CONSECO INC

FORM 10-Q/A
(Amended Quarterly Report)

Filed 12/04/97 for the Period Ending 09/30/97

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

CONSECO INC

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(Amended Quarterly Report)

Filed 12/4/1997 For Period Ending 9/30/1997

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

Amendment No. 1

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

For the quarterly period ended September 30, 1997

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

For the transition period from to

Commission File Number 1-9250

Conseco, Inc.

Indiana	No. 35-1468632
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 [ ]

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

CONSECO, INC. AND SUBSIDIARIES

EXPLANATORY NOTE

This Form 10-Q/A amends the Form 10-Q filed by Conseco, Inc. on November 14, 1997 to correct the typographical errors included in the table summarizing mortgage-backed securities by type of security. The descriptions of such securities in the table were not properly matched with their corresponding balances. Such balances are presented in the table on page 38 included in the section entitled "Investments" in Item 2. Item 2 is included herein in its entirety.

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

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

RESULTS OF OPERATIONS

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

Consolidated Results and Analysis

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

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

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

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

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

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

CONSECO, INC. AND SUBSIDIARIES

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

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

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

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

Supplemental health:

	Three months ended September 30, 1997	Three months ended September 30, 1996	Nine months ended September 30, 1997	Nine months ended September 30, 1996
	(Dollars in millions)			
Premiums collected:				
Medicare supplement (first year)	$ 31.7	$ 17.1	$ 75.4	$ 53.9
Medicare supplement (renewal)	177.7	133.3	511.3	409.6
Subtotal - Medicare supplement	209.4	150.4	586.7	463.5
Long-term care (first year)	35.1	12.7	108.7	38.0
Long-term care (renewal)	129.1	36.6	375.0	104.1
Subtotal - long-term care	164.2	49.3	483.7	142.1
Specified disease (first year)	11.3	-	34.2	-
Specified disease (renewal)	86.2	-	255.1	-
Subtotal - specified disease	97.5	-	289.3	-
Total supplemental health premiums collected	$471.1	$199.7	$1,359.7	$605.6
Insurance policy income	$472.9	$202.9	$1,363.0	$604.4
Net investment income	64.8	16.4	184.9	49.8
Total revenues (a)	537.7	219.3	1,547.9	654.2
Insurance policy benefits and change in future policy benefits	301.2	133.9	875.1	408.6
Amortization related to operations	43.0	24.4	148.7	63.5
Interest expense on investment borrowings	1.5	.3	2.8	.8
Other operating costs and expenses	71.8	32.0	213.9	86.6
Total benefits and expenses (a)	417.5	190.6	1,240.5	559.5
Operating income before income taxes, minority interest and extraordinary charge	120.2	28.7	307.4	94.7
Net investment gains (losses), net of related costs and amortization	11.3	.4	6.5	(.2)
Nonrecurring expense	(62.4)	-	(62.4)	-
Income before income taxes, minority interest and extraordinary charge	$ 69.1	$ 29.1	$ 251.5	$ 94.5
Benefit ratios:				
Medicare supplement products	68.6%	68.0%	70.3%	69.2%
Long-term care products	56.3	59.5	59.2	61.9
Specified disease products	66.3	-	60.6	-

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Annuities:

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

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

(b) Excludes: (i) variable annuity products where the credited amount is based on investment income from segregated investments; and (ii) equity-indexed products where the credited amount is dependent upon the investment income from S&P Options.

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

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

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

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

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

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

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

Insurance policy income includes: (i) premiums received on some of the SPIA policies that incorporate significant mortality features; (ii) the cost of insurance and expenses charged to annuity policies; and (iii) surrender charges earned on annuity policy withdrawals. In accordance with GAAP, premiums on annuity contracts without mortality features are not reported as revenues; instead, they are reported as deposits to insurance liabilities. Insurance policy income rose primarily because of increased surrender charges collected (changes in cost of insurance and expenses charged to annuity policies were not significant). Surrender charges were $17.7 million in the third quarter of 1997 and $11.9 million in the third quarter of 1996. Such charges were $47.5 million in the first nine months of 1997 compared to $29.7 million in the first nine months of 1996. Annuity policy withdrawals were $1,255.0 million in the first nine months of 1997 and $1,061.4 million in the first nine months of 1996. The increase in policy withdrawals and surrender charges generally corresponds to the aging and the growth of our annuity business in force. In addition, policyholders are using the systematic withdrawal features available in several of our annuity policies, and more policyholders are surrendering in order to invest in alternative investments. Total withdrawals and surrenders during the nine month periods were approximately 11.0 percent of insurance liabilities related to surrenderable policies in 1997 and 10.4 percent in 1996.

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

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

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

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

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

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

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

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

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

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

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

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

Life insurance:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Individual major medical and group:

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

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

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

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

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

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

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

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

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

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

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

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

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

Other:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SALES

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

Total premiums collected by our business segments were as follows:

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

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

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

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

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

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

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

(e) Represents the ratio of debt and the Company-obligated mandatorily redeemable preferred securities of subsidiary trusts to the sum of shareholders' equity, notes payable, minority interest and the Company-obligated mandatorily redeemable preferred securities of subsidiary trusts.

INVESTMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment borrowings averaged approximately $431.2 million during the first nine months of 1997, compared to approximately $371.6 million during the same period of 1996 and were collateralized by investment securities with fair values approximately equal to the loan value. The weighted average interest rate on such borrowings was 5.6 percent and 5.4 percent during the first nine months of 1997 and 1996, respectively.

STATUTORY INFORMATION

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

Statutory capital and surplus	$1,583.2
Asset valuation reserve ("AVR")	319.7
Interest maintenance reserve ("IMR")	337.9
Portion of surplus debenture carried as a liability	99.2
Total	$2,340.0

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

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.

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Dated:  December 4, 1997            By:   /s/ JAMES S. ADAMS
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                                          James S. Adams
                                          Senior Vice President,
                                            Chief Accounting Officer
                                            and Treasurer
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