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CNO FINANCIAL GROUP, INC.

FORM 10-Q
(Quarterly Report)

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Telephone	3178176100
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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, 2007

[ ] 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 or a non-accelerated filer (see definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act). Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

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 26, 2007: 186,356,981

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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, 2007 (unaudited)	December 31, 2006
Investments:		
Actively managed fixed maturities at fair value (amortized cost: September 30, 2007 - $21,073.6; December 31, 2006 - $22,946.9)	$20,511.7	$22,802.9
Investments to be transferred pursuant to an annuity coinsurance transaction at fair value (amortized cost: September 30, 2007 - $2,564.1)	2,564.1	-
Equity securities at fair value (cost: September 30, 2007 - $34.3; December 31, 2006 - $23.9)	35.5	24.8
Mortgage loans	1,914.3	1,642.2
Policy loans	389.5	412.5
Trading securities	691.2	675.2
Other invested assets	180.5	178.8
Total investments	26,286.8	25,736.4
Cash and cash equivalents:		
Unrestricted	392.3	385.9
Restricted	25.8	24.0
Accrued investment income	346.3	344.5
Value of policies inforce at the Effective Date	1,740.2	2,137.2
Cost of policies produced	1,359.4	1,106.7
Reinsurance receivables	3,666.2	850.8
Income tax assets, net	1,992.3	1,786.9
Assets held in separate accounts	28.3	28.9
Other assets	324.0	316.0
Total assets	$36,161.6	$32,717.3

(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, 2007 (unaudited)	December 31, 2006
Liabilities:		
Liabilities for insurance products:		
Interest-sensitive products	$13,214.0	$13,018.0
Traditional products	12,445.1	12,094.1
Claims payable and other policyholder funds	901.4	832.3
Liabilities related to separate accounts	28.3	28.9
Other liabilities	595.6	611.8
Liability for assets to be transferred pursuant to an annuity coinsurance transaction	2,564.1	-
Investment borrowings	913.7	418.3
Notes payable - direct corporate obligations	1,195.7	1,000.8
Total liabilities	31,857.9	28,004.2
Commitments and Contingencies		
Shareholders' equity:		
Preferred stock	-	667.8
Common stock ($0.01 par value, 8,000,000,000 shares authorized, shares issued and outstanding: September 30, 2007 - 186,345,515; December 31, 2006 - 152,165,108)	1.9	1.5
Additional paid-in capital	4,094.6	3,473.2
Accumulated other comprehensive loss	(316.0)	(72.6)
Retained earnings	523.2	643.2
Total shareholders' equity	4,303.7	4,713.1
Total liabilities and shareholders' equity	$36,161.6	$32,717.3

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,	
	2007	2006	2007	2006
Revenues:				
Insurance policy income	$ 822.0	$ 748.5	$2,352.6	$2,242.9
Net investment income:				
General account assets	392.6	360.6	1,152.7	1,069.2
Policyholder and reinsurer accounts and other special-purpose portfolios	3.2	26.2	50.4	26.6
Net realized investment losses	(51.1)	(21.8)	(114.3)	(28.6)
Fee revenue and other income	8.5	4.8	17.5	14.0
Total revenues	1,175.2	1,118.3	3,458.9	3,324.1
Benefits and expenses:				
Insurance policy benefits	888.8	772.6	2,621.0	2,204.6
Interest expense	33.3	17.8	84.8	51.3
Amortization	93.3	104.2	325.8	320.4
Costs related to a litigation settlement	16.4	-	64.4	174.7
Loss related to an annuity coinsurance transaction	76.5	-	76.5	-
Other operating costs and expenses	153.7	147.0	449.7	430.2
Total benefits and expenses	1,262.0	1,041.6	3,622.2	3,181.2
Income (loss) before income taxes	(86.8)	76.7	(163.3)	142.9
Income tax expense (benefit) on period income	(33.1)	28.3	(60.1)	52.2
Net income (loss)	(53.7)	48.4	(103.2)	90.7
Preferred stock dividends	-	9.5	14.1	28.5
Net income (loss) applicable to common stock	$ (53.7)	$ 38.9	$ (117.3)	$ 62.2
Earnings per common share:				
Basic:				
Weighted average shares outstanding	187,733,000	151,663,000	169,270,000	151,566,000
Net income (loss)	$(.29)	$.26	$(.69)	$.41
Diluted:				
Weighted average shares outstanding	187,733,000	152,529,000	169,270,000	152,547,000
Net income (loss)	$(.29)	$.26	$(.69)	$.41

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
Balance, January 1, 2007	$4,713.1	$ 667.8	$3,474.7	$ (72.6)	$ 643.2
Comprehensive loss, net of tax:					
Net loss	(103.2)	-	-	-	(103.2)
Change in unrealized appreciation (depreciation) of investments (net of applicable income tax benefit of $136.1)	(243.9)	-	-	(243.9)	-
Total comprehensive loss	(347.1)				
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	$4,303.7	$ -	$4,096.5	$(316.0)	$ 523.2
Balance, January 1, 2006	$4,519.8	$ 667.8	$3,195.6	$ 71.7	$ 584.7
Comprehensive loss, net of tax:					
Net income	90.7	-	-	-	90.7
Change in unrealized appreciation (depreciation) of investments (net of applicable income tax benefit of $80.5)	(143.5)	-	-	(143.5)	-
Total comprehensive loss	(52.8)				
Reduction of deferred income tax valuation allowance	260.0	-	260.0	-	-
Stock option and restricted stock plans	12.1	-	12.1	-	-
Reduction of tax liabilities related to various contingencies recognized at the fresh-start date	2.1	-	2.1	-	-
Dividends on preferred stock	(28.5)	-	-	-	(28.5)
Balance, September 30, 2006	$4,712.7	$ 667.8	$3,469.8	$ (71.8)	$ 646.9

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

CONSECO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in millions)

(unaudited)

	Nine months ended September 30,	
	2007	2006
Cash flows from operating activities:		
Insurance policy income	$ 2,088.9	$ 1,975.4
Net investment income	1,206.8	1,109.7
Fee revenue and other income	17.5	14.0
Net sales (purchases) of trading securities	(135.5)	28.3
Insurance policy benefits	(1,682.7)	(1,662.1)
Interest expense	(80.2)	(45.1)
Policy acquisition costs	(368.0)	(367.6)
Other operating costs	(495.5)	(395.7)
Taxes	(1.9)	1.8
Net cash provided by operating activities	549.4	658.7
Cash flows from investing activities:		
Sales of investments	5,069.6	4,082.8
Maturities and redemptions of investments	817.6	840.5
Purchases of investments	(6,843.2)	(5,623.8)
Change in restricted cash	(1.8)	20.3
Other	(15.0)	(2.6)
Net cash used by investing activities	(972.8)	(682.8)
Cash flows from financing activities:		
Issuance of notes payable	200.0	-
Issuance of common stock	3.4	1.0
Payments to repurchase common stock	(64.3)	-
Payments on notes payable	(5.6)	(46.3)
Amounts received for deposit products	1,440.2	1,547.2
Withdrawals from deposit products	(1,620.3)	(1,516.0)
Investment borrowings	495.4	65.6
Dividends paid on preferred stock	(19.0)	(28.5)
Net cash provided by financing activities	429.8	23.0
Net increase (decrease) in cash and cash equivalents	6.4	(1.1)
Cash and cash equivalents, beginning of period	385.9	237.8
Cash and cash equivalents, end of period	$ 392.3	$ 236.7

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

Notes to Consolidated Financial Statements

The following notes should be read together with the notes to the consolidated financial statements included in the 2006 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 ("Old Conseco" or 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, Old Conseco 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.

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 Securities and Exchange Commission (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 generally accepted accounting principles ("GAAP"). We have reclassified certain amounts from the prior periods to conform to the 2007 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, 2006, 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, 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.

OUT-OF-PERIOD ADJUSTMENTS

During the three months ended September 30, 2007, we recorded the net effects of certain out-of-period adjustments which decreased our net loss by $1.2 million and diluted earnings per share by one cent.

During the nine months ended September 30, 2007, we recorded the net effects of certain out-of-period adjustments which decreased our net loss by $9.9 million and diluted earnings per share by six cents.

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); and (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 designed 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 and Interest Rate Swaps" 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 $691.2 million and $675.2 million at September 30, 2007 and December 31, 2006, 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, 2007 and December 31, 2006, were as follows (dollars in millions):

	September 30, 2007	December 31, 2006
Net unrealized depreciation on investments	$(553.3)	$(136.3)
Adjustment to value of policies inforce at the Effective Date	23.1	20.1
Adjustment to cost of policies produced	46.3	12.3
Adjustment to initially apply SFAS No. 158 related to the unrecognized net loss related to deferred compensation plan	-	(9.9)
Unrecognized net loss related to deferred compensation plan	(9.2)	-
Deferred income tax asset	177.1	41.2
Accumulated other comprehensive loss	$(316.0)	$ (72.6)

EARNINGS PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net income (loss)	$(53.7)	$48.4	$(103.2)	$ 90.7
Preferred stock dividends	-	(9.5)	(14.1)	(28.5)
Net income (loss) applicable to common stock for basic and diluted earnings per share	$(53.7)	$38.9	$(117.3)	$ 62.2
Shares:				
Weighted average shares outstanding for basic earnings per share	187,733	151,663	169,270	151,566
Effect of dilutive securities on weighted average shares:				
Stock option and restricted stock plans	-	866	-	981
Weighted average shares outstanding for diluted earnings per share	187,733	152,529	169,270	152,547

There were no dilutive common stock equivalents during the three and nine months ended September 30, 2007 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 potentially dilutive shares related to the Class B mandatorily convertible preferred stock were not dilutive during the three and nine months ended September 30, 2006, but the common stock equivalents related to stock option and restricted stock plans were dilutive.

The following summarizes the equivalent common shares for securities that were not included in the computation of diluted earnings per share during the three and nine months ended September 30, 2007 and 2006, because doing so would have been antidilutive in such periods (shares in thousands).

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Equivalent common shares that were antidilutive during the period:				
Class B mandatorily convertible preferred stock......	-	32,565	19,112	31,515
Stock option and restricted stock plans.............	127	-	173	-
Antidilutive equivalent common shares............	127	32,565	19,285	31,515

In the first quarter of 2007, the Company granted 379,900 performance shares pursuant to its long-term incentive plan to certain officers of the Company. The criteria for payment related to 227,940 of such awards (which had a grant date fair value of $1.5 million) is based upon the cumulative return on the Company's stock with dividends reinvested ("total shareholder return") compared to the total shareholder return of a group of Conseco's peers (represented by the companies comprising the Standard & Poor's Life and Health Index and the Russell 3000 Health and Life Index) over a three year performance measurement period ending December 31, 2009. If the Company's results are below the 50th percentile of the comparison group, no portion of the award is earned. If the Company's results are equal to or greater than the 75th percentile, then the maximum award is earned. The criteria for payment of the remaining 151,960 performance shares (which had a grant date fair value of $2.7 million) is based upon the Company's operating return on equity, as defined in the award agreement, for the year ended December 31, 2009. If the Company's operating return on equity is less than 10.0 percent, no portion of the award is earned. If the Company's operating return on equity is equal to or greater than 12.0 percent, then the maximum award is earned. Unless antidilutive, the diluted weighted average shares outstanding would reflect the number of performance shares expected to be issued, using the treasury stock method.

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, 2007 and 2006, 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 per share for the three or nine months ended September 30, 2007 and 2006.

Basic earnings per common share is computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding for the period. Restricted shares are not included in basic earnings per share until vested. Diluted earnings 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, Conseco Insurance Group and Colonial Penn, 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.

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Revenues:				
Bankers Life:				
Insurance policy income:				
Annuities	$ 16.4	$ 15.8	$ 48.7	$ 45.8
Supplemental health	397.3	310.8	1,065.0	927.8
Life	43.7	39.5	129.7	115.1
Other	16.2	24.0	66.2	69.0
Net investment income (a)	144.2	134.4	440.2	380.3
Fee revenue and other income (a)	3.8	1.4	7.7	4.8
Net realized investment losses (a)	(1.3)	(5.5)	(8.4)	(8.9)
Total Bankers Life revenues	620.3	520.4	1,749.1	1,533.9
Conseco Insurance Group:				
Insurance policy income:				
Annuities	5.0	3.7	11.8	12.2
Supplemental health	147.5	151.0	446.0	462.2
Life	84.2	88.6	252.4	266.7
Other	2.0	2.6	6.8	8.6
Net investment income (a)	181.2	189.3	559.1	532.6
Fee revenue and other income (a)	.1	.8	.4	1.1
Net realized investment losses (a)	(47.3)	(4.4)	(102.0)	(13.5)
Total Conseco Insurance Group revenues	372.7	431.6	1,174.5	1,269.9
Colonial Penn:				
Insurance policy income:				
Supplemental health	2.3	2.7	7.3	8.5
Life	30.0	26.0	83.2	71.6
Other	.2	.4	.7	1.0
Net investment income (a)	9.4	9.2	28.3	28.0
Fee revenue and other income (a)	.2	.1	.5	.4
Net realized investment gains (losses) (a)	.3	(.9)	.4	.8
Total Colonial Penn revenues	42.4	37.5	120.4	110.3
Other Business in Run-off:				
Insurance policy income - supplemental health	77.2	83.4	234.8	254.4
Net investment income (a)	48.8	44.6	143.4	133.9
Fee revenue and other income (a)	.1	.1	.3	.3
Net realized investment gains (losses) (a)	1.9	(10.8)	1.6	(6.8)
Total Other Business in Run-off revenues	128.0	117.3	380.1	381.8
Corporate:				
Net investment income	12.2	9.3	32.1	21.0
Fee and other income	4.3	2.4	8.6	7.4
Net realized investment losses(a)	(4.7)	(.2)	(5.9)	(.2)
Total corporate revenues	11.8	11.5	34.8	28.2
Total revenues	1,175.2	1,118.3	3,458.9	3,324.1

(continued on next page)

(continued from previous page)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Expenses:				
Bankers Life:				
Insurance policy benefits	$ 459.5	$ 365.0	$1,252.2	$1,070.8
Amortization	49.9	52.2	201.0	165.4
Interest expense on investment borrowings	-	-	-	.1
Other operating costs and expenses	46.5	40.1	128.7	116.0
Total Bankers Life expenses	555.9	457.3	1,581.9	1,352.3
Conseco Insurance Group:				
Insurance policy benefits	296.7	268.6	824.5	769.5
Amortization	32.7	42.0	92.9	129.7
Interest expense on investment borrowings	6.2	.1	11.5	.6
Costs related to a litigation settlement	8.2	-	32.2	165.8
Loss related to an annuity coinsurance transaction	76.5	-	76.5	-
Other operating costs and expenses	76.3	66.5	212.7	204.9
Total Conseco Insurance Group expenses	496.6	377.2	1,250.3	1,270.5
Colonial Penn:				
Insurance policy benefits	26.6	25.6	76.7	69.7
Amortization	5.1	4.4	14.8	12.7
Other operating costs and expenses	3.4	3.8	10.2	10.9
Total Colonial Penn expenses	35.1	33.8	101.7	93.3
Other Business in Run-off:				
Insurance policy benefits	106.0	113.4	467.6	294.6
Amortization	5.6	5.6	17.1	12.6
Other operating costs and expenses	17.4	22.1	60.8	66.0
Total Other Business in Run-off expenses	129.0	141.1	545.5	373.2
Corporate:				
Interest expense on corporate debt	20.2	12.5	53.2	36.9
Interest expense on variable interest entity	6.9	5.2	20.1	13.7
Costs related to a litigation settlement	8.2	-	32.2	8.9
Other operating costs and expenses	10.1	14.5	37.3	32.4
Total corporate expenses	45.4	32.2	142.8	91.9
Total expenses	1,262.0	1,041.6	3,622.2	3,181.2
Income (loss) before income taxes:				
Bankers Life	64.4	63.1	167.2	181.6
Conseco Insurance Group	(123.9)	54.4	(75.8)	(.6)
Colonial Penn	7.3	3.7	18.7	17.0
Other Business in Run-off	(1.0)	(23.8)	(165.4)	8.6
Corporate operations	(33.6)	(20.7)	(108.0)	(63.7)
Income (loss) before income taxes	$ (86.8)	$ 76.7	$ (163.3)	$ 142.9

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

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 year, a new index period begins. We are able to change the participation rate at the beginning of each index period, subject to contractual minimums. We typically buy call options on 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. Policyholder account balances for these annuities fluctuate in relation to changes in the values of these options. 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 $19.9 million and $6.7 million in the nine months ended September 30, 2007 and 2006, respectively. These amounts were substantially offset by the corresponding charge to insurance policy benefits. The estimated fair value of these options was $94.7 million and $93.7 million at September 30, 2007 and December 31, 2006, respectively. We classify these instruments as other invested assets. Pursuant to the annuity coinsurance agreement described below, we continue to hold $30 million of these options for the benefit of the assuming company until such options expire. All future cash flows (including any increases (decreases) in fair value) from these options are transferred to the assuming company. Such options are included in other invested assets, and we have established a liability for the amount due to the assuming company upon their expiration, based on the September 30, 2007 estimated market value of these options.

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"). We record the changes in the fair values of the embedded derivatives in current earnings as a component of policyholder benefits. The fair value of these derivatives, which are classified as "liabilities for interest-sensitive products", was $350.8 million and $275.3 million at September 30, 2007 and December 31, 2006, respectively. We maintain a specific block of investments which are equal to the balance of these liabilities 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 rate fluctuations will generally offset the portion of the change in the value of the embedded derivative provided corporate spreads remain constant.

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, 2007, 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 $2.5 million and $9.6 million at September 30, 2007 and December 31, 2006, respectively. 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 rate fluctuations will generally offset the change in value of the embedded derivatives provided corporate spreads remain constant.

REINSURANCE

The cost of reinsurance ceded totaled $156.0 million and $165.0 million in the first nine months of 2007 and 2006, 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 $168.1 million and $176.0 million in the first nine months of 2007 and 2006, 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 $220.0 million and $103.4 million in the first nine months of 2007 and 2006, respectively. Reinsurance premiums included amounts assumed pursuant to quota-share reinsurance agreements with Coventry Health Care ("Coventry") of $181.4 million and $61.3 million in the first nine months of 2007 and 2006, respectively. The increase in premiums assumed under these agreements in 2007 resulted from two new agreements: (i) we are assuming approximately 50 percent of the Private-Fee-For-Service ("PFFS") business marketed by our career agents pursuant to a marketing and distribution agreement with Coventry effective January 1, 2007; and (ii) we are assuming 50 percent of the PFFS business written by Coventry under one large group policy effective July 1, 2007.

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

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 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. The coinsurance transaction has 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. As previously disclosed, the loss on the annuity coinsurance transaction (calculated based on the January 1, 2007 values) was approximately $65 million after income taxes. The earnings (loss) after income taxes on the business from January 1, 2007 through September 28, 2007, resulted in increases (decreases) to the loss calculated as of January 1, 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.

The following summarizes the profits and losses recognized on this business during the three and nine months ended September 30, 2007 (dollars in millions):

	Three months ended September 30, 2007	Nine months ended September 30, 2007
Net earnings on the block before tax	$ 1.2	$ 17.0
Realized investment losses, net of amortization of insurance intangibles	(11.5)	(40.6)
Loss related to an annuity coinsurance transaction	(76.5)	(76.5)
Net loss before income taxes	(86.8)	(100.1)
Income tax benefit	30.4	35.0
Net loss related to coinsured business	$(56.4)	$(65.1) (a)

(a) Amount represents the net after-tax loss recognized on the annuity coinsurance transaction during the nine months ended September 30, 2007, including the earnings and losses on the block during that period and the loss recognized upon completion of the transaction. Since the loss on the transaction was based on January 1, 2007 values, this amount is comparable to the previously disclosed loss we estimated based on January 1, 2007 values.

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,	
	2007	2006	2007	2006
Current tax expense	$ .8	$ -	$ 2.5	$ -
Deferred tax provision (benefit)	(33.9)	28.3	(62.6)	52.2
Income tax expense (benefit) on period income	$(33.1)	$28.3	$(60.1)	$52.2

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,	
	2007	2006
U.S. statutory corporate rate	(35.0)%	35.0%
Other nondeductible expense (benefit)	(.5)	1.3
State taxes	(1.3)	.8
Provision for tax issues, tax credits and other	-	(.6)
Effective tax rate	(36.8)%	36.5%

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

	September 30, 2007	December 31, 2006
Deferred tax assets:		
Net operating loss carryforwards attributable to:		
Life insurance subsidiaries	$ 850.3	$ 800.3
Non-life companies	849.1	780.0
Tax credits	14.2	14.2
Capital loss carryforwards	407.6	391.7
Deductible temporary differences:		
Insurance liabilities	1,027.0	1,320.0
Unrealized depreciation of investments	177.1	41.2
Reserve for loss on loan guarantees	70.3	145.8
Other	86.0	-
Gross deferred tax assets	3,481.6	3,493.2
Deferred tax liabilities:		
Actively managed fixed maturities	(4.1)	(42.2)
Value of policies inforce at the Effective Date and cost of policies produced	(710.7)	(764.8)
Other	-	(117.6)
Gross deferred tax liabilities	(714.8)	(924.6)
Net deferred tax assets before valuation allowance	2,766.8	2,568.6
Valuation allowance	(776.5)	(777.8)
Net deferred tax assets	1,990.3	1,790.8
Current income taxes prepaid (accrued)	2.0	(3.9)
Income tax assets, net	$1,992.3	$1,786.9

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. We evaluate the realizability of our deferred income tax assets and assess the need for a valuation allowance on an ongoing basis. In addition, we update our previous analysis of the adequacy of the valuation allowance in the fourth quarter of each year, following the completion of the Company's annual operating plan. In evaluating our deferred income tax assets, we consider whether it is more likely than not that the deferred income tax assets will be realized. 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. However, recovery is dependent on achieving such projections 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 would 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.

Based upon information existing at the time of our emergence from bankruptcy, we established a valuation allowance against our entire balance of net deferred income tax assets as we believed that the realization of such net deferred income tax assets in future periods was uncertain. During 2004, 2005 and 2006, we concluded that it was no longer necessary to hold certain portions of the previously established valuation allowance. Accordingly, we reduced our valuation allowance by $947.0 million in 2004, $585.8 million in 2005 and $260.0 million in 2006. However, we are required to continue to record a

valuation allowance of $776.5 million at September 30, 2007 because 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 or interpretations on the value of such component to be fully recognized in the future. During the third quarter of 2007, we reduced the valuation allowance by $1.3 million to reflect our determination that certain tax loss carryforwards will not be utilized.

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 will only be utilized by the Company up to approximately $142 million per year with any unused amounts carried forward to the following year. Our Section 382 limitation for 2007 will be approximately $445 million (including $303 million of unused amounts carried forward from prior years).

We have also evaluated the likelihood that we will have sufficient taxable income to offset the available deferred tax assets. This assessment required significant judgment. Based upon our current projections of future income that we completed at December 31, 2006, 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. However, recovery is dependent on achieving such projections 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 would 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.

As of September 30, 2007, we had $4.8 billion of NOLs and $1.2 billion of capital loss carryforwards, which expire as follows (dollars in millions):

Year of expiration	Net operating loss carryforwards(a)		Capital loss carryforwards	Total loss carryforwards	Total loss carryforwards	
	Life	Non-life			Subject to ss.382	Not subject to ss.382
2007.......	$ -	$ -	$ 450.7	$ 450.7	$ 450.7	$ -
2008	-	-	583.7	583.7	583.7	-
2009.......	-	1.0	86.2	87.2	1.0	86.2
2010.......	-	2.0	-	2.0	2.0	-
2011.......	-	.3	-	.3	.3	-
2012.......	-	.4	44.1	44.5	.4	44.1
2016.......	17.0	-	-	17.0	17.0	-
2017.......	33.2	-	-	33.2	33.2	-
2018.......	2,170.6 (a)	9.0	-	2,179.6	53.1	2,126.5
2020.......	-	2.5	-	2.5	2.5	-
2021.......	62.7	-	-	62.7	-	62.7
2022.......	145.8	.6	-	146.4	-	146.4
2023.......	-	2,114.7 (a)	-	2,114.7	71.7	2,043.0
2024.......	-	3.2	-	3.2	-	3.2
2025.......	-	118.8	-	118.8	-	118.8
2026.......	-	1.6	-	1.6	-	1.6
2027.......	-	172.0	-	172.0	-	172.0
Total......	$2,429.3	$2,426.1	$1,164.7	$6,020.1	$1,215.6	$4,804.5

(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.

The Company adopted FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48") on January 1, 2007, which resulted in a $6 million increase to additional paid-in capital. As of January 1, 2007 and September 30, 2007, the amount of unrecognized tax benefits was not significant. While it is expected that the amount of unrecognized tax benefits will change in the next twelve months, the Company does not expect the change to have a significant impact on its results of operations.

As more fully discussed below, the Company's interpretation of the tax law, as it relates to the application of the cancellation of indebtedness income to its NOLs, is an uncertain tax position. Since all other life NOLs must be utilized prior to this portion of the NOL, it has not yet been utilized nor is it expected to be utilized within the next twelve months. As a result, an uncertain tax position has not yet been taken on the Company's tax return.

Although FIN 48 allowed a change in accounting, the Company has chosen to continue its past accounting policy of classifying interest and penalties as income tax expense in the consolidated statement of operations. No such amounts were recognized in the first nine months of 2007. The liability for accrued interest and penalties was not significant at September 30, 2007 or December 31, 2006.

Tax years 2004 through 2006 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 2004 through 2006 based on the individual state statutes of limitation.

The Code provides that any income realized as a result of the cancellation of indebtedness in bankruptcy (cancellation of debt income or "CODI") must reduce NOLs. We realized approximately $2.5 billion of CODI when we emerged from bankruptcy. Pursuant to the Company's interpretation of the tax law, the CODI reductions were all used to reduce non-life NOLs. However, if the IRS were to disagree with our interpretation and ultimately prevail, we believe approximately $631 million of NOLs classified as life company NOLs would be re-characterized as non-life NOLs and subject to the 35% limitation discussed above. Such a re-characterization would also extend the year of expiration as life company NOLs expire after 15 years whereas non-life NOLs expire after 20 years. The Company does not expect the IRS to consider this issue for a number of years.

The Company adopted Statement of Financial Accounting Standards No. 123R, "Accounting for Stock-Based Compensation" in calendar year 2006. Pursuant to this accounting rule, the Company is precluded from recognizing the tax benefits of any tax windfall upon the exercise of a stock option or the vesting of restricted stock unless such deduction resulted in actual cash savings to the Company. Because of the Company's NOLs, no cash savings have occurred. NOL carryforwards of $1.4 million related to deductions for stock options and restricted stock will be reflected in additional paid-in capital if realized.

NOTES PAYABLE - DIRECT CORPORATE OBLIGATIONS

The following notes payable were direct corporate obligations of the Company as of September 30, 2007 and December 31, 2006 (dollars in millions):

	September 30, 2007	December 31, 2006
3.50% convertible debentures	$ 330.0	$ 330.0
Secured credit agreement	867.7	673.3
Unamortized discount on convertible debentures	(2.0)	(2.5)
Direct corporate obligations	$1,195.7	$1,000.8

On October 10, 2006, we entered into a $675.0 million secured credit agreement. On June 12, 2007, Conseco amended its current credit facility (collectively, the "Second Amended Credit Facility"). The amendment of the credit facility provided for, among other things:

o an increase of $200.0 million in the principal amount of the facility;

o an increase in the general basket for restricted payments in an aggregate amount of up to $300 million over the term of the facility (of which only $200 million may be paid in the year commencing June 12, 2007); and

o the Company to be able to request the addition of up to two new facilities or up to two increases in the credit facility of up to $330 million (but with the commitment increases made between June 12, 2007 and June 12, 2008 limited to $130 million), subject to compliance with certain financial covenants and other conditions. Such increases would be effective as of a date that is at least 90 days prior to the scheduled maturity date.

No changes were made to the interest rate or the maturity schedule of the amounts borrowed under the credit facility. We are required to make minimum quarterly principal payments of $2.2 million through September 30, 2013. The remaining unpaid principal balance is due on October 10, 2013. There were no changes to the various financial ratios and balances that are required to be maintained by the Company. We intend to use the additional borrowings for general corporate purposes, including the repurchase of Conseco common stock and the strengthening of the Company's insurance subsidiaries.

During the first nine months of 2007, we made scheduled principal payments totaling $5.6 million on our Second Amended Credit Facility. There were $7.1 million and $6.2 million of unamortized issuance costs (classified as other assets) related to our Second Amended Credit Facility at September 30, 2007 and December 31, 2006, 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, 2007, the interest rate on our Second Amended Credit Facility was 7.1 percent.

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

Remainder of 2007	$ 2.2
2008	8.7
2009	8.7
2010	338.8
2011	8.7
Thereafter	830.6
	$1,197.7

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 or 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 2008). 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. As described in the Second Amended Credit Facility, the Company may reinvest any portion of the proceeds from asset sales in assets useful to its business, subject to certain restrictions defined in the Second Amended Credit Facility. The Company intends to use the majority of the ceding commission received from REALIC in the coinsurance transaction, as further described in the note to the financial statements

entitled "Coinsurance Transaction", to fund the recapture of a block of traditional life insurance inforce, as further described in the note to the consolidated financial statements entitled "Subsequent Event".

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 20.7 percent at September 30, 2007); (ii) an interest coverage ratio greater than or equal to 2.00 to 1 for each rolling four quarters (such ratio exceeded the minimum requirement for the four quarters ending September 30, 2007); (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, 2007); and (iv) a combined statutory capital and surplus level of greater than $1,270.0 million (combined statutory capital and surplus at September 30, 2007 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, 2007 and December 31, 2006. 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 our top tier insurance company, Conseco Life Insurance Company of Texas. 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 (of which, only $200.0 million may be paid in the year beginning June 12, 2007). As further discussed in the note to the consolidated financial statements entitled "Changes in Common Stock", we repurchased 4.0 million shares of our common stock for $64.3 million in the first nine months of 2007 (of which, $34.7 million was paid in the year beginning June 12, 2007).

INVESTMENT BORROWINGS AND INTEREST RATE SWAPS

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 advances. At September 30, 2007, the carrying value of the FHLBI common stock was $22.5 million. Advances from the FHLBI (the "Advances") totaled $450.0 million as of September 30, 2007, and the proceeds were used to purchase primarily investment-grade fixed maturity securities. The Advances are classified as investment borrowings in the accompanying consolidated balance sheet. The Advances are collateralized by investments with an estimated fair value of $517.7 million at September 30, 2007, which are maintained in a custodial account for the benefit of the FHLBI. Conseco Life recognized interest expense of $10.8 million in the first nine months of 2007 related to the Advances. The following summarizes the terms of the Advances (dollars in millions):

Amount borrowed	Maturity date	Interest rate at September 30, 2007
$100.0	February 2012	Variable rate - 5.349%
100.0	March 2012	Variable rate - 5.350%
54.0	May 2012	Variable rate - 5.494%
146.0	November 2015	Fixed rate - 5.300%
37.0	July 2012	Fixed rate - 5.540%
13.0	July 2012	Variable rate - 5.420%

Conseco Life purchased $147.5 million par value of fixed maturity investments for $147.7 million (which are classified as trading securities) with a portion of the proceeds from the Advances. Such fixed rate securities, with a carrying value of $145.0 million at September 30, 2007, are matched with various interest rate swaps, which are intended to convert the cash flows from the securities from a fixed rate to a floating rate basis. The trading securities are carried at estimated fair value with changes in such value recognized as trading income. The change in the value of the interest rate swaps is recognized in trading income. The change in value of the interest rate swaps was $(4.3) million in the three month period ended September 30, 2007, and $(.7) million in the nine month period ended September 30, 2007. The change in value of the trading securities was $.4 million in the three month period ended September 30, 2007, and $(2.8) million in the nine month period ended September 30, 2007. Pursuant to the interest rate swaps, Conseco Life pays interest, semi-annually, at a fixed rate and receives interest, quarterly, at a variable rate from the counterparties on the outstanding notional amounts. At September 30, 2007, the weighted average fixed rate being paid was 6.12 percent and the weighted average variable rate being received was 6.18 percent.

At September 30, 2007, investment borrowings consisted of: (i) Advances of $450.0 million; (ii) $452.4 million of securities issued to other entities by a variable interest entity which is consolidated in our financial statements; and
(iii) other borrowings of $11.3 million.

At December 31, 2006, investment borrowings consisted of: (i) $406.8 million of securities issued to other entities by a variable interest entity which is consolidated in our financial statements; and (ii) other borrowings of $11.5 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, 2006	152,165
Treasury stock purchased and retired	(3,975)
Conversion of preferred stock into common shares	37,809
Stock options exercised	208
Shares issued under employee benefit compensation plans	147 (a)
Other	(8)
Balance at September 30, 2007	186,346

(a) Such amount was reduced by 11 thousand shares which were tendered for the payment of federal and state taxes owed on the issuance of restricted stock.

In May 2007, all of our 5.5 percent Class B mandatorily convertible preferred stock (the "Preferred Stock") was converted into shares of Conseco common stock in accordance with the terms of issuance. Under those terms, each of the 27.6 million shares of Preferred Stock outstanding was converted into 1.3699 shares of common stock. As a result of the conversion, our common shares outstanding increased by 37.8 million.

In December 2006, the Company's board of directors authorized a common share repurchase program of up to $150 million. In May 2007, the Company's board of directors increased the authorized common share repurchase program to a maximum of $350 million. As further discussed in the note to the consolidated financial statements entitled "Notes Payable - Direct Corporate Obligations," we currently may pay cash dividends on our common stock or repurchase our common stock in an aggregate amount of up to $300 million over the term of our credit facility (of which, only $200 million may be paid in the year beginning June 12, 2007). Our share repurchase program may be implemented through purchases made from time to time in either the open market or through private transactions. With respect to $25 million of the program, the Company entered into an accelerated share buy back agreement ("ASB") to repurchase 1.2 million shares. The initial price paid per share as part of the ASB transaction was $20.12. The repurchased shares were subject to a settlement price adjustment based upon the difference between: (i) the volume weighted average price of Conseco common stock (as defined in the ASB); and (ii) $20.12. The settlement price adjustment was calculated to be $.3 million and was paid to the Company. The Company

recognized a reduction in common stock and additional paid-in capital of $24.7 million in the first quarter of 2007 related to the ASB transaction.

During the first nine months of 2007, the Company repurchased an additional 2.8 million shares of its common stock for $39.6 million.

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 $40.1 million and $48.5 million during the nine months ended September 30, 2007 and 2006, respectively. Amounts amortized totaled $15.0 million and $14.1 million during the nine months ended September 30, 2007 and 2006, respectively. The unamortized balance of deferred sales inducements at September 30, 2007 and December 31, 2006 was $140.1 million and $115.0 million, respectively. The balance of insurance liabilities for persistency bonus benefits was $266.3 million and $296.3 million at September 30, 2007 and December 31, 2006, respectively.

RECENTLY ISSUED ACCOUNTING STANDARDS

Pending Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures of fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the effect SFAS 157 will have on our results of operations and financial condition.

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. SFAS 159 is effective for us on January 1, 2008. We have not yet determined whether we will elect the fair value option for certain financial assets or liabilities; and therefore, we do not know the impact, if any, SFAS 159 will have on our results of operations and financial condition.

Adopted Accounting Standards

In July 2006, the FASB issued 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 is 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 nine months ended September 30, 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 2007. The liability for accrued interest was not significant at September 30, 2007 or December 31, 2006.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140" ("SFAS 155"). SFAS 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), and SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" and resolves issues addressed in SFAS 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interest in Securitized Financial Assets". SFAS 155: (a) permits fair value

remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; (b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133; (c) establishes a requirement to evaluate beneficial interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; (d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and,
(e) eliminates restrictions on a qualifying special-purpose entity's ability to hold passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument. The standard also requires presentation within the financial statements that identifies those hybrid financial instruments for which the fair value election has been applied and information on the income statement impact of the changes in fair value of those instruments. SFAS 155 was effective for all financial instruments acquired or issued in a fiscal year that begins after September 15, 2006. The initial adoption of SFAS 155 did not have a material effect on our financial position or results of operations.

In September 2005, the Accounting Standards Executive Committee issued Statement of Position 05-1, "Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts" ("SOP 05-1"). This statement provides guidance on accounting for deferred acquisition costs on an internal replacement which is defined broadly as a modification in product benefits, features, rights, or coverages that occurs by the exchange of an existing contract for a new contract, or by amendment, endorsement, or rider to an existing contract, or by the election of a benefit, feature, right, or coverage within an existing contract. An internal replacement that is determined to result in a replacement contract that is substantially unchanged from the replaced contract should be accounted for as a continuation of the replaced contract. Contract modifications resulting in a replacement contract that is substantially changed from the replaced contract should be accounted for as an extinguishment of the replaced contract and any unamortized deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement assets from the replaced contract should not be deferred in connection with the replacement contract. The provisions of SOP 05-1 were effective for internal replacements beginning January 1, 2007. The initial adoption of SOP 05-1 did not have a material impact on our results of operations or financial position. The adoption of SOP 05-1 resulted in the shortening of the period over which the value of policies inforce at the Effective Date and the cost of policies produced related to a small block of our group health insurance business are amortized. Transition to the shorter amortization period resulted in a January 1, 2007 cumulative effect adjustment to retained earnings of $2.7 million, net of tax.

In September 2006, the FASB issued SFAS No. 158, "Employers Accounting for Defined Benefit and Other Retirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("SFAS 158"). SFAS 158 requires employers to recognize the overfunded or underfunded status of defined benefit pension and other postretirement benefit plans as an asset or liability in its statement of financial position, measured as the difference between the fair value of plan assets and the projected benefit obligation as of the end of our fiscal year end. In addition, SFAS 158 requires employers to recognize changes in the funded status of defined benefit pension and other post retirement plans in the year in which the changes occur through other accumulated comprehensive income. The Company adopted SFAS 158 effective December 31, 2006.

The impact of the adoption of SFAS 158 on our consolidated balance sheet at December 31, 2006, was as follows (dollars in millions):

	Balance before adoption of SFAS 158	Adjustments	Balance after adoption of SFAS 158
Income tax assets, net....................	$1,783.4	$ 3.5	$1,786.9
Other liabilities.........................	601.9	9.9	611.8
Accumulated other comprehensive loss......	(66.2)	(6.4)	(72.6)

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 Old Conseco 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. 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. James S. Adams filed for bankruptcy on July 29, 2005, Case No. 1:02-cv-1332-DFH-TAB (Southern District, Indiana). We believe this lawsuit is without merit and intend to defend it vigorously; however, the ultimate outcome cannot be predicted with certainty. Our current estimate of the maximum loss that we could reasonably incur on this case is approximately $2.0 million. 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 alleges, 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 third quarter of 2007.

We incurred total costs related to this litigation settlement of $267.2 million, including costs of $64.4 million and $174.7 million recognized in the first nine months of 2007 and 2006, respectively (of which $16.4 million and nil was recognized in the third quarters of 2007 and 2006, respectively). The costs recognized in 2007 represent adjustments to our initial estimates based on the ultimate cost of the settlement.

The implementation of the settlement includes enhanced benefits to the inforce insurance policies, which eliminates the future estimated profits from these policies in periods subsequent to the settlement date, if the experience of the policies is consistent with our expectations. We recognized income before income taxes on these policies of approximately $6.0 million in the six months ended June 30, 2006.

Other cases that remain pending with respect to life insurance policies sold primarily under the names "Lifestyle" and "Lifetime" include purported nationwide class actions in Indiana and California state courts. Those cases filed in Indiana state courts have been consolidated into the case now referred to as Arlene P. Mangelson, et al. v. Conseco Life Insurance Company, Cause No. 29D01-0403-PL-211 (Superior Court, Hamilton County, Indiana). This case was settled in connection with the In Re Conseco Life Insurance Co. Cost of Insurance Litigation, Cause No. MDL 1610 (Central District, California), as further described above. Four putative nationwide and/or statewide class-action lawsuits filed in California state courts have been consolidated and are being coordinated in the Superior Court of San Francisco County under the new caption Cost of Insurance Cases, Judicial Council Coordination Proceeding No. 4384 (Judicial Council of California). On January 25, 2005 an Amended Complaint making similar allegations was filed in the case captioned William Schwartz v. Jeffrey Landerman, Diann P. Urbanek, Metro Insurance, Inc., Samuels Jacky Insurance Agency, Conseco Life Insurance Company, Successor to Philadelphia Life Insurance Company, Case No. GD 00-011432 (Court of Common Pleas, Allegheny County, Pennsylvania). Additionally, on February 11, 2005 Mr. Schwartz filed a purported nationwide class action captioned William Schwartz and Rebeca R. Frankel, Trustee of the Robert M. Frankel Irrevocable Insurance Trust v. Conseco Life Ins. Co. et al., Case No. GD 05-3742 (Court of Common Pleas, Allegheny County, Pennsylvania). On May 12, 2006 these two Schwartz cases were consolidated under both original case numbers. 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.

Other non-class action cases regarding these policies include a lawsuit 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. On November 12, 2004, a lawsuit was filed in Texas captioned Charles R. Gnuse v. Conseco Life Insurance Co., Cause No. 04-11520 (District Court of Dallas County, Texas, 44th Judicial District) which has been removed to the United States District Court for the Northern District of Texas, transferred to California and consolidated and coordinated with MDL 1610. This matter has been settled and the case is expected to be dismissed. The amount recognized as expense in 2007 related to the settlement of this case was not significant to our business, financial condition, results of operations or cash flows.

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 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. On October 16, 2007, Bankers Life and Casualty Company filed a petition for permission to appeal in the 7th Circuit Court of Appeals. This matter has been placed on the June 2008 trial calendar. 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 (RICO); 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. A motion to dismiss Conseco, Inc., Conseco Services, LLC, Conseco Marketing, LLC and 40|86 Advisors, Inc. was filed on September 14, 2007, and we await a ruling on the motion. 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 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 have appealed the certification order and on April 23, 2007, the 5th Circuit Court of Appeals accepted jurisdiction over our appeal. The appellate briefing has been concluded. 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.

Beneficial Standard Life Insurance Company, a predecessor company to Conseco Insurance Company, filed suit for declaratory judgment against J.C. Penney Life Insurance Company a/k/a Stonebridge Life Insurance Company ("Stonebridge") in a case captioned, Beneficial Standard Life Insurance Company
v. J.C. Penney Life Insurance Company and J.C. Penney Company, Inc., United States District Court for the Central District of California, Case No. CV-98-02792-SVW. This litigation arises from the 1967 sale of Beneficial Fire & Casualty ("BF&C") by Beneficial Standard Life Insurance Company to J.C. Penney Company, Inc. The subject of the case is whether Conseco Insurance Company must indemnify Stonebridge for losses and expenses incurred as a result of claims arising under presale BF&C insurance policies. Conseco Insurance Company filed suit in April 1998 seeking a judicial declaration that: (1) it is not generally obligated to indemnify Stonebridge under the terms of the agreement governing the 1967 sale; and (2) that it is not obligated to indemnify Stonebridge for losses or expenses incurred in connection with specific known claims. Penney counterclaimed for breach of contract and declaratory relief. The counterclaim did not specify the damages sought by Penney on the breach of contract claims. After a bench trial in 2002, certain rulings of the trial court were appealed to the United States Court of Appeals for the Ninth Circuit. In June 2005, the Ninth Circuit issued an opinion upholding a trial-court determination that the terms of the 1967 sale generally require Conseco Insurance Company to indemnify Stonebridge for net losses arising from pre-sale BF&C policies, but only after Stonebridge pursues and exhausts available reinsurance. The Ninth Circuit remanded the case to the trial court for further proceedings. The trial court had previously found against Stonebridge on its breach of contract claims, ruling that Stonebridge could not assert such claims until it pursued and exhausted available reinsurance. Stonebridge did not appeal that specific ruling. The remaining issue before the trial court is whether Conseco Insurance Company's indemnification obligation with respect to certain environmental claims asserted by the Port of Oakland is excused by Stonebridge's conduct in handling the claims. On July 25, 2006, a second action was filed in the Circuit Court of Hamilton County, Indiana, captioned Conseco Insurance Company v. Stonebridge Life Insurance Company and J.C. Penney Life Insurance Company. Penney removed the case to federal court on August 16, 2006, Case No. 1:06-CV-1229 SEB-VSS (Southern District, Indiana) and filed a motion to dismiss. On September 27, 2007, the court transferred this case to the State of California for consolidation with the pending matter there. The subject of this second action is whether Conseco Insurance Company's indemnification obligation with respect to specific known claims is excused by Stonebridge's failure to pursue available reinsurance. Conseco Insurance Company alternatively seeks equitable relief requiring Stonebridge to take affirmative steps to preserve the availability of reinsurance on such claims. The parties have reached a tentative settlement, subject to execution of detailed settlement documents. The amount recognized as expense in 2007 related to the tentative settlement of this case was not significant to our business, financial condition, results of operations or cash flows.

On November 3, 2006, an action was filed in the U.S. District Court for the Central District of California Ruth Ross v. Pioneer National Life Insurance Company and Washington National Life Insurance Company, Case No. CV 06 7081. In that case, the plaintiff alleges breach of contract, bad faith and violation of California consumer protection laws in the handling of her claim for benefits under a Washington National Life Insurance Company policy of long-term care insurance. The Company paid out in excess of the $150,000 per occurrence maximum benefit and declined to pay additional claims, but the plaintiff contends she should receive the balance of a $250,000 lifetime maximum benefit. The parties disagree as to whether the plaintiff's continuing confinement is caused by one or more than one occurrence as defined under the policy. In her complaint, the plaintiff claims loss of benefits of $.1 million, and compensatory damages for mental anguish of $.9 million, together with punitive damages of $5 million plus attorney fees, interest and costs of litigation. The parties were unable to conclude the matter at a mediation which occurred June 22, 2007. The matter is scheduled for jury trial February 5,

2008. The Company believes the claim is without merit and intends to defend it vigorously. The outcome of the action cannot be predicted with certainty.

In addition, the Company and its subsidiaries are involved on an ongoing basis in other arbitrations and 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. The Murray U.S. District Court case is currently set for trial on April 28, 2008.

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, 2007, we have paid $13.7 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, 2007, we estimated that approximately $18.8 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 $10.1 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.

Conseco received a letter from the Congressional Committee on Energy and Commerce (the "Committee") dated May 23, 2007 indicating the Committee is conducting an investigation of companies that underwrite, market, and sell long-term nursing home and home health care insurance policies. In that letter, the Committee requested various documents from Conseco with regard to long-term care insurance. Representatives from Conseco subsequently met with the Committee

staffers and reached an agreement on the scope of the documents requested. Conseco responded to all agreed upon document requests by June 27, 2007. Conseco intends to continue to fully cooperate with regard to this investigation.

Conseco received a letter from Senator Grassley of the United States Senate Finance Committee dated September 27, 2007 indicating his interest in learning how long-term care insurance providers manage their policies, serve their beneficiaries, and decide which claims to approve and which to deny. Senator Grassley requested answers to questions regarding Conseco's policies and practices and requested various documents. Representatives from Conseco subsequently met with two of the Senator's staffers and reached an agreement on the scope of the information requested. Conseco is in the process of providing the information requested and intends to continue to fully cooperate with regard to this inquiry.

The states of Pennsylvania, Illinois, Texas, Florida and Indiana are leading a multistate examination of the long-term care claims administration and complaint handling practices of Conseco Senior Health Insurance Company 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. More than 35 other states have joined or expressed an interest in joining the multistate examination. This examination will cover the years 2005, 2006, and the first quarter of 2007.

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,	
	2007	2006
Cash flows from operating activities:		
Net income (loss)	$(103.2)	$ 90.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and depreciation	350.7	337.1
Income taxes	(62.0)	54.0
Insurance liabilities	674.6	275.0
Accrual and amortization of investment income	3.7	13.9
Deferral of policy acquisition costs	(368.0)	(367.6)
Net realized investment losses	114.3	28.6
Net sales (purchases) of trading securities	(135.5)	28.3
Loss related to an annuity coinsurance transaction	76.5	-
Other	(1.7)	198.7
Net cash provided by operating activities	$ 549.4	$658.7
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	$ 8.9	$ 11.1
Conversion of preferred stock into common shares	667.8	-
Reduction of tax liabilities related to various contingencies recognized at the fresh-start date	6.0	2.1

At September 30, 2007 and December 31, 2006, restricted cash and cash equivalents consisted of: (i) $20.8 million and $15.7 million, respectively, held by a variable interest entity; (ii) $1.9 million and $.1 million, respectively, of segregated cash held for the benefit of the former holders of TOPrS; and (iii) $3.1 million and $8.2 million, respectively, held in an escrow account pursuant to a litigation settlement.

SUBSEQUENT EVENT

On October 31, 2007, we announced an agreement under which our subsidiary, Colonial Penn Life Insurance Company ("Colonial Penn"), will recapture a block of traditional life insurance in force that had been ceded in 2002 to REALIC.

In the transaction, Colonial Penn will pay REALIC a recapture fee of $63 million, recapture 100 percent of the liability for the future benefits previously ceded, and recognize profits as they emerge over time. Colonial Penn already administers the policies being recaptured. The transaction, which is to have an effective date of October 1, 2007, will require insurance regulatory filings in several states and is expected to close by year-end.

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, 2007, and the consolidated results of operations for the three and nine months ended September 30, 2007 and 2006, 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 2006 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 our ability to obtain adequate and timely rate increases on our supplemental health products including our long-term care business;

o mortality, morbidity, 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 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 of our investments;

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 an upgrade of the financial strength ratings of 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 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 general economic conditions and other factors, including prevailing interest rate levels, stock and credit market performance and health care inflation, which may affect (among other things) our ability to sell products and access capital on acceptable terms, the returns on and the market value of our investments, and the lapse rate and profitability of policies; and

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

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, 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, Conseco Insurance Group and Colonial Penn, which are defined on the basis of product distribution; a fourth segment comprised of other business in run-off; and corporate operations. These segments reflect the addition of Colonial Penn as a separate segment resulting from a change in how management disaggregates the Company's operations for making internal operating decisions beginning in the fourth quarter of 2006. Colonial Penn's operations were previously aggregated with the Bankers Life segment. We have restated all prior period segment disclosures to conform to management's current view of the Company's operating segments. Our segments are described below:

o Bankers Life, which consists of the business of Bankers Life and Casualty Company ("Bankers Life and Casualty"), 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 exclusive career agents and sales managers. Bankers Life and Casualty markets its products under its own brand name and Medicare Part D and Medicare Advantage products primarily through marketing agreements with Coventry.

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" (a wholly-owned insurance subsidiary of Conseco) brand names.

o Colonial Penn, which consists of the business of 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 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 long-term care insurance sold in prior years through independent agents and major medical insurance.

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

CRITICAL ACCOUNTING POLICIES

We have updated our critical accounting policy related to our accounting for marketing and quota-share agreements with Coventry. We entered into a national distribution agreement under which our career agents began distributing Coventry's PFFS plan, Advantra Freedom, beginning January 1, 2007, and a quota-share reinsurance agreement related to PFFS business written by Coventry under one large group policy, beginning July 1, 2007.

Refer to "Critical Accounting Policies" in Conseco's 2006 Annual Report on Form 10-K for information on our other accounting policies that we consider critical in preparing our consolidated financial statements.

Accounting for marketing and quota-share agreements with Coventry

Prescription Drug Benefit

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Modernization Act") provided for the introduction of a prescription drug benefit ("PDP"). In order to offer this product to our current and potential future policyholders without investing in management and infrastructure, we entered into a national distribution agreement with Coventry to use our career and independent agents to distribute Coventry's prescription drug plan, Advantra Rx. We receive a fee based on the premiums collected on plans sold through our distribution channels. In addition, Conseco has a quota-share reinsurance agreement with Coventry for Conseco enrollees that provides Conseco with 50 percent of net premiums and related policy benefits subject to a risk corridor. The Part D program was effective January 1, 2006.

The following describes how we account for and report our PDP business:

Our accounting for the national distribution agreement

o We recognize distribution and licensing fee income from Coventry based upon negotiated percentages of collected premiums on the underlying Medicare Part D contracts.

o We also pay commissions to our agents who sell the plans on behalf of Coventry. These payments are deferred and amortized over the remaining term of the initial enrollment period (the one-year life of the initial policy).

Our accounting for the quota-share agreement

o We recognize premium revenue evenly over the period of the underlying Medicare Part D contracts.

o We recognize policyholder benefits and ceding commission expense as incurred.

o We recognize risk-share premium adjustments consistent with Coventry's risk-share agreement with the Centers for Medicare and Medicaid Services.

The following summarizes the pre-tax income of the PDP business (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Insurance policy income	$13.8	$21.5	$58.8	$61.3
Fee revenue and other	.4	1.2	1.9	4.1
Total revenues	14.2	22.7	60.7	65.4
Insurance policy benefits	10.3	17.7	50.8	54.0
Commission expense	1.3	1.9	5.1	4.7
Other operating expenses	.2	2.4	.5	6.4
Total expense	11.8	22.0	56.4	65.1
Pre-tax income	$ 2.4	$ .7	$ 4.3	$ .3

Private-Fee-For-Service

Conseco expanded its strategic alliance with Coventry by entering into a national distribution agreement under which our career agents began distributing Coventry's PFFS plan, beginning January 1, 2007. The Advantra Freedom product is a Medicare Advantage plan designed to provide seniors with more choices and better coverage at lower cost than original Medicare and Medicare Advantage plans offered through HMOs. Under the agreement, we will receive a fee based on the number of PFFS plans sold through our distribution channels. In addition, Conseco has a quota-share reinsurance agreement with Coventry for Conseco enrollees that provides Conseco in 2007 with approximately 50 percent of the net premiums and related profits.

We receive distribution fees from Coventry and we pay sales commissions to our agents for these enrollments. In addition, we participate at an approximately 50 percent level in the income (loss) related to this business pursuant to a quota-share agreement with Coventry.

The following summarizes our accounting and reporting practices for the PFFS business.

Our accounting for the distribution agreement

o We receive distribution income from Coventry and other parties based on a fixed fee per PFFS contract. This income is deferred and recognized over the remaining calendar year term of the initial enrollment period.

o We also pay commissions to our agents who sell the plans on behalf of Coventry and other parties. These payments are deferred and amortized over the remaining term of the initial enrollment period (the one-year life of the initial policy).

Our accounting for the quota-share agreement

o We recognize revenue evenly over the period of the underlying PFFS contracts.

o We recognize policyholder benefits and ceding commission expense as incurred.

The following summarizes the pre-tax income of the PFFS business in the three and nine months ended September 30, 2007 (dollars in millions):

	Three months ended September 30, 2007	Nine months ended September 30, 2007
Insurance policy income	$31.3	$70.9
Fee revenue and other	3.0	5.0
Total revenues	34.3	75.9
Insurance policy benefits	25.2	58.0
Commission expense	1.3	2.9
Other operating expenses	2.9	5.6
Total expense	29.4	66.5
Pre-tax income	$ 4.9	$ 9.4

Large Group Private-Fee-For-Service Block

Effective July 1, 2007, Conseco entered into a quota-share reinsurance agreement with Coventry related to the PFFS business written by Coventry under one large group policy. Conseco receives 50 percent of the net premiums and related profits associated with this business as long as the ceded revenue margin is less than or equal to five percent. Conseco receives 25 percent of the net premiums and related profits on the ceded margin in excess of five percent. The following summarizes the pre-tax income of this business for 3Q07 (dollars in millions):

	Three months ended September 30, 2007
Premium income	$51.7
Policy benefits	47.0
Commission expense	2.0
Total expenses	49.0
Pre-tax income	$ 2.7

CONSECO, INC. AND SUBSIDIARIES

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,	
	2007	2006	2007	2006
Income (loss) before net realized investment gains (losses), net of related amortization and income taxes (a non-GAAP measure) (a):				
Bankers Life	$ 66.3	$ 68.4	$ 174.6	$189.3
Conseco Insurance Group	(85.1)	58.5	(7.3)	8.1
Colonial Penn	7.0	4.6	18.3	16.2
Other Business in Run-off	(2.9)	(13.0)	(167.0)	15.4
Corporate operations	(28.9)	(20.5)	(102.1)	(63.5)
	(43.6)	98.0	(83.5)	165.5
Net realized investment gains (losses), net of related amortization:				
Bankers Life	(1.9)	(5.3)	(7.4)	(7.7)
Conseco Insurance Group	(38.8)	(4.1)	(68.5)	(8.7)
Colonial Penn	.3	(.9)	.4	.8
Other Business in Run-off	1.9	(10.8)	1.6	(6.8)
Corporate operations	(4.7)	(.2)	(5.9)	(.2)
	(43.2)	(21.3)	(79.8)	(22.6)
Income (loss) before income taxes:				
Bankers Life	64.4	63.1	167.2	181.6
Conseco Insurance Group	(123.9)	54.4	(75.8)	(.6)
Colonial Penn	7.3	3.7	18.7	17.0
Other Business in Run-off	(1.0)	(23.8)	(165.4)	8.6
Corporate operations	(33.6)	(20.7)	(108.0)	(63.7)
Income (loss) before income taxes	$ (86.8)	$ 76.7	$(163.3)	$142.9

(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 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 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. Accordingly, management reviews "income (loss) before income taxes" and "income (loss) before realized investment gains (losses)" when analyzing its financial results. 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 Conseco Insurance Group segment, which utilizes professional independent producers, and through our Colonial Penn segment, which utilizes direct response marketing. Our Other Business in Run-off segment consists of: (i) long-term care products sold in prior years through independent agents; (ii) small group and individual major medical business which we stopped renewing in 2001; and (iii) other group major medical business which we no longer market. Most of the long-term care business in run-off relates to business written by certain subsidiaries prior to their acquisitions by Conseco in 1996 and 1997.

Bankers Life (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Premium collections:				
Annuities	$ 250.9	$ 278.2	$ 663.6	$ 749.9
Supplemental health	402.8	315.1	1,125.7	980.6
Life	49.1	47.8	149.3	137.6
Total collections	$ 702.8	$ 641.1	$1,938.6	$1,868.1
Average liabilities for insurance products:				
Annuities:				
Mortality based	$ 284.8	$ 279.3	$ 282.9	$ 276.8
Equity-indexed	826.2	527.9	737.8	468.6
Deposit based	4,489.4	4,465.4	4,521.3	4,403.0
Health	3,615.3	3,325.6	3,544.9	3,270.2
Life:				
Interest sensitive	375.8	351.3	369.8	345.0
Non-interest sensitive	306.7	254.0	291.7	240.8
Total average liabilities for insurance products, net of reinsurance ceded	$9,898.2	$9,203.5	$9,748.4	$9,004.4
Revenues:				
Insurance policy income	$ 473.6	$ 390.1	$1,309.6	$1,157.7
Net investment income:				
General account invested assets	145.8	130.8	428.7	378.8
Equity-indexed products based on the change in value of options	(2.1)	3.6	6.8	1.5
Other special-purpose portfolios	.5	-	4.7	-
Fee revenue and other income	3.8	1.4	7.7	4.8
Total revenues	621.6	525.9	1,757.5	1,542.8
Expenses:				
Insurance policy benefits	404.6	313.3	1,091.6	932.8
Amounts added to policyholder account balances:				
Annuity products and interest-sensitive life products other than equity-indexed products	45.9	44.0	135.7	128.6
Equity-indexed products	9.0	7.7	24.9	9.4
Amortization related to operations	49.3	52.4	202.0	166.6
Interest expense on investment borrowings	-	-	-	.1
Other operating costs and expenses	46.5	40.1	128.7	116.0
Total benefits and expenses	555.3	457.5	1,582.9	1,353.5
Income before net realized investment losses, net of related amortization and income taxes	66.3	68.4	174.6	189.3
Net realized investment losses	(1.3)	(5.5)	(8.4)	(8.9)
Amortization related to net realized investment losses	(.6)	.2	1.0	1.2
Net realized investment losses, net of related amortization	(1.9)	(5.3)	(7.4)	(7.7)
Income before income taxes	$ 64.4	$ 63.1	$ 167.2	$ 181.6

(continued)

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	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Health benefit ratios:				
All health lines:				
Insurance policy benefits	$359.4	$272.5	$957.0	$813.4
Benefit ratio (a)	86.9%	81.4%	84.6%	81.6%
Medicare supplement:				
Insurance policy benefits	$111.3	$106.4	$325.4	$330.7
Benefit ratio (a)	69.4%	65.6%	67.1%	67.1%
PDP and PFFS:				
Insurance policy benefits	$82.5	$17.7	$155.8	$54.0
Benefit ratio (a)	85.4%	82.1%	85.9%	88.1%
Long-term care:				
Insurance policy benefits	$165.6	$148.4	$475.8	$428.7
Benefit ratio (a)	105.8%	98.2%	102.3%	97.0%
Interest-adjusted benefit ratio (b)	74.5%	68.8%	71.4%	67.5%

(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 $49.0 million and $44.5 million in the three months ended September 30, 2007 and 2006, respectively, and $143.7 million and $130.3 million in the nine months ended September 30, 2007 and 2006, respectively.

Total premium collections were $702.8 million in the third quarter of 2007, up 9.6 percent from 2006 and were $1,938.6 million in the first nine months of 2007, up 3.8 percent from 2006. Premium collections include $92.9 million and $20.8 million in the third quarters of 2007 and 2006, respectively, and $176.4 million and $58.9 million in the first nine months of 2007 and 2006, respectively, of premiums collected pursuant to the PDP and PFFS quota-share agreements with Coventry described in Critical Accounting Policies under the caption "Accounting for marketing and 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 $9.9 billion in the third quarter of 2007, up 7.5 percent from 2006. Average liabilities for insurance products, net of reinsurance ceded were $9.7 billion in the first nine months of 2007, up 8.3 percent from 2006. The increase in such liabilities was primarily due to increases in annuity 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 $96.8 million and $21.5 million in the third quarters of 2007 and 2006, respectively, and $181.4 million and $61.3 million in the first nine months of 2007 and 2006, respectively, of premium income from the quota-share agreements with Coventry described in Critical Accounting Policies under the caption "Accounting for marketing and quota-share agreements with Coventry".

Net investment income on general account invested assets (which excludes income on policyholder accounts) was $145.8 million in the third quarter of 2007, up 11 percent from 2006 and was $428.7 million in the first nine months of 2007, up 13 percent from 2006. The average balance of general account invested assets was $10.1 billion and $9.3 billion in the third quarters of 2007 and 2006, respectively. The average yield on these assets was 5.78 percent and 5.62 percent in the third quarters of 2007 and 2006, respectively. The average balance of general account invested assets was $9.9 billion and $9.1 billion in the first nine months of 2007 and 2006, respectively. The average yield on these assets was 5.77 percent and 5.57 percent in the first nine months of 2007 and 2006, respectively. The increase in general account invested assets is primarily due to sales of our annuity products in recent periods. The increase in yield is primarily due to the purchase of higher yielding investments in recent periods, including securities with longer durations and increased allocations to commercial mortgages and securities issued through private placements.

Net investment income related to equity-indexed products based on the change in value of options 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 more than adequate to cover the cost of the options and other costs related to these policies. Investment gains (losses) related to equity-indexed products were $(2.1) million and $3.6 million in the third quarters of 2007 and 2006, respectively; and $6.8 million and $1.5 million in the first nine months of 2007 and 2006, respectively. 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.

Net investment income on other special-purpose portfolios includes the income related to Company-owned life insurance ("COLI") which was purchased in the fourth quarter of 2006 as an investment vehicle to fund the agent deferred compensation plan. The COLI assets are not assets of the agent 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 and totaled $.5 million and $2.0 million in the three and nine months ended September 30, 2007, respectively. Also during the first quarter of 2007, we recognized a death benefit of $2.7 million under the COLI.

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 the release of reserve redundancies from prior years of $3.4 million and $10.1 million in the first nine months of 2007 and 2006, respectively. Excluding the effects of prior period claim reserve redundancies, our benefit ratios would have been 67.8 percent and 69.1 percent in the first nine months of 2007 and 2006, respectively. Such ratios are consistent with our expectations considering premium rate increases implemented in recent periods.

The insurance policy benefits on our PDP and PFFS business result from our quota-share reinsurance agreements with Coventry as described in Critical Accounting Policies under the caption "Accounting for marketing and quota-share agreements with Coventry". We began assuming the PDP business on January 1, 2006 and the PFFS business on January 1, 2007. Effective July 1, 2007, we entered into a new PFFS quota-share reinsurance agreement to assume 50 percent of the business written by Coventry under one large group policy. The benefit ratio related to the PDP and PFFS business increased in the three months ended September 30, 2007 due to the higher loss ratio on the group policy (which was expected).

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. In the first quarter of 2005, we began introducing several new long-term care products to replace our previous lower-priced products. These new products have been approved by the regulatory authorities in 49 states and the District of Columbia. The benefit ratio on our entire block of long-term care business in the Bankers Life segment was 105.8 percent and 98.2 percent in the third quarters of 2007 and 2006, respectively, and 102.3 percent and 97.0 percent in the first nine months of 2007 and 2006, respectively. The interest-adjusted benefit ratio on this business was 74.5 percent and 68.8 percent in the third quarters of 2007 and 2006, respectively, and 71.4 percent and 67.5 percent in the first nine months of 2007 and 2006, respectively. We experienced an increase in the number of incurred claims in the third quarter of 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 the majority of these rate increases. We expect the remainder of these premium rate increases will be implemented during the next quarter. 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, 2007, approximately 80 percent of the filings had been submitted for regulatory approval, and approximately 30 percent of the amounts had been approved by regulators and implemented. Remaining approvals and implementations are expected to occur over the next twelve months. Pursuant to our policy of changing previous assumptions used to determine the earnings from a block of insurance policies when there is a significant structural change in the block (such as a significant change in premium from rate increases), the effect of the rate increases will not be completely reflected in our benefit ratios when implemented. The aforementioned rate increases reflect a change in our previous rate increase assumptions. Accordingly, the new assumptions are reflected prospectively in our reserves and deferred insurance acquisition costs (including the value of policies inforce at the Effective Date and the cost of policies produced) using the pivot method. The pivot method is a modification to the valuation approach established when the policy was first issued, whereby our reserves and deferred insurance costs are unchanged at the time of the rate increase, but the future pattern of reserve changes is modified to reflect the relationship of expected premiums to benefits based on the current best estimate of future claim costs, morbidity, persistency and investment returns.

Amounts added to policyholder account balances for annuity products and interest-sensitive life products were $45.9 million in the third quarter of 2007, up 4.3 percent from 2006 and were $135.7 million in the first nine months of 2007, up 5.5 percent from 2006. The increase is primarily due to increases in annuity reserves (resulting from higher sales of these products). The weighted average crediting rate for these products were 3.8 percent and 3.7 percent in the third quarters of 2007 and 2006, respectively, and 3.7 percent and 3.6 percent in the first nine months of 2007 and 2006, 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 the value of policies inforce at the Effective Date and the cost of policies produced (collectively referred to as "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 $49.3 million and $52.4 million in the third quarters of 2007 and 2006, respectively, and $202.0 million and $166.6 million in the first nine months of 2007 and 2006, respectively. The lapse experience on our Medicare supplement products in the third quarter of 2007 was lower than our expectations resulting in lower amortization as compared to the third quarter of 2006. During the first half of 2007 and 2006, 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 $25.4 million in the first half of 2007 and $7.9 million in the first half of 2006. 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). Also, during the first quarter of 2007, amortization of insurance acquisition costs related to long-term care policies increased by $4.1 million primarily as a result of changes to our previous assumptions related to future premium rate increases on certain long-term care policies due to either: (i) a delay in processing rate increases; or (ii) the disapproval by certain states of rate increases.

Other operating costs and expenses in our Bankers Life segment were $46.5 million in the third quarter of 2007, up 16 percent from 2006 and were $128.7 million in the first nine months of 2007, up 11 percent from 2006. Other operating costs and expenses include the following (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Expenses related to the marketing and quota-share agreements with Coventry	$ 7.7	$ 4.3	$ 16.1	$ 11.1
Commission expense	4.8	5.2	15.8	15.6
Other operating expenses	34.0	30.6	96.8	89.3
Total	$46.5	$40.1	$128.7	$116.0

Net realized investment losses fluctuate each period. 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. During the first nine months of 2006, net realized investment losses in this segment included $8.5 million of net losses from the sales of investments (primarily fixed maturities), and $.4 million of writedowns of investments resulting from declines in fair values that we concluded were 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 $.6 million and $(.2) million in the third quarters of 2007 and 2006, respectively, and $(1.0) million and $(1.2) million in the first nine months of 2007 and 2006, respectively.

Conseco Insurance Group (dollars in millions):

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Premium collections:				
Annuities	$ 77.5	$ 182.8	$ 310.6	$ 311.4
Supplemental health	145.6	145.5	447.2	458.4
Life	71.3	78.3	218.5	240.7
Total collections	$ 294.4	$ 406.6	$ 976.3	$ 1,010.5
Average liabilities for insurance products:				
Annuities:				
Mortality based	$ 229.0	$ 240.1	$ 231.3	$ 242.4
Equity-indexed	1,253.9	1,386.1	1,482.8	1,338.9
Deposit based	1,815.1	3,099.4	2,533.9	3,192.3
Separate accounts	28.4	28.9	28.6	29.4
Health	2,414.4	2,377.3	2,401.5	2,379.6
Life:				
Interest sensitive	3,027.6	3,046.4	3,040.6	3,059.4
Non-interest sensitive	1,386.2	1,407.3	1,363.5	1,428.8
Total average liabilities for insurance products, net of reinsurance ceded	$10,154.6	$11,585.5	$11,082.2	$11,670.8
Revenues:				
Insurance policy income	$ 238.7	$ 245.9	$ 717.0	$ 749.7
Net investment income:				
General account invested assets	185.9	174.9	547.8	525.6
Equity-indexed products	(2.7)	12.1	10.4	3.1
Trading account income related to policyholder and reinsurer accounts	2.3	5.6	2.6	3.4
Change in value of embedded derivatives related to modified coinsurance agreements	(.4)	(3.3)	1.8	.5
Other special-purpose portfolios	(3.9)	-	(3.5)	-
Fee revenue and other income	.1	.8	.4	1.1
Total revenues	420.0	436.0	1,276.5	1,283.4
Expenses:				
Insurance policy benefits	220.3	184.1	594.1	560.2
Amounts added to policyholder account balances:				
Annuity products and interest-sensitive life products other than equity-indexed products	57.0	62.0	173.9	183.4
Equity-indexed products	19.4	22.5	56.5	25.9
Amortization related to operations	41.2	42.3	126.4	134.5
Interest expense on investment borrowings	6.2	.1	11.5	.6
Costs related to a litigation settlement	8.2	-	32.2	165.8
Loss related to an annuity coinsurance transaction	76.5	-	76.5	-
Other operating costs and expenses	76.3	66.5	212.7	204.9
Total benefits and expenses	505.1	377.5	1,283.8	1,275.3
Income (loss) before net realized investment losses, net of related amortization, and income taxes	(85.1)	58.5	(7.3)	8.1
Net realized investment losses	(47.3)	(4.4)	(102.0)	(13.5)
Amortization related to net realized investment losses	8.5	.3	33.5	4.8
Net realized investment losses, net of related amortization	(38.8)	(4.1)	(68.5)	(8.7)
Income (loss) before income taxes	$ (123.9)	$ 54.4	$ (75.8)	$ (.6)

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	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Health benefit ratios:				
All health lines:				
Insurance policy benefits	$134.2	$109.9	$332.7	$332.7
Benefit ratio (a)	89.8%	71.5%	73.5%	70.7%
Medicare supplement:				
Insurance policy benefits	$39.3	$41.2	$119.8	$119.0
Benefit ratio (a)	68.6%	66.8%	68.1%	61.3%
Specified disease:				
Insurance policy benefits	$93.1	$65.7	$206.1	$206.3
Benefit ratio (a)	103.2%	73.6%	76.3%	77.0%
Interest-adjusted benefit ratio (b)	70.3%	41.2%	43.5%	45.1%
Other:				
Insurance policy benefits	$1.8	$3.0	$6.8	$7.4
Benefit ratio (a)	91.2%	108.9%	100.4%	85.1%

(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 $29.6 million and $28.9 million in the three months ended September 30, 2007 and 2006, respectively, and $88.6 million and $85.4 million in the nine months ended September 30, 2007 and 2006, respectively.

Total premium collections were $294.4 million in the third quarter of 2007, down 28 percent from the third quarter of 2006 and were $976.3 million in the first nine months of 2007, down 3.4 percent from 2006. The decrease was primarily due

to lower annuity sales as we changed the pricing of specific products and we no longer emphasized the sale of certain products. See "Premium Collections" for further analysis.

Average liabilities for insurance products, net of reinsurance ceded were $10.2 billion in the third quarter of 2007, down 12 percent from 2006. Average liabilities for insurance products, net of reinsurance ceded were $11.1 billion in the first nine months of 2007, down 5.0 percent from 2006. The decrease in such liabilities was due primarily to a coinsurance transaction completed in the third quarter of 2007, as further discussed in the note to our consolidated financial statements entitled "Coinsurance Transaction".

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 partially due to lower premiums from our life insurance block. The lapses of these policies are exceeding new sales. In addition, we experienced higher lapses than sales from Medicare supplement products in the first nine months of 2007. See "Premium Collections" for further analysis.

Net investment income on general account invested assets (which excludes income on policyholder and reinsurer accounts) was $185.9 million in the third quarter of 2007, up 6.3 percent from 2006 and was $547.8 million in the first nine months of 2007, up 4.2 percent from 2006. The average balance of general account invested assets was $12.5 billion and $12.1 billion in the third quarters of 2007 and 2006, respectively. The average yield on these assets was 5.96 percent and 5.77 percent in the third quarters of 2007 and 2006, respectively. The average balance of general account invested assets was $12.4 billion and $12.2 billion in the first nine months of 2007 and 2006, respectively. The average yield on these assets was 5.90 percent and 5.75 percent in the first nine months of 2007 and 2006, respectively. The increase in yield is primarily due to the purchase of higher yielding investments in recent periods including securities with longer durations and increased allocations to commercial mortgages and securities issued through private placements. The yield was also impacted by income related to prepayments of securities (including prepayment penalties on mortgages, call premiums on fixed maturities and acceleration of discount amortization, net of premium amortization) in the first nine months of 2007 and 2006 of $3.9 million ($.4 million in the third quarter of 2007) and $8.0 million ($2.6 million in the third quarter of 2006), 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 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 $(2.9) million and $7.8 million in the third quarters of 2007 and 2006, respectively; and $13.1 million and $5.2 million in the first nine months of 2007 and 2006, respectively. Such amounts also include income on trading securities which are designed to act as hedges for embedded derivatives related to equity-indexed products. Such trading account gains (losses) were $.2 million and $4.3 million in the third quarters of 2007 and 2006, respectively, and were $(2.7) million and $(2.1) million in the first nine months of 2007 and 2006, respectively. Such amounts were partially 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.

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 special-purpose portfolios includes: (i) the change in the fair value of the trading securities purchased with a portion of the proceeds from the Advances; and (ii) the change in fair value of interest rate swaps which were purchased. Such fixed rate trading securities were matched with an interest rate swap that converts the security from a fixed rate to a floating rate basis. The change in value of the interest rate swaps was $(4.3) million in the three month period ended September 30, 2007, and $(.7) million in the nine month period ended September 30, 2007. The change in value of the trading securities was $.4 million in the three month period ended September 30, 2007, and $(2.8) million in the nine month period ended September 30, 2007. These transactions are further discussed in the note to the consolidated financial statements entitled "Investment Borrowings and Interest Rate Swaps".

Insurance policy benefits fluctuated as a result of the factors summarized below for benefit ratios.

Insurance margins (insurance policy income less insurance policy benefits) related to life products declined approximately $24 million in the first nine months of 2007 ($7 million of which was recognized in the third quarter of 2007), as compared to the same periods in 2006, primarily due to increased death claims.

The benefit ratio in the first half of 2006 on Conseco Insurance Group's Medicare supplement products reflected higher policyholder lapses, following our premium rate increase actions. 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 in the first nine months of 2007 and 2006 reflected claim reserve redundancies from prior years of $1.2 million and $5.4 million, respectively. Excluding the effects of prior year claim reserve redundancies, our benefit ratios in the first nine months of 2007 and 2006 for the Medicare supplement block would have been 68.8 percent and 64.0 percent, 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 decreased by $19.2 million in the first nine months of 2007 (including a decrease of $2.5 million in the third quarter of 2007), as compared to the same periods in 2006, due to a higher benefit ratio and a smaller inforce block of business. We also experienced higher persistency in the third quarter of 2007 as compared to the third quarter of 2006 which contributed to a higher benefit ratio.

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 in the third quarter of 2007 reflects an $18.3 million out-of-period increase in insurance policy benefits which was identified by our material control weakness remediation procedures. We discovered that a key factor used to determine specified disease insurance liabilities for certain policies sold by a subsidiary prior to its acquisition by Conseco, was incorrectly set to zero, which resulted in no reserve being established for these policies. The benefit ratio excluding this increase in reserves was 82.9 percent in the third quarter of 2007. In addition to the out-of-period adjustment in the third quarter of 2007 discussed above, the benefit ratio in the first nine months of 2007 reflects a release of reserves totaling $19.3 million related to the return of premium benefit on specified disease policies. During the first quarter of 2007, we determined that the coding in our administrative system related to policies with the return of premium rider was inaccurate resulting in an overstatement of reserves. The benefit ratio excluding the two items discussed above was 76.7 percent in the first nine months of 2007. The benefit ratio for the first six months of 2006 was unfavorably affected by higher persistency of older

policies which have higher benefit ratios than newer policies. Insurance margins (insurance policy income less insurance policy benefits) on these products, excluding the aforementioned reserve adjustments in the first and third quarters of 2007, increased by $1.5 million in the first nine months of 2007 (net of a decrease of $8.1 million in the third quarter of 2007), as compared to the same periods in 2006.

The benefit ratios on Conseco Insurance Group's other health products are subject to fluctuations due to the smaller size of these blocks of business. We no longer actively market these products.

Amounts added to policyholder account balances for annuity products and interest-sensitive life products were $57.0 million in the third quarter of 2007, down 8.1 percent from 2006 and were $173.9 million in the first nine months of 2007, down 5.2 percent from 2006. The decrease was primarily due to a smaller block of annuity business inforce. The weighted average crediting rate for these products was 4.0 percent in both the first nine months of 2007 and 2006.

Amounts added to equity-indexed products generally fluctuate with the corresponding related investment income accounts described above. In addition, in the first quarter of 2006, we reduced such amounts by $8.5 million to reflect a change in the assumptions for the cost of options underlying our equity-indexed products as described below under amortization related to operations. Such decreases were partially offset by a $4.7 million increase in amortization of insurance acquisition costs related to the assumption changes.

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. Lapse rates on our Medicare supplement products have impacted our estimates of future expected premium income and, accordingly, we recognized increased (decreased) amortization expense of $(1.6) million and $7.9 million in the first nine months of 2007 and 2006, respectively. 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.

During the first nine months of 2007, 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. During the second quarter of 2006, we changed our estimates of the future gross profits of certain universal life products, which under certain circumstances are eligible for interest bonuses in addition to the declared base rate. These interest bonuses are not required in the current crediting rate environment and our estimates of future gross profits have been changed to reflect the discontinuance of the bonus. We reduced amortization expense by $4.0 million during the second quarter of 2006 as a result of this change. During the first quarter of 2006, we made certain adjustments to our assumptions of expected future profits for the annuity and universal life blocks of business in this segment related to investment returns, lapse rates, the cost of options underlying our equity-indexed products and other refinements. We recognized additional amortization expense of $12.4 million in the first quarter of 2006 due to these changes. This increase to amortization expense was offset by a reduction to insurance policy benefit expense of $11.5 million, to reflect the effect of the changes in these assumptions on the calculation of certain insurance liabilities, such as the liability to purchase future options underlying our equity-indexed products.

Interest expense on investment borrowings includes $6.0 million and $10.8 million of interest expense on the Advances in the three and nine months ended September 30, 2007, respectively, as further described in the note to the consolidated financial statements entitled "Investment Borrowings and Interest Rate Swaps".

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 2007 represent changes to our initial estimates based on the ultimate cost of the settlement, including the effect of the recent 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. Refer to the note entitled "Coinsurance Transaction" in the accompanying notes to our consolidated financial statements for further information about the transaction.

Other operating costs and expenses were $76.3 million in the third quarter of 2007, up 15 percent from 2006 and were $212.7 million in the first nine months of 2007, up 3.8 percent from 2006. Other operating costs and expenses include commission expense of $20.2 million and $21.8 million in the third quarters of 2007 and 2006, respectively, and $60.8 million and $65.9 million in the first nine months of 2007 and 2006, 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 current business plan and $3.7 million of costs related to other operational initiatives and consolidation activities.

Net realized investment losses fluctuate each period. 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) $1.9 million of writedowns of investments resulting from declines in fair values that we concluded were other than temporary; and (iii) $73.7 million of writedowns of investments as a result of our intent not to hold investments for a period of time sufficient to allow for any anticipated recovery as a result of entering into a coinsurance agreement as further discussed in the note to the consolidated financial statements entitled "Coinsurance Transaction". The net investment losses realized on sales of investments in the third quarter of 2007 were primarily recognized on securities collateralized by sub prime residential mortgage loans. We decided to sell these securities given our concerns regarding the effect future adverse developments in housing values could have on the value of these securities. For further information on our sub prime holdings, refer to the caption entitled "Structured Securities Collateralized by Sub Prime Residential Mortgage Loans" in the "Investments" section of Management's Discussion and Analysis of Financial Condition and Results of Operations. During the first nine months of 2006, net realized investment losses included $10.3 million of net losses from the sales of investments (primarily fixed maturities), and $3.2 million of writedowns of investments resulting from declines in fair values that we concluded were 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 (or when we no longer have the intent to hold impaired investments for a period of time sufficient to allow for any anticipated recovery), 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 $8.5 million and $.3 million in the third quarters of 2007 and 2006, respectively, and $33.5 million and $4.8 million in the nine months ended September 30, 2007 and 2006, respectively.

Colonial Penn (dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Premium collections:				
Life	$ 29.3	$ 25.4	$ 82.0	$ 70.4
Supplemental health	2.6	3.0	7.9	9.1
Total collections	$ 31.9	$ 28.4	$ 89.9	$ 79.5
Average liabilities for insurance products:				
Annuities:				
Mortality based	$ 85.1	$ 86.6	$ 85.5	$ 87.1
Deposit based	4.6	3.8	4.1	4.0
Health	22.8	25.0	23.1	26.0
Life:				
Interest sensitive	25.5	27.5	26.2	27.8
Non-interest sensitive	558.6	551.7	558.6	553.0
Total average liabilities for insurance products, net of reinsurance ceded	$696.6	$694.6	$697.5	$697.9
Revenues:				
Insurance policy income	$ 32.5	$ 29.1	$ 91.2	$ 81.1
Net investment income:				
General account invested assets	9.4	9.2	28.3	28.0
Trading account income related to reinsurer accounts	2.3	9.5	(3.2)	(4.5)
Change in value of embedded derivatives related to modified coinsurance agreements	(2.3)	(9.5)	3.2	4.5
Fee revenue and other income	.2	.1	.5	.4
Total revenues	42.1	38.4	120.0	109.5
Expenses:				
Insurance policy benefits	26.3	25.2	75.8	68.7
Amounts added to annuity and interest-sensitive life product account balances	.3	.4	.9	1.0
Amortization related to operations	5.1	4.4	14.8	12.7
Other operating costs and expenses	3.4	3.8	10.2	10.9
Total benefits and expenses	35.1	33.8	101.7	93.3
Income before net realized investment gains (losses) and income taxes	7.0	4.6	18.3	16.2
Net realized investment gains (losses)	.3	(.9)	.4	.8
Income before income taxes	$ 7.3	$ 3.7	$ 18.7	$ 17.0

Total premium collections were $31.9 million in the third quarter of 2007, up 12 percent from 2006 and were $89.9 million in the first nine months of 2007, up 13 percent from 2006. 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. See "Premium Collections" for further analysis.

Net investment income on general account invested assets (which excludes income on policyholder and reinsurer accounts) was $9.4 million in the third quarter of 2007, up 2.2 percent from 2006 and was $28.3 million in the first nine months of 2007, up 1.1 percent from 2006. The average balance of general account invested assets was $.7 billion in both the third quarters of 2007 and 2006. The average yield on these assets was 5.71 percent and 5.40 percent in the third quarters of 2007 and 2006, respectively. The average balance of general account invested assets was $.7 billion in both the first nine months of 2007 and 2006. The average yield on these assets was 5.66 percent and 5.43 percent in the first nine months of 2007 and 2006, respectively.

Trading account income related to reinsurer accounts represents the income on trading securities, which are designed to act as hedges for embedded derivatives related to certain modified coinsurance agreements. The income on our trading account securities is designed to be substantially offset by the change in value of embedded derivatives related to modified coinsurance agreements described below.

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 account, which we carry at estimated fair value with changes in such value recognized as trading account income. We expect the change in the value of the embedded derivatives to be largely offset by the change in value of the trading securities.

Insurance policy benefits fluctuated as a result of 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.

Other operating costs and expenses in our Colonial Penn segment in the 2007 periods were comparable to the same periods in 2006.

Net realized investment gains (losses) fluctuate each period. We recognized net realized investment gains (losses) in this segment of $.3 million and $(.9) million from the sales of investments (primarily fixed maturities) in the third quarters of 2007 and 2006, respectively, and $.4 million and $.8 million in the first nine months of 2007 and 2006, respectively.

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

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Premium collections:				
Long-term care	$ 75.2	$ 79.6	$ 231.4	$ 247.1
Major medical	.5	.8	1.7	4.1
Total collections	$ 75.7	$ 80.4	$ 233.1	$ 251.2
Average liabilities for insurance products:				
Long-term care	$3,404.3	$3,212.2	$3,344.2	$3,225.9
Major medical	24.2	29.4	24.8	29.4
Total average liabilities for insurance products, net of reinsurance ceded	$3,428.5	$3,241.6	$3,369.0	$3,255.3
Revenues:				
Insurance policy income	$ 77.2	$ 83.4	$ 234.8	$ 254.4
Net investment income on general account invested assets	48.8	44.6	143.4	133.9
Fee revenue and other income	.1	.1	.3	.3
Total revenues	126.1	128.1	378.5	388.6
Expenses:				
Insurance policy benefits	106.0	113.4	467.6	294.6
Amortization related to operations	5.6	5.6	17.1	12.6
Other operating costs and expenses	17.4	22.1	60.8	66.0
Total benefits and expenses	129.0	141.1	545.5	373.2
Income (loss) before net realized investment gains (losses) and income taxes	(2.9)	(13.0)	(167.0)	15.4
Net realized investment gains (losses)	1.9	(10.8)	1.6	(6.8)
Income (loss) before income taxes	$ (1.0)	$ (23.8)	$ (165.4)	$ 8.6
Health benefit ratios:				
Insurance policy benefits	$106.0	$113.4	$467.6	$294.6
Benefit ratio (a)	137.4%	136.0%	199.2%	115.8%
Interest-adjusted benefit ratio (b)	75.1%	83.1%	139.1%	63.8%

(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 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 $48.0 million and $44.1 million in the three months ended September 30, 2007 and 2006, respectively, and $141.1 million and $132.3 million in the nine months ended September 30, 2007 and 2006, respectively.

Total premium collections were $75.7 million in the third quarter of 2007, down 5.8 percent from 2006 and were $233.1 million in the first nine months of 2007, down 7.2 percent from 2006. 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 $48.8 million in the third quarter of 2007, up 9.4 percent from 2006 and was $143.4 million in the first nine months of 2007, up 7.1 percent from 2006. The average balance of general account invested assets was $3.3 billion and $3.0 billion in the third quarters of 2007 and 2006, respectively. The average yield on these assets was 5.91 percent in both the third quarters of 2007 and 2006. The average balance of general account invested assets was $3.2 billion and $3.0 billion in the first nine months of 2007 and 2006, respectively. The average yield on these assets was 5.92 percent and 5.87 percent in the first nine months of 2007 and 2006, respectively. The increase in yield is primarily due to the purchase of higher yielding fixed maturity investments in recent periods, including securities with longer durations.

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

Insurance policy benefits in the third quarter of 2007 decreased 6.5 percent to $106.0 million compared to $113.4 million in the same period of 2006. Insurance policy benefits in the nine months ended September 30, 2007 increased 59 percent to $467.6 million compared to $294.6 million in the same period of 2006. The benefit ratio on our Other Business in Run-off segment was 137.4 percent and 136.0 percent in the third quarters of 2007 and 2006, respectively, and 199.2 percent and 115.8 percent in the first nine months of 2007 and 2006, 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 reflected reserve deficiencies from prior years of $129.7 million and $42.6 million in the first nine months of 2007 and 2006, respectively. Excluding the effects of prior year claim reserve deficiencies, our benefit ratios would have been 143.9 percent and 99.0 percent in the first nine months of 2007 and 2006, respectively. In the third quarter of 2007, our insurance policy benefits reflected reserve redundancies from prior periods of $3.4 million.

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 75.1 percent and 83.1 percent in the third quarters of 2007 and 2006, respectively, and 139.1 percent and 63.8 percent in the first nine months of 2007 and 2006, respectively.

This segment includes long-term care insurance inforce, which was primarily issued through independent agents by certain subsidiaries prior to their acquisitions by Conseco 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 2006 and 2007.

In the third quarter of 2007, the results of this segment were affected by two partially offsetting adjustments. First, our material control weakness remediation procedures identified issues whereby the release of active life reserves for policies which had lapsed primarily due to death was not occurring on a timely basis due to a weakness in the design of our internal controls. The correction of this issue and the appropriate release of active life reserves resulted in a decrease to insurance policy benefits of $20.1 million during the third quarter of 2007. Second, we made changes to certain reserve estimates for waiver of premium benefits and for policies with inflation benefits that have elected a non-forfeiture benefit. These changes in estimates resulted in an increase to insurance policy benefits of $13.5 million.

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. In the third quarter of 2007, there was no unusual development related to claim liabilities.

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 incurral dates in the first quarter of 2007 and $98 million related to claims with incurral 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 our Predecessor. 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 the Transport block 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.

The increase in insurance policy benefits in the third quarter of 2006 reflected:

(i) The lapse experience on this block of business has been less than our expectations, resulting in approximately $9 million less reserve releases for terminated policies than expected.

(ii) Prior period estimates of claim reserves proved to be deficient (net of the positive impact of certain refinements to estimates of approximately $6 million), resulting in an increase to insurance policy benefits of approximately $11 million.

(iii) An increased number of initial claims were incurred in the third quarter of 2006, resulting in an increase to insurance policy benefits of approximately $2 million.

We have been aggressively seeking rate increases and pursuing other actions on such long-term care policies. We have filed approximately 350 requests for rate increases on various long-term care products in this segment as we believe the existing rates are too low. In many instances, we have requested three years of consecutive rate increases. We estimate that our revenue could ultimately increase by approximately $35 million per year as a result of the first round of rate increases, if the rate increases are approved and the policyholders accept the increases as we expect (some policyholders will choose to reduce benefits (and therefore their premiums), others will choose to allow their policies to lapse and certain policyholders will have the opportunity to choose a non-forfeiture option which will provide a reduced benefit with no future premiums). The impact of the second and third year rate increases will be somewhat smaller as the block continues to run off. To date, we have received approvals and implemented rate increases equivalent to approximately 86 percent of our $35 million estimate. The effects of the approved rate increases have been partially realized with the remaining impact expected to be realized over the next year. The remaining first round rate increase filings are expected to be approved and implemented over the next twelve months, and the full financial effect of the first year of rate increases will take approximately two years to be fully realized. Beginning in the second quarter of 2007, we have filed requests for additional rate increases on many of the same policies. As of September 30, 2007, approximately 70 percent of the filings had been submitted for regulatory approval, and approximately 11 percent of the estimated total amounts had been approved by regulators. The full effect of all three years of rate increases will take as long as five years to be fully realized. 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 rate increases currently pending or for the additional rate increases we plan to file. 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, however, we are successful in obtaining regulatory approval to raise premium rates, the increased premium rates may cause existing policyholders to allow their policies to lapse. This could result in a significantly higher ratio of claim costs to premiums if healthier policyholders who get coverage elsewhere allow their policies to lapse, while policies of less healthy policyholders continue inforce. We believe that the series of smaller rate increases we are seeking could mitigate these effects.

Pursuant to our policy of changing previous assumptions used to determine the earnings from a block of insurance policies when there is a significant structural change in the block (such as a significant change in premium from rate increases), the effect of the rate increases will not be completely reflected in our benefit ratios when implemented. The aforementioned rate increases reflect a change in our previous rate increase assumptions. Accordingly, the new assumptions are reflected prospectively in our reserves and deferred insurance acquisition costs using the pivot method. The pivot method is a modification to the valuation approach established when the policy was first issued, whereby our reserves and deferred

insurance costs are unchanged at the time of the rate increase, but the future pattern of reserve changes is modified to reflect the relationship of expected premiums to benefits based on the current best estimate of future claim costs, morbidity, persistency and investment returns.

Amortization related to operations includes amortization of insurance acquisition costs.

Other operating costs and expenses were $17.4 million in the third quarter of 2007, down 21 percent from 2006 and were $60.8 million in the first nine months of 2007, down 7.9 percent from 2006. Other operating costs and expenses include commission expense of $7.8 million and $8.8 million in the third quarters of 2007 and 2006, respectively, and $24.1 million and $27.6 million in the first nine months of 2007 and 2006, respectively.

Net realized investment gains (losses) fluctuate each period. 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). During the first nine months of 2006, net realized investment gains included $.9 million of net gains from the sales of investments (primarily fixed maturities), net of $7.7 million of writedowns of investments resulting from declines in fair values that we concluded were other than temporary. 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,	
	2007	2006	2007	2006
Corporate operations:				
Interest expense on corporate debt	$(20.2)	$(12.5)	$ (53.2)	$(36.9)
Net investment income	2.8	1.1	4.7	2.9
Fee revenue and other income	4.2	2.3	8.3	7.2
Net operating results of variable interest entity	2.6	2.9	7.3	3.9
Costs related to a litigation settlement	(8.2)	-	(32.2)	(8.9)
Other operating costs and expenses	(10.1)	(14.3)	(37.0)	(31.7)
Loss before net realized investment losses and income taxes	(28.9)	(20.5)	(102.1)	(63.5)
Net realized investment losses	(4.7)	(.2)	(5.9)	(.2)
Loss before income taxes	$(33.6)	$(20.7)	$(108.0)	$(63.7)

Interest expense on corporate debt was impacted by the amendments of the Company's credit facility in June 2007 and October 2006. Our average corporate debt outstanding was $1,082.9 million and $823.4 million during the first nine months of 2007 and 2006, respectively. The average interest rate on our debt was 6.2 percent and 5.5 percent during the first nine months of 2007 and 2006, 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 variable interest entity ("VIE"). The VIE is consolidated in accordance with Financial Accounting Standards Board Interpretation No. 46 "Consolidation of Variable Interest Entities", revised December 2003 ("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. Such consolidation requirements did not have a material impact on our financial condition or results of operations.

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.

Net realized investment losses in the first nine months of 2007 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 the 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), independent producers (our Conseco Insurance Group segment) and direct marketing (our Colonial Penn 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 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. 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.

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 Conseco Senior Health Insurance Company, "Conseco Senior") from A.M. Best, S&P and Moody's are "B+ (Good)", "BB+" and "Baa3", respectively. The current financial strength ratings of Conseco Senior 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,	
	2007	2006	2007	2006
Premiums collected by product:				
Annuities:				
Equity-indexed (first-year)	$128.4	$ 81.8	$ 305.3	$ 210.4
Other fixed (first-year)	122.1	195.5	356.2	536.7
Other fixed (renewal)	.4	.9	2.1	2.8
Subtotal - other fixed annuities	122.5	196.4	358.3	539.5
Total annuities	250.9	278.2	663.6	749.9
Supplemental health:				
Medicare supplement (first-year)	19.3	23.2	61.5	72.5
Medicare supplement (renewal)	133.6	123.5	412.2	399.4
Subtotal - Medicare supplement	152.9	146.7	473.7	471.9
Long-term care (first-year)	11.7	12.0	35.5	39.3
Long-term care (renewal)	142.8	133.0	432.6	402.9
Subtotal - long-term care	154.5	145.0	468.1	442.2
PDP and PFFS (first year)	78.5	20.8	120.4	58.9
PDP (renewal)	14.4	-	56.0	-
Subtotal - PDP and PFFS	92.9	20.8	176.4	58.9
Other health (first-year)	.3	.4	.7	.8
Other health (renewal)	2.2	2.2	6.8	6.8
Subtotal - other health	2.5	2.6	7.5	7.6
Total supplemental health	402.8	315.1	1,125.7	980.6
Life insurance:				
First-year	21.2	24.4	67.9	68.4
Renewal	27.9	23.4	81.4	69.2
Total life insurance	49.1	47.8	149.3	137.6
Collections on insurance products:				
Total first-year premium collections on insurance products	381.5	358.1	947.5	987.0
Total renewal premium collections on insurance products	321.3	283.0	991.1	881.1
Total collections on insurance products	$702.8	$641.1	$1,938.6	$1,868.1

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 decreased 9.8 percent, to $250.9 million, in the third quarter of 2007, and 12 percent, to $663.6 million, in the first nine months of 2007, as compared to the same periods in 2006. Premium collections from our equity-indexed products were favorably impacted in 2007 by the general stock market performance in recent periods which has made these products attractive to certain customers. The increase in short-term interest rates in recent periods

resulted in lower first-year fixed annuity sales as certain other competing products, such as certificates of deposits, have become attractive.

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 4.2 percent, to $152.9 million, in the third quarter of 2007, and .4 percent, to $473.7 million, in the first nine months of 2007, as compared to the same periods in 2006 primarily due to higher persistency, partially offset by lower new sales.

Premiums collected on Bankers Life's long-term care policies increased 6.6 percent, to $154.5 million, in the third quarter of 2007, and 5.9 percent, to $468.1 million, in the first nine months of 2007, compared to the same periods in 2006 primarily due to higher premiums associated with the policies that were impacted by the rate increases which became effective in 2006.

Premiums collected on PDP and PFFS business relate to various quota-share reinsurance agreements with Coventry. Effective July 1, 2007, we entered into a new PFFS quota-share reinsurance agreement with Coventry pursuant to which we received $43.3 million of first-year premiums in the third quarter of 2007. These agreements are described in Critical Accounting Policies under the caption "Accounting for marketing and quota-share agreements with Coventry".

Other health products relate to other health products which we no longer actively market.

Life products in this segment are sold primarily to the senior market through our career agents. Life premiums collected in this segment increased 2.7 percent, to $49.1 million, in the third quarter of 2007, and 8.5 percent, to $149.3 million, in the first nine months of 2007, compared to the same periods in 2006, due to an increased focus on life products.

Conseco Insurance Group (dollars in millions):

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Premiums collected by product:				
Annuities:				
Equity-indexed (first-year)	$ 70.7	$166.3	$281.7	$ 264.2
Equity-indexed (renewal)	2.5	1.9	7.2	7.2
Subtotal - equity-indexed annuities	73.2	168.2	288.9	271.4
Other fixed (first-year)	2.5	12.5	16.1	33.2
Other fixed (renewal)	1.8	2.1	5.6	6.8
Subtotal - other fixed annuities	4.3	14.6	21.7	40.0
Total annuities	77.5	182.8	310.6	311.4
Supplemental health:				
Medicare supplement (first-year)	4.2	6.5	16.0	22.7
Medicare supplement (renewal)	50.6	48.1	154.7	159.7
Subtotal - Medicare supplement	54.8	54.6	170.7	182.4
Specified disease (first-year)	7.7	6.8	22.7	21.0
Specified disease (renewal)	81.0	81.3	247.2	247.3
Subtotal - specified disease	88.7	88.1	269.9	268.3
Other health (renewal)	2.1	2.8	6.6	7.7
Total supplemental health	145.6	145.5	447.2	458.4
Life insurance:				
First-year	1.3	1.7	3.6	5.1
Renewal	70.0	76.6	214.9	235.6
Total life insurance	71.3	78.3	218.5	240.7
Collections on insurance products:				
Total first-year premium collections on insurance products	86.4	193.8	340.1	346.2
Total renewal premium collections on insurance products	208.0	212.8	636.2	664.3
Total collections on insurance products	$294.4	$406.6	$976.3	$1,010.5

Annuities in this segment include equity-indexed and other fixed annuities sold through professional independent producers. Total annuity premiums collected in this segment decreased 58 percent, to $77.5 million, in the third quarter of 2007, and .3 percent, to $310.6 million, in the first nine months of 2007, compared to the same periods in 2006.

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. Total collected premiums for these products decreased 56 percent, to $73.2 million, in the third quarter of 2007, and increased 6.4 percent, to $288.9 million, in the first nine months of 2007, compared to the same periods in 2006. 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. The increase in the first nine months of 2007 is due to the recent introduction of several new products distributed through our new national partners. In addition, these products have become relatively attractive due to general stock market conditions in recent periods.

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 71 percent, to $4.3 million, in the third quarter of 2007, and 46 percent, to $21.7 million, in the first nine months of 2007, compared to the same periods in 2006. The increase in short-term interest rates in recent periods resulted in lower first-year fixed annuity sales as certain other competing products have become attractive.

Supplemental health products in the Conseco Insurance Group segment include Medicare supplement, specified disease and other insurance products distributed through professional independent producers.

Collected premiums on Medicare supplement policies in the Conseco Insurance Group segment increased .4 percent, to $54.8 million, in the third quarter of 2007, and decreased 6.4 percent, to $170.7 million, in the first nine months of 2007, as compared to the same periods in 2006. 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 in the 2007 periods were comparable to the same periods in 2006.

Life products in the Conseco Insurance Group segment are sold through professional independent producers. Life premiums collected decreased 8.9 percent, to $71.3 million, in the third quarter of 2007, and 9.2 percent, to $218.5 million, in the first nine months of 2007, compared to the same periods in 2006.

Colonial Penn (dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Premiums collected by product:				
Life insurance:				
First-year	$ 7.4	$ 5.8	$21.1	$17.0
Renewal	21.9	19.6	60.9	53.4
Total life insurance	29.3	25.4	82.0	70.4
Supplemental health:				
Medicare supplement (renewal)	2.3	2.7	7.1	8.2
Other health (renewal)	.3	.3	.8	.9
Total supplemental health	2.6	3.0	7.9	9.1
Collections on insurance products:				
Total first-year premium collections on insurance products	7.4	5.8	21.1	17.0
Total renewal premium collections on insurance products	24.5	22.6	68.8	62.5
Total collections on insurance products	$31.9	$28.4	$89.9	$79.5

Life products in this segment are sold primarily to the senior market. Life premiums collected in this segment increased 15 percent, to $29.3 million, in the third quarter of 2007, and increased 16 percent, to $82.0 million, in the first nine months of 2007, compared to the same periods in 2006. Collected premiums have been affected by increased advertising.

Graded benefit life products sold through our direct response marketing channel accounted for $28.3 million and $24.3 million of our total collected premiums in the third quarters of 2007 and 2006, respectively, and $78.5 million and $66.7 million, in the first nine months of 2007 and 2006, respectively.

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.

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Premiums collected by product:				
Long-term care (renewal)	$75.2	$79.6	$231.4	$247.1
Major medical (renewal)	.5	.8	1.7	4.1
Total renewal premium collections on insurance products	$75.7	$80.4	$233.1	$251.2

The Other Business in Run-off segment includes: (i) long-term care products written in prior years through independent agents; and (ii) group and individual major medical business in run-off.

Long-term care premiums collected in this segment decreased 5.5 percent, to $75.2 million, in the third quarter of 2007, and 6.4 percent, to $231.4 million, in the first nine months of 2007, compared to the same periods in 2006. Most of the long-term care premiums in this segment relate to business written by certain subsidiaries prior to their acquisitions by Conseco in 1996 and 1997. We ceased selling new long-term care policies through professional independent producers 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, 2007 and December 31, 2006, primarily reflect: (i) our net loss for the nine months ended September 30, 2007; (ii) the effect of the coinsurance transaction which was recorded in the third quarter of 2007 as further discussed in the note to the financial statements entitled "Coinsurance Transaction"; and (iii) 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, 2007, we decreased the carrying value of such investments by $553.3 million as a result of this fair value adjustment.

Our capital structure as of September 30, 2007, and December 31, 2006, was as follows (dollars in millions):

	September 30, 2007	December 31, 2006
Total capital:		
Corporate notes payable	$1,195.7	$1,000.8
Shareholders' equity:		
Preferred stock	-	667.8
Common stock	1.9	1.5
Additional paid-in capital	4,094.6	3,473.2
Accumulated other comprehensive loss	(316.0)	(72.6)
Retained earnings	523.2	643.2
Total shareholders' equity	4,303.7	4,713.1
Total capital	$5,499.4	$5,713.9

The following table summarizes certain financial ratios as of and for the nine months ended September 30, 2007, and as of and for the year ended December 31, 2006:

	September 30, 2007	December 31, 2006
Book value per common share	$23.10	$26.58
Book value per common share, excluding accumulated other comprehensive income (loss) (a)	$24.79	27.06
Ratio of earnings to fixed charges	(b)	1.30x
Ratio of earnings to fixed charges and preferred dividends	(c)	1.16x
Debt to total capital ratios:		
Corporate debt to total capital	22%	18%
Corporate debt to total capital, excluding accumulated other comprehensive income (loss) (a)	21%	17%
Corporate debt and preferred stock to total capital	22%	29%
Corporate debt and preferred stock to total capital, excluding accumulated other comprehensive income (loss) (a)	21%	29%

(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 $163.3 million less than fixed charges.

(c) For such ratio, earnings were $185.6 million less than fixed charges.

Liquidity for insurance operations

Our insurance operating companies 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.

The Company announced on August 1, 2006, that it had reached a proposed settlement in the class action case referred to as In Re Conseco Life Insurance Company Cost of Insurance Litigation. The Court entered final judgment in the case on July 5, 2007. Based on our estimates of the ultimate cash payments required to implement the settlement, we believe there are adequate sources of liquidity to satisfy such requirements. Such estimates are subject to significant judgment, including the form of policy benefit enhancement chosen by the inforce policyholders. 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".

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 advances. At September 30, 2007, the carrying value of the FHLBI common stock was $22.5 million. Advances totaled $450.0 million in the first nine months of 2007, and the proceeds were used to purchase primarily investment-grade fixed maturity securities. The Advances are classified as investment borrowings in the accompanying consolidated balance sheet. The Advances are collateralized by investments with an estimated fair value of $517.7 million at September 30, 2007, which are maintained in a custodial account for the benefit of the FHLBI. The following summarizes the terms of the Advances (dollars in millions):

Amount borrowed	Maturity date	Interest rate at September 30, 2007
$100.0	February 2012	Variable rate - 5.349%
100.0	March 2012	Variable rate - 5.350%
54.0	May 2012	Variable rate - 5.494%
146.0	November 2015	Fixed rate - 5.300%
37.0	July 2012	Fixed rate - 5.540%
13.0	July 2012	Variable rate - 5.420%

On August 7, 2007, A.M. Best downgraded the financial strength ratings of our primary insurance subsidiaries to "B+ (Good)" from "B++ (Good)", except Conseco Senior, whose "B- (Fair)" rating was downgraded to "C++ (Marginal)".
A.M. Best also revised the outlook for the ratings of our primary insurance subsidiaries, as well as Conseco Senior, to negative from 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 7, 2007, S&P affirmed the financial strength ratings of "BB+" of our primary insurance subsidiaries, except Conseco Senior, whose "CCC" rating was downgraded to "CCC-". S&P also revised the outlook for the ratings of our primary insurance subsidiaries to negative from stable, except for Conseco Senior, whose outlook of negative was affirmed. 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 Conseco Senior) from Moody's are "Baa3" and Conseco Senior's rating is "Caal". On September 7, 2007, Moody's affirmed the financial strength ratings of our core insurance subsidiaries and Conseco Senior 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.

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 to any non-insurance company parent 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 two of the Company's insurance subsidiaries, Conseco Senior and Conseco Life, as such insurance subsidiaries have incurred statutory losses in a 12 month period in excess of 50 percent of its capital and surplus. 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 Conseco Senior are primarily attributable to the adverse development of prior period claim reserves and an increase in initial claims during 2006 and 2007 related to long-term care policies. We do not expect the regulators to take any actions against Conseco Senior or Conseco Life that would have a material adverse effect on the financial position or results of operations of these companies.

Conseco Senior has been aggressively seeking rate increases and pursuing other actions on its long-term care policies. We have filed approximately 350 requests for rate increases on various long-term care products in this segment as we believe the existing rates are too low. In many instances, we are requesting three years of consecutive rate increases. Beginning in the second quarter of 2007, we have filed requests for additional rate increases on many of the same policies. The effect of all three years of rate increases will take as long as five years to be fully realized. 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 possible that we will not be able to obtain approval for rate increases currently pending or for the additional rate increases we plan to file. Most of our long-term care business is guaranteed renewable, and, if necessary rate increases are not approved, we may be required to establish a premium deficiency reserve. If, however, we are successful in obtaining regulatory approval to raise premium rates, the increased premium rates may cause existing policyholders to allow their policies to lapse. This could result in a significantly higher ratio of claim costs to premiums if healthier policyholders who get coverage elsewhere allow their policies to lapse, while policies of less healthy policyholders continue inforce. We believe that the series of smaller rate increases we are seeking could mitigate these effects.

Liquidity of the Holding Companies

At September 30, 2007, Conseco Inc. and CDOC held unrestricted cash of $141.0 million. Conseco Inc. 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. Conseco 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 Conseco 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 Conseco or CDOC for any reason could hinder such subsidiaries' ability to pay cash dividends or other disbursements to Conseco 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 subsidiary to pay dividends. We made capital contributions totaling $160.0 million to our top tier insurance subsidiary in the first nine months of 2007.

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. During the first nine months of 2007, our top tier insurance subsidiary paid dividends of $50.0 million to CDOC.

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.

On June 12, 2007, Conseco amended its current credit facility. The amendment of the credit facility provided for, among other things:

o an increase of $200.0 million in the principal amount of the facility;

o an increase in the general basket for restricted payments in an aggregate amount of up to $300 million over the term of the facility (of which, only $200 million may be paid in the year commencing June 12, 2007); and

o the Company to be able to request the addition of up to two new facilities or up to two increases in the credit facility of up to $330 million (but with the commitment increases made between June 12, 2007 and June 12, 2008 limited to $130 million), subject to compliance with certain financial covenants and other conditions. Such increases would be effective as of a date that is at least 90 days prior to the scheduled maturity date.

No changes were made to the interest rate or the maturity schedule of the amounts borrowed under the credit facility. We are required to make minimum quarterly principal payments of $2.2 million through September 30, 2013. The remaining unpaid principal balance is due on October 10, 2013. There were no changes to the various financial ratios and balances that are required to be maintained by the Company. We intend to use the additional borrowings for general corporate purposes, including the repurchase of Conseco common stock and the strengthening of the Company's insurance subsidiaries.

During the first nine months of 2007, we made scheduled principal payments totaling $5.6 million on our Second Amended Credit Facility. The scheduled repayment of our direct corporate obligations is as follows (dollars in millions):

Remainder of 2007	$ 2.2
2008	8.7
2009	8.7
2010	338.8
2011	8.7
2012	8.8
2013	821.8
	$1,197.7

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, 2007. 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 or 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 2008). 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. As described in the Second Amended Credit Facility, the Company may reinvest any portion of the proceeds from asset sales in assets useful to its business, subject to certain restrictions defined in the Second Amended Credit Facility. The Company intends to use the majority of the ceding commission received from REALIC in the coinsurance transaction, as further described in the note to the financial statements entitled "Coinsurance Transaction", to fund the recapture of a block of traditional life insurance inforce, as further described in the note to the consolidated financial statements entitled "Subsequent Event".

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 (of which, only $200.0 million may be paid in the year beginning June 12, 2007). As further discussed in the note to the consolidated financial statements entitled "Changes in Common Stock", we repurchased 4.0 million shares of our common stock for $64.3 million in the first nine months of 2007 (of which, $34.7 million was paid in the year beginning June 12, 2007).

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.

INVESTMENTS

At September 30, 2007, 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	$13,029.6	$57.3	$(417.9)	$12,669.0
United States Treasury securities and obligations of United States government corporations and agencies	1,045.3	12.0	(6.4)	1,050.9
States and political subdivisions	569.4	2.9	(11.6)	560.7
Debt securities issued by foreign governments	53.0	.8	(.2)	53.6
Structured securities	4,721.7	1.9	(128.6)	4,595.0
Below-investment grade (primarily corporate securities)	1,654.6	6.1	(78.2)	1,582.5
Total actively managed fixed maturities	$21,073.6	$81.0	$(642.9)	$20,511.7
Equity securities	$34.3	$1.3	$(.1)	$35.5

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, 2007 (dollars in millions):

	Carrying value	Percent of fixed maturities
Structured securities	$ 4,655.7	22.7%
Manufacturing	3,333.4	16.3
Bank and finance	2,069.7	10.1
Utilities	1,681.8	8.2
Services	1,599.1	7.8
U.S. Government	1,050.9	5.1
Communications	993.2	4.8
Agriculture, forestry and mining	897.9	4.4
Holding and other investment offices	789.3	3.9
Retail and wholesale	727.0	3.5
Transportation	613.7	3.0
States and political subdivisions	560.7	2.7
Asset-backed securities	488.6	2.4
Other	1,050.7	5.1
Total actively managed fixed maturities	$20,511.7	100.0%

Below-Investment Grade Securities

At September 30, 2007, the amortized cost of the Company's below-investment grade fixed maturity securities was $1,654.6 million, or 7.9 percent of the Company's fixed maturity portfolio. The estimated fair value of the below-investment grade portfolio was $1,582.5 million, or 96 percent of the amortized cost.

Below-investment grade fixed maturity securities with an amortized cost of $484.8 million and an estimated fair value of $462.6 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. At September 30, 2007, our total investment in the VIE was $48.7 million, and $47.0 million of 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 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) $3.6 million of writedowns of investments for other than temporary declines in fair value; and
(iii) $73.7 million of writedowns of investments as a result of our intent not to hold investments for a period of time sufficient to allow for any anticipated recovery as a result of entering into a coinsurance agreement as further discussed in the note to the consolidated financial statements entitled "Coinsurance Transaction". During the first nine months of 2006, we recognized net realized investment losses of $28.6 million, which were comprised of $17.3 million of net losses from the sales of investments (primarily fixed maturities) with proceeds of $4.1 billion, and $11.3 million of writedowns of investments for other than temporary declines in fair value. At September 30, 2007, investments in default as to the payment of principal or interest had both an aggregate amortized cost and carrying value of $7.0 million.

During the nine months ended September 30, 2007, we sold $2.5 billion of fixed maturity investments which resulted in gross investment losses (before income taxes) of $94.3 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.

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; (iv) the near-term prospects for improvement in the issuer and/or its industry; (v) our view of 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 any anticipated recovery; and (viii) the underlying current and prospective asset and enterprise values of the issuer and the extent to which our investment may be affected by changes in such values.

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 carrying 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, 2007, 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. Most 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	$ 76.5	$ 75.2
Due after one year through five years	960.8	941.2
Due after five years through ten years	4,760.8	4,617.5
Due after ten years	6,555.7	6,214.6
Subtotal	12,353.8	11,848.5
Structured securities	4,453.5	4,315.9
Total	$16,807.3	$16,164.4

At September 30, 2007, we held no investments in our fixed maturity portfolio which were rated below-investment grade and had unrealized loss positions exceeding 20 percent of their cost basis.

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, 2007 (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......	$ 72.2	$ (1.3)	$ 630.1	$ (5.1)	$ 702.3	$ (6.4)
States and political subdivisions.	211.7	(4.6)	172.9	(7.0)	384.6	(11.6)
Debt securities issued by foreign governments...........	29.1	(.2)	-	-	29.1	(.2)
Corporate securities.............	7,780.1	(305.7)	2,952.3	(181.4)	10,732.4	(487.1)
Structured securities............	2,247.1	(70.4)	2,068.9	(67.2)	4,316.0	(137.6)
Total actively managed fixed maturities...............	$10,340.2	$(382.2)	$5,824.2	$(260.7)	$16,164.4	$(642.9)
Equity securities................	$.2	$(.1)	$ -	$ -	$.2	$(.1)

Based on management's current assessment of investments with unrealized losses at September 30, 2007, 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). The Company has no current plans to sell these securities and has the ability to hold them to maturity. If the Company concludes in future periods that the unrealized loss is other than temporary, a charge to earnings would be recognized.

Structured Securities

At September 30, 2007, fixed maturity investments included $4.7 billion of structured securities (or 23 percent of all fixed maturity securities). Structured securities include mortgage-backed securities, collateralized mortgage obligations and commercial mortgage-backed 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 mortgage-backed securities may occur more frequently, often monthly. In many instances, we are subject to the risk that the timing of principal payments may vary from expectations. For example, prepayment rates are influenced by a number of factors that 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; relative changes in home price values; 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 loans. The yields recognized on structured securities purchased at a discount to par will increase (relative to the stated rate) when the underlying mortgages prepay faster than expected. The yields recognized on structured securities purchased at a premium will decrease (relative to the stated rate) when the underlying mortgages 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 as fewer underlying mortgages are refinanced. 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 and asset-backed 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 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 2007.

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, 2007 (dollars in millions):

	Par value	Amortized cost	Estimated fair value
Below 4 percent	$ 128.0	$ 127.7	$ 123.6
4 percent - 5 percent	645.4	623.1	612.8
5 percent - 6 percent	3,225.8	3,178.2	3,079.8
6 percent - 7 percent	782.2	757.7	736.8
7 percent - 8 percent	77.9	80.0	79.9
8 percent and above	24.1	24.5	22.8
Total structured securities (a)	$4,883.4	$4,791.2	$4,655.7

(a) Includes below-investment grade structured securities with an amortized cost and estimated fair value of $69.5 million and $60.7 million, respectively.

The amortized cost and estimated fair value of structured securities at September 30, 2007, summarized by type of security, were as follows (dollars in millions):

		Estimated fair value	
Type	Amortized cost	Amount	Percent of fixed maturities
Pass-throughs, sequentials and equivalent securities	$2,170.2	$2,117.1	10%
Planned amortization class, target amortization class and accretion-directed bonds	1,552.4	1,510.9	8
Commercial mortgage-backed securities	994.7	963.2	5
Other	73.9	64.5	-
Total structured securities (a)	$4,791.2	$4,655.7	23%

(a) Includes below-investment grade structured securities with an amortized cost and estimated fair value of $69.5 million and $60.7 million, respectively.

Pass-through securities and sequentials have unique prepayment variability characteristics. Pass-through securities typically return principal to the holders based on cash payments from the underlying mortgage obligations. Sequential classes 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. CMBS generally offer higher yields than corporate bonds with similar credit ratings. 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 Mortgage Loans

Our investment portfolio includes structured securities collateralized by sub prime residential mortgage loans with a market value of $149.3 million and a book value of $181.2 million at September 30, 2007. We reduced our exposure to sub prime residential mortgages by selling certain structured securities with a book value of $54 million. We recognized a loss of $29 million on such sales. In addition, the securities we transferred pursuant to the annuity coinsurance agreement included structured securities collateralized by sub prime loans with a book value of $61 million. These securities represent .6 percent of our consolidated investment portfolio. Of these securities, $32.2 million (22 percent) were rated AAA, $44.9 million (30 percent) were rated AA, $62.7 million (42 percent) were rated A, and $9.5 million (6 percent) were rated BBB or below. Four of these securities were downgraded or put on watch as part of S&P's and Moody's recent rating announcements. 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 mortgage loans extended over several years, primarily from 2003 to 2007. At September 30, 2007, we held no securities collateralized by residential mortgage loans extended in 2006.

INVESTMENTS IN VARIABLE INTEREST ENTITY

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, which has no legal obligation to satisfy those liabilities. Repayment of the principal balance of the investment borrowings of Fall Creek begin in 2012 based on available cash flows from the assets and such borrowings mature in 2017. At September 30, 2007 and December 31, 2006, our total investment in Fall Creek was $48.7 million and $48.8 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, 2007	December 31, 2006
Assets:		
Actively managed fixed maturities	$470.2	$454.5
Cash and cash equivalents - restricted	20.8	15.7
Accrued investment income	5.2	3.9
Other assets	7.1	7.5
Total assets	$503.3	$481.6
Liabilities:		
Other liabilities	$ 19.4	$ 26.8
Investment borrowings due to others	447.2	401.7
Investment borrowings due to the Company	47.0	47.0
Total liabilities	513.6	475.5
Equity:		
Capital provided by the Company	1.7	1.8
Capital provided by others	4.3	4.7
Accumulated other comprehensive income (loss)	(22.6)	(2.1)
Retained earnings	6.3	1.7
Total equity (deficit)	(10.3)	6.1
Total liabilities and equity (deficit)	$503.3	$481.6

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Revenues:				
Net investment income - deposit accounts	$9.4	$8.2	$27.4	$18.1
Fee revenue and other income	.1	.1	.3	.2
Total revenues	9.5	8.3	27.7	18.3
Expenses:				
Interest expense	6.9	5.2	20.1	13.7
Other operating expenses	-	.2	.3	.7
Total expenses	6.9	5.4	20.4	14.4
Income before net realized investment losses and income taxes	2.6	2.9	7.3	3.9
Net realized investment losses	-	(.1)	-	(.1)
Income before income taxes	$2.6	$2.8	$ 7.3	$ 3.8

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, 2006. There have been no material changes in the first nine months of 2007 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, 2006, 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, 2007, Conseco's disclosure controls and procedures were not effective.

As disclosed in our 2006 Annual Report on Form 10-K, we did not maintain effective controls over the accounting and disclosure of insurance policy benefits and the liabilities for insurance products. We identified a material weakness in internal control 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. This material weakness resulted in adjustments to insurance policy benefits and the liabilities for insurance products in the consolidated financial statements for the year ended December 31, 2006, the quarter ended March 31, 2007, and the quarter ended September 30, 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 the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The Company is actively engaged in the implementation of remediation efforts to address the material weakness in internal control over financial reporting. These remediation efforts are outlined in our 2006 Annual Report on Form 10-K and further remediation developments will be described in future filings with the SEC. The adjustments to insurance policy benefits and the liabilities for insurance products in the quarter ended September 30, 2007 were identified through our remediation procedures. We currently expect that our remediation procedures will be completed prior to the end of 2007. However, we may encounter issues that could require more extensive procedures. The material weakness will not be fully remediated until, in the opinion of the Company's management, the revised control processes have been operating for a sufficient period of time to provide reasonable assurance as to their effectiveness. Accordingly, the material control weakness will not be fully remediated until our redesigned and improved control procedures have been operating for several quarters after the completion of the remediation procedures.

Changes to Internal Controls and Procedures for Financial Reporting. We have implemented several initiatives to streamline our administrative procedures and improve our actuarial valuation systems at our insurance subsidiaries. Our efforts include improvements to our policy administrative procedures and significant system conversions. Although we did not implement any significant new systems in the first nine months of 2007, we expect to implement additional system conversions in the future that we believe will provide better information and will enhance our operational efficiencies. As part of the new system implementations, we expect to make further adjustments to our operating procedures in an effort to gain additional efficiencies and effectiveness. We believe the changes will also result in improvements to our internal controls over financial reporting.

There were no other 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, 2007, that have materially affected, or are reasonably likely to materially affect, Conseco's internal controls over financial reporting.

CONSECO, INC. AND SUBSIDIARIES

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, 2006, for further discussion of such risk factors. There have been no material changes in the first nine months of 2007 to such risks.

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
				(dollars in millions)
July 1 through July 31...........	-	$ -	-	$320.4
August 1 through August 31.........	2,083,828	14.29	-	290.7
September 1 through September 30......	360,000	13.80	-	285.7
Total.................	2,443,828	14.22	-	285.7

(a) The Company purchased 1,492 shares of its common stock in August 2007, in connection with employee benefit compensation plans. Such purchases are not included against the maximum number of shares that may be purchased as part of our publicly announced share repurchase program.

ITEM 5. OTHER INFORMATION.

Pursuant to our Sixth Amended Joint Plan of Reorganization (the "Plan"), we issued 100 million shares of our common stock upon our emergence from bankruptcy in September 2003. Of the 100 million shares issued, approximately 98 percent of those shares of common stock were distributed in September 2003 under the Plan to holders of allowed claims. The remainder of the 100 million shares was reserved for distribution under the Plan upon resolution of disputed claims. All such bankruptcy claims have now been resolved and all shares of common stock that were reserved from the 100 million have now been distributed in connection with the resolution of disputed claims under the Plan. Accordingly, there are no shares remaining for distribution to the holders of bankruptcy claims including those classes of creditors that were not paid in full upon emergence.

ITEM 6. EXHIBITS.

10.11 Letter of agreement dated as of August 3, 2007 between Conseco Services, LLC and John R. Kline.

10.12 Amendment to Amended and Restated Employment Agreement dated as of September 25, 2007 between 40|86 Advisors, Inc. and Eric R. Johnson.

10.25 Amended and Restated Employment Agreement dated as of August 17, 2007 between Conseco Services, LLC and Susan L. Menzel.

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.

CONSECO, INC. AND SUBSIDIARIES

SIGNATURE

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

CONSECO, INC.

Dated: November 8, 2007

By:/s/ Edward J. Bonach

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

Exhibit 10.11

John R. Kline
c/o Conseco, Inc.
11825 N. Pennsylvania Street
Carmel, IN 46032

August 3, 2007

Dear John:

This letter will address certain matters relating to your employment with Conseco Services, LLC (the "Company"). The term of your employment agreement with the Company dated July 15, 2004 (the "Agreement") expired on July 15, 2007, although certain provisions (including, without limitation, Sections 8 and 9) continue in effect in accordance with the terms of the Agreement. Effective July 16, 2007, your employment status became that of an at-will employee. Your current salary, P4P bonus targets and vacation benefits did not change as a result of the expiration of the term of the Agreement.

During the term of this letter agreement, the following provisions shall apply:

1. Payments Following Termination. The provisions of Sections 11(c)-(f) of the Employment Agreement are incorporated herein by reference (including, without limitation, the definitions in the Agreement of "Change in Control" and "Control Termination") as if set forth in this letter agreement.

2. Indemnification. The provisions of Section 20 of the Agreement are incorporated herein by reference as if set forth in this letter agreement.

3. Covenants Against Solicitation. The provisions of Section 9 of the Agreement are incorporated herein by reference as if set forth in this letter agreement.

4. Other Provisions. The provisions of Sections 13, 15, 17, 19 and 21 of the Agreement are incorporated herein by reference as if set forth in this letter agreement.

References to "the Employment Agreement" in the incorporated sections identified above shall be deemed references to this letter agreement.

The provisions of this letter agreement shall be effective July 16, 2007 and shall remain in effect for as long as you are employed by the Company. Please confirm your agreement with the foregoing by signing below.

Very truly yours,

CONSECO SERVICES, LLC

By:/s/ Susan L. Menzel

Susan L. Menzel, Executive Vice President, Human Resources

Agreed to this 3rd day of August, 2007.

/s/ John R. Kline

John R. Kline

Exhibit 10.12

AMENDMENT TO

EMPLOYMENT AGREEMENT

This AMENDMENT TO AMENDED AND RESTATED EMPLOYMENT AGREEMENT is entered into this 25th day of September, 2007, between 40|86 Advisors, Inc. (the "Company") and Eric R. Johnson ("Executive").

Recitals

A. The Company and Executive entered into an Amended and Restated Employment Agreement dated as of October 6, 2006 (the "Agreement"), the term of which is scheduled to expire on September 10, 2007.

B. The Company and Executive desire to amend the Agreement to extend its Term (as defined in the Agreement) and to make the other changes set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants contained herein, the receipt and sufficiency of which are hereby acknowledged:

1. Section 2 of the Agreement is hereby amended solely to change the ending date of the Term from September 10, 2007 to September 10, 2008. All other provisions of Section 2 of the Agreement shall remain unchanged.

2. Section 5(b) of the Agreement is hereby amended solely to change "2007 bonus in the penultimate sentence to "2008 bonus." All other provisions of Section 5(b) of the Agreement shall remain unchanged.

3. Section 11(d) of the Agreement is hereby amended solely to change "two times" to "one and one-half times" in clause (ii) of the first sentence of Section 11(d) of the Agreement. All other provisions of Section 11(d) of the Agreement shall remain unchanged.

4. All provisions of the Agreement not amended hereby shall remain in full force and effect.

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

40|86 ADVISORS, INC.

By:/s/ Karl W. Kindig

Assistant Secretary

/s/ Eric R. Johnson

Eric R. Johnson

Exhibit 10.25

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT, dated as of the 17th day of August, 2007 is between Conseco Services, LLC, an Indiana limited liability company ("Company"), and Susan L. Menzel ("Executive").

WHEREAS, the Company and Executive entered into an Employment Agreement dated May 3, 2005, and they now desire to amend and restate such agreement.

WHEREAS, the continued services of Executive and her managerial and professional experience are of value to the Company.

WHEREAS, the Company desires to continue to have the benefit and advantage of the services of Executive for an extended period to assist the Company and Conseco, Inc. ("Conseco") upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants contained herein, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Employment. The Company hereby employs Executive and Executive hereby accepts employment upon the terms and conditions hereinafter set forth.

2. Term. The effective date of this agreement (the "Agreement") shall be the date set forth above (the "Effective Date"). Subject to the provisions for termination as provided in Section 10 hereof, the term of Executive's employment under this Agreement shall be the period beginning on the Effective Date and ending on May 31, 2010 (the "Term"). The Term shall not be automatically renewed and shall end upon any earlier termination of Executive's employment with the Company.

3. Duties. During the Term, Executive shall be engaged by the Company in the capacity of Executive Vice President, Human Resources of the Company and Conseco. Executive shall report to the Chief Executive Officer of Conseco (or such other senior officer of Conseco designated by the President or the Chief Executive Officer of Conseco) regarding the performance of her duties.

4. Extent of Services. During the Term, subject to the direction and control of the President or the Chief Executive Officer of Conseco or the designee of any such officer, Executive shall have the power and authority commensurate with her executive status and necessary to perform her duties hereunder. Executive shall devote her entire employable time, attention and best efforts to the business of the Company and, during the Term, shall not, without the consent of the Company, be actively engaged in any other business activity, whether or not such business activity is pursued for gain, profit or other pecuniary advantage; provided, however, that, subject to Section 9 hereof, this shall not be construed as preventing Executive from serving on boards of professional, community, civic, education, charitable and corporate organizations on which he presently serves or may choose to serve or investing her assets in such

form or manner as will not require any services on the part of Executive in the operation of the affairs of the companies in which such investments are made (to the extent not in violation of the noncompete and nonsolicitation provisions of Section 9 hereof); provided, however, that corporate organizations shall be limited to those mutually agreed upon by Executive and the Company.

5. Compensation. During the Term:

(a) As compensation for services hereunder rendered during the Term hereof, Executive shall receive a base salary ("Base Salary") of Three Hundred Twenty-Seven Thousand Six Hundred Dollars ($327,600) per year payable in equal installments in accordance with the Company's payroll procedure for its salaried executives. Salary payments and other payments under this Agreement shall be subject to withholding of taxes and other appropriate and customary amounts. Executive may receive increases in her Base Salary from time to time, based upon her performance, subject to approval of the Company.

(b) In addition to Base Salary, Executive will have an opportunity to earn a bonus each year as determined by the Company, with a target annual bonus equal to 50% of Executive's Base Salary (the "Target Bonus") and a maximum annual bonus of 100% of Executive's Base Salary with respect to any calendar year, with such bonus payable at such time that other similar payments are made to other Company executives. For purposes of clarification, annual executive bonuses are generally paid in March of the year following the year with respect to which such bonuses are payable, if Executive remains employed with the Company through such date or as otherwise payable under Section 11 of this Agreement. Notwithstanding the above, Executive will be entitled to a bonus for 2010 of an amount that is not less than a pro-rata portion of the 2010 Target Bonus if Executive remains employed through the end of the Term. The Target Bonuses will be based on financial and other objective targets that the Company believes are reasonably attainable at the time that they are set.

(c) Executive shall also be eligible to participate in and receive future grants under any stock option or equity-based program offered by Conseco to executives of similar title and responsibility, if any, subject to the discretion of the Board of Directors of Conseco (the "Board").

6. Fringe Benefits. During the Term:

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

(b) Executive shall be entitled to four weeks of vacation with pay each year.

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

7. Disability. If Executive shall become physically or mentally disabled during the Term to the extent that her ability to perform her duties and services hereunder is materially and adversely impaired, her Base Salary, bonus and other compensation provided herein shall continue while she remains employed by the Company; provided, that if such disability (as confirmed by competent medical evidence) continues for at least three (3) consecutive months, the Company may terminate Executive's employment hereunder, in which case the Company immediately shall pay Executive a cash payment equal to (i) her annual Base Salary as provided in Section 5(a) hereof to the extent earned but unpaid as of the date of termination ("Unpaid Salary"), (ii) the bonus payable pursuant to Section 5(b) for the fiscal year of the Company ending prior to the date of termination (to the extent earned based on performance under the goals and objectives of the applicable plan but not previously paid) ("Unpaid Bonus"),
(iii) Executive's then accrued but unused vacation ("Unpaid Vacation") (the Unpaid Salary, Unpaid Bonus and Unpaid Vacation referred to sometimes together as the "Accrued Amounts"), (iv) a pro rata Target Bonus for the year in which the termination for Disability occurred, and (v) one times Base Salary. All stock options, restricted stock and/or other awards held by Executive shall be treated in accordance with the applicable grant agreements. No payments or vesting under this paragraph will be made if such disability arose primarily from (a) chronic use of intoxicants, drugs or narcotics (other than drugs prescribed to Executive by a physician and used by Executive for their intended purpose for which they had been prescribed) or (b) intentionally self-inflicted injury or intentionally self-induced illness.

8. Disclosure of Information. Executive acknowledges that, in and as a result of her employment with the Company, she has been and will be making use of, acquiring and/or adding to confidential information of the Company and its affiliates of a special and unique nature and value. As a material inducement to the Company to enter into this Agreement and to pay to Executive the compensation stated in Section 5, as well as any additional benefits stated herein, Executive covenants and agrees that she shall not, at any time while she is employed by the Company or at any time thereafter, directly or indirectly, divulge or disclose for any purpose whatsoever, any confidential information (whether or not specifically labeled or identified as "confidential information"), in any form or medium, that has been obtained by or disclosed to her as a result of her employment with the Company and which the Company or any of its affiliates has taken appropriate steps to safeguard, except to the extent that such confidential information (a) becomes a matter of public record or is published in a newspaper, magazine or other periodical available to the general public, other than as a result of any act or omission of Executive, (b) is required to be disclosed by any law, regulation or order of any court or regulatory commission, department or agency, in which event Executive shall give prompt notice of such requirement to the Company to enable the Company to seek an appropriate protective order or confidential treatment, or (c) must be disclosed to enable Executive properly to perform her duties under this Agreement. Upon the termination of Executive's employment, Executive shall return such information (in whatever form) obtained from or belonging to the Company or any of its affiliates which she may have in her possession or control.

9. Covenants Against Solicitation. Executive acknowledges that the services she is to render to the Company and its affiliates are of a special and unusual character, with a unique value to the Company and its affiliates, the loss of which cannot adequately be compensated by damages or an action at law. In view of the unique value to the Company and its affiliates of the services of Executive for which the Company has contracted hereunder, because of the confidential information to be obtained by, or disclosed to, Executive as set forth in Section 8 above, and as a material inducement to the Company to enter into this Agreement and to pay to Executive the compensation stated in Section 5 hereof, as well as any additional benefits stated herein, and other good and valuable consideration, Executive covenants and agrees that throughout the period Executive remains employed or compensated hereunder and for one year thereafter, Executive shall not, directly or indirectly, anywhere in the United States of America (i) solicit or attempt to convert to other insurance carriers or other corporations, persons or other entities providing these same or similar products or services provided by the Company and its affiliates, any customers or policyholders of the Company or any of its affiliates or (ii) solicit for employment or employ any employee of the Company or any of its affiliates. Should any particular covenant or provision of this Section 9 be held unreasonable or contrary to public policy for any reason, including, without limitation, the time period, geographical area, or scope of activity covered by any restrictive covenant or provision, the Company and Executive acknowledge and agree that such covenant or provision shall automatically be deemed modified such that the contested covenant or provision shall have the closest effect permitted by applicable law to the original form and shall be given effect and enforced as so modified to whatever extent would be reasonable and enforceable under applicable law.

10. Termination.

(a) Either the Company or Executive may terminate her employment at any time for any reason upon written notice to the other. The Company may terminate Executive's employment for Just Cause pursuant to Section 10(b) below or in a Control Termination pursuant to Section 10(c) below. Executive's employment shall also terminate (i) upon the death of Executive, (ii) after disability of Executive pursuant to Section 7 hereof or (iii) by Executive's termination of employment With Reason.

(b) The Company may terminate Executive's employment at any time for Just Cause. For purposes of this Agreement, "Just Cause" shall mean: (i) (A) a material breach by Executive of this Agreement not cured to the Company's reasonable satisfaction within 15 days after written notice to Executive by the Company, (B) a material breach of Executive's duty of loyalty to the Company or its affiliates, or (C) willful malfeasance or fraud or dishonesty of a substantial nature in performing Executive's services on behalf of the Company or its affiliates, which in each case is willful and deliberate on Executive's part and committed in bad faith or without reasonable belief that such breach or action is in the best interests of the Company or its affiliates; (ii) Executive's use of alcohol or drugs (other than drugs prescribed to Executive by a physician and used by Executive for their intended purposes for which they had been prescribed) or other repeated conduct which materially and repeatedly interferes with the performance of her duties hereunder, which materially compromises

the integrity or the reputation of the Company or its affiliates, or which results in other substantial economic harm to the Company or its affiliates; (iii) Executive's conviction by a court of law, admission that she is guilty, or entry of a plea of nolo contendere with regard to a felony or other crime involving moral turpitude; (iv) Executive's unscheduled absence from her employment duties other than as a result of illness or disability, for whatever cause, for a period of more than three
(3) consecutive days, without consent from the Company prior to the expiration of the three (3) day period; or (v) Executive's failure to take action or to abstain from taking action, as directed in writing by a member of the Board or a higher ranking executive of the Company or Conseco, where such failure continues after Executive has been given written notice of such failure and at least five (5) business days thereafter to cure such failure.

No termination shall be deemed to be a termination by the Company for Just Cause if the termination is as a result of Executive refusing to act in a manner that would be a violation of applicable law or where Executive acts (or refrains from taking action) in good faith in accordance with directions of a member of the Board or higher ranking executive but was unable to attain the desired results because such results were inherently unreasonable or unattainable.

(c) The Company may terminate Executive's employment in a Control Termination. A "Control Termination" shall mean any termination by the Company (or its successor) of Executive's employment for any reason within six months in anticipation of or within two years following a Change in Control.

The term "Change in Control" shall mean the occurrence of any of the following:

(i) the acquisition (other than an acquisition in connection with a "Non-Control Transaction") by any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) of "beneficial ownership" (as such term is defined in Rule 13d-3 promulgated under the 1934 Act), directly or indirectly, of securities of Conseco or its Ultimate Parent representing 51% or more of the combined voting power of the then outstanding securities of Conseco or its Ultimate Parent entitled to vote generally with respect to the election of the board of directors of Conseco or its Ultimate Parent; or

(ii) as a result of or in connection with a tender or exchange offer or contest for election of directors, individual board members of Conseco (identified as of the date of commencement of such tender or exchange offer, or the commencement of such election contest, as the case may be) cease to constitute at least a majority of the board of directors of Conseco; or

(iii) the consummation of a merger, consolidation or reorganization with or into Conseco unless (x) the stockholders of Conseco immediately before such transaction beneficially own, directly or indirectly, immediately following such transaction securities representing 51% or more of the combined voting power of the then outstanding securities entitled to vote generally with respect to the

election of the board of directors of Conseco (or its successor) or, if applicable, the Ultimate Parent and (y) individual board members of Conseco (identified as of the date that a binding agreement providing for such transaction is signed) constitute at least a majority of the board of directors of Conseco (or its successor) or, if applicable, the Ultimate Parent (a transaction to which clauses (x) and (y) apply, a "Non-Control Transaction").

For purposes of this Agreement, "Ultimate Parent" shall mean the parent corporation (or if there is more than one parent corporation, the ultimate parent corporation) that, following a transaction, directly or indirectly beneficially owns a majority of the voting power of the outstanding securities entitled to vote with respect to the election of the board of directors of Conseco (or its successor).

(d) At Executive's option, she may terminate employment with the Company "With Reason" provided one or more of the following conditions are met after the date of this Agreement: (i) her role or duties have been materially diminished by changes in responsibilities or authority; (ii) any reduction in Executive's Base Salary or Target Bonus; (iii) Executive is required to relocate her residence without her consent (recognizing that a significant portion of her time will be spent at the Company's offices in Carmel, Indiana and in Philadelphia, Pennsylvania); or (iv) there is a "Change in Control" of the Company as defined in Section 10(c) and, following Executive's written request made prior to the Change in Control, the ultimate parent entity or entities directly or indirectly gaining control of a majority of the Board or outstanding securities entitled to vote with respect to the Board fails to affirm and guarantee the Company's current and future obligations under this Agreement.

(e) Upon termination of Executive's employment with the Company for any reason (whether voluntary or involuntary), Executive shall be deemed to have voluntarily resigned from all positions that Executive may then hold with the Company and any of its affiliates; provided that such deemed resignation shall not adversely affect Executive's rights to compensation or benefits under Section 11 of this Agreement and shall not affect the determination of whether Executive's termination was for Just Cause.

11. Payments Following Termination.

(a) In the event that Executive's employment is terminated by the Company for Just Cause (as defined herein), upon expiration of the Term of this Agreement or Executive voluntarily resigns, then the Company immediately shall pay Executive a cash payment of her Base Salary as provided in Section 5(a) hereof that was earned but unpaid as of the date of termination. Any options or restricted stock held by Executive on the date of termination shall vest only through the date of termination according to the normal vesting schedule applicable to such options or restricted stock, and Executive shall not receive any accelerated or additional vesting of such stock or options on or after such date.

(b) In the event Executive's employment is terminated by the death of Executive, then the Company shall pay Executive's estate a cash lump sum of the sum of

(i) the remaining payments of Base Salary described in Section 5(a) that would have been payable to Executive through the date of death and (ii) a pro-rata portion of the Target Bonus for the year in which her death occurs plus the Target Bonus for the preceding year if her death occurs after year-end but before such bonuses are paid. Any options or restricted stock held by Executive on the date of termination shall vest only through the date of termination according to the normal vesting schedule applicable to such options or restricted stock, and Executive shall not receive any accelerated or additional vesting of such stock or options on or after such date.

(c) In the event that Executive is terminated by the Company without Just Cause (and other than expiration of the Term, death, disability or a Control Termination) or by Executive With Reason, then the Company shall pay Executive (i) on a basis consistent with the timing of the Company's normal payroll processing, the remaining payments of Base Salary described in Section 5(a) that would have been payable to Executive through the date of her termination of employment, (ii) her Base Salary and Target Bonus (in the form of salary continuation on a pro-rata basis with or without medical and dental benefits, at the Executive's election and cost) for the 12-month period following her termination of employment, and (iii) a cash lump sum equal to a pro-rata portion of the Target Bonus for the year in which the date of termination occurs plus the Target Bonus for the preceding year if termination occurs after year-end but before such bonuses are paid. Any options or restricted stock held by Executive on the date of termination shall vest only through the date of termination according to the normal vesting schedule applicable to such options or restricted stock, and Executive shall not receive any accelerated or additional vesting of such stock or options on or after such date.

(d) In the event that Executive is terminated by the Company (or its successor) in a Control Termination as so defined, then the Company shall pay Executive (i) on a basis consistent with the timing of the Company's normal payroll processing, the remaining payments of Base Salary described in Section 5(a) that would have been payable to Executive through the date of her termination of employment, (ii) one and one-half times the sum of her Base Salary and Target Bonus (in the form of salary continuation on a pro-rata basis with or without medical and dental benefits at the cost charged to active employees) for the 12-month period following her termination of employment and (iii) a cash lump sum equal to a pro-rata portion of the Target Bonus for the year in which the date of termination occurs plus the Target Bonus for the preceding year if termination occurs after year-end but before such bonuses are paid. To the extent that Executive is terminated in a Control Termination that occurs in anticipation of a Change in Control, any options or restricted stock held by Executive shall fully vest, retroactive to the date of termination, upon the occurrence of the Change in Control.

(e) Notwithstanding anything to the contrary, in the event that Executive's employment terminates, the Company shall pay to Executive, in accordance with its standard payroll practice, Executive's accrued vacation.

(f) Notwithstanding anything to the contrary, payment of severance under this Agreement is conditioned upon the execution by Executive of a separation and release agreement in a form acceptable to the Company and the observation of such waiting or revocation periods, if any, before and after execution of the agreement by Executive as are required by law, such as, for example, the waiting or revocation periods required for a waiver and release to be effective with respect to claims under the Age Discrimination in Employment Act, provided that the Company delivers to Executive such agreement within seven days of the date of her termination.

12. Character of Termination Payments. The amounts payable to Executive upon any termination of her employment shall be considered severance pay in consideration of past services rendered on behalf of the Company and her continued service from the date hereof to the date she becomes entitled to such payments and shall be the sole amount of severance pay to which Executive is entitled from the Company and its affiliates upon termination of her employment during the Term. Executive shall have no duty to mitigate her damages by seeking other employment.

13. Representations of the Parties.

(a) The Company represents and warrants to Executive that (i) this Agreement has been duly authorized, executed and delivered by the Company and constitutes valid and binding obligations of the Company; and (ii) the employment of Executive on the terms and conditions contained in this Agreement will not conflict with, result in a breach or violation of, constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company pursuant to: (A) the certificate of formation, (B) the terms of any indenture, contract, lease, mortgage, deed of trust, note, loan agreement or other agreement, obligation, condition, covenant or instrument to which the Company is a party or bound or to which its property is subject, or (C) any statute, law, rule, regulation, judgment, order or decree applicable to the Company, or any regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over the Company.

(b) Executive represents and warrants to the Company that: (i) this Agreement has been duly executed and delivered by Executive and constitutes a valid and binding obligation of Executive; and (ii) neither the execution of this Agreement by Executive nor her employment by the Company on the terms and conditions contained herein will conflict with, result in a breach or violation of, or constitute a default under any agreement, obligation, condition, covenant or instrument to which Executive is a party or bound or to which her property is subject, or any statute, law, rule, regulation, judgment, order or decree applicable to Executive of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over Executive or any of her property.

14. Arbitration of Disputes; Injunctive Relief.

(a) Except as provided in subsection (b) below, any controversy or claim arising out of or relating to this Agreement or the breach thereof shall be settled by

binding arbitration in the City of Indianapolis, Indiana, in accordance with the laws of the State of Indiana by three arbitrators, one of whom shall be appointed by the Company, one by Executive, and the third of whom shall be appointed by the first two arbitrators. If the first two arbitrators cannot agree on the appointment of a third arbitrator, then the third arbitrator shall be appointed by the Chief Judge of the United States District Court for the Southern District of Indiana. The arbitration shall be conducted in accordance with the rules of the American Arbitration Association, except with respect to the selection of arbitrators, which shall be as provided in this Section. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. All reasonable costs and expenses (including fees and disbursements of counsel) incurred by Executive pursuant to this Section 15 shall be paid on behalf of or reimbursed to Executive promptly by the Company; provided, however, that in the event the Company prevails in such proceedings, Executive shall immediately repay all such amounts to the Company.

(b) Executive acknowledges that a breach or threatened breach by Executive of Sections 8 or 9 of this Agreement will give rise to irreparable injury to the Company and that money damages will not be adequate relief for such injury. Notwithstanding paragraph (a) above, the Company and Executive agree that the Company may seek and obtain injunctive relief, including, without limitation, temporary restraining orders, preliminary injunctions and/or permanent injunctions, in a court of proper jurisdiction to restrain or prohibit a breach or threatened breach of Section 8 or 9 of this Agreement. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to the Company for such breach or threatened breach, including the recovery of damages from Executive.

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

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

17. Entire Agreement. Other than any equity award agreements entered into pursuant to an applicable long-term incentive plan, this instrument contains the entire agreement of the parties and, as of the Effective Date, supersedes all other obligations of the Company and its affiliates under other agreements or otherwise. The compensation and benefits to be paid under the terms of this Agreement are in lieu of all other compensation or benefits to which Executive is entitled from Conseco, the Company, and its affiliates. This Agreement may not be changed orally, but only by an instrument in writing signed by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought.

18. Binding Agreement and Governing Law; Assignment Limited. This Agreement shall be binding upon and shall inure to the benefit of the parties and their lawful successors in interest (including, without limitation, Executive's estate, heirs and personal representatives)

and, except for issues or matters as to which federal law is applicable, shall be construed in accordance with and governed by the laws of the State of Indiana. This Agreement is personal to each of the parties hereto, and neither party may assign or delegate any of its rights or obligations hereunder without the prior written consent of the other.

19. Indemnification. If Executive was or is made a party or is threatened to be made a party to or is otherwise involved (including involvement as a witness) in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he or she is or was an officer or employee of the Company or any of its affiliates, Executive shall be indemnified and held harmless by the Company to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Company to provide broader indemnification rights than permitted prior thereto), against all expense, liability and loss (including attorneys' fees, judgments, fines, excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by Executive in connection therewith and such indemnification shall continue as to Executive if he ceases to be an officer or employee and shall inure to the benefit of Executive's heirs, executors and administrators; provided, however, that the Company shall indemnify Executive in connection with a proceeding (or part thereof) initiated by Executive only if such Proceeding (or part thereof) was authorized by the Board of Directors of the Company. The right to indemnification conferred in this paragraph shall include the obligation of the Company to pay the expenses incurred in defending any such proceeding in advance of its final disposition (an "Advance of Expenses"); provided, however, that, if and to the extent that the Delaware General Corporation Law requires, an Advance of Expenses incurred by Executive in her capacity as an officer or employee shall be made only upon delivery to the Company of an undertaking, by or on behalf of Executive, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that Executive is not entitled to be indemnified for such expenses under this paragraph or otherwise.

20. No Third Party Beneficiaries. The terms and provisions of this Agreement are intended solely for the benefit of each party hereto and their respective successors or permitted assigns, and it is not intended to confer third-party beneficiary rights upon any other person.

21. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

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

COMPANY:
CONSECO SERVICES, LLC

By:/s/ Edward J. Bonach

Edward J. Bonach
President

EXECUTIVE:

/s/ Susan L. Menzel

Susan L. Menzel

Exhibit 12.1

Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends

(Dollars in millions)

	Nine months ended September 30, 2007	Year ended December 31, 2006
Pretax income (loss) from operations:		
Net income (loss)	$(103.2)	$ 96.5
Add income tax expense (benefit)	(60.1)	55.8
Pretax income (loss) from operations	(163.3)	152.3
Add fixed charges:		
Interest expense on corporate debt	53.2	52.9
Interest expense on investment borrowings	31.6	20.6
Interest added to policyholder account balances	310.5	426.8
Portion of rental (a)	9.9	13.2
Fixed charges	405.2	513.5
Adjusted earnings	$ 241.9	$665.8
Ratio of earnings to fixed charges	(b)	1.30x
Fixed charges	$ 405.2	$513.5
Add dividends on preferred stock, including dividends on preferred stock of subsidiaries (divided by the ratio of income to pretax income)	22.3	60.0
Fixed charges plus preferred dividends	$ 427.5	$573.5
Adjusted earnings	$ 241.9	$665.8
Ratio of earnings to fixed charges and preferred dividends	(c)	1.16x

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(a) Interest portion of rental is estimated to be 33 percent.

(b) For such ratio, earnings were $163.3 million less than fixed charges.

(c) For such ratio, earnings were $185.6 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 8, 2007

/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 8, 2007

/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, 2007 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 8, 2007

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, 2007 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 8, 2007

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.