

CNO FINANCIAL GROUP, INC.

FORM 10-Q (Quarterly Report)

Filed 08/09/07 for the Period Ending 06/30/07

Address	11825 N PENNSYLVANIA ST CARMEL, IN 46032
Telephone	3178176100
CIK	0001224608
Symbol	CNO
SIC Code	6321 - Accident and Health Insurance
Industry	Insurance (Life)
Sector	Financial
Fiscal Year	12/31

CONSECO INC

FORM 10-Q (Quarterly Report)

Filed 8/9/2007 For Period Ending 6/30/2007

Address	11825 N PENNSYLVANIA ST CARMEL, Indiana 46032
Telephone	317-817-6100
CIK	0001224608
Industry	Insurance (Life)
Sector	Financial
Fiscal Year	12/31

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

Form 10-Q

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

For the quarterly period ended June 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 ----- State of Incorporation	75-3108137 ----- IRS Employer Identification No.
11825 N. Pennsylvania Street Carmel, Indiana 46032 ----- Address of principal executive offices	(317) 817-6100 ----- Telephone

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes [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 July 26, 2007: 188,699,343

TABLE OF CONTENTS

	Page
PART I - FINANCIAL INFORMATION	----
Item 1. Financial Statements	
Consolidated Balance Sheet as of June 30, 2007 and December 31, 2006.....	3
Consolidated Statement of Operations for the three and six months ended June 30, 2007 and 2006.....	5
Consolidated Statement of Shareholders' Equity for the six months ended June 30, 2007 and 2006.....	6
Consolidated Statement of Cash Flows for the six months ended June 30, 2007 and 2006.....	7
Notes to Consolidated Financial Statements.....	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	
Cautionary Statement Regarding Forward-Looking Statements.....	30
Overview	31
Critical Accounting Policies	32
Results of Operations.....	35
Premium Collections.....	55
Liquidity and Capital Resources.....	60
Investments.....	66
Investment in Variable Interest Entity.....	72
New Accounting Standards	73
Item 3. Quantitative and Qualitative Disclosures About Market Risk	73
Item 4. Controls and Procedures.....	73
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	74
Item 1A. Risk Factors.....	74
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.....	74
Item 4. Submission of Matters to a Vote of Security Holders.....	75
Item 6. Exhibits	76

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

ASSETS

	June 30, 2007 ---- (unaudited)	December 31, 2006 ----
Investments:		
Actively managed fixed maturities at fair value (amortized cost: June 30, 2007 - \$23,414.4; December 31, 2006 - \$22,946.9).....	\$22,824.6	\$22,802.9
Equity securities at fair value (cost: June 30, 2007 - \$38.9; December 31, 2006 - \$23.9).....	40.2	24.8
Mortgage loans.....	1,736.6	1,642.2
Policy loans.....	410.3	412.5
Trading securities.....	800.6	675.2
Other invested assets	203.5	178.8
	-----	-----
Total investments.....	26,015.8	25,736.4
Cash and cash equivalents:		
Unrestricted.....	522.5	385.9
Restricted.....	29.8	24.0
Accrued investment income.....	353.7	344.5
Value of policies inforce at the Effective Date.....	1,998.7	2,137.2
Cost of policies produced.....	1,296.7	1,106.7
Reinsurance receivables.....	855.7	850.8
Income tax assets, net.....	1,966.6	1,786.9
Assets held in separate accounts.....	28.6	28.9
Other assets.....	369.8	316.0
	-----	-----
Total assets.....	\$33,437.9	\$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

	June 30, 2007 ----	December 31, 2006 ----
	(unaudited)	
Liabilities:		
Liabilities for insurance products:		
Interest-sensitive products.....	\$13,060.1	\$13,018.0
Traditional products.....	12,352.9	12,094.1
Claims payable and other policyholder funds.....	847.4	832.3
Liabilities related to separate accounts.....	28.6	28.9
Other liabilities.....	706.9	611.8
Investment borrowings.....	868.9	418.3
Notes payable - direct corporate obligations.....	1,197.8	1,000.8
	-----	-----
Total liabilities.....	29,062.6	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: June 30, 2007 - 188,699,343; December 31, 2006 - 152,165,108).....	1.9	1.5
Additional paid-in capital.....	4,126.4	3,473.2
Accumulated other comprehensive loss.....	(329.9)	(72.6)
Retained earnings.....	576.9	643.2
	-----	-----
Total shareholders' equity.....	4,375.3	4,713.1
	-----	-----
Total liabilities and shareholders' equity.....	\$33,437.9	\$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		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Revenues:				
Insurance policy income.....	\$ 767.8	\$ 739.7	\$1,530.6	\$1,494.4
Net investment income:				
General account assets.....	382.2	357.3	760.1	708.6
Policyholder and reinsurer accounts and other special-purpose portfolios.....	42.3	(13.7)	47.2	.4
Net realized investment losses.....	(28.3)	(3.7)	(63.2)	(6.8)
Fee revenue and other income.....	5.2	4.5	9.0	9.2
	-----	-----	-----	-----
Total revenues.....	1,169.2	1,084.1	2,283.7	2,205.8
	-----	-----	-----	-----
Benefits and expenses:				
Insurance policy benefits.....	930.9	705.2	1,732.2	1,432.0
Interest expense.....	27.9	17.1	51.5	33.5
Amortization.....	116.3	97.6	232.5	216.2
Costs related to the proposed litigation settlement.....	35.0	157.0	48.0	174.7
Other operating costs and expenses.....	151.8	142.1	296.0	283.2
	-----	-----	-----	-----
Total benefits and expenses.....	1,261.9	1,119.0	2,360.2	2,139.6
	-----	-----	-----	-----
Income (loss) before income taxes.....	(92.7)	(34.9)	(76.5)	66.2
Income tax expense (benefit) on period income.....	(32.8)	(12.6)	(27.0)	23.9
	-----	-----	-----	-----
Net income (loss).....	(59.9)	(22.3)	(49.5)	42.3
Preferred stock dividends.....	4.6	9.5	14.1	19.0
	-----	-----	-----	-----
Net income (loss) applicable to common stock.....	\$ (64.5)	\$ (31.8)	\$ (63.6)	\$ 23.3
	=====	=====	=====	=====
Earnings per common share:				
Basic:				
Weighted average shares outstanding.....	169,139,000	151,514,000	160,038,000	151,518,000
	=====	=====	=====	=====
Net income (loss).....	\$ (.38)	\$ (.21)	\$ (.40)	\$.15
	=====	=====	=====	=====
Diluted:				
Weighted average shares outstanding.....	169,139,000	151,514,000	160,038,000	152,556,000
	=====	=====	=====	=====
Net income (loss).....	\$ (.38)	\$ (.21)	\$ (.40)	\$.15
	=====	=====	=====	=====

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)

	<u>Total</u>	<u>Preferred stock</u>	<u>Common stock and additional paid-in capital</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Retained earnings</u>
Balance, January 1, 2007.....	\$4,713.1	\$667.8	\$3,474.7	\$ (72.6)	\$643.2
Comprehensive loss, net of tax:					
Net loss.....	(49.5)	-	-	-	(49.5)
Change in unrealized appreciation (depreciation) of investments (net of applicable income tax benefit of \$143.9).....	(257.8)	-	-	(257.8)	-

Total comprehensive loss.....	(307.3)				
Cost of shares acquired.....	(29.6)	-	(29.6)	-	-
Stock option and restricted stock plans.....	9.4	-	9.4	-	-
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, June 30, 2007.....	\$4,375.3	\$ -	\$4,128.3	\$(329.9)	\$576.9
	=====	=====	=====	=====	=====
Balance, January 1, 2006.....	\$4,519.8	\$667.8	\$3,195.6	\$ 71.7	\$584.7
Comprehensive loss, net of tax:					
Net income.....	42.3	-	-	-	42.3
Change in unrealized appreciation (depreciation) of investments (net of applicable income tax benefit of \$289.7).....	(517.3)	-	-	(517.3)	-

Total comprehensive loss.....	(475.0)				
Reduction of deferred income tax valuation allowance.....	260.0	-	260.0	-	-
Stock option and restricted stock plans.....	8.7	-	8.7	-	-
Reduction of tax liabilities related to various contingencies recognized at the fresh-start date.....	2.1	-	2.1	-	-
Dividends on preferred stock.....	(19.0)	-	-	-	(19.0)
	-----	-----	-----	-----	-----
Balance, June 30, 2006.....	\$4,296.6	\$667.8	\$3,466.4	\$(445.6)	\$608.0
	=====	=====	=====	=====	=====

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)

	Six months ended June 30,	
	2007	2006
Cash flows from operating activities:		
Insurance policy income.....	\$ 1,355.9	\$ 1,316.3
Net investment income.....	796.4	754.2
Fee revenue and other income.....	9.0	9.2
Net sales (purchases) of trading securities.....	(138.0)	23.0
Insurance policy benefits.....	(1,120.6)	(1,095.1)
Interest expense.....	(51.3)	(31.4)
Policy acquisition costs.....	(244.4)	(230.6)
Other operating costs.....	(278.3)	(276.2)
Taxes.....	(1.6)	1.8
	327.1	471.2
Net cash provided by operating activities.....		
Cash flows from investing activities:		
Sales of investments.....	3,810.3	3,118.9
Maturities and redemptions of investments.....	585.6	336.5
Purchases of investments.....	(5,072.0)	(3,837.3)
Change in restricted cash.....	(5.8)	(4.0)
Other.....	6.4	6.0
	(675.5)	(379.9)
Net cash used by investing activities.....		
Cash flows from financing activities:		
Issuance of notes payable.....	200.0	-
Issuance of common stock.....	3.4	.9
Payments to repurchase common stock.....	(29.6)	-
Payments on notes payable.....	(3.4)	(46.3)
Amounts received for deposit products.....	969.2	930.0
Withdrawals from deposit products.....	(1,086.2)	(1,023.8)
Investment borrowings.....	450.6	35.3
Dividends paid on preferred stock.....	(19.0)	(19.0)
	485.0	(122.9)
Net cash provided (used) by financing activities.....		
Net increase (decrease) in cash and cash equivalents.....	136.6	(31.6)
Cash and cash equivalents, beginning of period.....	385.9	237.8
	\$ 522.5	\$ 206.2
Cash and cash equivalents, end of period.....		

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

CONSECO, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following notes should be read together with the notes to the consolidated financial statements included in the 2006 Form 10-K of Consecoco, Inc.

Consecoco, 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 Consecoco, Inc., an Indiana corporation ("Old Consecoco" or our "Predecessor"), in connection with our bankruptcy reorganization which became effective on September 10, 2003 (the "Effective Date"). The terms "Consecoco", the "Company", "we", "us", and "our" as used in this report refer to CNO and its subsidiaries or, when the context requires otherwise, Old Consecoco 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 in force 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.

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.

Our trading securities are designed to act as hedges for 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

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

policy benefits for these products. Our trading securities totaled \$800.6 million and \$675.2 million at June 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 June 30, 2007 and December 31, 2006, were as follows (dollars in millions):

	June 30, 2007	December 31, 2006
Net unrealized depreciation on investments.....	\$(581.4)	\$(136.3)
Adjustment to value of policies inforce at the Effective Date.....	25.2	20.1
Adjustment to cost of policies produced.....	50.8	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.....	(9.4)	-
Deferred income tax asset.....	184.9	41.2
	-----	-----
Accumulated other comprehensive loss.....	\$(329.9)	\$(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 June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net income (loss).....	\$(59.9)	\$(22.3)	\$(49.5)	\$42.3
Preferred stock dividends.....	(4.6)	(9.5)	(14.1)	(19.0)
	-----	-----	-----	-----
Net income (loss) applicable to common stock for basic and diluted earnings per share.....	\$(64.5)	\$(31.8)	\$(63.6)	\$23.3
	=====	=====	=====	=====
Shares:				
Weighted average shares outstanding for basic earnings per share.....	169,139	151,514	160,038	151,518
	-----	-----	-----	-----
Effect of dilutive securities on weighted average shares:				
Stock option and restricted stock plans.....	-	-	-	1,038
	-----	-----	-----	-----
Dilutive potential common shares.....	-	-	-	1,038
	-----	-----	-----	-----
Weighted average shares outstanding for diluted earnings per share.....	169,139	151,514	160,038	152,556
	=====	=====	=====	=====

There were no dilutive common stock equivalents during: (i) the three months ended June 30, 2007 and 2006; and (ii) the six months ended June 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 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 six months ended June 30, 2006, but the common stock equivalents related to stock option and restricted stock plans were dilutive.

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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 six months ended June 30, 2007 and 2006, because doing so would have been antidilutive in such periods (shares in thousands).

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Equivalent common shares that were antidilutive during the period:				
Class B mandatorily convertible preferred stock.....	19,528	30,989	28,669	30,989
Stock option and restricted stock plans.....	263	1,047	196	-
	-----	-----	-----	-----
Antidilutive equivalent common shares.....	19,791	32,036	28,865	30,989
	=====	=====	=====	=====

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 Consecos 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 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 six months ended June 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 six months ended June 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).

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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 June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Revenues:				
Bankers Life:				
Insurance policy income:				
Annuities.....	\$ 15.6	\$ 17.5	\$ 32.3	\$ 30.0
Supplemental health.....	340.5	309.4	667.7	617.0
Life.....	44.8	39.5	86.0	75.6
Other.....	23.1	18.2	50.0	45.0
Net investment income (a).....	155.1	122.4	296.0	245.9
Fee revenue and other income (a).....	2.7	2.0	3.9	3.4
Net realized investment losses (a).....	(1.9)	(1.9)	(7.1)	(3.4)
	-----	-----	-----	-----
Total Bankers Life revenues.....	579.9	507.1	1,128.8	1,013.5
	-----	-----	-----	-----
Conseco Insurance Group:				
Insurance policy income:				
Annuities.....	3.9	5.0	6.8	8.5
Supplemental health.....	148.1	153.2	298.5	311.2
Life.....	81.9	86.0	168.2	178.1
Other.....	2.4	3.2	4.8	6.0
Net investment income (a).....	202.5	161.3	377.9	343.3
Fee revenue and other income (a).....	.1	(.1)	.3	.3
Net realized investment losses (a).....	(25.4)	(4.0)	(54.7)	(9.1)
	-----	-----	-----	-----
Total Conseco Insurance Group revenues.....	413.5	404.6	801.8	838.3
	-----	-----	-----	-----
Colonial Penn:				
Insurance policy income:				
Supplemental health.....	2.5	2.9	5.0	5.8
Life.....	26.7	22.4	53.2	45.6
Other.....	.2	.3	.5	.6
Net investment income (a).....	9.4	9.1	18.9	18.8
Fee revenue and other income (a).....	.1	.2	.3	.3
Net realized investment gains (a).....	.3	1.2	.1	1.7
	-----	-----	-----	-----
Total Colonial Penn revenues.....	39.2	36.1	78.0	72.8
	-----	-----	-----	-----
Other Business in Run-off:				
Insurance policy income - supplemental health.....	78.1	82.1	157.6	171.0
Net investment income (a).....	47.6	44.6	94.6	89.3
Fee revenue and other income (a).....	.1	.1	.2	.2
Net realized investment gains (losses) (a).....	(.1)	1.0	(.3)	4.0
	-----	-----	-----	-----
Total Other Business in Run-off revenues.....	125.7	127.8	252.1	264.5
	-----	-----	-----	-----
Corporate:				
Net investment income.....	9.9	6.2	19.9	11.7
Fee and other income.....	2.2	2.3	4.3	5.0
Net realized investment losses(a).....	(1.2)	-	(1.2)	-
	-----	-----	-----	-----
Total corporate revenues.....	10.9	8.5	23.0	16.7
	-----	-----	-----	-----
Total revenues.....	1,169.2	1,084.1	2,283.7	2,205.8
	-----	-----	-----	-----

(continued on next page)

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(continued from previous page)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Expenses:				
Bankers Life:				
Insurance policy benefits.....	\$ 399.7	\$ 348.8	\$ 792.7	\$ 705.8
Amortization.....	70.4	56.3	151.1	113.2
Interest expense on investment borrowings.....	-	.1	-	.1
Other operating costs and expenses.....	45.3	39.6	82.2	75.9
	-----	-----	-----	-----
Total Bankers Life expenses.....	515.4	444.8	1,026.0	895.0
	-----	-----	-----	-----
Conseco Insurance Group:				
Insurance policy benefits.....	275.4	238.5	527.8	500.9
Amortization.....	35.2	33.7	60.2	87.7
Interest expense on investment borrowings.....	4.2	.3	5.3	.5
Costs related to the proposed litigation settlement....	17.5	157.0	24.0	165.8
Other operating costs and expenses.....	68.5	68.4	136.4	138.4
	-----	-----	-----	-----
Total Conseco Insurance Group expenses.....	400.8	497.9	753.7	893.3
	-----	-----	-----	-----
Colonial Penn:				
Insurance policy benefits.....	24.2	21.0	50.1	44.1
Amortization.....	4.9	4.1	9.7	8.3
Other operating costs and expenses.....	3.1	3.3	6.8	7.1
	-----	-----	-----	-----
Total Colonial Penn expenses.....	32.2	28.4	66.6	59.5
	-----	-----	-----	-----
Other Business in Run-off:				
Insurance policy benefits.....	231.6	96.9	361.6	181.2
Amortization.....	5.8	3.5	11.5	7.0
Other operating costs and expenses.....	21.6	22.0	43.4	43.9
	-----	-----	-----	-----
Total Other Business in Run-off expenses.....	259.0	122.4	416.5	232.1
	-----	-----	-----	-----
Corporate:				
Interest expense on corporate debt.....	16.9	12.0	33.0	24.4
Interest expense on variable interest entity.....	6.8	4.7	13.2	8.5
Costs related to the proposed litigation settlement....	17.5	-	24.0	8.9
Other operating costs and expenses.....	13.3	8.8	27.2	17.9
	-----	-----	-----	-----
Total corporate expenses.....	54.5	25.5	97.4	59.7
	-----	-----	-----	-----
Total expenses.....	1,261.9	1,119.0	2,360.2	2,139.6
	-----	-----	-----	-----
Income (loss) before income taxes:				
Bankers Life.....	64.5	62.3	102.8	118.5
Conseco Insurance Group.....	12.7	(93.3)	48.1	(55.0)
Colonial Penn.....	7.0	7.7	11.4	13.3
Other Business in Run-off.....	(133.3)	5.4	(164.4)	32.4
Corporate operations.....	(43.6)	(17.0)	(74.4)	(43.0)
	-----	-----	-----	-----
Income (loss) before income taxes.....	\$ (92.7)	\$ (34.9)	\$ (76.5)	\$ 66.2
	=====	=====	=====	=====

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

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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 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 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 \$24.9 million and \$(4.7) million in the six months ended June 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 \$113.2 million and \$93.7 million at June 30, 2007 and December 31, 2006, respectively. We classify these instruments as other invested assets.

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 \$324.5 million and \$275.3 million at June 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 should largely offset the portion of the change in the value of the embedded derivative that is caused by interest rate fluctuations.

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 June 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 \$(.1) million and \$9.6 million at June 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 should largely offset the change in value of the embedded derivatives.

REINSURANCE

The cost of reinsurance ceded totaled \$108.7 million and \$114.9 million in the first six months of 2007 and 2006, respectively. We deduct this cost from insurance policy income. In each case, the ceding Consec subsidiary is directly liable for claims reinsured even if the assuming company is unable to pay. Reinsurance recoveries netted against insurance policy benefits totaled \$116.7 million and \$119.7 million in the first six 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 \$110.8 million and \$68.4 million in the first six months of 2007 and 2006, respectively.

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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

PENDING COINSURANCE TRANSACTION

On May 8, 2007, we announced that three of our insurance subsidiaries will coinsure most of their older inforce equity-indexed annuity and fixed annuity business with Reassure America Life Insurance Company ("REALIC"), a subsidiary of Swiss Re Life & Health America Inc. In the transaction, REALIC will: (i) pay a ceding commission of approximately \$76.5 million; (ii) assume the investment and persistency risk and administration of these policies; and (iii) recognize policy profits as they emerge over time. Our insurance subsidiaries will transfer to REALIC approximately \$3 billion of policy and other reserves, as well as the invested assets backing these policies. Our insurance subsidiaries remain primarily liable to the policyholders in the event REALIC does not fulfill its obligations under the agreements. The transaction is subject to insurance regulatory approval in several states and is expected to close before the end of 2007.

As a result of the transaction, we no longer plan to hold investments with an aggregate amortized cost of \$2,180.1 million and an estimated fair value of \$2,127.2 million at June 30, 2007, until maturity or until the market value of each investment recovers to its cost basis. Accordingly, we recognized: (i) net after-tax realized losses of \$8.7 million (net of related amortization expense of \$10.8 million and taxes of \$4.7 million) in the first quarter of 2007; and (ii) net after-tax realized losses of \$10.4 million (net of related amortization expense of \$12.8 million and taxes of \$5.6 million) in the second quarter of 2007.

Upon closing the transaction, Consecoco expects to record additional charges (resulting principally from the extinguishment of the insurance intangibles associated with this business) totaling approximately \$63 million plus the after tax earnings on this block of business from July 1, 2007 through the close of the transaction.

INCOME TAXES

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

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Current tax expense.....	\$ 1.2	\$ -	\$ 1.7	\$ -
Deferred tax provision (benefit).....	(34.0)	(12.6)	(28.7)	23.9
	-----	-----	-----	-----
Income tax expense (benefit) on period income.....	\$(32.8)	\$(12.6)	\$(27.0)	\$23.9
	=====	=====	=====	=====

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

	Six months ended June 30,	
	2007	2006
U.S. statutory corporate rate.....	(35.0)%	35.0%
Other nondeductible expense (benefit).....	(1.0)	2.3
State taxes.....	(.6)	2.4
Provision for tax issues, tax credits and other.....	1.3	(3.6)
	-----	-----
Effective tax rate.....	(35.3)%	36.1%
	=====	=====

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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

	June 30, 2007 ----	December 31, 2006 ----
Deferred tax assets:		
Net operating loss carryforwards attributable to:		
Life insurance subsidiaries.....	\$ 801.5	\$ 800.3
Non-life companies.....	841.0	780.0
Tax credits.....	14.2	14.2
Capital loss carryforwards.....	394.8	391.7
Deductible temporary differences:		
Insurance liabilities.....	1,176.5	1,320.0
Unrealized depreciation of investments.....	184.9	41.2
Reserve for loss on loan guarantees.....	70.3	145.8
Other.....	43.5	-
	-----	-----
Gross deferred tax assets.....	3,526.7	3,493.2
	-----	-----
Deferred tax liabilities:		
Actively managed fixed maturities.....	(17.4)	(42.2)
Value of policies inforce at the Effective Date and cost of policies produced..	(766.7)	(764.8)
Other.....	-	(117.6)
	-----	-----
Gross deferred tax liabilities.....	(784.1)	(924.6)
	-----	-----
Net deferred tax assets before valuation allowance.....	2,742.6	2,568.6
Valuation allowance.....	(777.8)	(777.8)
	-----	-----
Net deferred tax assets.....	1,964.8	1,790.8
Current income taxes prepaid (accrued).....	1.8	(3.9)
	-----	-----
Income tax assets, net.....	\$1,966.6	\$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 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 \$777.8 million at June 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

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

deferred tax asset and assessing the effects of limitations or interpretations on the value of such component to be fully recognized in the future.

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 \$424 million (including \$282 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 \$2.7 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 June 30, 2007, we had \$4.7 billion of NOLs and \$1.1 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.....	\$ -	\$.1	\$ 449.1	\$ 449.2	\$ 449.2	\$ -
2008.....	-	.1	583.7	583.8	583.8	-
2009.....	-	.9	86.2	87.1	.9	86.2
2010.....	-	2.4	-	2.4	2.4	-
2011.....	-	.4	-	.4	.4	-
2012.....	-	1.6	9.0	10.6	1.6	9.0
2016.....	17.0	-	-	17.0	17.0	-
2017.....	33.2	-	-	33.2	33.2	-
2018.....	2,170.6 (a)	.7	-	2,171.3	44.8	2,126.5
2019.....	-	.7	-	.7	.7	-
2021.....	68.5	-	-	68.5	-	68.5
2022.....	.7	-	-	.7	-	.7
2023.....	-	2,066.1 (a)	-	2,066.1	57.1	2,009.0
2024.....	-	3.2	-	3.2	-	3.2
2025.....	-	118.8	-	118.8	-	118.8
2026.....	-	29.6	-	29.6	-	29.6
2027.....	-	178.3	-	178.3	-	178.3
Total.....	\$2,290.0	\$2,402.9	\$1,128.0	\$5,820.9	\$1,191.1	\$4,629.8

(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 June 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 six months of 2007. The liability for accrued interest and penalties was not significant at June 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 2003 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 \$1.8 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 June 30, 2007 and December 31, 2006 (dollars in millions):

	June 30, 2007	December 31, 2006
3.50% convertible debentures.....	\$ 330.0	\$ 330.0
Secured credit agreement.....	869.9	673.3
Unamortized discount on convertible debentures.....	(2.1)	(2.5)
	-----	-----
Direct corporate obligations.....	\$1,197.8	\$1,000.8
	=====	=====

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

On October 10, 2006, we entered into a \$675.0 million secured credit agreement. On June 12, 2007, Consecoco 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 to \$200 million for the fiscal year commencing June 12, 2007 and \$300 million thereafter (in each case less any amount thereof paid in any prior fiscal year but following 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 Consecoco common stock and the strengthening of the Company's insurance subsidiaries.

During the first six months of 2007, we made scheduled principal payments totaling \$3.4 million on our Second Amended Credit Facility. There were \$7.3 million and \$6.2 million of unamortized issuance costs (classified as other assets) related to our Second Amended Credit Facility at June 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 June 30, 2007, the interest rate on our Second Amended Credit Facility was 7.3 percent.

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

Remainder of 2007.....	\$ 4.4
2008.....	8.7
2009.....	8.7
2010.....	338.8
2011.....	8.7
Thereafter.....	830.6

	\$1,199.9
	=====

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.

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

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

was 20 percent at June 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 June 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 June 30, 2007); and (iv) a combined statutory capital and surplus level of greater than \$1,270.0 million (combined statutory capital and surplus at June 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 June 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 Consecos 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, Consecos 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 fiscal year beginning June 12, 2007). As further discussed in the note to the consolidated financial statements entitled "Changes in Common Stock", we repurchased 1.5 million shares of our common stock for \$29.6 million in the first six months of 2007.

INVESTMENT BORROWINGS AND INTEREST RATE SWAPS

In the first quarter of 2007, one of the Company's insurance subsidiaries (Consecos Life Insurance Company, "Consecos Life") became a member of the Federal Home Loan Bank of Indianapolis ("FHLBI"). As a member of the FHLBI, Consecos Life has the ability to borrow on a collateralized basis from FHLBI. Consecos Life intends to use these advances to earn incremental income and as a source of liquidity for its operations. Consecos 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 June 30, 2007, the carrying value of the FHLBI common stock was \$20.0 million. Advances from the FHLBI (the "Advances") totaled \$400.0 million as of June 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 \$471.0 million at June 30, 2007, which are maintained in a custodial account for the benefit of the FHLBI. Consecos Life recognized interest expense of \$4.8 million in the first six 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 June 30, 2007 -----
\$100.0	February 2012	Variable rate - 5.345%
100.0	March 2012	Variable rate - 5.350%
54.0	May 2012	Variable rate - 5.360%
146.0	November 2015	Fixed rate - 5.300%

Consecos 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 \$144.6 million at June 30, 2007, are matched with an interest rate swap, which converts 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. In the first six months of 2007, the change in the value of the trading securities was \$(3.2) million and the change in the value of the interest rate swaps was

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

\$3.6 million. Pursuant to the interest rate swaps, Consec 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 June 30, 2007, the weighted average fixed rate being paid was 6.12 percent and the weighted average variable rate being received was 6.17 percent.

At June 30, 2007, investment borrowings consisted of: (i) Advances of \$400.0 million; (ii) \$452.3 million of securities issued to other entities by a variable interest entity which is consolidated in our financial statements; and (iii) other borrowings of \$16.6 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.....	(1,533)
Conversion of preferred stock into common shares.....	37,809
Stock options exercised.....	208
Shares issued under employee benefit compensation plans.....	58 (a)
Other.....	(8)

Balance at June 30, 2007.....	188,699
	=====

(a) Such amount was reduced by 10 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 Consec 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 fiscal 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 Consec 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 six months of 2007, the Company repurchased an additional .3 million shares of its common stock for \$4.9 million.

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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 \$28.4 million and \$27.4 million during the six months ended June 30, 2007 and 2006, respectively. Amounts amortized totaled \$10.5 million and \$8.9 million during the six months ended June 30, 2007 and 2006, respectively. The unamortized balance of deferred sales inducements at June 30, 2007 and December 31, 2006 was \$132.9 million and \$115.0 million, respectively. The balance of insurance liabilities for persistency bonus benefits was \$278.7 million and \$296.3 million at June 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 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 are currently evaluating the effect 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 six months ended June 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 six months of 2007. The liability for accrued interest was not significant at June 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

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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 is 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 are 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 in force 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,

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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 Consecos and alleged problems in Consecos 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. Consecos, 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. The court has not yet ruled on this motion. 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 \$1.5 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 Consecos 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 Consecos 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 Consecos, Inc. as a defendant. The amended complaint alleges, among other things, that the change enabled Consecos, 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

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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. On February 12, 2007 the court granted preliminary approval of the settlement. 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 expect to implement the settlement with the inforce and certain former policyholders in the third quarter of 2007.

As a result of the settlement, we recorded \$157.0 million of costs (before income taxes) related to the proposed settlement in the second quarter of 2006. In the first six months of 2007, we refined our estimates related to certain provisions of the proposed settlement and recognized additional expenses of \$48.0 million (\$35.0 million of which was recognized in the second quarter of 2007). In addition, we had previously recognized costs related to this litigation of \$17.7 million in the three months ended March 31, 2006, and \$18.3 million and \$9.8 million in the years ended December 31, 2005 and 2004, respectively.

The liability we have established related to the proposed settlement at June 30, 2007, includes our best estimate of: (i) the cost of the benefits to be provided to inforce policyholders; (ii) the value of the settlement fund for former policyholders; (iii) plaintiff attorney fees; (iv) the cost to settle other cases pending with respect to the cost of insurance litigation; and (v) other costs and professional fees required to implement the settlement. While we believe the liabilities we have established are adequate to cover these costs, our estimates are subject to significant judgment and it is possible that our estimates will prove to be insufficient to cover our actual costs. In addition, the actual cost we incur is dependent on: (i) the release of no less than 1,000,000 shares of our common stock which were reserved for distribution pursuant to the bankruptcy plan of our Predecessor to satisfy the prepetition claims of the plaintiffs; and (ii) the value of such shares realized by the plaintiffs. On November 7, 2006 the Bankruptcy Court authorized such release by approving applicable claims filed by plaintiffs. In determining our current estimate of the net costs related to the proposed settlement, these shares were valued based on the June 30, 2007 closing price of a share of our common stock. The implementation of the proposed settlement includes enhanced benefits to the inforce insurance policies, which eliminates the future estimated profits from these policies in periods subsequent to the proposed 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. Consec Life Insurance Company, Cause No. 29D01-0403-PL-211 (Superior Court, Hamilton County, Indiana). 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, Consec 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. Consec 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. Consec 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. Consec, Inc., Consec 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 Consec Life Insurance Co. Cost of Insurance Litigation multi-

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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.

The ultimate outcome of these cost of insurance lawsuits 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 November 6, 2003, a Complaint was filed in State Court in Fulton County, Georgia, Reginald Martin Agency, Inc.; Comprehensive Insurance Marketing, Inc.; Design Benefits Inc.; Jim Jasnoski d/b/a Design Benefits, Inc.; Kenny Froug d/b/a Atlanta Brokerage Office; Brokerage One Agency, Inc.; Tri-State Brokerage, Inc.; Don Sepulveda d/b/a Sepulveda Insurance Group; Dean Vandernick d/b/a Professional Insurance Brokerage and Whitewater Brokerage, Inc. v. Conseco Medical Insurance Company, Conseco Marketing LLC, Timothy F. O'Keefe and Edward M. Berube, Cause No. 03VC0587 B4Y. Plaintiffs are former CMIC Field Marketing Organizations that allege in the complaint that they were damaged by CMIC's exit from the individual medical insurance market claiming damages in an unnamed amount for breach of contract, fraud, negligent misrepresentation, breach of partnership agreements and fiduciary duty, breach of implied covenant of good faith and fair dealing, tortious interference with business and contractual relationships, damage to goodwill and business reputation and bad faith. At CMIC's request, the case was removed to federal court and transferred to the United States District Court for the Southern District of Indiana, Indianapolis Division (Cause No. 1:04-CV-1587-TAB/RLY). CMIC filed a motion to dismiss, and all of the causes of action have been dismissed except the fraud count and the count for breach of fiduciary duty. In April 2007, a settlement was reached with seven of the ten plaintiffs. A settlement was reached with the remaining three plaintiffs after the trial had commenced on May 16, 2007 and the case has been 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.

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 July 18, 2007, the plaintiffs filed their motion for class certification. Our response to same is due August 17, 2007. 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

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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 the plaintiffs have responded. The motion was heard on August 3, 2007. The case is set for trial commencing February 12, 2008. 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. Our initial appellate brief was filed on July 16, 2007. 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. The court has not yet ruled on this motion. 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 ultimate outcomes of the actions cannot be predicted with certainty.

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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 Consecos 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. Consecos, Case No. 1:03-CV-1701-LJM-VSS (Southern District, Indiana); Consecos Services v. Murray, Case No. 29D02-0404-CC-381 (Superior Court, Hamilton County, Indiana); Consecos Services v. Massey, Case No. 29D01-0406-CC-477 (Superior Court, Hamilton County, Indiana); Consecos, Inc. v. Massey, Case No. 2005-L-011316 (Circuit Court, Cook County, Illinois) and Consecos and Consecos 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. Trial of the remaining counts is currently set for October 22, 2007. The Murray U.S. District Court case is currently set for trial on April 28, 2008.

The Company and Consecos 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 June 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 Consecos 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 June 30, 2007, we estimated that approximately \$18.7 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 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.

In 2006, certain insurance subsidiaries (Consecos Insurance Company, Consecos Life Insurance Company, Washington National Insurance Company, Consecos Health Insurance Company and Consecos Senior Health Insurance Company) agreed to settle matters resulting from a market conduct examination by the Minnesota Commerce Department. A fine of \$2.5 million was paid in April 2006. The terms of the settlement could result in additional benefits or options being offered to certain policyholders. Minnesota owners of equity-indexed annuities issued by Consecos Insurance Company purchased on or after January 1, 1998, may initiate a Consecos internal review and arbitration process to determine whether they adequately understood the renewal participation rate feature of their policy at the time the policy was originally sold. Policyholders who can prove they did not understand renewal participation rates at the time the policy was originally sold based on

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

representations or omissions made by the Company or its agents may be provided relief in the form of adjusted participation rates. We have sent a notice to the approximately 2,000 affected policyholders and advised them of their options. To date, policyholders have not asserted claims with significant exposure to the Company related to the potential issues addressed in the settlement. However, management considers it probable that additional claims will be asserted and there is a reasonable possibility that the outcome will be unfavorable. Although the outcome of the procedures required by the settlement cannot be predicted with certainty, management currently believes the cost of resolving these matters will not result in a loss which exceeds the amount accrued by more than \$1.0 million.

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.

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 30 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 proposed litigation settlement described in the section of this note entitled "Cost of Insurance Litigation".

CONSECO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Six months ended June 30,	
	2007	2006
Cash flows from operating activities:		
Net income (loss).....	\$ (49.5)	\$ 42.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and depreciation.....	247.3	224.1
Income taxes.....	(28.6)	25.7
Insurance liabilities.....	436.9	158.8
Accrual and amortization of investment income.....	(10.9)	45.2
Deferral of policy acquisition costs.....	(244.4)	(230.6)
Net realized investment losses.....	63.2	6.8
Net sales (purchases) of trading securities.....	(138.0)	23.0
Other.....	51.1	175.9
	\$ 327.1	\$ 471.2
	=====	=====
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.....	\$ 6.0	\$7.8
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 June 30, 2007 and December 31, 2006, restricted cash and cash equivalents consisted of: (i) \$24.8 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.

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

In this section, we review the consolidated financial condition of Consecos at June 30, 2007, and the consolidated results of operations for the three and six months ended June 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 Consecos with the SEC, press releases, presentations by Consecos or its management or oral statements) relative to markets for Consecos's products and trends in Consecos'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;

CONSECO, INC. AND SUBSIDIARIES

- 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, Consecos 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 Health Care ("Coventry").

- o Consecos 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 "Consecos" and "Washington National" (a wholly-owned insurance subsidiary of Consecos) brand names.

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

- o Other Business in Run-off, which includes blocks of business that we no longer market or underwrite and are

CONSECO, INC. AND SUBSIDIARIES

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 as we entered into a national distribution agreement under which our career agents began distributing Coventry's Private-Fee-For-Service plan, Advantra Freedom ("PFFS"), beginning January 1, 2007.

Refer to "Critical Accounting Policies" in Consecos 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

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, Consecos has a quota-share reinsurance agreement with Coventry for Consecos enrollees that provides Consecos 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.

CONSECO, INC. AND SUBSIDIARIES

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

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Insurance policy income.....	\$20.6	\$15.6	\$45.0	\$39.8
Fee revenue and other.....	1.1	1.7	1.5	2.9
	-----	-----	-----	-----
Total revenues.....	21.7	17.3	46.5	42.7
	-----	-----	-----	-----
Insurance policy benefits.....	17.0	12.1	40.5	36.3
Commission expense.....	2.4	1.5	3.8	2.8
Other operating expenses.....	.2	2.1	.3	4.0
	-----	-----	-----	-----
Total expense.....	19.6	15.7	44.6	43.1
	-----	-----	-----	-----
Pre-tax income (loss).....	\$ 2.1	\$ 1.6	\$ 1.9	\$ (.4)
	=====	=====	=====	=====

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 53 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 a 53 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.

CONSECO, INC. AND SUBSIDIARIES

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

	Three months ended June 30, 2007	Six months ended June 30, 2007
	-----	-----
Insurance policy income.....	\$26.4	\$39.6
Fee revenue and other.....	1.6	2.0
	-----	-----
Total revenues.....	28.0	41.6
	-----	-----
Insurance policy benefits.....	21.1	32.8
Commission expense.....	1.1	1.6
Other operating expenses.....	1.9	2.7
	-----	-----
Total expense.....	24.1	37.1
	-----	-----
Pre-tax income.....	\$ 3.9	\$ 4.5
	=====	=====

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 June 30,		Six months ended June 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.....	\$ 65.5	\$ 63.7	\$ 108.3	\$120.9
Conseco Insurance Group.....	26.3	(92.3)	77.8	(50.4)
Colonial Penn.....	6.7	6.5	11.3	11.6
Other Business in Run-off.....	(133.2)	4.4	(164.1)	28.4
Corporate operations.....	(42.4)	(17.0)	(73.2)	(43.0)
	-----	-----	-----	-----
	(77.1)	(34.7)	(39.9)	67.5
	-----	-----	-----	-----
Net realized investment gains (losses), net of related amortization:				
Bankers Life.....	(1.0)	(1.4)	(5.5)	(2.4)
Conseco Insurance Group.....	(13.6)	(1.0)	(29.7)	(4.6)
Colonial Penn.....	.3	1.2	.1	1.7
Other Business in Run-off.....	(.1)	1.0	(.3)	4.0
Corporate operations.....	(1.2)	-	(1.2)	-
	-----	-----	-----	-----
	(15.6)	(.2)	(36.6)	(1.3)
	-----	-----	-----	-----
Income (loss) before income taxes:				
Bankers Life.....	64.5	62.3	102.8	118.5
Conseco Insurance Group.....	12.7	(93.3)	48.1	(55.0)
Colonial Penn.....	7.0	7.7	11.4	13.3
Other Business in Run-off.....	(133.3)	5.4	(164.4)	32.4
Corporate operations.....	(43.6)	(17.0)	(74.4)	(43.0)
	-----	-----	-----	-----
Income (loss) before income taxes.....	\$ (92.7)	\$ (34.9)	\$ (76.5)	\$ 66.2
	=====	=====	=====	=====

(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.

CONSECO, INC. AND SUBSIDIARIES

Bankers Life (dollars in millions):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
	-----	-----	-----	-----
Premium collections:				
Annuities.....	\$ 200.5	\$ 238.3	\$ 412.7	\$ 471.7
Supplemental health.....	356.6	342.6	722.9	665.5
Life.....	52.1	46.6	100.2	89.8
	-----	-----	-----	-----
Total collections.....	\$ 609.2	\$ 627.5	\$1,235.8	\$1,227.0
	=====	=====	=====	=====
Average liabilities for insurance products:				
Annuities:				
Mortality based.....	\$ 283.0	\$ 276.2	\$ 281.9	\$ 275.5
Equity-indexed.....	730.0	464.5	693.7	438.9
Deposit based.....	4,523.3	4,399.5	4,537.3	4,371.9
Health.....	3,546.2	3,275.6	3,509.6	3,242.5
Life:				
Interest sensitive.....	369.6	345.1	366.8	341.8
Non-interest sensitive.....	292.0	240.7	284.2	234.2
	-----	-----	-----	-----
Total average liabilities for insurance products, net of reinsurance ceded.....	\$9,744.1	\$9,001.6	\$9,673.5	\$8,904.8
	=====	=====	=====	=====
Revenues:				
Insurance policy income.....	\$ 424.0	\$ 384.6	\$ 836.0	\$ 767.6
Net investment income:				
General account invested assets.....	142.2	126.9	282.9	248.0
Equity-indexed products based on the change in value of options.....	11.9	(4.5)	8.9	(2.1)
Other special-purpose portfolios.....	1.0	-	4.2	-
Fee revenue and other income.....	2.7	2.0	3.9	3.4
	-----	-----	-----	-----
Total revenues.....	581.8	509.0	1,135.9	1,016.9
	-----	-----	-----	-----
Expenses:				
Insurance policy benefits.....	341.1	306.8	687.0	619.5
Amounts added to policyholder account balances:				
Annuity products and interest-sensitive life products other than equity-indexed products.....	45.1	42.8	89.8	84.6
Equity-indexed products.....	13.5	(.8)	15.9	1.7
Amortization related to operations.....	71.3	56.8	152.7	114.2
Interest expense on investment borrowings.....	-	.1	-	.1
Other operating costs and expenses.....	45.3	39.6	82.2	75.9
	-----	-----	-----	-----
Total expenses.....	516.4	445.3	1,027.6	896.0
	-----	-----	-----	-----
Income before net realized investment losses, net of related amortization and income taxes.....	65.5	63.7	108.3	120.9
	-----	-----	-----	-----
Net realized investment losses.....	(1.9)	(1.9)	(7.1)	(3.4)
Amortization related to net realized investment losses...	.9	.5	1.6	1.0
	-----	-----	-----	-----
Net realized investment losses, net of related amortization	(1.0)	(1.4)	(5.5)	(2.4)
	-----	-----	-----	-----
Income before income taxes.....	\$ 64.5	\$ 62.3	\$ 102.8	\$ 118.5
	=====	=====	=====	=====

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CONSECO, INC. AND SUBSIDIARIES

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	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Health benefit ratios:				
All health lines:				
Insurance policy benefits.....	\$297.1	\$265.6	\$597.6	\$540.9
Benefit ratio (a).....	81.7%	81.1%	83.3%	81.7%
Medicare supplement:				
Insurance policy benefits.....	\$108.8	\$111.2	\$214.1	\$224.3
Benefit ratio (a).....	67.4%	67.8%	66.0%	67.8%
PDP and PFFS:				
Insurance policy benefits.....	\$38.1	\$12.1	\$73.3	\$36.3
Benefit ratio (a).....	80.9%	77.6%	86.5%	91.3%
Long-term care:				
Insurance policy benefits.....	\$150.2	\$142.3	\$310.2	\$280.3
Benefit ratio (a).....	96.8%	96.2%	100.6%	96.3%
Interest-adjusted benefit ratio (b).....	66.0%	66.8%	69.9%	66.8%

- (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 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 in force 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 \$47.9 million and \$43.4 million in the three months ended June 30, 2007 and 2006, respectively, and \$94.7 million and \$85.8 million in the six months ended June 30, 2007 and 2006, respectively.

CONSECO, INC. AND SUBSIDIARIES

Total premium collections were \$609.2 million in the second quarter of 2007, down 2.9 percent from 2006 and were \$1,235.8 million in the first six months of 2007, up .7 percent from 2006. Premium collections include \$44.9 million and \$32.1 million in the second quarters of 2007 and 2006, respectively, and \$83.5 million and \$38.1 million in the first six 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 \$9.7 billion in the second quarter of 2007, up 8.2 percent from 2006. Average liabilities for insurance products, net of reinsurance ceded were \$9.7 billion in the first six months of 2007, up 8.6 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 \$47.0 million and \$15.6 million in the second quarters of 2007 and 2006, respectively, and \$84.6 million and \$39.8 million in the first six 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 \$142.2 million in the second quarter of 2007, up 12 percent from 2006 and was \$282.9 million in the first six months of 2007, up 14 percent from 2006. The average balance of general account invested assets was \$9.9 billion and \$9.1 billion in the second quarters of 2007 and 2006, respectively. The average yield on these assets was 5.74 percent and 5.59 percent in the second quarters of 2007 and 2006, respectively. The average balance of general account invested assets was \$9.8 billion and \$9.0 billion in the first six months of 2007 and 2006, respectively. The average yield on these assets was 5.76 percent and 5.54 percent in the first six 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 fixed maturity investments in recent periods.

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 \$11.9 million and \$(4.5) million in the second quarters of 2007 and 2006, respectively; and \$8.9 million and \$(2.1) million in the first six 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 \$1.0 million and \$1.5 million in the three and six months ended June 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

CONSECO, INC. AND SUBSIDIARIES

significant estimates, the ultimate claim liability we incur for a particular period is likely to be different than our initial estimate. Our insurance policy benefits reflected reserve redundancies from prior years of \$3.4 million and \$6.4 million in the first six months of 2007 and 2006, respectively. Excluding the effects of prior period claim reserve redundancies, our benefit ratios would have been 67.0 percent and 69.7 percent in the first six 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.

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 96.8 percent and 96.2 percent in the second quarters of 2007 and 2006, respectively, and 100.6 percent and 96.3 percent in the first six months of 2007 and 2006, respectively. The interest-adjusted benefit ratio on this business was 66.0 percent and 66.8 percent in the second quarters of 2007 and 2006, respectively, and 69.9 percent and 66.8 percent in the first six months of 2007 and 2006, respectively.

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 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. This rate increase process is proceeding according to plan and, to date, we have received approval for approximately 89 percent of the total dollar amount of our requested rate increases. The rate increases had become effective for approximately 96 percent of the impacted inforce block as of June 30, 2007. We expect the execution of our premium rate increases will continue for the next quarter given the timing of the implementation as a result of the regulatory approvals.

Amounts added to policyholder account balances for annuity products and interest-sensitive life products were \$45.1 million in the second quarter of 2007, up 5.4 percent from 2006 and were \$89.8 million in the first six months of 2007, up 6.1 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 3.7 percent and 3.6 percent in the second quarters of 2007 and 2006, respectively, and 3.7 percent and 3.6 percent in the first six 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 \$71.3 million and \$56.8 million in the second quarters of 2007 and 2006, respectively, and \$152.7 million and \$114.2 million in the first six months of 2007 and 2006, respectively. During the first six months 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

CONSECO, INC. AND SUBSIDIARIES

recognized additional amortization expense of \$25.4 million in the first six months of 2007 (\$6.5 million of which was recognized in the second quarter of 2007) and \$7.9 million in the first six months of 2006 (\$4.5 million of which was recognized in the second quarter of 2006). The lapses of our Medicare supplement products in the first six months of 2007 were higher than our historical lapse experience. We believe such increases were partially related to competition from Medicare Advantage 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 \$45.3 million in the second quarter of 2007, up 14 percent from 2006 and were \$82.2 million in the first six months of 2007, up 8.3 percent from 2006. Other operating costs and expenses include the following (dollars in millions):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Expenses related to the marketing and quota-share agreements with Coventry.....	\$ 5.6	\$ 3.6	\$ 8.4	\$ 6.8
Commission expense.....	5.8	5.7	11.0	10.4
Other operating expenses.....	33.9	30.3	62.8	58.7
	-----	-----	-----	-----
Total.....	\$45.3	\$39.6	\$82.2	\$75.9
	=====	=====	=====	=====

Net realized investment losses fluctuate each period. During the first six months of 2007 we recognized net realized investment losses in this segment of \$7.1 million from the sales of investments (primarily fixed maturities). During the first six months of 2006, net realized investment losses in this segment included \$3.3 million of net losses from the sales of investments (primarily fixed maturities), and \$.1 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 six months of 2007.

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 a decrease in the amortization of insurance acquisition costs of \$.9 million and \$.5 million in the second quarters of 2007 and 2006, respectively, and \$1.6 million and \$1.0 million in the first six months of 2007 and 2006, respectively.

CONSECO, INC. AND SUBSIDIARIES

Conseco Insurance Group (dollars in millions):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Premium collections:				
Annuities.....	\$ 113.0	\$ 92.4	\$ 233.1	\$ 128.6
Supplemental health.....	147.4	153.3	301.6	312.9
Life.....	70.0	78.3	147.2	162.4
	-----	-----	-----	-----
Total collections.....	\$ 330.4	\$ 324.0	\$ 681.9	\$ 603.9
	=====	=====	=====	=====
Average liabilities for insurance products:				
Annuities:				
Mortality based.....	\$ 230.9	\$ 242.2	\$ 232.5	\$ 243.6
Equity-indexed.....	1,633.4	1,320.6	1,597.2	1,315.3
Deposit based.....	2,845.8	3,185.4	2,893.4	3,238.7
Separate accounts.....	28.7	29.4	28.7	29.7
Health.....	2,393.2	2,380.4	2,395.1	2,380.7
Life:				
Interest sensitive.....	3,042.4	3,059.9	3,047.0	3,065.9
Non-interest sensitive.....	1,346.1	1,427.0	1,352.1	1,439.5
	-----	-----	-----	-----
Total average liabilities for insurance products, net of reinsurance ceded.....	\$11,520.5	\$11,644.9	\$11,546.0	\$11,713.4
	=====	=====	=====	=====
Revenues:				
Insurance policy income.....	\$ 236.3	\$ 247.4	\$ 478.3	\$ 503.8
Net investment income:				
General account invested assets.....	182.3	175.9	361.9	350.7
Equity-indexed products.....	16.9	(14.4)	13.1	(9.0)
Trading account income related to policyholder and reinsurer accounts.....	(.5)	(1.7)	.3	(2.2)
Change in value of embedded derivatives related to modified coinsurance agreements.....	2.5	1.5	2.2	3.8
Other special-purpose portfolios.....	1.3	-	.4	-
Fee revenue and other income.....	.1	(.1)	.3	.3
	-----	-----	-----	-----
Total revenues.....	438.9	408.6	856.5	847.4
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Expenses:				
Insurance policy benefits.....	188.4	180.2	373.8	376.1
Amounts added to policyholder account balances:				
Annuity products and interest-sensitive life products other than equity-indexed products.....	58.4	60.2	116.9	121.4
Equity-indexed products.....	28.6	(1.9)	37.1	3.4
Amortization related to operations.....	47.0	36.7	85.2	92.2
Interest expense on investment borrowings.....	4.2	.3	5.3	.5
Costs related to the proposed litigation settlement.....	17.5	157.0	24.0	165.8
Other operating costs and expenses.....	68.5	68.4	136.4	138.4
	-----	-----	-----	-----
Total expenses.....	412.6	500.9	778.7	897.8
	-----	-----	-----	-----
Income (loss) before net realized investment losses, net of related amortization, and income taxes.....	26.3	(92.3)	77.8	(50.4)
	-----	-----	-----	-----
Net realized investment losses.....	(25.4)	(4.0)	(54.7)	(9.1)
Amortization related to net realized investment losses.....	11.8	3.0	25.0	4.5
	-----	-----	-----	-----
Net realized investment losses, net of related amortization.....	(13.6)	(1.0)	(29.7)	(4.6)
	-----	-----	-----	-----
Income (loss) before income taxes.....	\$ 12.7	\$ (93.3)	\$ 48.1	\$ (55.0)
	=====	=====	=====	=====

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CONSECO, INC. AND SUBSIDIARIES

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	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Health benefit ratios:				
All health lines:				
Insurance policy benefits.....	\$107.8	\$109.1	\$198.5	\$222.8
Benefit ratio (a).....	71.6%	69.8%	65.4%	70.3%
Medicare supplement:				
Insurance policy benefits.....	\$40.1	\$36.5	\$80.5	\$77.8
Benefit ratio (a).....	68.9%	56.9%	67.9%	58.7%
Specified disease:				
Insurance policy benefits.....	\$65.1	\$71.2	\$113.0	\$140.6
Benefit ratio (a).....	72.5%	79.9%	62.8%	78.7%
Interest-adjusted benefit ratio (b).....	39.7%	48.2%	30.0%	47.1%
Other:				
Insurance policy benefits.....	\$2.6	\$1.4	\$5.0	\$4.4
Benefit ratio (a).....	107.3%	47.0%	104.3%	74.5%

- (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 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 in force 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 \$29.5 million and \$28.2 million in the three months ended June 30, 2007 and 2006, respectively, and \$59.0 million and \$56.5 million in the six months ended June 30, 2007 and 2006, respectively.

Total premium collections were \$330.4 million in the second quarter of 2007, up 2.0 percent from the second quarter of 2006 and were \$681.9 million in the first six months of 2007, up 13 percent from 2006. The increase was primarily due to

CONSECO, INC. AND SUBSIDIARIES

the introduction of several new equity-indexed annuity products in recent periods distributed through our new national partners. See "Premium Collections" for further analysis.

Average liabilities for insurance products, net of reinsurance ceded were \$11.5 billion in the second quarter of 2007, down 1.1 percent from 2006. Average liabilities for insurance products, net of reinsurance ceded were \$11.5 billion in the first six months of 2007, down 1.4 percent from 2006. The decrease in such liabilities was due primarily to policyholder redemptions and lapses exceeding new sales.

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

Net investment income on general account invested assets (which excludes income on policyholder and reinsurer accounts) was \$182.3 million in the second quarter of 2007, up 3.6 percent from 2006 and was \$361.9 million in the first six months of 2007, up 3.2 percent from 2006. The average balance of general account invested assets was \$12.4 billion and \$12.2 billion in the second quarters of 2007 and 2006, respectively. The average yield on these assets was 5.89 percent and 5.79 percent in the second quarters of 2007 and 2006, respectively. The average balance of general account invested assets was \$12.3 billion and \$12.2 billion in the first six months of 2007 and 2006, respectively. The average yield on these assets was 5.86 percent and 5.74 percent in the first six months of 2007 and 2006, respectively. The yield was 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 six months of 2007 and 2006 of \$3.5 million (\$.6 million in the second quarter of 2007) and \$5.4 million (\$3.9 million in the second 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 \$20.3 million and \$(11.8) million in the second quarters of 2007 and 2006, respectively; and \$16.0 million and \$(2.6) million in the first six 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 \$(3.4) million and \$(2.6) million in the second quarters of 2007 and 2006, respectively, and were \$(2.9) million and \$(6.4) million in the first six 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. In the first six months of 2007, the change in the value of the trading securities was

CONSECO, INC. AND SUBSIDIARIES

\$(3.2) million (\$(3.7) million of which was recognized in the second quarter of 2007) and the change in the value of the interest rate swaps was \$3.6 million (\$5.0 million of which was recognized in the second quarter of 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. Benefit ratios are calculated by dividing the related insurance product's insurance policy benefits by insurance policy income. Insurance policy benefits in the first quarter of 2006 were reduced for the following items. We reduced insurance policy benefits by \$3.0 million for a change in an actuarial assumption related to a block of interest-sensitive life insurance policies based on a change in management's intent on the administration of such policies. Such decreases were more than offset by a \$4.7 million increase in amortization of insurance acquisition costs related to the assumption changes. Also during the first quarter of 2006, we reduced insurance policy benefits by \$4.7 million for deceased policyholders to reflect the release of insurance liabilities for annuity policies which pay benefits only during the policyholders' lifetime. We have improved our procedures to confirm the reporting of the death of these policyholders to us in a more timely manner, resulting in this additional release that would have otherwise been recognized in future periods.

Insurance margins (insurance policy income less insurance policy benefits) related to life products declined approximately \$17 million in the first six months of 2007 (\$5 million of which was recognized in the second quarter of 2007), as compared to the same periods in 2006, primarily due to increased death claims.

The benefit ratio in the first six months 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 half of 2007 and 2006 reflected claim reserve redundancies from prior years of \$.4 million and \$5.6 million, respectively. Excluding the effects of prior year claim reserve redundancies, our benefit ratios in the first six months of 2007 and 2006 for the Medicare supplement block would have been 68.2 percent and 62.9 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 \$16.7 million in the first six months of 2007 (including a decrease of \$9.5 million in the second quarter of 2007), as compared to the same periods in 2006, due to a higher benefit ratio and a smaller inforce block of business.

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 first six 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 this release of reserves was 73.5 percent in the first six months of 2007. The benefit ratio for the first half of 2006 was unfavorably affected by higher persistency of older policies which have higher benefit ratios than newer policies. The interest-adjusted benefit ratio for specified disease products is calculated by dividing the

CONSECO, INC. AND SUBSIDIARIES

insurance product's insurance policy benefits less interest income on the accumulated assets backing the insurance liabilities by insurance policy income. Insurance margins (insurance policy income less insurance policy benefits) on these products, excluding the aforementioned release of reserves in the first quarter of 2007, increased by \$9.6 million in the first six months of 2007 (including an increase of \$6.9 million in the second quarter of 2007), as compared to the same periods in 2006, due to a lower benefit ratio.

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 \$58.4 million in the second quarter of 2007, down 3.0 percent from 2006 and were \$116.9 million in the first six months of 2007, down 3.7 percent from 2006. The decrease was primarily due to a smaller block of annuity business in force, partially offset by higher crediting rates. The weighted average crediting rate for these products was 4.0 percent and 3.9 percent in the first six months of 2007 and 2006, respectively.

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. Higher lapses on our Medicare supplement products have reduced our estimates of future expected premium income and, accordingly, we recognized additional amortization expense of \$.8 million and \$8.4 million in the first six 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 second quarter of 2007, we were required to accelerate the amortization of insurance acquisition costs related to our universal life products by \$7.7 million 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.

CONSECO, INC. AND SUBSIDIARIES

Interest expense on investment borrowings includes \$3.9 million and \$4.8 million of interest expense on the Advances in the three and six months ended June 30, 2007, respectively, as further described in the note to the consolidated financial statements entitled "Investment Borrowings and Interest Rate Swaps".

Costs related to the proposed litigation settlement include legal fees and estimated amounts related to the proposed settlement in the class action case referred to as In Re Consec Life Insurance Company Cost of Insurance Litigation. The settlement is subject to certain conditions. 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.

Other operating costs and expenses in the 2007 periods were comparable to the 2006 periods. Other operating costs and expenses include commission expense of \$20.3 million and \$21.4 million in the second quarters of 2007 and 2006, respectively, and \$40.6 million and \$44.1 million in the first six months of 2007 and 2006, respectively.

Net realized investment losses fluctuate each period. During the first six months of 2007, net realized investment losses in this segment included: (i) \$1.7 million of writedowns of investments resulting from declines in fair values that we concluded were other than temporary; and (ii) \$53.0 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 "Pending Coinsurance Transaction". During the first six months of 2006, net realized investment losses included \$5.8 million of net losses from the sales of investments (primarily fixed maturities), and \$3.3 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 \$11.8 million and \$3.0 million in the second quarters of 2007 and 2006, respectively, and \$25.0 million and \$4.5 million in the six months ended June 30, 2007 and 2006, respectively.

CONSECO, INC. AND SUBSIDIARIES

Colonial Penn (dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Premium collections:				
Life.....	\$ 26.0	\$ 21.6	\$ 52.7	\$ 45.0
Supplemental health.....	2.7	3.1	5.3	6.1
Total collections.....	\$ 28.7	\$ 24.7	\$ 58.0	\$ 51.1
Average liabilities for insurance products:				
Annuities:				
Mortality based.....	\$ 85.5	\$ 87.1	\$ 85.7	\$ 87.4
Deposit based.....	4.1	4.0	3.9	4.0
Health.....	23.0	25.9	23.2	26.5
Life:				
Interest sensitive.....	26.3	27.8	26.5	28.0
Non-interest sensitive.....	558.4	552.7	558.6	553.7
Total average liabilities for insurance products, net of reinsurance ceded.....	\$697.3	\$697.5	\$697.9	\$699.6
Revenues:				
Insurance policy income.....	\$ 29.4	\$ 25.6	\$ 58.7	\$ 52.0
Net investment income:				
General account invested assets.....	9.4	9.1	18.9	18.8
Trading account income related to reinsurer accounts.....	(6.4)	(6.2)	(5.5)	(14.0)
Change in value of embedded derivatives related to modified coinsurance agreements.....	6.4	6.2	5.5	14.0
Fee revenue and other income.....	.1	.2	.3	.3
Total revenues.....	38.9	34.9	77.9	71.1
Expenses:				
Insurance policy benefits.....	23.9	20.7	49.5	43.5
Amounts added to annuity and interest-sensitive life product account balances.....	.3	.3	.6	.6
Amortization related to operations.....	4.9	4.1	9.7	8.3
Other operating costs and expenses.....	3.1	3.3	6.8	7.1
Total expenses.....	32.2	28.4	66.6	59.5
Income before net realized investment gains and income taxes.....	6.7	6.5	11.3	11.6
Net realized investment gains.....	.3	1.2	.1	1.7
Income before income taxes.....	\$ 7.0	\$ 7.7	\$ 11.4	\$ 13.3

Total premium collections were \$28.7 million in the second quarter of 2007, up 16 percent from 2006 and were \$58.0 million in the first six months of 2007, up 14 percent from 2006. See "Premium Collections" for further analysis of Colonial Penn's premium collections.

CONSECO, INC. AND SUBSIDIARIES

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 second quarter of 2007, up 3.3 percent from 2006 and was \$18.9 million in the first six months of 2007, up .5 percent from 2006. The average balance of general account invested assets was \$.7 billion in both the second quarters of 2007 and 2006, respectively. The average yield on these assets was 5.71 percent and 5.32 percent in the second quarters of 2007 and 2006, respectively. The average balance of general account invested assets was \$.7 billion in both the first six months of 2007 and 2006, respectively. The average yield on these assets was 5.65 percent and 5.45 percent in the first six 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 in force 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 fluctuate each period. We recognized net realized investment gains in this segment of \$.3 million and \$1.2 million from the sales of investments (primarily fixed maturities) in the second quarters of 2007 and 2006, respectively, and \$.1 million and \$1.7 million in the first six months of 2007 and 2006, respectively.

CONSECO, INC. AND SUBSIDIARIES

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

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Premium collections:				
Long-term care.....	\$ 75.6	\$ 80.2	\$ 156.2	\$ 167.5
Major medical.....	.6	2.2	1.2	3.3
Total collections.....	\$ 76.2	\$ 82.4	\$ 157.4	\$ 170.8
Average liabilities for insurance products:				
Long-term care.....	\$3,348.2	\$3,222.1	\$3,314.1	\$3,232.7
Major medical.....	24.3	29.3	25.1	29.5
Total average liabilities for insurance products, net of reinsurance ceded.....	\$3,372.5	\$3,251.4	\$3,339.2	\$3,262.2
Revenues:				
Insurance policy income.....	\$ 78.1	\$ 82.1	\$ 157.6	\$ 171.0
Net investment income on general account invested assets.....	47.6	44.6	94.6	89.3
Fee revenue and other income.....	.1	.1	.2	.2
Total revenues.....	125.8	126.8	252.4	260.5
Expenses:				
Insurance policy benefits.....	231.6	96.9	361.6	181.2
Amortization related to operations.....	5.8	3.5	11.5	7.0
Other operating costs and expenses.....	21.6	22.0	43.4	43.9
Total expenses.....	259.0	122.4	416.5	232.1
Income (loss) before net realized investment gains (losses) and income taxes.....	(133.2)	4.4	(164.1)	28.4
Net realized investment gains (losses).....	(.1)	1.0	(.3)	4.0
Income (loss) before income taxes.....	\$ (133.3)	\$ 5.4	\$ (164.4)	\$ 32.4
Health benefit ratios:				
Insurance policy benefits.....	\$231.6	\$96.9	\$361.6	\$181.2
Benefit ratio (a).....	296.7%	118.0%	229.5%	105.9%
Interest-adjusted benefit ratio (b).....	236.7%	64.4%	170.4%	54.4%

- (a) We calculate benefit ratios by dividing the related product's insurance policy benefits by insurance policy income.
- (b) We calculate the interest-adjusted benefit ratio (a non-GAAP measure) for 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 in force 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 \$46.9 million and \$44.0 million in the three months ended June 30, 2007 and 2006, respectively, and \$93.1 million and \$88.2 million in the six months ended June 30, 2007 and 2006, respectively.

Total premium collections were \$76.2 million in the second quarter of 2007, down 7.5 percent from 2006 and were \$157.4 million in the first six months of 2007, down 7.8 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 \$47.6 million in the second quarter of 2007, up 6.7 percent from 2006 and was \$94.6 million in the first six months of 2007, up 5.9 percent from 2006. The average balance of general account invested assets was \$3.2 billion and \$3.0 billion in the second quarters of 2007 and 2006, respectively. The average yield on these assets was 5.86 percent in both the second quarters of 2007 and 2006, respectively. The average balance of general account invested assets was \$3.2 billion and \$3.1 billion in the first six months of 2007 and 2006, respectively. The average yield on these assets was 5.92 percent and 5.85 percent in the first six 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.

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

Insurance policy benefits in the second quarter of 2007 increased 139 percent to \$231.6 million compared to \$96.9 million in the same period of 2006. Insurance policy benefits in the six months ended June 30, 2007 increased 100 percent to \$361.6 million compared to \$181.2 million in the same period of 2006. The benefit ratio on our Other Business in Run-off segment was 296.7 percent and 118.0 percent in the second quarters of 2007 and 2006, respectively, and 229.5 percent and 105.9 percent in the first six 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 \$132 million and \$40 million in the first six months of 2007 and 2006, respectively. Excluding the effects of prior year claim reserve deficiencies, our benefit ratios would have been 145.7 percent and 82.6 percent in the first six months of 2007 and 2006, respectively.

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

CONSECO, INC. AND SUBSIDIARIES

business was 236.7 percent and 64.4 percent in the second quarters of 2007 and 2006, respectively, and 170.4 percent and 54.4 percent in the first six 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 Consecos 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 each quarterly period, we calculate our best estimate of claim reserves based on all of the information available to us at that time, which necessarily takes into account new experience emerging during the period. Our actuaries estimate these claim reserves using various generally recognized actuarial methodologies which are based on informed estimates and judgments that are believed to be appropriate. Additionally, an external actuarial firm provides consulting services which involve a review of the Company's judgments and estimates for claim reserves on the long-term care block in the Other Business in Run-off segment on a quarterly basis. As additional experience emerges and other data become available, these estimates and judgments are reviewed and may be revised. Significant assumptions made in estimating claim reserves for long-term care policies include expectations about the: (i) future duration of existing claims; (ii) cost of care and benefit utilization; (iii) interest rate utilized to discount claim reserves; (iv) claims that have been incurred but not yet reported; (v) claim status on the reporting date; (vi) claims that have been closed but are expected to reopen; and (vii) correspondence that has been received that will ultimately become claims that have payments associated with them.

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

CONSECO, INC. AND SUBSIDIARIES

improved our methodologies to address this and other shortcomings of the aggregate loss development methodology, which resulted in the pre-tax adjustment.

During the second quarter of 2006, we recognized a non-recurring benefit of \$9.4 million related to the release of certain other redundant reserve liabilities. During the first quarter of 2006, we upgraded the prior version of the valuation system used to determine reserves for the long-term care block of business in run-off. The new version includes enhancements to more precisely estimate insurance liabilities for policies with return of premium benefits. The effect of this refinement and certain other reserve adjustments resulted in decreases to our insurance liabilities of approximately \$14 million in the first quarter of 2006.

We have been aggressively seeking rate increases and pursuing other actions on such long-term care policies. We have filed, or plan to file, 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 80 percent of our \$35 million estimate. The effects of the approved rate increases are 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 12 months, and the full effect of the first year of rate increases will take approximately two years to be fully realized. To date, we have submitted filings for approval of approximately 6 percent of the second round of rate increases. 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 in force. We believe that the series of smaller rate increases we are seeking could mitigate these effects.

Amortization related to operations includes amortization of insurance acquisition costs.

Other operating costs and expenses were \$21.6 million in the second quarter of 2007, down 1.8 percent from 2006 and were \$43.4 million in the first six months of 2007, down 1.1 percent from 2006. Other operating costs and expenses include commission expense of \$8.0 million and \$9.0 million in the second quarters of 2007 and 2006, respectively, and \$16.3 million and \$18.8 million in the first six months of 2007 and 2006, respectively.

Net realized investment gains (losses) fluctuate each period. During the first six months of 2007 we recognized net realized investment losses of \$.3 million from the sales of investments (primarily fixed maturities). During the first six months of 2006, net realized investment gains included \$4.1 million of net gains from the sales of investments (primarily fixed maturities), net of \$.1 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 six months of 2007.

CONSECO, INC. AND SUBSIDIARIES

Corporate Operations (dollars in millions):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Corporate operations:				
Interest expense on corporate debt.....	\$(16.9)	\$(12.0)	\$(33.0)	\$(24.4)
Net investment income8	.8	1.9	1.8
Fee revenue and other income.....	2.0	2.2	4.1	4.9
Net operating results of variable interest entity.....	2.3	.3	4.7	1.0
Costs related to the proposed litigation settlement.....	(17.5)	-	(24.0)	(8.9)
Other operating costs and expenses.....	(13.1)	(8.3)	(26.9)	(17.4)
	-----	-----	-----	-----
Loss before net realized investment losses and income taxes.....	(42.4)	(17.0)	(73.2)	(43.0)
Net realized investment losses.....	(1.2)	-	(1.2)	-
	-----	-----	-----	-----
Loss before income taxes.....	\$(43.6)	\$(17.0)	\$(74.4)	\$(43.0)
	=====	=====	=====	=====

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 \$1,023.4 million and \$831.0 million during the first six months of 2007 and 2006, respectively. The average interest rate on our debt was 6.1 percent and 5.4 percent during the first six 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. 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 the proposed 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. The Company announced on August 1, 2006, that it had reached a proposed settlement of this case. Refer to the captions entitled: (i) "Costs related to the proposed 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 six months of 2007 include a writedown of \$1.2 million due to an other-than-temporary decline in value of an investment.

CONSECO, INC. AND SUBSIDIARIES

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 Consecoco 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 Consecoco 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 Consecoco Senior Health Insurance Company, "Consecoco Senior") from A.M. Best, S&P and Moody's are "B+ (Good)", "BB+" and "Baa3", respectively. The current financial strength ratings of Consecoco 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.

CONSECO, INC. AND SUBSIDIARIES

Total premium collections by segment were as follows:

Bankers Life (dollars in millions):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Premiums collected by product:				
Annuities:				
Equity-indexed (first-year).....	\$ 91.5	\$ 65.7	\$ 176.9	\$ 128.6
Other fixed (first-year).....	108.1	171.6	234.1	341.2
Other fixed (renewal).....	.9	1.0	1.7	1.9
Subtotal - other fixed annuities.....	109.0	172.6	235.8	343.1
Total annuities.....	200.5	238.3	412.7	471.7
Supplemental health:				
Medicare supplement (first-year).....	43.8	24.5	77.5	49.3
Medicare supplement (renewal).....	133.8	132.2	278.6	275.9
Subtotal - Medicare supplement.....	177.6	156.7	356.1	325.2
Long-term care (first-year).....	12.2	13.1	23.8	27.3
Long-term care (renewal).....	143.2	138.4	289.8	269.9
Subtotal - long-term care.....	155.4	151.5	313.6	297.2
Other health (first-year).....	2.3	32.2	7.0	38.5
Other health (renewal).....	21.3	2.2	46.2	4.6
Subtotal - other health.....	23.6	34.4	53.2	43.1
Total supplemental health.....	356.6	342.6	722.9	665.5
Life insurance:				
First-year.....	25.3	23.3	46.7	44.0
Renewal.....	26.8	23.3	53.5	45.8
Total life insurance.....	52.1	46.6	100.2	89.8
Collections on insurance products:				
Total first-year premium collections on insurance products.....	283.2	330.4	566.0	628.9
Total renewal premium collections on insurance products.....	326.0	297.1	669.8	598.1
Total collections on insurance products.....	\$609.2	\$627.5	\$1,235.8	\$1,227.0

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 16 percent, to \$200.5 million, in the second quarter of 2007, and 13 percent, to \$412.7 million, in the first six 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.

CONSECO, INC. AND SUBSIDIARIES

Supplemental health products include Medicare supplement, 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 in force, investment yields, claims experience and expense management.

Collected premiums on Medicare supplement policies in the Bankers Life segment increased 13 percent, to \$177.6 million, in the second quarter of 2007, and 9.5 percent, to \$356.1 million, in the first six months of 2007, as compared to the same periods in 2006. First year premiums collected in the three and six months ended June 30, 2007 include \$23.8 million and \$35.3 million, respectively, related to the PFFS quota-share reinsurance agreement with Coventry.

Premiums collected on Bankers Life's long-term care policies increased 2.6 percent, to \$155.4 million, in the second quarter of 2007, and 5.5 percent, to \$313.6 million, in the first six 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.

Other health products in the second quarter of 2007 include \$2.1 million and \$19.0 million of first-year premiums and renewal premiums collected, respectively, pursuant to the PDP quota-share reinsurance agreement with Coventry. Other health products in the first six months of 2007 include \$6.6 million and \$41.6 million of first-year premiums and renewal premiums collected, respectively, pursuant to the PDP quota-share reinsurance agreement with Coventry. Other health products in the three and six months ended June 30, 2006 include \$32.1 million and \$38.1 million, respectively, of first-year premiums collected pursuant to the PDP quota-share reinsurance agreement with Coventry. These agreements are described in Critical Accounting Policies under the caption "Accounting for marketing and quota-share agreements with Coventry". The remaining collected premiums 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 12 percent, to \$52.1 million, in the second quarter of 2007, and 12 percent, to \$100.2 million, in the first six months of 2007, compared to the same periods in 2006, due to an increased focus on life products.

CONSECO, INC. AND SUBSIDIARIES

Conseco Insurance Group (dollars in millions):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
	-----	-----	-----	-----
Premiums collected by product:				
Annuities:				
Equity-indexed (first-year).....	\$104.1	\$ 77.2	\$211.0	\$ 97.9
Equity-indexed (renewal).....	2.6	2.9	4.7	5.3
Subtotal - equity-indexed annuities.....	106.7	80.1	215.7	103.2
Other fixed (first-year).....	4.2	9.8	13.6	20.7
Other fixed (renewal).....	2.1	2.5	3.8	4.7
Subtotal - other fixed annuities.....	6.3	12.3	17.4	25.4
Total annuities.....	113.0	92.4	233.1	128.6
Supplemental health:				
Medicare supplement (first-year).....	5.2	7.9	11.8	16.2
Medicare supplement (renewal).....	50.9	54.0	104.1	111.6
Subtotal - Medicare supplement.....	56.1	61.9	115.9	127.8
Specified disease (first-year).....	7.7	7.0	15.0	14.2
Specified disease (renewal).....	81.4	81.8	166.2	166.0
Subtotal - specified disease.....	89.1	88.8	181.2	180.2
Other health (renewal).....	2.2	2.6	4.5	4.9
Total supplemental health.....	147.4	153.3	301.6	312.9
Life insurance:				
First-year.....	1.1	1.7	2.3	3.4
Renewal.....	68.9	76.6	144.9	159.0
Total life insurance.....	70.0	78.3	147.2	162.4
Collections on insurance products:				
Total first-year premium collections on insurance products.....	122.3	103.6	253.7	152.4
Total renewal premium collections on insurance products.....	208.1	220.4	428.2	451.5
Total collections on insurance products.....	\$330.4	\$324.0	\$681.9	\$603.9
	=====	=====	=====	=====

Annuities in this segment include equity-indexed and other fixed annuities sold through professional independent producers. Total annuity premiums collected in this segment increased 22 percent, to \$113.0 million, in the second quarter of 2007, and 81 percent, to \$233.1 million, in the first six months of 2007, compared to the same periods in 2006, due to an increase in sales of equity-indexed annuities.

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 this product increased 33 percent, to \$106.7 million, in the second quarter of 2007, and 109 percent, to \$215.7 million, in the first six months of 2007, compared to the same periods in 2006 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.

CONSECO, INC. AND SUBSIDIARIES

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 49 percent, to \$6.3 million, in the second quarter of 2007, and 31 percent, to \$17.4 million, in the first six months of 2007, compared to the same periods in 2006, primarily due to a decrease in new sales.

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

Collected premiums on Medicare supplement policies in the Conseco Insurance Group segment decreased 9.4 percent, to \$56.1 million, in the second quarter of 2007, and 9.3 percent, to \$115.9 million, in the first six months of 2007, as compared to the same periods in 2006. We have experienced 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 11 percent, to \$70.0 million, in the second quarter of 2007, and 9.4 percent, to \$147.2 million, in the first six months of 2007, compared to the same periods in 2006.

Colonial Penn (dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Premiums collected by product:				
Life insurance:				
First-year.....	\$ 7.0	\$ 5.7	\$13.7	\$11.2
Renewal.....	19.0	15.9	39.0	33.8
	-----	-----	-----	-----
Total life insurance.....	26.0	21.6	52.7	45.0
	-----	-----	-----	-----
Supplemental health:				
Medicare supplement (renewal).....	2.5	2.8	4.8	5.5
Other health (renewal).....	.2	.3	.5	.6
	-----	-----	-----	-----
Total supplemental health.....	2.7	3.1	5.3	6.1
	-----	-----	-----	-----
Collections on insurance products:				
Total first-year premium collections on insurance products.....	7.0	5.7	13.7	11.2
Total renewal premium collections on insurance products.....	21.7	19.0	44.3	39.9
	-----	-----	-----	-----
Total collections on insurance products.....	\$28.7	\$24.7	\$58.0	\$51.1
	=====	=====	=====	=====

Life products in this segment are sold primarily to the senior market. Life premiums collected in this segment increased 20 percent, to \$26.0 million, in the second quarter of 2007, and 17 percent, to \$52.7 million, in the first six 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 \$24.8 million and \$20.3 million of our total collected premiums in the second quarters of 2007 and 2006, respectively, and \$50.2 million and \$42.4 million, in the first six months of 2007 and 2006, respectively.

CONSECO, INC. AND SUBSIDIARIES

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 in force, 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 June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Premiums collected by product:				
Long-term care (renewal).....	\$75.6	\$80.2	\$156.2	\$167.5
Major medical (renewal).....	.6	2.2	1.2	3.3
Total renewal premium collections on insurance products...	\$76.2	\$82.4	\$157.4	\$170.8

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 5.7 percent, to \$75.6 million, in the second quarter of 2007, and 6.7 percent, to \$156.2 million, in the first six 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 Consec 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 June 30, 2007 and December 31, 2006, primarily reflect: (i) our net loss for the six months ended June 30, 2007; and (ii) changes in the fair value of actively managed fixed maturity securities.

In accordance with GAAP, we record our actively managed fixed maturity investments, equity securities and certain other invested assets at estimated fair value with any unrealized gain or loss (excluding impairment losses, which are recognized through earnings), net of tax and related adjustments, recorded as a component of shareholders' equity. At June 30, 2007, we decreased the carrying value of such investments by \$581.4 million as a result of this fair value adjustment.

CONSECO, INC. AND SUBSIDIARIES

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

	June 30, 2007 ----	December 31, 2006 ----
Total capital:		
Corporate notes payable.....	\$1,197.8	\$1,000.8
Shareholders' equity:		
Preferred stock.....	-	667.8
Common stock.....	1.9	1.5
Additional paid-in capital.....	4,126.4	3,473.2
Accumulated other comprehensive loss.....	(329.9)	(72.6)
Retained earnings.....	576.9	643.2
	-----	-----
Total shareholders' equity.....	4,375.3	4,713.1
	-----	-----
Total capital.....	\$5,573.1	\$5,713.9
	=====	=====

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

	June 30, 2007 ----	December 31, 2006 ----
Book value per common share.....	\$23.19	\$26.58
Book value per common share, excluding accumulated other comprehensive income (loss) (a).....	24.93	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.....	21%	18%
Corporate debt to total capital, excluding accumulated other comprehensive income (loss) (a).....	20%	17%
Corporate debt and preferred stock to total capital.....	21%	29%
Corporate debt and preferred stock to total capital, excluding accumulated other comprehensive income (loss) (a).....	20%	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 \$76.5 million less than fixed charges.

(c) For such ratio, earnings were \$98.3 million less than fixed charges.

CONSECO, INC. AND SUBSIDIARIES

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 has reached a proposed settlement in the class action case referred to as In Re Consecos Life Insurance Company Cost of Insurance Litigation. The settlement is subject to a court fairness hearing and other conditions. Based on our estimates of the ultimate cash payments required to implement the proposed 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, Consecos Life became a member of the FHLBI. As a member of the FHLBI, Consecos Life has the ability to borrow on a collateralized basis from FHLBI. Consecos Life intends to use these advances to earn incremental income and as a source of liquidity for its operations. Consecos 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 June 30, 2007, the carrying value of the FHLBI common stock was \$20.0 million. Advances totaled \$400.0 million in the first six months of 2007 and the proceeds were used to purchase primarily investment-grade fixed maturity securities. Certain of these fixed rate securities, with a par value of \$147.5 million, are matched with an interest rate swap, which converts the security from a fixed rate to a floating rate basis. 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 \$471.0 million at June 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 June 30, 2007 -----
\$100.0	February 2012	Variable rate - 5.345%
100.0	March 2012	Variable rate - 5.350%
54.0	May 2012	Variable rate - 5.360%
146.0	November 2015	Fixed rate - 5.300%

On August 7, 2007, A.M. Best downgraded the financial strength ratings of our primary insurance subsidiaries to "B+ (Good)" from "B++ (Good)", except Consecos 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 Consecos 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 Consecos 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 Consecos 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.

CONSECO, INC. AND SUBSIDIARIES

The current financial strength ratings of our primary insurance subsidiaries (except Consecos Senior) from Moody's are "Baa3" and Consecos Senior's rating is "Caal". On April 3, 2007, Moody's affirmed the financial strength ratings of our core insurance subsidiaries and Consecos Senior and revised its outlook on all our insurance subsidiaries to stable from positive. 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.

We have adopted several initiatives designed to reduce the expense levels that exceed product pricing in our Consecos Insurance Group segment. We expect to spend over \$26 million on capital expenditures in 2007 (including amounts related to these initiatives). We believe we have adequate cash flows from operations to fund these initiatives.

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, Consecos Senior and Consecos 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 Consecos Life are primarily attributable to a proposed 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 Consecos 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. Based on our discussions with state insurance departments, we do not expect the regulators to take any actions against Consecos Senior or Consecos Life due to the causes of our statutory losses and the actions being undertaken by the Company.

Consecos Senior has been aggressively seeking rate increases and pursuing other actions on its long-term care policies. We have filed, or plan to file, 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. 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 in force. We believe that the series of smaller rate increases we are seeking could mitigate these effects.

Liquidity of the Holding Companies

At June 30, 2007, Consecos Inc. and CDOC held unrestricted cash of \$230.7 million. Consecos 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. Consecos 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 Consecos and CDOC are 40|86 Advisors, Inc., which receives fees from the insurance subsidiaries for investment services, and Consecos Services, LLC which receives

CONSECO, INC. AND SUBSIDIARIES

fees from the insurance subsidiaries for providing administrative services. A deterioration in the financial condition, earnings or cash flow of the material subsidiaries of Consecoco or CDOC for any reason could hinder such subsidiaries' ability to pay cash dividends or other disbursements to Consecoco and/or CDOC, which, in turn, would limit Consecoco'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 \$50.0 million to our top tier insurance subsidiary in the first six months of 2007 and expect to make an additional capital contribution of \$110.0 million in August 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.

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, Consecoco 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 to \$200 million for the fiscal year commencing June 12, 2007 and \$300 million thereafter (in each case less any amount thereof paid in any prior fiscal year but following 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 Consecoco common stock and the strengthening of the Company's insurance subsidiaries.

CONSECO, INC. AND SUBSIDIARIES

During the first six months of 2007, we made scheduled principal payments totaling \$3.4 million on our Second Amended Credit Facility. The scheduled repayment of our direct corporate obligations is as follows (dollars in millions):

Remainder of 2007.....	\$	4.4
2008.....		8.7
2009.....		8.7
2010.....		338.8
2011.....		8.7
2012.....		8.8
2013.....		821.8

		\$1,199.9
		=====

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 June 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.

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 fiscal year beginning June 12, 2007). As further discussed in the note to the consolidated financial statements entitled "Changes in Common Stock", we repurchased 1.5 million shares of our common stock for \$29.6 million in the first six months of 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.

CONSECO, INC. AND SUBSIDIARIES

INVESTMENTS

At June 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.....	\$13,887.4	\$48.1	\$(421.7)	\$13,513.8
United States Treasury securities and obligations of United States government corporations and agencies.....	1,267.5	10.7	(25.0)	1,253.2
States and political subdivisions.....	627.7	1.9	(19.7)	609.9
Debt securities issued by foreign governments.....	109.2	2.4	(.8)	110.8
Structured securities	5,782.5	1.7	(162.4)	5,621.8
Below-investment grade (primarily corporate securities).....	1,740.1	12.3	(37.3)	1,715.1
	-----	-----	-----	-----
 Total actively managed fixed maturities.....	 \$23,414.4 =====	 \$77.1 =====	 \$(666.9) =====	 \$22,824.6 =====
 Equity securities.....	 \$38.9 =====	 \$1.4 =====	 \$(.1) =====	 \$40.2 =====

Concentration of Actively Managed Fixed Maturity Securities

The following table summarizes the carrying values of our actively managed fixed maturity securities by category as of June 30, 2007 (dollars in millions):

	Carrying value -----	Percent of fixed maturities -----
Structured securities.....	\$ 5,677.7	24.8%
Manufacturing.....	3,266.0	14.3
Bank and finance.....	2,201.4	9.6
Utilities.....	1,749.9	7.7
Services.....	1,728.0	7.6
U.S. Government.....	1,253.2	5.5
Communications.....	1,076.6	4.7
Holding and other investment offices.....	1,024.4	4.5
Agriculture, forestry and mining.....	906.5	4.0
Retail and wholesale.....	737.3	3.2
Asset-backed securities.....	687.7	3.0
Transportation.....	657.2	2.9
States and political subdivisions.....	609.9	2.7
Other.....	1,248.8	5.5
	-----	-----
 Total actively managed fixed maturities.....	 \$22,824.6 =====	 100.0% =====

Below-Investment Grade Securities

At June 30, 2007, the amortized cost of the Company's below-investment grade fixed maturity securities was \$1,740.1 million, or 7.4 percent of the Company's fixed maturity portfolio. The estimated fair value of the below-investment grade portfolio was \$1,715.1 million, or 99 percent of the amortized cost.

Below-investment grade fixed maturity securities with an amortized cost of \$481.1 million and an estimated fair value of \$481.2 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

CONSECO, INC. AND SUBSIDIARIES

securities and are not obligations of the Company. At June 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. 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 creditors of the issuer. Also, issuers of below-investment grade securities usually have higher levels of debt and may be 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 six months of 2007, net realized investment losses included: (i) \$7.3 million of net losses from the sales of investments (primarily fixed maturities) with proceeds of \$3.8 billion; (ii) \$2.9 million of writedowns of investments for other than temporary declines in fair value; and (iii) \$53.0 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 "Pending Coinsurance Transaction". During the first six months of 2006, we recognized net realized investment losses of \$6.8 million, which were comprised of \$3.3 million of net losses from the sales of investments (primarily fixed maturities) with proceeds of \$3.1 billion, and \$3.5 million of writedowns of investments for other than temporary declines in fair value. At June 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 six months ended June 30, 2007, we sold \$2.1 billion of fixed maturity investments which resulted in gross investment losses (before income taxes) of \$51.0 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.

CONSECO, INC. AND SUBSIDIARIES

The following table sets forth the amortized cost and estimated fair value of those actively managed fixed maturities with unrealized losses at June 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.....	\$ 68.7	\$ 67.9
Due after one year through five years.....	1,187.6	1,166.1
Due after five years through ten years.....	5,049.4	4,903.4
Due after ten years.....	6,930.1	6,594.4
	-----	-----
Subtotal.....	13,235.8	12,731.8
Structured securities.....	5,083.8	4,920.9
	-----	-----
Total.....	\$18,319.6 =====	\$17,652.7 =====

At June 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.

CONSECO, INC. AND SUBSIDIARIES

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 June 30, 2007 (dollars in millions):

Description of securities	Less than 12 months		12 months or greater		Total	
	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.....	\$ 147.4	\$ (3.5)	\$ 855.5	\$ (21.5)	\$ 1,002.9	\$ (25.0)
States and political subdivisions.....	303.9	(9.4)	187.8	(10.3)	491.7	(19.7)
Debt securities issued by foreign governments.....	37.4	(1.0)	3.9	(.1)	41.3	(1.1)
Corporate securities.....	8,105.3	(268.6)	3,090.6	(189.6)	11,195.9	(458.2)
Structured securities.....	2,680.2	(66.1)	2,240.7	(96.8)	4,920.9	(162.9)
Total actively managed fixed maturities.....	\$11,274.2	\$(348.6)	\$6,378.5	\$(318.3)	\$17,652.7	\$(666.9)
Equity securities.....	\$.8	\$(.1)	\$ -	\$ -	\$.8	\$(.1)

Based on management's current assessment of investments with unrealized losses at June 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 June 30, 2007, fixed maturity investments included \$5.7 billion of structured securities (or 25 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

CONSECO, INC. AND SUBSIDIARIES

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 credit-sensitive and certain prepayment-sensitive structured and asset-backed securities (which, in the aggregate, represent approximately 20 percent of the total estimated fair value of these securities), the effective yield is recalculated when changes in assumptions are made, and reflected in our income on a prospective basis. 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 six 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 June 30, 2007 (dollars in millions):

	Par value	Amortized cost	Estimated fair value
Below 4 percent.....	\$ 153.8	\$ 153.0	\$ 148.5
4 percent - 5 percent.....	824.7	792.1	769.6
5 percent - 6 percent.....	3,935.3	3,871.1	3,754.8
6 percent - 7 percent.....	897.5	888.0	870.5
7 percent - 8 percent.....	107.2	109.6	108.9
8 percent and above.....	24.6	25.1	25.4
	-----	-----	-----
Total structured securities (a).....	\$5,943.1	\$5,838.9	\$5,677.7
	=====	=====	=====

(a) Includes below-investment grade structured securities with an amortized cost and estimated fair value of \$56.4 million and \$55.9 million, respectively.

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

Type	Amortized cost	Estimated fair value	
		Amount	Percent of fixed maturities
Pass-throughs, sequential and targeted amortization classes.....	\$3,695.3	\$3,587.9	16%
Planned amortization class and accretion-directed bonds.....	861.6	840.1	4
Commercial mortgage-backed securities.....	1,220.6	1,188.6	5
Other.....	61.4	61.1	-
	-----	-----	--
Total structured securities (a).....	\$5,838.9	\$5,677.7	25%
	=====	=====	==

(a) Includes below-investment grade structured securities with an amortized cost and estimated fair value of \$56.4 million and \$55.9 million, respectively.

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

CONSECO, INC. AND SUBSIDIARIES

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.

Our investment portfolio includes mortgage-backed securities collateralized by sub prime residential mortgage loans with a market value of \$305 million and a book value of \$311 million at June 30, 2007. These securities represent 1.2 percent of our consolidated investment portfolio. Of these securities, \$39 million (13 percent) were rated AAA, \$66 million (21 percent) were rated AA, \$170 million (56 percent) were rated A, and \$30 million (10 percent) were rated BBB or below. None of these securities were downgraded or put on watch as part of S&P's and Moody's recent rating announcements. Sub prime residential mortgage securities issued in 2006 have experienced higher delinquency and foreclosure rates than originally expected. The Company's investment portfolio includes sub prime mortgage-backed securities issued over several years, primarily from 2003 to 2007. Securities issued in 2006 comprise \$6.7 million (or less than .03 percent) of our consolidated investment portfolio.

CONSECO, INC. AND SUBSIDIARIES

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 June 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):

	June 30, 2007 ----	December 31, 2006 ----
Assets:		
Actively managed fixed maturities.....	\$490.2	\$454.5
Cash and cash equivalents - restricted.....	24.8	15.7
Accrued investment income.....	4.5	3.9
Other assets.....	7.2	7.5
	-----	-----
Total assets.....	\$526.7	\$481.6
	=====	=====
Liabilities:		
Other liabilities.....	\$ 21.6	\$ 26.8
Investment borrowings due to others.....	447.2	401.7
Investment borrowings due to the Company.....	47.0	47.0
	-----	-----
Total liabilities.....	515.8	475.5
	-----	-----
Equity:		
Capital provided by the Company.....	1.7	1.8
Capital provided by others.....	4.4	4.7
Accumulated other comprehensive income (loss).....	.1	(2.1)
Retained earnings.....	4.7	1.7
	-----	-----
Total equity.....	10.9	6.1
	-----	-----
Total liabilities and equity.....	\$526.7	\$481.6
	=====	=====

	Three months ended June 30, -----		Six months ended June 30, -----	
	2007 ----	2006 ----	2007 ----	2006 ----
Revenues:				
Net investment income - deposit accounts.....	\$9.1	\$5.4	\$18.0	\$ 9.9
Fee revenue and other income.....	.2	.1	.2	.1
	----	----	----	----
Total revenues.....	9.3	5.5	18.2	10.0
	-----	-----	-----	-----
Expenses:				
Interest expense.....	6.8	4.7	13.2	8.5
Other operating expenses.....	.2	.5	.3	.5
	----	----	----	----
Total expenses.....	7.0	5.2	13.5	9.0
	-----	-----	-----	-----
Income before income taxes.....	\$2.3	\$.3	\$ 4.7	\$ 1.0
	====	====	=====	=====

CONSECO, INC. AND SUBSIDIARIES

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 Consecos's Annual Report on Form 10-K for the year ended December 31, 2006. There have been no material changes in the first six months of 2007 to such risks or our management of such risks.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures. Consecos's management, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of Consecos'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 June 30, 2007, Consecos'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, Consecos 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 and the quarter ended March 31, 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 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.

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 six 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 six months ended June 30, 2007, that have materially affected, or are reasonably likely to materially affect, Consecos'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 six 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)
April 1 through April 30.....	-	\$ -	-	\$320.4
May 1 through May 31.....	9,019	18.20	-	320.4
June 1 through June 30.....	3,032 -----	20.96	-	320.4
Total.....	12,051 =====	18.89	-	320.4

(a) The Company purchased 1,472 and 3,032 shares of its common stock in May and June 2007, respectively, in connection with employee benefit compensation plans. The Company also purchased 7,547 shares of its common stock in May 2007 in connection with a litigation settlement. Such purchases are not included against the maximum number of shares that may be purchased as part of our publicly announced share repurchase program.

CONSECO, INC. AND SUBSIDIARIES

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

At the Company's annual meeting on May 22, 2007, the shareholders elected ten directors to serve terms expiring at next year's annual meeting. The results of the voting were as follows (there were no broker non-votes):

	For ---	Withheld -----
Debra J. Perry.....	137,021,171	842,233
Philip R. Roberts.....	137,002,533	860,871
Michael T. Tokarz.....	135,069,962	2,793,442
R. Glenn Hilliard.....	137,000,084	863,320
Michael S. Shannon.....	136,992,652	870,752
Neal C. Schneider.....	136,222,103	1,641,301
John G. Turner.....	136,986,192	877,212
C. James Prieur.....	136,998,169	865,235
Donna A. James.....	136,978,663	884,741
Doreen A. Wright.....	136,949,040	914,364

At the annual meeting, the shareholders also approved the following proposal:

	For ---	Against -----	Abstentions -----
To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2007.....	137,785,142	45,852	32,411

CONSECO, INC. AND SUBSIDIARIES

ITEM 6. EXHIBITS.

- 3.2 Amended and Restated Bylaws of Conseco, Inc. incorporated by reference to Exhibit 3.2 of our Current Report on Form 8-K filed April 27, 2007.
- 10.1 Amendment No. 1 to the Second Amended and Restated Credit Agreement dated as of June 12, 2007 among Conseco, Inc., Bank of America, N.A., as agent, JP Morgan Chase Bank, N.A., as Syndication Agent, and other parties, incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed June 15, 2007.
- 10.32 Employment Agreement dated as of April 23, 2007 between Conseco, Inc. and Edward J. Bonach, incorporated by reference to Exhibit 10.32 of our Current Report on Form 8-K filed April 27, 2007.
- 10.33 Employment Agreement dated as of May 8, 2007 between Conseco Services, LLC and Mark E. Alberts.
- 10.34 Coinsurance and Administration Agreement between Conseco Insurance Company and Reassure America Life Insurance Company.
- 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: August 9, 2007

By: /s/ Edward J. Bonach

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

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT, dated as of the 8th day of May, 2007 is between Conseco Services, LLC, an Indiana limited liability company ("Company"), and Mark E. Alberts ("Executive").

WHEREAS, the continued services of Executive and his 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 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 February 29, 2008 (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 and Chief Actuary, or in such other capacity as the Chief Executive Officer of Conseco shall specify. Executive shall report to the Chief Executive Officer of Conseco or such other executive of the Company or Conseco as the Chief Executive Officer of Conseco may specify regarding the performance of his duties.
4. **Extent of Services.** During the Term, subject to the direction and control of the Chief Executive Officer of Conseco, Executive shall have the power and authority commensurate with his executive status and necessary to perform his duties hereunder. Executive shall devote his 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 his assets in such form or manner as will not require any services on the part of Executive in the operation of the affairs of the companies in which such investments are made (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 Two Hundred Sixty Thousand Dollars (\$260,000) 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 his Base Salary from time to time, based upon his 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 but in no event later than March 15 of the year following the year with respect to which such bonus was payable. For purposes of clarification, annual executive bonuses are generally paid on or before March 15 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, the 2007 bonus will be paid at the same time that similar payments are made to other Company executives but in no event later than March 15, 2008 if Executive remains employed through the end of the Term. The performance requirements for Target Bonuses will be based on financial and other objective targets that the Board believes are reasonably attainable at the time that they are set.

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 and will not be eligible for any other paid time-off program (other than paid holidays).

(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 periodic presentation of an itemized account of such expenditures. The Company agrees to pay Executive an additional amount to cover the incremental additional income taxes incurred by Executive, if any, with respect to payment or reimbursement of any reasonable business expenses pursuant to this subsection (c).

7. Disability.

(a) If Executive shall become physically or mentally disabled during the Term to the extent that his ability to perform his duties and services hereunder is materially and adversely impaired, his Base Salary, bonus and other compensation provided herein shall continue while he remains employed by the Company; provided, that if such disability (as determined in the Company's reasonable judgment, exercised in good faith) continues for at least three (3) consecutive months, the Company may terminate Executive's employment hereunder, in which case the Company within 10 business days shall pay Executive a cash payment equal to (i) his 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 portion of the Target Bonus for the year in which the termination for disability occurs and (v) one times his Base Salary. All options or restricted stock held by Executive on the date of termination for disability 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 due to termination under this Section 7 on or after such date.

(b) No payments or vesting under this Section 7 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 his employment with the Company, he 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 he shall not, at any time while he 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 him as a result of his 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, (c) must be disclosed to enable Executive properly to perform his duties under this Agreement or (d) was developed by Executive prior to his employment by the Company. 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 he may have in his possession or control.

9. Covenants Against Competition and Solicitation. Executive acknowledges that the services he 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) render any services, as an agent, independent contractor, consultant or otherwise, or become employed or compensated by any other corporation, person or entity that derives a non-incidental portion of its revenue from the business of selling or providing annuity, life, accident or health insurance products or services; (ii) in any manner compete with the Company or any of its affiliates with respect to lines of business that the Company and its affiliates derive more than a non-incidental portion of their revenue from or with respect to which the Company and its affiliates have made a significant investment in; (iii) 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 (iv) 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. During the Term:

(a) Either the Company or Executive may terminate his 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 or, (ii) after disability of Executive pursuant to Section 7 hereof.

(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) material breach by Executive of this Agreement not cured 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 not cured within 15 days after written notice to Executive by the Company, 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 his 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 he 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 his 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;

(v) Executive's failure to take action or to abstain from taking action, as directed in writing by a member of the board of directors of Conseco (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; or

(vi) Any intentional wrongful act or omission by Executive that results in the restatement of Conseco's financial statements due to a violation of the Sarbanes-Oxley Act of 2002.

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 or the board of directors of Conseco's 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; 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, he may terminate employment with the Company "With Reason" provided one or more of the following conditions are met: (i) Executive is required to report to anyone other than the Chief Operating Officer of Conseco (or such other executive of the Company or Conseco as the Chief Executive Officer of Conseco may specify); (ii) any reduction in Executive's Base Salary or Target Bonus without his

consent, or (iii) there is a "Change in Control" 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 this Agreement and shall not affect the determination of whether Executive's termination was for Just Cause or With Reason.

11. Payments Following Termination.

(a) In the event that Executive's employment is terminated by the Company for Just Cause or if Executive voluntarily resigns, then the Company within 10 business days shall pay Executive a cash payment of his 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 within 30 days (i) a cash lump sum of 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 his death occurs plus the Target Bonus for the preceding year if his 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 a termination due to expiration of the Term, death, disability or a Control Termination) or by Executive With Reason, then the Company shall pay Executive within 10 business days (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 his termination of employment, (ii) a pro-rata portion of the Target Bonus for the year in which his termination occurs plus the Target Bonus for the preceding year if his termination occurs after year-end but before such bonuses are paid and (iii) his Base Salary for a period of one year (in the form of salary continuation on a pro-rata basis with or without medical and dental benefits, at Executive's election and cost). 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 within 30 days (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 his termination of employment and, (ii) his Target Bonus and his Base Salary (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 his 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 any 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 his termination.

12. Character of Termination Payments. The amounts payable to Executive upon any termination of his employment shall be considered severance pay in consideration of past services rendered on behalf of the Company and his continued service from the date hereof to the date he becomes entitled to such payments and shall be the sole amount of severance pay to which Executive is entitled from the Company and its affiliates upon termination of his employment during the Term. Executive shall have no duty to mitigate his damages by seeking other employment and, should Executive actually receive compensation from any such other employment, the payments required hereunder shall not be reduced or offset by any such other compensation.

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 his 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 his 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 his property.

14. Arbitration of Disputes; Injunctive Relief.

(a) Arbitration. 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 14 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 his 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 the Conseco, Inc. 2003 Amended and Restated Long-Term Incentive Plan or any subsequent 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, and upon termination of Executive's employment with the Company Executive will not be entitled to receive any severance or other payments beyond those specified in this Agreement. 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 his 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**

/s/ Daniel J. Murphy

Daniel J. Murphy
President

EXECUTIVE:

/s/ Mark E. Alberts

Mark E. Alberts

**COINSURANCE AND ADMINISTRATION
AGREEMENT**

(hereinafter referred to as "Agreement")

between

**CONSECO INSURANCE COMPANY
(ILLINOIS)**

(hereinafter referred to as the "Company")

and

**REASSURE AMERICA LIFE INSURANCE COMPANY
(ILLINOIS)**

(hereinafter referred to as "Reinsurer")

Effective: January 1, 2007

Table of Contents

PREAMBLE.....	1
ARTICLE I Coinsurance.....	1
1. Reinsurance.....	1
2. Transfer of Reserves; Initial Ceding Allowance; Initial Settlement of Quarterly Cash Flows.....	2
3. Agent Compensation.....	4
4. Payment of Premium Taxes and Guaranty Assessments.....	4
5. Other Reinsurance.....	4
6. Credit for Reinsurance.....	5
7. New Business.....	5
8. Funds Withheld Account.....	6
ARTICLE II Reinsurance Liability.....	7
ARTICLE III Plan and Amount of Insurance.....	8
1. Plan.....	8
2. Reductions and Terminations.....	8
3. Reinstatements.....	8
4. Misstatements.....	8
5. Nonforfeiture Benefits.....	8
6. Payment.....	9
7. Contractual Conversions; Internal Replacement.....	9
ARTICLE IV Administration.....	10
1. Transfer of Administrative Services.....	10
2. Administrative Services.....	10
3. Reports and Remittances.....	11
4. Reservation of Authority.....	12
5. Complaint Handling Procedures.....	13
6. Inquiries.....	14
7. Authorizations.....	14
8. Books and Records.....	14
9. Ownership of Premiums.....	15
10. Security Interest.....	15
11. Termination of Services.....	16
12. SOX Audit Language.....	17
13. Gramm-Leach-Bliley Act.....	17
ARTICLE V Representations and Warranties of the Company.....	18

Table of Contents

ARTICLE VI Representations and Warranties of Reinsurer.....	21
ARTICLE VII Representations and Warranties of Consecro, Inc.....	22
ARTICLE VIII Indemnification and Other Agreements.....	23
1. Indemnification by Company.....	23
2. Indemnification by Reinsurer.....	23
3. Notice of Potential Liability.....	24
4. Opportunity to Defend.....	24
5. Litigation Management.....	24
6. Obligation of the Company to Fund Trust Account.....	25
7. Obligation of the Reinsurer to Fund Trust Account.....	26
8. Conduct of Business.....	27
ARTICLE IX TAX.....	28
1. DAC Tax.....	28
2. Excise Tax.....	28
ARTICLE X Insolvency.....	30
ARTICLE XI Duration of Coinsurance.....	31
ARTICLE XII Settlement of disputes.....	32
ARTICLE XIII Termination.....	33
1. Termination.....	33
2. Termination Event.....	33
3. Termination Date; Consequences of Termination.....	33
4. Termination Due to Breach of Administrative Services.....	34
5. Servicing Following Termination.....	35
6. Unamortized Portion of the Ceding Commission.....	35
ARTICLE XIV General Provisions.....	36
1. Non-Guaranteed Elements.....	36
2. Reinsurance Conditions.....	37
3. Errors and Omissions.....	37
4. Offset.....	37
5. Certain Transfers.....	37
6. Authority.....	37
7. Entire Agreement.....	37

Table of Contents

8.	Amendment.....	38
9.	Counterparts.....	38
10.	No Assignment.....	38
11.	Binding Effect.....	38
12.	Notices.....	38
13.	Survival of Certain Representations of the Company.....	39
14.	Governing Law.....	39
15.	Invalid Provisions.....	39
16.	Announcements.....	40
17.	Contract Controls.....	40
ARTICLE XV Execution.....		41

Schedules

Schedule A	Reinsured Policies
Schedule B	Regulatory Approvals
Schedule C	Reserves to be Transferred
Schedule D	Assets Assumed Transferred for Purposes of Determining IMR Generated by Transaction
Schedule E	Assets to be Transferred at Effective Date
Schedule F	Determination of Cash Component
Schedule G-1	Funds Held Assets at Effective Date
Schedule G-2	Funds Held Assets at Closing Date
Schedule H	Administrative Transfer Dates
Schedule I-1	Administrative Service Fees Payable to Company
Schedule I-2	Services and Standards Required for Administrative Transition
Schedule J	Transitional Accounting Report
Schedule K	Quarterly Report
Schedule L	Litigation
Schedule M	Other Reinsurance Agreements

PREAMBLE

WHEREAS, Conseco Insurance Company, an Illinois insurance company (the "Company"), desires to reinsure on a coinsurance basis a certain block of in force fixed and equity indexed annuities and traditional individual life insurance policies; and

WHEREAS, Reassure America Life Insurance Company, an Illinois insurance corporation ("Reinsurer"), desires to reinsure and provide the administration of such annuities and life insurance policies; and

WHEREAS, the Company and Reinsurer intend that the basis of the reinsurance shall be 100% coinsurance by Reinsurer; and

NOW, THEREFORE, the Company, Reinsurer and Conseco, Inc. (solely as to Article III, Section 7(b) and Article VII hereof) have entered into this Coinsurance and Administration Agreement ("Agreement") and mutually agree to reinsure the Company's annuity and life insurance policies on the terms and conditions set forth in this Agreement.

This Agreement is solely among the Company, Conseco, Inc. and Reinsurer and performance of the obligations of any party under this Agreement will be rendered solely to the other parties. In no instance will anyone other than the Company, Conseco, Inc. or Reinsurer have any rights under this Agreement.

ARTICLE I

COINSURANCE

1. Reinsurance

The Company will cede and Reinsurer will accept on a coinsurance basis 100% ("Reinsurer's Share") of the Contractual Liabilities arising under the annuities and life insurance policies and plans of insurance, as set forth in Schedule A that are either in force on January 1, 2007 (the "Effective Date") or that constitute New Business, in each case net of Other Reinsurance whether or not collected. The annuities, life insurance policies and plans set forth in Schedule A, together with New Business, are hereinafter referred to collectively as the "Reinsured Policies" and individually as a "Reinsured Policy."

For purposes of this Agreement, "Contractual Liability" and "Contractual Liabilities" shall be restricted to all liabilities and obligations arising from and after the Effective Date under the written terms and conditions of Reinsured Policies, and all liabilities and obligations arising from any act, error or omission of the Reinsurer in administering the Reinsured Policies pursuant to Article IV, other than: (i) liabilities arising from acts, errors or omissions on the part of Company, its agents, employees or representatives (but excluding the Reinsurer) that cause liability beyond policy provisions; (ii) any non-policy liabilities, not attributable to the Reinsurer, including, without limitation, liabilities for expenses or commissions incurred prior to the Effective Date; (iii) Extra Contractual Obligations; (iv) any liabilities arising under or related to the Reinsured Policies incurred prior to the Effective Date; (v) any liabilities resulting from, arising out of or related to any enhancement of policy provisions by the Company occurring from and after the Effective Date, whether such enhancement is the result of a judgment,

settlement, consent order or otherwise; and (vi) Reinsured Policies that annuitize during the period from the Effective Date to the applicable Administrative Transfer Date.

For purposes of this Agreement, "Extra Contractual Obligations" means all liabilities or obligations arising under or in respect of a Reinsured Policy, exclusive of liabilities or obligations arising under the express written terms and conditions of a Reinsured Policy. Extra Contractual Obligations shall include (without limitation) any liability for fines, penalties, forfeitures, punitive, special, exemplary or other forms of extra-contractual damages, which liabilities or obligations arise from any act, error or omission, of the Company, its agents, employees or representatives, whether or not intentional, negligent, in bad faith or otherwise relating to: (i) the marketing, sale, underwriting, production or issuance of the Reinsured Policies, (ii) the cancellation or administration of the Reinsured Policies; (iii) the investigation, defense, trial, settlement or handling of claims, benefits, or payments under the Reinsured Policies; or (iv) the failure to pay, the delay in payment, or errors in calculating or administering the payment of benefits, claims or any other amounts due or alleged to be due under or in connection with the Reinsured Policies.

The premium to be paid to Reinsurer by the Company for the Reinsured Policies will be Reinsurer's Share of all premiums paid to the Company under the Reinsured Policies on and after the Effective Date inclusive of policy and similar fees (together, "Premiums").

This Agreement will not be effective, valid or binding absent receipt of all required regulatory approvals set forth in Schedule B. The Company shall have the right to rescind this Agreement, upon written notice given prior to the Closing Date, and this Agreement will be of no further force or effect, if any event, occurrence, fact, condition, change, development or effect shall have occurred since the date this Agreement is executed, but prior to the Closing Date, or could reasonably be expected to occur during such period, that, individually or in the aggregate with other such events, occurrences, facts, conditions, changes, developments or effects, has had or resulted in, or could reasonably be expected to become or result in, a material adverse effect on the Reinsurer or its ultimate parent company.

The Reinsurer shall have the right to rescind this Agreement, upon written notice given prior to the Closing Date, and this Agreement will be of no further force or effect, if any event, occurrence, fact, condition, change, development or effect shall have occurred since the date this Agreement is executed, but prior to the Closing Date, or could reasonably be expected to occur during such period, that, individually or in the aggregate with other such events, occurrences, facts, conditions, changes, developments or effects, has had or resulted in, or could reasonably be expected to become or result in, a material adverse effect on the Company or Conseco, Inc.

2. Transfer of Reserves; Initial Ceding Allowance; Initial Settlement of Quarterly Cash Flows

(a) In consideration for the reinsurance provided by Reinsurer, on the fifth business day following receipt of all regulatory approvals set forth in Schedule B, or on such other day as the parties may mutually agree (the "Closing Date"), the Company shall pay to Reinsurer an amount (the "Initial Net Consideration") equal to the sum of (x) and (y), where (x) equals Reinsurer's Share of (i) Net Reserves (as defined below), plus (ii) any interest maintenance reserves ("IMR") associated with this transaction including both the historical IMR identified in

Schedule C and IMR generated by this transaction (determined with respect to the portfolio of investments described on Schedule D), less (iii) any policy loans outstanding on the Reinsured Policies, net of any unearned policy loan interest on those policy loans but including amounts of interest accrued with respect thereto, less (iv) the amount of the Funds Withheld Balance (each of items (i), (ii), (iii) and (iv) shall be determined as of the Effective Date), less (v) a ceding allowance (the "Initial Ceding Allowance") equal to \$70.7 million; and (y) equals the interest accrued on the amount determined pursuant to clause (x) from the Effective Date through the Closing Date at a rate per annum equal to 5.50%. As used herein, "Net Reserves" means the statutory reserves attributable to the Contractual Liabilities reinsured hereunder determined as of the Effective Date and in accordance with Company SAP consistently applied, net of (1) reserves ceded under Other Reinsurance, (2) reserves for life claims in the course of settlement, (3) life claims that have been incurred but not reported, and (4) annuities in payout, each as of the Effective Date.

(b) (i) The Initial Net Consideration shall be payable in cash and in kind as provided herein. The Company will transfer to Reinsurer certain assets in-kind (the "Transferred Assets") and an amount of cash determined as specified below (the "Cash Component"). The Transferred Assets will include all or a substantial portion of those assets listed in Schedule E each with a fair market value (excluding accrued investment income) determined as of the Effective Date as the mutually agreed to price stated in Schedule E; provided that, (x) for assets (such as mortgage or asset backed securities) that have periodic repayments of principal, the market values specified in Schedule E shall be reduced by the amount of such principal repayments from the Effective Date to the Closing Date and (y) for assets that have been sold in part, the market values stated therein shall be reduced proportionally.

(ii) The Transferred Assets will be selected from those assets listed in Schedule E subject to changes mutually agreed by both parties, which changes shall hereafter be referred to as the "Substituted Assets." Each Substituted Asset shall have a market value as of the Effective Date equal to the average of the market values reported by the Bloomberg, L.P. and the Financial Times pricing sources. Substituted Assets shall: (A) not be substituted for any asset listed on Schedule E unless mutually agreed to by the parties; (B) have a similar market yield as the assets being replaced; (C) have a similar duration as the assets being replaced; and, (D) have a similar credit quality as the assets being replaced. In the case of (B), (C) and (D) above, each shall be determined as of the Effective Date.

(iii) The fair market value specified in Schedule E for any asset listed therein plus accrued interest as at the Closing Date shall be the "Designated Value" for such asset. The amount of the Cash Component is determined such that the sum of the aggregate Designated Value for Transferred Assets and the amount of the Cash Component cash shall be equal to the Initial Net Consideration. If the Cash Component so determined is a negative number, the absolute value of such amount shall be paid by the Reinsurer to the Company. Summary computations with respect to the foregoing transfers are set forth on Schedule F hereto.

(c) In addition, effective as of the Effective Date, the Company shall establish the Funds Withheld Account. Reinsurer shall be entitled to receive the benefits of the operation of the Funds Withheld Account as specified in Section 8 of this Article I from and after the Effective Date hereof and also the Reinsurer's Share of interest earned and principal repayments

in respect of policy loans attributable to the Reinsured Policies

(d) The Company represents and warrants that reserves and other amounts pertaining to the Reinsured Policies set forth on Schedule C hereto have been determined by the Company in accordance with Company SAP. For the purposes of this Agreement, "Company SAP" shall be defined as the statutory valuation methods, mortality tables, and interest rate bases duly adopted in accordance with applicable law in prior years by the Company with regard to the Reinsured Policies, but excluding the voluntary reserve strengthening on plans F14 and S500 with regard to cliff surrender charges and also excluding any portion of Company additional reserves held on account of asset adequacy analysis. Reinsurer agrees with respect to the Reinsured Policies, to establish and maintain as liability on its statutory statements proper reserves for the Reinsured Policies in accordance with statutory accounting practices applicable to Reinsurer, but in no case less than the statutory reserves as required by the regulatory authorities of the Company's state of domicile.

3. Agent Compensation

Reinsurer will pay, and will reimburse the Company to the extent the Company has paid for, all producer and marketing organization commissions incurred on or after the Effective Date related to the Reinsured Policies in accordance with procedures agreed to by the parties, except for any such commissions processed on the OASYS B system after the applicable Administrative Transfer Date. Reinsurer will not be responsible for reimbursing the Company for any other commissions or additional payments on account of producers or marketing organizations, including, without limitation, those made under any production or persistency bonus or incentive program applicable to the Reinsured Policies. Without Reinsurer's prior written consent, the Company shall not implement any material modification to its current producer commission or service plans or arrangements applicable to the Reinsured Policies. The Company can collect outstanding debt from agents for its own benefit, including offsetting against commissions payable.

4. Payment of Premium Taxes and Guaranty Assessments

The Company will pay all actual premium taxes and any other similar assessments (including all guaranty fund assessments not offset from such premium taxes) related to the Reinsured Policies incurred on or after the Effective Date. Reinsurer will reimburse the Company for such amounts quarterly.

5. Other Reinsurance

With the prior written consent of Reinsurer, the Company may exercise any right it may have to recapture risk under the Reinsured Policies ceded under any existing reinsurance ("Other Reinsurance") and Reinsurer will reinsure such recaptured risk under this Agreement. Upon request by Reinsurer, the Company agrees to take reasonable action to exercise its rights to recapture risk under the Reinsured Policies ceded under any such Other Reinsurance and Reinsurer will reinsure such recaptured risk under this Agreement. Notwithstanding the foregoing, the Reinsurer shall not have any obligation to reinsure any such recaptured risks hereunder unless and until the Company shall have transferred to the Reinsurer the Reinsurer's

Share of the amount of statutory reserves in respect of such recaptured risks calculated as of the effective date of such recapture in accordance with Company SAP consistently applied.

6. Credit for Reinsurance

(a) From the Effective Date to the Closing Date, the Company shall calculate, establish and maintain proper reserves with respect to the Reinsured Policies in accordance with Company SAP consistently applied.

(b) From the Closing Date to the applicable Administrative Transfer Date, the Company shall calculate proper reserves with respect to the Reinsured Policies in accordance with Company SAP consistently applied, and Reinsurer shall establish and maintain proper reserves for the Reinsured Policies in accordance with statutory accounting practices applicable to Reinsurer, but in no case less than the statutory reserves as required by the regulatory authorities of the Company's state of domicile

(c) From and after the applicable Administrative Transfer Date, Reinsurer shall calculate, establish and maintain proper reserves for the Reinsured Policies in accordance with statutory accounting practices applicable to Reinsurer, but in no case less than the statutory reserves as required by the regulatory authorities of the Company's state of domicile. On an annual basis during each year after the Administrative Transfer Date in which this Agreement remains in force, in connection with the preparation of the Company's annual financial statements the Reinsurer shall cause its appointed actuary to provide to the Company's appointed actuary an actuarial opinion in compliance with the current NAIC requirements. Such actuarial opinion shall state that, in the opinion of the Reinsurer's appointed actuary, such reserves and related actuarial values concerning the Reinsured Policies as of the date of such actuarial opinion: (i) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated, in accordance with sound actuarial principles; (ii) are based on actuarial assumptions which produce reserves at least as great as those called for in any provision of the Reinsured Policies concerning the reserve basis and method, and are in accordance with all other contract provisions of the Reinsured Policies; (iii) meet the requirements of the insurance laws and regulations of the Company's state of domicile; (iv) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the prior year; and (v) include provision for all actuarial reserves and related statement items which should be established in accordance with sound actuarial principles. In addition, in connection with the Reinsured Policies, Reinsurer agrees to disclose to the Company its actuarial assumptions relied on in establishing its reserves and the results of its asset adequacy testing for the Reinsured Policies.

7. New Business

The Reinsurer will reinsure and be liable pursuant to this Agreement for Contractual Liabilities arising under Reinsured Policies issued after the Effective Date on applications submitted no later than June 30, 2007 and administered by the Company on its Bannerstone administration system ("New Business") provided that such New Business is written and issued in the ordinary course of business in accordance with past practices and the Company's underwriting guidelines in force on the Effective Date. In its sole discretion, the Reinsurer may

treat any policies or contracts not meeting the requirements of the foregoing sentence as "New Business" and reinsure such policies or contracts hereunder. Notwithstanding anything herein to the contrary, the Company shall use its best efforts to cease issuing New Business as soon as practicable after the date of this Agreement.

8. Funds Withheld Account

(a) The Company shall establish and maintain a funds withheld account (the "Funds Withheld Account") as of the Effective Date which shall be reported in accordance with Schedule J. The opening balance of the Funds Withheld Account shall be equal to the market value of the call option contracts identified on Schedule G-1 as of the Effective Date (the "Opening Balance"). For each report in the form set forth in Schedule J provided to the Reinsurer in accordance with this Agreement, the ending balance of the Funds Withheld Account shall be equal to the market value of the Hedges as of the date of such report. For purposes of this Agreement, "Hedge or Hedges" shall mean the call option contracts identified on Schedule G-1, or any one of them, and any additional call option contract purchased by the Company prior to the Closing Date to hedge risk associated with a Reinsured Policy (except simple index annuity products), which will be listed on Schedule G-2 to be provided to the Reinsurer on or before the Closing Date. Changes to the Funds Withheld Account shall be reported quarterly in accordance with Schedule J.

(b) During the period from the Effective Date to but excluding the Closing Date, the Company will continue to manage the Hedges in accordance with applicable law and its historic practices. Any Hedges purchased by the Company during such period will be allocated proportionately to the Reinsured Policies, with the proportion determined by the notional amount of liability for each weekly cohort as determined on the day the Hedge is purchased. Reinsurer will pay the Company for the cost of any Hedges purchased during such period allocated to the Reinsured Policies. The Company will pay Reinsurer the value of the Hedges when they mature.

(c) During the twelve-month period beginning on the Closing Date and ending on the first anniversary thereof, the Company will transmit to Reinsurer its report on the inventory of Hedges for the Reinsured Policies (the "Inventory"). The Company will transmit the Inventory report to the Reinsurer weekly and, on the Inventory, the Company will establish the valuation of the Hedges consistent with the Company's historic practices.

(d) Following the Closing Date and continuing until the final Administrative Transfer Date, Company shall provide to the Reinsurer each business day data similar to that which has been provided to Reinsurer as an example of the information currently being used by Company to manage the Hedges. In particular, this information will include a schedule which lists by premium anniversary date at least the following information:

- i. volume of business in force, measured by account value on immediately preceding premium anniversary date;
- ii. the strike price;
- iii. the average participation rates; and,
- iv. the historical monthly strike prices for completed months since the previous premium anniversary date.

ARTICLE II

REINSURANCE LIABILITY

Reinsurer's liability with respect to any Contractual Liability on any Reinsured Policy begins on the Effective Date and ends at the same time as that of the Company; provided, however, that Reinsurer will have no liability for any Contractual Liability incurred before the Effective Date, except for annuity claims in the course of settlement and annuity claims incurred but not reported which were included in the asset transfer. Reinsurer will not participate in any enhancement of policy provisions by the Company occurring from and after the Effective Date whether such enhancement is the result of a judgment, settlement, consent order or otherwise unless agreed to by Reinsurer in writing prior to granting of such enhancement, including enhancements agreed to by Reinsurer pursuant to Section 8.5.

The payment of Premiums is a condition precedent to the continuing liability of Reinsurer under this Agreement. If Premiums with respect to this Agreement are not paid when due, to the extent such Premiums are in the possession of the Company and not otherwise collected directly by the Reinsurer pursuant to Article IV, Reinsurer shall have the right to provide to the Company forty-five (45) days' prior written notice (the "Initial Notice") of its intent to terminate because of the Company's failure to pay Premiums. If following forty-five days after delivery of the Initial Notice, Premiums with respect to this Agreement are not paid when due, Reinsurer shall have the further right to provide to the Company a second forty-five (45) days' prior written notice (the "Second Notice") of its intent to terminate because of the Company's failure to pay Premiums. Reinsurer shall use its commercially reasonable efforts to ensure that any such Second Notice shall be delivered both to the Chief Executive Officer of the Company and to its Chief Financial Officer. The Second Notice shall attach a copy of this Agreement and indicate on its face a reference to this provision. Reinsurance of all Reinsured Policies having Premiums in arrears shall terminate as of the date to which Premiums had previously been paid unless all such Premiums in arrears are paid before the end of the second forty-five (45) day notice period. No such termination shall become effective unless and until Reinsurer shall have delivered both the Initial Notice and the Second Notice and each of the 45-day cure periods described above and therein shall have ended without cure of the Company's failure to pay the Premiums therein noted. If, as set forth above, reinsurance with respect to the Reinsured Policies shall terminate due to the Company's failure to pay Premiums, reinsurance hereunder of the Reinsured Policies with Premiums subsequently becoming due shall terminate automatically as of the date upon which new Premiums become due. Notwithstanding the foregoing, reinsurance shall remain in full force and effect with respect to the Reinsured Policies for which there are no Premiums in arrears. Furthermore, Reinsurer's termination rights pursuant to this Article II shall only apply in the event Reinsurer is unable to set off the unpaid Premiums against the Reinsurer's share of any Contractual Liabilities owed to the Company.

ARTICLE III

PLAN AND AMOUNT OF INSURANCE

1. Plan

Reinsurance under this Agreement is on a coinsurance basis and is subject to the written terms and conditions set forth in the Reinsured Policies, and any amendments thereto in effect as of the Effective Date.

2. Reductions and Terminations

Reinsurance amounts are calculated in terms of coverages on a "per policy" basis. If the coverage of any Reinsured Policy on an insured is reduced or terminated, reinsurance under this Agreement on such Reinsured Policy will be similarly reduced or terminated.

3. Reinstatements

A Reinsured Policy ceded under this Agreement that is reduced, terminated or lapsed, and later reinstated pursuant to policy provisions will be reinsured by Reinsurer. Reinsurer will be entitled to receive the Reinsurer's Share of any Premiums and interest that the Company has received for reinstatement.

A terminated policy that would have been a Reinsured Policy had it been in force on the date of this Agreement, that later reinstates pursuant to policy provisions, will be reinsured by Reinsurer and become a Reinsured Policy. Reinsurer will be entitled to receive the Reinsurer's Share of any Premiums and interest for coverage on or after the Effective Date that is received for reinstatement, and the Company will transfer to Reinsurer the Reinsurer's Share of the amount of the statutory reserves calculated as of the Effective Date. The date of reinsurance for such reinstated policies shall be the Effective Date.

4. Misstatements

If the insured's age or sex was misstated and the amount of insurance on the Company's policies is adjusted, the Company and Reinsurer will share the adjustment in proportion to the amount of liability of each with respect to such Reinsured Policy. Premiums will be recalculated for the correct age or sex and amounts according to the proportion as above and adjusted without interest. If the insured is still alive, the method above will be used for past years and the amount of reinsurance and Premium adjusted for the future to the amount that would have been correct at the Effective Date.

5. Nonforfeiture Benefits

Reinsurer shall reinsure any nonforfeiture benefit provided for under the terms of any Reinsured Policy.

6. Payment

For Reinsured Policies that annuitize prior to the applicable Administrative Transfer Date, Reinsurer will pay to the Company Reinsurer's Share in a lump sum without regard to the form of claim settlement of the Company.

7. Contractual Conversions; Internal Replacement

(a) In the event of a contractual conversion of any Reinsured Policy pursuant to the terms thereof, Reinsurer will reinsure the risk resulting from such conversion.

(b) The Company and Consec, Inc. each covenant not to solicit and to cause each of their respective Affiliates not to solicit, owners, beneficiaries or policyholders in connection with any program of internal replacement for any of the Reinsured Policies absent the prior written consent of Reinsurer. The term "program of internal replacement" shall mean any program sponsored or supported by the Company or any of its Affiliates offered to a class of policy owners in which a policy or a portion of any policy is exchanged for another policy not reinsured under this Agreement which is written by the Company or any Affiliate thereof, its successors or assigns. Should the Company, its Affiliates, successors or assigns initiate a program of internal replacement that would include any of the risks reinsured hereunder, the Company will immediately notify Reinsurer prior to the solicitation of any owners, beneficiaries or policyholders of any Reinsured Policy. For each risk reinsured hereunder that has been replaced under a program of internal replacement, Reinsurer shall have the option at its sole discretion of either treating the risks reinsured as recaptured on terms reasonably acceptable thereto or continuing reinsurance on the new policy under the terms of this Agreement without any additional ceding allowance therefor.

For purposes of the foregoing, "Affiliate" shall mean, with respect to any Person, any Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have correlative meanings to the foregoing. In the event of a voluntary change in the control of the Company occurring prior to the fourth annual anniversary of the Effective Date of this Agreement, Consec, Inc. covenants for itself and its Affiliates to cause the transferee in respect of such change in Control to undertake and assume the obligations of Consec, Inc. hereunder for the benefit of Reinsurer. It is acknowledged that following any such undertaking and assumption, Consec, Inc. and its Affiliates shall not be liable, contingently or otherwise, for the performance by any such successor (or any Affiliates of any such successor) of its (or their) obligations as so undertaken and assumed; provided, however, that Reinsurer shall be afforded the right to directly enforce any such covenant.

ARTICLE IV

ADMINISTRATION

1. Transfer of Administrative Services

(a) On and after the dates set forth on Schedule H, which are subject to change upon mutual written consent, and for so long as the reinsurance provided hereunder remains in force unless otherwise terminated pursuant to Article XIII, Section 4, Reinsurer shall be responsible for providing administrative services in accordance with Section 2 of this Article IV for the transferred Reinsured Policies. The effective date on which Reinsurer assumes responsibility for administrative services on a Reinsured Policy is referred to as an "Administrative Transfer Date." Prior to the applicable Administrative Transfer Date with respect to any Reinsured Policy, the Company shall continue to provide the administrative services for such Reinsured Policy in a manner consistent with applicable law, its current practices as of the date hereof and in accordance with the terms and conditions of the Reinsured Policies. In consideration for the Company performing these services, Reinsurer shall pay the Company, on a quarterly basis, the fees computed as set forth in Schedule I-1 for the Reinsured Policies administered by the Company.

(b) The Company and Reinsurer shall cooperate with each other and use their respective commercially reasonable efforts to effect an orderly transition of all administrative services for the Reinsured Policies from the Company to Reinsurer as of the applicable Administrative Transfer Dates. Without limiting the generality of the foregoing, the Company shall provide the Reinsurer with the assistance, services and standards set forth in Schedule I-2 to support and effect such transition. After the applicable Administrative Transfer Date, no additional fees shall be incurred by the Reinsurer pursuant to this Article IV, Section 1.

2. Administrative Services

(a) The Reinsurer shall provide the following administrative services with respect to any Reinsured Policy from and after the applicable Administrative Transfer Date: (i) preparing and mailing all necessary or appropriate policy and annuity statements, reports and communications, including premium notices; (ii) collecting premiums and amounts due under the Reinsured Policies; (iii) receiving, processing, investigating, evaluating, and paying claims and/or surrenders filed by or on behalf of holders of Reinsured Policies; (iv) defending any action brought under a Reinsured Policy with respect to Contractual Liabilities; (v) providing usual and customary services for holders of Reinsured Policies, including, without limitation, processing loans, non-forfeiture claims, lapses, annuity payments, reinstatements, cancellations, conversions and other changes provided for under the Reinsured Policies and calculations related thereto, and call center operations; (vi) providing the Company with information on commissions and producers entitled thereto, if any, for the Reinsured Policies; (vii) providing all accounting and actuarial information related to the Reinsured Policies that are necessary for the Company to timely meet its statutory, GAAP or tax accounting and reporting requirements; (viii) maintaining appropriate books and records of all transactions related to the Reinsured Policies, including the obligation to maintain books and records pursuant to Article VIII, Section 5; (ix) administering Other Reinsurance; (x) tax reporting to policyholders, including 1099s, and (xi) providing such

additional services as may be necessary and appropriate to properly administer the Reinsured Policies. Reinsurer shall perform such administrative services in accordance with the written provisions of the Reinsured Policies. Reinsurer's performance of services hereunder shall be in accordance with any applicable federal and state laws, rules and regulations.

(b) Notwithstanding any other provision of this Agreement, the Reinsurer may, at its option, delegate its obligations under this Article IV to Transactions Applications Group, Inc. or, after providing prior written notice to the Company, to any other duly licensed third party administrator or other service provider. Any such delegation shall be effected in a manner that does not interrupt or impair the performance of the administrative services required hereby. In any event, no delegation will release the Reinsurer from responsibility to the Company under this Agreement with respect to the performance of the administrative services required hereby.

(c) The Reinsurer shall not be entitled to any separate consideration, fees or reimbursement for the administrative services performed hereunder.

3. Reports and Remittances

(a) Between the Closing Date and the final Administrative Transfer Date, the Company shall prepare an accounting for each full or partial quarter prior to such final Administrative Transfer Date substantially in the form set forth in Schedule J (the "Transitional Quarterly Accountings"), provided that the Company will continue to report the Funds Withheld Account in accordance with Schedule J for the twelve month period following the Closing Date and provided further that the first Schedule J provided by the Company to the Reinsurer shall contain a reconciliation for the period from the Effective Date through the end of the calendar month immediately preceding the Closing Date. Each Transitional Quarterly Accounting shall be provided to Reinsurer by no later than the thirtieth (30th) day of the following calendar quarter. The final Transitional Quarterly Accounting shall be due by no later than thirty (30) days after the final Administrative Transfer Date. If any such Transitional Quarterly Accounting reflects a balance due Reinsurer it shall be paid in cash with the Transitional Quarterly Accounting. If any such Transitional Quarterly Accounting reflects a balance due the Company, the Reinsurer shall pay such balance in cash within ten (10) business days of the delivery of the Transitional Quarterly Accounting. Further, during the period from the Closing Date to the final Administrative Transfer Date, Reinsurer will advance cash to the Company for the benefits to be paid on the Reinsured Policies. Any funds so advanced shall be held by the Company in trust for the benefit of holders of Reinsured Policies and the Reinsurer. The balance of the advance will be trued-up monthly. The balance at these dates will be calculated as the estimated benefits to be paid prior to the next advance date. The Company will recalculate the advance balance each week, taking into account advances received and actual benefits paid. Should the advance balance fall below a threshold amount, then the advance will be trued-up as though it were the next regularly scheduled true-up date. The threshold amount will be calculated as the expected weekly benefit payments. The Company will pay interest to Reinsurer on the advance balance at the Fed Funds rate, which will be computed weekly based on an adjusted average advance balance. The adjusted average balance will be calculated based on the actual day of receipt of new advances, but as though benefits were paid at the middle period. The interest rate on the cash advance will equal the daily average of the Fed Funds rate for the weekly period. Any

funds so advanced that are not paid as benefits on the Reinsured Policies prior to the final Administrative Transfer Date shall be returned to the Reinsurer within ten (10) business days.

(b) From and after the first Administrative Transfer Date, the Reinsurer shall prepare a report for each full or partial quarter after such Administrative Transfer Date substantially in the form set forth in Schedule K (the "Quarterly Report"). Each Quarterly Report shall be provided to the Company by no later than the thirtieth (30th) day of the following calendar quarter.

(c) Each party will provide the other in a timely manner with such other information related to this Agreement and the business reinsured hereunder that is reasonably required by the parties to prepare their respective financial reports under statutory, tax and GAAP accounting methods.

(d) Interest will accrue at the Fed Funds rate and be payable on any balance due the Company or the Reinsurer set forth in any Transitional Quarterly Accounting or Quarterly Report that is not paid when due, calculated from the date such amount was due to the date on which such amount is remitted. Such interest shall accrue at an annual rate equal to the US Federal Funds Effective Rate ("the Fed Funds rate") defined, for purposes of this Agreement, as the daily weighted average Fed Funds rate on brokered trades set by the Federal Reserve after the close of daily business (or if not a business day, the first business day thereafter). This rate appears the following day on Bloomberg as the "FEDL" or published in the Wall Street Journal under Borrowing Benchmarks, Money Rates, Federal Funds Effective Rate, Latest.

4. Reservation of Authority

Notwithstanding anything to the contrary contained herein:

(a) The Company shall have the ultimate and final authority over decisions and policies relating to the Reinsured Policies, and the Company has the right to inspect any and all documents that pertain to the administration of the Reinsured Policies by Reinsurer and any contract administrators. The Company's authority described above includes but is not limited to the acceptance, rejection or canceling of rights and the payment or nonpayment of claims under Reinsured Policies; provided, however, that if Reinsurer shall make any recommendations with respect thereto which recommendation shall be rejected by the Company, and the action or inaction taken by the Company results in any additional liabilities, damages, costs or expenses to the Company or Reinsurer, other than as specified in a Reinsured Policy, or if the Company's dealings with any of Reinsurer's contract administrators shall result in any additional liabilities, damages, costs or expenses to Reinsurer, such liabilities, damages, costs or expenses shall be the responsibility of the Company and Company shall indemnify and hold Reinsurer and Reinsurer's contract administrators harmless from and against any such liabilities, damages, costs or expenses.

(b) The business and affairs of the Company shall be managed by its Board of Directors, and to the extent delegated by the Board, by the Company's designated officers. Reinsurer acknowledges that the Board of Directors of the Company is vested with the power, authority and responsibility for managing the business and affairs of the Company, including

administrative services agreements of the Company with Reinsurer and any contractors. Reinsurer acknowledges that any and all actions or services, whether supervisory or ministerial, taken or provided pursuant to this Agreement by Reinsurer and any contract administrators, shall be subject to the continuous supervision by the Company's Board of Directors and officers.

5. Complaint Handling Procedures

(a) The parties will cooperate with each other in providing information necessary to respond to any complaints of policyholders concerning the Reinsured Policies. For purposes of this Section, a complaint shall not include Litigation which will be managed as provided in Article VIII.

(b) After the Closing Date and before the applicable Administrative Transfer Date, Company shall promptly forward any such complaints, along with the proposed response, by facsimile or overnight mail to a contact person designated by Reinsurer in writing (the "Reinsurer Contact") for review. Upon answering such complaints, Company will furnish Reinsurer with a copy of the complaint file.

(c) After the applicable Administrative Transfer Date, Reinsurer shall answer all complaints received by it concerning the Reinsured Policies, provided, that if a complaint relates to a matter that would be a liability of Company under this Agreement ("Company Complaint"), it shall be handled as provided in paragraph (d) of this Section. All complaints (including Company Complaints) concerning the Reinsured Policies received by Company after the applicable Administrative Transfer Date shall be promptly forwarded by facsimile or overnight mail (or as Reinsurer may otherwise direct) to the Reinsurer Contact for reply. Upon answering any complaints, Reinsurer will furnish Company with a copy of the complaint file.

(d) If the complaint is a Company Complaint, Reinsurer shall:

(1) by the end of the fifth business day after receipt thereof, fax or overnight mail a copy of the Company Complaint to a contact person designated by the Company in writing (the "Company Contact");

(2) have the discretion to obtain an agent's statement and acknowledge receipt of the complaint;

(3) draft a proposed response to the complaint and provide a fax copy of the proposed response along with a copy of the applicable portion of the policy file to the Company Contact within ten (10) business days after receipt thereof. Company shall have five (5) business days from the date the proposed response is received from the Reinsurer to review the proposed response. If the Company disagrees with Reinsurer's proposed response, Company must provide the Reinsurer Contact with a written notice of objection within such 5 day period. If an objection is not received within such 5 day period, the Company shall be deemed to agree with the proposed response. Reinsurer will then respond to the complaint while keeping the Company fully apprised; or

(4) if Company disagrees with Reinsurer's proposed response and Reinsurer receives an objection from the Company within such 5 day period, Reinsurer shall turn over the handling of the complaint to the Company and the Company shall then assume full responsibility for the

handling of the complaint while keeping Reinsurer fully apprised, and will furnish Reinsurer with a copy of the complaint file.

(e) The Company shall be solely responsible for maintaining any complaint files, complaint registers or other reports of any kind related to policyholder complaints, which are required to be maintained under applicable state law. Subject to the requirements of Article VIII, Section 5 regarding Litigation, Reinsurer shall also maintain complaint files and registers and shall provide the Company with copies of complaint registers concerning Reinsured Policies quarterly or upon reasonable request by the Company. The Company shall also be responsible for preparing and submitting any other complaint filings as required by applicable law.

6. Inquiries

In the event that Reinsurer or the Company receives notice of, or otherwise becomes aware of, any regulatory inquiry, investigation or proceeding relating to the Reinsured Policies, Reinsurer or the Company, as applicable, shall promptly notify in writing the other party thereof, whereupon the parties shall cooperate in good faith and use their respective commercially reasonable efforts to respond to such matter in a timely manner.

7. Authorizations

After the Closing Date and upon Reinsurer's reasonable request, the Company shall provide specific authorizations for Reinsurer's employees to sign letters and acknowledge policy modifications on behalf of the Company concerning such matters which include, but are not limited to, policy administration and claim matters. Notwithstanding the failure of the Company to grant specific authorizations, Reinsurer shall be authorized hereunder to perform such acts with respect to the Reinsured Policies as may be reasonably necessary for the performance of this Agreement. The Company hereby grants an irrevocable (other than in the event of termination of this Agreement) power of attorney authorizing Reinsurer to endorse for deposit payments and remittances related to the Reinsured Policies into a bank account or accounts controlled by Reinsurer, and to communicate directly with the policyholders under the Reinsured Policies concerning policy matters, including providing payment instructions and other administrative matters, and any other matters Reinsurer deems necessary or appropriate in connection with the Reinsured Policies and in compliance with the terms of this Agreement.

8. Books and Records

(a) On the applicable Administrative Transfer Date, the Company shall deliver to Reinsurer all Books and Records, except such original Books and Records required by the Company to complete its support of the transition of the Reinsured Policies or required by law to be retained by the Company. Upon such completion, such Books and Records shall then be delivered to Reinsurer. After the applicable Administrative Transfer Date, all Books and Records maintained by Reinsurer shall be open to examination and audit by the Company at reasonable times during Reinsurer's normal business hours, subject to reimbursement of all reasonable costs and expenses incurred by Reinsurer in connection therewith, provided that such examinations and audits shall be conducted not more than once in any calendar year. Prior to the applicable Administrative Transfer Date, all Books and Records shall be open to examination

and audit by Reinsurer at reasonable times during the Company's normal business hours, subject to reimbursement of all reasonable costs and expenses incurred by the Company in connection therewith.

(b) If either party requests access to, or copies of, any Books and Records, that party shall have reasonable access thereto and shall pay the reasonable cost of copying and shipping such Books and Records.

(c) For purposes of this Agreement, "Books and Records" means originals or copies of all customer lists, policy records, files, charts, books and ledgers, policy information, policy forms and rating plans, records relating to development, marketing, reserving or approval of the Reinsured Policies, disclosure and other documents and filings, including statutory filings, required under all applicable laws, administrative records, reinsurance records, claim records, sales records, underwriting records, financial records, tax records and compliance records in the possession or control of the Company and/or the Reinsurer and relating principally to the Reinsured Policies including any database, magnetic or optical media (to the extent not subject to licensing restrictions) and any other form of recorded, computer generated or stored information or process, but excluding:

(1) The Company's original certificate of incorporation, bylaws, corporate seal, licenses to do business, minute books and other corporate records relating to corporate organization and capitalization; and

(2) original tax and corporate accounting records relating to the Reinsured Policies.

(d) Any Books and Records required to be maintained pursuant to Article VIII, Section 5(d) shall be maintained as provided in that section.

9. Ownership of Premiums

All monies, checks, drafts, money orders, postal notes and other instruments that may be received after the applicable Administrative Transfer Date by the Company for Premiums, fees or other payments on or in respect of the Reinsured Policies shall be held in trust by the Company for the benefit of Reinsurer and shall be immediately transferred and delivered to Reinsurer, and any such instruments when so delivered shall bear all endorsements required to effect the transfer of same to Reinsurer. The Reinsurer shall be authorized to endorse for payment to Reinsurer any such checks, drafts, money orders and other instruments pertaining to the Reinsured Policies that are payable to, or to the order of, the Company and received by the Reinsurer under this Agreement. As between the parties, Reinsurer shall be deemed owner of all such payments.

10. Security Interest

(a) The parties agree that as security for all the Secured Obligations (as hereinafter defined), the Company does hereby grant, bargain, sell, convey, assign and otherwise pledge to Reinsurer, all of the Company's right, title and interest, if any (legal, equitable or otherwise), to (i) all Premiums, fees and other payments due or made after the Effective Date under the

Reinsured Policies (and the lockbox or account set up for the receipt of said Premiums, fees and other payments after the Effective Date) and (ii) all cash and assets supporting the reserves relating to the Reinsured Policies (collectively, for purposes of this Section 10, the "Collateral"). As used in this Section 10, "Secured Obligations" shall mean any and all obligations of the Company arising under this Agreement (including any obligations to pay and deliver to Reinsurer any amounts owing to Reinsurer upon termination of this agreement as provided in Article XIII). Upon the failure of the Company to fully perform any of its obligations and undertakings hereunder, Reinsurer shall have, in addition to all other rights under this Agreement or under applicable law, the following rights:

- (1) the right to exercise all rights and remedies granted a secured party under the Uniform Commercial Code, as said code has been enacted in the Company's or the Reinsurer's state of domicile, or any other applicable jurisdiction (collectively, the "UCC"), as though all the Collateral constituted property subject to a security interest under Article 9 thereof;
- (2) the right to set off; the right to intercept and retain monies and property in the lockbox and otherwise; and
- (3) the right to dispose of the Collateral, subject to commercial reasonableness.

This provision is being included in this Agreement to ensure that, if an insolvency or other court determines that, notwithstanding the provisions of this Agreement, including Articles I, II and III, Article IV, Section 9, Article VIII, Section 1 and Article XIII, and the intent of this Agreement, the Company retained ownership of or any rights in the Collateral, Reinsurer's rights to the Collateral are protected with a first priority, perfected security interest, and it is the intent of the parties that this Section be interpreted as such. Nothing contained herein shall be construed to support the conclusion that the Company will retain any ownership of or any rights in the Collateral after the Effective Date or to support the conclusion that Reinsurer does not acquire full ownership thereof as of the Effective Date.

(b) The Company shall execute and deliver any and all financing statements reasonably requested by Reinsurer to the extent that it may appear appropriate to Reinsurer to file such financing statements in order to perfect Reinsurer's title under Article 9 of the UCC to any and all premiums, the Unamortized Portion of the Ceding Commission, any other amounts due Reinsurer, and any and all other Collateral.

11. Termination of Services

The Company and Reinsurer acknowledge that the Reinsurer's provision of administrative services under this Article IV is inextricably related to the reinsurance of the Reinsured Liabilities provided for hereunder. For the avoidance of doubt, the Company and Reinsurer agree that the Reinsurer's obligations to provide the services set forth in this Article IV shall terminate automatically and be of no further force or effect upon the termination of the reinsurance provided hereunder, subject to the Servicing Following Termination provisions of Article XIII, provided that the Company may terminate the administrative services pursuant to Article XIII while keeping the reinsurance in force.

12. SOX Audit Language

As a public company, Consec, Inc. and its subsidiaries (including, without limitation, the Company) are subject to the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"). To record the financial impact of the Coinsurance Agreement, the Company relies upon Reinsurer's internal financial and operational controls as they relate to reporting the financial transactions under the Coinsurance Agreement. Pursuant to Title IV, Section 404 of Sarbanes-Oxley, the Company needs to have a basis for such reliance. To provide the Company with the basis for such reliance, the Company retains the right, at its expense, to audit controls in place by Reinsurer or Reinsurer's third party administrator by either appointing a mutually acceptable accounting firm or through the use of its internal audit staff. Any such audit shall take place after reasonable notice to the Reinsurer and shall occur during normal business hours. In addition, Reinsurer agrees to provide the Company with a SAS 70 report prepared by the Reinsurer's third party administrator to the extent such report is available.

13. Gramm-Leach-Bliley Act

In performing administrative services under this Agreement, the parties agree to comply with the requirements of the Gramm-Leach-Bliley Act.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to the Reinsurer as follows, as of the date hereof and as of the Closing Date:

- (1) Organization and Standing of the Company. The Company is a corporation duly organized and validly existing under the laws of the State of Illinois.
- (2) Authorization. The Company has all requisite corporate power and authority to enter into this Agreement, and to perform its obligations hereunder. The execution and delivery by the Company of this Agreement, and the performance by the Company of its obligations hereunder have been duly authorized and are valid and binding obligations of the Company, enforceable against it in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting creditors' rights generally or by the principles governing the availability of equitable remedies.
- (3) No Conflict or Violation. The execution, delivery and performance of this Agreement will not (a) violate any provision of the Articles of Incorporation, By-laws or other charter or organizational document of the Company; (b) violate, conflict with or result in the breach of any of the terms of, result in any modification of, give any counterparty the right to terminate, or constitute a default under, any contract or other agreement to which the Company is a party; (c) violate any order, judgment or decree applicable to the Company; or (d) subject to the receipt of the necessary regulatory approvals or non-disapprovals set forth in Schedule B, violate any statute, law or regulation of any jurisdiction applicable to the Company.
- (4) Compliance with Applicable Law. The Reinsured Policies are, and the sale, marketing (including but not limited to any advertisements and point-of-sale materials), issuance and administration thereof have been conducted, in compliance in all material respects with all laws applicable to the Reinsured Policies, including, without limitation, common law. The tax treatment under the U.S. Internal Revenue Code of 1986, as amended (the "Code") of all the Reinsured Policies is and at all times has been the same or more favorable to the purchaser, policyholder or intended beneficiaries thereof as the tax treatment under the Code for which such contracts were purported to qualify or were treated as qualifying; Company has complied in all respects with all requirements of the Code with respect to the Reinsured Policies, including without limitation withholding obligations and information reporting requirements. For purposes of this Section 4, the provisions of the Code relating to the tax treatment of the Reinsured Policies shall include, but not be limited to, Code Sections 72, 79, 101, 401, 403, 408, 457, 817, 818, 7702, and 7702A.
- (5) Consistent with Books and Records. The Books and Records of Company are, and since the Effective Date have been, true, correct, complete and accurate in all material respects in relation to the Reinsured Policies. All of the information concerning the Reinsured Policies contained in any exhibit or schedule to this Agreement or in any computer master file furnished

to Reinsurer is true, correct, complete and accurate in all material respects.

(6) Cost of Insurance and Discretionary Elements. To the best of Company's knowledge, Company has complied and is in compliance with all contract provisions, laws and regulations associated with or applicable to the cost of insurance, credited interest rates, participation rates and other discretionary elements concerning the Reinsured Policies and true and complete copies of all supporting documents relating to any changes to such discretionary elements have been provided to Reinsurer.

(7) Litigation. Except as disclosed on Schedule L, and other than routine claims for Contractual Liabilities arising in the ordinary course of business, there are no claims, actions, suits, proceedings or investigations pending, or to the knowledge of Company, threatened, against, involving or affecting any of the Reinsured Policies or any of the rights or assets to be transferred hereunder or the transactions provided for in this Agreement, and Company does not have any knowledge of any specific dispute or controversy or pattern of alleged improper conduct relating to any of the Reinsured Policies that reasonably may be expected to give rise to any claim, action, suit, proceeding or investigation.

(8) Information Supplied to Reinsurer and to Milliman, Inc. All information supplied by or on behalf of the Company (a) to Reinsurer in connection with Reinsurer's due diligence on the Reinsured Policies and the Company and (b) to Milliman, Inc. (or its affiliates or any consulting actuaries associated with Milliman, Inc.) in connection with the preparation of the actuarial appraisal prepared by Milliman, Inc., dated December 21, 2006 and the letters from Milliman, Inc. to Conseco Insurance Company dated February 16, 2007 and February 27, 2007 (collectively, the "Appraisal"), was true, correct, accurate and complete in all material respects.

(9) Regulatory Status in New York. Company is neither licensed as an insurer nor accredited as a reinsurer in New York. None of the Reinsured Policies have been written or otherwise issued in New York such that New York licensure or accreditation would be required.

(10) Policies. None of the Reinsured Policies entitles the holder thereof or any other person to receive dividends, distributions or other benefits based on the revenues or earnings of Company. None of the Reinsured Policies has premiums or other consideration allocated to one or more separate accounts of Company. To the best knowledge of Company, Company has paid all required bonus amounts to policyholders in accordance with the illustrations used in connection with the marketing and sale of the Reinsured Policies.

(11) Reserves. Company has (i) established and maintained as a liability on its statutory statements the statutory reserves and claim reserves required by Company SAP and (ii) made no commitments to any Governmental Entities to hold policy reserves which exceed those required by Company SAP. For purposes of this Agreement, "Governmental Entity" means any court, administrative or regulatory agency or commission, or other federal, state or local governmental authority or instrumentality, including, without limitation, any State insurance regulator, having jurisdiction over any party hereto.

(12) Other Reinsurance. Schedule M sets forth a complete and correct list as of the Effective Date of all reinsurance agreements constituting Other Reinsurance with respect to the

Reinsured Policies. Each such reinsurance agreement is and as of the Effective Date was valid, legal and binding on the Company in accordance with its terms, and neither the Company, nor to the best of Company's knowledge, any other party, is or, as of the Effective Date, was in breach thereof or default thereunder, and there does not exist under any such agreement any event which, with the giving of notice or the lapse of time, or both, would constitute a breach or default by the Company thereunder which would entitle the other party thereto to terminate such agreement.

(13) Assets. The Company has good, valid and marketable title to all of the assets listed on Schedule E, free and clear of any liens.

(14) Absence of Certain Changes. Since the Effective Date, the Reinsured Policies have been managed and administered by the Company in the ordinary course of business consistent with past practices including, without limitation, with regard to underwriting, pricing and actuarial and investment policies in general (including but not limited to the Company's policies and practices concerning the management of the cost of insurance, credited interest rates, participation rates and other discretionary elements concerning the Reinsured Policies.)

(15) No Brokers. No investment banker, broker, finder or other intermediary has acted directly or indirectly for either Company or any of its affiliates, and Company has not and will not incur any obligation to pay any brokerage or finder's fee or other commission, in connection with this Agreement.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF REINSURER

The Reinsurer represents and warrants to the Company as follows, as of the date hereof and as of the Closing Date:

- (1) Organization and Standing of Reinsurer. Reinsurer is a corporation duly organized and validly existing under the laws of Illinois.
- (2) Authorization. Reinsurer has all requisite corporate power and authority to enter into this Agreement, and to perform its obligations hereunder. The execution and delivery by Reinsurer of this Agreement, and the performance by Reinsurer of its obligations hereunder have been duly authorized and are valid and binding obligations of Reinsurer, enforceable against it in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting creditors' rights generally or by the principles governing the availability of equitable remedies.
- (3) No Conflict or Violation. The execution, delivery and performance of this Agreement will not (a) violate any provision of the Articles of Incorporation, By-laws or other charter or organizational document of Reinsurer; (b) violate, conflict with or result in the breach of any of the terms of, result in any modification of, give any counterparty the right to terminate, or constitute a default under, any contract or other agreement to which Reinsurer is a party; (c) violate any order, judgment or decree applicable to Reinsurer; or (d) subject to the receipt of the necessary regulatory approvals or non-disapprovals set forth in Schedule B, violate any statute, law or regulation of any jurisdiction applicable to Reinsurer.
- (4) No Brokers. No investment banker, broker, finder or other intermediary has acted directly or indirectly for either Reinsurer or any of its affiliates, and Reinsurer has not and will not incur any obligation to pay any brokerage or finder's fee or other commission, in connection with this Agreement.
- (5) Other. Reinsurer is authorized or accredited as a reinsurer in the State of Illinois. Reinsurer is solvent and able to satisfy all of its debts in the ordinary course of business.

ARTICLE VII

REPRESENTATIONS AND WARRANTIES OF CONSECO, INC.

Conseco, Inc. represents and warrants to the Reinsurer as follows, as of the date hereof and as of the Closing Date:

- (1) Organization and Standing of Conseco, Inc. Conseco, Inc. is a corporation duly organized and validly existing under the laws of Delaware.
- (2) Authorization. Conseco, Inc. has all requisite corporate power and authority to enter into this Agreement, and to perform its obligations hereunder. The execution and delivery by Conseco, Inc. of this Agreement, and the performance by Conseco, Inc. of its obligations hereunder have been duly authorized and are valid and binding obligations of Conseco, Inc., enforceable against it in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting creditors' rights generally or by the principles governing the availability of equitable remedies.
- (3) No Conflict or Violation. The execution, delivery and performance of this Agreement will not (a) violate any provision of the Articles of Incorporation, By-laws or other charter or organizational document of Conseco, Inc.; (b) violate, conflict with or result in the breach of any of the terms of, result in any modification of, give any counterparty the right to terminate, or constitute a default under, any contract or other agreement to which Conseco, Inc. is a party; (c) violate any order, judgment or decree applicable to Conseco, Inc.; or (d) subject to the receipt of the necessary regulatory approvals or non-disapprovals set forth in Schedule B, violate any statute, law or regulation of any jurisdiction applicable to Conseco, Inc.

ARTICLE VIII

INDEMNIFICATION AND OTHER AGREEMENTS

1. Indemnification by Company

Company shall indemnify and hold Reinsurer and its directors, officers, employees, representatives, affiliates, successors and permitted assigns (collectively, the "Reinsurer Indemnified Parties") harmless from and against all claims, losses (including refunded or foregone premiums), liabilities, damages (including any punitive, exemplary, compensatory, consequential or indirect damages and lost profits), deficiencies, costs and expenses of any nature, including interest and penalties, and legal, accounting, actuarial and other professional fees and litigation costs and expenses (collectively, "Losses"), asserted against, imposed upon or incurred by any Reinsurer Indemnified Party, directly or indirectly arising out of or in connection with

(a) the Reinsured Policies, other than the Contractual Liabilities specifically reinsured by Reinsurer or other liabilities expressly assumed by the Reinsurer under this Agreement, (b) Company's or any producer's negligence or misconduct in connection with the, administration, pricing, sales or marketing of the Reinsured Policies, (c) any liabilities of Company other than (i) the Contractual Liabilities specifically reinsured by Reinsurer under this Agreement or other liabilities expressly assumed by the Reinsurer and (ii) except as provided in clause (g) hereof, the administrative responsibilities of Reinsurer referred to in Article IV, (d) any Extra Contractual Obligations unless and to the extent that such Losses arise out of the acts, errors or omissions of Reinsurer, its agents, subcontractors, representatives or delegates, (e) any misrepresentation, breach of or failure to perform, or allegation which, if true, would constitute a misrepresentation, breach of or failure to perform, any representation, warranty, covenant, undertaking or agreement of Company in this Agreement, (f) Litigation (other than Litigation arising from or related to acts, errors or omissions of the Reinsurer in the conduct of its responsibilities hereunder), (g) any modification in the administration of the Reinsured Policies in connection with the settlement of Litigation as contemplated by Article VIII, Section 5(a), to the extent such modification has not been consented to by the Reinsurer, or (h) any enforcement of this indemnity.

2. Indemnification by Reinsurer

Reinsurer shall indemnify and hold Company and its directors, officers, employees, representatives (excluding the producers), affiliates, successors and permitted assigns (collectively, the "Company Indemnified Parties") harmless from and against all Losses asserted against, imposed upon or incurred by any Company Indemnified Party, directly or indirectly, arising out of or in connection with (a) any and all Contractual Liabilities occurring after the Effective Date (provided, however, that no indemnification is provided for any Contractual Liability if it arises out of any allegation or matter that, if true, would constitute a breach of Company's representations and warranties hereunder), (b) any Extra Contractual Obligations only to the extent such liabilities arise out of the acts, errors or omissions of Reinsurer, its agents, subcontractors, representatives or delegates from and after the applicable Administrative Transfer Date, (c) any misrepresentation, breach of or failure to perform, or allegation which, if true, would constitute a misrepresentation, breach of or failure to perform, any representation,

warranty, covenant, undertaking or agreement of Reinsurer in this Agreement, or (d) any litigation caused by or related to Reinsurer in connection with any services performed hereunder, or (e) any enforcement of this indemnity.

3. Notice of Potential Liability

Promptly after receipt by a party entitled to indemnification hereunder (the "Indemnified Party") of notice of any demand, claim or circumstances which, with or without the lapse of time, would give rise to a claim or the commencement (or threatened commencement) of any action, proceeding or investigation that may result in indemnifiable Losses, the Indemnified Party shall give notice of the potential liability to the party required to provide indemnification with respect to such indemnifiable Losses ("Indemnifying Party"). The notice shall (i) describe the potential liability in reasonable detail, (ii) indicate the amount (estimated, if necessary) of the Losses that have been or may be suffered by the Indemnified Party and (iii) include a statement as to the basis for the indemnification sought. Failure to provide notice in a timely manner shall not be deemed a waiver of the Indemnified Party's right to indemnification other than to the extent that such failure prejudices the defense of the claim by the Indemnifying Party.

4. Opportunity to Defend

The Indemnifying Party may elect to defend, at its own expense and by its own counsel, any potential liability covered by this Article; provided, however, that the Indemnifying Party may not compromise or settle any such liability without the consent of the Indemnified Party (which consent shall not be unreasonably withheld or delayed). If the Indemnifying Party elects to defend the potential liability, it shall within 30 days from receipt of the notice required by Article VIII, Section 3, notify the Indemnified Party of its intent to do so, and the Indemnified Party shall cooperate in the defense at its own expense. The Indemnifying Party shall be entitled to participate in (but not to control) the defense of any asserted liability which it has not elected to defend with its own counsel and at its own expense. The Company and Reinsurer shall make mutually available to each other all relevant information in their possession relating to any asserted liability (except to the extent that such action would result in the loss of attorney-client privilege) and shall cooperate with each other in the defense thereof.

5. Litigation Management

(a) The Company shall provide the defense for all Litigation (other than Litigation arising from or related to acts, errors or omissions of the Reinsurer in the conduct of its responsibilities hereunder which shall be the responsibility of Reinsurer), including the Litigation listed on Schedule L ("Existing Litigation") at the Company's sole cost, including, but not limited to, the costs of attorneys, expert witnesses and other expenses. The conduct of such defense, including the approval of any settlement or compromise shall be within the sole control of the Company; provided, however, that any terms of any such settlement or compromise that require an enhancement of policy provisions or other changes in the terms of the Reinsured Policies ("Policy Enhancement") or modification in the administration of the Reinsured Policies shall be subject to the prior written consent of Reinsurer, which consent shall not be unreasonably withheld or delayed. Reinsurer agrees to consider, in good faith, any potential settlement or compromise proposed by the Company that includes payment by the Company to

the Reinsurer of the reasonable cost associated with any changes or modifications in the administration of the Reinsured Policies.

(b) Reinsurer shall afford to the Company and its representatives, reasonable access and duplicating rights during normal business hours to all information, including, without limitation, all Books and Records within its possession, custody or control relating to the Reinsured Policies insofar as such access is reasonably required by the Company in connection with the Existing Litigation or litigation which may arise or be threatened with respect to Reinsured Policies (collectively referred to as "Litigation").

(c) Reinsurer shall make available to the Company, upon written request, its officers, employees, agents and representatives as witnesses to the extent that any such person may reasonably be required in connection with the defense and/or settlement of Litigation.

(d) Except as otherwise required by law or agreed in writing, Reinsurer shall retain and shall not alter any information transferred by the Company to Reinsurer's possession or control relating to the Reinsured Policies, including, but not limited to, paper documents, microfiche, microfilm and electronic systems and/or data created by Reinsurer during its administration of the Reinsured Policies, which are or may be relevant to the Litigation (referred to collectively as "Litigation Information"). This obligation specifically includes information related to Existing Litigation. Reinsurer will promptly inform any employee having access to, custody, possession or control of Litigation Information and Reinsurer's obligation to retain Litigation Information. Nothing contained in this Agreement shall waive any attorney-client privilege or claim of attorney work product that already exists or hereafter may be created.

6. Obligation of the Company to Fund Trust Account

(a) In the event that the Company approves a settlement or compromise of Litigation and the terms of any such settlement or compromise require a Policy Enhancement (which, as noted above, will only be permitted with the prior written consent of the Reinsurer), the Company shall be obligated to establish and fund a trust account (the "Company Trust Account") solely for the purpose of collateralizing the Company's obligations to the holders of the Reinsured Policies who are entitled to receive Policy Enhancements, provided that the Company shall not be so obligated to fund the Company Trust Account unless and until the aggregate value of all such Policy Enhancements exceeds \$12,000,000. The Company Trust Account shall be held in a national bank or trust company that is a qualified United States financial institution meeting the requirements of the Company's domiciliary state insurance law. The Company Trust Account shall be established and funded no later than the date such settlement or compromise takes effect.

(b) The Company Trust Account shall be funded by the Company with cash or other assets with a National Association of Insurance Commissioners ("NAIC") designation of 1 or 2 with a book value equal to the statutory reserves of the Company in respect of such Policy Enhancement, determined in accordance with Company SAP consistently applied (the "Company Required Balance"). Thereafter, as of the end of each calendar quarter, the Company Required Balance shall be recalculated and the statutory book value of the assets held in the Company Trust Account shall be determined. If the statutory book value of the assets held in the

Company Trust Account exceeds the Company Required Balance as of the end of any calendar quarter, the amount of such excess shall be released from the Company Trust Account and paid over to the Company. If the statutory book value of the assets held in the Company Trust Account is less than the Company Required Balance as of the end of any calendar quarter, the amount of such deficiency shall be paid into the Company Trust Account by the Company within 3 business days of the date of determination but in no event later than 45 days after the end of the preceding calendar quarter. Each determination by the Company with respect to either the statutory book value of assets or the amount of the Company Required Balance shall be subject to review and approval by the Reinsurer (which approval shall not be unreasonably withheld or delayed).

(c) The Company shall grant to the Reinsurer the right, secured by a perfected first priority security interest, to withdraw funds from the Company Trust Account, as third party administrator of the Reinsured Policies, in order to fund that portion of each payment of claims or other benefits under the Reinsured Policies that is attributable to the Policy Enhancement.

(d) The obligation of the Company to maintain the Company Trust Account will terminate once the aggregate value of all such Policy Enhancements is less than \$12,000,000; provided that the Company's financial strength rating by Standard & Poor's Ratings Services ("S&P") is at least BB+. Notwithstanding, the Company shall remain liable for all such Policy Enhancements.

7. Obligation of the Reinsurer to Fund Trust Account

(a) If the Reinsurer's financial strength rating by S&P is downgraded to a rating of less than A-, the parties will negotiate in good faith a trust account that will secure the Reinsurer's obligations to the Company under this Agreement. If the parties are unable to agree on the form of the trust arrangement within 45 days after the downgrade (or such longer period as the parties may agree), the Reinsurer shall, establish a trust that complies with the required provisions of the then current reserve credit trust requirements of the Company's state of domicile; provided, that notwithstanding any such requirements (x) assets in the trust account will be valued on the Reinsurer's statutory book value (not market value) basis, (y) the Reinsurer may, with prior notice to, but without prior consent of, the Company, withdraw assets from the trust account at any time to the extent that the statutory book value of the assets in the trust account exceeds 100% of the statutory reserves with respect to the Reinsured Policies as required by the applicable regulatory authorities, and (z) no other amounts may be withdrawn from the trust except by written agreement of the parties or pursuant to applicable court or arbitration order or pursuant to Article XII.

(b) It is the intent of the parties that the trust shall not be used to secure reinsurance credit, but will be used only to provide financial comfort to the Company. Following establishment of any trust established under paragraph

(a) above, the parties shall continue to negotiate in good faith and shall use their best efforts to agree on a substitute arrangement that more closely reflects the intent of this Agreement, at which time the trust established under the preceding sentence shall be terminated and replaced by such substitute arrangement.

(c) The obligation of the Reinsurer to establish or maintain a trust account will

terminate on the earlier of the termination of this Agreement or the date the financial strength rating of the Reinsurer is upgraded to A- or higher by S&P.

8. Conduct of Business

During the period from the date of this Agreement through the applicable Administrative Transfer Date, the Company will manage and administer the Reinsured Policies in the ordinary course of business consistent with past practices including, without limitation, with regard to underwriting, pricing and actuarial and investment policies in general (including but not limited to the Company's policies and practices concerning the management of the cost of insurance, credited interest rates, participation rates and other discretionary elements concerning the Reinsured Policies.)

ARTICLE IX

TAX

1. DAC Tax

Each party is subject to United States taxation as defined in Section 1.848-2(h)(2)(ii) of the Income Tax Regulations under Section 848 of the Internal Revenue Code of 1986, as amended (the "Code"). Reinsurer and the Company will comply with the following concerning the capitalization of certain policy expenses, pursuant to Section 848 of the Code and Income Tax Regulations Sections 1.848-1 and 1.848-2.

- (a) The term "party" will refer to either Reinsurer or the Company as appropriate.
- (b) The terms used in this Article are defined by reference to Regulations Section 1.848-1 and 1.848-2 as in effect on the Closing Date. The term "net consideration" will refer to net consideration as defined in Regulation Section 1.848-2(f).
- (c) Each party shall attach a schedule to its federal income tax return identifying the relevant reinsurance agreements for which the joint election under the Regulation has been made. The first taxable year for which the joint election will be effective is the tax year ending December 31, 2007.
- (d) Pursuant to the joint election set forth in Section 1.848-2(g)(8) of the Income Tax Regulations, the party with net positive consideration, for such agreement for each taxable year, shall capitalize specified policy acquisition expenses with respect to such agreement without regard to the general deductions limitation of Section 848(c)(1).
- (e) Each party agrees to exchange information pertaining to the amount of net consideration under such agreement each year, to ensure consistency, no later than June 15 following the end of such year. The parties agree to act in good faith to amicably resolve any differences.

2. Excise Tax

(a) To the extent that any portion of the reinsurance premium for this Agreement is subject to the Federal Excise Tax (as imposed under Section 4371 of the Internal Revenue Code) and the Reinsurer is not exempt therefrom, the Reinsurer shall allow for the purpose of paying the Federal Excise Tax, a deduction by the Company of the applicable percentage of the premium payable hereon. In the event of any return of premium becoming due hereunder, the Reinsurer shall deduct the applicable same percentage from the return premium payable hereon and the Company or its agent shall take steps to recover the tax from the United

States Government. In the event of any uncertainty, upon the written request of the Company, the Reinsurer will immediately file a certificate of a senior corporate officer of the Reinsurer certifying to its entitlement to the exemption from the Federal Excise Tax with respect to one or more transactions.

(b) In consideration of the terms under which this Contract is issued, the Company undertakes not to claim any deduction of the premium hereon when making tax returns, other than Income or Profits Tax returns, to any State or Territory of the United States of America or to the District of Columbia.

ARTICLE X

INSOLVENCY

All reinsurance under this Agreement will be paid on demand by Reinsurer directly to the Company, its liquidator, receiver, or statutory successor, on the basis of the liability of the Company under the policy or policies reinsured without diminution because of the insolvency of the Company. In the event of the insolvency of the Company, the liquidator, receiver, or statutory successor of the Company will give written notice to Reinsurer of a pending claim against Reinsurer or the Company on any policy reinsured. Such notice will be given within a reasonable time after the claim is filed in the conservation, liquidation, or insolvency proceedings. While the claim is pending, Reinsurer may investigate and interpose, at its own expense, in the proceedings where the claim is to be adjudicated, any defenses which it may deem available to the Company or its liquidator, receiver, or statutory successor. The expense incurred by Reinsurer will be charged, subject to court approval, against the Company as an expense of the conservation, liquidation, or insolvency to the extent of a proportionate share of the benefit that accrues to the Company as a result of the defenses by Reinsurer. Where two or more reinsurers are involved and a majority-in-interest elect to defend a claim, the expense will be apportioned in accordance with the terms of this Agreement as if the expense had been incurred by the Company.

Nothing hereinabove set forth in this insolvency clause shall in any way change the relationship or status of the parties hereto, to wit, that of ceding insurer and reinsurer, nor enlarge the obligations of either party to each other, except as specifically hereinabove provided, to wit, to pay the statutory successor on the basis of the amount of liability of the Company under the Reinsured Policies, rather than on the basis of the actual amount of loss (dividends) paid by the liquidator, receiver or statutory successor to allowed claimants, nor shall anything in the insolvency clause in any manner create any obligation or establish any rights against Reinsurer in favor of any third parties or any person not parties to this Agreement.

ARTICLE XI

DURATION OF COINSURANCE

This Agreement will be effective as of January 1, 2007. Except as otherwise provided herein, this Agreement is unlimited in duration but may be amended by mutual consent of the Company and Reinsurer. The reinsurance provided hereunder will remain in force until termination of the policy or policies on which the reinsurance is based in accordance with the terms of this Agreement.

ARTICLE XII

SETTLEMENT OF DISPUTES

ARBITRATION

Reinsurer and the Company will attempt to resolve any dispute between them under or with respect to this Agreement without resort to any litigation. Accordingly, Reinsurer and the Company agree that they will negotiate diligently and in good faith to agree on a mutually satisfactory resolution of any such dispute and/or mediate any such dispute; provided, however, that if any such dispute cannot be so resolved by them within sixty calendar days (or such longer period as the parties may agree) after commencing such negotiations, Reinsurer and the Company agree that they will submit such dispute to arbitration in the manner specified in, and such arbitration proceeding will be conducted in accordance with, the Commercial Arbitration Rules of the American Arbitration Association ("AAA") and judgment on the award rendered may be entered in any court having jurisdiction thereof. The parties also agree that the AAA Optional Rules for Emergency Measures of Protection shall apply to the proceedings.

The arbitration panel will consist of three disinterested arbitrators, each of whom must be a present or former officer of a life insurance or life reinsurance company familiar with the reinsurance business. Reinsurer and the Company will each appoint one arbitrator by written notification to the other party within thirty calendar days after the date of the mailing of the notification initiating the arbitration. These two arbitrators will then select the third arbitrator within sixty calendar days after the date of the mailing of the notification initiating arbitration.

In addition to construing this Agreement in light of applicable statutory and case law, the arbitrators shall construe this Agreement in light of the prevailing custom and practices for reinsurance in the insurance industry. The vote or approval of a majority of the arbitrators will decide any question considered by the arbitrators. The place of any arbitration will be determined by the arbitrators. Each decision (including, without limitation, each award) of the arbitrators will be final and binding on all parties and will be non-appealable, and (at the request of either Reinsurer or the Company) any award of the arbitrators may be confirmed by a judgment entered by any court of competent jurisdiction. Each party will be responsible for paying (a) all fees and expenses charged by its respective counsel, accountants, actuaries, and other representatives in conjunction with such arbitration and (b) one-half of the fees and expenses charged by each arbitrator.

ARTICLE XIII

TERMINATION

1. Termination

It is the expectation of the parties that this Agreement shall remain in full force and effect until the last of the Reinsured Policies ceases to be in force. However, notwithstanding anything to the contrary in this Agreement, in the event of a Termination Event, the following provisions of this Article XIII shall survive the termination of this Agreement and shall govern the rights, obligations and liabilities of the parties.

2. Termination Event

Each of the following shall constitute a "Termination Event":

- (a) Any action by the Company or any person claiming by or through the Company (including any rehabilitator, liquidator, receiver or similar person) to intercept, interfere with, assert control over or otherwise exercise any rights with respect to the Collateral, in which case Reinsurer shall have the right to terminate this Agreement;
- (b) Any material default in the performance of any of the material obligations of any party hereunder, and the continuation of such default for thirty (30) days after delivery of written notice of such default to such party by the non-defaulting party, in which case the non-defaulting party shall have the right to terminate this Agreement; and
- (c) A rehabilitator, liquidator, receiver or similar person successfully terminates this Agreement.

3. Termination Date; Consequences of Termination

- (a) Upon the occurrence of a Termination Event, the party entitled to terminate this Agreement, or in the case of Section 2(c) of this Article XIII, Reinsurer, shall specify a Termination Date not prior to the date of the occurrence of the Termination Event (the "Termination Date").
- (b) As of the Termination Date,
 - (1) Reinsurer shall be relieved of on-going responsibilities for servicing the Reinsured Policies and shall have no further obligations with respect to payment of claims, coinsurance of Contractual Liabilities, or any other obligations whatsoever under this Agreement except for obligations under the provisions of this Agreement that expressly survive termination.
 - (2) Company shall be deemed to have recaptured and reassumed all Contractual Liabilities or any other obligations whatsoever under this Agreement.

(3) Company shall pay to Reinsurer each of the following: (i) the Unamortized Portion of the Ceding Commission; (ii) the estimated cost incurred by the Reinsurer to transfer the servicing of the Reinsured Policies to and from the systems of the Reinsurer, unless termination is on account of a material default of Reinsurer; and (iii) an amount equal to the amount of any Collateral previously received by the Company (including any rehabilitator, liquidator, receiver or similar person or any person acting by, through or in the place of Company) and otherwise not in the possession or control of the Reinsurer, and used to satisfy claims of policyholders under the Reinsured Policies prior to the Termination Date.

(4) Reinsurer shall pay to Company: (x) the amount of any Premiums or policy, reinsurance or other receipts received by Reinsurer for periods after the Termination Date, and (y) the Net Reserve Amount, plus assets supporting the IMR, plus any IMR created by the transfer, less any policy loans outstanding on the Reinsured Policies, net of any unearned policy loan interest on those policy loans but including amounts of interest accrued with respect thereto, determined as of the Termination Date. "Net Reserve Amount" means cash or admitted invested assets having a market value equal to the statutory reserves attributable to the Contractual Liabilities being recaptured (net of reserves ceded under Other Reinsurance the benefits of which have not been assigned to Reinsurer, reserves for claims in course of settlement, reserves for claims that have been incurred but not reported, and reserves for annuities in payout, and net of policy-related assets) determined as of the Termination Date.

(c) It is the intention of the parties that the benefits and obligations with respect to the Reinsured Policies be retained by Reinsurer for all periods prior to the Termination Date, that such benefits and obligations be borne by the Company after the Termination Date except as otherwise provided herein; and that in the event of termination by the Reinsurer, Company pay Reinsurer the Unamortized Portion of the Ceding Commission and Reinsurer's administrative costs; and this Article XIII shall be construed accordingly.

4. Termination Due to Breach of Administrative Services

Notwithstanding anything contained herein to the contrary, in the event the Company has grounds to terminate this Agreement pursuant to Section 2(b) above related to Reinsurer's performance in administering the Reinsured Policies, the Company may, at its sole discretion, terminate only Article IV and keep the remainder of this Agreement in full force and effect. In the event the Company elects to terminate the administrative services only, Reinsurer shall return or transfer all Books and Records related to the administration of the Reinsured Policies in accordance with the Company's written, reasonable instructions. In addition, Reinsurer shall use its best efforts to provide the Company, without charge, with a limited license to use the software system or systems used by Reinsurer in connection with the administration of the Reinsured Policies, including all computer programs and updated source and object codes ("Software"). If Reinsurer is unable to provide the Software to the Company, without charge, within 180 days after the date of termination of the administrative services portion of this Agreement, then the Company may contact the Software vendor directly, and procure a license to use the Software and obtain copies of the Software and necessary documentation from the vendor, and charge all expenses for such licenses, Software and documentation to Reinsurer, and Reinsurer agrees to pay or reimburse the Company for all such incurred expenses. Reinsurer shall be liable for and provide prompt reimbursement of all reasonable expenses incurred by the Company related to

the remaining administration of the Reinsured Policies, regardless of whether or not the Company handles such administration itself or through its designee, including the estimated cost incurred by the Company to transfer the servicing of the Reinsured Policies to and from the systems of the Reinsurer. For the avoidance of doubt, the provisions of Section 3 of this Article XIII, shall not apply to a termination under this Section 4.

5. Servicing Following Termination

(a) For a period not to exceed 180 days from and after the Termination Date, Reinsurer, upon request of Company, shall continue to administer the Reinsured Policies in good faith until such time as Company is prepared to take over, or transfer to a third party administrator, administrative responsibility for the Reinsured Policies; provided that the Company shall pay Reinsurer an administration service fee equal to an annualized rate of \$25 per Reinsured Policy so administered by the Reinsurer after the Termination Date. At the request of the Company, and if applicable, the Reinsurer will in good faith cooperate with the Company in its efforts to contract directly with the then current third party administrator. During such period, Company shall reimburse Reinsurer's direct expenses at Reinsurer's cost of providing such services unless such termination is initiated by the Company.

(b) After the Termination Date, the parties shall cooperate with each other, affording the other full access to all records relating to the Reinsured Policies, including records of receipts relating in any way to the Reinsured Policies, and each party shall promptly advise the other party of any receipts relating in any way to the Reinsured Policies. Company shall promptly transfer and remit to Reinsurer Premiums, policy, reinsurance or other receipts with respect to the Reinsured Policies received by or on behalf of it but payable with respect to periods before the Termination Date, and Reinsurer shall promptly transfer and remit to Company Premiums, policy, reinsurance or other receipts with respect to the Reinsured Policies received by or on behalf of it but payable with respect to periods after the Termination Date, and any amounts due hereunder may be settled by way of off-set, as provided in Article XIV, Section 4.

6. Unamortized Portion of the Ceding Commission

For purposes of this Agreement, the "Unamortized Portion of the Ceding Commission" shall be calculated in accordance with the Rule of 78 applied over 25 years. If the parties cannot agree on the amount of the Unamortized Portion of the Ceding Commission as of the Termination Date, the issue will be referred to and conclusively determined by, Milliman, Inc. (or another actuarial consultant mutually agreed by the parties), whose fees will be shared equally by the parties.

ARTICLE XIV

GENERAL PROVISIONS

1. Non-Guaranteed Elements

The Company shall set all non-guaranteed elements of the Reinsured Policies, taking into account the Good Faith Recommendations of the Reinsurer. The term "Good Faith Recommendation" shall mean any recommendation provided by the Reinsurer with respect to the non-guaranteed elements of the Reinsured Policies that (i) complies with the written terms of the Reinsured Policies and all applicable laws, rules, regulations, bulletins and orders related thereto, and (ii) is made in good faith after taking into consideration the historic practices of the Company, as disclosed to the Reinsurer, in setting such non-guaranteed elements to meet target investment spreads as well as applicable market conditions and performance during the monthly period or periods at issue. With respect to the Reinsured Policies, the Company shall, in its absolute discretion, either (i) follow the recommendation(s) of the Reinsurer, or (ii) reject the recommendation(s) of the Reinsurer, regardless of whether such recommendation constitutes a Good Faith Recommendation. If, however, the Company rejects any Good Faith Recommendation, the Company shall indemnify Reinsurer for any Direct Economic Loss to the extent such Direct Economic Loss results from the Company's rejection of such Good Faith Recommendation. For purposes of this Section, "Direct Economic Loss" means (x) with respect to credited interest rates, participation rates and other non-guaranteed elements, the amount by which the aggregate change in liability accrued to policyholders in respect of the period to which Reinsurer's Good Faith Recommendation relates exceeds the aggregate change in liability that would have been accrued to such policyholders in respect of such period to the extent that the Company had followed such Good Faith Recommendation, and (y) with respect to charges under the Reinsured Policies included in the non-guaranteed elements, the amount by which the aggregate amount due from policyholders in respect of the period to which Reinsurer's Good Faith Recommendation relates is less than the aggregate amount that would have been due from such policyholders in respect of such period if the Company had followed such Good Faith Recommendation. Reinsurer hereby represents that its current intention is to recommend changes consistent with the Company's historic practices, as disclosed to the Reinsurer, for the non-guaranteed elements of the Reinsured Policies; provided, however, that Reinsurer retains all of its rights under this section to recommend changes in participation rates in accordance with the written terms and conditions of the Reinsured Policies or to change its views to reflect changes in circumstances concerning the Reinsured Policies or otherwise. Notwithstanding any other provisions of this Agreement, although the Company may follow Reinsurer's Good Faith Recommendation, Reinsurer shall assume all liability for Extra-Contractual Damages resulting from its recommended changes in non-guaranteed elements, unless Extra-Contractual Damages result from acts, errors or omissions of the Company related to the marketing, sale, underwriting, production or issuance of the affected Reinsured Policies or administration of the policies by the Company prior to the applicable Administrative Transfer Date.

2. Reinsurance Conditions

The reinsurance is subject to the same limitations and conditions as the insurance under the written terms of the Reinsured Policies.

3. Errors and Omissions

If either the Company or Reinsurer unintentionally fails to perform an obligation under this Agreement or unintentionally errs in performing such an obligation, the oversight or error will be corrected by restoring both the Company and Reinsurer to the positions they would have occupied had no such oversight or error occurred. Any amounts due under this Section will accrue interest at the Fed Funds rate.

4. Offset

Any amount which either the Company or Reinsurer is contractually obligated to pay to the other party under this Agreement may be offset against and paid out of any amount which is due and unpaid from the other party under this Agreement, as such amounts shall be deemed mutual debts and credits. The application of this offset provision will not be deemed to constitute diminution in the event of insolvency.

5. Certain Transfers

(a) The Company agrees that it shall not sell, assumption reinsure or otherwise further transfer or reinsure the Reinsured Policies or its net retention with respect thereto absent Reinsurer's prior written consent.

(b) With not less than thirty days prior written notice to the Company, Reinsurer shall be entitled to transfer and assign all of its right, title and interest in, and obligations under, this Agreement to any Affiliate of Reinsurer as shall, as of the date of such transfer, (i) undertake and assume each and every of Reinsurer's liabilities and obligations hereunder, (ii) be an authorized or accredited reinsurer in the State of Illinois and (iii) have claims-paying-ability or similar credit rating from a nationally recognized rating agency not less than the rating then held by Reinsurer.

(c) For the avoidance of doubt, the provisions of clause (b) of this Section 5 shall not limit or restrict in any way the Reinsurer's right to retrocede all or any part of its retention under this Agreement to any party on an indemnity reinsurance basis.

6. Authority

Neither the Company nor Reinsurer shall have any power or authority to act for or on behalf of the other except as herein expressly granted, and no other or greater power or authority shall be implied by the grant or denial of power or authority specifically mentioned herein.

7. Entire Agreement

This Agreement and the Schedules attached hereto supersede all prior discussions and written and oral agreements between the parties with respect to the subject matter of this

Agreement. This Agreement and the Schedules attached hereto contain the sole and entire agreement between the parties hereto with respect to the subject matter hereof.

8. Amendment

This Agreement may be modified or amended only by a writing duly executed by or on behalf of the Company and Reinsurer subject to any applicable regulatory approval.

9. Counterparts

This Agreement may be executed simultaneously in any number of counterparts, each of which will be deemed an original, but all of which will constitute one and the same instrument.

10. No Assignment

Except as otherwise provided herein, neither party hereto may assign this Agreement or any right hereunder or part hereof without the prior written consent of the other party hereto.

11. Binding Effect

This Agreement is binding upon and will inure to the benefit of the parties and their respective successors and permitted assigns.

12. Notices

Any notice, request, instruction, or other document to be given hereunder by any party hereto to the other party hereto will be in writing and (a) delivered personally, (b) sent by facsimile, (c) delivered by overnight express, or (d) sent by registered or certified mail, postage prepaid, as follows:

If to the Company, to:

Conseco Insurance Company
11825 N. Pennsylvania Street
Carmel, Indiana 46032
Attn: President

With a copy to:

Conseco Insurance Company
11825 N. Pennsylvania Street
Carmel, Indiana 46032
Attn: General Counsel

If to Reinsurer, to:

Reassure America Life Insurance Company
175 King Street
Armonk, New York 10504

Attention: Chief Executive Officer

With a copy to:

Reassure America Life Insurance Company 175 King Street
Armonk, New York 10504
Attention: General Counsel

If to Conseco, Inc., to:

Conseco, Inc.
11825 North Pennsylvania St.
Carmel, Indiana 46032
Attention: Secretary

or at such other address for a party as will be specified by like notice. Each notice or other communication required or permitted under this Agreement that is addressed as provided in this Section will be deemed given upon delivery.

13. Survival of Certain Representations of the Company

The representations and warranties of the parties set forth in Article V and Article VI hereof shall survive for a period expiring on the date that is three (3) years after the Closing Date; provided, however, that (i) the representations and warranties of the Company set forth in Article V, Sections 1 and 2, (ii) the covenants of the Company set forth in Article III, Section 6(b), (iii) the representations and warranties of Conseco, Inc. set forth in Article VII, Sections 1 and 2, (iv) the covenants of Conseco Inc. set forth in Article III, Section 6(b), and (v) the representations and warranties of Reinsurer in Article VI, Sections 1 and 2 shall survive indefinitely.

14. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the State of Illinois, without giving effect to any principles of conflicts of law thereof that are not mandatorily applicable by law and would permit or require the application of the laws of another jurisdiction.

15. Invalid Provisions

If any provision of this Agreement is held to be illegal, invalid, or unenforceable under

any present or future law, and if the rights or obligations of the Company or Reinsurer under this Agreement will not be materially and adversely affected thereby, (i) such provision will be fully severable, (ii) this Agreement will be construed and enforced as if such illegal, invalid, or unenforceable provision had never comprised a part hereof, (iii) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid, or unenforceable provision or by its severance herefrom, and (iv) in lieu of such illegal, invalid, or unenforceable provision, there will be added automatically as a part of this Agreement a legal, valid, and enforceable provision as similar in terms to such illegal, invalid, or unenforceable provision as may be possible.

16. Announcements

The content and timing of public announcements by either party referencing each other or the nature of the reinsurance provided hereby must be approved in advance by both parties, but such approval shall not be unreasonably withheld, conditioned or delayed.

17. Contract Controls

The provisions of this Agreement (without reference to attached Schedules) shall be deemed to control in the event of any inconsistency or conflict between the provisions of this Agreement (without reference to the Schedules attached hereto) and the Schedules attached hereto.

[SIGNATURES ON FOLLOWING PAGE]

ARTICLE XV

EXECUTION

IN WITNESS WHEREOF, Reinsurer and the Company have executed this Agreement on the dates and at the places set forth below.

CONSECO INSURANCE COMPANY

Date: *May 8, 2007*

Place: *Conseco*

Witness: */s/Sheila D. Brooks*

By: */s/Ronald F. Ruhl*

Name: *Ronald F. Ruhl*

Title: *Sr. VP.*

CONSECO, INC., solely as to the provisions of Article III, Section 7(b) and Article VII hereof

Date: *May 8, 2007*

Place: *Chicago, IL*

Witness: */s/Katherine A. Miske*

By: */s/Mark E. Alberts*

Name: *Mark E. Alberts*

Title: *Exec. VP., Chief Actuary*

REASSURE AMERICA LIFE INSURANCE COMPANY

Date: *May 8, 2007*

Place: *Armonk, NY*

By: */s/Kenneth H. Stewart*

Name: *Kenneth H. Stewart*

Witness: /s/Patrick J. Conty Title: Managing Director

Exhibit 12.1

Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends

(Dollars in millions)

	Six months ended June 30, 2007 ----	Year ended December 31, 2006 ----
Pretax income (loss) from operations:		
Net income (loss).....	\$(49.5)	\$ 96.5
Add income tax expense (benefit).....	(27.0)	55.8
	-----	-----
Pretax income (loss) from operations.....	(76.5)	152.3
	-----	-----
Add fixed charges:		
Interest expense on corporate debt.....	33.0	52.9
Interest expense on investment borrowings.....	18.5	20.6
Interest added to policyholder account balances	207.3	426.8
Portion of rental (a).....	7.2	13.2
	-----	-----
Fixed charges.....	266.0	513.5
	-----	-----
Adjusted earnings.....	\$189.5	\$665.8
	=====	=====
Ratio of earnings to fixed charges.....	(b)	1.30x
	=	=====
Fixed charges.....	\$266.0	\$513.5
Add dividends on preferred stock, including dividends on preferred stock of subsidiaries (divided by the ratio of income to pretax income).....	21.8	60.0
	-----	-----
Fixed charges plus preferred dividends.....	\$287.8	\$573.5
	=====	=====
Adjusted earnings.....	\$189.5	\$665.8
	=====	=====
Ratio of earnings to fixed charges and preferred dividends.....	(c)	1.16x
	=	=====

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

(b) For such ratio, earnings were \$76.5 million less than fixed charges.

(c) For such ratio, earnings were \$98.3 million less than fixed charges.

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: August 9, 2007

/s/ C. James Prieur

C. James Prieur
Chief Executive Officer

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: August 9, 2007

/s/ Edward J. Bonach

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

**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 Consecro, Inc. (the "Company") on Form 10-Q for the period ending June 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
August 9, 2007

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

**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 Consecro, Inc. (the "Company") on Form 10-Q for the period ending June 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
August 9, 2007*

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