously identified errors, which had been recognized through cumulative adjustments to previously issued financial statements. We determined that these errors were immaterial, after considering the magnitude of the adjustment in relationship to earnings in the period discovered, offsetting adjustments and other factors. We described these adjustments in the Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations of our prior filings, including our 2006 Form 10-K. The following is a summary of our prior disclosures:

o During 2006, we determined that we had been carrying insurance liabilities for certain single premium annuities that were no longer in force in the Bankers Life segment. The error resulted in an overstatement of insurance policy liabilities of $7.4 million.

o During 2005, we determined the method that had been used to calculate insurance policy liabilities for future long-term care benefits on policies with inflation coverage was incorrect. The error resulted in an overstatement of insurance policy liabilities of $6.4 million in the Bankers Life segment.

o In 2005, we identified errors in the calculation of insurance acquisition costs in the Bankers Life segment. The errors resulted in an overstatement of insurance acquisition costs of $4.4 million.

o During 2006, we discovered that procedures to appropriately identify deceased policyholders on a timely basis and release the related insurance policy liabilities were not being performed in a consistent manner. The error resulted in an overstatement of insurance policy liabilities of $4.7 million in the Conseco Insurance Group segment.

o In 2006, we discovered that we had not been establishing insurance policy liabilities for certain specified disease coverages and that factors used to determine these liabilities were incorrect. The errors resulted in an understatement of insurance policy liabilities of $13.3 million in the Conseco Insurance Group segment. This error was offset by a $1.6 million understatement of insurance acquisition costs related to the same policies.

o In 2006, we discovered that several errors had been made in estimating claim reserve liabilities for our long-term care business in the Other Business in Run-off segment. In the process of reviewing our claim estimates, we discovered that some claim liabilities related to policies with inflation riders had been estimated excluding inflation benefits. We also discovered that some claim liabilities related to policies providing lifetime benefits had been estimated based on the assumption the benefit period was limited. We also discovered that some claim liabilities for non-forfeiture benefits had been estimated based on the original pool of money benefit, rather than pool amounts reduced by benefits previously paid. These errors resulted in an understatement of claim reserves of $7.1 million.

The effects of the restatement adjustments on our consolidated financial statements are as follows:

Consolidated Statement of Operations

	Three months ended September 30, 2007				
		Adjustments			
	As previously reported	Remediation procedures	Accounting for premium rate increases	Previously identified errors	As restated
	(Dollars in millions, except per share data)				
Total revenues	$1,175.2	$ -	$ -	$(4.5)	$1,170.7
Benefits and expenses:					
Insurance policy benefits	888.8	(1.5)	(1.5)	-	885.8
Interest expense	33.3	-	-	-	33.3
Amortization	93.3	.5	(1.7)	-	92.1
Costs related to a litigation settlement	16.4	-	-	-	16.4
Loss related to an annuity coinsurance transaction	76.5	-	-	-	76.5
Other operating costs and expenses	153.7	-	-	(1.8)	151.9
Total benefits and expenses	1,262.0	(1.0)	(3.2)	(1.8)	1,256.0
Income (loss) before income taxes	(86.8)	1.0	3.2	(2.7)	(85.3)
Income tax expense (benefit)	(33.1)	.4	1.2	(1.1)	(32.6)
Net income (loss)	$ (53.7)	$ .6	$ 2.0	$(1.6)	$ (52.7)
Net loss per share - basic	$(.29)				$(.28)
Net loss per share - diluted	$(.29)				$(.28)

	Nine months ended September 30, 2007				
		Adjustments			
	As previously reported	Remediation procedures	Accounting for premium rate increases	Previously identified errors	As restated
	(Dollars in millions, except per share data)				
Total revenues	$3,458.9	$ -	$ -	$(4.5)	$3,454.4
Benefits and expenses:					
Insurance policy benefits	2,621.0	15.8	(8.3)	-	2,628.5
Interest expense	84.8	-	-	-	84.8
Amortization	325.8	1.7	(3.6)	(.2)	323.7
Costs related to a litigation settlement	64.4	-	-	-	64.4
Loss related to an annuity coinsurance transaction	76.5	-	-	-	76.5
Other operating costs and expenses	449.7	-	-	(1.8)	447.9
Total benefits and expenses	3,622.2	17.5	(11.9)	(2.0)	3,625.8
Income (loss) before income taxes	(163.3)	(17.5)	11.9	(2.5)	(171.4)
Income tax expense (benefit)	(60.1)	(6.3)	4.4	(1.0)	(63.0)
Net income (loss)	$ (103.2)	$(11.2)	$ 7.5	$(1.5)	$ (108.4)
Net loss per share - basic	$(.69)				$(.72)
Net loss per share - diluted	$(.69)				$(.72)

Selected Consolidated Balance Sheet Accounts

	September 30, 2007				
		Adjustments			
	As previously reported	Remediation procedures	Accounting for premium rate increases	Previously identified errors	As restated
	(Dollars in millions, except per share data)				
Additional paid-in capital..........	$4,094.6	$ (4.8)	$ -	$ (.4)	$4,089.4
Retained earnings....................	523.2	(27.0)	16.6	(2.6)	510.2

Selected Consolidated Statement of Cash Flow Amounts

	Nine months ended September 30, 2007				
		Adjustments			
	As previously reported	Remediation procedures	Accounting for premium rate increases	Previously identified errors	As restated
	(Dollars in millions, except per share data)				
Cash flows from operating activities:					
Net income (loss)..................	$(103.2)	$(11.2)	$ 7.5	$(1.5)	$(108.4)
Amortization and depreciation......	350.7	1.7	(3.6)	(.2)	348.6
Income taxes.......................	(62.0)	(6.3)	4.4	(1.0)	(64.9)
Insurance liabilities..............	674.6	15.8	(8.3)	-	682.1
Net realized investment losses.....	114.3	-	-	4.5	118.8
Other..............................	(1.7)	-	-	(1.8)	(3.5)
Net cash provided by operating activities........................	549.4	-	-	-	549.4

BASIS OF PRESENTATION

Our unaudited consolidated financial statements reflect normal recurring adjustments that are necessary for a fair statement of our financial position and results of operations on a basis consistent with that of our prior audited consolidated financial statements. As permitted by rules and regulations of the SEC applicable to quarterly reports on Form 10-Q, we have condensed or omitted certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). We have reclassified certain amounts from the prior periods to conform to the 2008 presentation. These reclassifications have no effect on net income or shareholders' equity. Results for interim periods are not necessarily indicative of the results that may be expected for a full year.

The balance sheet at December 31, 2007, presented herein, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP in the United States for complete financial statements.

When we prepare financial statements in conformity with GAAP, we are required to make estimates and assumptions that significantly affect reported amounts of various assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting periods. For example, we use significant estimates and assumptions to calculate values for the cost of policies produced, the value of policies inforce at the Effective Date, certain investments (including derivatives), assets and liabilities related to income taxes, liabilities for insurance products, liabilities related to litigation, guaranty fund assessment accruals and amounts recoverable from loans to

certain former directors and former employees. If our future experience differs from these estimates and assumptions, our financial statements would be materially affected.

Our consolidated financial statements exclude the results of material transactions between us and our consolidated affiliates, or among our consolidated affiliates.

ACCOUNTING FOR INVESTMENTS

We classify our fixed maturity securities into one of three categories: (i) "actively managed" (which we carry at estimated fair value with any unrealized gain or loss, net of tax and related adjustments, recorded as a component of shareholders' equity); (ii) "trading" (which we carry at estimated fair value with changes in such value recognized as trading income); or (iii) "held to maturity" (which we carry at amortized cost). We had no fixed maturity securities classified as held to maturity during the periods presented in these financial statements.

Certain of our trading securities are held in an effort to offset the portion of the income statement volatility caused by the effect of interest rate fluctuations on the value of certain embedded derivatives related to our equity-indexed annuity products and certain modified coinsurance agreements. See the notes entitled "Accounting for Derivatives" and "Investment Borrowings" for further discussion regarding embedded derivatives and the trading accounts. In addition, the trading account includes investments backing the market strategies of our multibucket annuity products. The change in market value of these securities, which is recognized currently in income from policyholder and reinsurer accounts and other special-purpose portfolios (a component of investment income), is substantially offset by the change in insurance policy benefits for these products. Our trading securities totaled $280.5 million and $665.8 million at September 30, 2008 and December 31, 2007, respectively.

Accumulated other comprehensive loss is primarily comprised of the net effect of unrealized appreciation (depreciation) on our investments. These amounts, included in shareholders' equity as of September 30, 2008 and December 31, 2007, were as follows (dollars in millions):

	September 30, 2008	December 31, 2007
Net unrealized depreciation on investments	$(2,115.8)	$(481.3)
Adjustment to value of policies inforce at the Effective Date	87.0	18.3
Adjustment to cost of policies produced	262.8	43.7
Unrecognized net loss related to deferred compensation plan	(7.1)	(7.3)
Deferred income tax asset	635.4	153.3
Accumulated other comprehensive loss	$(1,137.7)	$(273.3)

EARNINGS PER SHARE

A reconciliation of net loss and shares used to calculate basic and diluted loss per share is as follows (dollars in millions and shares in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007 (Restated)	2008	2007 (Restated)
Net loss	$(182.0)	$(52.7)	$(674.9)	$(108.4)
Preferred stock dividends	-	-	-	(14.1)
Net loss applicable to common stock for basic and diluted earnings per share	$(182.0)	$(52.7)	$(674.9)	$(122.5)
Shares:				
Weighted average shares outstanding for basic and diluted earnings per share	184,726	187,733	184,688	169,270

There were no dilutive common stock equivalents during the 2008 and 2007 periods because of the net loss recognized by the Company during such periods. Therefore, all potentially dilutive shares are excluded in the weighted average shares outstanding for diluted earnings per share, and the preferred stock dividends on the Class B mandatorily convertible preferred stock (related to the period prior to their conversion) are not added back to net income (loss) applicable to common stock.

The following summarizes the equivalent common shares for securities that were not included in the computation of diluted earnings per share, because doing so would have been antidilutive in such periods (shares in thousands).

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Equivalent common shares that were antidilutive during the period:				
Class B mandatorily convertible preferred stock	-	-	-	19,112
Stock option and restricted stock plans	35	127	42	173
	35	127	42	19,285

In August 2005, we completed the private offering of $330.0 million of 3.50% Convertible Debentures due September 30, 2035 (the "Debentures"). In future periods, our diluted shares outstanding may include incremental shares issuable upon conversion of all or part of such Debentures. Since the $330.0 million principal amount can only be redeemed for cash, it has no impact on the diluted earnings per share calculation. In accordance with the conversion feature of these Debentures, we may be required to pay a stock premium along with redeeming the accreted principal amount for cash, if our common stock reaches a certain market price. In accordance with the consensus from EITF No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share", we will include the dilutive effect of our Debentures in the calculation of diluted earnings per share when the impact is dilutive. During the three and nine months ended September 30, 2008 and 2007, the conversion feature of these Debentures did not have a dilutive effect because the weighted average market price of our common stock did not exceed the initial conversion price of $26.66. Therefore, the Debentures had no effect on our diluted shares outstanding or our diluted earnings (loss) per share for the three or nine months ended September 30, 2008 and 2007.

Basic earnings (loss) per common share is computed by dividing net income
(loss) applicable to common stock by the weighted average number of common shares outstanding for the period. Restricted shares (including our performance shares) are not included in basic earnings (loss) per share until vested. Diluted earnings (loss) per share reflect the potential dilution

that could occur if outstanding stock options were exercised and restricted stock was vested. The dilution from options and restricted shares is calculated using the treasury stock method. Under this method, we assume the proceeds from the exercise of the options (or the unrecognized compensation expense with respect to restricted stock) will be used to purchase shares of our common stock at the average market price during the period, reducing the dilutive effect of the exercise of the options (or the vesting of the restricted stock).

BUSINESS SEGMENTS

We manage our business through the following: three primary operating segments, Bankers Life, Colonial Penn and Conseco Insurance Group, which are defined on the basis of product distribution; a fourth segment comprised of other business in run-off; and corporate operations, which consists of holding company activities and certain noninsurance businesses.

We measure segment performance for purposes of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), excluding realized investment gains (losses) because we believe that this performance measure is a better indicator of the ongoing business and trends in our business. Our investment focus is on investment income to support our liabilities for insurance products as opposed to the generation of realized investment gains (losses), and a long-term focus is necessary to maintain profitability over the life of the business. Realized investment gains (losses) depend on market conditions and do not necessarily relate to decisions regarding the underlying business of our segments. We may experience realized investment gains (losses), which will affect future earnings levels since our underlying business is long-term in nature and we need to earn the assumed interest rates on the investments backing our liabilities for insurance products to maintain the profitability of our business.

Operating information by segment was as follows (dollars in millions):

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007		2008	2007	
		(Restated)	(As reported)		(Restated)	(As reported)
Revenues:						
Bankers Life:						
Insurance policy income:						
Annuities	$ 8.9	$ 16.4	$ 16.4	$ 36.2	$ 48.7	$ 48.7
Supplemental health	464.1	397.3	397.3	1,339.5	1,065.0	1,065.0
Life	47.1	43.7	43.7	138.3	129.7	129.7
Other	17.6	16.2	16.2	64.1	66.2	66.2
Net investment income (a)	138.3	144.2	144.2	402.8	440.2	440.2
Fee revenue and other income (a)	3.1	3.8	3.8	6.8	7.7	7.7
Total Bankers Life revenues	679.1	621.6	621.6	1,987.7	1,757.5	1,757.5
Colonial Penn:						
Insurance policy income:						
Supplemental health	2.1	2.3	2.3	6.4	7.3	7.3
Life	44.1	30.0	30.0	131.1	83.2	83.2
Other	.2	.2	.2	.8	.7	.7
Net investment income (a)	10.1	9.4	9.4	29.4	28.3	28.3
Fee revenue and other income (a)	.5	.2	.2	1.3	.5	.5
Total Colonial Penn revenues	57.0	42.1	42.1	169.0	120.0	120.0
Conseco Insurance Group:						
Insurance policy income:						
Annuities	3.5	5.0	5.0	9.6	11.8	11.8
Supplemental health	142.7	147.5	147.5	431.6	446.0	446.0
Life	80.3	84.2	84.2	245.3	252.4	252.4
Other	2.0	2.0	2.0	6.0	6.8	6.8
Net investment income (a)	126.8	181.2	181.2	387.4	559.1	559.1
Fee revenue and other income (a)	.1	.1	.1	1.2	.4	.4
Total Conseco Insurance Group revenues	355.4	420.0	420.0	1,081.1	1,276.5	1,276.5
Other Business in Run-off:						
Insurance policy income - supplemental health	74.2	77.2	77.2	225.2	234.8	234.8
Net investment income (a)	53.9	48.8	48.8	156.0	143.4	143.4
Fee revenue and other income (a)	-	.1	.1	.2	.3	.3
Total Other Business in Run-off revenues	128.1	126.1	126.1	381.4	378.5	378.5
Corporate:						
Net investment income	6.1	12.2	12.2	21.8	32.1	32.1
Fee and other income	1.2	4.3	4.3	4.3	8.6	8.6
Total corporate revenues	7.3	16.5	16.5	26.1	40.7	40.7
Total revenues	1,226.9	1,226.3	1,226.3	3,645.3	3,573.2	3,573.2

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	Three months ended September 30,			Nine months ended September 30,		
	2008	2007		2008	2007	
		(Restated)	(As reported)		(Restated)	(As reported)
Expenses:						
Bankers Life:						
Insurance policy benefits	$ 516.5	$ 459.8	$ 459.5	$1,530.6	$1,246.3	$1,252.2
Amortization	53.5	47.8	49.3	195.1	199.0	202.0
Other operating costs and expenses	41.3	46.5	46.5	130.5	128.7	128.7
Total Bankers Life expenses	611.3	554.1	555.3	1,856.2	1,574.0	1,582.9
Colonial Penn:						
Insurance policy benefits	34.2	26.6	26.6	105.3	76.7	76.7
Amortization	9.2	5.1	5.1	24.0	14.8	14.8
Other operating costs and expenses	7.1	3.4	3.4	21.2	10.2	10.2
Total Colonial Penn expenses	50.5	35.1	35.1	150.5	101.7	101.7
Conseco Insurance Group:						
Insurance policy benefits	229.3	277.1	296.7	702.4	829.9	824.5
Amortization	24.6	41.2	41.2	85.7	126.4	126.4
Interest expense on investment borrowings	5.6	6.2	6.2	16.9	11.5	11.5
Costs related to a litigation settlement	-	8.2	8.2	-	32.2	32.2
Loss related to an annuity coinsurance transaction	-	76.5	76.5	-	76.5	76.5
Other operating costs and expenses	59.8	77.3	76.3	186.7	213.7	212.7
Total Conseco Insurance Group expenses	319.3	486.5	505.1	991.7	1,290.2	1,283.8
Other Business in Run-off:						
Insurance policy benefits	105.1	122.3	106.0	301.3	475.6	467.6
Amortization	4.2	5.9	5.6	15.2	18.0	17.1
Gain on reinsurance recapture	(30.5)	-	-	(30.5)	-	-
Other operating costs and expenses	15.9	17.4	17.4	51.1	60.8	60.8
Total Other Business in Run-off expenses	94.7	145.6	129.0	337.1	554.4	545.5
Corporate:						
Interest expense on corporate debt	13.7	20.2	20.2	44.0	53.2	53.2
Interest expense on variable interest entity	3.2	6.9	6.9	13.2	20.1	20.1
Costs related to a litigation settlement	-	8.2	8.2	-	32.2	32.2
Other operating costs and expenses	10.8	7.3	10.1	44.8	34.5	37.3
Total corporate expenses	27.7	42.6	45.4	102.0	140.0	142.8
Total expenses	1,103.5	1,263.9	1,269.9	3,437.5	3,660.3	3,656.7
Income (loss) before income taxes:						
Bankers Life	67.8	67.5	66.3	131.5	183.5	174.6
Colonial Penn	6.5	7.0	7.0	18.5	18.3	18.3
Conseco Insurance Group	36.1	(66.5)	(85.1)	89.4	(13.7)	(7.3)
Other Business in Run-off	33.4	(19.5)	(2.9)	44.3	(175.9)	(167.0)
Corporate operations	(20.4)	(26.1)	(28.9)	(75.9)	(99.3)	(102.1)
Income (loss) before income taxes	$ 123.4	$ (37.6)	$ (43.6)	$ 207.8	$ (87.1)	$ (83.5)

(a) It is not practicable to provide additional components of revenue by product or services.

A reconciliation of segment revenues and expenses to consolidated revenues and expenses is as follows (dollars in millions):

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007		2008	2007	
		(Restated)	(As reported)		(Restated)	(As reported)
Total segment revenues	$1,226.9	$1,226.3	$1,226.3	$3,645.3	$3,573.2	$3,573.2
Net realized investment losses	(270.6)	(55.6)	(51.1)	(549.5)	(118.8)	(114.3)
Consolidated revenues	$ 956.3	$1,170.7	$1,175.2	$3,095.8	$3,454.4	$3,458.9
Total segment expenses	$1,103.5	$1,263.9	$1,269.9	$3,437.5	$3,660.3	$3,656.7
Amortization related to net realized investment losses	(10.0)	(7.9)	(7.9)	(16.5)	(34.5)	(34.5)
Consolidated expenses	$1,093.5	$1,256.0	$1,262.0	$3,421.0	$3,625.8	$3,622.2

ACCOUNTING FOR DERIVATIVES

Our equity-indexed annuity products provide a guaranteed base rate of return and a higher potential return that is based on a percentage (the "participation rate") of the amount of increase in the value of a particular index, such as the Standard & Poor's 500 Index, over a specified period. Typically, at the beginning of each policy anniversary date, a new index period begins. We are typically able to change the participation rate at the beginning of each index period during a policy year, subject to contractual minimums. We typically buy call options or call spreads referenced to the applicable indices in an effort to hedge potential increases to policyholder benefits resulting from increases in the particular index to which the product's return is linked. We reflect changes in the estimated market value of these options in net investment income (classified as investment income from policyholder and reinsurer accounts and other special-purpose portfolios). Net investment income (loss) related to equity-indexed products was $(79.6) million and $19.9 million in the nine months ended September 30, 2008 and 2007, respectively. These amounts were substantially offset by a corresponding charge to insurance policy benefits. The estimated fair value of these options was $18.0 million and $51.2 million at September 30, 2008 and December 31, 2007, respectively. We classify these instruments as other invested assets. Pursuant to an annuity coinsurance agreement described below under the caption "Reinsurance", we held $11.9 million of these options at December 31, 2007, for the benefit of the assuming company until such options expired. All cash flows (including any increases (decreases) in fair value) from these options were transferred to the assuming company in the first six months of 2008.

The Company accounts for the options attributed to the policyholder for the estimated life of the annuity contract as embedded derivatives as defined by Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by Statement of Financial Accounting Standards No. 137, "Deferral of the Effective Date of FASB Statement No. 133" and Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" (collectively referred to as "SFAS 138"). In accordance with these requirements, the expected future cost of options on equity-indexed annuity products is used to determine the value of embedded derivatives. The Company does not purchase options to hedge liabilities which may arise after the next policy anniversary date. The Company must value both the options and the related forward embedded options in the policies at fair value. These accounting requirements often create volatility in the earnings from these products. We record the changes in the fair values of the embedded derivatives in current earnings as a component of policyholder benefits. Effective January 1, 2008, we adopted Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("SFAS 157") which required us to value the embedded derivatives reflecting a hypothetical market perspective for fair value measurement. We recorded a charge of $1.8 million to net income (after the effects of the amortization of the value of policies inforce at the Effective Date and the cost of policies produced (collectively referred to as "amortization of insurance acquisition costs") and income taxes), attributable to changes in the fair value of the embedded derivatives as a result of adopting SFAS 157. The fair value of these derivatives, which are classified as "liabilities for interest-sensitive products", was $366.4 million at September 30, 2008 and $353.2 million at December 31, 2007. We maintain a specific block of investments in our trading

securities account, which we carry at estimated fair value with changes in such value recognized as investment income (classified as investment income from policyholder and reinsurer accounts and other special-purpose portfolios). The change in value of these trading securities attributable to interest fluctuations is intended to offset a portion of the change in the value of the embedded derivative.

If the counterparties for the derivatives we hold fail to meet their obligations, we may have to recognize a loss. We limit our exposure to such a loss by diversifying among several counterparties believed to be strong and creditworthy. At September 30, 2008, all of our counterparties were rated "A" or higher by Standard & Poor's Corporation ("S&P").

Certain of our reinsurance payable balances contain embedded derivatives as defined in SFAS No. 133 Implementation Issue No. B36, "Embedded Derivatives:
Modified Coinsurance Arrangements and Debt Instruments that Incorporate Credit Risk Exposures that are Unrelated or Only Partially Related to the Creditworthiness of the Obligor of Those Instruments". Such derivatives had an estimated fair value of $5.4 million and $1.4 million at September 30, 2008 and December 31, 2007, respectively. The adoption of SFAS 157 had no impact on the valuation of these embedded derivatives. We record the change in the fair value of these derivatives as a component of investment income (classified as investment income from policyholder and reinsurer accounts and other special-purpose portfolios). We maintain a specific block of investments related to these agreements in our trading securities account, which we carry at estimated fair value with changes in such value recognized as investment income (also classified as investment income from policyholder and reinsurer accounts and other special-purpose portfolios). The change in value of these trading securities attributable to interest fluctuations is intended to offset the change in value of the embedded derivatives. However, differences will occur as corporate spreads change.

REINSURANCE

The cost of reinsurance ceded totaled $123.2 million and $156.0 million in the first nine months of 2008 and 2007, respectively. We deduct this cost from insurance policy income. In each case, the ceding Conseco subsidiary is directly liable for claims reinsured even if the assuming company is unable to pay. Reinsurance recoveries netted against insurance policy benefits totaled $338.7 million and $168.1 million in the first nine months of 2008 and 2007, respectively.

From time-to-time, we assume insurance from other companies. Any costs associated with the assumption of insurance are amortized consistent with the method used to amortize the cost of policies produced. Reinsurance premiums assumed totaled $492.0 million and $220.0 million in the first nine months of 2008 and 2007, respectively. Reinsurance premiums included amounts assumed pursuant to marketing and quota-share agreements with Coventry Health Care ("Coventry") of $455.8 million and $181.4 million in the first nine months of 2008 and 2007, respectively. The increase in premiums assumed under these agreements in 2008 resulted from agreements whereby we are assuming: (i) a specified percentage of the Private-Fee-For-Service ("PFFS") business written by Coventry under a large group policy effective July 1, 2007; and (ii) a specified percentage of the PFFS business written by Coventry under another large group policy effective May 1, 2008.

See the note entitled "Accounting for Derivatives" for a discussion of the derivative embedded in the payable related to certain modified coinsurance agreements.

On October 12, 2007, we completed a transaction to coinsure 100 percent of most of the older inforce equity-indexed annuity and fixed annuity business of three of our insurance subsidiaries with Reassure America Life Insurance Company ("REALIC"), a subsidiary of Swiss Re Life & Health America Inc. The transaction was recorded in our financial statements on September 28, 2007, the date the parties were bound by the coinsurance agreement and all regulatory approvals had been obtained. In the transaction, REALIC: (i) paid a ceding commission of $76.5 million; and (ii) assumed the investment and persistency risk of these policies. Our insurance subsidiaries ceded approximately $2.8 billion of policy and other reserves to REALIC, as well as transferred the invested assets backing these policies on October 12, 2007. Our insurance subsidiaries remain primarily liable to the policyholders in the event REALIC does not fulfill its obligations under the agreements. Accordingly, our insurance liabilities continue to include the amounts ceded for these policies, which is offset by a corresponding amount in reinsurance receivables. The coinsurance transaction had an effective date of January 1, 2007.

INCOME TAXES

The components of income tax expense (benefit) were as follows (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007 (Restated)	2008	2007 (Restated)
Current tax expense	$ 1.2	$ .8	$ 2.2	$ 2.5
Deferred tax provision	(47.6)	(33.4)	(113.7)	(65.5)
Income tax benefit on period income	(46.4)	(32.6)	(111.5)	(63.0)
Valuation allowance	91.2	-	461.2	-
Total income tax expense (benefit)	$ 44.8	$(32.6)	$ 349.7	$(63.0)

A reconciliation of the U.S. statutory corporate tax rate to the effective rate reflected in the consolidated statement of operations is as follows:

	Nine months ended September 30,	
	2008	2007 (Restated)
U.S. statutory corporate rate	(35.0)%	(35.0)%
Valuation allowance	141.8	-
Other nondeductible expense (benefit)	1.6	(.5)
State taxes	(.9)	(1.4)
Provision for tax issues, tax credits and other	-	.1
Effective tax rate	107.5%	(36.8)%

The components of the Company's income tax assets and liabilities were as follows (dollars in millions):

	September 30, 2008	December 31, 2007
Deferred tax assets:		
Net operating loss carryforwards attributable to:		
Life insurance subsidiaries	$ 894.0	$ 892.1
Non-life companies	840.0	843.8
Net state operating loss carryforwards	33.9	32.1
Tax credits	13.7	13.7
Capital loss carryforwards	286.4	259.7
Deductible temporary differences:		
Actively managed fixed maturities	132.5	-
Insurance liabilities	988.0	1,074.6
Unrealized depreciation of investments	635.4	153.3
Reserve for loss on loan guarantees	68.5	71.9
Other	25.5	4.4
Gross deferred tax assets	3,917.9	3,345.6
Deferred tax liabilities:		
Actively managed fixed maturities	-	(32.8)
Value of policies inforce at the Effective Date and cost of policies produced	(742.3)	(732.9)
Gross deferred tax liabilities	(742.3)	(765.7)
Net deferred tax assets before valuation allowance	3,175.6	2,579.9
Valuation allowance	(1,134.1)	(672.9)
Net deferred tax assets	2,041.5	1,907.0
Current income taxes prepaid	1.3	2.4
Income tax assets, net	$ 2,042.8	$1,909.4

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, ("SFAS 109"). Our income tax expense includes deferred income taxes arising from temporary differences between the financial reporting and tax bases of assets and liabilities, capital loss carryforwards and NOLs. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which temporary differences are expected to be recovered or paid. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in earnings in the period when the changes are enacted.

SFAS 109 requires a reduction of the carrying amount of deferred tax assets by establishing a valuation allowance if, based on the available evidence, it is more likely than not that such assets will not be realized. We evaluate the need to establish a valuation allowance for our deferred income tax assets on an ongoing basis. In evaluating our deferred income tax assets, we consider whether the deferred income tax assets will be realized, based on the SFAS 109 more-likely-than-not realization threshold criterion. The ultimate realization of our deferred income tax assets depends upon generating sufficient future taxable income during the periods in which our temporary differences become deductible and before our capital loss carryforwards and NOLs expire. This assessment requires significant judgment. In assessing the need for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, excess appreciated asset value over the tax basis of net assets, the duration of carryforward periods, our experience with operating loss and tax credit carryforwards expiring unused, and tax planning alternatives.

Pursuant to SFAS 109, concluding that a valuation allowance is not required is difficult when there has been significant negative evidence, such as cumulative losses in recent years. We utilize a three year rolling calculation of actual income before income taxes as our primary measure of cumulative losses in recent years. Our analysis of whether there needs to be further increases to the deferred tax valuation allowance recognizes that as of September 30, 2008, we have incurred a cumulative loss over the evaluation period, resulting from the substantial loss during the nine months ending September 30, 2008 primarily related to the plan to transfer Senior Health to an independent trust as described in the note to these consolidated financial statements entitled "Plan to Transfer Senior Health Insurance Company of Pennsylvania to an Independent Trust". As a result of the cumulative losses recognized in recent years, our evaluation of the need to increase the valuation allowance for deferred tax assets was primarily based on our historical earnings. However, because a substantial portion of the cumulative losses for the three-year period ended September 30, 2008, relates to transactions to dispose of blocks of businesses, we have adjusted the three-year cumulative results for the income and losses from the blocks of business disposed of in the past and the business we plan to dispose of as further described in the note to these financial statements entitled "Plan to Transfer Senior Health Insurance Company of Pennsylvania to an Independent Trust". In addition, we have adjusted the three-year cumulative results for a significant litigation settlement, which we consider to be a non-recurring matter and have reflected our best estimates of how temporary differences will reverse over the carryforward periods.

In the first nine months of 2008, we increased our valuation allowance against our net deferred tax assets by $461.2 million, (of which, $91.2 million was recognized in the third quarter of 2008) to $1,134.1 million, as we have determined that it is more likely than not that a portion of our deferred tax assets will not be realized. This determination was made by evaluating each component of the deferred tax asset and assessing the effects of limitations and/or interpretations on the value of such component to be fully recognized in the future. We have also evaluated the likelihood that we will have sufficient taxable income to offset the available deferred tax assets based on evidence which we consider to be objective and verifiable. Based upon our analysis completed at September 30, 2008, we believe that we will more likely than not recover $2.0 billion of our deferred tax assets through reductions of our tax liabilities in future periods.

Recovery of our deferred tax assets is dependent on achieving the projections of future taxable income embedded in our analysis and failure to do so would result in an increase in the valuation allowance in a future period. Any future increase in the valuation allowance may result in additional income tax expense and reduce shareholders' equity, and such an increase could have a significant impact upon our earnings in the future. In addition, the use of the Company's NOLs is dependent, in part, on whether the Internal Revenue Service (the "IRS") does not take an adverse position in the future regarding the tax position we have taken in our tax returns with respect to the allocation of cancellation of indebtedness income.

The Internal Revenue Code (the "Code") limits the extent to which losses realized by a non-life entity (or entities) may offset income from a life insurance company (or companies) to the lesser of: (i) 35 percent of the income of the life insurance company; or (ii) 35 percent of the total loss of the non-life entities (including NOLs of the non-life entities). There is no limitation on the extent to which losses realized by a life insurance entity (or entities) may offset income from a non-life entity (or entities).

In addition, the timing and manner in which the Company will be able to utilize some of its NOLs is limited by Section 382 of the Code. Section 382 imposes limitations on a corporation's ability to use its NOLs when the company undergoes an ownership change. Because the Company underwent an ownership change pursuant to its reorganization, this limitation applies to the Company. Any losses that are subject to the Section 382 limitation may only be utilized by the Company up to approximately $142 million per year with any unused amounts carried forward to the following year. Absent an additional ownership change, our Section 382 limitation for 2008 will be approximately $544 million (including $402 million of unused amounts carried forward from prior years).

Future transactions and the timing of such transactions could cause an additional ownership change for Section 382 income tax purposes. Such transactions may include, but are not limited to, additional repurchases or issuances of common stock (including upon conversion of our outstanding 3.50% convertible debentures), or acquisitions or sales of shares of Conseco stock by certain holders of our shares, including persons who have held, currently hold or may accumulate in the future five percent or more of our outstanding common stock for their own account. Many of these transactions are beyond our control. If an additional ownership change were to occur for purposes of Section 382, we would be required to calculate a new annual restriction (which would supersede the current $142 million annual limit if lower) on the use of our net operating loss carryforwards to offset future taxable income. The new annual restriction would be calculated based upon the value of Conseco's equity at the time of such ownership change, multiplied by a federal long-term tax exempt rate (currently

approximately 4.7 percent), and the new annual restriction could effectively eliminate our ability to use a substantial portion of our net operating loss carryforwards to offset future taxable income. We regularly monitor ownership change (as calculated for purposes of Section 382) and, as of September 30, 2008, we were below the 50 percent ownership change level that would trigger further impairment of our ability to utilize our net operating loss carryforwards.

As of September 30, 2008, we had $5.0 billion of NOLs and $.8 billion of capital loss carryforwards, which expire as follows (dollars in millions):

	Net operating loss carryforwards(a)				Total loss carryforwards	
Year of expiration	Life	Non-life	Capital loss carryforwards	Total loss carryforwards	Subject to ss.382	Not subject to ss.382
2008	$ -	$ -	$583.7	$ 583.7	$ 583.7	$ -
2009.......	-	-	86.2	86.2	-	86.2
2010.......	-	.2	-	.2	.2	-
2011.......	-	.1	-	.1	.1	-
2012.......	-	-	64.7	64.7	-	64.7
2013.......	-	-	83.8	83.8	-	83.8
2016.......	16.9	-	-	16.9	16.9	-
2017.......	33.2	-	-	33.2	33.2	-
2018.......	2,170.6(a)	-	-	2,170.6	44.1	2,126.5
2021.......	62.0	-	-	62.0	-	62.0
2022.......	257.9	-	-	257.9	-	257.9
2023.......	13.8	2,087.5 (a)	-	2,101.3	67.6	2,033.7
2024.......	-	3.2	-	3.2	-	3.2
2025.......	-	118.8	-	118.8	-	118.8
2026.......	-	1.6	-	1.6	-	1.6
2027.......	-	188.4	-	188.4	-	188.4
2028.......	-	.2	-	.2	-	.2
Total......	$2,554.4	$2,400.0	$818.4	$5,772.8	$ 745.8	$5,027.0

(a) The allocation of the NOLs summarized above assumes the IRS does not take an adverse position in the future regarding the tax position we plan to take in our tax returns with respect to the allocation of cancellation of indebtedness income. If the IRS disagrees with the tax position we plan to take with respect to the allocation of cancellation of indebtedness income, and their position prevails, approximately $631 million of the NOLs expiring in 2018 would be characterized as non-life NOLs.

We had deferred tax assets related to NOLs for state income taxes of $33.9 million and $32.1 million at September 30, 2008 and December 31, 2007, respectively. The related state NOLs are available to offset future state taxable income in certain states through 2015.

Tax years 2005 through 2007 are open to examination by the IRS, and tax year 2002 remains open only for potential adjustments related to certain partnership investments. The Company does not anticipate any material adjustments related to these partnership investments. The Company's various state income tax returns are generally open for tax years 2005 through 2007 based on the individual state statutes of limitation.

NOTES PAYABLE - DIRECT CORPORATE OBLIGATIONS

The following notes payable were direct corporate obligations of the Company as of September 30, 2008 and December 31, 2007 (dollars in millions):

	September 30, 2008	December 31, 2007
3.50% convertible debentures	$ 330.0	$ 330.0
Secured credit agreement	859.0	865.5
Unamortized discount on convertible debentures	(1.4)	(1.8)
Direct corporate obligations	$1,187.6	$1,193.7

During the first nine months of 2008, we made scheduled principal payments totaling $6.5 million on our secured credit agreement ("Second Amended Credit Facility"). There were $6.1 million and $6.8 million of unamortized issuance costs (classified as other assets) related to our Second Amended Credit Facility at September 30, 2008 and December 31, 2007, respectively.

The amounts outstanding under the Second Amended Credit Facility bear interest, payable at least quarterly, based on either a Eurodollar rate or a base rate. The Eurodollar rate is equal to LIBOR plus 2 percent. The base rate is equal to 1 percent plus the greater of: (i) the Federal funds rate plus .50 percent; or (ii) Bank of America's prime rate. Under the terms of the Second Amended Credit Facility, if the Company's senior secured long-term debt is rated at least "Ba2" by Moody's Investors Service, Inc. ("Moody's") and "BB" by S&P, in each case with a stable outlook, the margins on the Eurodollar rate or the base rate would each be reduced by .25 percent. At September 30, 2008, the interest rate on our Second Amended Credit Facility was 5.7 percent.

The scheduled repayment of our direct corporate obligations is as follows (dollars in millions):

Remainder of 2008	$ 2.2
2009	8.7
2010	338.8
2011	8.7
2012	8.8
2013	821.8
	$1,189.0

Pursuant to the Second Amended Credit Facility, as long as the debt to total capitalization ratio (as defined in the Second Amended Credit Facility) is greater than 20 percent and certain insurance subsidiaries (as defined in the Second Amended Credit Facility) have financial strength ratings of less than A- from A.M. Best Company ("A.M. Best"), the Company is required to make mandatory prepayments with all or a portion of the proceeds from the following transactions or events including: (i) the issuance of certain indebtedness; (ii) equity issuances; (iii) certain asset sales or casualty events; and (iv) excess cash flows as defined in the Second Amended Credit Facility (the first such payment, if applicable, would not be paid prior to the first quarter of 2009). The Company may make optional prepayments at any time in minimum amounts of $3.0 million or any multiple of $1.0 million in excess thereof.

The Second Amended Credit Facility requires the Company to maintain various financial ratios and balances, as defined in the agreement, including: (i) a debt to total capitalization ratio of not more than 30 percent at all times (such ratio was 24 percent at September 30, 2008); (ii) an interest coverage ratio greater than or equal to 2.0 to 1 for each rolling four quarters (such ratio exceeded the minimum requirement for the four quarters ending September 30, 2008); (iii) an aggregate risk-based capital ratio, as defined in the Second Amended Credit Facility, greater than or equal to 250 percent for each quarter (such ratio exceeded the minimum risk-based capital requirements at September 30, 2008); and (iv) a combined statutory capital and surplus level of greater than $1,270.0 million (combined statutory capital and surplus at September 30, 2008 exceeded such requirement).

The Second Amended Credit Facility includes an $80.0 million revolving credit facility that can be used for general corporate purposes and that would mature on June 22, 2009. There were no amounts outstanding under the revolving credit facility at September 30, 2008 and December 31, 2007. In October 2008, the Company borrowed $75.0 million under the revolving credit facility to assure the future availability of this additional liquidity given our concerns with the ability of certain financial institutions to be able to provide funding in the future. The Company also requested borrowings of $5.0 million which were not funded. The Company pays a commitment fee equal to .50 percent of the unused portion of the revolving credit facility on an annualized basis. The revolving credit facility bears interest based on either a Eurodollar rate or a base rate in the same manner as described above for the Second Amended Credit Facility.

The Second Amended Credit Facility prohibits or restricts, among other things: (i) the payment of cash dividends on our common stock; (ii) the repurchase of our common stock; (iii) the issuance of additional debt or capital stock; (iv) liens; (v) certain asset dispositions; (vi) affiliate transactions;
(vii) certain investment activities; (viii) change in business; and (ix) prepayment of indebtedness (other than the Second Amended Credit Facility). The obligations under our Second Amended Credit Facility are guaranteed by Conseco's current and future domestic subsidiaries, other than: (i) its insurance companies; (ii) subsidiaries of the insurance companies; or (iii) certain immaterial subsidiaries as defined in the Second Amended Credit Facility. This guarantee was secured by granting liens on substantially all the assets of the guarantors, including the capital stock of Conseco Life Insurance Company of Texas ("CLTX"), Washington National Insurance Company and Conseco Health Insurance Company. Under the Second Amended Credit Facility, we may pay cash dividends on our common stock or repurchase our common stock in an aggregate amount of up to $300.0 million over the term of the facility. We have repurchased $87.2 million of our common stock. No repurchases were made in the first nine months of 2008.

Pursuant to our Second Amended Credit Facility, we may repurchase any Debentures, if after giving effect to such repurchases, the Company has sufficient liquidity, as defined in the credit facility, and we are in compliance with all other financial ratios and balances. Through November 4, 2008, we repurchased $37.0 million par value of such Debentures for $15.3 million plus accrued interest. In the fourth quarter of 2008, we will recognize a gain on the extinguishment of debt of approximately $21 million related to such repurchases. Debentures with a par value of $293.0 million remain outstanding.

INVESTMENT BORROWINGS

In the first quarter of 2007, one of the Company's insurance subsidiaries (Conseco Life Insurance Company, "Conseco Life") became a member of the Federal Home Loan Bank of Indianapolis ("FHLBI"). As a member of the FHLBI, Conseco Life has the ability to borrow on a collateralized basis from FHLBI. Conseco Life is required to hold a certain minimum amount of FHLBI common stock as a requirement of membership in the FHLBI, and additional amounts based on the amount of the borrowings. At September 30, 2008, the carrying value of the FHLBI common stock was $22.5 million. Collateralized borrowings from the FHLBI totaled $450.0 million as of September 30, 2008, and the proceeds were used to purchase fixed maturity securities. The borrowings are classified as investment borrowings in the accompanying consolidated balance sheet. The borrowings are collateralized by investments with an estimated fair value of $496.6 million at September 30, 2008, which are maintained in a custodial account for the benefit of the FHLBI. Conseco Life recognized interest expense of $16.4 million and $10.8 million in the first nine months of 2008 and 2007, respectively, related to the borrowings.

The following summarizes the terms of the borrowings (dollars in millions):

Amount borrowed	Maturity date	Interest rate at September 30, 2008
$ 54.0	May 2012	Variable rate - 2.811%
37.0	July 2012	Fixed rate - 5.540%
13.0	July 2012	Variable rate - 2.848%
146.0	November 2015	Fixed rate - 5.300%
100.0	November 2015	Fixed rate - 4.890%
100.0	December 2015	Fixed rate - 4.710%

At September 30, 2008, investment borrowings consisted of: (i) collateralized borrowings from the FHLBI of $450.0 million; (ii) $364.3 million of securities issued to other entities by a variable interest entity ("VIE") which is consolidated in our financial statements; and (iii) other borrowings of $9.6 million.

At December 31, 2007, investment borrowings consisted of: (i) collateralized borrowings of $450.0 million; (ii) $452.3 million of securities issued to other entities by a VIE which is consolidated in our financial statements; and (iii) other borrowings of $10.7 million.

CHANGES IN COMMON STOCK

Changes in the number of shares of common stock outstanding were as follows (shares in thousands):

Balance at December 31, 2007	184,652
Shares issued under employee benefit compensation plans	74 (a)
Balance at September 30, 2008	184,726

(a) Such amount was reduced by four thousand shares which were tendered for the payment of federal and state taxes owed on the issuance of restricted stock.

SALES INDUCEMENTS

Certain of our annuity products offer sales inducements to contract holders in the form of enhanced crediting rates or bonus payments in the initial period of the contract. Certain of our life insurance products offer persistency bonuses credited to the contract holders balance after the policy has been outstanding for a specified period of time. These enhanced rates and persistency bonuses are considered sales inducements under Statement of Position 03-01 "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts". Such amounts are deferred and amortized in the same manner as the cost of policies produced. Sales inducements deferred totaled $30.7 million and $40.2 million during the nine months ended September 30, 2008 and 2007, respectively. Amounts amortized totaled $11.7 million and $15.0 million during the nine months ended September 30, 2008 and 2007, respectively. The unamortized balance of deferred sales inducements at September 30, 2008 and December 31, 2007 was $168.0 million and $149.0 million, respectively. The balance of insurance liabilities for persistency bonus benefits was $207.7 million and $252.8 million at September 30, 2008 and December 31, 2007, respectively.

RECENTLY ISSUED ACCOUNTING STANDARDS

Pending Accounting Standards

In June 2008, the Financial Accounting Standards Board ("FASB") issued Emerging Issues Task Force No. 07-5 "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock" ("EITF 07-5"). Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities," ("SFAS 133") specifies that a contract (that would otherwise meet the definition of a derivative under SFAS 133) issued or held by the reporting entity that is both indexed to its own stock and classified in stockholders' equity in its statement of financial position should not be considered a derivative financial instrument for purposes of applying SFAS 133. EITF 07-5 provides guidance for determining whether an equity-linked financial instrument (or an embedded feature) is indexed to an entity's own stock, using a two-step approach. First, the instrument's contingent exercise provisions, if any, must be evaluated, followed by an evaluation of the instrument's settlement provisions. The guidance in EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. EITF 07-5 is not expected to have a material impact on our consolidated financial statements.

In May 2008, the FASB issued FSP No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled In Cash Upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"). FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for

financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is not permitted. FSP APB 14-1 shall be applied retrospectively to all periods presented unless instruments were not outstanding during any period included in the financial statements. The Company is evaluating the impact of adopting FSP APB 14-1 on its consolidated financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 163, "Accounting for Financial Guarantee Insurance Contracts - an interpretation of FASB Statement No. 60" ("SFAS 163"). The scope of SFAS 163 is limited to financial guarantee insurance (and reinsurance) contracts issued by enterprises that are included within the scope of SFAS 60 and that are not accounted for as derivative instruments. SFAS 163 excludes from its scope insurance contracts that are similar to financial guarantee insurance such as mortgage guaranty insurance and credit insurance on trade receivables. SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, except for certain disclosures about the insurance enterprise's risk-management activities, which are effective for the first period (including interim periods) beginning after May 2008. Except for certain disclosures, earlier application is not permitted. The Company does not have financial guarantee insurance products, and, accordingly does not expect the issuance of SFAS 163 to have an effect on the Company's consolidated financial condition and results of operations.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). Under SFAS 162, the GAAP hierarchy will now reside in the accounting literature established by the FASB. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements in conformity with GAAP. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." SFAS 162 is not expected to have a material impact on our consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "Disclosure about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 requires enhanced disclosures about an entities derivative and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. SFAS 161 is not expected to have a material impact on our consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS 160"), which establishes new standards governing the accounting for and reporting of noncontrolling interests (previously referred to as minority interests). SFAS 160 establishes reporting requirements which include, among other things, that noncontrolling interests be reflected as a separate component of equity, not as a liability. It also requires that the interests of the parent and the noncontrolling interest be clearly identifiable. Additionally, increases and decreases in a parent's ownership interest that leave control intact shall be reflected as equity transactions, rather than step acquisitions or dilution gains or losses. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 and early adoption is prohibited. We do not expect the initial adoption of SFAS 160 to be material to our financial position or results of operations.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in a transaction at the acquisition date fair value, with certain exceptions. Additionally, SFAS 141R requires changes to the accounting treatment of acquisition related items, including, among other items, transaction costs, contingent consideration, restructuring costs, indemnification assets and tax benefits. SFAS 141R also provides for a substantial number of new disclosure requirements. SFAS 141R is effective for business combinations initiated on or after the first annual reporting period beginning after December 15, 2008 and early adoption is prohibited. We expect that SFAS 141R will have an impact on our accounting for future business combinations once the statement is adopted but the effect is dependent upon acquisitions, if any, that are made in the future. In addition, SFAS 141R changes the previous requirement that reductions in a valuation allowance for deferred tax assets established in conjunction with the implementation of fresh-start accounting be recognized as a direct increase to additional paid-in capital. Instead, the revised standard requires that any such reduction be reported as a decrease to income tax expense through the consolidated statement of operations. Accordingly, reductions to our valuation allowance for deferred tax assets will be reported as a decrease to income tax expense, after the effective date of SFAS 141R.

Adopted Accounting Standards

In October 2008, the FASB issued FASB Staff Position FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active" ("FSP 157-3"). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and applies to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with SFAS 157. FSP 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued. Accordingly, the Company adopted this guidance effective September 30, 2008. The Company's adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 allows entities to choose to measure many financial instruments and certain other items, including insurance contracts, at fair value (on an instrument-by-instrument basis) that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. We adopted SFAS 159 on January 1, 2008. We did not elect the fair value option for any of our financial assets or liabilities.

In September 2006, the FASB issued SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures of fair value measurements. We adopted SFAS 157 on January 1, 2008, except as further described below. SFAS 157 required us to value the embedded derivatives associated with our equity-indexed annuity products reflecting a hypothetical market perspective for fair value measurement. We recorded a charge of $1.8 million to net income (after the effects of the amortization of insurance acquisition costs and income taxes) attributable to changes in the fair value of the embedded derivative as a result of adopting SFAS 157. In February 2008, the FASB issued FASB Staff Position FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP 157-2"). FSP 157-2 delays the effective date (to fiscal years beginning after November 15, 2008) of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company does not expect it to have a material effect on its consolidated financial position, results of operations or cash flows.

In April 2007, FASB issued Interpretation 39-1 "Amendment of FASB Interpretation No. 39" ("FIN 39-1"). FIN 39-1 amends FIN 39, "Offsetting of Amounts Related to Certain Contracts", to allow fair value amounts recognized for collateral to be offset against fair value amounts recognized for derivative instruments that are executed with the same counterparty under certain circumstances. FIN 39-1 also requires an entity to disclose the accounting policy decision to offset, or not to offset, fair value amounts in accordance with FIN 39-1, as amended. We do not, and have not previously, offset the fair value amounts recognized for derivatives with the amounts recognized as collateral. All collateral is maintained in a tri-party custodial account. At September 30, 2008, $7.8 million of derivative liabilities have been offset against derivative assets executed with the same counterparty under master netting arrangements. We adopted FIN 39-1 on January 1, 2008.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 creates a comprehensive model which addresses how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. This guidance was effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 resulted in a $6.0 million increase to additional paid-in capital during the first three months of 2007. The Company classifies interest and, if applicable, penalties as income tax expense in the consolidated statement of operations. No such amounts were recognized in the first nine months of 2008 and 2007. The liability for accrued interest was not significant at September 30, 2008 or December 31, 2007.

LITIGATION AND OTHER LEGAL PROCEEDINGS

Legal Proceedings

The Company and its subsidiaries are involved in various legal actions in the normal course of business, in which claims for compensatory and punitive damages are asserted, some for substantial amounts. Some of the pending matters have been filed as purported class actions and some actions have been filed in certain jurisdictions that permit punitive damage awards that are disproportionate to the actual damages incurred. Although there can be no assurances, at the present time the

Company does not anticipate that the ultimate liability from either pending or threatened legal actions, after consideration of existing loss provisions, will have a material adverse effect on the financial condition, operating results or cash flows of the Company. The amounts sought in certain of these actions are often large or indeterminate and the ultimate outcome of certain actions is difficult to predict. In the event of an adverse outcome in one or more of these matters, the ultimate liability may be in excess of the liabilities we have established and could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, the resolution of pending or future litigation may involve modifications to the terms of outstanding insurance policies, which could adversely affect the future profitability of the related insurance policies.

In the cases described below, we have disclosed any specific dollar amounts sought in the complaints. In our experience, monetary demands in complaints bear little relation to the ultimate loss, if any, to the Company. However, for the reasons stated above, it is not possible to make meaningful estimates of the amount or range of loss that could result from some of these matters at this time. The Company reviews these matters on an ongoing basis and follows the provisions of Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies", when making accrual and disclosure decisions. When assessing reasonably possible and probable outcomes, the Company bases its decisions on its assessment of the ultimate outcome following all appeals.

Securities Litigation

After our Predecessor announced its intention to restructure on August 9, 2002, eight purported securities fraud class action lawsuits were filed in the United States District Court for the Southern District of Indiana. The complaints named us as a defendant, along with certain of our former officers. These lawsuits were filed on behalf of persons or entities who purchased our Predecessor's common stock on various dates between October 24, 2001 and August 9, 2002. The plaintiffs allege claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and allege material omissions and dissemination of materially misleading statements regarding, among other things, the liquidity of our Predecessor and alleged problems in Conseco Finance Corp.'s manufactured housing division, allegedly resulting in the artificial inflation of our Predecessor's stock price. These cases were consolidated into one case in the United States District Court for the Southern District of Indiana, captioned Franz Schleicher, et al. v. Conseco, Inc., Gary Wendt, William Shea, Charles Chokel and James Adams, et al., Case No. 02-CV-1332 DFH-TAB. The complaint seeks an unspecified amount of damages. The plaintiffs filed an amended consolidated class action complaint with respect to the individual defendants on December 8, 2003. Our liability with respect to this lawsuit was discharged in our Predecessor's plan of reorganization and our obligation to indemnify individual defendants who were not serving as an officer or director on the Effective Date is limited to $3 million in the aggregate under such plan. Our liability to indemnify individual defendants who were serving as an officer or director on the Effective Date, of which there is one such defendant, is not limited by such plan. Our current estimate of the maximum loss that we could reasonably incur on this case is approximately $2.0 million. A motion to dismiss was filed on behalf of defendants Shea, Wendt and Chokel and on July 14, 2005, this matter was dismissed. Plaintiffs filed a second amended complaint on August 24, 2005. We filed a motion to dismiss the second amended complaint on November 7, 2005. This motion was denied on September 12, 2007. Plaintiffs filed their motion for class certification on May 2, 2008. The matter is scheduled for a jury trial on May 10, 2010. We believe this lawsuit is without merit and intend to defend it vigorously; however, the ultimate outcome cannot be predicted with certainty. We do not believe that the potential loss related to the individual defendant who served as an officer on the Effective Date is material.

Cost of Insurance Litigation

The Company and certain subsidiaries, including principally Conseco Life, have been named in numerous purported class action and individual lawsuits alleging, among other things, breach of contract, fraud and misrepresentation with regard to a change made in 2003 and 2004 in the way cost of insurance charges are calculated for life insurance policies sold primarily under the names "Lifestyle" and "Lifetime". Approximately 86,500 of these policies were subject to the change, which resulted in increased monthly charges to the policyholders' accounts. Many of the purported class action lawsuits were filed in Federal courts across the United States. In June 2004, the Judicial Panel on Multidistrict Litigation consolidated these lawsuits into the action now referred to as In Re Conseco Life Insurance Co. Cost of Insurance Litigation, Cause No. MDL 1610 (Central District, California). In September 2004, plaintiffs in the multi-district action filed an amended consolidated complaint and, at that time, added Conseco, Inc. as a defendant. The amended complaint alleged, among other things, that the change enabled Conseco, Inc. to add $360 million to its balance sheet. The amended complaint sought unspecified compensatory, punitive and exemplary damages as well as an injunction that would require the Company to reinstate the prior

method of calculating cost of insurance charges and refund any increased charges that resulted from the change. On April 26, 2005, the Judge in the multi-district action certified a nationwide class on the claims for breach of contract and injunctive relief. On April 27, 2005, the Judge issued an order certifying a statewide California class for injunctive and restitutionary relief pursuant to California Business and Professions Code Section 17200 and breach of the duty of good faith and fair dealing, but denied certification on the claims for fraud and intentional misrepresentation and fraudulent concealment. The Company announced on August 1, 2006, that it had reached a proposed settlement of this case. Under the proposed settlement, inforce policyholders were given an option to choose a form of policy benefit enhancement and certain former policyholders will share in a settlement fund by either receiving cash or electing to reinstate their policies with enhanced benefits. The settlement was subject to court review and approval, a fairness hearing, notice to all class members, election of options by the class members, implementation of the settlement and other conditions. At the May 21, 2007 fairness hearing, the court granted final approval of the settlement and issued an order doing so on June 8, 2007. The Court entered final judgment in the case on July 5, 2007. We began implementing the settlement with the inforce and certain former policyholders in the last half of 2007. We previously recognized costs related to this litigation totaling $267.2 million (none of which was recognized in the first nine months of 2008).

Three other cases remain pending with respect to life insurance policies sold primarily under the names "Lifestyle" and "Lifetime". On May 24, 2005 a purported class action lawsuit was filed in Illinois on behalf of a putative statewide class captioned William J. Harte, individually and on behalf of all others similarly situated v. Conseco Life Insurance Company, Case No. 05CH08925 (Circuit Court of Cook County, Illinois, Chancery Division), which has been removed to the United States District Court for the Northern District of Illinois, transferred to California and consolidated and coordinated with MDL 1610. The Harte matter was settled in June 2008, and will be dismissed by the court on motion by the parties. The settlement of this case was not significant to our business, financial condition, results of operations or cash flows. Also, a lawsuit was filed on September 14, 2005 in Hawaii captioned AE Ventures for Archie Murakami, et al. v. Conseco, Inc., Conseco Life Insurance Company; And Doe Defendants 1-100, Case No. CV05-00594 (United States District Court, District of Hawaii). This suit involves approximately 800 plaintiffs all of whom purport to have opted out of the In Re Conseco Life Insurance Co. Cost of Insurance Litigation multi-district action. The complaint alleges nondisclosure, breach of fiduciary duty, violations of HRS 480 (unfair and/or deceptive business practices), declaratory and injunctive relief, insurance bad faith, punitive damages, and seeks to impose alter ego liability. In the recently settled matter Cost of Insurance Cases, Judicial Counsel Coordination Proceeding No. 4384 (Judicial Counsel of California) one plaintiff's claim remains, that of Marvin Barenblat.

The ultimate outcome of the cost of insurance lawsuits that have not been settled cannot be predicted with certainty and an adverse outcome could exceed the amount we have accrued and could have a material impact on the Company's consolidated financial condition, cash flows or results of operations.

Agent Litigation

On December 17, 2003, a complaint was filed in the 19th Judicial District Court, Parish of East Baton Rouge, Louisiana, Southern Capitol Enterprises, Inc. and F. David Tutt v. Conseco Services, LLC and Conseco Health Insurance Company, Case No. 515105. Plaintiffs are a former Conseco Health Insurance Company agency and its principal that allege in the complaint that they were damaged by Conseco Health Insurance Company's termination of their Executive Marketing Agreement ("EMA") and Business Continuation Plan ("BCP"). Plaintiffs sought a declaratory judgment declaring the parties' rights and obligations under plaintiffs' EMA and BCP including definitions of terms within those contracts. Plaintiffs also demanded a full accounting of all commissions allegedly due and a preliminary injunction stopping Conseco from reducing or stopping commission payments during the pendency of this action. At Conseco Health Insurance Company's request, the case was removed to the United States District Court for the Middle District of Louisiana, Case No. 04CV40-D-M1. On September 30, 2004, Tutt filed a separate complaint for breach of contract and damages against defendants in federal court which includes claims for: (1) breach of the EMA and BCP; (2) tortuous interference with the EMA and BCP; (3) unjust enrichment related to the EMA and BCP; and (4) requests an accounting of back commissions under the EMA and BCP. The court consolidated the two cases on October 20, 2004. Plaintiff later filed an amended and restated complaint for damages on March 15, 2006, which added Performance Matters Associates as a defendant. Tutt moved for partial summary judgment in July 2004, asking the court to invalidate the non-competition and non-solicitation provisions in the EMA and the non-competition provision of the BCP. Defendants opposed this motion, but plaintiffs' motion was granted by the court on December 15, 2004. The court did not decide the issue of the BCP's continued validity. After discovery, defendants filed a partial motion for summary judgment on January 1, 2006, reasserting that the entire BCP was invalidated because the non-

competition provision had been stricken from the agreement. Plaintiff filed a cross-motion for partial summary judgment regarding the validity of the BCP on May 31, 2006. Both motions were denied by the court, and the court set that issue for a bench trial. After that issue was tried in April 2007, the court ruled that the BCP was valid and enforceable. The court further ruled that the issues of breach of contract relating to plaintiffs' exclusive rights and due to improper commission payments, breach of the duty of good faith and fair dealing as to the EMA and plaintiffs' Single Business Enterprise theory remain to be tried to a jury. We believe the action is without merit, and intend to defend it vigorously. The ultimate outcome of the action cannot be predicted with certainty.

On September 18, 2006, a purported class action was filed in the Superior Court of the State of California for the County of Los Angeles, Holly Walker, individually, and on behalf of all others similarly situated, and on behalf of the general public v. Bankers Life & Casualty Company, an insurance company domiciled in the State of Illinois, and Does 1 to 100, Case No. BC358690. In her complaint, plaintiff alleged Bankers Life and Casualty Company intentionally misclassified its California insurance agents as independent contractors when they should have been classified as employees. Plaintiff sought relief on behalf of the class alleging claims for preliminary and permanent injunction, misclassification, indemnification, conversion and unfair business practices. Bankers Life and Casualty Company caused the case to be removed to the U.S. District Court, Central District of California on October 18, 2006. An order was entered on November 20, 2006 transferring the case to the U.S. District Court, Northern District of Illinois, Case No. 06C6906. The Court has dismissed with prejudice plaintiff's allegations of preliminary and permanent injunction and misclassification. A first amended complaint was filed on June 12, 2007 adding Carole Paradise as the new class representative and naming Holly Walker as an individual plaintiff. This complaint alleges claims of indemnification, conversion and unfair business practices. On October 1, 2007, the court granted the plaintiff's motion for class certification. Bankers Life and Casualty Company subsequently appealed to the 7th Circuit Court of Appeals, which denied the appeal. Bankers Life and Casualty Company subsequently filed a motion to decertify the class with the district court, which entered an order decertifying the class action on July 28, 2008. After decertification of the class, a settlement was reached with the individual plaintiffs Walker and Paradise. The action will be dismissed with prejudice as a result of the settlement. The settlement of this case was not significant to our business, financial condition, results of operations or cash flows.

On January 16, 2008, a purported class action was filed in the Superior Court of the State of California for the County of Alameda, Robin Fletcher individually, and on behalf of all others similarly situated vs. Bankers Life and Casualty Company, and Does 1 through 100, Case No. RG08366328. In her original complaint, plaintiff alleged nonpayment by Bankers Life and Casualty Company of overtime wages, failure to provide meal and rest periods, failure to reimburse expenses, and failure to provide accurate wage statements to its sales representatives in the State of California for the time period January 16, 2004 to present. Additionally, the complaint alleges failure to pay wages on termination and unfair business practices. In September 2008, plaintiff submitted a proposed first amended complaint which changes the proposed scope of the putative class from all agents in California for the subject time period to all agents at a single branch office in Alameda, California. This would reduce the putative class from hundreds of members to approximately 70 members. We believe the action is without merit and we intend to defend the case vigorously. The ultimate outcome of the action cannot be predicted with certainty.

Other Litigation

On November 17, 2005, a complaint was filed in the United States District Court for the Northern District of California, Robert H. Hansen, an individual, and on behalf of all others similarly situated v. Conseco Insurance Company, an Illinois corporation f/k/a Conseco Annuity Assurance Company, Cause No. C0504726. Plaintiff in this putative class action purchased an annuity in 2000 and is claiming relief on behalf of the proposed national class for alleged violations of the Racketeer Influenced and Corrupt Organizations Act; elder abuse; unlawful, deceptive and unfair business practices; unlawful, deceptive and misleading advertising; breach of fiduciary duty; aiding and abetting of breach of fiduciary duty; and unjust enrichment and imposition of constructive trust. On January 27, 2006, a similar complaint was filed in the same court entitled Friou P. Jones, on Behalf of Himself and All Others Similarly Situated
v. Conseco Insurance Company, an Illinois company f/k/a Conseco Annuity Assurance Company, Cause No. C06-00537. Mr. Jones had purchased an annuity in 2003. Each case alleged that the annuity sold was inappropriate and that the annuity products in question are inherently unsuitable for seniors age 65 and older. On March 3, 2006 a first amended complaint was filed in the Hansen case adding causes of action for fraudulent concealment and breach of the duty of good faith and fair dealing. In an order dated April 14, 2006, the court consolidated the two cases under the original Hansen cause number and retitled the consolidated action: In re Conseco Insurance Co. Annuity Marketing & Sales Practices Litig. A motion to dismiss the amended complaint was granted in part

and denied in part, and the plaintiffs filed a second amended complaint on April 27, 2007. The second amended complaint includes the same causes of action as the prior complaint, but added as defendants Conseco, Inc., Conseco Services, LLC, Conseco Marketing, LLC and 40|86 Advisors, Inc. while deleting Friou Jones as a named plaintiff. We filed a motion to dismiss the second amended complaint and it was granted in part and denied in part. Conseco, Inc. and 40|86 Advisors, Inc. have been dismissed from the case. The court has not yet made a determination whether the case should go forward as a class action, and we intend to oppose any form of class action treatment of these claims. We believe the action is without merit, and intend to defend it vigorously. The ultimate outcome of the action cannot be predicted with certainty.

On September 24, 2004, a purported statewide class action was filed in the 18th Judicial District Court, Parish of Iberville, Louisiana, Diana Doiron, Individually And On Behalf of All Others Similarly Situated v. Conseco Health Insurance Company, Case No. 61,534. In her complaint, plaintiff claims that she was damaged due to Conseco Health Insurance Company's failure to pay claims made under her cancer policy, and seeks compensatory and statutory damages in an unspecified amount along with declaratory and injunctive relief. Conseco caused the case to be removed to the United States District Court for the Middle District of Louisiana on November 3, 2004, and it was assigned Case No. 04-784-D-M2. An order was issued on February 15, 2007 granting plaintiff's motion for class certification. The order specifically certifies two sub-classes identifying them as the radiation treatment sub-class and the chemotherapy treatment sub-class. We appealed the certification order to the 5th Circuit Court of Appeals, and by order entered May 28, 2008, the 5th Circuit Court of Appeals affirmed class certification but made modifications to the class definitions. Our subsequent petition for rehearing was denied by order dated June 27, 2008. We believe the action is without merit, and we intend to defend the case vigorously. The ultimate outcome of the action cannot be predicted with certainty.

On August 7, 2006, an action was filed in the United States District Court for the Southern District of New York, Sheldon H. Solow v. Conseco, Inc. and Carmel Fifth, LLC, Case No. 06-CV-5988 (BSJ). The plaintiff alleges breach of duty to hold a fair auction, fraud, promissory estoppel, unjust enrichment and a declaratory judgment with respect to the sale by defendants of the GM Building in New York City in 2003. Plaintiff was a losing bidder on the building. In the complaint, plaintiff seeks damages of $35 million on the unjust enrichment count and damages in an amount to be determined at trial on the remaining counts. Defendants filed a motion to dismiss the complaint on September 18, 2006. On January 11, 2008, the court ruled on the motion to dismiss, granting the motion with respect to the unjust enrichment and declaratory judgment counts, and denying the motion with respect to the remaining three counts. Discovery will now be proceeding in the matter. The plaintiff filed a motion for summary judgment on July 16, 2008, to which the Company responded with a cross-motion for summary judgment on August 29, 2008. The Company believes the action is without merit and intends to defend it vigorously. The ultimate outcome of the action cannot be predicted with certainty.

On March 19, 2008 a purported class action was filed in the United States District Court for the Western District of Washington, Susan W. Taylor and Curtis L. Welch, on behalf of themselves and all others similarly situated v. Bankers Life and Casualty Co., Case No. C08-0447-JCC. The case was filed on behalf of all persons in the state of Washington who since 1988 purchased long or short-term convalescent care (commonly referred to as long-term care) insurance policies from Bankers Life and Casualty Co. The complaint alleges damages from increases in premiums for such policies in causes of action alleging unfair or deceptive practices under Washington's Consumer Protection Act, breach of contract and bad faith. We filed a motion to dismiss the complaint on May 19, 2008. On August 29, 2008, the district court entered an order dismissing the action without prejudice for lack of subject matter jurisdiction based on plaintiff's failure to exhaust administrative remedies. We believe this order was final and triggered a 30-day period for initiation of an appeal to the 9th U.S. Circuit Court of Appeals. No timely notice of appeal was filed.

On March 4, 2008, a Complaint was filed in the United Stated District Court for the Central District of California, Celedonia X. Yue, M. D. on behalf of the class of all others similarly situated, and on behalf of the General Public v. Conseco Life Insurance Company, successor to Philadelphia Life Insurance Company and formerly known as Massachusetts General Life Insurance Company, Cause No. CV08-01506 CAS. Plaintiff in this putative class action owns a Valulife universal life policy insuring the life of Ruth S. Yue originally issued by Massachusetts General Life Insurance Company on September 26, 1995. Plaintiff is claiming breach of contract on behalf of the proposed national class and seeks injunctive and restitutionary relief pursuant to Business & Professions Code
Section 17200 and Declaratory Relief. The putative class consists of "All owners of Valulife and Valuterm `universal life' insurance policies issued by either Massachusetts General or Philadelphia Life and that were later acquired and serviced by Conseco Life. The class does not include officers or actuaries (or their immediate families) of Massachusetts General, Philadelphia Life, Conseco Life or any of their parent companies, including Conseco, Inc." Plaintiff alleges that members of the class will be damaged by increases in the cost of insurance that

are set to take place in the twenty first policy year of Valulife and Valuterm policies. No such increases have yet been applied to the subject policies, and none is scheduled to take effect until around 2011. We filed a motion to dismiss the complaint on June 25, 2008, which the court has not yet ruled on. Plaintiff has not yet filed a motion for certification of the class, and we intend to oppose any form of class treatment of these claims. We believe the action is without merit, and intend to defend it vigorously. The ultimate outcome of the action cannot be predicted with certainty.

On June 4, 2008, a purported class action complaint was filed in the United Stated District Court for the Northern District of Illinois, Ruby Sandock, individually and on behalf of herself and all others similarly situated v. Bankers Life & Casualty Company Case No. 08-CV-3218. Plaintiff is claiming breach of contract, consumer fraud and deceptive business practices, and unjust enrichment on behalf of the proposed national class and seeks compensatory and punitive damages, injunctive and restitutionary relief. Plaintiff alleges that Bankers Life & Casualty systematically and intentionally failed to comply with standard contractual waiver of premium provisions that are included in its long-term care insurance policy contracts that it offers and sells to consumers. Plaintiffs allege that Bankers Life & Casualty has a policy or practice of continuing to charge and/or bill its insureds for policy premiums after the insured has received 90 days of benefits. Our answer was filed on July 3, 2008, denying liability and denying that the action is properly maintainable as a class action. We also filed a motion to dismiss the complaint. On September 26, 2008, the district court entered an order dismissing two out of the three claims asserted by the plaintiff. We believe the action is without merit, and intend to defend it vigorously. The ultimate outcome of the action cannot be predicted with certainty.

On June 4, 2008, a purported class action complaint was filed in the Cook County Illinois Circuit Court Chancery Division, Sheldon Langendorf, et. al. individually and on behalf of themselves and all others similarly situated v. Conseco Senior Health Insurance Company, and Conseco, Inc., et. al. Case No. 08CH20571. Plaintiff is claiming breach of contract and consumer fraud and seeks a declaratory judgment, claiming that Senior Health (formerly Conseco Senior Health Insurance Company prior to its name change in October 2008) and other affiliated companies routinely and improperly refuse to accept Medicare explanations of benefits as documentation in support of proofs of claim on individual hospital indemnity and other policies of health insurance. Senior Health subsequently removed the action to the U.S. District Court for the Northern District of Illinois, where it is now pending as Case No. 08-CV-3914. By stipulation of the parties, Conseco, Inc. was dismissed as a party on September 29, 2008. Senior Health filed a motion to dismiss and/or for summary judgment on August 22, 2008, which motion is now fully briefed and before the court for ruling. We believe the action is without merit, and intend to defend it vigorously. The ultimate outcome of the action cannot be predicted with certainty.

On July 22, 2008, a purported class action was filed in the U.S. District Court for the Southern District of Florida, Anna M. Cohen individually and on behalf of herself and all others similarly situated v. Washington National Insurance Corporation Case No. 08-CV-61153-JIC. Plaintiff is claiming breach of contract alleging that the 8% annual inflation adjustment rider, which is part of her Washington National policy of long-term care insurance, acts to increase the lifetime maximum benefit above the stated $150,000 benefit and not just the stated per day benefit, such that Washington National prematurely stops paying benefits before the correct lifetime maximum benefit amount is paid. On September 26, 2008, Washington National filed a motion to dismiss the complaint. The matter has been set for jury trial on June 15, 2009. We believe the action is without merit, and intend to defend it vigorously. The ultimate outcome of the action cannot be predicted with certainty.

In addition, the Company and its subsidiaries are involved on an ongoing basis in other lawsuits, including purported class actions, related to their operations. The ultimate outcome of all of these other legal matters pending against the Company or its subsidiaries cannot be predicted, and, although such lawsuits are not expected individually to have a material adverse effect on the Company, such lawsuits could have, in the aggregate, a material adverse effect on the Company's consolidated financial condition, cash flows or results of operations.

Director and Officer Loan Program Litigation

Collection efforts by the Company and Conseco Services related to the 1996-1999 director and officer loan programs are ongoing against two past board members with outstanding loan balances, James D. Massey and Dennis E. Murray, Sr. In addition, these directors have sued the companies for declaratory relief concerning their liability for the loans. The specific lawsuits now pending include: Murray and Massey v. Conseco, Case No. 1:03-CV-1701-LJM-VSS (Southern District, Indiana); Conseco Services v. Murray, Case No. 29D02-0404-CC-381 (Superior Court, Hamilton County, Indiana); Conseco Services v. Massey, Case No. 29D01-0406-CC-477 (Superior Court, Hamilton County, Indiana); Conseco, Inc. v. Massey,

Case No. 2005-L-011316 (Circuit Court, Cook County, Illinois) and Conseco and Conseco Services v. J. David Massey et al., Case No. 29D02-0611-PL-1169 (Superior Court, Hamilton County, Indiana). On June 21, 2006, in the Hamilton County case, the Company obtained a partial summary judgment against Mr. Massey in the sum of $4.4 million plus interest at 11.5 percent from June 30, 2002. The trial court stayed execution of the judgment pending appeal. The trial which was set for October 22, 2007, has been continued without date. On January 22, 2008, the Indiana Court of Appeals, in Massey v. Conseco Services, LLC Case No. 29A05-0610-CV-565, affirmed the judgment entered in the Hamilton County case in favor of the Company and the dismissal of Massey's counterclaims. Mr. Massey has filed a petition for rehearing with the Court of Appeals. Mr. Massey filed for bankruptcy on October 10, 2008. The Murray U.S. District Court case is currently set for trial on February 2, 2009.

The Company and Conseco Services believe that all amounts due under the director and officer loan programs, including all applicable interest, are valid obligations owed to the companies. As part of our Predecessor's plan of reorganization, we have agreed to pay 45 percent of any net proceeds recovered in connection with these lawsuits, in an aggregate amount not to exceed $30 million, to former holders of our Predecessor's trust preferred securities that did not opt out of a settlement reached with the committee representing holders of these securities. As of September 30, 2008, we have paid $19.3 million to the former holders of trust preferred securities under this arrangement. We intend to prosecute these claims to obtain the maximum recovery possible. Further, with regard to the various claims brought against the Company and Conseco Services by certain former directors and officers, we believe that these claims are without merit and intend to defend them vigorously. The ultimate outcome of the lawsuits cannot be predicted with certainty. At September 30, 2008, we estimated that approximately $10.3 million, net of collection costs, of the remaining amounts due under the loan program will be collected (including amounts that remain to be collected from borrowers with whom we have settled) and that $4.6 million will be paid to the former holders of our Predecessor's trust preferred securities.

Regulatory Examinations and Fines

Insurance companies face significant risks related to regulatory investigations and actions. Regulatory investigations generally result from matters related to sales or underwriting practices, payment of contingent or other sales commissions, claim payments and procedures, product design, product disclosure, additional premium charges for premiums paid on a periodic basis, denial or delay of benefits, charging excessive or impermissible fees on products, changing the way cost of insurance charges are calculated for certain life insurance products or recommending unsuitable products to customers. We are, in the ordinary course of our business, subject to various examinations, inquiries and information requests from state, federal and other authorities. The ultimate outcome of these regulatory actions cannot be predicted with certainty. In the event of an unfavorable outcome in one or more of these matters, the ultimate liability may be in excess of liabilities we have established and we could suffer significant reputational harm as a result of these matters, which could also have a material adverse effect on our business, financial condition, results of operations or cash flows.

The states of Pennsylvania, Illinois, Texas, Florida and Indiana led a multistate examination of the long-term care claims administration and complaint handling practices of Senior Health and Bankers Life and Casualty Company, as well as the sales and marketing practices of Bankers Life and Casualty Company. This examination commenced in July 2007 and on May 7, 2008, Conseco announced a settlement among the state insurance regulators and Senior Health and Bankers Life and Casualty Company. This examination covered the years 2005, 2006 and 2007. More than 40 states are parties to the settlement, under which Conseco will pay a fine of up to $2.3 million, with an additional $10 million payable in the event Conseco fails to meet the process improvement benchmarks over the next two-and-a-half years. Conseco will review certain claims from 2005-2007 and provide up to $4 million of remediation. The fine and remediation cost were accrued in 2007. In addition, the settlement requires Conseco to implement a detailed process improvement plan designed to achieve performance standards for the timely processing of claims and complaints and other processes as part of an improvement program undertaken by the Company in 2007. Under that program, Conseco is moving several long-term care back-office functions to the Long-Term Care Group, Inc. to better manage the Senior Health business and improve customer service, and Conseco is investing $26 million on system enhancements and business process improvements over the next two-and-a-half years. The process improvement plan will be monitored by the lead states.

Certain state insurance regulators have previously requested information with respect to actions of the Company related to the cost of insurance charges for life insurance policies sold primarily under the names "Lifestyle" and "Lifetime". Such policies are subject to the litigation settlement described in the section of this note entitled "Cost of Insurance Litigation".

CONSOLIDATED STATEMENT OF CASH FLOWS

The following disclosures supplement our consolidated statement of cash flows (dollars in millions):

	Nine months ended September 30, 2008	Nine months ended September 30, 2007 (Restated)
Cash flows from operating activities:		
Net loss	$(674.9)	$(108.4)
Adjustments to reconcile the net loss to net cash provided by operating activities:		
Amortization and depreciation	324.5	348.6
Income taxes	349.0	(64.9)
Insurance liabilities	290.6	682.1
Accrual and amortization of investment income	(4.9)	3.7
Deferral of policy acquisition costs	(357.1)	(368.0)
Net realized investment losses	549.5	118.8
Net sales (purchases) of trading securities	373.6	(135.5)
Loss related to an annuity coinsurance transaction	-	76.5
Gain on reinsurance recapture	(30.5)	-
Other	(43.3)	(3.5)
Net cash provided by operating activities	$ 776.5	$ 549.4
Non-cash items not reflected in the investing and financing activities sections of the consolidated statement of cash flows:		
Stock option and restricted stock plans	$7.4	$ 8.9
Conversion of preferred stock into common shares	-	667.8
Reduction of tax liabilities related to various contingencies recognized at the fresh-start date in conjunction with adoption of FIN 48	-	6.0

At September 30, 2008 and December 31, 2007, restricted cash and cash equivalents consisted of: (i) $12.0 million and $16.1 million, respectively, held by a VIE; (ii) nil and $1.9 million, respectively, of segregated cash held for the benefit of the former holders of TOPrS; and (iii) nil and $3.1 million, respectively, held in an escrow account pursuant to a litigation settlement.

INVESTMENT IN A VARIABLE INTEREST ENTITY

The Company has an investment in a special purpose entity, that is a VIE under Financial Accounting Standards Board Interpretation No. 46 "Consolidation of Variable Interest Entities, revised December 2003" ("FIN 46R"). The following is description of our significant investment in a VIE:

Fall Creek CLO Ltd. ("Fall Creek") is a collateralized loan trust that was established to issue securities and use the proceeds to invest in loans and other permitted investments. The assets held by the trust are legally isolated and are not available to the Company. The liabilities of Fall Creek will be satisfied from the cash flows generated by the underlying loans, not from the assets of the Company. Repayment of the principal balance of the investment borrowings of Fall Creek begins in 2012 based on available cash flows from the assets and such borrowings mature in 2017. The carrying value of our investment in Fall Creek was $51.9 million and $47.0 million at September 30, 2008 and December 31, 2007, respectively.

The investment borrowings of Fall Creek may become due and payable if certain threshold ratios (based on the entity's leverage and the market value of its assets) are not met for a specified period of time. During the first quarter of 2008, such threshold ratio was not met and was amended. Subsequent to the amendment, Fall Creek sold assets of $90 million (which resulted in net realized investment losses of $11.2 million), and paid down investment borrowings of $83.5 million in the first

quarter of 2008. Pursuant to the amendment, we committed to provide additional capital to Fall Creek for up to $25 million (under defined circumstances), $5 million of which was contributed through September 30, 2008 (all of which was contributed in the first quarter of 2008). An additional $10.4 million was contributed in October 2008 as a result of certain threshold ratios not being met.

FAIR VALUE MEASUREMENTS

Effective January 1, 2008, we adopted SFAS 157 which clarifies a number of considerations with respect to fair value measurement objectives for financial reporting and expands disclosures about the use of fair value measurements. SFAS 157 is intended to increase consistency and comparability among fair value estimates used in financial reporting. The disclosure requirements of SFAS 157 are intended to provide users of financial statements with the ability to assess the reliability of an entity's fair value measurements. The initial adoption of SFAS 157 resulted in a charge of $1.8 million to net income (after the effects of the amortization of insurance acquisition costs and income taxes) in the first quarter of 2008, attributable to changes in the liability for the embedded derivatives associated with our equity-indexed annuity products. The change resulted from the incorporation of risk margins into the estimated fair value calculation for this liability.

Definition of Fair Value

As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and, therefore, represents an exit price, not an entry price. We hold fixed maturities, equity securities, derivatives, separate account assets and embedded derivatives, which are carried at fair value.

The degree of judgment utilized in measuring the fair value of financial instruments is largely dependent on the level to which pricing is based on observable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our view of market assumptions in the absence of observable market information. Financial instruments with readily available active quoted prices would be considered to have fair values based on the highest level of observable inputs, and little judgment would be utilized in measuring fair value. Financial instruments that rarely trade would be considered to have fair value based on a lower level of observable inputs, and more judgment would be utilized in measuring fair value.

Valuation Hierarchy

SFAS 157 establishes a three-level hierarchy for valuing assets or liabilities at fair value based on whether inputs are observable or unobservable.

o Level 1 - includes assets and liabilities valued using inputs that are quoted prices in active markets for identical assets or liabilities. Our Level 1 assets include exchange traded securities and U.S. Treasury securities.

o Level 2 - includes assets and liabilities valued using inputs that are quoted prices for similar assets in an active market, quoted prices for identical or similar assets in a market that is not active, observable inputs, or observable inputs that can be corroborated by market data. Level 2 assets and liabilities include those financial instruments that are valued by independent pricing services using models or other valuation methodologies. These models are primarily industry-standard models that consider various inputs such as interest rate, credit spread, reported trades, broker/dealer quotes, issuer spreads and other inputs that are observable or derived from observable information in the marketplace or are supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category primarily include:
certain public and private corporate fixed maturity securities; certain government or agency securities; certain mortgage and asset-backed securities; and non-exchange-traded derivatives such as call options to hedge liabilities related to our equity-indexed annuity products.

o Level 3 - includes assets and liabilities valued using unobservable inputs that are used in model-based valuations that contain management assumptions. Level 3 assets and liabilities include those financial instruments whose fair value is estimated based on non-binding broker prices or internally developed models or methodologies utilizing significant inputs not based on, or corroborated by, readily available market information. Financial instruments in this category include certain corporate securities (primarily private placements), certain mortgage and asset-backed

securities, and other less liquid securities. Additionally, the Company's liabilities for embedded derivatives (including embedded derivates related to our equity-indexed annuity products and to a modified coinsurance arrangement) are classified in Level 3 since their values include significant unobservable inputs including actuarial assumptions.

At each reporting date, we classify assets and liabilities into the three input levels based on the lowest level of input that is significant to the measurement of fair value for each asset and liability reported at fair value. This classification is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and overall market conditions. Our assessment of the significance of a particular input to the fair value measurement and the ultimate classification of each asset and liability requires judgment.

The vast majority of our fixed maturity securities and separate account assets use Level 2 inputs for the determination of fair value. These fair values are obtained primarily from independent pricing services, which use Level 2 inputs for the determination of fair value. Substantially all of our Level 2 fixed maturity securities and separate account assets were valued from independent pricing services. Third party pricing services normally derive the security prices through recently reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information. If there are no recently reported trades, the third party pricing services may use matrix or model processes to develop a security price where future cash flow expectations are developed and discounted at an estimated risk-adjusted market rate. The number of prices obtained is dependent on the Company's analysis of such prices as further described below.

For securities that are not priced by pricing services and may not be reliably priced using pricing models, we obtain broker quotes. These broker quotes are non-binding and represent an exit price, but assumptions used to establish the fair value may not be observable and therefore represent Level 3 inputs. Approximately 5 percent and 1 percent of our Level 3 fixed maturity securities were valued using broker quotes or independent pricing services, respectively. The remaining Level 3 fixed maturity investments do not have readily determinable market prices and/or observable inputs. For these securities, we use internally developed valuations. Key assumptions used to determine fair value for these securities may include risk-free rates, risk premiums, performance of underlying collateral and other factors involving significant assumptions which may not be reflective of an active market. For certain investments, we use a matrix or model process to develop a security price where future cash flow expectations are developed and discounted at an estimated market rate. The pricing matrix utilizes a spread level to determine the market price for a security. The credit spread generally incorporates the issuer's credit rating and other factors relating to the issuer's industry and the security's maturity. In some instances issuer-specific spread adjustments, which can be positive or negative, are made based upon internal analysis of security specifics such as liquidity, deal size, and time to maturity.

As the Company is responsible for the determination of fair value, we perform monthly quantitative and qualitative analysis on the prices received from third parties to determine whether the prices are reasonable estimates of fair value. The Company's analysis includes: (i) a review of the methodology used by third party pricing services; (ii) a comparison of pricing services' valuation to other pricing services' valuations for the same security; (iii) a review of month to month price fluctuations; (iv) a review to ensure valuations are not unreasonably stale; and (v) back testing to compare actual purchase and sale transactions with valuations received from third parties. As a result of such procedures, the Company may conclude the prices received from third parties are not reflective of current market conditions. In those instances, we may request additional pricing quotes or apply internally developed valuations. However, the number of instances is insignificant and the aggregate change in value of such investments is not materially different from the original prices received.

The categorization of the fair value measurements of our investments priced by independent pricing services was based upon the Company's judgment of the inputs or methodologies used by the independent pricing services to value different asset classes. Such inputs include: benchmark yields, reported trades, broker dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. The Company categorizes such fair value measurements based upon asset classes and the underlying observable or unobservable inputs used to value such investments.

The classification of fair value measurements for derivative instruments, including embedded derivatives requiring bifurcation, is determined based on the consideration of several inputs including closing exchange or over-the-counter market price quotations; time value and volatility factors underlying options; market interest rates; and non-performance risk. For certain embedded derivatives, we may use actuarial assumptions in the determination of fair value.

The categorization of fair value measurements, by input level, for our fixed maturity securities, equity securities, trading securities, certain other invested assets, assets held in separate accounts and embedded derivative instruments included in liabilities for insurance products at September 30, 2008 is as follows (dollars in millions):

	Quoted prices in active markets for identical assets or liabilities (Level 1)	Significant other observable inputs (Level 2)		Significant unobservable inputs (Level 3)		Total
Assets:						
Actively managed fixed maturities........	$88.0	$16,785.0		$2,052.9		$18,925.9
Equity securities........................	-	-		34.2		34.2
Trading securities.......................	18.1	258.9		3.5		280.5
Other invested assets....................	-	46.8	(a)	4.8	(b)	51.6
Assets held in separate accounts.........	-	22.0		-		22.0
Liabilities:						
Liabilities for insurance products:						
Embedded derivative instruments........	-	-		371.8	(c)	371.8

(a) Includes corporate-owned life insurance and derivatives.
(b) Includes equity-like holdings in special-purpose entities.
(c) Includes $366.4 million of embedded derivatives associated with our equity-indexed annuity products and $5.4 million of embedded derivatives associated with a modified coinsurance agreement.

The following tables present additional information about assets and liabilities measured at fair value on a recurring basis and for which we have utilized significant unobservable (Level 3) inputs to determine fair value for the three and nine months ended September 30, 2008 (dollars in millions):

	Actively managed fixed maturities	Equity securities	Trading securities	Other invested assets	Embedded derivative instruments included in liabilities for insurance products
Assets:					
Beginning balance as of June 30, 2008........................	$1,954.0	$ 34.3	$4.9	$5.2	$(361.9)
Purchases, sales, issuances and settlements, net.....................	188.9	-	(.7)	-	(3.1)
Total realized and unrealized gains (losses):					
Included in net loss.................	(13.2)	-	(.7)	-	(6.8)
Included in other comprehensive income (loss)......................	(14.8)	(.1)	-	(.4)	-
Transfers in and/or (out) of Level 3 (a)	(62.0)	-	-	-	-
Ending balance as of September 30, 2008..	$2,052.9	$ 34.2	$3.5	$4.8	$(371.8)
Amount of total gains (losses) for the three months ended September 30, 2008 included in our net loss relating to assets and liabilities still held as of the reporting date.........................	$(13.2)	$ -	$ -	$ -	$(6.8)

	Actively managed fixed maturities	Equity securities	Trading securities	Other invested assets	Embedded derivative instruments included in liabilities for insurance products
Assets:					
Beginning balance as of December 31, 2007	$1,924.3	$34.5	$11.8	$ 4.3	$(354.6)
Purchases, sales, issuances and settlements, net	330.2	-	(6.3)	(1.4)	19.0
Total realized and unrealized gains (losses):					
Included in net loss	(42.7)	-	(1.5)	.9	(36.2)
Included in other comprehensive income (loss)	(78.9)	(.3)	-	1.0	-
Transfers in and/or (out) of Level 3 (a)	(80.0)	-	(.5)	-	-
Ending balance as of September 30, 2008	$2,052.9	$34.2	$ 3.5	$ 4.8	$(371.8)
Amount of total gains (losses) for the nine months ended September 30, 2008 included in our net loss relating to assets and liabilities still held as of the reporting date	$ (30.4)	$ -	$ -	$ -	$(36.2)

(a) Net transfers out of Level 3 are reported as having occurred at the beginning of the period.

Realized and unrealized investment gains and losses presented in the preceding table represent gains and losses during the time the applicable financial instruments were classified as Level 3.

Realized and unrealized gains (losses) on Level 3 assets are primarily reported in either net investment income for policyholder and reinsurer accounts and other special purpose portfolios, net realized investment gains (losses) or insurance policy benefits within the consolidated statement of operations or other comprehensive income (loss) within shareholders' equity based on the appropriate accounting treatment for the instrument.

Purchases, sales, issuances and settlements, net, represent the activity that occurred during the period that results in a change of the asset or liability but does not represent changes in fair value for the instruments held at the beginning of the period. Such activity primarily consists of purchases and sales of fixed maturity, equity and trading securities, purchases and settlements of derivative instruments, and changes to embedded derivative instruments related to insurance products resulting from the issuance of new contracts, or changes to existing contracts.

We review the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3 at the beginning fair value for the reporting period in which the changes occur.

The amount presented for gains (losses) included in our net loss for assets and liabilities still held as of the reporting date primarily represents impairments for actively managed fixed maturities, changes in fair value of trading securities and certain derivatives and changes in fair value of embedded derivative instruments included in liabilities for insurance products that exist as of the reporting date.

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

In this section, we review the consolidated financial condition of Conseco at September 30, 2008, and the consolidated results of operations for the three and nine months ended September 30, 2008 and 2007, and, where appropriate, factors that may affect future financial performance. Please read this discussion in conjunction with the accompanying consolidated financial statements and notes.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Our statements, trend analyses and other information contained in this report and elsewhere (such as in filings by Conseco with the SEC, press releases, presentations by Conseco or its management or oral statements) relative to markets for Conseco's products and trends in Conseco's operations or financial results, as well as other statements, contain forward-looking statements within the meaning of the federal securities laws and the Private Securities Litigation Reform Act of 1995. Forward-looking statements typically are identified by the use of terms such as "anticipate," "believe," "plan," "estimate," "expect," "project," "intend," "may," "will," "would," "contemplate," "possible," "attempt," "seek," "should," "could," "goal," "target," "on track," "comfortable with," "optimistic" and similar words, although some forward-looking statements are expressed differently. You should consider statements that contain these words carefully because they describe our expectations, plans, strategies and goals and our beliefs concerning future business conditions, our results of operations, financial position, and our business outlook or they state other "forward-looking" information based on currently available information. The "Risk Factors" section of our 2007 Annual Report on Form 10-K provides examples of risks, uncertainties and events that could cause our actual results to differ materially from the expectations expressed in our forward-looking statements. Assumptions and other important factors that could cause our actual results to differ materially from those anticipated in our forward-looking statements include, among other things:

o general economic, market and political conditions, including the performance and fluctuations of the financial markets which may affect our ability to raise capital or refinance our existing indebtedness;

o our ability to obtain adequate and timely rate increases on our supplemental health products including our long-term care business;

o mortality, morbidity, the increased cost and usage of health care services, persistency, the adequacy of our previous reserve estimates and other factors which may affect the profitability of our insurance products;

o changes in our assumptions related to the cost of policies produced or the value of policies inforce at the Effective Date;

o the recoverability of our deferred tax asset and the effect of potential tax rate changes on its value;

o changes in accounting principles and the interpretation thereof;

o our ability to achieve anticipated expense reductions and levels of operational efficiencies including improvements in claims adjudication and continued automation and rationalization of operating systems;

o performance and valuation of our investments, including the impact of realized losses (including other-than-temporary impairment charges);

o our ability to identify products and markets in which we can compete effectively against competitors with greater market share, higher ratings, greater financial resources and stronger brand recognition;

o the ultimate outcome of lawsuits filed against us and other legal and regulatory proceedings to which we are subject;

o our ability to remediate the material weakness in internal controls over the actuarial reporting process that we identified at year-end 2006 and to maintain effective controls over financial reporting;

o our ability to continue to recruit and retain productive agents and distribution partners and customer response to new products, distribution channels and marketing initiatives;

o our ability to achieve eventual upgrades of the financial strength ratings of Conseco and our insurance company subsidiaries as well as the potential impact of rating downgrades on our business;

o the risk factors or uncertainties listed from time to time in our filings with the SEC;

o our ability to continue to satisfy the financial ratio and balance requirements and other covenants of our debt agreements;

o regulatory changes or actions, including those relating to regulation of the financial affairs of our insurance companies, such as the payment of dividends to us, regulation of financial services affecting (among other things) bank sales and underwriting of insurance products, regulation of the sale, underwriting and pricing of products, and health care regulation affecting health insurance products;

o changes in the Federal income tax laws and regulations which may affect or eliminate the relative tax advantages of some of our products; and

o the receipt of regulatory approval and consummation of the plan to transfer Senior Health to an independent trust.

Other factors and assumptions not identified above are also relevant to the forward-looking statements, and if they prove incorrect, could also cause actual results to differ materially from those projected.

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by the foregoing cautionary statement. Our forward-looking statements speak only as of the date made. We assume no obligation to update or to publicly announce the results of any revisions to any of the forward-looking statements to reflect actual results, future events or developments, changes in assumptions or changes in other factors affecting the forward-looking statements.

OVERVIEW

We are a holding company for a group of insurance companies operating throughout the United States that develop, market and administer supplemental health insurance, annuity, individual life insurance and other insurance products. We focus on serving the senior and middle-income markets, which we believe are attractive, underserved, high growth markets. We sell our products through three distribution channels: career agents, professional independent producers (some of whom sell one or more of our product lines exclusively) and direct marketing.

We manage our business through the following: three primary operating segments, Bankers Life, Colonial Penn and Conseco Insurance Group, which are defined on the basis of product distribution; a fourth segment comprised of other business in run-off; and corporate operations. Our segments are described below:

o Bankers Life, which consists of the business of Bankers Life and Casualty Company, markets and distributes Medicare supplement insurance, life insurance, long-term care insurance, Medicare Part D prescription drug program, Medicare Advantage products and certain annuity products to the senior market through career agents and sales managers. Bankers Life and Casualty Company markets its products under its own brand name and Medicare Part D and Medicare Advantage products primarily through marketing agreements with Coventry.

o Colonial Penn, which consists of the business of Colonial Penn Life Insurance Company ("Colonial Penn"), markets graded benefit and simplified issue life insurance directly to customers through television advertising, direct mail, the internet and telemarketing. Colonial Penn markets its products under its own brand name.

o Conseco Insurance Group, which markets and distributes specified disease insurance, Medicare supplement insurance, and certain life and annuity products to the senior and middle-income markets through independent marketing organizations that represent independent agents. This segment markets its products under the "Conseco" and "Washington National" brand names. Conseco Insurance Group includes the business of Conseco Health, Conseco Life, Conseco Insurance Company and Washington National Insurance Company, other than any run-off long-term care and major medical insurance issued by those companies. Such run-off business is included in the Other Business in Run-off segment.

o Other Business in Run-off, which includes blocks of business that we no longer market or underwrite and are managed separately from our other businesses. This segment consists of: (i) long-term care insurance sold in prior years through independent agents; and (ii) major medical insurance. The Other Business in Run-off segment is primarily comprised of long-term care business issued by Senior Health and Washington National Insurance Company, subsidiaries that were acquired in 1996 and 1997, respectively. As further discussed in the note to the consolidated financial statements entitled "Plan to Transfer Senior Health Insurance Company of Pennsylvania to an Independent Trust", the Company plans to transfer Senior Health to an independent trust. Over 85 percent of the insurance liabilities in this segment are expected to be transferred upon consummation of the transaction.

o Corporate operations, which consists of holding company activities and certain noninsurance company businesses that are not related to our operating segments.

Volatility in Financial Markets

Many portions of the financial market have recently experienced reduced liquidity, higher volatility and widening credit spreads mainly as a result of uncertainty arising from relatively poor performance in sectors of the mortgage market, concern about corporate credit quality and the impact of related losses on market participants. The stress experienced by the financial markets that began in the second half of 2007 continued and substantially increased during the third quarter of 2008. In connection with this uncertainty, we believe investors and lenders have retreated from many investments in mortgage related and structured securities, including collateralized mortgage-backed securities. During the first nine months of 2008, these market conditions contributed to the $1.6 billion increase in net unrealized investment losses (before amortization of insurance acquisition costs and income taxes) related to our $18.9 billion investment portfolio of fixed maturity securities. This increase in net unrealized investment losses reflects increased risk premium for certain security types. We believe these credit market conditions have contributed to a higher level of impairments in our investment portfolio. We expect to experience continued volatility in the valuation of our fixed maturity securities, as well as a relatively high level of credit-related investment losses, potentially including additional impairments of our investment portfolio.

CRITICAL ACCOUNTING POLICIES

Refer to "Critical Accounting Policies" in Conseco's 2007 Annual Report on Form 10-K for information on our accounting policies that we consider critical in preparing our consolidated financial statements.

RESULTS OF OPERATIONS

The following tables and narratives summarize the operating results of our segments for the periods presented (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007 (Restated)	2008	2007 (Restated)
Income (loss) before net realized investment gains (losses), net of related amortization and income taxes (a non-GAAP measure) (a):				
Bankers Life	$ 67.8	$ 67.5	$ 131.5	$ 183.5
Colonial Penn	6.5	7.0	18.5	18.3
Conseco Insurance Group	36.1	(66.5)	89.4	(13.7)
Other Business in Run-off	33.4	(19.5)	44.3	(175.9)
Corporate operations	(20.4)	(26.1)	(75.9)	(99.3)
	123.4	(37.6)	207.8	(87.1)
Net realized investment gains (losses), net of related amortization:				
Bankers Life	(40.4)	(1.9)	(67.4)	(7.4)
Colonial Penn	(1.5)	.3	(1.4)	.4
Conseco Insurance Group	(33.9)	(43.3)	(54.1)	(73.0)
Other Business in Run-off	(180.2)	1.9	(385.0)	1.6
Corporate operations	(4.6)	(4.7)	(25.1)	(5.9)
	(260.6)	(47.7)	(533.0)	(84.3)
Income (loss) before income taxes:				
Bankers Life	27.4	65.6	64.1	176.1
Colonial Penn	5.0	7.3	17.1	18.7
Conseco Insurance Group	2.2	(109.8)	35.3	(86.7)
Other Business in Run-off	(146.8)	(17.6)	(340.7)	(174.3)
Corporate operations	(25.0)	(30.8)	(101.0)	(105.2)
Loss before income taxes	$(137.2)	$ (85.3)	$(325.2)	$(171.4)

(a) These non-GAAP measures as presented in the above table and in the following segment financial data and discussions of segment results exclude net realized investment gains (losses), net of related amortization and before income taxes. These are considered non-GAAP financial measures. A non-GAAP measure is a numerical measure of a company's performance, financial position, or cash flows that excludes or includes amounts that are normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP.

These non-GAAP financial measures of "income (loss) before net realized investment gains (losses), net of related amortization, and before income taxes" differ from "income (loss) before income taxes" as presented in our consolidated statement of operations prepared in accordance with GAAP due to the exclusion of before tax realized investment gains (losses), net of related amortization. We measure segment performance for purposes of SFAS 131, excluding realized investment gains (losses) because we believe that this performance measure is a better indicator of the ongoing businesses and trends in our business. Our investment focus is on investment income to support our liabilities for insurance products as opposed to the generation of realized investment gains (losses), and a long-term focus is necessary to maintain profitability over the life of the business. Realized investment gains (losses) depend on market conditions and do not necessarily relate to decisions regarding the underlying business of our segments. However, "income (loss) before net realized investment gains (losses), net of related amortization, and before income taxes" does not replace "income (loss) before income taxes" as a measure of overall profitability. We may experience

realized investment gains (losses), which will affect future earnings levels since our underlying business is long-term in nature and we need to earn the assumed interest rates on the investments backing our liabilities for insurance products to maintain the profitability of our business. In addition, management uses this non-GAAP financial measure in its budgeting process, financial analysis of segment performance and in assessing the allocation of resources. We believe these non-GAAP financial measures enhance an investor's understanding of our financial performance and allows them to make more informed judgments about the Company as a whole. These measures also highlight operating trends that might not otherwise be transparent. The table above reconciles the non-GAAP measure to the corresponding GAAP measure.

General: Conseco is the top tier holding company for a group of insurance companies operating throughout the United States that develop, market and administer supplemental health insurance, annuity, individual life insurance and other insurance products. We distribute these products through our Bankers Life segment, which utilizes a career agency force, through our Colonial Penn segment, which utilizes direct response marketing, and through our Conseco Insurance Group segment, which utilizes professional independent producers. Our Other Business in Run-off segment consists of: (i) long-term care products sold in prior years through independent agents; and (ii) a very small amount of major medical insurance. Most of the long-term care business in run-off relates to business written by certain subsidiaries prior to their acquisitions by our Predecessor in 1996 and 1997.

Bankers Life (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007 (Restated)	2008	2007 (Restated)
Premium collections:				
Annuities	$ 316.7	$ 250.9	$ 803.6	$ 663.6
Supplemental health	478.7	402.8	1,385.0	1,125.7
Life	51.9	49.1	153.7	149.3
Total collections	$ 847.3	$ 702.8	$ 2,342.3	$1,938.6
Average liabilities for insurance products:				
Annuities:				
Mortality based	$ 254.2	$ 287.8	$ 252.6	$ 285.9
Equity-indexed	1,255.8	826.2	1,148.8	737.8
Deposit based	4,442.8	4,487.6	4,436.1	4,518.9
Health	3,921.2	3,601.0	3,846.0	3,531.7
Life:				
Interest sensitive	387.5	366.1	383.5	360.9
Non-interest sensitive	365.7	306.7	350.9	291.7
Total average liabilities for insurance products, net of reinsurance ceded	$10,627.2	$9,875.4	$10,417.9	$9,726.9
Revenues:				
Insurance policy income	$ 537.7	$ 473.6	$ 1,578.1	$1,309.6
Net investment income:				
General account invested assets	155.2	145.8	458.1	428.7
Equity-indexed products	(14.0)	(2.1)	(48.8)	6.8
Other special-purpose portfolios	(2.9)	.5	(6.5)	4.7
Fee revenue and other income	3.1	3.8	6.8	7.7
Total revenues	679.1	621.6	1,987.7	1,757.5
Expenses:				
Insurance policy benefits	470.3	404.9	1,402.4	1,085.7
Amounts added to policyholder account balances:				
Annuity products and interest-sensitive life products other than equity-indexed products	43.1	45.9	130.8	135.7
Equity-indexed products	3.1	9.0	(2.6)	24.9
Amortization related to operations	53.5	47.8	195.1	199.0
Other operating costs and expenses	41.3	46.5	130.5	128.7
Total expenses	611.3	554.1	1,856.2	1,574.0
Income before net realized investment losses, net of related amortization and income taxes	67.8	67.5	131.5	183.5
Net realized investment losses	(48.4)	(1.3)	(79.8)	(8.4)
Amortization related to net realized investment losses	8.0	(.6)	12.4	1.0
Net realized investment losses, net of related amortization	(40.4)	(1.9)	(67.4)	(7.4)
Income before income taxes	$ 27.4	$ 65.6	$ 64.1	$ 176.1

(continued)

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	Three months ended September 30,		Nine months ended September 30,	
	2008	2007 (Restated)	2008	2007 (Restated)
Health benefit ratios:				
All health lines:				
Insurance policy benefits..........................	$432.8	$360.5	$1,275.9	$953.3
Benefit ratio (a)................................	89.9%	87.2%	90.9%	84.3%
Medicare supplement:				
Insurance policy benefits..........................	$116.0	$111.3	$332.7	$325.4
Benefit ratio (a)................................	72.5%	69.4%	69.4%	67.1%
PDP and PFFS:				
Insurance policy benefits..........................	$157.4	$82.5	$430.2	$155.8
Benefit ratio (a)................................	95.1%	85.4%	94.4%	85.9%
Long-term care:				
Insurance policy benefits..........................	$159.4	$166.7	$513.0	$472.1
Benefit ratio (a)................................	102.1%	106.5%	109.4%	101.5%
Interest-adjusted benefit ratio (b)................	68.1%	75.2%	76.2%	70.6%

(a) We calculate benefit ratios by dividing the related product's insurance policy benefits by insurance policy income.

(b) We calculate the interest-adjusted benefit ratio (a non-GAAP measure) for Bankers Life's long-term care products by dividing such product's insurance policy benefits less interest income on the accumulated assets backing the insurance liabilities by policy income. These are considered non-GAAP financial measures. A non-GAAP measure is a numerical measure of a company's performance, financial position, or cash flows that excludes or includes amounts that are normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP.

These non-GAAP financial measures of "interest-adjusted benefit ratios" differ from "benefit ratios" due to the deduction of interest income on the accumulated assets backing the insurance liabilities from the product's insurance policy benefits used to determine the ratio. Interest income is an important factor in measuring the performance of health products that are expected to be inforce for a longer duration of time, are not subject to unilateral changes in provisions (such as non-cancelable or guaranteed renewable contracts) and require the performance of various functions and services (including insurance protection) for an extended period of time. The net cash flows from long-term care products generally cause an accumulation of amounts in the early years of a policy (accounted for as reserve increases) that will be paid out as benefits in later policy years (accounted for as reserve decreases). Accordingly, as the policies age, the benefit ratio will typically increase, but the increase in benefits will be partially offset by interest income earned on the accumulated assets. The interest-adjusted benefit ratio reflects the effects of the interest income offset. Since interest income is an important factor in measuring the performance of this product, management believes a benefit ratio that includes the effect of interest income is useful in analyzing product performance. We utilize the interest-adjusted benefit ratio in measuring segment performance for purposes of SFAS 131 because we believe that this performance measure is a better indicator of the ongoing businesses and trends in the business. However, the "interest-adjusted benefit ratio" does not replace the "benefit ratio" as a measure of current period benefits to current period insurance policy income. Accordingly, management reviews both "benefit ratios" and "interest-adjusted benefit ratios" when analyzing the financial results attributable to these products. The investment income earned on the accumulated assets backing Bankers Life's long-term care reserves was $53.0 million and $49.0 million in the three months ended September 30, 2008 and 2007, respectively, and $156.0 million and $143.7 million in the nine months ended September 30, 2008 and 2007, respectively.

Total premium collections were $847.3 million in the third quarter of 2008, up 21 percent from 2007 and were $2,342.3 million in the first nine months of 2008, up 21 percent from 2007. Premium collections include $167.4 million and

$92.9 million in the third quarters of 2008 and 2007, respectively, and $446.2 million and $176.4 million in the first nine months of 2008 and 2007, respectively, of premiums collected pursuant to quota-share agreements with Coventry. See "Premium Collections" for further analysis of Bankers Life's premium collections.

Average liabilities for insurance products, net of reinsurance ceded were $10.6 billion in the third quarter of 2008, up 7.6 percent from 2007. Average liabilities for insurance products, net of reinsurance ceded, were $10.4 billion in the first nine months of 2008, up 7.1 percent from 2007. The increase in such liabilities was primarily due to increases in annuity and health reserves resulting from new sales of these products.

Insurance policy income is comprised of premiums earned on policies which provide mortality or morbidity coverage and fees and other charges assessed on other policies. Insurance policy income includes $165.6 million and $96.8 million in the third quarters of 2008 and 2007, respectively, and $455.8 million and $181.4 million in the nine months ended September 30, 2008 and 2007, respectively, of premium income from the quota-share agreements with Coventry.

Net investment income on general account invested assets (which excludes income on policyholder accounts) was $155.2 million in the third quarter of 2008, up 6.4 percent from 2007 and was $458.1 million in the first nine months of 2008, up 6.9 percent from 2007. The average balance of general account invested assets was $10.7 billion and $10.1 billion in the third quarters of 2008 and 2007, respectively. The average yield on these assets was 5.82 percent and 5.78 percent in the third quarters of 2008 and 2007, respectively. The average balance of general account invested assets was $10.5 billion and $9.9 billion in the first nine months of 2008 and 2007, respectively. The average yield on these assets was 5.82 percent and 5.77 percent in the first nine months of 2008 and 2007, respectively. The increase in general account invested assets is primarily due to sales of our annuity and health products in recent periods.

Net investment income related to equity-indexed products represents the change in the estimated fair value of options which are purchased in an effort to hedge certain potential benefits accruing to the policyholders of our equity-indexed products. Our equity-indexed products are designed so that the investment income spread earned on the related insurance liabilities is expected to be more than adequate to cover the cost of the options and other costs related to these policies. Net investment gains (losses) related to equity-indexed products were $(15.9) million and $(2.1) million in the third quarters of 2008 and 2007, respectively, and were $(51.0) million and $6.8 million in the first nine months of 2008 and 2007, respectively. Such amounts also include income (loss) on trading securities which are held to act as hedges for embedded derivatives related to equity-indexed products. Such trading account income (loss) was $1.9 million and $2.2 million in the three and nine months ended September 30, 2008, respectively. There was no such trading account income in the 2007 periods. Such amounts are generally offset by the corresponding charge (credit) to amounts added to policyholder account balances for equity-indexed products based on the change in value of the indices. Such income and related charges fluctuate based on the value of options embedded in the segment's equity-indexed annuity policyholder account balances subject to this benefit and to the performance of the index to which the returns on such products are linked.

Our results in the three and nine months ended September 30, 2008, were affected by a reduction to earnings of $6.6 million and $16.4 million, respectively, related to equity-indexed annuity products (such variance primarily resulted from the change in the value of the embedded derivative related to future indexed benefits reported at estimated fair value in accordance with accounting requirements, including a $2.0 million charge in the first quarter of 2008 related to the adoption of SFAS 157).

Net investment income on other special-purpose portfolios includes the income related to Company-owned life insurance ("COLI") which was purchased as an investment vehicle to fund the deferred compensation plan for certain agents. The COLI assets are not assets of the deferred compensation plan, and as a result, are accounted for outside the plan and are recorded in the consolidated balance sheet as other invested assets. Changes in the cash surrender value (which approximates net realizable value) of the COLI assets are recorded as net investment income (loss) and totaled $(2.9) million and $.5 million in the third quarters of 2008 and 2007, respectively, and $(6.5) million and $2.0 million in the nine months ended September 30, 2008 and 2007, respectively. Also during the first quarter of 2007, we recognized a death benefit of $2.7 million under the COLI as income.

Insurance policy benefits fluctuated as a result of the factors summarized below for benefit ratios. Benefit ratios are calculated by dividing the related insurance product's insurance policy benefits by insurance policy income.

The Medicare supplement business consists of both individual and group policies. Governmental regulations generally require us to attain and maintain a ratio of total benefits incurred to total premiums earned (excluding changes in policy benefit reserves), after three years from the original issuance of the policy and over the lifetime of the policy, of not less than 65 percent on individual products and not less than 75 percent on group products, as determined in accordance with statutory accounting principles. Since the insurance product liabilities we establish for Medicare supplement business are subject to significant estimates, the ultimate claim liability we incur for a particular period is likely to be different than our initial estimate. Our insurance policy benefits reflected reserve redundancies from prior years of $.1 million and $3.4 million in the first nine months of 2008 and 2007, respectively. Excluding the effects of prior period claim reserve redundancies, our benefit ratios would have been 69.5 percent and 67.8 percent in the first nine months of 2008 and 2007, respectively.

The insurance policy benefits on our prescription drug plan ("PDP") and PFFS business result from our quota-share reinsurance agreements with Coventry. We began assuming the PDP business on January 1, 2006 and the PFFS business on January 1, 2007. Effective May 1, 2008 and July 1, 2007, we entered into new PFFS quota-share reinsurance agreements to assume a specified percentage of the business written by Coventry under two large group policies. During the second quarter of 2008, we recognized a $3 million increase in insurance policy benefits due to changes in our estimates of prior period claim costs on the PFFS business we assume from Coventry. In addition, our benefit ratio on this block has increased as a result of the recent addition of new PFFS groups through quota-share reinsurance agreements. The expected benefit ratio on the PFFS business is higher than the expected benefit ratio on the PDP business. Accordingly, the overall benefit ratio has increased since the PFFS business is now a larger percentage of the entire block.

The net cash flows from our long-term care products generally cause an accumulation of amounts in the early years of a policy (accounted for as reserve increases) which will be paid out as benefits in later policy years (accounted for as reserve decreases). Accordingly, as the policies age, the benefit ratio typically increases, but the increase in reserves is partially offset by investment income earned on the accumulated assets. The benefit ratio on this business has increased over the last year, consistent with the aging of this block. In addition, the older policies have not lapsed at the rate we assumed in our pricing. The benefit ratio on our entire block of long-term care business in the Bankers Life segment was 102.1 percent and 106.5 percent in the third quarters of 2008 and 2007, respectively, and 109.4 percent and 101.5 percent in the first nine months of 2008 and 2007, respectively. The interest-adjusted benefit ratio on this business was 68.1 percent and 75.2 percent in the third quarters of 2008 and 2007, respectively, and 76.2 percent and 70.6 percent in the first nine months of 2008 and 2007, respectively. Since the insurance product liabilities we establish for long-term care business are subject to significant estimates, the ultimate claim liability we incur for a particular period is likely to be different than our initial estimate. Our insurance policy benefits reflected reserve deficiencies from prior years of $6.2 million and $2.8 million in the first nine months of 2008 and 2007, respectively. Excluding the effects of prior year claim reserve deficiencies, our benefit ratios would have been 108.1 percent and 100.9 percent in the first nine months of 2008 and 2007, respectively. The benefit ratio for the first nine months of 2008 reflected an increase in the number of incurred claims; however, incurred claims in the third quarter of 2008 were lower than the comparable period in 2007.

As a result of higher persistency in our long-term care block in the Bankers Life segment than assumed in the original pricing, our premium rates were too low. Accordingly, we began a program in 2006 to seek approval from regulatory authorities for rate increases on approximately 65 percent of this block. As an alternative to the rate increase, policyholders were offered the option: (i) to reduce their benefits to maintain their previous premium rates; or (ii) to choose a nonforfeiture benefit equal to the sum of accumulated premiums paid less claims received. We have received all expected regulatory approvals and have implemented these rate increases. In addition, another round of increases was filed during the second and third quarters of 2007 on newer long-term care, home health care, and short-term care policies not included in the first round of rate increases. The policies in this round represent approximately 25 percent of the inforce block. As of September 30, 2008, all such filings had been submitted for regulatory approval, and approximately 65 percent of the rate increases had been approved by regulators and implemented. Remaining approvals and implementations are expected to occur over the next six to twelve months. Finally, an additional rate increase on the 65 percent of the block that received an increase in 2006 was filed in the third quarter of 2008. As of September 30, 2008, approximately 10 percent of the rate increases had been approved by regulators and implemented. The remaining approvals and implementations of this rate increase are expected to occur by the end of 2009.

Amounts added to policyholder account balances for annuity products and interest-sensitive life products were $43.1 million in the third quarter of 2008, down 6.1 percent from 2007, and were $130.8 million in the first nine months of 2008, down 3.6 percent from 2007. The weighted average crediting rate for these products was 3.6 percent and 3.8 percent in

the third quarters of 2008 and 2007, respectively, and 3.6 percent and 3.7 percent in the first nine months of 2008 and 2007, respectively.

Amounts added to equity-indexed products based on change in value of the indices fluctuated with the corresponding related investment income accounts described above.

Amortization related to operations includes amortization of insurance acquisition costs. Insurance acquisition costs are generally amortized either:
(i) in relation to the estimated gross profits for universal life and investment-type products; or (ii) in relation to actual and expected premium revenue for other products. In addition, for universal life and investment-type products, we are required to adjust the total amortization recorded to date through the statement of operations if actual experience or other evidence suggests that earlier estimates of future gross profits should be revised. Accordingly, amortization for universal life and investment-type products is dependent on the profits realized during the period and on our expectation of future profits. For other products, we amortize insurance acquisition costs in relation to actual and expected premium revenue, and amortization is only adjusted if expected premium revenue changes or if we determine the balance of these costs is not recoverable from future profits. Bankers Life's amortization expense was $53.5 million and $47.8 million in the third quarters of 2008 and 2007, respectively, and $195.1 million and $199.0 million in the first nine months of 2008 and 2007, respectively. During the first nine months of 2008 and 2007, we experienced higher lapses than we anticipated on our Medicare supplement products. These lapses reduced our estimates of future expected premium income and, accordingly, we recognized additional amortization expense of $12.2 million in the first nine months of 2008 (none of which was recognized in the third quarter of 2008) and $25.4 million in the first nine months of 2007 (none of which was recognized in the third quarter of 2007). We believe such increases were partially related to competition from Medicare Advantage products. During the third quarter of 2007, amortization of insurance acquisition costs related to our annuity products decreased by $3.4 million due to changes in the assumptions for the yield on investments (reflecting the higher than expected yields we have been earning on the investments backing our annuity products).

Other operating costs and expenses in our Bankers Life segment were $41.3 million in the third quarter of 2008, down 11 percent from 2007, and were $130.5 million in the first nine months of 2008, up 1.4 percent from 2007. These fluctuations were largely due to the expenses related to the marketing and quota-share agreements with Coventry and fluctuations in legal expenses. Other operating costs and expenses include the following (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Expenses related to the marketing and quota-share agreements with Coventry	$ 9.6	$ 7.7	$ 29.3	$ 16.1
Commission expense	4.8	4.8	15.2	15.8
Other operating expenses	26.9	34.0	86.0	96.8
Total	$41.3	$46.5	$130.5	$128.7

Net realized investment losses fluctuate each period. During the first nine months of 2008, net realized investment losses in this segment included $20.3 million of net losses from the sales of investments (primarily fixed maturities), and $59.5 million of writedowns of investments resulting from declines in fair values that we concluded were other than temporary. During the first nine months of 2007, net realized investment losses in this segment included $7.9 million of net losses from the sales of investments (primarily fixed maturities), and a $.5 million writedown of an investment resulting from a decline in fair value that we concluded was other than temporary.

Amortization related to net realized investment losses is the increase or decrease in the amortization of insurance acquisition costs which results from realized investment gains or losses. When we sell securities which back our universal life and investment-type products at a gain (loss) and reinvest the proceeds at a different yield, we increase (reduce) the amortization of insurance acquisition costs in order to reflect the change in estimated gross profits due to the gains (losses) realized and the resulting effect on estimated future yields. Sales of fixed maturity investments resulted in an increase (decrease) in the amortization of insurance acquisition costs of $(8.0) million and $.6 million in the third quarters of 2008 and 2007, respectively, and $(12.4) million and $(1.0) million in the first nine months of 2008 and 2007, respectively.

Colonial Penn (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Premium collections:				
Life	$ 43.6	$ 29.3	$130.3	$ 82.0
Supplemental health	2.2	2.6	6.8	7.9
Total collections	$ 45.8	$ 31.9	$137.1	$ 89.9
Average liabilities for insurance products:				
Annuities-mortality based	$ 85.6	$ 88.5	$ 86.4	$ 89.0
Health	20.5	22.7	21.0	23.1
Life:				
Interest sensitive	25.0	25.5	25.1	26.2
Non-interest sensitive	562.8	558.6	562.0	558.6
Total average liabilities for insurance products, net of reinsurance ceded	$693.9	$695.3	$694.5	$696.9
Revenues:				
Insurance policy income	$ 46.4	$ 32.5	$138.3	$ 91.2
Net investment income:				
General account invested assets	10.1	9.4	29.9	28.3
Trading account income related to reinsurer accounts	-	2.3	(.5)	(3.2)
Change in value of embedded derivative related to a modified coinsurance agreement	-	(2.3)	-	3.2
Fee revenue and other income	.5	.2	1.3	.5
Total revenues	57.0	42.1	169.0	120.0
Expenses:				
Insurance policy benefits	33.9	26.3	104.4	75.8
Amounts added to annuity and interest-sensitive life product account balances	.3	.3	.9	.9
Amortization related to operations	9.2	5.1	24.0	14.8
Other operating costs and expenses	7.1	3.4	21.2	10.2
Total expenses	50.5	35.1	150.5	101.7
Income before net realized investment gains (losses) and income taxes	6.5	7.0	18.5	18.3
Net realized investment gains (losses)	(1.5)	.3	(1.4)	.4
Income before income taxes	$ 5.0	$ 7.3	$ 17.1	$ 18.7

Total premium collections were $45.8 million in the third quarter of 2008, up 44 percent from 2007, and were $137.1 million in the first nine months of 2008, up 53 percent from 2007. See "Premium Collections" for further analysis of Colonial Penn's premium collections.

Insurance policy income is comprised of premiums earned on policies which provide mortality or morbidity coverage and fees and other charges assessed on other policies. The increase in the 2008 periods reflects: (i) the recapture of the

modified coinsurance agreement in the fourth quarter of 2007; and (ii) the growth in this segment in recent periods. See "Premium Collections" for further analysis.

Net investment income on general account invested assets (which excludes income on policyholder and reinsurer accounts) was $10.1 million in the third quarter of 2008, up 7.4 percent from 2007 and was $29.9 million in the first nine months of 2008, up 5.7 percent from 2007. The average balance of general account invested assets was $674.3 million and $658.6 million in the third quarters of 2008 and 2007, respectively. The average yield on these assets was 6.02 percent and 5.71 percent in the third quarters of 2008 and 2007, respectively. The average balance of general account invested assets was $677.5 million and $666.9 million in the first nine months of 2008 and 2007, respectively. The average yield on these assets was 5.90 percent and 5.66 percent in the first nine months of 2008 and 2007, respectively.

Trading account income related to reinsurer accounts represents the income on trading securities, which were designed to act as hedges for embedded derivatives related to a modified coinsurance agreement. The income on our trading account securities was designed to be substantially offset by the change in value of embedded derivatives related to the modified coinsurance agreement described below. As a result of the recapture of a modified coinsurance agreement in the fourth quarter of 2007, such trading account securities were sold in the first quarter of 2008.

Change in value of embedded derivatives related to a modified coinsurance agreement is described in the note to our consolidated financial statements entitled "Accounting for Derivatives." We had transferred the specific block of investments related to this agreement to our trading account, which we carried at estimated fair value with changes in such value recognized as trading account income. The change in the value of the embedded derivative was largely offset by the change in value of the trading securities. As a result of the recapture of the modified coinsurance agreement in the fourth quarter of 2007, the embedded derivative related to the agreement was eliminated.

Insurance policy benefits fluctuated as a result of: (i) the recapture of the modified coinsurance agreement in the fourth quarter of 2007; and (ii) the growth in this segment in recent periods.

Amortization related to operations includes amortization of insurance acquisition costs. Insurance acquisition costs in the Colonial Penn segment are amortized in relation to actual and expected premium revenue, and amortization is only adjusted if expected premium revenue changes or if we determine the balance of these costs is not recoverable from future profits. Such amounts were generally consistent with the related premium revenue and gross profits for such periods and the assumptions we made when we established the value of policies inforce as of the Effective Date. A revision to our current assumptions could result in increases or decreases to amortization expense in future periods. Amortization was negatively impacted in the third quarter of 2008 by a $1.3 million adjustment that is not expected to recur.

Other operating costs and expenses in our Colonial Penn segment increased by 109 percent, to $7.1 million, in the third quarter of 2008, and by 108 percent to $21.2 million, in the first nine months of 2008 as compared to the same periods in 2007 primarily due to: (i) the recapture of the modified coinsurance agreement in the fourth quarter of 2007; and (ii) the growth in this segment in recent periods.

Net realized investment gains (losses) fluctuate each period. During the first nine months of 2008, net realized investment losses in this segment included $.2 million of net losses from the sales of investments (primarily fixed maturities), and $1.2 million of writedowns of investments resulting from declines in fair values that we concluded were other than temporary. During the first nine months of 2007, we recognized net realized investment gains in this segment of $.4 million from the sales of investments (primarily fixed maturities). There were no writedowns in the first nine months of 2007.

Conseco Insurance Group (dollars in millions):

	Three months ended September 30, 2008	Three months ended September 30, 2007 (Restated)	Nine months ended September 30, 2008	Nine months ended September 30, 2007 (Restated)
Premium collections:				
Annuities	$ 27.4	$ 77.5	$ 106.1	$ 310.6
Supplemental health	142.9	145.6	436.1	447.2
Life	67.8	71.3	206.6	218.5
Total collections	$ 238.1	$ 294.4	$ 748.8	$ 976.3
Average liabilities for insurance products:				
Annuities:				
Mortality based	$ 219.8	$ 229.0	$ 221.5	$ 231.3
Equity-indexed	893.9	1,688.2	893.2	1,627.5
Deposit based	741.3	2,747.7	765.7	2,844.9
Separate accounts	23.3	28.4	24.8	28.6
Health	2,513.7	2,460.7	2,500.7	2,450.6
Life:				
Interest sensitive	2,937.5	3,057.5	2,951.6	3,060.4
Non-interest sensitive	1,381.8	1,386.2	1,401.7	1,363.5
Total average liabilities for insurance products, net of reinsurance ceded	$8,711.3	$11,597.7	$8,759.2	$11,606.8
Revenues:				
Insurance policy income	$ 228.5	$ 238.7	$ 692.5	$ 717.0
Net investment income:				
General account invested assets	139.2	185.9	421.7	547.8
Equity-indexed products	(6.8)	(2.7)	(27.3)	10.4
Trading account income related to policyholder and reinsurer accounts	(8.3)	2.3	(12.6)	2.6
Change in value of embedded derivatives related to modified coinsurance agreements	2.7	(.4)	5.6	1.8
Other trading accounts	-	(3.9)	-	(3.5)
Fee revenue and other income	.1	.1	1.2	.4
Total revenues	355.4	420.0	1,081.1	1,276.5
Expenses:				
Insurance policy benefits	186.6	200.7	579.0	599.5
Amounts added to policyholder account balances:				
Annuity products and interest-sensitive life products other than equity-indexed products	38.4	57.0	116.8	173.9
Equity-indexed products	4.3	19.4	6.6	56.5
Amortization related to operations	24.6	41.2	85.7	126.4
Interest expense on investment borrowings	5.6	6.2	16.9	11.5
Costs related to a litigation settlement	-	8.2	-	32.2
Loss related to an annuity coinsurance transaction	-	76.5	-	76.5
Other operating costs and expenses	59.8	77.3	186.7	213.7
Total expenses	319.3	486.5	991.7	1,290.2
Income (loss) before net realized investment losses, net of related amortization and income taxes	36.1	(66.5)	89.4	(13.7)
Net realized investment losses	(35.9)	(51.8)	(58.2)	(106.5)
Amortization related to net realized investment losses	2.0	8.5	4.1	33.5
Net realized investment losses, net of related amortization	(33.9)	(43.3)	(54.1)	(73.0)
Income (loss) before income taxes	$ 2.2	$ (109.8)	$ 35.3	$ (86.7)

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	Three months ended September 30, 2008	Three months ended September 30, 2007 (Restated)	Nine months ended September 30, 2008	Nine months ended September 30, 2007 (Restated)
Health benefit ratios:				
All health lines:				
Insurance policy benefits	$115.0	$115.0	$339.9	$334.3
Benefit ratio (a)	79.5%	76.9%	77.7%	73.8%
Medicare supplement:				
Insurance policy benefits	$36.7	$39.3	$108.9	$119.8
Benefit ratio (a)	73.0%	68.6%	70.2%	68.1%
Specified disease:				
Insurance policy benefits	$76.3	$73.9	$225.5	$207.7
Benefit ratio (a)	82.6%	81.9%	81.6%	76.9%
Interest-adjusted benefit ratio (b)	48.5%	49.1%	47.7%	44.1%
Other:				
Insurance policy benefits	2.0	$1.8	$5.5	$6.8
Benefit ratio(a)	99.4%	91.2%	92.6%	100.4%

(a) We calculate benefit ratios by dividing the related product's insurance policy benefits by insurance policy income.

(b) We calculate the interest-adjusted benefit ratio (a non-GAAP measure) for Conseco Insurance Group's specified disease products by dividing such product's insurance policy benefits less interest income on the accumulated assets backing the insurance liabilities by policy income. These are considered non-GAAP financial measures. A non-GAAP measure is a numerical measure of a company's performance, financial position, or cash flows that excludes or includes amounts that are normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP.

These non-GAAP financial measures of "interest-adjusted benefit ratios" differ from "benefit ratios" due to the deduction of interest income on the accumulated assets backing the insurance liabilities from the product's insurance policy benefits used to determine the ratio. Interest income is an important factor in measuring the performance of health products that are expected to be inforce for a longer duration of time, are not subject to unilateral changes in provisions (such as non-cancelable or guaranteed renewable contracts) and require the performance of various functions and services (including insurance protection) for an extended period of time. In addition, interest income is an important factor in measuring the performance of this product, since approximately three-fourths of these policies have return of premium or cash value riders. The net cash flows from specified disease products generally cause an accumulation of amounts in the early years of a policy (accounted for as reserve increases) that will be paid out as benefits in later policy years (accounted for as reserve decreases). Accordingly, as the policies age, the benefit ratio will typically increase, but the increase in benefits will be partially offset by interest income earned on the accumulated assets. The interest-adjusted benefit ratio reflects the effects of the interest income offset. Since interest income is an important factor in measuring the performance of this product, management believes a benefit ratio that includes the effect of interest income is useful in analyzing product performance. We utilize the interest-adjusted benefit ratio in measuring segment performance for purposes of SFAS 131 because we believe that this performance measure is a better indicator of the ongoing businesses and trends in the business. However, the "interest-adjusted benefit ratio" does not replace the "benefit ratio" as a measure of current period benefits to current period insurance policy income. Accordingly, management reviews both "benefit ratios" and "interest-adjusted benefit ratios" when analyzing the financial results attributable to these products. The investment income earned on the accumulated assets backing the specified disease reserves was $31.5 million and $29.6 million in the three months ended September 30, 2008 and 2007, respectively, and $93.5 million and $88.6 million in the nine months ended September 30, 2008 and 2007, respectively.

Annuity coinsurance transaction: On October 12, 2007, we completed a transaction to coinsure 100 percent of most of the older inforce equity-indexed annuity and fixed annuity business of three of our insurance subsidiaries with REALIC. The transaction was recorded in our financial statements on September 28, 2007, the date the parties were bound by the coinsurance agreement and all regulatory approvals had been obtained. In the transaction, REALIC: (i) paid a ceding commission of $76.5 million; and (ii) assumed the investment and persistency risk of these policies. Our insurance subsidiaries ceded approximately $2.8 billion of policy and other reserves to REALIC, as well as transferred the invested assets backing these policies on October 12, 2007. Our insurance subsidiaries remain primarily liable to the policyholders in the event REALIC does not fulfill its obligations under the agreements. The coinsurance transaction had an effective date of January 1, 2007.

Pursuant to the terms of the annuity coinsurance agreement, the ceding commission was based on the January 1, 2007 value of the assets and liabilities related to the ceded block. The earnings (loss) after income taxes on the business from January 1, 2007 through September 28, 2007, were included in our consolidated financial statements until the transaction was completed. Upon completion, the earnings on this block of business were included as a component of the loss on the transaction which was recognized in the third quarter of 2007. Such after-tax earnings (loss) include the market value declines on invested assets transferred to the reinsurer occurring during the first three quarters of 2007. As a result, the comparison of this segment's operating results between periods is impacted by the coinsurance transaction.

Total premium collections were $238.1 million in the third quarter of 2008, down 19 percent from 2007 and were $748.8 million in the first nine months of 2008, down 23 percent from 2007. The decrease in collected premiums was primarily due to lower equity-indexed annuity sales as we changed the pricing of specific products and no longer emphasized the sale of certain products since the second half of 2007. See "Premium Collections" for further analysis.

Average liabilities for insurance products, net of reinsurance ceded were $8.7 billion in the third quarter of 2008, down 25 percent from 2007. Average liabilities for insurance products, net of reinsurance ceded were $8.8 billion in the first nine months of 2008, down 25 percent from 2007. The decrease in such liabilities was primarily due to the coinsurance transaction discussed above and policyholder redemptions and lapses exceeding new sales.

Insurance policy income is comprised of premiums earned on traditional insurance policies which provide mortality or morbidity coverage and fees and other charges assessed on other policies. The decrease in insurance policy income is primarily due to lower income from Medicare supplement products due to lapses exceeding new sales and lower premiums from our life insurance block. See "Premium Collections" for further analysis.

Net investment income on general account invested assets (which excludes income on policyholder and reinsurer accounts) was $139.2 million in the third quarter of 2008, down 25 percent from 2007 and was $421.7 million in the first nine months of 2008, down 23 percent from 2007. The average balance of general account invested assets was $9.5 billion and $12.5 billion in the third quarters of 2008 and 2007, respectively. Net investment income and the average balance of general account invested assets both decreased as a result of the coinsurance agreement discussed above. The average yield on these assets was 5.84 percent and 5.96 percent in the third quarters of 2008 and 2007, respectively. The average balance of general account invested assets was $9.6 billion and $12.4 billion in the first nine months of 2008 and 2007, respectively. The average yield on these assets was 5.85 percent and 5.90 percent in the first nine months of 2008 and 2007, respectively.

Net investment income related to equity-indexed products represents the change in the estimated fair value of options which are purchased in an effort to hedge certain potential benefits accruing to the policyholders of our equity-indexed products. Our equity-indexed products are designed so that the investment income spread earned on the related insurance liabilities is expected to be more than adequate to cover the cost of the options and other costs related to these policies. Net investment gains (losses) related to equity-indexed products were $(7.9) million and $(2.9) million in the third quarters of 2008 and 2007, respectively, and $(28.6) million and $13.1 million in the first nine months of 2008 and 2007, respectively. Such amounts also include income on trading securities which are held to act as hedges for embedded derivatives related to equity-indexed products. Such trading account income (loss) was $1.1 million and $.2 million in the third quarters of 2008 and 2007, respectively, and was $1.3 million and $(2.7) million in the first nine months of 2008 and 2007, respectively. Such amounts were mostly offset by the corresponding charge (credit) to amounts added to policyholder account balances for equity-indexed products. Such income and related charges fluctuate based on the value of options embedded in the segment's equity-indexed annuity policyholder account balances subject to this benefit and to the performance of the indices to which the returns on such products are linked.

Our results in the three and nine months ended September 30, 2008, were affected by a reduction to earnings of $1.4 million and $4.4 million, respectively, related to equity-indexed annuity products (such variance primarily resulted from the change in the value of the embedded derivative related to future indexed benefits reported at estimated fair value in accordance with accounting requirements, including a $.8 million charge in the first quarter of 2008 related to the adoption of SFAS 157).

Trading account income related to policyholder and reinsurer accounts represents the income on trading securities which are designed to act as hedges for embedded derivatives related to certain modified coinsurance agreements. In addition, such income includes the income on investments backing the market strategies of certain annuity products which provide for different rates of cash value growth based on the experience of a particular market strategy. The income on our trading account securities is designed to substantially offset: (i) the change in value of embedded derivatives related to modified coinsurance agreements described below; and (ii) certain amounts included in insurance policy benefits related to the aforementioned annuity products.

Change in value of embedded derivatives related to modified coinsurance agreements is described in the note to our consolidated financial statements entitled "Accounting for Derivatives." We have transferred the specific block of investments related to these agreements to our trading securities account, which we carry at estimated fair value with changes in such value recognized as trading account income. The change in the value of the embedded derivatives has largely been offset by the change in value of the trading securities.

Net investment income on other trading accounts includes: (i) the change in the fair value of a trading securities portfolio; and (ii) the change in fair value of interest rate swaps. The trading securities were carried at estimated fair value with changes in such value recognized as trading income. The change in the value of the interest rate swaps was recognized in trading income. Prior to December 31, 2007, these fixed rate securities were sold and the associated interest rate swaps were terminated.

Insurance policy benefits were affected by a number of items as summarized below.

Insurance margins (insurance policy income less insurance policy benefits) related to life products were comparable in the third quarters of 2008 and 2007 and increased $2.9 million in the first nine months of 2008, as compared to the same periods in 2007. Such fluctuations are primarily due to changes in mortality.

Insurance policy benefits also fluctuated as a result of the factors summarized below for benefit ratios. Benefit ratios are calculated by dividing the related insurance product's insurance policy benefits by insurance policy income.

The benefit ratios on Conseco Insurance Group's Medicare supplement products have been impacted by an increase in policyholder lapses following our premium rate increase actions and competition from companies offering Medicare Advantage products. We establish active life reserves for these policies, which are in addition to amounts required for incurred claims. When policies lapse, active life reserves for such lapsed policies are released, resulting in decreased insurance policy benefits (although such decrease is substantially offset by additional amortization expense). In addition, the insurance product liabilities we establish for our Medicare supplement business are subject to significant estimates and the ultimate claim liability we incur for a particular period is likely to be different than our initial estimate. Our insurance policy benefits reflected claim reserve redundancies from prior years of $2.4 million and $1.2 million in the first nine months of 2008 and 2007, respectively. Excluding the effects of prior year claim reserve redundancies, our benefit ratios for the Medicare supplement block would have been 71.7 percent and 68.8 percent in the first nine months of 2008 and 2007, respectively. Governmental regulations generally require us to attain and maintain a ratio of total benefits incurred to total premiums earned (excluding changes in policy benefit reserves), after three years from the original issuance of the policy and over the lifetime of the policy, of not less than 65 percent on these products, as determined in accordance with statutory accounting principles. Insurance margins (insurance policy income less insurance policy benefits) on these products were $13.6 million and $18.0 million in the third quarters of 2008 and 2007, respectively, and $46.3 million and $56.1 million in the first nine months of 2008 and 2007, respectively. Such decrease is primarily due to lower sales and higher incurred claims.

Conseco Insurance Group's specified disease products generally provide fixed or limited benefits. For example, payments under cancer insurance policies are generally made directly to, or at the direction of, the policyholder following

diagnosis of, or treatment for, a covered type of cancer. Approximately three-fourths of our specified disease policies inforce (based on policy count) are sold with return of premium or cash value riders. The return of premium rider generally provides that after a policy has been inforce for a specified number of years or upon the policyholder reaching a specified age, we will pay to the policyholder, or a beneficiary under the policy, the aggregate amount of all premiums paid under the policy, without interest, less the aggregate amount of all claims incurred under the policy. The cash value rider is similar to the return of premium rider, but also provides for payment of a graded portion of the return of premium benefit if the policy terminates before the return of premium benefit is earned. Accordingly, the net cash flows from these products generally result in the accumulation of amounts in the early years of a policy (accounted for as reserve increases) which will be paid out as benefits in later policy years (accounted for as reserve decreases). As the policies age, the benefit ratio will typically increase, but the increase in benefits will be partially offset by investment income earned on the accumulated assets.

The benefit ratio will fluctuate depending on the claim experience during the year. Insurance margins (insurance policy income less insurance policy benefits) on these products were $16.1 million and $16.3 million in the third quarters of 2008 and 2007, respectively, and were $51.0 million and $62.3 million in the first nine months of 2008 and 2007, respectively. The decrease in margins in the 2008 periods is primarily due to higher incurred claims.

The benefit ratios on Conseco Insurance Group's other products are subject to fluctuations due to the smaller size of these blocks of business.

Amounts added to policyholder account balances for annuity products and interest-sensitive life products were $38.4 million in the third quarter of 2008, down 33 percent from 2007 and were $116.8 million in the first nine months of 2008, down 33 percent from 2007. The decrease was primarily a result of the coinsurance agreement discussed above. The weighted average crediting rate for these products was 4.2 percent and 4.0 percent in the first nine months of 2008 and 2007, respectively. In addition, amounts added to policyholder account balances for annuity products in the first quarter of 2008 includes a $3.0 million out-of-period expense to reflect previously unrecognized benefits on certain annuity policies.

Amounts added to equity-indexed products generally fluctuate with the corresponding related investment income accounts described above.

Amortization related to operations includes amortization of insurance acquisition costs. Insurance acquisition costs are generally amortized either:
(i) in relation to the estimated gross profits for universal life and investment-type products; or (ii) in relation to actual and expected premium revenue for other products. In addition, for universal life and investment-type products, we are required to adjust the total amortization recorded to date through the statement of operations if actual experience or other evidence suggests that earlier estimates of future gross profits should be revised. Accordingly, amortization for universal life and investment-type products is dependent on the profits realized during the period and on our expectation of future profits. For other products, we amortize insurance acquisition costs in relation to actual and expected premium revenue, and amortization is only adjusted if expected premium revenue changes or if we determine the balance of these costs is not recoverable from future profits. The assumptions we use to estimate our future gross profits and premiums involve significant judgment. A revision to our current assumptions could result in increases or decreases to amortization expense in future periods. The decrease in amortization expense in the 2008 periods, as compared to the same periods in 2007, was primarily a result of the coinsurance agreement discussed above.

In addition, during the 2007 periods, we were required to accelerate the amortization of insurance acquisition costs related to our universal life products because the prior balance was not recoverable by the value of future estimated gross profits on this block. This additional amortization was necessary so that our insurance acquisition costs would not exceed the value of future estimated gross profits and is expected to continue to be recognized in subsequent periods. Because our insurance acquisition costs are now equal to the value of future estimated gross profits, this block is expected to generate break-even earnings in the future. In addition, results for this block are expected to exhibit increased volatility in the future, because the entire difference between our assumptions and actual experience is expected to be reflected in earnings in the period such differences occur.

Interest expense on investment borrowings includes $5.4 million and $6.0 million of interest expense on collateralized borrowings in the third quarters of 2008 and 2007, respectively, and $16.4 million and $10.8 million in the first nine months of 2008 and 2007, respectively, as further described in the note to the consolidated financial statements entitled "Investment Borrowings".

Costs related to a litigation settlement include legal fees and estimated amounts related to a settlement in the class action case referred to as In Re Conseco Life Insurance Company Cost of Insurance Litigation. The costs related to the litigation settlement recognized in the 2007 periods represented changes to our initial estimates based on the ultimate cost of the settlement, including the effect of the sale of shares of our common stock distributed for the benefit of the plaintiffs pursuant to the bankruptcy plan of our Predecessor at lower market prices than previously reflected. For further information related to this case, refer to the caption entitled "Cost of Insurance Litigation" included in the note to our consolidated financial statements entitled "Litigation and Other Legal Proceedings". A portion of the legal and other costs related to this litigation were incurred by the Corporate Operations segment to defend the non-insurance company allegations made in such lawsuits.

Loss related to an annuity coinsurance transaction resulted from the completion of a transaction to coinsure 100 percent of most of the older inforce equity-indexed annuity and fixed annuity business of three of our insurance subsidiaries with REALIC as further discussed above under annuity coinsurance transaction.

Other operating costs and expenses were $59.8 million in the third quarter of 2008, down 23 percent from 2007 and were $186.7 million in the first nine months of 2008, down 13 percent from 2007. Other operating costs and expenses include commission expense of $19.6 million and $20.2 million in the third quarters of 2008 and 2007, respectively, and $58.1 million and $60.8 million in the first nine months of 2008 and 2007, respectively. During the third quarter of 2007, the Company recognized expenses of $7.3 million related to the decision to abandon certain software that will not be used consistent with our business plan and $3.7 million of costs related to other operational initiatives and consolidation activities. The decrease in expenses is also due to lower litigation expenses and lower sales and marketing costs.

Net realized investment losses fluctuate each period. During the first nine months of 2008, net realized investment losses included $18.3 million of net losses from the sales of investments (primarily fixed maturities), and $39.9 million of writedowns of investments resulting from declines in fair values that we concluded were other than temporary. During the first nine months of 2007, net realized investment losses in this segment included: (i) $26.4 million from the sales of investments (primarily fixed maturities); (ii) $6.4 million of writedowns of investments resulting from declines in fair values that we concluded were other than temporary; and (ii) $73.7 million of writedowns of investments (which were subsequently transferred pursuant to a coinsurance agreement completed in October 2007) as a result of our intent not to hold such investments for a period of time sufficient to allow for a full recovery in value.

Amortization related to net realized investment losses is the increase or decrease in the amortization of insurance acquisition costs which results from realized investment gains or losses. When we sell securities which back our universal life and investment-type products at a gain (loss) and reinvest the proceeds at a different yield (or when we no longer have the intent to hold impaired investments for a period of time sufficient to allow for a full recovery in value), we increase (reduce) the amortization of insurance acquisition costs in order to reflect the change in estimated gross profits due to the gains (losses) realized and the resulting effect on estimated future yields. Sales of fixed maturity investments resulted in a decrease in the amortization of insurance acquisition costs of $2.0 million and $8.5 million in the third quarters of 2008 and 2007, respectively, and $4.1 million and $33.5 million in the first nine months of 2008 and 2007, respectively.

Other Business in Run-off (a) (dollars in millions):

	Three months ended September 30, 2008	Three months ended September 30, 2007 (Restated)	Nine months ended September 30, 2008	Nine months ended September 30, 2007 (Restated)
Premium collections (all of which are renewal premiums):				
Long-term care	$ 72.3	$ 75.2	$ 221.8	$ 231.4
Major medical	.5	.5	1.4	1.7
Total collections	$ 72.8	$ 75.7	$ 223.2	$ 233.1
Average liabilities for insurance products:				
Long-term care	$3,360.8	$3,395.2	$3,381.1	$3,332.1
Major medical	23.3	24.2	23.3	24.8
Total average liabilities for insurance products, net of reinsurance ceded	$3,384.1	$3,419.4	$3,404.4	$3,356.9
Revenues:				
Insurance policy income	$ 74.2	$ 77.2	$ 225.2	$ 234.8
Net investment income on general account invested assets	53.9	48.8	156.0	143.4
Fee revenue and other income	-	.1	.2	.3
Total revenues	128.1	126.1	381.4	378.5
Expenses:				
Insurance policy benefits	105.1	122.3	301.3	475.6
Amortization related to operations	4.2	5.9	15.2	18.0
Gain on reinsurance recapture	(30.5)	-	(30.5)	-
Other operating costs and expenses	15.9	17.4	51.1	60.8
Total expenses	94.7	145.6	337.1	554.4
Income (loss) before net realized investment gains (losses) and income taxes	33.4	(19.5)	44.3	(175.9)
Net realized investment gains (losses)	(180.2)	1.9	(385.0)	1.6
Loss before income taxes	$ (146.8)	$ (17.6)	$ (340.7)	$ (174.3)
Health benefit ratios:				
Insurance policy benefits	$105.1	$122.3	$301.3	$475.6
Benefit ratio (b)	141.8%	158.4%	133.8%	202.6%
Interest-adjusted benefit ratio (c)	69.8%	96.2%	65.3%	142.5%

(a) As further discussed in the note to the consolidated financial statements entitled "Plan to Transfer Senior Health Insurance Company of Pennsylvania to an Independent Trust", the Company plans to transfer Senior Health to an independent trust. Over 85 percent of the insurance liabilities in this segment are expected to be transferred upon consummation of the transaction.

(b) We calculate benefit ratios by dividing the related product's insurance policy benefits by insurance policy income.

(c) We calculate the interest-adjusted benefit ratio (a non-GAAP measure) for long-term care products by dividing such product's insurance policy benefits less interest income on the accumulated assets backing the insurance liabilities by policy income. These are considered non-GAAP financial measures. A non-GAAP measure is a numerical measure of a company's performance, financial position, or cash flows that excludes or includes amounts that are normally

excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP.

These non-GAAP financial measures of "interest-adjusted benefit ratios" differ from "benefit ratios" due to the deduction of interest income on the accumulated assets backing the insurance liabilities from the product's insurance policy benefits used to determine the ratio. Interest income is an important factor in measuring the performance of health products that are expected to be inforce for a longer duration of time, are not subject to unilateral changes in provisions (such as non-cancelable or guaranteed renewable contracts) and require the performance of various functions and services (including insurance protection) for an extended period of time. The net cash flows from long-term care products generally cause an accumulation of amounts in the early years of a policy (accounted for as reserve increases) that will be paid out as benefits in later policy years (accounted for as reserve decreases). Accordingly, as the policies age, the benefit ratio will typically increase, but the increase in benefits will be partially offset by interest income earned on the accumulated assets. The interest-adjusted benefit ratio reflects the effects of the interest income offset. Since interest income is an important factor in measuring the performance of this product, management believes a benefit ratio that includes the effect of interest income is useful in analyzing product performance. We utilize the interest-adjusted benefit ratio in measuring segment performance for purposes of SFAS 131 because we believe that this performance measure is a better indicator of the ongoing businesses and trends in the business. However, the "interest-adjusted benefit ratio" does not replace the "benefit ratio" as a measure of current period benefits to current period insurance policy income. Accordingly, management reviews both "benefit ratios" and "interest-adjusted benefit ratios" when analyzing the financial results attributable to these products. The investment income earned on the accumulated assets backing long-term care reserves in our Other Business in Run-off segment was $53.4 million and $48.0 million in the three months ended September 30, 2008 and 2007, respectively, and $154.2 million and $141.1 million in the nine months ended September 30, 2008 and 2007, respectively.

Total premium collections were $72.8 million in the third quarter of 2008, down 3.8 percent from 2007 and were $223.2 million in the first nine months of 2008, down 4.2 percent from 2007. We have ceased marketing the long-term care business and major medical business of this segment. Accordingly, collected premiums will decrease over time as policies lapse, partially offset by premium rate increases. See "Premium Collections" for further analysis.

Insurance policy income is comprised of premiums earned on the segment's long-term care and major medical policies. See "Premium Collections" for further analysis.

Net investment income on general account invested assets was $53.9 million in the third quarter of 2008, up 10 percent from 2007 and was $156.0 million in the first nine months of 2008, up 8.8 percent from 2007. The average balance of general account invested assets was $3.3 billion and $3.3 billion in the third quarters of 2008 and 2007, respectively. The average yield on these assets was 6.49 percent and 5.91 percent in the third quarters of 2008 and 2007, respectively. The average balance of general account invested assets was $3.4 billion and $3.2 billion in the first nine months of 2008 and 2007, respectively. The average yield on these assets was 6.06 percent and 5.92 percent in the first nine months of 2008 and 2007, respectively. The increase in yield in the 2008 periods reflects the decrease in the cost basis of investments in this segment as a result of the recognition of other-than-temporary impairments as further discussed below under net realized investment gains (losses).

Insurance policy benefits fluctuated primarily as a result of the factors summarized below.

Insurance policy benefits were $105.1 million in the third quarter of 2008, down 14 percent from 2007 and were $301.3 million in the first nine months of 2008, down 37 percent from 2007.

The benefit ratio on our Other Business in Run-off segment (including the long-term care block and the small remaining major medical block) was 141.8 percent and 158.4 percent in the third quarters of 2008 and 2007, respectively, and 133.8 percent and 202.6 percent in the first nine months of 2008 and 2007, respectively. Benefit ratios are calculated by dividing the product's insurance policy benefits by insurance policy income. Since the insurance product liabilities we establish for long-term care business are subject to significant estimates, the ultimate claim liability we incur for a particular period is likely to be different than our initial estimate. Our insurance policy benefits in the first nine months of 2008 and 2007 reflected reserve redundancies (deficiencies) from prior years of $4.9 million and $(129.7) million, respectively. Excluding the effects of prior year claim reserve redundancies or deficiencies, our benefit ratios would have been 136.0 percent and 147.3 percent in the first nine months of 2008 and 2007, respectively. The benefit ratios in the 2008 periods reflect lower claim expense and increased terminations. The 2007 benefit ratios reflect the significantly higher level of

incurred claims experienced in these periods resulting in increases in reserves for future benefits as discussed below, adverse development on claims incurred in prior periods as discussed below, and decreases in policy income. The prior period deficiencies have resulted from the impact of paid claim experience being different than prior estimates, changes in actuarial assumptions and refinements to claimant data used to determine claim reserves.

The net cash flows from long-term care products generally cause an accumulation of amounts in the early years of a policy (accounted for as reserve increases) which will be paid out as benefits in later policy years (accounted for as reserve decreases). Accordingly, as the policies age, the benefit ratio will typically increase, but the increase in benefits will be partially offset by investment income earned on the assets which have accumulated. The interest-adjusted benefit ratio for long-term care products is calculated by dividing the insurance product's insurance policy benefits less interest income on the accumulated assets backing the insurance liabilities by insurance policy income. The interest-adjusted benefit ratio on this business was 69.8 percent and 96.2 percent in the third quarters of 2008 and 2007, respectively, and 65.3 percent and 142.5 percent in the first nine months of 2008 and 2007, respectively. Excluding the effects of prior year claim reserve redundancies or deficiencies, our interest-adjusted benefit ratios would have been 67.5 percent and 87.2 percent in the first nine months of 2008 and 2007, respectively.

This segment includes long-term care insurance inforce, which was primarily issued through independent agents by certain subsidiaries prior to their acquisitions by our Predecessor in 1996 and 1997. The loss experience on these products has been worse than we originally expected. Although we anticipated a higher level of benefits to be paid on these products as the policies aged, the paid claims have exceeded our expectations. In addition, there has been an increase in the incidence and duration of claims in recent periods. This adverse experience is reflected in the higher insurance policy benefits experienced in recent periods.

In each quarterly period, we calculate our best estimate of claim reserves based on all of the information available to us at that time, which necessarily takes into account new experience emerging during the period. Our actuaries estimate these claim reserves using various generally recognized actuarial methodologies which are based on informed estimates and judgments that are believed to be appropriate. Additionally, an external actuarial firm provides consulting services which involve a review of the Company's judgments and estimates for claim reserves on the long-term care block in the Other Business in Run-off segment on a quarterly basis. As additional experience emerges and other data become available, these estimates and judgments are reviewed and may be revised. Significant assumptions made in estimating claim reserves for long-term care policies include expectations about the: (i) future duration of existing claims; (ii) cost of care and benefit utilization; (iii) interest rate utilized to discount claim reserves; (iv) claims that have been incurred but not yet reported; (v) claim status on the reporting date; (vi) claims that have been closed but are expected to reopen; and (vii) correspondence that has been received that will ultimately become claims that have payments associated with them.

During the second quarter of 2007, we increased claim liabilities for the long-term care insurance block in our Other Business in Run-off segment by $118 million as a result of changes in our estimates of claim reserves incurred in prior periods. Approximately $20 million of this increase related to claims with incurrence dates in the first quarter of 2007 and $98 million related to claims with incurrence dates prior to 2007.

The $118 million increase in estimates of claims incurred in prior periods included $110 million of adjustments related to updates to our reserve assumptions and methodologies to reflect emerging trends in our claim experience. The following assumption changes primarily contributed to the $110 million adjustment:

o We increased our reserves by $37 million for changes to our assumptions regarding the future duration of existing claims. We updated these assumptions to reflect our current expectation that policyholders will receive benefits for a longer period based on changing trends in the duration of our claims.

o We increased our reserves by $31 million related to a block of long-term care policies originally sold by Transport Life Insurance Company ("Transport") and acquired by Old Conseco. We estimate claim reserves for this block of business using an aggregate paid loss development method, which uses historical payment patterns to project ultimate losses for all the claims in a given incurral period. We refined our loss development assumptions by developing separate assumption tables for claimants with and without lifetime benefit periods and for claimants with and without inflationary benefits, since this block's recent loss experience has been extremely sensitive to the mix of its business. This adjustment further improves the estimate that was made during the first quarter of 2007,

which is described in further detail below. This adjustment relates to our assumption of future duration of existing claims.

o We increased our claim reserves by $23 million to better reflect fluctuations in claim inventories related to certain blocks of business. This increase relates to our estimate of claim status on the reporting date.

o We increased our claim reserves by $17 million for our estimate of incurred but not reported claims, reflecting recent experience and the impact of the other adjustments.

During the first quarter of 2007, we recorded a pre-tax adjustment that increased policy benefits for a long-term care block of business written by Transport (which was acquired by our Predecessor) by $22 million. We found that our previous claim estimates on this block were deficient because claims on policies with lifetime benefits and inflation benefits had increased significantly in recent periods. Since the policies with these benefits will have longer average claim payout periods than similar policies without such benefits, a shift in the mix of claimants can have a significant impact on incurred claims that is not immediately reflected using a completion factor methodology. We improved our methodologies to address this and other shortcomings of the aggregate loss development methodology, which resulted in the pre-tax adjustment.

We have been aggressively seeking actuarially justified rate increases and pursuing other actions on our long-term care policies. During the third quarter of 2006, we began a new program to file requests for rate increases on various long-term care products in the Other Business in Run-off segment as we believe the existing rates were too low to fund expected future benefits. These filings are expected to be the first of three rounds of rate increase filings for many of the same policies, and in some cases we requested three years of successive rate increases. Based on recent experience, certain of the policies in this segment will continue to be unprofitable even if we obtain the three rounds of rate increases, and it is likely that we will request additional rate increases when the current program is complete. We have chosen to request a series of smaller rate increases, rather than a single large increase, to limit the impact on a policyholder's premiums in any single year. The effects of the first round of rate filings have been partially realized in our premium revenue with the remaining impact expected to be realized by the end of 2008. In the second quarter of 2007, we began filing requests for the second round of rate increases on many of the same policies. As of September 30, 2008, almost all of the expected second round filings had been submitted for regulatory approval, and approximately 90 percent of the expected amounts had been approved by regulators. The full effect of all three rounds of rate increases may not be fully realized until 2011. It is possible that it will take more time than we expect to prepare rate increase filings and obtain approval from the state insurance regulators. In addition, it is likely that we will not be able to obtain approval for some of the actuarially justified rate increases currently pending or for the additional rate increases we plan to file especially in light of the magnitude of some past premium rate increases and current consumer and regulator sentiment. Most of our long-term care business is guaranteed renewable, and, if necessary rate increases are not approved, we may be required to write off all or a portion of the insurance acquisition costs and establish a premium deficiency reserve. If we are unable to raise our premium rates because we fail to obtain approval for actuarially justified rate increases in one or more states, our financial condition and results of operations could be adversely affected.

Amortization related to operations includes amortization of insurance acquisition costs.

Gain on reinsurance recapture related to the recapture of a block of previously reinsured long-term care business which is expected to be included in the business transferred to an independent trust. The recapture of this block resulted in a $30.5 million pretax gain.

Other operating costs and expenses were $15.9 million in the third quarter of 2008, down 8.6 percent from 2007 and were $51.1 million in the first nine months of 2008, down 16 percent from 2007. Other operating costs and expenses include commission expense of $6.7 million and $7.8 million in the third quarters of 2008 and 2007, respectively, and $21.3 million and $24.1 million in the nine months ended September 30, 2008 and 2007, respectively.

Net realized investment gains (losses) fluctuate each period. During the first nine months of 2008, net realized investment losses included: (i) $.3 million of net gains from the sales of investments (primarily fixed maturities);
(ii) $4.8 million of writedowns of investments resulting from declines in fair values that we concluded were other than temporary; and (iii) $380.5 million of writedowns of investments (which are expected to be transferred to an independent trust as further discussed in the note to the consolidated financial statements entitled "Plan to Transfer Senior Health Insurance Company of Pennsylvania to an Independent Trust") as a result of our intent not to hold such investments for a period of time sufficient to

allow for a full recovery in value. During the first nine months of 2007, we recognized net realized investment gains of $1.6 million from the sales of investments (primarily fixed maturities). There were no such writedowns in the first nine months of 2007.

Corporate Operations (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007 (Restated)	2008	2007 (Restated)
Corporate operations:				
Interest expense on corporate debt....................	$(13.7)	$(20.2)	$ (44.0)	$ (53.2)
Net investment income	1.2	2.8	3.9	4.7
Fee revenue and other income..........................	1.1	4.2	3.8	8.3
Net operating results of variable interest entity.....	1.8	2.6	5.0	7.3
Costs related to a litigation settlement..............	-	(8.2)	-	(32.2)
Other operating costs and expenses....................	(10.8)	(7.3)	(44.6)	(34.2)
Loss before net realized investment losses and income taxes.....................................	(20.4)	(26.1)	(75.9)	(99.3)
Net realized investment losses........................	(4.6)	(4.7)	(25.1)	(5.9)
Loss before income taxes............................	$(25.0)	$(30.8)	$(101.0)	$(105.2)

Interest expense on corporate debt was impacted by the amendment of the Company's credit facility in June 2007. Our average corporate debt outstanding was $1,193.3 million and $1,082.9 million during the first nine months of 2008 and 2007, respectively. The average interest rate on our debt was 4.6 percent and 6.2 percent during the first nine months of 2008 and 2007, respectively.

Net investment income primarily included income earned on short-term investments held by the Corporate segment and miscellaneous other income and fluctuated along with the change in the amount of invested assets in this segment.

Fee revenue and other income includes: (i) revenues we receive for managing investments for other companies; and (ii) fees received for marketing insurance products of other companies. In the third quarter of 2007, our wholly owned investment management subsidiary recognized performance-based fees of $2.4 million resulting from the liquidation of two portfolios that were managed by the subsidiary. Excluding such performance-based fees, fee revenue and other income decreased primarily as a result of a decrease in the market value of investments managed for others, upon which these fees are based.

Net operating results of variable interest entity represent the operating results of a VIE. The VIE is consolidated in accordance with FIN 46R. Although we do not control this entity, we consolidate it because we are the primary beneficiary. This entity was established to issue securities and use the proceeds to invest in loans and other permitted assets.

Costs related to a litigation settlement include legal and other costs incurred by the Corporate Operations segment to defend the non-insurance company allegations made in the class action case referred to as In Re Conseco Life Insurance Company Cost of Insurance Litigation. Refer to the captions entitled:
(i) "Costs related to a litigation settlement" included in the results of operations section for the Conseco Insurance Group segment; and (ii) "Cost of Insurance Litigation" included in the note to our consolidated financial statements entitled "Litigation and Other Legal Proceedings" for further information related to this case.

Other operating costs and expenses include general corporate expenses, net of amounts charged to subsidiaries for services provided by the corporate operations. These amounts fluctuate as a result of expenses such as consulting, legal and severance costs which often vary from period to period. In the second quarter of 2008, we recognized a $9.6 million charge related to the consolidation of our Chicago facilities. In addition, we recognized $5.2 million of expenses related to the plan to transfer Senior Health to an independent trust in the first nine months of 2008 (of which $2.9 million was recognized in the third quarter of 2008).

Net realized investment losses often fluctuate each period. During the first nine months of 2008, net realized investment losses recognized by a VIE included: (i) $13.1 million from the sale of investments; and (ii) $8.1 million of writedowns due to other-than-temporary declines in value on certain securities. We also recognized $3.9 million of other-than-temporary declines in value on other investments held by the corporate segment in the first nine months of 2008. During the first nine months of 2007, net realized investment losses in this segment included: (i) $4.7 million from the sale of an investment; and (ii) a writedown of $1.2 million due to an other-than-temporary decline in value of an investment.

PREMIUM COLLECTIONS

In accordance with GAAP, insurance policy income in our consolidated statement of operations consists of premiums earned for traditional insurance policies that have life contingencies or morbidity features. For annuity and universal life contracts, premiums collected are not reported as revenues, but as deposits to insurance liabilities. We recognize revenues for these products over time in the form of investment income and surrender or other charges.

Our insurance segments sell products through three primary distribution channels -- career agents (our Bankers Life segment), direct marketing (our Colonial Penn segment) and independent producers (our Conseco Insurance Group segment). Our career agency force in the Bankers Life segment sells primarily Medicare supplement and long-term care insurance policies, Medicare Part D contracts, PFFS contracts, life insurance and annuities. These agents visit the customer's home, which permits one-on-one contact with potential policyholders and promotes strong personal relationships with existing policyholders. Our direct marketing distribution channel in the Colonial Penn segment is engaged primarily in the sale of "graded benefit life" and simplified issue life insurance policies which are sold directly to the policyholder. Our independent producer distribution channel in the Conseco Insurance Group segment consists of a general agency and insurance brokerage distribution system comprised of independent licensed agents doing business in all fifty states, the District of Columbia, and certain protectorates of the United States. Independent producers are a diverse network of independent agents, insurance brokers and marketing organizations. Our independent producer distribution channel sells primarily specified disease and Medicare supplement insurance policies, universal life insurance and annuities.

Agents, insurance brokers and marketing companies who market our products and prospective purchasers of our products use the financial strength ratings of our insurance subsidiaries as an important factor in determining whether to market or purchase. Ratings have the most impact on our annuity, interest-sensitive life insurance and long-term care products. The current financial strength ratings of our primary insurance subsidiaries (except Senior Health) from A.M. Best, S&P and Moody's are "B+ (Good)", "BB+" and "Baa3", respectively. The current financial strength ratings of Senior Health from A.M. Best, S&P and Moody's are "C++ (Marginal)", "CCC-" and "Caa1", respectively. For a description of these ratings and additional information on our ratings, see "Liquidity for Insurance Operations."

We set premium rates on our health insurance policies based on facts and circumstances known at the time we issue the policies using assumptions about numerous variables, including the actuarial probability of a policyholder incurring a claim, the probable size of the claim, and the interest rate earned on our investment of premiums. We also consider historical claims information, industry statistics, the rates of our competitors and other factors. If our actual claims experience is less favorable than we anticipated and we are unable to raise our premium rates, our financial results may be adversely affected. We generally cannot raise our health insurance premiums in any state until we obtain the approval of the state insurance regulator. We review the adequacy of our premium rates regularly and file rate increases on our products when we believe such rates are too low. It is likely that we will not be able to obtain approval for all requested premium rate increases. If such requests are denied in one or more states, our net income may decrease. If such requests are approved, increased premium rates may reduce the volume of our new sales and may cause existing policyholders to lapse their policies. If the healthier policyholders allow their policies to lapse, this would reduce our premium income and profitability in the future.

Total premium collections by segment were as follows:

Bankers Life (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Premiums collected by product:				
Annuities:				
Equity-indexed (first-year)	$150.1	$128.4	$ 415.2	$ 305.3
Other fixed (first-year)	165.9	122.1	385.6	356.2
Other fixed (renewal)	.7	.4	2.8	2.1
Subtotal - other fixed annuities	166.6	122.5	388.4	358.3
Total annuities	316.7	250.9	803.6	663.6
Supplemental health:				
Medicare supplement (first-year)	19.8	19.3	58.3	61.5
Medicare supplement (renewal)	134.0	133.6	406.0	412.2
Subtotal - Medicare supplement	153.8	152.9	464.3	473.7
Long-term care (first-year)	10.8	11.7	32.4	35.5
Long-term care (renewal)	144.0	142.8	434.2	432.6
Subtotal - long-term care	154.8	154.5	466.6	468.1
PDP and PFFS (first year)	86.2	78.5	272.7	120.4
PDP and PFFS (renewal)	81.2	14.4	173.5	56.0
Subtotal - PDP and PFFS	167.4	92.9	446.2	176.4
Other health (first-year)	.6	.3	1.5	.7
Other health (renewal)	2.1	2.2	6.4	6.8
Subtotal - other health	2.7	2.5	7.9	7.5
Total supplemental health	478.7	402.8	1,385.0	1,125.7
Life insurance:				
First-year	19.5	21.2	60.5	67.9
Renewal	32.4	27.9	93.2	81.4
Total life insurance	51.9	49.1	153.7	149.3
Collections on insurance products:				
Total first-year premium collections on insurance products	452.9	381.5	1,226.2	947.5
Total renewal premium collections on insurance products	394.4	321.3	1,116.1	991.1
Total collections on insurance products	$847.3	$702.8	$2,342.3	$1,938.6

Annuities in this segment include equity-indexed and other fixed annuities sold to the senior market through our career agents. Annuity collections in this segment increased 26 percent, to $316.7 million, in the third quarter of 2008, and 21 percent, to $803.6 million, in the first nine months of 2008, as compared to the same periods in 2007. Premium collections from our equity-indexed products have been favorably impacted by the general stock market performance which has made these products attractive to certain customers.

Supplemental health products include Medicare supplement, Medicare Part D contracts, PFFS contracts, long-term care and other insurance products distributed through our career agents. Our profits on supplemental health policies depend on the overall level of sales, the length of time the business remains inforce, investment yields, claims experience and expense management.

Collected premiums on Medicare supplement policies in the Bankers Life segment increased .6 percent, to $153.8 million, in the third quarter of 2008, and decreased 2.0 percent, to $464.3 million, in the first nine months of 2008, as compared to the same periods in 2007.

Premiums collected on Bankers Life's long-term care policies in the 2008 periods were comparable to the same periods in 2007.

Premiums collected on PDP and PFFS business relate to various quota-share reinsurance agreements with Coventry. Effective May 1, 2008 and July 1, 2007, we entered into new PFFS quota-share reinsurance agreements with Coventry. Fluctuations in first-year and renewal premiums are generally due to the timing of the contracts we entered into with Coventry.

Life products in this segment are sold primarily to the senior market through our career agents. Life premiums collected in this segment in the 2008 periods were comparable to the same periods in 2007.

Colonial Penn (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Premiums collected by product:				
Life insurance:				
First-year	$ 8.8	$ 7.4	$ 26.1	$21.1
Renewal	34.8	21.9	104.2	60.9
Total life insurance	43.6	29.3	130.3	82.0
Supplemental health (all of which are renewal premiums):				
Medicare supplement	2.0	2.3	6.2	7.1
Other health	.2	.3	.6	.8
Total supplemental health	2.2	2.6	6.8	7.9
Collections on insurance products:				
Total first-year premium collections on insurance products	8.8	7.4	26.1	21.1
Total renewal premium collections on insurance products	37.0	24.5	111.0	68.8
Total collections on insurance products	$45.8	$31.9	$137.1	$89.9

Life products in this segment are sold primarily to the senior market. Life premiums collected in this segment increased 49 percent, to $43.6 million, in the third quarter of 2008, and 59 percent, to $130.3 million, in the first nine months of 2008, compared to the same periods in 2007. Graded benefit life products sold through our direct response marketing channel accounted for $42.4 million and $28.3 million of our total collected premiums in the third quarters of 2008 and 2007, respectively, and $126.2 million and $78.5 million in the first nine months of 2008 and 2007, respectively. Collected premiums have been impacted by the recapture in the fourth quarter of 2007 of a block of traditional life insurance inforce that had been ceded in 2002 to REALIC.

Supplemental health products include Medicare supplement and other insurance products. Our profits on supplemental health policies depend on the overall level of sales, the length of time the business remains inforce, investment yields, claims experience and expense management. Premiums collected on these products have decreased as we do not currently market these products through this segment.

Conseco Insurance Group (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Premiums collected by product:				
Annuities:				
Equity-indexed (first-year)	$ 23.7	$ 70.7	$ 95.3	$281.7
Equity-indexed (renewal)	1.8	2.5	5.7	7.2
Subtotal - equity-indexed annuities	25.5	73.2	101.0	288.9
Other fixed (first-year)	1.4	2.5	3.4	16.1
Other fixed (renewal)	.5	1.8	1.7	5.6
Subtotal - other fixed annuities	1.9	4.3	5.1	21.7
Total annuities	27.4	77.5	106.1	310.6
Supplemental health:				
Medicare supplement (first-year)	2.1	4.2	7.2	16.0
Medicare supplement (renewal)	46.4	50.6	144.0	154.7
Subtotal - Medicare supplement	48.5	54.8	151.2	170.7
Specified disease (first-year)	9.7	7.7	28.9	22.7
Specified disease (renewal)	82.6	81.0	250.1	247.2
Subtotal - specified disease	92.3	88.7	279.0	269.9
Other health (first-year)	.1	-	.1	-
Other health (renewal)	2.0	2.1	5.8	6.6
Subtotal - other health	2.1	2.1	5.9	6.6
Total supplemental health	142.9	145.6	436.1	447.2
Life insurance:				
First-year	2.0	1.3	3.9	3.6
Renewal	65.8	70.0	202.7	214.9
Total life insurance	67.8	71.3	206.6	218.5
Collections on insurance products:				
Total first-year premium collections on insurance products	39.0	86.4	138.8	340.1
Total renewal premium collections on insurance products	199.1	208.0	610.0	636.2
Total collections on insurance products	$238.1	$294.4	$748.8	$976.3

Annuities in this segment include equity-indexed and other fixed annuities sold through professional independent producers. Total annuity premiums collected in this segment totaled $27.4 million in the third quarter of 2008, compared to $77.5 million in the same period of 2007, and $106.1 million in the first nine months of 2008, compared to $310.6 million in the same period of 2007.

Our equity-indexed annuities have guaranteed minimum cash surrender values, but have potentially higher returns based on a percentage of the change in one of several equity market indices during each year of their term. We purchase options in an effort to hedge increases to policyholder benefits resulting from increases in the indices. Collected premiums for this product totaled $25.5 million in the third quarter of 2008, compared to $73.2 million in the same period of 2007, and $101.0 million in the first nine months of 2008, compared to $288.9 million in the same period of 2007. During the third quarter of 2007, we changed the pricing of specific products and we no longer emphasized the sale of certain products resulting in a decrease in collected premiums.

Other fixed rate annuity products include SPDAs, FPDAs and SPIAs, which are credited with a declared rate. SPDA and FPDA policies typically have an interest rate that is guaranteed for the first policy year, after which we have the discretionary ability to change the crediting rate to any rate not below a guaranteed minimum rate. The interest rate credited on SPIAs is based on market conditions existing when a policy is issued and remains unchanged over the life of the SPIA. Annuity premiums on these products decreased to $1.9 million in the third quarter of 2008, compared to $4.3 million in the same period of 2007, and $5.1 million in the first nine months of 2008, compared to $21.7 million in the same period of 2007, primarily due to a decrease in new sales.

Supplemental health products in the Conseco Insurance Group segment include Medicare supplement, specified disease and other insurance products distributed through professional independent producers. Our profits on supplemental health policies depend on the overall level of sales, the length of time the business remains inforce, investment yields, claim experience and expense management.

Collected premiums on Medicare supplement policies in the Conseco Insurance Group segment decreased 11 percent, to $48.5 million, in the third quarter of 2008, and 11 percent, to $151.2 million, in the first nine months of 2008, as compared to the same periods in 2007. We have experienced lower sales and higher lapses of these products due to premium rate increases implemented in recent periods and competition from companies offering Medicare Advantage products.

Premiums collected on specified disease products increased 4.1 percent, to $92.3 million in the third quarter of 2008, and 3.4 percent, to $279.0 million, in the first nine months of 2008, as compared to the same periods in 2007. Such increase is primarily due to higher new sales.

Life products in the Conseco Insurance Group segment are sold through professional independent producers. Life premiums collected decreased 4.9 percent, to $67.8 million, in the third quarter of 2008, and 5.4 percent, to $206.6 million, in the first nine months of 2008, compared to the same periods in 2007.

Other Business in Run-off (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Premiums collected by product (all of which are renewal premiums):				
Long-term care	$72.3	$75.2	$221.8	$231.4
Major medical	.5	.5	1.4	1.7
Total renewal premium collections on insurance products	$72.8	$75.7	$223.2	$233.1

The Other Business in Run-off segment includes blocks of business that we no longer market or underwrite and are managed separately from our other businesses. This segment consists of: (i) long-term care insurance sold in prior years through independent agents; and (ii) major medical insurance.

Long-term care premiums collected in this segment decreased 3.9 percent, to $72.3 million, in the third quarter of 2008, and 4.1 percent, to $221.8 million, in the first nine months of 2008, compared to the same periods in 2007. Most of the long-term care premiums in this segment relate to business written by certain subsidiaries prior to their acquisitions by our Predecessor in 1996 and 1997 and was sold through the independent producer distribution channel. The performance of this business did not meet the expectations we had when the blocks were acquired. As a result, we ceased selling new long-term care policies through this distribution channel in 2003. We expect this segment's long-term care premiums to reflect additional policy lapses in the future, partially offset by premium rate increases.

LIQUIDITY AND CAPITAL RESOURCES

Changes in our consolidated balance sheet between September 30, 2008 and December 31, 2007, primarily reflect: (i) our net loss for the nine months ended September 30, 2008; and (ii) changes in the fair value of actively managed fixed maturity securities.

In accordance with GAAP, we record our actively managed fixed maturity investments, equity securities and certain other invested assets at estimated fair value with any unrealized gain or loss (excluding impairment losses, which are recognized through earnings), net of tax and related adjustments, recorded as a component of shareholders' equity. At September 30, 2008, we decreased the carrying value of such investments by $2,115.8 million as a result of this fair value adjustment.

Our capital structure as of September 30, 2008, and December 31, 2007, was as follows (dollars in millions):

	September 30, 2008	December 31, 2007
Total capital:		
Corporate notes payable	$ 1,187.6	$1,193.7
Shareholders' equity:		
Common stock	1.9	1.9
Additional paid-in capital	4,076.0	4,068.6
Accumulated other comprehensive loss	(1,137.7)	(273.3)
Retained earnings (accumulated deficit)	(236.2)	438.7
Total shareholders' equity	2,704.0	4,235.9
Total capital	$ 3,891.6	$5,429.6

The following table summarizes certain financial ratios as of and for the nine months ended September 30, 2008, and as of and for the year ended December 31, 2007:

	September 30, 2008	December 31, 2007
Book value per common share	$14.64	$22.94
Book value per common share, excluding accumulated other comprehensive income (loss) (a)	$20.80	$24.42
Ratio of earnings to fixed charges	(b)	(c)
Ratio of earnings to fixed charges and preferred dividends	(b)	(d)
Debt to total capital ratios:		
Corporate debt to total capital (e)	31%	22%
Corporate debt to total capital, excluding accumulated other comprehensive income (loss) (a)	24%	21%

(a) This non-GAAP measure differs from the corresponding GAAP measure presented immediately above, because accumulated other comprehensive income (loss) has been excluded from the value of capital used to determine this measure. Management believes this non-GAAP measure is useful because it removes the volatility that arises from changes in accumulated other comprehensive income (loss). Such volatility is often caused by changes in the estimated fair value of our investment portfolio resulting from changes in general market interest rates rather than the business decisions made by management. However, this measure does not replace the corresponding GAAP measure.

(b) For such ratio, earnings were $325.2 million less than fixed charges.

(c) For such ratio, earnings were $173.0 million less than fixed charges.

(d) For such ratio, earnings were $194.7 million less than fixed charges.

(e) Such ratio differs from the debt to total capitalization ratio required by our Second Amended Credit Facility, primarily because the credit agreement ratio excludes accumulated other comprehensive income (loss) from total capital.

Liquidity for insurance operations

Our insurance companies (other than Senior Health) generally receive adequate cash flows from premium collections and investment income to meet their obligations. Life insurance and annuity liabilities are generally long-term in nature. Policyholders may, however, withdraw funds or surrender their policies, subject to any applicable penalty provisions. We seek to balance the duration of our invested assets with the estimated duration of benefit payments arising from contract liabilities.

In the first quarter of 2007, Conseco Life became a member of the FHLBI. As a member of the FHLBI, Conseco Life has the ability to borrow on a collateralized basis from FHLBI. Conseco Life is required to hold a certain minimum amount of FHLBI common stock as a requirement of membership in the FHLBI, and additional amounts based on the amount of collateralized borrowings. At September 30, 2008, the carrying value of the FHLBI common stock was $22.5 million. Collateralized borrowings totaled $450.0 million as of September 30, 2008, and the proceeds were used to purchase fixed maturity securities. The borrowings are classified as investment borrowings in the accompanying consolidated balance sheet. The borrowings are collateralized by investments with an estimated fair value of $496.6 million at September 30, 2008, which are maintained in a custodial account for the benefit of the FHLBI. The following summarizes the terms of the borrowings (dollars in millions):

Amount borrowed	Maturity date	Interest rate at September 30, 2008
$ 54.0	May 2012	Variable rate - 2.811%
37.0	July 2012	Fixed rate - 5.540%
13.0	July 2012	Variable rate - 2.848%
146.0	November 2015	Fixed rate - 5.300%
100.0	November 2015	Fixed rate - 4.890%
100.0	December 2015	Fixed rate - 4.710%

State laws generally give state insurance regulatory agencies broad authority to protect policyholders in their jurisdictions. Regulators have used this authority in the past to restrict the ability of our insurance subsidiaries to pay any dividends or other amounts without prior approval. We cannot be assured that the regulators will not seek to assert greater supervision and control over our insurance subsidiaries' businesses and financial affairs.

In connection with monitoring the financial condition of insurers, certain state insurance departments have requested additional information from three of the Company's insurance subsidiaries, Colonial Penn, Senior Health and Conseco Life, because each such insurance subsidiary has incurred statutory losses in a 12 month period in excess of 50 percent of its capital and surplus. The statutory losses of Colonial Penn are primarily attributable to the recapture of a block of life insurance business in fourth quarter of 2007 that had previously been ceded to an unaffiliated reinsurer in 2002 under a modified coinsurance agreement. Colonial Penn paid a recapture fee of $63.0 million and will recognize profits or losses on the recaptured business as they emerge over time. The statutory losses of Conseco Life are primarily attributable to a litigation settlement. For further information related to this case, refer to the caption entitled "Cost of Insurance Litigation" included in the note to our consolidated financial statements entitled "Litigation and Other Legal Proceedings". The statutory losses of Senior Health are primarily attributable to the adverse development of prior period claim reserves, an increase in claims incurred in 2006 and 2007 and strengthening of statutory active life reserves using the prospective unlocking method (as permitted by insurance regulators), all of which related to long-term care policies. Based on our discussions with state regulators, we do not expect the regulators to take any actions against Colonial Penn, Senior Health or Conseco Life that would have a material adverse effect on the financial position or results of operations of these companies.

Senior Health has not generated sufficient income to cover its expenses and, in the aggregate, Conseco has made more than $900 million of capital contributions to Senior Health since its acquisition in 1996. We elected to make a capital contribution to Senior Health of $56.0 million which was accrued at December 31, 2007 and paid in February 2008. We were under no obligation to make such capital contributions to Senior Health, and we may determine not to make additional contributions in the future. No assurances can be given that we will make future contributions or otherwise make capital available to Senior Health. Absent additional capital contributions, Senior Health will be reliant on actuarially justified premium rate increases to provide it with sufficient capital. See the footnote to our consolidated financial statements entitled

"Plan to Transfer Senior Health Insurance Company of Pennsylvania to an Independent Trust" for information regarding the proposed transfer of Senior Health.

Senior Health has been aggressively seeking actuarially justified rate increases and pursuing other actions on our long-term care policies. During the third quarter of 2006, we began a new program to file requests for rate increases on various long-term care products in the Other Business in Run-off segment as we believe the existing rates were too low to fund expected future benefits. These filings are expected to be the first of three rounds of rate increase filings for many of the same policies, and in some cases we requested three years of successive rate increases. Based on recent experience, certain of the policies in this segment will continue to be unprofitable even if we obtain the three rounds of rate increases, and it is likely that we will request additional rate increases when the current program is complete. We have chosen to request a series of smaller rate increases, rather than a single large increase, to limit the impact on a policyholder's premiums in any single year. The effects of the first round of rate filings have been partially realized in our premium revenue with the remaining impact expected to be realized by the end of 2008. In the second quarter of 2007, we began filing requests for the second round of rate increases on many of the same policies. As of September 30, 2008, almost all of the expected second round filings had been submitted for regulatory approval, and approximately 90 percent of the expected amounts had been approved by regulators. The full effect of all three rounds of rate increases may not be fully realized until 2011. It is possible that it will take more time than we expect to prepare rate increase filings and obtain approval from the state insurance regulators. In addition, it is likely that we will not be able to obtain approval for some of the actuarially justified rate increases currently pending or for the additional rate increases we plan to file especially in light of the magnitude of some past premium rate increases and current consumer and regulator sentiment. Most of our long-term care business is guaranteed renewable, and, if necessary rate increases are not approved, we may be required to write off all or a portion of the insurance acquisition costs and establish a premium deficiency reserve. If we are unable to raise our premium rates because we fail to obtain approval for actuarially justified rate increases in one or more states, our financial condition and results of operations could be adversely affected.

Financial Strength Ratings of our Insurance Subsidiaries

Financial strength ratings provided by A.M. Best, S&P and Moody's are the rating agency's opinions of the ability of our insurance subsidiaries to repay policyholder claims and obligations when due.

On August 12, 2008, A.M. Best placed the financial strength ratings of our primary insurance subsidiaries, as well as Senior Health, under review with developing implications. These ratings actions follow the Company's announcement of its plan to transfer Senior Health to an independent trust as further discussed in the note to the consolidated financial statements entitled "Plan to Transfer Senior Health Insurance Company of Pennsylvania to an Independent Trust." On August 7, 2007, A.M. Best downgraded the financial strength ratings of our primary insurance subsidiaries to "B+ (Good)" from "B++ (Good)", except Senior Health, whose "B- (Fair)" rating was downgraded to "C++ (Marginal)". Prior to A.M. Best's rating actions on August 12, 2008, its outlook for the ratings of our primary insurance subsidiaries, as well as Senior Health, was stable. The "B+" rating is assigned to companies that have a good ability, in A.M. Best's opinion, to meet their ongoing obligations to policyholders. The "C++" rating is assigned to companies which have a marginal ability, in A.M. Best's opinion, to meet their ongoing obligations to policyholders, but are financially vulnerable to adverse changes in underwriting and economic conditions. A.M. Best ratings for the industry currently range from "A++ (Superior)" to "F (In Liquidation)" and some companies are not rated. An "A++" rating indicates a superior ability to meet ongoing obligations to policyholders. The "B+" rating and the "C++" rating from A.M. Best are the sixth and ninth highest, respectively, of sixteen possible ratings.

On August 11, 2008, S&P affirmed: (i) the financial strength ratings of "BB+" of our primary insurance subsidiaries; (ii) Senior Health's "CCC-" rating; and (iii) the outlook remains negative for both our primary insurance companies and Senior Health ratings. S&P financial strength ratings range from "AAA" to "R" and some companies are not rated. Rating categories from "BB" to "CCC" are classified as "vulnerable", and pluses and minuses show the relative standing within a category. In S&P's view, an insurer rated "BB" has marginal financial security characteristics and although positive attributes exist, adverse business conditions could lead to an insufficient ability to meet financial commitments. In S&P's view, an insurer rated "CCC" has very weak financial security characteristics and is dependent on favorable business conditions to meet financial commitments. The "BB+" rating and the "CCC-" rating from S&P are the eleventh and nineteenth highest, respectively, of twenty-one possible ratings.

The current financial strength ratings of our primary insurance subsidiaries (except Senior Health) from Moody's are "Baa3" and Senior Health's rating is "Caal". On September 7, 2007, Moody's affirmed the financial strength ratings of our

core insurance subsidiaries and Senior Health and revised its outlook on all our insurance subsidiaries to negative from stable. Moody's financial strength ratings range from "Aaa" to "C". Rating categories from "Aaa" to "Baa" are classified as "Secure" by Moody's and rating categories from "Ba" to "C" are considered "vulnerable" and these ratings may be supplemented with numbers "1", "2", or "3" to show relative standing within a category. In Moody's view, an insurer rated "Baa3" offers adequate financial security, however, certain protective elements may be lacking or may be characteristically unreliable over any great length of time. In Moody's view, an insurer rated "Caa" offers very poor financial security and may default on its policyholder obligations or there may be elements of danger with respect to punctual payment of policyholder obligations and claims. The "Baa3" rating and the "Caa1" rating from Moody's are the tenth and seventeenth highest, respectively, of twenty-one possible ratings.

Liquidity of the Holding Companies

At September 30, 2008, CNO and CDOC, our wholly owned subsidiary and a guarantor under the Second Amended Credit Facility, held unrestricted cash of $62.1 million. CNO and CDOC are holding companies with no business operations of their own; they depend on their operating subsidiaries for cash to make principal and interest payments on debt, and to pay administrative expenses and income taxes. CNO and CDOC receive cash from insurance subsidiaries, consisting of dividends and distributions, principal and interest payments on surplus debentures and tax-sharing payments, as well as cash from non-insurance subsidiaries consisting of dividends, distributions, loans and advances. The principal non-insurance subsidiaries that provide cash to CNO and CDOC are 40|86 Advisors, Inc., which receives fees from the insurance subsidiaries for investment services, and Conseco Services, LLC which receives fees from the insurance subsidiaries for providing administrative services. A deterioration in the financial condition, earnings or cash flow of the material subsidiaries of CNO or CDOC for any reason could hinder such subsidiaries' ability to pay cash dividends or other disbursements to CNO and/or CDOC, which, in turn, would limit Conseco's and/or CDOC's ability to meet debt service requirements and satisfy other financial obligations. In addition, we may need to contribute additional capital to certain insurance subsidiaries to strengthen their surplus and this could affect the ability of our top tier insurance subsidiaries to pay dividends. We made capital contributions totaling $15.5 million to our insurance subsidiaries in the first nine months of 2008.

The ability of our insurance subsidiaries to pay dividends is subject to state insurance department regulations and is based on the financial statements of our insurance subsidiaries prepared in accordance with statutory accounting practices prescribed or permitted by regulatory authorities, which differ from GAAP. These regulations generally permit dividends to be paid from statutory earned surplus of the insurance company for any 12-month period in amounts equal to the greater of (or in a few states, the lesser of): (i) statutory net gain from operations or net income for the prior year; or (ii) 10 percent of statutory capital and surplus as of the end of the preceding year. Any dividends in excess of these levels require the approval of the director or commissioner of the applicable state insurance department.

Our cash flow may be affected by a variety of factors, many of which are outside of our control, including insurance and banking regulatory issues, competition, financial markets and other general business conditions. We cannot provide assurance that we will possess sufficient income and liquidity to meet all of our liquidity requirements and other obligations.

If an insurance company subsidiary were to be liquidated, that liquidation would be conducted following the insurance law of its state of domicile with such state's insurance regulator as the receiver for such insurer's property and business. In the event of a default on our debt or our insolvency, liquidation or other reorganization, our creditors and stockholders would have no right to proceed against the assets of our insurance subsidiaries or to cause their liquidation under federal and state bankruptcy laws.

As further discussed in the note to the consolidated financial statements entitled "Plan to Transfer Senior Health Insurance Company of Pennsylvania to an Independent Trust", the Company will make a $175.0 million capital contribution to Senior Health upon consummation of the transfer of the stock of Senior Health to an independent trust. On the consummation date, the $175.0 million capital contribution is expected to be primarily in the form of cash and a note payable of $125.0 million. The note is expected to be unsecured; have a five-year maturity date; a 6 percent interest rate; and require annual principal payments of $25.0 million. Such amounts are expected to be funded by the Company's operating activities.

During the first nine months of 2008, we made scheduled principal payments totaling $6.5 million on our Second Amended Credit Facility. The scheduled repayment of our Second Amended Credit Facility is as follows (dollars in millions):

Remainder of 2008	$ 2.2
2009	8.7
2010	8.8
2011	8.7
2012	8.8
2013	821.8
	$859.0

The Second Amended Credit Facility includes an $80.0 million revolving credit facility that can be used for general corporate purposes and that would mature on June 22, 2009. There were no amounts outstanding under the revolving credit facility at September 30, 2008. In October 2008, the Company borrowed $75.0 million under the revolving credit facility to assure the future availability of this additional liquidity given our concerns with the ability of certain financial institutions to be able to provide funding in the future. The Company also requested borrowings of $5.0 million which were not funded. The Company pays a commitment fee equal to .50 percent of the unused portion of the revolving credit facility on an annualized basis.

Pursuant to the Second Amended Credit Facility, as long as the debt to total capitalization ratio (as defined in the Second Amended Credit Facility) is greater than 20 percent and certain insurance subsidiaries (as defined in the Second Amended Credit Facility) have financial strength ratings of less than A- from A.M. Best, the Company is required to make mandatory prepayments with all or a portion of the proceeds from the following transactions or events including: (i) the issuance of certain indebtedness; (ii) equity issuances;
(iii) certain asset sales or casualty events; and (iv) excess cash flows as defined in the Second Amended Credit Facility (the first such payment, if applicable, would not be paid prior to the first quarter of 2009). The Company may make optional prepayments at any time in minimum amounts of $3.0 million or any multiple of $1.0 million in excess thereof.

Under the Second Amended Credit Facility, we may pay cash dividends on our common stock or repurchase our common stock in an aggregate amount of up to $300.0 million over the term of the facility. We have repurchased $87.2 million of our common stock. No repurchases were made in the first nine months of 2008.

Pursuant to our Second Amended Credit Facility, we may repurchase any Debentures, if after giving effect to such repurchases, the Company has sufficient liquidity, as defined in the credit facility, and we are in compliance with all other financial ratios and balances. Through November 4, 2008, we repurchased $37.0 million par value of such Debentures for $15.3 million plus accrued interest. In the fourth quarter of 2008, we will recognize a gain on the extinguishment of debt of approximately $21 million related to such repurchases. Debentures with a par value of $293.0 million remain outstanding.

Under our Second Amended Credit Facility, we have agreed to a number of covenants and other provisions that restrict our ability to engage in various financing transactions and pursue certain operating activities without the prior consent of the lenders. We have also agreed to meet or maintain various financial ratios. These requirements represent significant restrictions on the manner in which we may operate our business and our ability to meet these financial covenants may be affected by events beyond our control. If we default under any of these requirements (subject to certain remedies), the lenders could declare all outstanding borrowings, accrued interest and fees to be immediately due and payable. If that were to occur, we cannot provide assurance that we would have sufficient liquidity to repay or refinance this indebtedness.

The Second Amended Credit Facility requires the Company to maintain various financial ratios and balances, as defined in the agreement, including a debt to total capitalization ratio of not more than 30 percent at all times (such ratio was 24 percent at September 30, 2008). Although the completion of the previously announced transaction to transfer Senior Health to an independent trust would increase our debt to total capital ratio, we expect to be in compliance with all financial ratios and balances required by the Second Amended Credit Facility.

The following chart summarizes: (i) the most significant financial ratios and balances we must maintain pursuant to our Second Amended Credit Facility;
(ii) the current ratios and balances as of September 30, 2008; and (iii) the current ratios and balances as of September 30, 2008 as if the plan to transfer Senior Health to an independent trust had been completed on that date (dollars in millions):

	Requirement of the Second Amended Credit Facility	Balance or ratio as of of September 30, 2008	Pro forma balance or ratio as of September 30, 2008
Debt to total capitalization ratio.........	not more than 30%	24%	28%
Interest coverage ratio....................	greater than or equal to 2:00 to 1 for each rolling four quarters	2.64 to 1	2.64 to 1
Aggregate risk-based capital ratio.........	greater than or equal to 250%	257%	276%
Combined statutory capital and surplus level..................................	greater than $1,270 million	$1,430	$1,310

The Company was in compliance with all covenants as defined in the Second Amended Credit Facility as of September 30, 2008.

INVESTMENTS

At September 30, 2008, the amortized cost and estimated fair value of actively managed fixed maturities and equity securities were as follows (dollars in millions):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Investment grade:				
Corporate securities	$13,751.1	$23.5	$(1,477.6)	$12,297.0
United States Treasury securities and obligations of United States government corporations and agencies	141.5	6.2	(.4)	147.3
States and political subdivisions	501.5	2.2	(16.8)	486.9
Debt securities issued by foreign governments	8.6	.1	(.2)	8.5
Asset-backed securities	389.9	1.0	(74.5)	316.4
Collateralized debt obligations	45.0	-	(6.3)	38.7
Commercial mortgage-backed securities	900.6	-	(128.1)	772.5
Mortgage pass-through securities	88.6	.2	(.5)	88.3
Collateralized mortgage obligations	3,640.5	3.2	(287.4)	3,356.3
Total investment grade actively managed fixed maturities	19,467.3	36.4	(1,991.8)	17,511.9
Below-investment grade:				
Corporate securities	1,529.5	1.1	(156.4)	1,374.2
States and political subdivisions	3.9	-	(.6)	3.3
Debt securities issued by foreign governments	4.2	-	(.8)	3.4
Collateralized debt obligations	11.8	-	(1.6)	10.2
Commercial mortgage-backed securities	23.2	-	(.8)	22.4
Collateralized mortgage obligations	.5	-	-	.5
Total below-investment grade actively managed fixed maturities	1,573.1	1.1	(160.2)	1,414.0
Total actively managed fixed maturities	$21,040.4	$37.5	$(2,152.0)	$18,925.9
Equity securities	$34.0	$.3	$(.1)	$34.2

Concentration of Actively Managed Fixed Maturity Securities

The following table summarizes the carrying values of our actively managed fixed maturity securities by category as of September 30, 2008 (dollars in millions):

	Carrying value	Percent of fixed maturities	Gross unrealized losses	Percent of gross unrealized losses
Collateralized mortgage obligations	$ 3,356.8	17.7%	$ (287.4)	13.4%
Utilities	1,679.8	8.9	(172.9)	8.0
Energy/pipelines	1,579.9	8.3	(170.6)	7.9
Food/beverage	1,176.3	6.2	(97.0)	4.5
Healthcare/pharmaceuticals	1,014.8	5.4	(77.3)	3.6
Insurance	932.2	4.9	(151.5)	7.0
Banks	926.6	4.9	(260.7)	12.1
Commercial mortgage-backed securities	794.9	4.2	(128.9)	6.0
Real estate/REITs	713.9	3.8	(91.7)	4.3
Cable/media	695.0	3.7	(78.2)	3.6
Brokerage	490.7	2.6	(106.1)	4.9
States and political subdivisions	490.2	2.6	(17.4)	.8
Telecom	485.7	2.6	(73.1)	3.4
Capital goods	436.8	2.3	(43.3)	2.0
Transportation	435.3	2.3	(33.6)	1.6
Aerospace/defense	431.0	2.3	(32.3)	1.5
Building materials	391.2	2.1	(48.1)	2.2
Asset-backed securities	316.4	1.7	(74.5)	3.5
Technology	308.8	1.6	(29.7)	1.4
Consumer products	213.5	1.1	(19.5)	.9
Chemicals	196.3	1.0	(8.7)	.4
Other	1,859.8	9.8	(149.5)	7.0
Total actively managed fixed maturities	$18,925.9	100.0%	$(2,152.0)	100.0%

Below-Investment Grade Securities

At September 30, 2008, the amortized cost of the Company's below-investment grade fixed maturity securities was $1,573.1 million, or 7.5 percent of the Company's fixed maturity portfolio. The estimated fair value of the below-investment grade portfolio was $1,414.0 million, or 90 percent of the amortized cost.

Below-investment grade fixed maturity securities with an amortized cost of $383.0 million and an estimated fair value of $351.4 million are held by a VIE that we are required to consolidate. These fixed maturity securities are legally isolated and are not available to the Company. The liabilities of such VIE will be satisfied from the cash flows generated by these securities and are not obligations of the Company. See "Investments in Variable Interest Entity" concerning the Company's commitment to provide additional capital of up to $25 million to the VIE. At September 30, 2008, our total investment in the VIE was $51.9 million and such investment was rated BBB.

Below-investment grade securities have different characteristics than investment grade corporate debt securities. Based on historical performance, risk of default by the borrower is significantly greater for below-investment grade securities and in many cases, severity of loss is relatively greater as such securities are generally unsecured and often subordinated to other indebtedness of the issuer. Also, issuers of below-investment grade securities usually have higher levels of debt and may be more financially leveraged, hence, all other things being equal, more sensitive to adverse economic conditions, such as recession or increasing interest rates. The Company attempts to reduce the overall risk related to its investment in below-

investment grade securities, as in all investments, through careful credit analysis, strict investment policy guidelines, and diversification by issuer and/or guarantor and by industry.

Net Realized Investment Gains (Losses)

During the first nine months of 2008, we recognized net realized investment losses of $549.5 million, which were comprised of: (i) $51.6 million of net losses from the sales of investments (primarily fixed maturities) with proceeds of $5.5 billion; (ii) $117.4 million of writedowns of investments for other than temporary declines in fair value; and (iii) $380.5 million of writedowns of investments (which are expected to be transferred to an independent trust as further discussed in the note to the consolidated financial statements entitled "Plan to Transfer Senior Health Insurance Company of Pennsylvania to an Independent Trust") as a result of our intent not to hold such investments for a period of time sufficient to allow for a full recovery in value. During the first nine months of 2007, net realized investment losses included: (i) $37.0 million of net losses from the sales of investments (primarily fixed maturities) with proceeds of $5.1 billion; (ii) $8.1 million of writedowns of investments for other than temporary declines in fair value; and (iii) $73.7 million of writedowns of investments (which were subsequently transferred pursuant to a coinsurance agreement completed in October 2007) as a result of our intent not to hold such investments for a period of time sufficient to allow for a full recovery in value. At September 30, 2008, fixed maturity securities in default as to the payment of principal or interest had an aggregate amortized cost of $22.4 million and a carrying value of $20.9 million. At September 30, 2008, we had one mortgage loan with a carrying value of $25.0 million which was in foreclosure and three mortgage loans with an aggregate carrying value of $21.0 million that were 90 days or more past due as to the payment of principal or interest.

During the nine months ended September 30, 2008, we sold $.8 billion of fixed maturity investments which resulted in gross investment losses (before income taxes) of $132.3 million. We sell securities at a loss for a number of reasons including, but not limited to: (i) changes in the investment environment; (ii) expectation that the market value could deteriorate further;
(iii) desire to reduce our exposure to an issuer or an industry; (iv) changes in credit quality; or (v) changes in expected liability cash flows.

The following summarizes the investments sold at a loss during the first nine months of 2008 which had been continuously in an unrealized loss position exceeding 20 percent of the amortized cost basis prior to the sale for the period indicated (dollars in millions):

		At date of sale	
Period	Number of issuers	Amortized cost	Fair value
Less than 6 months prior to sale	28	$86.2	$30.8
Greater than or equal to 6 and less than 12 months prior to sale	5	30.0	16.2

We regularly evaluate our investments for possible impairment. When we conclude that a decline in a security's net realizable value is other than temporary, the decline is recognized as a realized loss and the cost basis of the security is reduced to its estimated fair value.

Our assessment of whether unrealized losses are "other than temporary" requires significant judgment. Factors considered include: (i) the extent to which market value is less than the cost basis; (ii) the length of time that the market value has been less than cost; (iii) whether the unrealized loss is event driven, credit-driven or a result of changes in market interest rates or risk premium; (iv) the near-term prospects for fundamental improvement in specific circumstances likely to affect the value of the investment; (v) the investment's rating and whether the investment is investment-grade and/or has been downgraded since its purchase; (vi) whether the issuer is current on all payments in accordance with the contractual terms of the investment and is expected to meet all of its obligations under the terms of the investment; (vii) our ability and intent to hold the investment for a period of time sufficient to allow for a full recovery in value; (viii) the underlying current and prospective asset and enterprise values of the issuer and the extent to which the recoverability of the carrying value of our investment may be affected by changes in such values;
(ix) unfavorable changes in cash flows on structured securities including mortgage-backed and asset-backed securities; and (x) other subjective factors.

Future events may occur, or additional information may become available, which may necessitate future realized losses of securities in our portfolio. Significant losses in the estimated fair values of our investments could have a material adverse effect on our earnings in future periods.

The following table sets forth the amortized cost and estimated fair value of those actively managed fixed maturities with unrealized losses at September 30, 2008, by contractual maturity. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset-backed securities, collateralized debt obligations, commercial mortgage-backed securities, mortgage pass-through securities and collateralized mortgage obligations are collectively referenced to as "structured securities". Many of the structured securities shown below provide for periodic payments throughout their lives (dollars in millions):

	Amortized cost	Estimated fair value
Due in one year or less	$ 105.3	$ 101.7
Due after one year through five years	1,185.9	1,108.6
Due after five years through ten years	4,505.7	3,999.6
Due after ten years	7,531.8	6,466.0
Subtotal	13,328.7	11,675.9
Structured securities	4,400.6	3,901.4
Total	$17,729.3	$15,577.3

The following summarizes the investments in our portfolio rated below-investment grade which have been continuously in an unrealized loss position exceeding 20 percent of the cost basis for the period indicated as of September 30, 2008 (dollars in millions):

Period	Number of issuers	Cost basis	Unrealized loss	Estimated fair value
Less than 6 months	39	$166.8	$(46.0)	$120.8
Greater than or equal to 6 months and less than 12 months	31	45.3	(12.3)	33.0
Greater than 12 months	1	3.5	(1.7)	1.8

The following table summarizes the gross unrealized losses of our actively managed fixed maturity securities by category and ratings category as of September 30, 2008 (dollars in millions):

	Investment grade		Below - investment grade		Total gross unrealized losses
	AAA/AA/A	BBB	BB	B and below	
Collateralized mortgage obligations	$ 287.1	$ .3	$ -	$ -	$ 287.4
Banks	221.1	38.3	.2	1.1	260.7
Utilities	91.6	77.3	1.8	2.2	172.9
Energy/pipelines	41.2	123.5	4.3	1.6	170.6
Insurance	131.9	19.4	-	.2	151.5
Commercial mortgage-backed securities	78.6	49.5	.8	-	128.9
Brokerage	90.6	13.1	-	2.4	106.1
Food/beverage	47.5	41.3	5.0	3.2	97.0
Real estate/REITs	15.1	63.3	7.2	6.0	91.6
Cable/media	8.0	51.9	12.6	5.8	78.3
Healthcare/pharmaceuticals	52.2	17.1	3.8	4.2	77.3
Asset-backed securities	68.3	6.2	-	-	74.5
Telecom	36.1	30.3	4.8	1.9	73.1
Building materials	4.9	27.7	13.7	1.8	48.1
Capital goods	34.2	8.2	.6	.3	43.3
Transportation	8.4	24.2	.1	.9	33.6
Aerospace/defense	20.8	9.7	1.7	.1	32.3
Technology	16.1	6.6	3.4	3.6	29.7
Retail	8.2	11.3	2.6	2.6	24.7
Consumer products	7.3	6.7	.1	5.4	19.5
States and political subdivisions	16.1	.7	-	.6	17.4
Paper	-	11.7	2.1	1.3	15.1
Entertainment/hotels	1.3	8.0	3.8	1.7	14.8
Metals and mining	5.7	4.3	2.0	-	12.0
Gaming	-	-	8.0	1.9	9.9
Chemicals	1.2	2.5	2.9	2.1	8.7
Collateralized debt obligations	3.0	3.3	1.6	-	7.9
Textiles	4.7	.2	.1	1.9	6.9
Autos	.7	-	2.3	3.8	6.8
Foreign governments	.2	-	.8	-	1.0
Mortgage pass-through securities	.5	-	-	-	.5
U.S. Treasury and Obligations	.4	-	-	-	.4
Other	6.6	25.7	12.9	4.3	49.5
Total actively managed fixed maturities	$1,309.6	$682.3	$99.2	$60.9	$2,152.0

At September 30, 2008, we held no individual non-investment grade structured security that had an unrealized loss greater than $5.0 million.

Our investment strategy is to maximize, over a sustained period and within acceptable parameters of risk, investment income and total investment return through active investment management. Accordingly, we may sell securities at a gain or a loss to enhance the total return of the portfolio as market opportunities change or to better match certain characteristics of our investment portfolio with the corresponding characteristics of our insurance liabilities. While we have both the ability and intent to hold securities with unrealized losses until they mature or recover in value, we may sell securities at a loss in the future because of actual or expected changes in our view of the particular investment, its industry, its type or the general investment environment.

The following table summarizes the gross unrealized losses and fair values of our investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that such securities have been in a continuous unrealized loss position, at September 30, 2008 (dollars in millions):

	Less than 12 months		12 months or greater		Total	
Description of securities	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
United States Treasury securities and obligations of United States government corporations and agencies......	$ 22.7	$ (.2)	$ 2.7	$ (.2)	$ 25.4	$ (.4)
States and political subdivisions.	237.2	(10.4)	93.9	(7.0)	331.1	(17.4)
Debt securities issued by foreign governments...........	3.7	(.2)	3.4	(.8)	7.1	(1.0)
Corporate securities.............	7,243.7	(761.7)	4,068.6	(872.3)	11,312.3	(1,634.0)
Asset-backed securities...........	90.7	(12.8)	179.2	(61.7)	269.9	(74.5)
Collateralized debt obligations...	-	-	48.9	(7.9)	48.9	(7.9)
Commercial mortgage-backed securities.....................	438.8	(33.3)	247.6	(95.6)	686.4	(128.9)
Mortgage pass-through securities..	68.1	(.5)	.8	-	68.9	(.5)
Collateralized mortgage obligations....................	1,956.8	(76.2)	870.5	(211.2)	2,827.3	(287.4)
Total actively managed fixed maturities...............	$10,061.7	$(895.3)	$5,515.6	$(1,256.7)	$15,577.3	$(2,152.0)
Equity securities................	$7.4	$(.1)	$ -	$ -	$7.4	$(.1)

Based on management's current assessment of investments with unrealized losses at September 30, 2008, the Company believes the issuers of the securities will continue to meet their obligations (or with respect to equity-type securities, the investment value will recover to its cost basis). We generally intend to hold securities in unrealized loss positions until they recover. However, from time to time, our intent on an individual security may change, based upon market or other unforeseen developments. In such instances, we sell securities in the ordinary course of managing our portfolio to meet diversification, credit quality, yield, duration and liquidity requirements. If a loss is recognized from a sale subsequent to a balance sheet date due to these unexpected developments, the loss is recognized in the period in which the intent to hold the securities to recovery no longer exists.

Structured Securities

At September 30, 2008, fixed maturity investments included $4.6 billion of structured securities (or 24 percent of all fixed maturity securities). The yield characteristics of structured securities differ in some respects from those of traditional fixed-income securities. For example, interest and principal payments on structured securities may occur more frequently, often monthly. In many instances, we are subject to the risk that the amount and timing of principal and interest payments may vary from expectations. For example, prepayments may occur at the option of the issuer and prepayment rates are influenced by a number of factors that cannot be predicted with certainty, including: the relative sensitivity of the underlying assets backing the security to changes in interest rates; a variety of economic, geographic and other factors; and various security-specific structural considerations (for example, the repayment priority of a given security in a securitization structure).

In general, the rate of prepayments on structured securities increases when prevailing interest rates decline significantly in absolute terms and also relative to the interest rates on the underlying assets. The yields recognized on structured securities

purchased at a discount to par will increase (relative to the stated rate) when the underlying assets prepay faster than expected. The yields recognized on structured securities purchased at a premium will decrease (relative to the stated rate) when the underlying assets prepay faster than expected. When interest rates decline, the proceeds from prepayments may be reinvested at lower rates than we were earning on the prepaid securities. When interest rates increase, prepayments may decrease. When this occurs, the average maturity and duration of the structured securities increase, which decreases the yield on structured securities purchased at a discount because the discount is realized as income at a slower rate, and it increases the yield on those purchased at a premium because of a decrease in the annual amortization of the premium.

For structured securities included in actively managed fixed maturities that were purchased at a discount or premium, we recognize investment income using an effective yield based on anticipated future prepayments and the estimated final maturity of the securities. Actual prepayment experience is periodically reviewed and effective yields are recalculated when differences arise between the prepayments originally anticipated and the actual prepayments received and currently anticipated. For credit sensitive mortgage-backed and asset-backed securities, and for securities that can be prepaid or settled in a way that we would not recover substantially all of our investment, the effective yield is recalculated on a prospective basis. Under this method, the amortized cost basis in the security is not immediately adjusted and a new yield is applied prospectively. For all other structured and asset-backed securities, the effective yield is recalculated when changes in assumptions are made, and reflected in our income on a retrospective basis. Under this method, the amortized cost basis of the investment in the securities is adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the securities. Such adjustments were not significant in the first nine months of 2008.

The following table sets forth the par value, amortized cost and estimated fair value of structured securities, summarized by interest rates on the underlying collateral, at September 30, 2008 (dollars in millions):

	Par value	Amortized cost	Estimated fair value
Below 4 percent	$ 33.0	$ 23.0	$ 21.4
4 percent - 5 percent	487.1	471.0	446.1
5 percent - 6 percent	4,219.9	4,028.3	3,647.7
6 percent - 7 percent	490.3	478.9	404.3
7 percent - 8 percent	93.3	90.6	77.5
8 percent and above	7.9	8.3	8.3
Total structured securities	$5,331.5	$5,100.1	$4,605.3

The amortized cost and estimated fair value of structured securities at September 30, 2008, summarized by type of security, were as follows (dollars in millions):

		Estimated fair value	
Type	Amortized cost	Amount	Percent of fixed maturities
Pass-throughs, sequential and equivalent securities	$1,956.9	$1,879.0	9.9%
Planned amortization class, target amortization class and accretion-directed bonds	1,748.9	1,546.6	8.2
Commercial mortgage-backed securities	923.9	794.9	4.2
Asset-backed securities	389.9	316.4	1.7
Collateralized debt obligations	56.8	48.9	.2
Other	23.7	19.5	.1
Total structured securities	$5,100.1	$4,605.3	24.3%

Pass-throughs, sequentials and equivalent securities have unique prepayment variability characteristics. Pass-through securities typically return principal to the holders based on cash payments from the underlying mortgage obligations. Sequential securities return principal to tranche holders in a detailed hierarchy. Planned amortization classes, targeted amortization classes and accretion-directed bonds adhere to fixed schedules of principal payments as long as the underlying

mortgage loans experience prepayments within certain estimated ranges. Changes in prepayment rates are first absorbed by support or companion classes insulating the timing of receipt of cash flows from the consequences of both faster prepayments (average life shortening) and slower prepayments (average life extension).

Commercial mortgage-backed securities ("CMBS") are secured by commercial real estate mortgages, generally income producing properties that are managed for profit. Property types include multi-family dwellings including apartments, retail centers, hotels, restaurants, hospitals, nursing homes, warehouses, and office buildings. Most CMBS have call protection features whereby underlying borrowers may not prepay their mortgages for stated periods of time without incurring prepayment penalties.

Structured Securities Collateralized by Sub Prime Residential Loans

Our investment portfolio includes structured securities collateralized by sub prime residential loans with a market value of $73.5 million and a book value of $95.0 million at September 30, 2008. These securities represent less than .4 percent of our consolidated investment portfolio. Of these securities, $27.1 million (37 percent) were rated AAA, $27.1 million (37 percent) were rated AA and $19.3 million (26 percent) were rated A. Sub prime structured securities issued in 2006 and 2007 have experienced higher delinquency and foreclosure rates than originally expected. The Company's investment portfolio includes sub prime structured securities collateralized by residential loans extended over several years, primarily from 2003 to 2007. At September 30, 2008, we held no sub prime securities collateralized by residential loans extended in 2006 and we held $5.6 million extended in 2007.

INVESTMENTS IN VARIABLE INTEREST ENTITY

Fall Creek is a collateralized loan trust that was established to issue securities and use the proceeds to invest in loans and other permitted investments. The assets held by the trust are legally isolated and are not available to the Company. The liabilities of Fall Creek will be satisfied from the cash flows generated by the underlying loans, not from the assets of the Company. Repayment of the principal balance of the investment borrowings of Fall Creek begins in 2012 based on available cash flows from the assets and such borrowings mature in 2017. At September 30, 2008 and December 31, 2007, the carrying value of our investment in Fall Creek was $51.9 million and $47.0 million, respectively. The following tables provide supplemental information about the assets, liabilities, revenues and expenses of Fall Creek which have been consolidated in accordance with FIN 46R, after giving effect to the elimination of our investment in Fall Creek and investment management fees earned by a subsidiary of the Company (dollars in millions):

	September 30, 2008	December 31, 2007
Assets:		
Actively managed fixed maturities	$362.3	$465.9
Cash and cash equivalents - restricted	12.0	16.1
Accrued investment income	2.8	5.1
Other assets	10.8	6.9
Total assets	$387.9	$494.0
Liabilities:		
Other liabilities	$ 14.8	$ 12.2
Investment borrowings due to others	359.2	447.2
Investment borrowings due to the Company	47.0	47.0
Total liabilities	421.0	506.4
Equity (deficit):		
Capital provided by the Company	6.1	1.6
Capital provided by others	3.8	4.1
Accumulated other comprehensive loss	(31.7)	(25.0)
Retained earnings (deficit)	(11.3)	6.9
Total equity (deficit)	(33.1)	(12.4)
Total liabilities and equity (deficit)	$387.9	$494.0

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Revenues:				
Net investment income - deposit accounts	$4.9	$9.4	$ 17.9	$27.4
Fee revenue and other income	.1	.1	.5	.3
Total revenues	5.0	9.5	18.4	27.7
Expenses:				
Interest expense	3.2	6.9	13.2	20.1
Other operating expenses	-	-	.2	.3
Total expenses	3.2	6.9	13.4	20.4
Income (loss) before net realized investment losses and income taxes	1.8	2.6	5.0	7.3
Net realized investment losses	(.7)	-	(21.2)	-
Income (loss) before income taxes	$1.1	$2.6	$(16.2)	$ 7.3

The investment borrowings of Fall Creek may become due and payable if certain threshold ratios (based on the entity's leverage and the market value of its assets) are not met for a specified period of time. During the first quarter of 2008, such threshold ratio was not met and was amended. Subsequent to the amendment, Fall Creek sold assets of $90 million (which resulted in net realized investment losses of $11.2 million), and paid down investment borrowings of $83.5 million in the first quarter of 2008. Pursuant to the amendment, we committed to provide additional capital to Fall Creek for up to $25 million (under defined circumstances), $5 million of which was contributed through September 30, 2008 (all of which was contributed in the first quarter of 2008). An additional $10.4 million was contributed in October 2008 as a result of certain threshold ratios not being met. In the first nine months of 2008, we recognized $8.1 million of writedowns of investments held by Fall Creek resulting from declines in fair values that we concluded were other than temporary.

NEW ACCOUNTING STANDARDS

See "Recently Issued Accounting Standards" in the notes to consolidated financial statements for a discussion of recently issued accounting standards.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our market risks, and the ways we manage them, are summarized in "Management's Discussion and Analysis of Financial Condition and Results of Operations", included in Conseco's Annual Report on Form 10-K for the year ended December 31, 2007. There have been no material changes in the first nine months of 2008 to such risks or our management of such risks.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures. Conseco's management, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of Conseco's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based on its evaluation, and in light of the material weakness in internal control over financial reporting identified as existing as of December 31, 2007, which is described in our Annual Report on Form 10-K, Item 9A, the Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2008, Conseco's disclosure controls and procedures were not effective.

As disclosed in our 2007 Annual Report on Form 10-K, we did not maintain effective controls over the accounting and disclosure of insurance policy benefits, amortization expense, the liabilities for insurance products and the value of policies inforce at the Effective Date. Specifically, controls over the actuarial reporting process related to the design of controls to ensure the completeness and accuracy of certain inforce policies in our Bankers Life segment, Conseco Insurance Group segment and Other Business in Run-off segment were not effective. These control deficiencies resulted in the misstatement of our insurance policy benefits, amortization expense, the liabilities for insurance products and the value of policies inforce at the Effective Date and related disclosures in the consolidated financial statements, and in the restatement of our consolidated financial statements for 2006 and 2005, each of the quarters of 2006 and the first three quarters of 2007.

A material weakness is a deficiency, or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements would not be prevented or detected on a timely basis.

Conseco has devoted significant efforts and resources towards remediation of the material weakness relating to the actuarial reporting process. Nonetheless, the material weakness continued to exist as of September 30, 2008. Conseco's management continues to assign the highest priority to Conseco's remediation efforts, with the goal of remediating the material weakness by the end of 2008. However, due to the nature of the remediation process and the need to allow adequate time after implementation to evaluate and test the effectiveness of the revised controls, no assurance can be given as to the timing of achievement of remediation. Conseco recognizes that further improvement in its internal control over the actuarial reporting process is essential. Over time, Conseco intends to reduce its reliance on manual controls and procedures. As part of its remediation efforts, Conseco intends to develop improved systems and processes which will allow it to rely on front-end preventative controls which will be more sustainable over the long term. Conseco recognizes that further investment is needed to improve the actuarial reporting systems and processes and is committed to making the investments for these improvements.

Changes to Internal Control Over Financial Reporting. There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the nine months ended September 30, 2008, that have materially affected, or are reasonably likely to materially affect, Conseco's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Information required for Part II, Item 1 is incorporated by reference to the discussion under the heading "Litigation and Other Legal Proceedings" in the footnotes to our consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

ITEM 1A. RISK FACTORS.

Conseco and its businesses are subject to a number of risks including general business and financial risk factors. Any or all of such factors could have a material adverse effect on the business, financial condition or results of operations of Conseco. Refer to "Risk Factors" in Conseco's Annual Report on Form 10-K for the year ended December 31, 2007, for further discussion of such risk factors. There have been no material changes from such previously disclosed risk factors, except as set forth below:

Future issuances or repurchases of our equity, or transfers of our equity by third parties, may impair our future ability to use a substantial amount of our existing net operating loss carryforwards.

As of September 30, 2008, we had approximately $5.0 billion of federal tax net operating loss carryforwards and $.8 billion of capital loss carryforwards, resulting in a gross deferred tax asset of approximately $2.0 billion, expiring in years 2008 through 2028. The timing and manner in which Conseco will be able to utilize some of its net operating loss carryforwards is limited by Section 382 of the Internal Revenue Code of 1986, as amended. Section 382 imposes limitations on a corporation's ability to use its net operating loss carryforwards when it undergoes an "ownership change." Because Conseco underwent an ownership change as the result of its reorganization, the Section 382 limitation applies to the Company. Losses that are subject to the current
Section 382 limitation may only be utilized by the Company up to

approximately $142 million per year, with any unused amounts carried forward to the following year. Absent an additional ownership change, our Section 382 limitation for 2008 will be approximately $544 million (including $402 million of unused amounts carried forward from prior years).

Future transactions and the timing of such transactions could cause an additional ownership change for Section 382 income tax purposes. Such transactions may include, but are not limited to, additional repurchases or issuances of common stock (including upon conversion of our outstanding 3.50% convertible debentures), or acquisitions or sales of shares of Conseco stock by certain holders of our shares, including persons who have held, currently hold or may accumulate in the future five percent or more of our outstanding common stock for their own account. Many of these transactions are beyond our control. If an additional ownership change were to occur for purposes of Section 382, we would be required to calculate a new annual restriction (which would supersede the current $142 million annual limit) on the use of our net operating loss carryforwards to offset future taxable income, but we would be able to continue to carry forward unused amounts from prior years. The new annual restriction would be calculated based upon the value of Conseco's equity at the time of such ownership change, multiplied by a federal long-term tax exempt rate (currently approximately 4.7 percent), and the new annual restriction could effectively eliminate our ability to use a substantial portion of our net operating loss carryforwards to offset future taxable income. We regularly monitor ownership change (as calculated for purposes of Section 382) and, as of September 30, 2008, we were below the 50 percent ownership change level that would trigger further impairment of our ability to utilize our net operating loss carryforwards. See the "Income Taxes" footnote to our financial statements contained herein for additional information regarding our tax loss carryforwards and other tax matters.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Issuer Purchases of Equity Securities

Period	Total number of shares (or units)(a)	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs(a)
				(dollars in millions)
July 1 through July 31...........	-	-	-	$262.8
August 1 through August 31.........	-	-	-	262.8
September 1 through September 30......	-	-	-	262.8
Total.................	-	-	-	262.8

(a) On December 21, 2006, the Company announced a common share repurchase program of up to $150 million. On May 8, 2007, the Company announced that the maximum amount that was authorized under the common share repurchase program had been increased to $350 million.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

12.1 Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends.

31.1 Certification Pursuant to the Securities Exchange Act Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification Pursuant to the Securities Exchange Act Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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 7, 2008

By: /s/ Edward J. Bonach

Edward J. Bonach
Executive Vice President
and Chief Financial Officer
(authorized officer and principal
financial officer)

Exhibit 12.1

Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends

(Dollars in millions)

	Nine months ended September 30, 2008	Year ended December 31, 2007
Pretax loss from operations:		
Net loss	$(674.9)	$(179.9)
Add income tax expense	349.7	6.9
Pretax loss from operations	(325.2)	(173.0)
Add fixed charges:		
Interest expense on corporate debt	44.0	72.3
Interest expense on investment borrowings	30.1	45.0
Interest added to policyholder account balances	248.5	399.5
Portion of rental (a)	9.9	13.7
Fixed charges	332.5	530.5
Adjusted earnings	$ 7.3	$ 357.5
Ratio of earnings to fixed charges	(b)	(c)
Fixed charges	$ 332.5	$ 530.5
Add dividends on preferred stock, including dividends on preferred stock of subsidiaries (divided by the ratio of income to pretax income)	-	21.7
Fixed charges plus preferred dividends	$ 332.5	$ 552.2
Adjusted earnings	$ 7.3	$ 357.5
Ratio of earnings to fixed charges and preferred dividends	(b)	(d)

(a) Interest portion of rental is estimated to be 33 percent.
(b) For such ratio, earnings were $325.2 million less than fixed charges.
(c) For such ratio, earnings were $173.0 million less than fixed charges.
(d) For such ratio, earnings were $194.7 million less than fixed charges.

Exhibit 31.1

CERTIFICATION

I, C. James Prieur, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Conseco, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2008

/s/ C. James Prieur

C. James Prieur
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Edward J. Bonach, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Conseco, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2008

/s/ Edward J. Bonach

Edward J. Bonach, Executive Vice President
and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Conseco, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, C. James Prieur, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my actual knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ C. James Prieur

C. James Prieur
Chief Executive Officer
November 7, 2008

A signed original of this written statement required by Section 906 has been provided to Conseco, Inc. and will be retained by Conseco, Inc. and furnished to the Securities and Exchange Commission upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Conseco, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edward J. Bonach, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my actual knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Edward J. Bonach

Edward J. Bonach
Executive Vice President and Chief Financial Officer
November 7, 2008

A signed original of this written statement required by Section 906 has been provided to Conseco, Inc. and will be retained by Conseco, Inc. and furnished to the Securities and Exchange Commission upon request.