CONSECO INC

FORM 10-Q
(Quarterly Report)

Filed 08/14/98 for the Period Ending 06/30/98

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

CONSECO INC

FORM 10-Q
(Quarterly Report)

Filed 8/14/1998 For Period Ending 6/30/1998

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

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

Form 10-Q

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

For the quarterly period ended June 30, 1998

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

For the transition period from ______ to ______

Commission File Number 1-9250

Conseco, Inc.

Indiana	No. 35-1468632
State of Incorporation	IRS Employer Identification No.
1825 N. Pennsylvania Street Carmel, Indiana 46032	(317) 817-6100
Address of principal executive offices	Telephone

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

Shares of common stock outstanding as of July 31, 1998: 312,422,989

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CONSECO, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
(Dollars in millions)

ASSETS

	June 30, 1998 (unaudited)	December 31, 1997
Investments:		
Actively managed fixed maturities at fair value (amortized cost: 1998 - $22,103.1; 1997 - $22,289.3)	$22,544.3	$22,773.7
Interest-only securities	934.0	1,365.8
Equity securities at fair value (cost: 1998 - $345.6; 1997 - $227.6)	340.5	228.9
Mortgage loans	475.6	516.2
Credit-tenant loans	646.9	558.6
Policy loans	688.8	692.4
Other invested assets	664.7	530.7
Short-term investments	1,053.8	1,179.1
Assets held in separate accounts	745.8	682.8
Total investments	28,094.4	28,528.2
Accrued investment income	391.5	379.3
Finance receivables	3,547.8	1,971.0
Servicing rights	97.5	77.0
Cost of policies purchased	2,424.1	2,466.4
Cost of policies produced	1,132.9	915.2
Reinsurance receivables	752.6	795.8
Goodwill (net of accumulated amortization: 1998 - $250.9; 1997 - $170.9)	4,015.5	3,693.4
Property and equipment (net of accumulated depreciation: 1998 - $181.4; 1997 - $153.9)	315.1	284.0
Cash held in segregated accounts for investors	685.3	552.8
Cash deposits, restricted under pooling and servicing agreements	247.7	247.2
Other assets	770.5	775.7
Total assets	$42,474.9	$40,686.0

(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, 1998 (unaudited)	December 31, 1997
Liabilities:		
Insurance liabilities:		
Interest sensitive products	$17,267.3	$17,357.6
Traditional products	6,361.6	5,784.8
Claims payable and other policyholder funds	1,571.1	1,615.5
Unearned premiums	409.3	406.1
Liabilities related to separate accounts	745.8	682.8
Investor payables	685.3	552.8
Other liabilities	2,026.6	1,544.4
Income tax liabilities	173.7	532.8
Investment borrowings	1,179.6	1,389.5
Notes payable and commercial paper:		
Corporate	2,952.1	2,354.9
Consumer and commercial finance	2,728.8	1,866.3
Total liabilities	36,101.2	34,087.5
Minority interest:		
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts	1,388.8	1,383.9
Common stock of subsidiary	.7	.7
Shareholders' equity:		
Preferred stock	105.6	115.8
Common stock and additional paid-in capital (no par value, 1,000,000,000 shares authorized, shares issued and outstanding: 1998 - 312,362,652; 1997 - 310,011,669)	2,661.2	2,619.8
Accumulated other comprehensive income:		
Unrealized appreciation of fixed maturity securities (net of applicable deferred income taxes: 1998 - $106.6; 1997 - $95.5)	198.0	177.2
Unrealized appreciation of interest-only securities and other investments (net of applicable deferred income taxes: 1998 - $3.0; 1997 - $16.0)	5.5	26.6
Minimum pension liability adjustment (net of applicable deferred income taxes: 1998 - ($1.9); 1997 - ($1.9))	(3.2)	(3.2)
Retained earnings	2,017.1	2,277.7
Total shareholders' equity	4,984.2	5,213.9
Total liabilities and shareholders' equity	$42,474.9	$40,686.0

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

CONSECO, INC. AND SUBSIDIARIES

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

	Three months ended June 30, 1998	Three months ended June 30, 1997	Six months ended June 30, 1998	Six months ended June 30, 1997
Revenues:				
Insurance policy income:				
Traditional products	$ 855.3	$ 776.4	$1,714.7	$1,342.6
Interest sensitive products	134.5	108.6	265.2	212.5
Net investment income:				
Assets held by insurance subsidiaries	504.2	444.9	1,087.5	854.1
Finance receivables	76.3	53.7	135.9	96.6
Interest-only securities	36.3	29.4	69.6	56.2
Gain on sale of finance receivables	135.2	190.5	272.4	348.6
Net investment gains	12.3	15.8	117.1	20.9
Fee revenue and other income	85.2	57.5	161.7	110.5
Total revenues	1,839.3	1,676.8	3,824.1	3,042.0
Benefits and expenses:				
Insurance policy benefits	681.4	613.2	1,361.8	1,068.5
Amounts added to annuity and financial product policyholder account balances:				
Interest	182.2	170.6	370.6	344.3
Other amounts added to variable and equity-indexed annuity products	23.0	19.3	108.6	35.5
Interest expense:				
Corporate	36.3	25.5	75.3	51.3
Finance and investment borrowings	72.6	41.9	140.0	74.5
Amortization	142.8	132.5	351.2	250.5
Other operating costs and expenses	314.7	259.8	609.7	460.9
Nonrecurring charges	688.0	9.3	688.0	9.3
Total benefits and expenses	2,141.0	1,272.1	3,705.2	2,294.8
Income (loss) before income taxes, minority interest and extraordinary charge	(301.7)	404.7	118.9	747.2
Income tax expense (benefit)	(52.3)	150.3	117.9	276.8
Income (loss) before minority interest and extraordinary charge	(249.4)	254.4	1.0	470.4
Minority interest:				
Distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts	18.8	12.9	38.2	21.6
Dividends on preferred stock of subsidiaries	-	1.2	-	2.5
Income (loss) before extraordinary charge	(268.2)	240.3	(37.2)	446.3
Extraordinary charge on extinguishment of debt, net of taxes	13.9	2.2	30.3	5.5
Net income (loss)	(282.1)	238.1	(67.5)	440.8
Less amounts applicable to preferred stock:				
Charge related to induced conversions	-	.9	-	13.2
Preferred stock dividends	2.2	2.2	4.2	4.5
Net income (loss) applicable to common stock	$ (284.3)	$ 235.0	$ (71.7)	$ 423.1

(continued on next page)

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

CONSECO, INC. AND SUBSIDIARIES

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

	Three months ended June 30, 1998	Three months ended June 30, 1997	Six months ended June 30, 1998	Six months ended June 30, 1997
Earnings (loss) per common share:				
Basic:				
Weighted average shares outstanding	310,326,000	314,285,000	309,648,000	309,450,000
Net income (loss) before extraordinary charge	$(.88)	$.76	$(.13)	$1.39
Extraordinary charge	.04	.01	.10	.02
Net income (loss)	$(.92)	$.75	$(.23)	$1.37
Diluted:				
Weighted average shares outstanding	310,326,000	341,795,000	309,648,000	337,993,000
Net income (loss) before extraordinary charge	$(.88)	$.70	$(.13)	$1.29
Extraordinary charge	.04	.01	.10	.02
Net income (loss)	$(.92)	$.69	$(.23)	$1.27

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

CONSECO, INC. AND SUBSIDIARIES

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

	Total	Preferred stock	Common stock and additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings
Balance, January 1, 1998	$5,213.9	$115.8	$2,619.8	$200.6	$2,277.7
Comprehensive loss, net of tax:					
Net loss	(67.5)	-	-	-	(67.5)
Change in unrealized appreciation of fixed maturity investments (net of applicable income tax expense of $11.1)	20.8	-	-	20.8	-
Change in unrealized appreciation of interest-only securities and other investments (net of applicable income tax benefit of $13.0)	(21.1)	-	-	(21.1)	-
Total comprehensive loss	(67.8)				
Conversion of preferred stock into common shares	-	(10.2)	10.2	-	-
Conversion of convertible debentures into common shares	16.3	-	16.3	-	-
Issuance of shares for stock options and for agent and employee benefit plans	118.1	-	118.1	-	-
Tax benefit related to issuance of shares under stock option plans	41.8	-	41.8	-	-
Issuance of warrants in conjunction with financing transaction	7.7	-	7.7	-	-
Cost of shares acquired	(271.2)	-	(152.7)	-	(118.5)
Dividends on preferred stock	(4.2)	-	-	-	(4.2)
Dividends on common stock	(70.4)	-	-	-	(70.4)
Balance, June 30, 1998	$4,984.2	$105.6	$2,661.2	$200.3	$2,017.1
Balance, January 1, 1997	$4,216.8	$267.1	$2,350.7	$ 36.6	$1,562.4
Comprehensive income, net of tax:					
Net income	440.8	-	-	-	440.8
Change in unrealized appreciation (depreciation) of fixed maturity investments (net of applicable income tax benefit of $7.7)	(14.2)	-	-	(14.2)	-
Change in unrealized appreciation (depreciation) of interest-only securities and other investments (net of applicable income tax benefit of $19.7)	(32.1)	-	-	(32.1)	-
Total comprehensive income	394.5				
Conversion of preferred stock into common shares	-	(145.1)	145.1	-	-
Issuance of shares in merger transactions	458.2	-	458.2	-	-
Issuance of shares for stock options and for agent and employee benefit plans	213.8	-	213.8	-	-
Tax benefit related to issuance of shares under stock option plans	83.1	-	83.1	-	-
Conversion of convertible debentures into common shares	152.1	-	152.1	-	-
Cost of shares acquired	(705.5)	-	(680.1)	-	(25.4)
Other	(5.9)	-	(5.9)	-	-
Amounts applicable to preferred stock:					
Charge related to induced conversion of convertible preferred stock	(12.3)	-	-	-	(12.3)
Dividends on preferred stock	(5.4)	-	-	-	(5.4)
Dividends on common stock	(32.7)	-	-	-	(32.7)
Balance, June 30, 1997	$4,756.7	$122.0	$2,717.0	$ (9.7)	$1,927.4

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, 1998	Six months ended June 30, 1997
Cash flows from operating activities:		
Net income (loss)	$ (67.5)	$ 440.8
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Gain on sale of finance receivables	(272.4)	(348.6)
Net increase in restricted cash deposits	(.5)	(14.8)
Amortization and depreciation	401.2	273.8
Income taxes	(185.8)	79.5
Insurance liabilities	(83.1)	(27.2)
Income added to annuity and financial product policyholder account balances	479.2	379.8
Fees charged to insurance liabilities	(255.8)	(211.1)
Accrual and amortization of investment income	36.1	2.2
Deferral of cost of policies produced	(369.0)	(261.6)
Nonrecurring charges	683.3	-
Minority interest	58.4	33.2
Extraordinary charge on extinguishment of debt	46.9	8.4
Net investment gains	(117.1)	(20.9)
Other	31.1	64.2
Net cash provided by operating activities	385.0	397.7
Cash flows from investing activities:		
Sales of investments	15,747.5	6,254.8
Maturities and redemptions of investments	734.8	249.4
Purchases of investments	(16,254.3)	(6,552.4)
Cash received from the sale of finance receivables, net of expenses	5,374.5	4,309.0
Principal payments received on finance receivables	2,829.8	2,138.5
Finance receivables originated	(9,642.7)	(6,974.0)
Purchase of mandatorily redeemable preferred stock of subsidiary	-	(30.5)
Acquisition of subsidiaries, net of cash held at date of merger	-	(477.9)
Other	(62.0)	(86.5)
Net cash used by investing activities	(1,272.4)	(1,169.6)
Cash flows from financing activities:		
Issuance of Company-obligated mandatorily redeemable preferred stock of subsidiary trusts	3.7	296.7
Issuance of shares related to stock options and employee benefit plans	103.0	28.1
Issuance of notes payable and commercial paper:		
Corporate	2,177.6	1,804.6
Consumer and commercial finance	5,535.3	4,742.7
Payments on notes payable and commercial paper:		
Corporate	(1,602.3)	(1,180.7)
Consumer and commercial finance	(4,616.7)	(4,030.5)
Payments to repurchase equity securities	(236.0)	(585.9)
Investment borrowings	(209.9)	49.6
Deposits to insurance liabilities	1,148.0	956.4
Withdrawals from insurance liabilities	(1,410.5)	(1,083.6)
Charge related to induced conversion of convertible preferred stock	-	(13.2)
Distributions on Company-obligated mandatorily redeemable preferred stock of subsidiary trusts	(55.2)	(25.8)
Dividends paid	(74.9)	(38.2)
Net cash provided by financing activities	762.1	920.2
Net increase (decrease) in short-term investments	(125.3)	148.3
Short-term investments, beginning of period	1,179.1	377.4
Short-term investments, end of period	$ 1,053.8	$ 525.7

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following notes should be read in conjunction with the notes to the supplemental consolidated financial statements and the supplemental management's discussion and analysis of financial condition and results of operations as of December 31, 1997 and 1996 and for each of the three years ended December 31, 1997, included in Exhibit 99.1 to the Current Report on Form 8-K dated June 30, 1998, as amended, of Conseco, Inc. ("We", "Conseco" or the "Company"). Such supplemental consolidated financial statements and the supplemental management's discussion and analysis give retroactive effect to our acquisition (the "Green Tree Merger") of Green Tree Financial Corporation ("Green Tree") which was accounted for as a pooling of interests, as further described below.

BASIS OF PRESENTATION

The unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring items, which are necessary to present fairly Conseco's financial position and results of operations on a basis consistent with that of our prior audited supplemental consolidated financial statements. Pursuant to rules and regulations of the Securities and Exchange Commission applicable to quarterly reports on Form 10-Q, certain information and disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted. Results for interim periods are not necessarily indicative of the results that may be expected for a full year. We have reclassified certain amounts from the prior periods to conform to the 1998 presentation.

Conseco is a financial services holding company. The Company's life insurance subsidiaries develop, market and administer supplemental health insurance, annuity, individual life insurance, individual and group major medical insurance and other insurance products. The Company's finance subsidiaries originate, purchase, sell and service consumer and commercial finance loans throughout the United States. Conseco's operating strategy is to grow its business by focusing its resources on the development and expansion of profitable products and strong distribution channels. Conseco has supplemented such growth by acquiring companies that have profitable niche products and strong distribution systems. Once a company is acquired, our operating strategy has been to consolidate and streamline management and administrative functions where appropriate, to realize superior investment returns through active asset management, to eliminate unprofitable products and distribution channels and to expand and develop the profitable products and distribution channels.

In preparing financial statements in conformity with GAAP, we are required to make estimates and assumptions that significantly affect various reported amounts of 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 in calculating the cost of policies produced, the cost of policies purchased, interest-only securities, servicing rights, goodwill, insurance liabilities, liabilities related to litigation, guaranty fund assessment accruals, gain on sale of finance receivables and deferred income taxes. If our future experience differs materially from these estimates and assumptions, our financial statements could be affected.

Consolidation issues. The consolidated financial statements give retroactive effect to the merger with Green Tree in a transaction accounted for as a pooling of interests (see "Green Tree Merger"). The pooling of interests method of accounting requires the restatement of all periods presented as if Conseco and Green Tree had always been combined. The consolidated statement of shareholders' equity reflects the accounts of the Company as if additional shares of Conseco common stock had been issued during all periods presented. Intercompany transactions prior to the merger have been eliminated, and certain reclassifications were made to Green Tree's financial statements to conform to Conseco's presentation. No material adjustments were recorded to conform Green Tree's accounting policies.

Our financial statements do not include the results of material transactions between us and our consolidated affiliates, or among our consolidated affiliates.

ADJUSTMENT TO ACTIVELY MANAGED FIXED MATURITY SECURITIES

We classify fixed maturity securities into three categories: "actively managed" (which are carried at estimated fair value), "trading" (which are carried at estimated fair value) and "held to maturity" (which are carried at amortized cost). We held $60.4 million of trading securities at June 30, 1998, which are included in other invested assets. We did not classify any fixed maturity securities in the held to maturity category at June 30, 1998.

Adjustments to carry actively managed fixed maturity securities at fair value have no effect on our earnings. We record them, net of tax and other adjustments, to shareholders' equity. The following table summarizes the effect of these adjustments on the related balance sheet accounts at June 30, 1998 and December 31, 1997:

	June 30, 1998			December 31, 1997		
	Cost basis	Effect of fair value adjustments	Carrying value	Cost basis	Effect of fair value adjustments	Carrying value
	(Dollars in millions)					
Actively managed fixed maturity securities	$22,103.1	$ 441.2	$22,544.3	$22,289.3	$ 484.4	$22,773.7
Other balance sheet items:						
Cost of policies purchased	2,521.6	(97.5)	2,424.1	2,639.0	(172.6)	2,466.4
Cost of policies produced	1,171.1	(38.2)	1,132.9	949.9	(34.7)	915.2
Other liability	-	(.9)	(.9)	-	(4.4)	(4.4)
Income tax liabilities	(67.1)	(106.6)	(173.7)	(437.3)	(95.5)	(532.8)
Unrealized appreciation of fixed maturity securities, net		$ 198.0			$ 177.2	

GREEN TREE MERGER

On June 30, 1998, we completed the Green Tree Merger. Each outstanding share of Green Tree common stock was exchanged for .9165 of a share of Conseco common stock. We issued 128.7 million shares of Conseco common stock (including 5.0 million common equivalent shares issued in exchange for Green Tree's outstanding options). The Green Tree Merger constituted a tax-free exchange and is accounted for under the pooling of interests method. All prior period consolidated financial statements presented have been restated to include Green Tree as though it had always been a subsidiary of Conseco. As a result of the Green Tree Merger, we recorded merger-related costs of $148 million, net of income taxes, in the second quarter of 1998. The merger-related costs (classified as nonrecurring charges) include investment banking, accounting, legal and regulatory fees and other costs associated with the Green Tree Merger.

The results of operations for Conseco and Green Tree, separately and combined, for periods prior to the merger were as follows:

	Three months ended June 30,		Six months ended June 30,	
	1998	1997	1998	1997
	(Dollars in millions)			
Revenues:				
Conseco	$1,533.1	$1,360.5	$3,232.1	$2,459.5
Green Tree	307.0	317.1	592.8	584.3
Less elimination of intercompany revenues	(.8)	(.8)	(.8)	(1.8)
Combined	$1,839.3	$1,676.8	$3,824.1	$3,042.0
Net income (loss):				
Conseco	$ 123.6	$ 130.6	$ 274.7	$242.1
Green Tree (including nonrecurring charges)	(402.9)	108.1	(339.4)	199.9
Less elimination of intercompany net income	(2.8)	(.6)	(2.8)	(1.2)
Combined	$ (282.1)	$ 238.1	$ (67.5)	$440.8

In conjunction with the Green Tree Merger, Conseco has contributed additional capital to Green Tree. Contributions of $500.0 million were made in the second quarter of 1998 and Conseco plans to make additional contributions of $600.0 million of which contributions of $350.0 million were made through August 13, 1998. The contributions were used to increase Green Tree's working capital and repay debt.

The financial position for Conseco and Green Tree, separately and combined, at June 30, 1998, the date of the merger, were as follows (dollars in millions):

	Conseco	Green Tree	Intercompany eliminations	Consolidated
Investments:				
Actively managed fixed maturities	$22,544.3	$ -	$ -	$22,544.3
Interest-only securities	-	934.0	-	934.0
Equity securities	340.5	-	-	340.5
Mortgage loans	475.6	-	-	475.6
Credit-tenant loans	646.9	-	-	646.9
Policy loans	688.8	-	-	688.8
Other invested assets	697.5	34.3	(67.1)	664.7
Short-term investments	876.4	177.4	-	1,053.8
Assets held in separate accounts	745.8	-	-	745.8
Total investments	27,015.8	1,145.7	(67.1)	28,094.4
Accrued investment income	391.5	-	-	391.5
Finance receivables	-	3,547.8	-	3,547.8
Servicing rights	-	97.5	-	97.5
Cost of policies purchased	2,424.1	-	-	2,424.1
Cost of policies produced	1,132.9	-	-	1,132.9
Reinsurance receivables	752.6	-	-	752.6
Goodwill	3,960.9	54.6	-	4,015.5
Property and equipment	183.3	131.8	-	315.1
Segregated and restricted cash	-	933.0	-	933.0
Other assets	928.6	347.2	(505.3)	770.5
Total assets	$36,789.7	$6,257.6	$(572.4)	$42,474.9

	Conseco	Green Tree	Intercompany eliminations	Consolidated
Liabilities:				
Insurance liabilities	$26,355.1	$ -	$ -	$26,355.1
Investor payables	-	685.3	-	685.3
Other liabilities	1,145.6	886.0	(5.0)	2,026.6
Income tax liabilities	(290.7)	470.5	(6.1)	173.7
Investment borrowings	1,179.6	-	-	1,179.6
Notes payable and commercial paper	2,952.1	2,779.0	(50.2)	5,680.9
Total liabilities	31,341.7	4,820.8	(61.3)	36,101.2
Minority interest	1,389.5	-	-	1,389.5
Shareholders' equity:				
Preferred stock	105.6	-	-	105.6
Common stock and additional paid-in capital	2,435.6	725.6	(500.0)	2,661.2
Accumulated other comprehensive income	201.9	(1.6)	-	200.3
Retained earnings	1,315.4	712.8	(11.1)	2,017.1
Total shareholders' equity	4,058.5	1,436.8	(511.1)	4,984.2
Total liabilities and shareholders' equity	$36,789.7	$6,257.6	$(572.4)	$42,474.9

INTEREST-ONLY SECURITIES, FINANCE RECEIVABLES AND SERVICING RIGHTS OF FINANCE SUBSIDIARIES

We pool and securitize substantially all of the finance receivables we originate, retaining: (i) investments in interest-only securities that are subordinated to the rights of other investors; and (ii) servicing on the contracts. In a typical securitization, we sell finance receivables to a special purpose entity, established for the limited purpose of purchasing the finance receivables and selling securities representing interests in the receivables. The special purpose entity issues interest-bearing securities that are collateralized by the underlying pool of finance receivables. We receive the proceeds from the sale of the securities in exchange for the finance receivables. The securities are typically sold at the same amount as the principal balance of the receivables sold. We retain a residual interest representing the right to receive, over the life of the pool of finance receivables, the excess of the principal and interest received on the receivables transferred to the trust over the principal and interest paid to the holders of other interests in the securitization and servicing fees. Our life insurance subsidiaries from time-to-time have purchased interests in the securities of the special purpose entity which we classify as fixed maturity securities.

We recognize a gain on the sale of finance receivables equal to the difference between the proceeds from the sale, net of related transaction costs, and the allocated carrying amount of the receivables sold. We allocate the carrying amount of finance receivables between the assets sold and retained based on their relative fair values at the date of sale. The estimated fair value of the retained assets (interest-only securities and servicing rights) is determined by discounting their projected future cash flows using prepayment, default, loss, servicing cost and discount rate assumptions.

On a quarterly basis, we determine the estimated fair value of our interest-only securities based on discounted projected future cash flows using current assumptions. Differences between the estimated fair value and carrying value of interest-only securities considered to be temporary are recognized as adjustments to shareholders' equity. Declines in value are considered to be other than temporary when the present value of estimated future cash flows discounted at a risk free rate using appropriate assumptions is less than the carrying value of the interest-only securities. When declines in value considered to be other than temporary occur, the carrying value is reduced to estimated fair value and a loss is recognized in the statement of operations.

During the first quarter of 1998, prepayments on loan contracts exceeded expectations, and as a result, a $29.1 million reduction in the carrying value of our interest-only securities (net of income taxes of $17.9 million) was realized. During the second quarter of 1998, prepayments on loan contracts continued to exceed expectations and management believes that such prepayments will be higher than expected in future periods as well. In addition, the market yields of publicly traded securities that are similar to our interest-only securities increased during the second quarter, decreasing the market value of such investments. As a result of these developments, we concluded that an impairment in the value of the interest-only securities and servicing rights had occurred, and a new value was determined using the current assumptions. The new assumptions (which are summarized below) reflect the following changes from the assumptions previously used: (i) an increase in prepayment rates; (ii) an increase in the discount rate used to determine the present value of future cash flows to 15 percent from 11 percent; and (iii) an increase in anticipated future rates of default. A $350 million nonrecurring charge to reduce the carrying value of the interest-only securities and servicing rights (net of income taxes of $190 million) was recognized in the second quarter of 1998.

The following summarizes assumptions used to determine the estimated fair value of interest-only securities as of June 30, 1998:

	Manufactured housing	Home equity/ home improvement	Consumer/ equipment	Total
		(Dollars in millions)		
Interest-only securities	$ 471.5	$ 299.9	$ 162.6	$ 934.0
Principal balance of sold finance receivables (1)	18,599.0	4,739.0	3,020.0	26,358.0
Weighted average customer interest rate on sold finance receivables (1)	10.35%	11.56%	10.86%	
Expected weighted average constant prepayment rate as a percentage of principal balance of sold finance receivables (1) (2)	12.00%	25.00%	22.00%	
Expected nondiscounted credit losses as a percentage of principal balance of sold finance receivables (1) (2)	6.00%	4.40%	2.00%	
Weighted average discount rate (1)	15.00%	15.00%	15.00%	

(1) Excludes finance receivables sold in revolving trust securitizations.
(2) The valuation of interest-only securities is affected not only by the projected level of prepayments of principal and net credit losses, as shown above, but also by the projected timing of such prepayments and net credit losses. Should the timing of projected prepayments of principal or net credit losses differ materially from the timing projected by the Company, such timing could have a material effect on the valuation of the interest-only securities.

The following summarizes information with respect to the 60-days-and-over contractual dollar delinquencies, loss experience and repossessed collateral experience of our managed finance receivables at June 30, 1998 and 1997 and for the six month periods then ended:

	1998	1997
60-days-and-over delinquencies as a percentage of managed finance receivables at period end	1.03%	.90%
Net credit losses as a percentage of average managed finance receivables during the period	1.07%	1.01%
Repossessed collateral during the year as a percentage of managed finance receivables at period end	.92%	.90%

Activity in the interest-only securities account during the six months ended June 30, 1998 and 1997, is as follows:

	Six months ended June 30, 1998	Six months ended June 30, 1997
	(Dollars in millions)	
Balance, beginning of period	$1,365.8	$ 983.5
Additions resulting from securitizations during the period	269.9	331.9
Investment income	69.6	56.2
Cash received	(156.6)	(117.6)
Reduction in carrying value as a result of adverse prepayment experience	(47.0)	-
Nonrecurring charge to reduce carrying value	(535.0)	-
Change in unrealized appreciation	(32.7)	(52.6)
Balance, end of period	$ 934.0	$1,201.4

During the six months ended June 30, 1998 and 1997, the Company sold $5.4 billion and $4.4 billion, respectively, of finance receivables in various securitized transactions and recognized gains of $272.4 million and $348.6 million, respectively.

Finance receivables, summarized by type, were as follows:

	June 30, 1998	December 31, 1997
	(Dollars in millions)	
Lease	$ 418.7	$ 209.3
Commercial finance	654.4	684.6
Revolving credit card	404.2	166.3
Loans held for sale	2,094.9	930.6
	3,572.2	1,990.8
Less allowance for doubtful accounts	(24.4)	(19.8)
Net finance receivables	$3,547.8	$1,971.0

Servicing rights, retained subsequent to the sale of finance receivables, are amortized in proportion to and over the estimated period of net servicing income.

The activity in the servicing rights account during the six months ended June 30, 1998 and 1997, is as follows:

	Six months ended June 30,	
	1998	1997
	(Dollars in millions)	
Balance, beginning of period	$ 77.0	$30.8
Additions resulting from securitizations during the period	36.7	34.3
Amortization	(11.2)	(6.2)
Nonrecurring charge to establish a valuation allowance	(5.0)	-
Balance, end of period	$ 97.5	$58.9

Servicing rights are evaluated for impairment on an ongoing basis, stratified by product type and origination period. To the extent the recorded amount exceeds the fair value, a valuation allowance is established through a charge to earnings. Upon subsequent measurement of the fair value of these servicing rights in future periods, if the fair value equals or exceeds the carrying amount, any previously recorded valuation allowance would be deemed unnecessary and, therefore, restored to earnings.

EARNINGS PER SHARE

As of December 31, 1997, we adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share"("SFAS 128"). SFAS 128 provides new accounting and reporting standards for earnings per share. It replaces primary and fully diluted earnings per share with basic and diluted earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share represents the potential dilution that could occur if all dilutive convertible securities, warrants and stock options were exercised and converted into common stock. The diluted earnings per share calculation assumes that the proceeds received upon the conversion of all dilutive options and warrants are used to repurchase the Company's common shares at the average market price of such shares during the period. During the three and six month periods ended June 30, 1998, there were no dilutive common stock equivalents as a result of the net loss realized by the Company during such periods. Prior period earnings per share amounts have been restated for the Green Tree Merger. We have also restated all share and per-share amounts for the two-for-one stock split distributed February 11, 1997.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Three months ended June 30, 1998	Three months ended June 30, 1997	Six months ended June 30, 1998	Six months ended June 30, 1997
	(Dollars in millions and shares in thousands)			
Income (loss):				
Net income (loss) before extraordinary charge	$(268.2)	$240.3	$(37.2)	$446.3
Preferred stock dividends and charge related to induced conversions of preferred stock	2.2	3.1	4.2	17.7
Income (loss) before extraordinary charge applicable to common ownership for basic earnings per share	(270.4)	237.2	$(41.4)	428.6
Effect of dilutive securities:				
Preferred stock dividends	-	2.2	-	4.5
Income (loss) before extraordinary charge applicable to common ownership and assumed conversions for diluted earnings per share	$(270.4)	$239.4	$(41.4)	$433.1
Shares:				
Weighted average shares outstanding for basic earnings per share	310,326	314,285	309,648	309,450
Effect of dilutive securities on weighted average shares:				
Stock options	-	12,604	-	13,901
Employee stock plans	-	2,292	-	2,185
PRIDES	-	6,735	-	7,037
Convertible debentures	-	5,879	-	5,420
Dilutive potential common shares	-	27,510	-	28,543
Weighted average shares outstanding for diluted earnings per share	310,326	341,795	309,648	337,993

COMPREHENSIVE INCOME

As of December 31, 1997, we adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income includes all changes in shareholders' equity (except those arising from transactions with shareholders) and includes net income and net unrealized gains (losses) on securities. The new standard requires only additional disclosures in the consolidated financial statements; it does not affect our financial position or results of operations.

The change in unrealized gains included in comprehensive income (loss) in the first six months of 1998 and 1997 was net of $8.6 million and $3.8 million, respectively, of net investment losses included in net income (loss). The change in unrealized gains included in comprehensive income (loss) in the second quarters of 1998 and 1997 was net of $(8.6) million and $.6 million, respectively, of net investment gains (losses) included in net income (loss).

BUSINESS SEGMENTS

As of January 1, 1998, we adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). Under SFAS 131, companies are required to provide disclosures about operating segments on the same basis used internally by a company for evaluating the performance of its operations and the allocation of its resources. The segment disclosure under SFAS 131 is not significantly different from our prior disclosures because our prior disclosures reflected the same operating data and results used by management in evaluating the performance of our business.

The following table summarizes financial data by segment:

	Three months ended June 30, 1998	Three months ended June 30, 1997	Six months ended June 30, 1998	Six months ended June 30, 1997
	(Dollars in millions)			
Total revenue:				
Consumer and commercial finance	$ 307.0	$ 316.3	$ 592.8	$ 582.5
Supplemental health insurance	561.1	540.3	1,146.5	1,006.4
Annuities	322.5	300.9	760.0	575.4
Life insurance	357.7	268.8	728.2	495.3
Individual and group major medical insurance	225.8	216.7	464.1	315.4
Other	65.2	33.8	132.5	67.0
	$1,839.3	$1,676.8	$3,824.1	$3,042.0
Income (loss) before income taxes, minority interest and extraordinary charge:				
Consumer and commercial finance	$ (586.6)	$ 173.5	$ (484.2)	$ 320.6
Supplemental health insurance	106.0	101.3	244.7	183.4
Annuities	93.7	81.3	175.7	145.9
Life insurance	81.4	62.3	182.4	116.6
Individual and group major medical insurance	24.6	10.7	43.9	20.9
Other	19.2	14.2	39.2	28.2
Corporate	(40.0)	(29.3)	(82.8)	(59.1)
Nonrecurring charges	-	(9.3)	-	(9.3)
	$ (301.7)	$ 404.7	$ 118.9	$ 747.2

FINANCIAL INSTRUMENTS

We periodically use options and interest rate swaps to hedge interest rate risk associated with our investments and borrowed capital. At June 30, 1998, we held agreements to create a hedge that effectively converts a portion of our fixed-rate borrowed capital into floating-rate instruments for the period during which the agreements are outstanding. We record the difference between the interest rates as an adjustment to interest expense. During the first six months of 1998, interest expense was reduced by $1.5 million as a result of our interest rate swap agreements. Such interest rate swap agreements have an aggregate notional principal amount of $1.6 billion, mature in various years through 2008 and have an average remaining life of 5.5 years.

Our equity-indexed annuity products provide a guaranteed base rate of return with a higher potential return linked to the performance of a broad-based equity index. We buy Standard & Poor's 500 Index Call Options (the "S&P 500 Call Options") in an effort to hedge potential increases to policyholder benefits resulting from increases in the S&P 500 Index to which the product's return is linked. We include the cost of the S&P 500 Call Options in the pricing of the equity-indexed annuity products. We reflect changes in the values of the S&P 500 Call Options, which fluctuate in relation to changes in policyholder account balances for these annuities, in net investment income. Premiums paid to purchase these instruments are deferred and amortized over their term.

During the six months ended June 30, 1998, net investment income included $72.0 million related to changes in the value of the S&P 500 Call Options. Such investment income was substantially offset by amounts added to policyholder account balances for annuities and financial products. The value of the S&P 500 Call Options was $76.6 million at June 30, 1998. We classify such instruments as other invested assets.

If the counterparties of the aforementioned financial instruments do not meet their obligations, Conseco may have to recognize a loss. Conseco limits its exposure to such a loss by diversifying among several counterparties believed to be strong and creditworthy. At June 30, 1998, all of the counterparties were rated "A" or higher by Standard & Poor's Corporation.

In conjunction with certain sales of finance receivables, the Company has provided guarantees of approximately $1.8 billion at June 30, 1998. The Company believes the likelihood of a significant loss from such guarantees is remote.

REINSURANCE

Cost of reinsurance ceded where the reinsured policy contains mortality risks totaled $276.8 million and $219.9 million in the first six months of 1998 and 1997, respectively. This cost was deducted from insurance premium revenue. Conseco is contingently liable for claims reinsured if the assuming company is unable to pay. Reinsurance recoveries netted against insurance policy benefits totaled $238.0 million and $201.3 million in the first six months of 1998 and 1997, respectively.

The Company has ceded certain policy liabilities under assumption reinsurance agreements. Since all of Conseco's obligations under these insurance contracts have been ceded to another company, insurance liabilities related to such policies were not reported in the balance sheet. We believe the assuming companies are able to honor all contractual commitments under the assumption reinsurance agreements, based on our periodic reviews of financial statements, insurance industry reports and reports filed with state insurance departments.

CHANGES IN CORPORATE NOTES PAYABLE AND COMMERCIAL PAPER

Notes payable and commercial paper related to corporate activities (other than those of our subsidiary, Green Tree, discussed below) of the Company were as follows:

	Interest rate	June 30, 1998	December 31, 1997
		(Dollars in millions)	
Bank debt	5.93% (1)	$ 475.0	$1,000.0
Leucadia Notes	6.2% (1)	400.0	400.0
Commercial paper	6.15% (1)	814.3	448.2
Mandatory Par Put Remarketed Securities Notes	6.4%	550.0	-
Notes due 2003	6.4%	250.0	-
Senior notes due 2003	8.125%	63.5	168.5
Senior notes due 2004	10.5%	25.0	184.9
Senior subordinated notes due 2004	11.25%	8.1	10.9
Senior notes due 2005	6.8%	250.0	-
Convertible subordinated debentures due 2005	6.5%	22.1	29.1
Convertible subordinated notes due 2003	6.5%	86.0	86.1
Other	Various	16.8	21.3
Total principal amount		2,960.8	2,349.0
Unamortized net (discount) premium		(8.7)	5.9
Total		$2,952.1	$2,354.9

(1) Current rate at June 30, 1998.

First six months of 1998 changes in notes payable and commercial paper

On June 9, 1998, we completed the offering of $550.0 million of unsecured 6.4 percent notes due June 15, 2011 ("MOPPRS") which are putable on June 15, 2001. The put options embedded in the MOPPRS could require Conseco to repurchase the MOPPRS at face value on June 15, 2001. Otherwise, the interest rate on the MOPPRS will be reset at 5.587 percent plus a margin defined in the agreement for the period remaining until final maturity on June 15, 2011. Proceeds from the offering of approximately $546.9 million (after original issue discount, underwriting and other associated costs) were used to repay outstanding commercial paper.

Interest is payable semi-annually on June 15 and December 15 of each year. In addition, we received $14.9 million for the sale of a call option, related to the reset feature described above. The MOPPRS are senior unsecured obligations of the Company.

On June 9, 1998, we completed the offering of $250.0 million of 6.8 percent notes ("6.8 Percent Notes") due June 15, 2005. Proceeds from the offering of approximately $247.5 million (after underwriting and other associated costs) were used to repay outstanding commercial paper. Interest is paid semi-annually on June 15 and December 15 of each year. The 6.8 Percent Notes are redeemable in whole or in part at the option of Conseco at any time, at a redemption price equal to the sum of (a) the greater of (i) 100 percent of the principal amount of such 6.8 Percent Notes and (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon from the redemption date to the maturity date, computed by discounting such payments, in each case, to the redemption date on a semi-annual basis at the Redemption Treasury Rate (as defined in the 6.8 Percent Notes), plus 25 basis points, plus
(b) accrued and unpaid interest on the principal amount thereof. The 6.8 Percent Notes are unsecured and rank pari passu with all other unsecured and unsubordinated obligations of Conseco.

On April 1, 1998, we announced a fixed spread tender offer for our 8.125% Senior Notes due 2003 (the "8.125% Senior Notes"). The purchase price paid for each 8.125% Senior Note tendered was the price per $1,000 principal amount equal to a spread of 42 basis points over the yield to maturity of the 5.5 percent U.S. Treasury Note due February 28, 2003, at the time the holder tendered its 8.125% Senior Note plus accrued and unpaid interest. The tender offer expired on April 21, 1998. As a result of the tender offer, we repurchased $104.5 million par value of the 8.125% Senior Notes for $113.6 million. Such repurchases were funded with available cash, bank credit facilities and the issuance of commercial paper. We recognized an extraordinary charge of $6.8 million (net of income taxes of $3.7 million) related to such repurchases in the second quarter of 1998. During the second quarter of 1998, we repurchased $.5 million par value of the 8.125% Senior Notes for $.5 million in addition to the repurchases made under the tender offer.

On February 9, 1998, we completed the offering of $250.0 million of 6.4 percent notes (the "6.4% Notes") due February 10, 2003. Proceeds from the offering of approximately $248.0 million (after original issue discount, underwriting and other associated costs) were used to retire bank debt. Interest is paid semi-annually on February 10 and August 10 of each year. The 6.4% Notes are redeemable in whole or in part at the option of Conseco at any time, at a redemption price equal to the sum of (a) the greater of: (i) 100 percent of the principal amount; and (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon from the redemption date to the maturity date, computed by discounting such payments, in each case, to the redemption date on a semi-annual basis at the Treasury rate (as defined in the 6.4% Notes) plus 25 basis points, plus (b) accrued and unpaid interest on the principal amount thereof. The 6.4% Notes are unsecured and rank pari passu with all other unsecured and unsubordinated obligations of Conseco.

On June 30, 1998, commercial paper increased $375.0 million, the proceeds of which were used to repay debt of Green Tree. Borrowings under our commercial paper program averaged approximately $678.5 million during the first six months of 1998. The weighted average interest rate on such borrowings was 5.77 percent during the six month period ended June 30, 1998. Conseco's commercial paper has maturities ranging from 1 to 108 days. However, the Company has the ability to refinance such obligations through its bank credit facility. Maximum permitted borrowings under our revolving credit facility are reduced by the aggregate outstanding commercial paper of Conseco. At June 30, 1998, we could borrow up to an additional $530 million under our revolving credit facility or commercial paper program.

During the first quarter of 1998, we repurchased $2.8 million par value of the 11.25 percent senior subordinated notes due 2004 for $3.2 million. We recognized an extraordinary charge of $.2 million (net of a $.1 million tax benefit) as a result of such repurchases. In addition, assets with a carrying value at June 30, 1998, of $9.6 million were segregated for the purpose of defeasing the remaining $8.1 million par value of our 11.25 percent subordinated notes due 2004.

During the first six months of 1998, we repurchased $159.9 million par value of our 10.5 percent senior notes due 2004 for $196.3 million. We recognized an extraordinary charge of $18.0 million (net of a $9.7 million tax benefit) as a result of such repurchases.

First six months of 1997 changes in notes payable and commercial paper

In the first six months of 1997, we repurchased $76.1 million par value of the 11.25 percent senior subordinated notes due 2004 for $87.7 million. We recognized an extraordinary charge of $4.9 million (net of a $2.6 million tax benefit) as a result of such repurchases.

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

During the first six months of 1997, $65.1 million par value of convertible subordinated debentures due 2005 were converted into 5.0 million shares of Conseco common stock. Such convertible debentures were acquired in conjunction with the acquisition (the "ATC Merger") of American Travellers Corporation ("ATC") in December 1996. We paid $4.4 million to induce the holders to convert such convertible subordinated debentures. In addition, we repurchased $4.0 million par value of the convertible debentures for $12.2 million. The extraordinary charge recognized as a result of the inducement payment and repurchases was not significant since such amount approximated amounts reflected in the fair value of the debentures which was recorded as a liability at the ATC Merger date.

We instituted a commercial paper program in April 1997 to lower our borrowing costs and improve our liquidity. Borrowings under our commercial paper program for the period April 24, 1997 through June 30, 1997, averaged approximately $328 million. The weighted average rate on such borrowings was 6.1 percent at June 30, 1997.

CHANGES IN CONSUMER AND COMMERCIAL FINANCE NOTES PAYABLE AND COMMERCIAL PAPER

Notes payable and commercial paper related to consumer and commercial financing activities of our subsidiary, Green Tree, were as follows:

	Interest rate	June 30, 1998	December 31, 1997
		(Dollars in millions)	
Master repurchase agreements	6.65%	$1,355.8	$ -
Credit facility collateralized by interest-only securities	7.66	700.0	-
Senior subordinated notes	10.80	213.7	263.7
Bank debt	6.22	225.0	35.0
Medium term notes	6.62	238.7	246.6
Commercial paper	-	-	1,319.1
Other	2.00	1.8	1.9
Total principal amount		2,735.0	1,866.3
Less unamortized net discount		(6.2)	-
Total		$2,728.8	$1,866.3

First six months of 1998 changes in notes payable and commercial paper

At June 30, 1998, the Company had $3.8 billion of master repurchase agreements with various investment banking firms, subject to the availability of eligible collateral. The master repurchase agreements generally provide for annual terms which are extended each quarter by mutual agreement of the parties for an additional annual term based upon the review of updated quarterly financial information of Green Tree.

We entered into a new credit facility in February 1998, which provides for a $700 million line of credit collateralized by our interest-only securities. The line of credit matures on February 12, 2000, with an optional one year extension. In addition, we issued warrants to purchase 2.5 million equivalent shares of Conseco common stock at $24.8227 per share to the provider of the facility subject to a maximum appreciation of $16.37 per equivalent share. The warrants were exercised at the date of the Green Tree Merger.

During 1998, we repurchased senior subordinated notes with a par value of $50.0 million for $54.4 million. We recognized an extraordinary charge of $2.8 million (net of a $l.6 million tax benefit) as a result of such repurchases.

We substantially restructured and repaid a portion of our bank debt during 1998. After the restructuring, the bank debt of the consumer and commercial finance segment provides $325.0 million of financing through September 1998. We recognized an extraordinary charge of $2.5 million (net of a $1.5 million tax benefit) as a result of the repayment, restructuring and cancellation of a portion of our bank debt.

During the fourth quarter of 1997 and the first quarter of 1998, Green Tree's senior unsecured debt ratings were lowered by each of the credit rating agencies which provide ratings on its debt. As a result of these actions, we curtailed our issuance of commercial paper in favor of our master repurchase agreements and bank credit line.

CHANGES IN PREFERRED STOCK

During the second quarter of 1998, 167,450 shares of Preferred Redeemable Increased Dividend Equity Securities 7% PRIDES Convertible Preferred Stock ("PRIDES") were converted by holders of such shares into .6 million shares of common stock.

During the first six months of 1997, 2,374,300 shares of PRIDES were converted by holders of such shares into 8.1 million shares of common stock. We paid $13.2 million to induce the holders to convert the PRIDES. Such payment is reflected in the consolidated financial statements as a dividend paid to such holders.

CHANGES IN COMMON STOCK

Changes in the number of shares of common stock outstanding for the first six months of 1998 and 1997 were as follows (shares in thousands):

	Six months ended June 30, 1998	1997
Balance, beginning of period	310,012	293,359
Stock options exercised	6,389	11,073
Stock warrants exercised	862	-
Shares issued in conjunction with mergers	-	11,264
Common shares converted from convertible subordinated debentures	540	4,977
Common shares converted from PRIDES	573	8,120
Common stock acquired under option exercise and repurchase programs	(5,852)	(18,362)
Shares returned due to recomputation of bonus	(698)	-
Shares issued under employee benefit and compensation plans	537	1,298
Balance, end of period	312,363	311,729

In the first quarter of 1998, Conseco's chief executive officer and three of its executive vice presidents exercised outstanding options to purchase approximately 2.4 million shares of Conseco common stock under Conseco's option exercise program. The options exercised would otherwise have remained exercisable until 2004. The option exercise program was created in 1994 in order to accelerate the recording of tax benefits we derive from the exercise of the options and to better manage our capital structure. No cash was exchanged as the executives paid for the exercise price of the options and a portion of the federal and state taxes thereon by tendering previously owned shares. The Company withheld shares to cover a portion of the federal and state taxes owed by the executives as a result of the exercise transactions. The program resulted in the following changes to common stock and additional paid-in capital: (i) an increase for a tax benefit of $26.6 million (net of payroll taxes incurred of $1.1 million); (ii) an increase for the exercise price of $35.2 million; and
(iii) a decrease of $72.4 million related to shares withheld or tendered by the executives for the exercise price and for federal and state taxes. Net of shares withheld or tendered, we issued approximately .9 million shares of common stock to the executives under the program. As an inducement to encourage the exercise of options prior to their expiration date, we granted to the executive officers new options to purchase a total of 1.5 million shares at a price of $48.1875 per share (equal to the market price per share on the grant date) to replace the shares surrendered for taxes and the exercise price.

During the first six months of 1998, we repurchased 4.4 million common shares under our share repurchase programs for $198.8 million.

In the first quarter of 1998, .7 million shares were returned to the Company due to the recomputation of a bonus paid to a Green Tree executive for fiscal year 1996.

In conjunction with our announcement of the Green Tree Merger, we announced the termination of our share repurchase program to repurchase 5 million Conseco common shares (719,400 shares of Conseco common stock were repurchased under such program prior to its termination).

We allocated the $271.2 million cost of the 5.9 million shares we repurchased in 1998 in connection with the stock option exercise program and share repurchase program to shareholders' equity accounts as follows: (i) $152.7 million to common stock and additional paid-in capital (such allocation was based on the value we received for shares issued in our recent acquisitions); and (ii) $118.5 million to retained earnings.

STOCK OPTION PLANS

As a result of the Green Tree Merger, all options previously issued by Green Tree became immediately exercisable on June 30, 1998. In addition, on March 1, 1998, certain Green Tree employee stock options were repriced to the current market price pursuant to an option repricing program.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of stock option activity and related information of the Company (including the combined stock options of Conseco and Green Tree) for the first six months of 1998 is presented below (shares in thousands):

	Number of shares	Weighted average exercise price
Outstanding at January 1, 1998	33,511	$24.78
Granted in connection with:		
Traditional grants	4,344	44.93
Option exercise program	1,502	48.19
Repricing program	2,594	25.10
Total granted	8,440	39.42
Exercised	(6,389)	22.37
Forfeited	(2,062)	18.29
Terminated in repricing program	(2,594)	37.13
Outstanding at June 30, 1998	30,906	28.67

The following summarizes information about fixed stock options outstanding at June 30, 1998 (shares in thousands):

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining life (in years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$ 1.56	1	.1	$ 1.56	1	$ 1.56
3.24 - 4.86	829	2.9	3.37	829	3.37
5.00 - 6.91	558	3.6	5.58	516	5.50
7.77 - 11.57	503	4.0	10.51	257	10.48
11.79 - 16.57	7,900	5.4	14.33	1,631	13.76
17.88 - 26.19	5,679	8.5	24.70	1,368	22.94
27.19 - 30.41	1,479	6.2	29.62	568	29.14
30.41 (Key Manager Program)	1,100	24.0	30.41	-	-
30.73 - 45.84	8,201	8.3	37.98	4,814	38.61
46.71 - 51.28	4,656	9.3	49.85	131	48.40
	30,906			10,115	

CHANGES IN MINORITY INTEREST

Minority interest represents the interest of investors other than Conseco in its subsidiaries. Minority interest at June 30, 1998, included: (i) Company-obligated mandatorily redeemable preferred securities of subsidiary trusts with a carrying value of $1,388.8 million; and (ii) $.7 million interest in the common stock of a subsidiary.

Company-obligated mandatorily redeemable preferred securities of subsidiary trusts at June 30, 1998, were as follows:

	Amount outstanding	Carrying value	Estimated fair value
	(Dollars in millions)		
9.16% Trust Originated Preferred Securities ("TOPrS")	$ 275.0	$ 275.0	$ 286.7
8.70% Capital Trust Pass-through Securities ("TruPS")	325.0	325.0	361.3
8.796% Capital Securities	300.0	300.0	336.9
FELINE PRIDES	503.7	488.8	534.0
	$1,403.7	$1,388.8	$1,518.9

In January 1998, 74,900 FELINE PRIDES were issued for a total of $3.7 million to cover the over-allotments associated with our original offering of such securities in December 1997.

DIRECTOR, EXECUTIVE AND SENIOR OFFICER STOCK PURCHASE PLAN

The Director, Executive and Senior Officer Stock Purchase Plan is designed to encourage direct, long-term ownership of Conseco common stock by Board members, executive officers and certain senior officers. Under the program, 8 million shares of Conseco common stock were purchased in 1997 and 1996 in open market transactions with independent parties. Purchases were financed by personal loans to the participants from a bank. Such loans are collateralized by the Conseco common stock purchased. Conseco has guaranteed the loans, but has recourse to the participants if we incur a loss under the guarantee. In addition, we provide loans to the participants for interest payments on the loans. A total of 39 directors and officers of Conseco participated in the plan. At June 30, 1998, the bank loans guaranteed by us totaled $246.1 million, and the loans provided by us for interest totaled $14.6 million. The common stock that collateralizes the loans had a fair value of $352.0 million.

In July 1998, the Board of Directors expanded the program to allow for the purchase of up to 4 million additional shares by directors, selected officers and key employees of Conseco and its subsidiaries.

RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS 132") was issued in February 1998 and revises current disclosure requirements for employers' pensions and other retiree benefits. SFAS 132 will have no effect on our financial position or results of operations. SFAS 132 is effective for our December 31, 1998 financial statements.

Statement of Position 97-3, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments" ("SOP 97-3") was issued by the American Institute of Certified Public Accountants in December 1997 and provides guidance for determining when an insurance company or other enterprise should recognize a liability for guaranty-fund assessments and guidance for measuring the liability. The statement is effective for 1999 financial statements with early adoption permitted. The adoption of this statement is not expected to have a material effect on our financial position or results of operations.

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") was issued in June 1998. SFAS 133 requires all derivative instruments to be recorded on the balance sheet at estimated fair value. Changes in the fair value of derivative instruments are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. SFAS 133 is effective for year 2000. We are currently evaluating the impact the statement will have on our financial statements, although at present, we do not believe it will have a material effect on our financial position or results of operations.

LITIGATION

Green Tree has been served with various related lawsuits which were filed in the United States District Court for the District of Minnesota. These lawsuits were filed by certain former stockholders of Green Tree as purported class actions on behalf of persons or entities who purchased common stock of Green Tree during the alleged class periods that generally run from February 1995 to January 1998. One such action did not include class action claims. In addition to Green Tree, certain current and former officers and directors of Green Tree are named as defendants in one or more of the lawsuits. Green Tree and other defendants intend to seek consolidation in the United States District Court for the District of Minnesota of each of the lawsuits seeking class action status. Plaintiffs in the lawsuits assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. In each case, plaintiffs allege that Green Tree and the other defendants violated federal securities laws by, among other things, making false and misleading statements about the current state and future prospects of Green Tree (particularly with respect to prepayment assumptions and performance of certain loan portfolios of Green Tree) which allegedly rendered Green Tree's financial statements false and misleading. The Company believes that the lawsuits are without merit and intends to defend such lawsuits vigorously.

The Company and its subsidiaries are involved on an ongoing basis in lawsuits related to its operations. Although the ultimate outcome of certain of such matters cannot be predicted, none of such lawsuits currently pending against the Company or its subsidiaries is expected, individually or in the aggregate, to have a material adverse effect on the Company's consolidated financial condition, cash flows or results of operations.

CONSOLIDATED STATEMENT OF CASH FLOWS

The following non-cash items were not reflected in the consolidated statement of cash flows in 1998: (i) the acquisition of common stock of $35.2 million pursuant to the tender of shares under the option exercise program; (ii) the issuance of common stock under stock option and employee benefit plans of $15.1 million; (iii) the tax benefit of $41.8 million related to the issuance of common stock under employee benefit plans; (iv) the conversion of $10.2 million of PRIDES into .6 million shares of common stock; and (v) the conversion of $7.1 million par value of convertible debentures into .5 million shares of common stock. The following non-cash items were not reflected in the consolidated statement of cash flows in 1997: (i) the issuance of common stock valued at $458.2 million related to the acquisition of Capitol American Financial Corporation and the acquisition (the "PFS Merger") of Pioneer Financial Services, Inc. ; (ii) the issuance of $185.7 million of common stock under employee benefit plans; (iii) the tax benefit of $83.1 million related to the issuance of common stock under employee benefit plans; (iv) the conversion of $145.1 million of PRIDES into 8.1 million shares of common stock; and (v) the conversion of $65.1 million par value of convertible debentures into 5.0 million shares of common stock.

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

The following discussion highlights material factors affecting our results of operations and significant changes in our balance sheet. Many of the changes in 1998 and 1997 affecting our results of operations were caused by: (i) the PFS Merger effective April 1, 1997; (ii) the acquisition (the "Colonial Penn Purchase") of Conseco Direct Life Insurance Company (formerly Colonial Penn Life Insurance Company and Providential Life Insurance Company) and certain other assets (collectively referred to as "Colonial Penn"), effective September 30, 1997; (iii) the acquisition (the "WNIC Merger") of Washington National Corporation ("WNIC"), effective December 1, 1997; and (iv) various financings described in the notes to the consolidated financial statements included herein and the notes to the supplemental consolidated financial statements included in Exhibit 99.1 to Conseco's Current Report on Form 8-K dated June 30, 1998, as amended. Such supplemental consolidated financial statements as of December 31, 1997 and 1996, and for each of the three years ended December 31, 1997, give retroactive effect to the Green Tree Merger which was accounted for as a pooling of interests. These transactions also caused significant changes in our balance sheet during these periods. This discussion should be read in conjunction with the supplemental consolidated financial statements and notes included herein and in Exhibit 99.1 to Conseco's Current Report on Form 8-K dated June 30, 1998, as amended.

RESULTS OF OPERATIONS

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

Consolidated Results and Analysis

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

	Three months ended June 30, 1998	Three months ended June 30, 1997	Six months ended June 30, 1998	Six months ended June 30, 1997
	(Dollars in millions, except per share amounts)			
Operating earnings	$ 238.4	$244.0	$469.4	$454.4
Net investment gains (losses), net of related costs, amortization and taxes	(8.6)	.6	(8.6)	(3.8)
Nonrecurring charges, net of taxes	(498.0)	(4.3)	(498.0)	(4.3)
Income (loss) before extraordinary charge	(268.2)	240.3	(37.2)	446.3
Extraordinary charge, net of taxes	13.9	2.2	30.3	5.5
Net income (loss)	(282.1)	238.1	(67.5)	440.8
Less amounts applicable to preferred stock:				
Charge related to induced conversions	-	.9	-	13.2
Preferred stock dividends	2.2	2.2	4.2	4.5
Net income (loss) applicable to common stock	$(284.3)	$235.0	$(71.7)	$423.1
Per diluted common share:				
Weighted average shares outstanding (in millions)	310.3	341.8	309.6	338.0
Operating earnings	$ .76	$ .71	$ 1.50	$1.35
Net investment gains (losses) net of related costs, amortization and taxes	(.03)	-	(.02)	(.01)
Nonrecurring charges, net of taxes	(1.61)	(.01)	(1.61)	(.01)
Charge related to induced conversion of preferred stock	-	-	-	(.04)
Income (loss) before extraordinary charge	(.88)	.70	(.13)	1.29
Extraordinary charge, net of taxes	(.04)	(.01)	(.10)	(.02)
Net income (loss)	$ (.92)	$ .69	$ (.23)	$1.27

Our second quarter 1998 operating earnings were $238.4 million, or 76 cents per diluted share, down 2.3 percent and up 7.0 percent, respectively, over the second quarter of 1997. Operating earnings during the first six months of 1998 were $469.4 million, or $1.50 per diluted share, up 3.3 percent and 11 percent, respectively, over the first six months of 1997. Operating earnings decreased in the second quarter of 1998 as a result of an expected decrease in operating earnings from the consumer and commercial finance segment due to: (i) the deliberate strategy to reduce the total finance receivables sold and increase our inventory of finance receivables, holding them for sale after the end of the quarter when the supply of securitizations in the capital markets is expected to be lower and the spreads are expected to be better; and (ii) changes in the assumptions used to calculate the gain on sale of finance receivables which reduced the amount of the gain as a percentage of total loans sold. Such decreases were partially offset by increases in operating earnings from each of the insurance segments as a result of the Colonial Penn Purchase (September 30, 1997); the WNIC Merger (December 1, 1997); and changes in the business in force. Operating earnings increased in the first six months of 1998 as a result of: (i) increases in operating earnings from each of our insurance segments as a result of the PFS Merger (April 1, 1997); the Colonial Penn Purchase; the WNIC Merger; and changes in the business in force; partially offset by (ii) the decrease in operating earnings from the consumer and commercial finance segment due to the factors discussed above for the second quarter of 1998. The percentage change in operating earnings differed from the percentage change in operating earnings per diluted share primarily because of the 9.2 percent decrease in weighted average diluted common shares outstanding in the second quarter of

1998 and the 8.4 percent decrease in the first six months of 1998. The decrease in weighted average diluted shares resulted principally from the fact that there was no dilutive effect from common stock equivalents for the three and six months ended June 30, 1998.

The net loss of $282.1 million in the second quarter of 1998, or 92 cents per diluted share, included (i) net investment losses (net of related costs, amortization and taxes) of $8.6 million, or 3 cents per share; (ii) an extraordinary charge (net of taxes) of $13.9 million, or 4 cents per share, related to early retirement of debt; and (iii) a nonrecurring charge (net of taxes) of $498.0 million, or $1.61 per share, related to the merger related costs incurred in conjunction with the Green Tree Merger and the charge to reduce the value of interest-only securities and servicing rights. Net income of $238.1 million in the second quarter of 1997, or 69 cents per diluted share, included: (i) net investment gains (net of related costs, amortization and taxes) of $.6 million, or nil per share; (ii) an extraordinary charge of $2.2 million, or 1 cent per share, related to early retirement of debt; and (iii) a nonrecurring charge of $4.3 million, or 1 cent per share, related to the death of an officer.

The net loss of $67.5 million in the first six months of 1998, or 23 cents per diluted share, included (i) net investment losses (net of related costs, amortization and taxes) of $8.6 million, or 2 cents per share; (ii) an extraordinary charge (net of taxes) of $30.3 million, or 10 cents per share, related to early retirement of debt; and (iii) a nonrecurring charge (net of taxes) of $498.0 million, or $1.61 per share, as discussed above. Net income of $440.8 million in the first six months of 1997, or $1.27 per share, included (i) net investment losses (net of related costs, amortization and taxes) of $3.8 million, or 1 cent per share; (ii) a nonrecurring charge of $4.3 million, or 1 cent per share, related to the death of an officer; (iii) a charge of 4 cents per share related to the induced conversion of preferred stock; and (iv) an extraordinary charge of $5.5 million, or 2 cents per share, related to early retirement of debt.

Total revenues include net investment gains of $12.3 million and $15.8 million in the second quarters of 1998 and 1997, respectively. Excluding net investment gains, total revenues were $1,827.0 million in the second quarter of 1998, up 10 percent from $1,661.0 million in the second quarter of 1997. Total revenues include net investment gains of $117.1 million and $20.9 million during the first six months of 1998 and 1997, respectively. Excluding net investment gains, total revenues were $3,707.0 million in the first six months of 1998, up 23 percent from $3,021.1 million in the first six months of 1997. Total revenues in the 1998 periods include revenues of PFS, Colonial Penn and WNIC (such companies were acquired in periods subsequent to the first quarter of 1997). Total revenues in the six month period of 1997 include revenues of PFS for the second quarter of 1997.

First Six Months of 1998 Compared with the First Six Months of 1997:

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

	Three months ended June 30, 1998	Three months ended June 30, 1997	Six months ended June 30, 1998	Six months ended June 30, 1997
	(Dollars in millions)			
Operating income before income taxes, minority interest and extraordinary charge:				
Consumer and commercial finance	$ 101.4	$173.5	$ 203.8	$320.6
Supplemental health	112.0	102.9	229.7	187.2
Annuities	93.7	80.4	183.4	145.8
Life insurance	81.4	60.6	181.1	118.3
Individual and group major medical	29.3	10.7	48.4	20.9
Other	24.7	14.2	41.1	28.5
Corporate interest and other expenses	(40.0)	(29.3)	(82.8)	(59.1)
Total consolidated operating income before income taxes, minority interest and extraordinary charge	402.5	413.0	804.7	762.2
Net investment gains (losses), net of related costs and amortization	(16.2)	1.0	2.2	(5.7)
Nonrecurring charges	(688.0)	(9.3)	(688.0)	(9.3)
Income (loss) before income taxes, minority interest and extraordinary charge	(301.7)	404.7	118.9	747.2
Income tax expense (benefit)	(52.3)	150.3	117.9	276.8
Income (loss) before minority interest and extraordinary charge	(249.4)	254.4	1.0	470.4
Minority interest in consolidated subsidiaries:				
Distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts	18.8	12.9	38.2	21.6
Dividends on preferred stock of subsidiaries	-	1.2	-	2.5
Income (loss) before extraordinary charge	(268.2)	240.3	(37.2)	446.3
Extraordinary charge on extinguishment of debt, net of taxes and minority interest	13.9	2.2	30.3	5.5
Net income (loss)	$ (282.1)	$238.1	$ (67.5)	$440.8

Consumer and commercial finance:

	Three months ended June 30, 1998	Three months ended June 30, 1997	Six months ended June 30, 1998	Six months ended June 30, 1997
	(Dollars in millions)			
Contract originations:				
Manufactured housing	$1,673.9	$1,494.6	$2,878.1	$2,508.3
Home equity/home improvement	1,252.5	836.9	2,290.7	1,470.8
Consumer/retail credit	689.3	427.2	1,264.5	690.8
Commercial/equipment	1,820.3	1,197.4	3,360.4	2,150.2
Total	$5,436.0	$3,956.1	$9,793.7	$6,820.1
Sales of receivables:				
Manufactured housing	$1,356.5	$1,320.0	$2,556.5	$2,370.0
Home equity/home improvement	500.1	629.3	1,450.1	1,149.4
Consumer/equipment	403.5	594.8	903.5	844.8
Commercial and retail revolving credit	170.5	-	488.3	-
Total	$2,430.6	$2,544.1	$5,398.4	$4,364.2
Managed receivables (at period end):				
Fixed contracts	$29,646.3	$22,239.0		
Revolving credit	2,655.8	1,416.3		
Total	$32,302.1	$23,655.3		
Net investment income:				
Finance receivables	$ 76.3	$ 53.7	$ 135.9	$ 96.6
Interest-only securities	36.3	29.4	69.6	56.2
Gain on sale of finance receivables	135.2	190.5	272.4	348.6
Fee revenue and other income	59.2	42.7	114.9	81.1
Total revenues	307.0	316.3	592.8	582.5
Consumer and commercial finance interest expense	54.7	36.4	103.2	66.2
Other operating costs and expenses	150.9	106.4	285.8	195.7
Total expenses	205.6	142.8	389.0	261.9
Operating income before income taxes, minority interest and extraordinary charge	101.4	173.5	203.8	320.6
Nonrecurring charges	(688.0)	-	(688.0)	-
Income (loss) before income taxes, minority interest and extraordinary charge	$(586.6)	$173.5	$(484.2)	$320.6

General: This segment provides financing for manufactured housing, home equity, home improvements, consumer products and equipment and provides consumer and commercial revolving credit. The segment's financing products include both fixed term and revolving loans and leases. The segment also markets physical damage and term mortgage life insurance and other credit protection relating to the loans it services.

Contract originations in the second quarter of 1998 were $5.4 billion, up 37 percent over 1997. Contract originations in the first six months of 1998 were $9.8 billion, up 44 percent over 1997.

Manufactured housing contract originations increased $369.8 million, or 15 percent, during the first six months of 1998 over 1997. The number of contracts originated during the 1998 period increased as well as the average contract size reflecting an increase in land-and-home contracts and slight price increases by the manufactured housing manufacturers.

Home equity/home improvement contract originations increased $819.9 million, or 56 percent, during the first six months of 1998 over 1997. The increase is primarily the result of the segment's continued expansion of the home equity retail origination network.

Consumer and retail credit originations increased $573.7 million, or 83 percent, during the first six months of 1998 over 1997. The increase reflects the success of several direct mail campaigns as well as the development of new relationships with retailers.

Commercial and equipment originations increased $1.2 billion, or 56 percent, during the first six months of 1998 over 1997. The increase reflects higher production in all areas of commercial financing.

Sales of receivables occur when the segment sells finance receivables it originates in secondary markets through securitizations. The total receivables sold in a particular period is dependent on many factors including: (i) the volume of recent originations; (ii) market conditions; and (iii) the availability and cost of alternative financing. Total finance receivables sold in the second quarter of 1998 decreased 4.5 percent from 1997. Such sales were lower than the previous year because we increased our inventory of finance receivables at June 30, 1998, holding them for sale after the end of the quarter when the supply of securitizations in the capital markets is expected to be lower and the spreads are expected to be better. Total finance receivables were $3.5 billion at June 30, 1998, an increase of $1.6 billion over December 31, 1997. Total finance receivables sold in the first six months of 1998 were up 24 percent over 1997.

Managed receivables include finance receivables sold through securitizations as well as finance receivables and retained interests in finance receivables held by the Company. The total portfolio serviced by the segment increased to $32.3 billion at June 30, 1998, a 37 percent increase over December 31, 1997.

Net investment income on finance receivables consists of interest earned on the segment's unsold finance receivables and interest income on short-term and other investments. Such income increased 42 percent, to $76.3 million, in the second quarter of 1998 and increased 41 percent, to $135.9 million, in the first six months of 1998. The increases are consistent with the increases in average finance receivables during the 1998 periods. The weighted average yield earned on finance receivables was 11.0 percent during the first six months of both 1998 and 1997.

Net investment income on interest-only securities represents the accretion recognized on the interest-only securities retained when finance receivables are sold. Such income increased 23 percent, to $36.3 million, in the second quarter of 1998 and increased 24 percent, to $69.6 million, in the first six months of 1998. The increases are consistent with the increase in the average interest-only securities held in the 1998 periods. The weighted average yields earned on interest-only securities were 10.9 percent and 10.4 percent during the first six months of 1998 and 1997, respectively.

Gain on sale of finance receivables represents the difference between the proceeds from the sale, net of related transaction costs, and the allocated carrying amount of the receivables sold. The allocated carrying amount is determined by allocating the original amount of the receivables between the portion sold and any retained interests (interest-only securities and servicing rights), based on their relative fair values at the time of sale. Assumptions used in calculating the estimated fair value of interest-only securities and servicing rights are subject to volatility that could materially affect operating results. Prepayments from competition, obligor mobility, general and regional economic conditions and prevailing interest rates, as well as actual losses incurred, may vary from the performance projected.

Gain on sale of finance receivables decreased 29 percent, to $135.2 million, in the second quarter of 1998 and decreased 22 percent, to $272.4 million, in the first six months of 1998. Such gain fluctuates when changes occur in: (i) the amount of loans sold; (ii) market conditions; (iii) the amount and type of interest retained in the receivables sold; and (iv) changes in assumptions used to calculate the gain. Recent experience has indicated that prepayment rates have exceeded expectations for loans sold in prior periods. In addition, the market yields of publicly traded securities that are similar to our interest-only securities increased during the second quarter, increasing the market discount rate used when calculating gains. Assumptions used to determine the gains in the 1998 periods reflect higher prepayment assumptions and higher discount rates. Accordingly, the amount of gain as a percentage of total loans sold has decreased. In addition, during the second quarter of 1998, we reduced the total finance receivables sold and increased our inventory of finance receivables as described above.

Fee revenue and other income includes servicing income, commissions earned on new insurance policies written and renewals on existing policies, as well as other income from late fees. Such income increased 39 percent, to $59.2 million, in the second quarter of 1998 and increased 42 percent, to $114.9 million, in the first six months of 1998. The increase reflects: (i) the growth in the segment's servicing portfolio on which servicing income is earned; and (ii) the increase in net written insurance premiums consistent with the growth of the segment's managed receivables.

Consumer and commercial finance interest expense increased 50 percent, to $54.7 million, in the second quarter of 1998 and increased 56 percent, to $103.2 million, in the first six months of 1998. The increase primarily reflects increased borrowings to fund loan originations, commercial revolving credit and lease portfolio financings during the 1998 periods and our deliberate strategy to increase our inventory of finance receivables as described above. The weighted average interest rates on our borrowings were 7.8 percent and 8.0 percent during the first six months of 1998 and 1997, respectively.

Other operating costs and expenses include the costs associated with servicing the segment's managed receivables and costs of originating new loans. Such expense increased 42 percent, to $105.9 million, in the second quarter of 1998 and increased 46 percent, to $285.8 million, in the first six months of 1998. The increase reflects: (i) the growth in the segment's servicing portfolio; and (ii) the increased volume of contracts originated.

Nonrecurring charges include: (i) merger related costs (including investment banking, accounting, legal and regulatory fees and other costs associated with the Green Tree Merger) of $148 million; and (ii) a charge to reduce the value of interest-only securities and servicing rights of $540 million.

During the second quarter of 1998, prepayments on loan contracts continued to exceed expectations and management concluded that such prepayments would continue to be higher than expected in future periods as well. In addition, the market yields of publicly traded securities that are similar to our interest-only securities increased during the quarter, decreasing the market values of such investments. As a result of these developments, we concluded an impairment in the value of the interest-only securities and servicing rights had occurred, and a new value was determined using current assumptions. The new assumptions reflect the following changes from the assumptions previously used: (i) an increase in prepayment rates; (ii) an increase in the discount rate used to determine the present value of future cash flows to 15 percent from 11 percent; and (iii) an increase in anticipated future rates of default. A $540 million charge to reduce the carrying value of the interest-only securities and servicing rights (before income taxes of $190 million) was recognized in the second quarter of 1998.

Supplemental health:

	Three months ended June 30, 1998	Three months ended June 30, 1997	Six months ended June 30, 1998	Six months ended June 30, 1997
	(Dollars in millions)			
Premiums collected:				
Medicare supplement (first-year)	$ 26.4	$ 23.1	$ 54.0	$ 43.3
Medicare supplement (renewal)	182.3	178.2	378.5	325.4
Subtotal - Medicare supplement	208.7	201.3	432.5	368.7
Long-term care (first-year)	34.0	38.6	65.8	73.6
Long-term care (renewal)	143.8	126.5	290.1	245.6
Subtotal - long-term care	177.8	165.1	355.9	319.2
Specified disease (first-year)	10.3	11.3	21.2	22.9
Specified disease (renewal)	86.9	81.6	176.6	168.9
Subtotal - specified disease	97.2	92.9	197.8	191.8
Total supplemental health premiums collected	$483.7	$459.3	$ 986.2	$ 879.7
Insurance policy income	$493.3	$478.7	$ 985.8	$ 890.1
Net investment income	73.8	63.2	145.7	120.1
Total revenues (a)	567.1	541.9	1,131.5	1,010.2
Insurance policy benefits	325.1	308.0	638.5	573.9
Amortization related to operations	57.5	57.3	115.3	105.7
Interest expense on investment borrowings	2.7	.9	5.6	1.3
Other operating costs and expenses	69.8	72.8	142.4	142.1
Total benefits and expenses	455.1	439.0	901.8	823.0
Operating income before income taxes, minority interest and extraordinary charge	112.0	102.9	229.7	187.2
Net investment gains (losses), net of related costs	(6.0)	(1.6)	15.0	(3.8)
Income before income taxes, minority interest and extraordinary charge	$106.0	$101.3	$ 244.7	$ 183.4
Benefit ratios:				
Medicare supplement products	67.2%	72.4%	68.5%	71.3%
Long-term care products	67.9	58.0	64.5	60.7
Specified disease products	58.9	57.0	56.8	57.7

(a) Revenues exclude net investment gains (losses).

General: This segment includes Medicare supplement, long-term care and specified disease insurance products distributed primarily through a career agency force and professional independent producers. The segment's 1998 results of operations are significantly affected by recent acquisitions (PFS, effective April 1, 1997; and Colonial Penn, effective September 30, 1997). The profitability of this segment largely depends on the overall level of sales, persistency of in-force business, claim experience and expense management.

Premiums collected by this segment in the second quarter of 1998 were $483.7 million, up 5.3 percent over 1997. Premiums collected in the first six months of 1998 were $986.2 million, up 12 percent over 1997. The increase is primarily due to the recent acquisitions.

Medicare supplement policies accounted for 44 percent of this segment's collected premiums in the first six months of 1998 compared with 42 percent in 1997. Collected premiums on Medicare supplement policies increased 3.7 percent, to $208.7 million, in the second quarter of 1998 and increased 17 percent, to $432.5 million, in the first six months of 1998. Such increases primarily reflect the recent acquisitions and a larger base of premiums due to rate increases. The sales of Medicare supplement policies have been affected by: (i) steps taken to improve profitability by increasing premium rates and changing the commission structure and underwriting criteria for these policies; (ii) increased competition from alternative providers, including HMOs; and (iii) reduced production in Massachusetts as a result of steps announced in the third quarter of 1997.

Premiums collected on long-term care policies increased 7.7 percent, to $177.8 million, in the second quarter of 1998 and increased 11 percent, to $355.9 million, in the first six months of 1998. The increase in long-term care premiums collected in 1998 reflects the premiums collected by the recently acquired companies and increased premium collections from previously owned companies.

Premiums collected on specified disease policies increased 4.6 percent, to $97.2 million in the second quarter of 1998 and increased 3.1 percent, to $197.8 million, in the first six months of 1998.

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

Net investment income increased 17 percent, to $73.8 million, in the second quarter of 1998 and increased 21 percent, to $145.7 million, in the first six months of 1998. Such investment income fluctuates when changes occur in: (i) the amount of average invested assets supporting insurance liabilities and capital allocated to the segment; and (ii) the yield earned on invested assets. During the first six months of 1998, the segment's average invested assets increased to $3.9 billion from approximately $3.2 billion in 1997, primarily as a result of the recent acquisitions. The annualized net yield on invested assets was 7.5 percent in the first six months of 1998 and 7.6 percent in the first six months of 1997.

Insurance policy benefits increased in the second quarter of 1998 and in the first six months of 1998 primarily as a result of the amount of business in force on which benefits are incurred. The Medicare supplement loss ratio (the ratio of policy benefits to insurance policy income for Medicare supplement policies) was 67.2 percent and 72.4 percent in the second quarters of 1998 and 1997, respectively, and 68.5 percent and 71.3 percent in the first six months of 1998 and 1997, respectively.

The long-term care loss ratio (the ratio of policy benefits to insurance policy income for long-term care policies) increased by 9.9 percentage points, to 67.9 percent, in the second quarter of 1998 and increased by 3.8 percentage points, to 64.5 percent, in the first six months of 1998. This increase reflects fluctuations in claim experience and reserve developments.

The ratio of policy benefits to insurance policy income for specified-disease policies increased by 1.9 percentage points, to 58.9 percent, in the second quarter of 1998 and fell by .9 percentage points, to 56.8 percent, in the first six months of 1998. This decrease reflects fluctuations in claim experience.

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

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

Interest expense on investment borrowings was affected by changes in investment borrowing activities during the period and the changes in interest rates paid on such borrowings.

Other operating costs and expenses did not change significantly between periods.

Net investment gains (losses), net of related costs often fluctuate from period to period.

Annuities:

	Three months ended June 30, 1998	Three months ended June 30, 1997	Six months ended June 30, 1998	Six months ended June 30, 1997
	(Dollars in millions)			
Premiums collected:				
Traditional fixed (first-year)	$215.9	$247.8	$ 410.8	$460.2
Traditional fixed (renewal)	18.3	22.4	34.1	43.6
Subtotal - traditional fixed	234.2	270.2	444.9	503.8
Market value-adjusted (first-year)	25.8	48.4	63.6	98.2
Market value-adjusted (renewal)	2.5	4.4	5.9	8.5
Subtotal - market value-adjusted	28.3	52.8	69.5	106.7
Equity-indexed (first-year)	221.7	80.1	373.7	141.0
Equity-indexed (renewal)	4.1	-	9.4	-
Subtotal - equity-indexed	225.8	80.1	383.1	141.0
Variable annuities (first-year)	68.3	25.4	113.2	41.9
Variable annuities (renewal)	24.9	13.1	39.4	25.9
Subtotal - variable annuities	93.2	38.5	152.6	67.8
Total annuity premiums collected	$581.5	$441.6	$1,050.1	$819.3
Insurance policy income	$ 26.0	$ 25.0	$ 54.3	$ 43.7
Net investment income:				
General account invested assets	262.5	241.4	532.6	474.4
Equity-indexed products based on S&P 500 Index	12.3	15.4	72.0	17.5
Separate account assets	11.8	3.9	37.7	18.0
Total revenues (a)	312.6	285.7	696.6	553.6
Insurance policy benefits	13.1	20.8	32.6	34.6
Amounts added to policyholder account balances:				
Annuity products other than those listed below	136.4	132.8	277.4	269.5
Equity-indexed products based on S&P 500 Index	11.2	15.4	70.9	17.5
Variable annuity products	11.8	3.9	37.7	18.0
Amortization related to operations	24.3	21.3	48.7	48.1
Interest expense on investment borrowings	9.8	3.0	20.1	4.7
Other operating costs and expenses	12.3	8.1	25.8	15.4
Total benefits and expenses (a)	218.9	205.3	513.2	407.8
Operating income before income taxes, minority interest and extraordinary charge	93.7	80.4	183.4	145.8
Net investment gains (losses), net of related costs and amortization	-	.9	(7.7)	.1
Income before income taxes, minority interest and extraordinary charge	$ 93.7	$ 81.3	$ 175.7	$145.9
Weighted average gross interest spread on annuity products (b)	3.0%	3.2%	3.1%	3.0%

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

(b) Excludes variable annuity products where the credited amount is based on investment income from segregated investments.

General: This segment includes single-premium deferred annuities ("SPDAs"), flexible-premium deferred annuities ("FPDAs"), single-premium immediate annuities ("SPIAs"), market value-adjusted annuities, equity-indexed annuities and variable annuities sold through both career agents and professional independent producers. The profitability of this segment largely depends on the investment spread earned (i.e., the excess of investment earnings over interest credited on annuity deposits), the persistency of in-force business, and expense management.

Premiums collected by this segment in the second quarter of 1998 were $581.5 million, up 32 percent over the second quarter of 1997. Premiums collected in the first six months of 1998 were $1,050.1 million, up 28 percent over 1997.

Traditional fixed rate annuity products include SPDAs, FPDAs and SPIAs, which are credited with a guaranteed rate. SPDA and FPDA policies (which make up 74 percent and 79 percent of traditional fixed rate annuity premiums collected in the first six months of 1998 and 1997, respectively) 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. The demand for traditional fixed rate annuity contracts has decreased in recent years, as relatively low interest rates have made other investment products more attractive. Annuity premiums on these products decreased 13 percent, to $234.2 million, in the second quarter of 1998 and decreased 12 percent, to $444.9 million, in the first six months of 1998.

We offer deferred annuity products with a "market value adjustment" feature designed to provide additional protection from early terminations during a period of rising interest rates by reducing the surrender value payable upon a full surrender of the policy in excess of the allowable penalty-free withdrawal amount. Conversely, during a period of declining interest rates, the market value adjustment feature would increase the surrender value payable to the policyholder. Annuity premiums collected with this feature represent 4.9 percent and 12 percent of total annuity premiums collected during the second quarters of 1998 and 1997, respectively, and 6.6 percent and 13 percent of total annuity premiums collected during the first six months of 1998 and 1997, respectively.

In response to consumers' desire for alternative investment products with returns linked to equities, we introduced an equity- indexed annuity product in 1996. The accumulation value of these annuities is credited with interest at an annual minimum guaranteed rate of 3 percent, but the annuities provide for higher returns based on a percentage of the change in the S&P 500 Index during each year of their term. We purchase S&P 500 Call Options in an effort to hedge potential increases to policyholder benefits resulting from increases in the S&P 500 Index to which the product's return is linked. Total collected premiums for this product were $225.8 million in the second quarter of 1998 compared with $80.1 million in the second quarter of 1997 and were $383.1 million in the first six months of 1998 compared with $141.0 million in the first six months of 1997.

Variable annuities offer contract holders a rate of return based on the specific investment portfolios into which premiums may be directed. The popularity of such annuities has increased recently as a result of the desire of investors to invest in common stocks. In addition, in 1996, we began to offer more investment options for variable annuity deposits, and we expanded our marketing efforts, which resulted in increased collected premiums. Profits on variable annuities are derived from the fees charged to contract holders rather than from the investment spread. Variable annuity collected premiums increased 142 percent, to $93.2 million, in the second quarter of 1998 and increased 125 percent, to $152.6 million, in the first six months of 1998.

Insurance policy income includes: (i) premiums received on SPIA policies that incorporate significant mortality features; (ii) cost of insurance and expenses charged to annuity policies; and (iii) surrender charges earned on annuity policy withdrawals. In accordance with GAAP, premiums on annuity contracts without mortality features are not reported as revenues; but rather are reported as deposits to insurance liabilities. Insurance policy income increased primarily because of increased surrender charges collected and an increase in premiums received on policies with mortality features (changes in the cost of insurance and expenses charged to annuity policies were not significant). Surrender charges were $21.0 million in the second quarter of 1998 and $16.8 million in the second quarter of 1997. Such charges were $38.3 million in the first six months of 1998 compared with $29.8 million in the first six months of 1997. Annuity policy withdrawals were $582.8 million in the second quarter of 1998 and $481.5 million in the second quarter of 1997. Annuity policy withdrawals were $1,091.3 million in the first six months of 1998 compared with $863.1 million in the first six months of 1997. The increase in policy withdrawals and surrender charges generally corresponds to the aging and the growth of our annuity business in force. In addition, policyholders are using the systematic withdrawal features available in several of our annuity policies, and policyholders are surrendering in order to invest in alternative investments.

Net investment income on general account invested assets (excluding income on separate account assets related to variable annuities and excluding the income and change in the fair value of S&P 500 Call Options related to equity-indexed products) increased 8.7 percent, to $262.5 million, in the second quarter of 1998 and increased 12 percent, to $532.6 million, in the first six months of 1998. This increase primarily reflects the increase in general account invested assets acquired in conjunction with the recent acquisitions. The segment's average invested assets increased 14 percent, to approximately $13.9 billion, in the first six months of 1998 compared with 1997, and the annualized yield earned on average invested assets was approximately 7.7 percent and 7.8 percent in the first six months of 1998 and 1997, respectively.

Net investment income from the change in fair value of S&P 500 Call Options is substantially offset by a corresponding charge to amounts added to policyholder account balances for equity-indexed products. Such income and related charge fluctuate based on the performance of the S&P 500 Index to which the returns on such products are linked.

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

Insurance policy benefits relate solely to annuity policies that incorporate significant mortality features. The decrease primarily reflects favorable claim experience.

Amounts added to policyholder account balances for interest expense on annuity products increased 2.7 percent, to $136.4 million, in the second quarter of 1998 and increased 2.9 percent, to $277.4 million, in the first six months of 1998 primarily due to a larger block of annuity business in force in the first six months of 1998, partially offset by a reduction in crediting rates. The weighted average crediting rates for these annuity liabilities decreased .1 percentage point, to 4.6 percent, in the second quarter of 1998 and decreased .2 percentage points, to 4.6 percent, in the first six months of 1998.

Amortization related to operations includes amortization of: (i) the cost of policies produced; (ii) the cost of policies purchased; and (iii) goodwill related to this segment's business. The amount of amortization increased primarily because of the changes in the balances of the cost of policies purchased and cost of policies produced as a result of net investment gains (losses) recognized during 1998 and 1997, partially offset by the increase in balances subject to amortization as a result of recent acquisitions.

Interest expense on investment borrowings is affected by changes in investment borrowing activities and the changes in interest rates paid on such borrowings.

Other operating costs and expenses increased in the second quarter of 1998 as well as in the first six months of 1998. The increase corresponds to the business acquired in recent acquisitions.

Net investment gains (losses), net of related costs and amortization often fluctuate from period to period. Selling securities at a gain and reinvesting the proceeds at lower yields may, absent other management action, tend to decrease future investment yields. We believe, however, that the following factors mitigate the adverse effect of such decreases on net income: (i) we recognized additional amortization of cost of policies purchased and cost of policies produced in order to reflect reduced future yields (thereby reducing such amortization in future periods); (ii) we can reduce interest rates credited to some products, thereby diminishing the effect of the yield decrease on the investment spread; and (iii) the investment portfolio grows as a result of reinvesting the investment gains. As a result of the sales of fixed maturity investments, the amortization of the cost of policies purchased and the cost of policies produced increased $9.9 million and $14.3 million in the second quarters of 1998 and 1997, respectively, and increased $71.1 million and $21.7 million in the first six months of 1998 and 1997, respectively.

Life insurance:

	Three months ended June 30, 1998	Three months ended June 30, 1997	Six months ended June 30, 1998	Six months ended June 30, 1997
	(Dollars in millions)			
Premiums collected:				
Universal life (first-year)	$ 20.2	$ 24.6	$ 46.3	$ 49.3
Universal life (renewal)	94.9	86.0	211.3	173.9
Subtotal - universal life	115.1	110.6	257.6	223.2
Traditional life (first-year)	16.1	13.5	31.9	17.3
Traditional life (renewal)	85.1	43.7	166.5	79.0
Subtotal - traditional life	101.2	57.2	198.4	96.3
Total life premiums collected	$216.3	$167.8	$456.0	$319.5
Insurance policy income:				
Premiums earned on traditional life products	$ 98.5	$ 62.6	$190.6	$100.4
Mortality charges and administrative fees	104.1	87.4	208.8	173.5
Surrender charges	6.3	3.4	11.8	7.6
Total insurance policy income	208.9	153.4	411.2	281.5
Net investment income	130.2	113.2	271.9	210.6
Total revenues (a)	339.1	266.6	683.1	492.1
Insurance policy benefits	154.3	116.8	302.3	202.9
Interest added to financial product policyholder account balances	45.8	37.8	93.2	74.8
Amortization related to operations	26.7	27.8	47.2	51.5
Interest expense on investment borrowings	5.0	1.4	10.2	2.1
Other operating costs and expenses	25.9	22.2	49.1	42.5
Total benefits and expenses (a)	257.7	206.0	502.0	373.8
Operating income before income taxes, minority interest and extraordinary charge	81.4	60.6	181.1	118.3
Net investment gains (losses), net of related costs and amortization	-	1.7	1.3	(1.7)
Income before income taxes, minority interest and extraordinary charge	$ 81.4	$ 62.3	$182.4	$116.6

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

General: This segment includes traditional life and universal life products sold through career agents, professional independent producers and direct response distribution channels. The segment's operations were significantly affected by the PFS Merger effective April 1, 1997, the Colonial Penn Purchase effective September 30, 1997, and the WNIC Merger effective December 1, 1997. The profitability of this segment largely depends on the investment spread earned (for universal life), the persistency of in-force business, claim experience and expense management.

Premiums collected by this segment in the second quarter of 1998 were $216.3 million, up 29 percent over 1997. Premiums collected in the first six months of 1998 were $456.0 million, up 43 percent over 1997. Such increase relates primarily to premiums collected by recently acquired companies in periods after their acquisition.

Universal life product collected premiums increased 4.1 percent, to $115.1 million, in the second quarter of 1998 and increased 15 percent, to $257.6 million, in the first six months of 1998. Traditional life product collected premiums increased 77 percent, to $101.2 million, in the second quarter of 1998 and increased 106 percent, to $198.4 million, in the first six months of 1998.

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

Net investment income increased 15 percent, to $130.2 million, in the second quarter of 1998 and increased 29 percent, to $271.9 million, in the first six months of 1998. Investment income fluctuates with changes in: (i) the amount of average invested assets supporting insurance liabilities and capital allocated to the segment; and (ii) the yield earned on invested assets. The segment's average invested assets increased 36 percent, to approximately $7.1 billion, in the first six months of 1998, and the net yield on invested assets decreased by .4 percentage points, to 7.6 percent. Invested assets increased primarily as a result of the recent acquisitions.

Insurance policy benefits increased in 1997 reflecting the larger amount of business in force on which benefits are incurred as a result of the recent acquisitions and adverse death claim experience during the first quarter of 1998.

Interest added to financial product policyholder account balances increased 21 percent, to $45.8 million, in the second quarter of 1998 and increased 25 percent, to $93.2 million, in the first six months of 1998. Such expense fluctuates with changes in: (i) the amount of insurance liabilities for universal life products; and (ii) the interest rate credited to such products. Such average liabilities increased 34 percent, to $4.1 billion, in the first six months of 1998, and the interest rate credited decreased by .3 percentage points, to 4.5 percent, in the first six months of 1998. Universal life product liabilities increased primarily as a result of the recent acquisitions.

Amortization related to operations includes amortization of: (i) the cost of policies produced; (ii) the cost of policies purchased; and (iii) goodwill related to this segment's business. The amount of amortization decreased primarily because of the decreases in the balances of the cost of policies purchased and cost of policies produced as a result of net investment gains recognized during 1998 and 1997, partially offset by the increase in balances subject to amortization as a result of recent acquisitions.

Interest expense on investment borrowings is affected by changes in investment borrowing activities and changes in interest rates paid on such borrowings.

Other operating costs and expenses have increased 17 percent, to $25.9 million, in the second quarter of 1998 and increased 16 percent, to $49.1 million, in the first six months of 1998. Such expenses have increased as a result of the recent acquisitions.

Net investment gains (losses), net of related costs and amortization often fluctuate from period to period. Net investment gains (losses) affect the timing of the amortization of cost of policies purchased and the cost of policies produced. As a result of net investment gains (losses) from the sales of fixed maturity investments, related amortization of cost of policies purchased and cost of policies produced totaled $18.6 million and $.5 million in the second quarters of 1998 and 1997, respectively, and totaled $43.8 million and $4.9 million in the first six months of 1998 and 1997, respectively.

Individual and group major medical:

	Three months ended June 30, 1998	Three months ended June 30, 1997	Six months ended June 30, 1998	Six months ended June 30, 1997
	(Dollars in millions)			
Premiums collected:				
Individual (first-year)	$ 24.4	$ 18.5	$ 52.4	$ 19.4
Individual (renewal)	55.3	40.0	111.9	49.5
Subtotal - individual	79.7	58.5	164.3	68.9
Group (first-year)	15.3	22.7	32.5	22.7
Group (renewal)	124.9	126.4	249.7	206.8
Subtotal - group	140.2	149.1	282.2	229.5
Total individual and group major medical premiums collected	$219.9	$207.6	$446.5	$298.4
Insurance policy income	$223.8	$213.0	$455.6	$309.4
Net investment income	6.7	3.7	13.0	6.0
Total revenues (a)	230.5	216.7	468.6	315.4
Insurance policy benefits	161.9	159.8	337.2	239.3
Amortization related to operations	8.4	5.8	17.4	8.8
Interest expense on investment borrowings	.3	.1	.6	.1
Other operating costs and expenses	30.6	40.3	65.0	46.3
Total benefits and expenses	201.2	206.0	420.2	294.5
Operating income before income taxes, minority interest and extraordinary charge	29.3	10.7	48.4	20.9
Net investment losses, net of related costs	(4.7)	-	(4.5)	-
Income before income taxes, minority interest and extraordinary charge	$ 24.6	$ 10.7	$ 43.9	$ 20.9
Benefit ratio	73.1%	76.2%	75.1%	81.1%

(a) Revenues exclude net investment losses.

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

Premiums collected by this segment in the second quarter of 1998 were $219.9 million, up 5.9 percent over the second quarter of 1997. Premiums collected in the first six months of 1998 were $446.5 million, up 50 percent over 1997. Over the last several years, a number of steps were taken to improve the profitability of such business, including changes in product, price, underwriting and agent compensation. Group premiums decreased 6.0 percent, to $140.2 million, in the second quarter of 1998 and increased 23 percent, to $282.2 million, in the first six months of 1998. Individual health premiums increased to $79.7 million in the second quarter of 1998 compared with $58.5 million in the second quarter of 1997 and increased to $164.3 million in the first six months of 1998 compared with $68.9 million in the first six months of 1997. The increase in this segment's premiums is principally a result of the PFS Merger.

Insurance policy income is comprised of premiums earned on the segment's policies and fee income earned for group medical risk management services. Fluctuations in premiums earned have been consistent with the fluctuations in premiums collected described above. Fee income was $4.4 million in the second quarter of 1998 and $2.9 million in the second quarter of 1997. Fee income was $8.7 million in the first six months of 1998 and $7.0 million in the first six months of 1997.

Net investment income increased 81 percent, to $6.7 million, in the second quarter of 1998 and increased 117 percent, to $13.0 million, in the first six months of 1998. Investment income fluctuates when changes occur in: (i) the amount of average invested assets supporting insurance liabilities and capital allocated to this segment; and (ii) the yield earned on invested assets. During the first six months of 1998, the segment's average invested assets increased 97 percent, to $362 million, and the yield earned on invested assets increased from 6.6 percent to 7.2 percent.

Insurance policy benefits fluctuate in relationship to the amount of segment business in force and the incidence of claims. The ratio of policy benefits to insurance policy income was 75.1 percent in the first six months of 1998 and 81.1 percent in the first six months of 1997. The lower benefit ratio reflects (i) the lower incidence of claims experienced on business written by the acquired companies; (ii) favorable claim developments; and (iii) rate increases on certain business.

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

Interest expense on investment borrowings is affected by changes in investment borrowing activities and the changes in interest rates paid on such borrowings.

Other operating costs and expenses increased during the first six months of 1998 due to the PFS Merger. Such costs have decreased in the second quarter of 1998 compared to 1997, as a result of the cost savings achieved through consolidation of operations of recently acquired companies.

Net investment losses, net of related costs, often fluctuate from period to period.

Other:

	Three months ended June 30, 1998	Three months ended June 30, 1997	Six months ended June 30, 1998	Six months ended June 30, 1997
	(Dollars in millions)			
Premiums collected:				
Other (first-year)	$ 2.6	$ 2.6	$ 6.4	$ 5.6
Other (renewal)	31.1	13.7	59.7	27.1
Total other premiums collected	$33.7	$16.3	$ 66.1	$32.7
Insurance policy income	$37.8	$14.9	$73.0	$30.4
Net investment income	6.9	4.1	14.6	7.5
Fee revenue and other income	26.0	14.8	46.8	29.4
Total revenues (a)	70.7	33.8	134.4	67.3
Insurance policy benefits	27.0	7.8	51.2	17.8
Amortization related to operations	2.3	2.7	7.7	4.4
Interest expense on investment borrowings	.1	.1	.3	.1
Other operating costs and expenses	16.6	9.0	34.1	16.5
Total benefits and expenses	46.0	19.6	93.3	38.8
Operating income before income taxes, minority interest and extraordinary charge	24.7	14.2	41.1	28.5
Net investment losses, net of related costs	(5.5)	-	(1.9)	(.3)
Income before income taxes, minority interest and extraordinary charge	$19.2	$14.2	$ 39.2	$28.2

(a) Revenues exclude net investment losses.

General: This segment includes: (i) various other health insurance products that are not currently being actively marketed; and (ii) in 1998, the specialty health insurance products of WNIC marketed to educators through career agents. The profitability of this business depends largely on the overall persistency of the business inforce, claim experience and expense management.

The segment also includes the fee revenue generated by our non-life subsidiaries other than those in our consumer and commercial finance segment. This revenue includes the investment advisory fees earned by Conseco Capital Management, Inc. and commissions earned for insurance and investment product marketing and distribution. Such amounts exclude the fees and commissions we charge to our consolidated subsidiaries. The profitability of the fee-based business depends on the total fees generated and on expense management.

Premiums collected by this segment in the second quarter of 1998 were $33.7 million, up 107 percent over the second quarter of 1997. Premiums collected in the first six months of 1998 were $66.1 million, up 102 percent over the first six months of 1997. The increase in premiums collected in 1998 primarily relates to the WNIC Merger in December of 1997.

We do not emphasize the sale of many of the products in this segment, and collected premiums are expected to decrease in future years. However, the in-force business continues to be profitable.

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

Net investment income increased 68 percent, to $6.9 million, in the second quarter of 1998 and increased 95 percent, to $14.6 million, in the first six months of 1998. Such investment income fluctuated primarily in relationship to the amount of average invested assets supporting this segment's insurance liabilities and allocated capital. During the first six months of 1998, the segment's average invested assets increased 98 percent, to $382 million, and the net yield on invested assets decreased .1 percentage point, to 7.6 percent.

Fee revenue and other income includes: (i) fees for investment management and for mortgage origination and servicing; and (ii) commissions earned for insurance and investment product marketing and distribution. Such amounts exclude the fees and commissions we charge to our consolidated subsidiaries. Fee revenue and other income increased 76 percent, to $26.0 million, in the second quarter of 1998, and increased 59 percent, to $46.8 million, in the first six months of 1998 primarily due to other income of recently acquired companies.

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

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

Interest expense on investment borrowings is affected by changes in investment borrowing activities and the changes in interest rates paid on such borrowings.

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

Net investment losses, net of related costs often fluctuate from period to period.

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

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

Interest and other corporate expenses were $40.0 million in the second quarter of 1998 and $29.3 million in the second quarter of 1997. Such expenses were $82.8 million in the first six months of 1998 and $59.1 million in the first six months of 1997. Interest expense included therein was $36.3 million in the second quarter of 1998 and $25.5 million in the second quarter of 1997 and $75.3 million in the first six months of 1998 and $51.3 million in the first six months of 1997. Such expense fluctuates in relationship to the average debt outstanding during each period and the interest rate thereon.

INSURANCE SEGMENT SALES

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

Total premiums collected by our insurance segments were as follows:

	Three months ended June 30, 1998	Three months ended June 30, 1997	Six months ended June 30, 1998	Six months ended June 30, 1997
	(Dollars in millions)			
Supplemental health:				
First-year	$ 70.7	$ 73.0	$ 141.0	$ 139.8
Renewal	413.0	386.3	845.2	739.9
Total supplemental health	483.7	459.3	986.2	879.7
Annuities:				
First-year	531.7	401.7	961.3	741.3
Renewal	49.8	39.9	88.8	78.0
Total annuities	581.5	441.6	1,050.1	819.3
Life insurance:				
First-year	36.3	38.1	78.2	66.6
Renewal	180.0	129.7	377.8	252.9
Total life insurance	216.3	167.8	456.0	319.5
Individual and group major medical:				
First-year	39.7	41.2	84.9	42.1
Renewal	180.2	166.4	361.6	256.3
Total individual and group major medical	219.9	207.6	446.5	298.4
Other:				
First-year	2.6	2.6	6.4	5.6
Renewal	31.1	13.7	59.7	27.1
Total other	33.7	16.3	66.1	32.7
Total:				
First-year	681.0	556.6	1,271.8	995.4
Renewal	854.1	736.0	1,733.1	1,354.2
Total collected premiums	$1,535.1	$1,292.6	$3,004.9	$2,349.6

Our recent acquisitions have a significant effect on premiums collected. Total premiums collected for all currently consolidated companies for the three months ended and six months ended June 30, 1998 and 1997 (including periods prior to ownership by Conseco) are provided below:

	Three months ended June 30,		Six months ended June 30,	
	1998	1997	1998	1997
	(Dollars in millions)			
Supplemental health:				
First-year	$ 70.7	$ 73.6	$ 141.0	$ 153.1
Renewal	413.0	399.6	845.2	816.0
Total supplemental health	483.7	473.2	986.2	969.1
Annuities:				
First-year	531.7	412.5	961.3	763.5
Renewal	49.8	43.9	88.8	87.6
Total annuities	581.5	456.4	1,050.1	851.1
Life insurance:				
First-year	36.3	51.5	78.2	104.6
Renewal	180.0	174.1	377.8	357.8
Total life insurance	216.3	225.6	456.0	462.4
Individual and group major medical:				
First-year	39.7	41.2	84.9	80.5
Renewal	180.2	166.4	361.6	337.5
Total individual and group major medical	219.9	207.6	446.5	418.0
Other:				
First-year	2.6	4.5	6.4	9.8
Renewal	31.1	41.9	59.7	83.6
Total other	33.7	46.4	66.1	93.4
Total:				
First-year	681.0	583.3	1,271.8	1,111.5
Renewal	854.1	825.9	1,733.1	1,682.5
Total collected premiums	$1,535.1	$1,409.2	$3,004.9	$2,794.0

LIQUIDITY AND CAPITAL RESOURCES

Changes in the consolidated balance sheet between December 31, 1997 and June 30, 1998, reflect: (i) our operating results; (ii) the nonrecurring charge of $498.0 million (net of income taxes of $190.0 million) related to merger-related costs and the charge to reduce the value of interest-only securities and servicing rights; (iii) our origination and sale of finance receivables; (iv) changes in the fair value of actively managed fixed maturity securities and interest-only securities (after giving effect to the aforementioned charge); and (v) various financing transactions. Financing transactions (described in the notes to the consolidated financial statements) include: (i) common stock repurchases; and (ii) the issuance and repayment of notes payable and commercial paper.

In accordance with Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities ("SFAS 115"), we record our actively managed fixed maturity investments and interest-only securities at estimated fair value. At June 30, 1998, the carrying value of such investments was increased by $443.7 million as a result of the SFAS 115 adjustment, compared with an increase of $519.6 million at December 31, 1997.

Minority interest at June 30, 1998, includes: (i) Company-obligated mandatorily redeemable preferred securities of subsidiary trusts with a carrying value of $1,388.8 million; and (ii) $.7 million interest in the common stock of a subsidiary.

The decrease in shareholders' equity in the first six months of 1998 resulted from: (i) a net loss of $67.5 million; (ii) repurchases of common stock for $271.2 million; (iii) the decrease in net unrealized accumulated other comprehensive income of $.3 million; and (iv) common and preferred stock dividends of $74.6 million. These decreases were partially offset by: (i) the issuance of common stock related to stock options and for agent and employee benefit plans (including the tax benefit thereon) of $159.9 million; (ii) the conversion of convertible debentures into common shares totaling $16.3 million; and (iii) the issuance of warrants in conjunction with a financing transaction of $7.7 million.

Dividends declared on common stock for the six months ended June 30, 1998, were 25 cents per share. In July 1998, Conseco's Board of Directors increased the quarterly cash dividend on the Company's common stock to 14 cents per share from 12.5 cents per share, effective with the dividend payment to be made October 1, 1998.

The following table summarizes certain financial ratios as of and for the six months ended June 30, 1998, and as of and for the year ended December 31, 1997:

	June 30, 1998	December 31, 1997
	(Dollars in millions)	
Book value per common share:		
As reported	$15.62	$16.45
Excluding unrealized appreciation (c)	14.99	15.88
Ratio of earnings to fixed charges:		
As reported	1.20X	2.45X
Excluding interest on annuities and financial product policyholder account balances and interest expense on debt related to finance receivables and other investments (a)	2.43X	13.00X
Ratio of earnings (excluding nonrecurring charge related to Green Tree) to fixed charges (b):		
As reported	2.36X	2.45X
Excluding interest on annuities and financial product policyholder account balances and interest expense on debt related to finance receivables and other investments (a)	10.70X	13.00X
Ratio of earnings to fixed charges, preferred dividends and distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts:		
As reported	1.08X	2.20X
Excluding interest on annuities and financial product policyholder account balances and interest expense on debt related to finance receivables and other investments (a)	1.36X	6.72X
Ratio of earnings (excluding nonrecurring charge related to Green Tree) to fixed charges, preferred dividends and distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts (b):		
As reported	2.13X	2.20X
Excluding interest on annuities and financial product policyholder account balances and interest expense on debt related to finance receivables and other investments (a)	6.00X	6.72X
Ratio of corporate debt to total capital (h):		
As reported	.32X	.26X
Excluding unrealized appreciation (c)	.32X	.27X
Ratio of corporate debt and Company-obligated mandatorily redeemable preferred securities of subsidiary trusts to total capital (d) (h):		
As reported	.47X	.42X
Excluding unrealized appreciation (c)	.48X	.43X
Rating agency ratios: (c) (e) (f) (g) (h)		
Debt to total capital	.27X	.22X
Debt and preferred stock to total capital (i)	.43X	.38X

(a) These ratios are included to assist the reader in analyzing the impact of interest on annuities and financial products (which is not generally required to be paid in cash in the period it is recognized) and interest on debt related to finance receivables and other investments. Such ratios are not intended to, and do not, represent the following ratios prepared in accordance with GAAP: the ratio of earnings to fixed charges; and the ratio of earnings to fixed charges, preferred dividends and distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts.

(b) These ratios are included to assist the reader in analyzing the impact of the $688 million nonrecurring charge (before taxes) recognized in the six month period ended June 30, 1998 related to the Green Tree Merger. Such nonrecurring charge was comprised of $148 million of merger-related costs (including investment banking, accounting, legal and regulatory fees) and non-cash charges of $540 million to write down the carrying value of Green Tree's interest-only securities and servicing rights. Such ratios are not intended to, and do not, represent the following ratios prepared in accordance with GAAP: the ratio earnings to fixed charges; or the ratio of earnings to fixed charges, preferred dividends and distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts.

(c) Excludes the effect of reporting fixed maturities at fair value.

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

(e) Consistent with our discussions with rating agencies, the Company has targeted: (i) the ratio of corporate debt to total capital to be at or below 35 percent; and (ii) the ratio of corporate debt and preferred stock to total capital to be at or below 49 percent. These ratios are calculated in a manner discussed with rating agencies.

(f) Corporate debt is reduced by cash and investments held by non-life companies other than consumer finance companies.

(g) Assumes conversion of all convertible debentures.

(h) Excludes debt of consumer and commercial finance segment used to fund finance receivables.

(i) Assumes purchase of common shares under purchase contracts.

Liquidity for insurance operations

Our insurance operating companies generally receive adequate cash flow 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 surrender and withdrawal penalty provisions. We seek to balance the duration of our invested assets with the estimated duration of benefit payments arising from contract liabilities.

We believe that the diversity of the investment portfolio of our life insurance subsidiaries and the concentration of investments in high quality liquid securities provide sufficient liquidity to meet foreseeable cash requirements.

Liquidity for finance operations

Our consumer and commercial finance segment requires continued access to the capital markets for the warehousing and sale of finance receivables. To satisfy these needs, a variety of capital resources are utilized.

Historically, the most important liquidity source for our finance segment has been our ability to sell finance receivables in the secondary markets through loan securitizations. Under certain securitized sales structures, we have provided a variety of credit enhancements, which generally take the form of corporate guarantees, but have also included bank letters of credit, surety bonds, cash deposits or other equivalent collateral. We analyze the cash flows unique to each transaction, as well as the marketability and projected economic value of such transactions when choosing the appropriate structure for a securitized loan sale. The structure of each securitized sale depends, to a great extent, on conditions of the fixed income markets at the time of sale as well as cost considerations and availability and effectiveness of the various enhancement methods. During the first six months of 1998, we used a senior/subordinated structure for each of our five manufactured home loan sales and enhanced a portion of the subordinated certificates sold with a corporate guarantee. During the first six months of 1998, our home equity and home improvement loan sales included two separate but cross-collateralized loan pools, both of which employed a senior/subordinated structure with a limited guarantee on a portion of the subordinate certificates.

Our sale of consumer products, equipment finance and certain home equity and home improvement loans during the first quarter of 1998 employed a multi-class credit tranched grantor trust structure issuing fixed rate certificates with a limited corporate guarantee on the most subordinate class. In the second quarter of 1998, our sale of consumer products and equipment finance loans utilized a multi-class credit tranched owner trust structure issuing fixed rate notes and certificates with a limited corporate guarantee on the most subordinate class. Also during the first and second quarters, we sold $50.0 million of private-label credit card receivables and $438.3 million of floorplan receivables through two separate revolving trusts.

Servicing fees and net interest payments collected on sold loans increased during the six-month period ended June 30, 1998 compared with the same period in 1997. Contributing to this growth is an increase in servicing revenue we collect on our growing servicing portfolio. Interest on unsold loans increased during the first six months of 1998 compared with the same period in 1997 as a result of the increase in the outstanding finance receivables.

We currently have $3.8 billion in master repurchase agreements, subject to the availability of eligible collateral, with various investment banking firms for the purpose of financing our contract and commercial finance loan production. The master repurchase agreements generally provide for annual terms which are extended each quarter by mutual agreement of the parties for an additional annual term based upon receipt of updated quarterly financial information. In addition, we have unsecured bank credit agreements of $325.0 million scheduled to expire on September 30, 1998. At June 30, 1998, we have $1.4 billion outstanding under the repurchase agreements and $225.0 million of borrowings under the unsecured bank credit agreements.

We also have a commercial paper program through which we are authorized to issue up to $2 billion in notes of varying terms (not to exceed 270 days) to meet our warehousing liquidity needs. This program is backed by a combination of our bank credit agreements and master repurchase agreements referred to above. As of June 30, 1998, no commercial paper is outstanding under this program. We have curtailed our issuance of commercial paper in favor of master repurchase agreements, due to recent ratings actions by credit agencies which lowered Green Tree's senior unsecured debt ratings.

In addition, we have a $700 million line of credit secured by our interest-only securities. This line of credit matures on February 12, 2000 with an option to extend for an additional one year term.

Liquidity of Conseco (parent company)

The parent company is a legal entity, separate and distinct from its subsidiaries, and has no business operations. The parent company needs cash for:
(i) principal and interest on debt; (ii) dividends on preferred and common stock; (iii) distributions on the Company-obligated mandatorily redeemable preferred stock of subsidiary trusts; (iv) holding company administrative expenses; (v) income taxes; and (vi) investments in subsidiaries. The primary sources of cash to meet these obligations include statutorily permitted payments from our life insurance subsidiaries, including: (i) dividend payments; (ii) surplus debenture interest and principal payments; (iii) tax sharing payments; and (iv) fees for services provided. The parent company may also obtain cash by:
(i) issuing debt or equity securities; (ii) borrowing additional amounts under its revolving credit agreement; or (iii) selling all or a portion of its subsidiaries. These sources have historically provided adequate cash flow to fund: (i) the needs of the parent company's normal operations; (ii) internal expansion, acquisitions and investment opportunities; and (iii) the retirement of debt and equity.

INVESTMENTS HELD BY OUR INSURANCE SUBSIDIARIES

At June 30, 1998, the amortized cost and estimated fair value of fixed maturity securities (all of which were actively managed) were as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
		(Dollars in millions)		
United States Treasury securities and obligations of United States government corporations and agencies	$ 536.2	$ 25.7	$ .1	$ 561.8
Obligations of states and political subdivisions and foreign government obligations	469.6	10.8	9.2	471.2
Public utility securities	1,867.4	61.3	26.2	1,902.5
Other corporate securities	13,242.3	372.3	116.7	13,497.9
Mortgage-backed securities	5,987.6	129.5	6.2	6,110.9
Total fixed maturity securities	$22,103.1	$599.6	$158.4	$22,544.3

The following table sets forth the investment ratings of fixed maturity securities at June 30, 1998 (designated categories include securities with "+" or "-" rating modifiers). The category assigned is the highest rating by a nationally recognized statistical rating organization, or as to $693.4 million fair value of fixed maturities not rated by such firms, the rating assigned by the National Association of Insurance Commissioners ("NAIC"). For purposes of the table, NAIC Class 1 securities are included in the "A" rating; Class 2, "BBB"; Class 3, "BB" and Classes 4 to 6, "B and below."

Investment rating	Percent of: Fixed maturities	Percent of: Total investments
AAA	31%	25%
AA	7	6
A	22	18
BBB	30	23
Investment grade	90	72
BB	5	4
B and below	5	4
Below investment grade	10	8
Total fixed maturities	100%	80%

At June 30, 1998, our below investment grade fixed maturity securities had an amortized cost of $2,264.2 million and an estimated fair value of $2,193.2 million.

During the first six months of 1998 and 1997, we recorded $1.5 million and $1.2 million, respectively, in writedowns of fixed maturity securities as a result of changes in conditions which caused us to conclude that a decline in fair value of the investments was other than temporary. At June 30, 1998, fixed maturity securities in default as to the payment of principal or interest had an aggregate amortized cost of $19.3 million and a carrying value of $18.9 million.

Sales of invested assets (primarily fixed maturity securities) during the first six months of 1998 generated proceeds of $15.7 billion, and net investment gains of $118.6 million. Sales of invested assets during the first six months of 1997 generated proceeds of $6.3 billion, and net investment gains of $22.3 million. Net investment gains in the first six months of 1997 also included $.2 million of writedowns related to mortgage loans.

At June 30, 1998, fixed maturity investments included $6.1 billion of mortgage-backed securities (or 27 percent of all fixed maturity securities). The yield characteristics of mortgage-backed securities differ from those of traditional fixed-income securities. Interest and principal payments occur more frequently, often monthly. Mortgage-backed securities are subject to risks associated with variable prepayments. Prepayment rates are influenced by a number of factors 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; and the repayment priority of the securities in the overall securitization structures.

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

The following table sets forth the par value, amortized cost and estimated fair value of mortgage-backed securities, summarized by interest rates on the underlying collateral at June 30, 1998:

	Par value	Amortized cost	Estimated fair value
	(Dollars in millions)		
Below 7 percent	$2,532.8	$2,506.8	$2,547.0
7 percent - 8 percent	2,707.9	2,685.3	2,753.5
8 percent - 9 percent	485.9	484.7	496.8
9 percent and above	300.4	310.8	313.6
Total mortgage-backed securities	$6,027.0	$5,987.6	$6,110.9

The amortized cost and estimated fair value of mortgage-backed securities at June 30, 1998, summarized by type of security, were as follows (dollars in millions):

		Estimated fair value	
Type	Amortized cost	Amount	Percent of fixed maturities
Pass-throughs and sequential and targeted amortization classes	$3,706.5	$3,780.7	17%
Planned amortization classes and accretion-directed bonds	1,714.8	1,748.5	8
Support classes	20.9	21.9	-
Accrual (Z tranche) bonds	12.5	13.4	-
Subordinated classes	532.9	546.4	2
	$5,987.6	$6,110.9	27%

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

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

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

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

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

At June 30, 1998, the balance of mortgage loans was comprised of 97 percent commercial loans, 2 percent residual interests in collateralized mortgage obligations and 1 percent residential loans. Less than 1.0 percent of mortgage loans were noncurrent (loans which are two or more scheduled payments past due) at June 30, 1998.

At June 30, 1998, we held $60.4 million of trading securities that are included in other invested assets.

Investment borrowings averaged approximately $1,251.5 million during the first six months of 1998, compared with approximately $340.7 million during the same period of 1997 and were collateralized by investment securities with fair values approximately equal to the loan value. The weighted average interest rate on such borrowings was 5.5 percent and 4.9 percent during the first six months of 1998 and 1997, respectively.

STATUTORY INFORMATION

Statutory accounting practices prescribed or permitted for the Company's insurance subsidiaries by regulatory authorities differ from generally accepted accounting principles. The Company's life insurance subsidiaries reported the following amounts to regulatory agencies at June 30, 1998, after appropriate eliminations of intercompany accounts among such subsidiaries (dollars in millions):

Statutory capital and surplus	$1,589.8
Asset valuation reserve ("AVR")	424.1
Interest maintenance reserve ("IMR")	505.4
Portion of surplus debenture carried as a liability	65.5
Total	$2,584.8

The ratio of such consolidated statutory account balances to consolidated statutory liabilities (excluding AVR, IMR, the portion of surplus debentures carried as a liability, liabilities from separate account business and short-term collateralized borrowings) was 11.0 percent at June 30, 1998, and 10.8 percent at December 31, 1997.

Combined statutory net income of the Company's life insurance subsidiaries for the periods during which such subsidiaries were included in our consolidated financial statements was $109.5 million and $127.8 million in the first six months of 1998 and 1997, respectively, after appropriate eliminations of intercompany amounts among such subsidiaries, but before elimination of intercompany amounts between such subsidiaries and non-life subsidiaries and the parent company.

The statutory capital and surplus of the insurance subsidiaries include surplus debentures issued to the parent holding companies totaling $789.4 million. Payments of interest and principal on such debentures are generally subject to the approval of the insurance department of the subsidiary's state of domicile. During the first six months of 1998, our life insurance subsidiaries made scheduled principal payments on surplus debentures of $63.7 million.

State insurance laws generally restrict the ability of insurance companies to pay dividends or make other distributions. Net assets of the Company's wholly owned life insurance subsidiaries, determined in accordance with GAAP, aggregated approximately $7.8 billion at December 31, 1997. During the first six months of 1998, our life insurance subsidiaries paid ordinary dividends of $38.9 million to the parent holding companies. During the remainder of 1998, the life insurance subsidiaries may pay additional dividends of $126.2 million without the permission of state regulatory authorities.

YEAR 2000 CONVERSION COSTS

We have initiated a corporate-wide program designed to ensure that all of our computer systems will function properly in the year 2000. Many existing programs were designed and developed to use only two digits to identify a year in the date field. If not addressed, these computer applications could result in system failures with possible adverse effects on our operations. A large number of our employees, as well as external consultants and contract programmers, are working on various year 2000 projects. We also have been working with our vendors to help avoid year 2000 problems with outside software or services they provide to us. Under our program, we are analyzing our application systems, operating systems, hardware, networks, EDI interfaces and infrastructure devices (such as facsimile machines and telephone systems).

We are addressing the year 2000 issues we identify in three ways. For some of our operations, the most effective solution will be to ensure timely completion of the previously planned conversions of their older systems to more modern, year 2000 - compliant systems used in other areas of the Company. In some cases, our most effective solution will be to purchase new, more modern systems; these costs will be capitalized as assets and amortized over their expected useful lives. In other cases, we will modify existing systems, thereby incurring costs that will be charged to operating expense.

We have incurred expenses throughout 1997 and in the first two quarters of 1998 related to this project and will continue to incur costs over the next 18 months. We currently estimate that the total costs related to our year 2000 projects will be approximately $48 million. Approximately 50 percent of these costs have been incurred prior to June 30, 1998.

The impact of year 2000 issues will depend not only on the corrective actions we take, but also on the way in which year 2000 issues are addressed by governmental agencies, businesses and other third parties that provide services or data to, or receive services or data from, the Company, or whose financial condition or operational capability is important to the Company.

Our year 2000 projects are currently on schedule. We expect the projects related to our life insurance subsidiaries to be completed by the end of the year. Our finance subsidiaries are expected to be completed with their projects in the second quarter of 1999.

FORWARD-LOOKING STATEMENTS

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

ITEM 3. MARKET-SENSITIVE INSTRUMENTS AND RISK MANAGEMENT

The market risks the Company is exposed to and our management of such risks are summarized in the supplemental management's discussion and analysis of financial condition and results of operations as of December 31, 1997, included in Exhibit 99.1 to the Company's Current Report on Form 8-K dated June 30, 1998, as amended. During the second quarter of 1998, prepayment rates on securitized loan contracts continued to exceed management's expectations. In addition, market yields of publicly traded securities similar to our interest-only securities increased. As a result of these developments, a $350 million charge (net of income taxes of $190 million) to reduce the carrying value of interest-only securities and servicing rights was recognized in the second quarter of 1998. There have been no other material changes to such risks or our management of such risks.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Green Tree has been served with various related lawsuits which were filed in the United States District Court for the District of Minnesota. These lawsuits were filed by certain former stockholders of Green Tree as purported class actions on behalf of persons or entities who purchased common stock of Green Tree during the alleged class periods that generally run from February 1995 to January 1998. One such action did not include class action claims. In addition to Green Tree, certain current and former officers and directors of Green Tree are named as defendants in one or more of the lawsuits. Green Tree and other defendants intend to seek consolidation in the United States District Court for the District of Minnesota of each of the lawsuits seeking class action status. Plaintiffs in the lawsuits assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. In each case, plaintiffs allege that Green Tree and the other defendants violated federal securities laws by, among other things, making false and misleading statements about the current state and future prospects of Green Tree (particularly with respect to prepayment assumptions and performance of certain loan portfolios of Green Tree) which allegedly rendered Green Tree's financial statements false and misleading. The Company believes that the lawsuits are without merit and intends to defend such lawsuits vigorously.

The Company and its subsidiaries are involved on an ongoing basis in lawsuits related to its operations. Although the ultimate outcome of certain of such matters cannot be predicted, none of such lawsuits currently pending against the Company or its subsidiaries is expected, individually or in the aggregate, to have a material adverse effect on the Company's consolidated financial condition, cash flows or results of operations.

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

At the Company's annual meeting on May 14, 1998, the shareholders elected Stephen C. Hilbert, Ngaire E. Cuneo and M. Phil Hathaway to serve as directors for terms ending in 2001. The results of the voting were as follows (there were no broker non-votes):

	Stephen C. Hilbert	Ngaire E. Cuneo	M. Phil Hathaway
For	161,012,823	161,124,032	161,085,483
Withheld	706,768	595,559	634,108

At the annual meeting, the shareholders also approved: (i) the performance-based provisions in the proposed Employment Agreement between the Company and Stephen C. Hilbert (there were 150,675,340 shares voted for the plan, 10,395,819 shares voted against the plan, 648,432 abstentions and no broker non-votes); and (ii) the Conseco Performance-Based Compensation Plan for Executive Officers (there were 150,674,574 shares voted for the plan, 10,402,453 shares voted against the plan, 642,564 abstentions, and no broker non-votes).

At a special meeting on June 30, 1998, the shareholders approved a proposal for the issuance of Conseco common stock pursuant to an Agreement and Plan of Merger, dated as of April 6, 1998, as amended, by and among Conseco, Marble Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of Conseco, and Green Tree Financial Corporation (there were 129,261,207 shares voted for the proposal, 7,481,282 shares voted against the proposal, 354,347 abstentions and 28,276,532 broker non-votes).

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

a) Exhibits.

3.2 Amended and Restated Bylaws of Conseco, Inc.

4.25 Indenture dated as of March 15, 1992 relating to $287,500,000 of 10-1/4% Senior Subordinated Notes due June 1, 2002 of Green Tree (incorporated by reference to Green Tree's Registration Statement on Form S-4; File No. 33-42249).

10.1.13 Employment Agreement dated February 9, 1996 between Green Tree and Lawrence Coss and related Noncompetition dated February 9, 1996, as amended by the Amendment Agreement dated April 6, 1998 (incorporated by reference to Green Tree's Registration Statement on Form S-3: File No. 333-52233).

10.8.15 Green Tree Financial Corporation 1987 Stock Option Plan (incorporated by reference to Green Tree's Registration Statement on Form S-4: File No. 33-42249).

10.8.16 Green Tree Financial Corporation Key Executive Stock Bonus Plan (incorporated by reference to Green Tree's Registration Statement on Form S-4; File No. 33-42249).

10.8.17 Green Tree Financial Corporation Restated 1992 Supplemental Stock Option Plan.

10.8.18 Green Tree Financial Corporation Chief Executive Cash Bonus and Stock Option Plan and related Stock Option Agreement, dated February 9, 1996 (incorporated by reference to Green Tree's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1996; File No. 1-08916).

10.8.19 Green Tree Financial Corporation 1996 restated Supplemental Pension Plan dated May 15, 1996 (incorporated by reference to Green Tree's Annual Report on Form 10-K for the year ended December 31, 1997: File No. 1-08916).

12.1 Computation of Ratio of Earnings to Fixed Charges, Preferred Dividends and Distributions on Company-obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts.

27.0 Financial Data Schedule

b) Reports on Form 8-K.

A report on Form 8-K dated April 6, 1998, was filed with the Commission to report under Item 5, the announcement that a subsidiary of Conseco had agreed to merge with Green Tree pursuant to an Agreement and Plan of Merger dated as of April 6, 1998.

A report on Form 8-K dated June 3, 1998, was filed with the Commission to report under Item 5, financial information related to Green Tree.

A report on Form 8-K dated June 4, 1998, was filed with the Commission to report under Item 5, the pricing of: (i) $550 million of unsecured 6.4 Percent MandatOry Par Put Remarketed Securities due June 15, 2011; and (ii) $250 million of 6.8 percent unsecured notes due June 15, 2005.

A report on Form 8-K dated June 30, 1998, as amended, was filed with the Commission to report under Item 2, the completion of the Green Tree Merger and under Item 5, financial information related to Green Tree and supplemental consolidated financial information which reflects the retroactive effect of the Green Tree Merger accounted for as a pooling of interests.

SIGNATURE

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

CONSECO, INC.

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Dated: August 14, 1998                 By:   /s/ ROLLIN M. DICK
                                             ------------------
                                             Rollin M. Dick
                                             Executive Vice President and
                                               Chief Financial Officer
                                               (authorized officer and principal
                                               financial officer)
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AMENDED AND RESTATED

BYLAWS OF CONSECO, INC.

Effective June 30, 1998

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ARTICLE 1

Shares

Section 1.1. Certificate for Shares. Shares of the Corporation may be issued in book-entry form or evidenced by certificates. However, unless otherwise specified in the provisions of the Articles of Incorporation relating to the class of shares, every holder of shares of the Corporation shall be entitled upon request to have a certificate evidencing the shares owned by the shareholder, signed in the name of the Corporation by the Chairman of the Board, the President or a Vice President and the Secretary or an Assistant Secretary, certifying the number of shares owned by the shareholder in the Corporation. The signatures of the Chairman of the Board, the President, Vice President, Secretary and Assistant Secretary, the signature of the transfer agent and registrar, and the seal of the Corporation may be facsimiles. In case any officer or employee who shall have signed, or whose facsimile signature or signatures shall have been used on, any certificate shall cease to be an officer or employee of the Corporation before the certificate shall have been issued and delivered by the Corporation, the certificate may nevertheless be adopted by the Corporation and be issued and delivered as though the person or persons who signed the certificate or whose facsimile signature or signatures have been used thereon had not ceased to be such officer or employee of the Corporation; and the issuance and delivery by the Corporation of any such certificate shall constitute an adoption thereof.

Subject to the foregoing provisions, certificates representing shares of the Corporation shall be in such form as shall be approved by the Board of Directors. There shall be entered upon the stock books of the Corporation at the time of the issuance or transfer of each share the number of the certificate representing such share (if any), the name of the person owning the shares represented thereby, the class of such share and the date of the issuance or transfer thereof.

Section 1.2. Transfer of Shares. Shares of the Corporation shall be transferable only on the books of the Corporation and if the shares are evidenced by certificates, upon surrender of the certificate or certificates representing the same properly endorsed by the registered holder or by his or her duly authorized attorney, such endorsement or endorsements to be witnessed by one witness. The requirement for such witnessing may be waived in writing upon the form of endorsement by the Chairman of the Board, the President, a Vice President or the Secretary of the Corporation.

The Corporation and its transfer agents and registrars shall be entitled to treat the holder of record of any shares the absolute owner thereof for all purposes, and accordingly shall not be bound to recognize any legal, equitable or other claim to or interest in such shares on the part of any other person whether or not it or they shall have express or other notice thereof, except as otherwise expressly provided by statute. Shareholders shall notify the Corporation in writing of any changes in their addresses from time to time.

Section 1.3. Regulations. Subject to the provisions of this Article 1 the Board of Directors may make such rules and regulations as it may deem expedient concerning the issuance, transfer and regulation of certificates for shares or book-entry shares of the Corporation.

Section 1.4. Lost, Stolen or Destroyed Certificates. The Corporation may issue a new certificate for shares of the Corporation in the place of any certificate theretofore issued and alleged to have been lost, stolen or destroyed, but the Board of Directors may require the owner of such lost, stolen or destroyed certificate, or such holder's legal representative, to furnish affidavit as to such loss, theft, or destruction, and to give a bond in such form and substance, and with such surety or sureties, with fixed or open penalty, as it may direct, to indemnify the Corporation and its transfer agents and registrars against any claim that may be made on account of the alleged loss, theft or destruction of such certificate or the issuance of such new certificate.

Section 1.5. Redemption of Shares Acquired in Control Share Acquisitions. Any or all control shares acquired in a control share acquisition shall be subject to Corporation's right to redeem, if either:

(a) No acquiring person statement has been filed with the Corporation with respect to the control share acquisition; or

(b) The control shares are not accorded full voting rights by the Corporation's shareholders as provided in IC 23-1-42-9.

A redemption pursuant to Section 1.5(a) may be made at any time during the period ending sixty (60) days after the date of the last acquisition of control shares by the acquiring person. A redemption pursuant to Section 1.5(b) may be made at any time during the period ending two (2) years after the date of the shareholder vote with respect to the voting rights of the control shares in question. Any redemption pursuant to this Section 1.5 shall be made at the fair value of the control shares and pursuant to such procedures for the redemption as may be set forth in these Bylaws or adopted by resolution of the Board of Directors.

As used in this Section 1.5, the terms "control shares," "control share acquisition," "acquiring person statement" and "acquiring person" shall have the meanings ascribed to them in IC 23-1-42.

ARTICLE 2

Shareholders

Section 2.1. Place of Meetings. Meetings of shareholders of the Corporation shall be held at the place within or without the State of Indiana, specified in the notices for such meetings.

Section 2.2. Annual Meetings. The annual meeting of the shareholders of the Corporation for the election of directors and for the transaction of such other business as properly may come before the meeting shall be held prior to June 30 of each year on such date as the Board of Directors shall determine by resolution. The failure to hold an annual meeting in any year shall not affect otherwise valid corporate acts or work any forfeiture or a dissolution of the Corporation.

Section 2.3. Special Meetings. Special meetings of shareholders of the Corporation may be called by the Board of Directors, the Chairman of the Board or the President. The business transacted at a special meeting of shareholders shall be limited to the purpose or purposes specified in the notice for such meeting.

Section 2.4. Notice of Meeting. A written or printed notice, stating the place, day and hour of the meeting, and in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered or mailed by the Secretary of the Corporation, or by the officers or persons calling the meeting, to each shareholder of record entitled to vote on the business proposed to be transacted at such meeting, at such address as appears upon the records of the Corporation, at least ten (10) days, and not more than sixty (60) days, before the date of the meeting. Notice of any such meeting may be waived in writing by any shareholder before or after the meeting. Attendance at any meeting in person, or by proxy when the instrument of proxy sets forth in reasonable detail the purpose or purposes for which the meeting is called, shall constitute a waiver of notice of such meeting. Notice of any adjourned meeting of the shareholders of the Corporation shall not be required to be given unless required by statute.

Section 2.5. Addresses of Shareholders. The address of any shareholder appearing upon the records of the Corporation shall be deemed to be the same address as the latest address of such shareholder appearing on the records maintained by the transfer agent for the class of shares held by such shareholder.

Section 2.6. Quorum. At any meeting of the shareholders a majority of the outstanding shares entitled to vote on a matter at such meeting, represented in person or by proxy, shall constitute a quorum for action on that matter. In the absence of a quorum, the holders of a majority of the shares entitled to vote present in person or by proxy, or, if no shareholder entitled to vote is present in person or by proxy, any officer entitled to preside at or act as Secretary of such meeting, may adjourn such meeting from time to time, until a quorum shall be present. At any such adjourned meeting at which a quorum may be present any business may be transacted which might have been transacted at the meeting as originally called.

Section 2.7. Voting. Except as otherwise provided by statute or by the Articles of Incorporation, at each meeting of the shareholders each holder of shares entitled to vote shall have the right to one vote for each share standing in the shareholder's name on the books of the Corporation on the record date fixed for the meeting under Section 2.9. Each shareholder entitled to vote shall be entitled to vote in person or by proxy executed in writing (which shall include telegraphing, cabling, facsimile, or electronic transmission) by the shareholder or a duly authorized attorney in fact. The vote of shareholders approving any matter to which the Articles of Incorporation, or any applicable statute, specifies a different percentage of affirmative vote shall require such percentage of affirmative vote. All other matters, except the election of directors, shall require that the votes cast in favor of the matter exceed the votes cast opposing the matter at a meeting at which a quorum is present. In the event that the Articles of Incorporation or any applicable statute shall require one or more classes of shares to vote as a separate voting class, the vote of each class shall be considered and decided separately.

Section 2.8. Voting Lists. The Secretary shall make or cause to be made after a record date for a meeting of shareholders has been fixed under Section 2.9 and at least five (5) business days before such meeting, a complete list of the shareholders entitled to vote at such meeting, arranged in alphabetical order, with the address of each such shareholder and the number of shares so entitled to vote held by each which list shall be on file at the principal office of the Corporation and subject to inspection by any shareholder entitled to vote at the meeting. Such list shall be produced and kept open at the time and place of the meeting and subject to the inspection of any such shareholder during the holding of such meeting or any adjournment. Except as otherwise required by law, such list shall be the only evidence as to who are the shareholders entitled to vote at any meeting of the shareholders. In the event that more than one group of shares is entitled to vote as a separate voting group at the meeting, there shall be a separate listing of the shareholders of each group.

Section 2.9. Fixing of Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive payment of any dividend, or in order to make a determination of the shareholders for any other proper purpose, the Board of Directors shall fix in advance a date as the record date for any such determination of shareholders, not more than seventy (70) days prior to the date on which the particular action requiring this determination of shareholders is to be taken. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, the determination shall, to the extent permitted by law, apply to any adjournment thereof.

Section 2.10. Organization. Meetings of shareholders shall be presided over by the Chairman of the Board, or in his or her absence, by the President, or in his or her absence, by a chairman designated by the Board of Directors, or in the absence of such designation by a chairman chosen at the meeting. The Secretary shall act as secretary of the meeting, but in his or her absence, the chairman of the meeting may appoint any person or act as secretary of the meeting.

Section 2.11. Shareholder Proposals and Board Nominations.

(a) At any annual meeting of the Corporation's shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the meeting by a shareholder in accordance with these Bylaws. Business may be properly brought before an annual meeting by a shareholder only if written notice of the shareholder's intent to propose such business has been delivered, either by personal delivery, United States mail, first class postage prepaid, or other similar means, to the Secretary of the Corporation not later than ninety (90) calendar days in advance of the anniversary date of the release of the Corporation's proxy statement to shareholders in connection with the preceding year's annual meeting of shareholders, except that if no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) calendar days from the anniversary of the annual meeting date stated in the previous year's proxy statement, a shareholder proposal shall be received by the Corporation a reasonable time before the solicitation is made.

(b) Each notice of new business must set forth: (i) the name and address of the shareholder who intends to raise the new business; (ii) the business desired to be brought forth at the meeting and the reasons for conducting such business at the meeting; (iii) a representation that the shareholder is a holder of record of shares of the Corporation entitled to vote with respect to such business and intends to appear in person or by proxy at the meeting to move the consideration of such business; (iv) such shareholder's total beneficial ownership of the Corporation's voting shares; and (v) such shareholder's interest in such business. The chairman of the meeting may refuse to acknowledge a motion to consider any business that he or she determines was not made in compliance with the foregoing procedures.

(c) An adjourned meeting, if notice of the adjourned meeting is not required to be given to shareholders, shall be regarded as a continuation of the original meeting, and any notice of new business must have met the foregoing requirements as of the date of the original meeting. In the event of an adjourned meeting where notice of the adjourned meeting is required to be given to shareholders, any notice of new business made by a shareholder with respect to the adjourned meeting must meet the foregoing requirements based upon the date on which notice of the date of the adjourned meeting was given.

(d) Nominations for the election of directors may be made by the Board of Directors or a committee appointed by the Board of Directors or by any shareholder entitled to vote in the election of directors generally. However, any shareholder entitled to vote in the election of directors may nominate one or more person for election as director(s) at a meeting only if written notice of such shareholder's intent to make such nomination or nominations has been delivered, either by personal delivery, United States mail, first class postage prepaid, or other similar means, to the Secretary of the Corporation not later than (i) with respect to an election to be held at an annual meeting of shareholders, ninety (90) calendar days in advance of the anniversary date of the release of the Corporation's proxy statement to shareholders in connection with the preceding year's annual meeting of shareholders, except that if no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) calendar days from the anniversary of the annual meeting date stated in the previous year's proxy statement, a nominee proposal shall be received by the Corporation a reasonable time before the solicitation is made, and (ii) with respect to an election to be held at a special meeting of shareholders for the election of directors, the close of business on the tenth day following the date on which notice of such meeting is first given to shareholders.

(e) Each such notice shall set forth: (i) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (ii) a representation that the shareholder is a holder of record of shares of the Corporation entitled to vote at such meeting to nominate the person or persons specified in the notice; (iii) a description of all relationships, arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (iv) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the nominee been nominated, or intended to be nominated, by the Board of Directors; and (v) the consent of each nominee to serve as a director of the Corporation if so elected. The chairman of the meeting may determine and declare to the meeting that a nomination was not made in compliance with the foregoing procedures in which case the nomination shall be disregarded.

ARTICLE 3

Board of Directors

Section 3.1. Number, Election and Term of Office. The business of the Corporation shall be managed by a Board of Directors consisting of eleven (11) members, which number may be increased or diminished by resolution adopted by not less than a majority of the Directors then in office; provided that the number may not be diminished below five (5) and no reduction in number shall have the effect of shortening the term of any incumbent Director. Directors need not be shareholders of the Corporation. Except as otherwise provided by law, the Articles of Incorporation or by these Bylaws, the Directors of the Corporation shall be elected at the annual meeting of shareholders in each year by a plurality of the votes cast by shareholders entitled to vote in the election at the meeting, provided a quorum is present. The Board of Directors shall be divided into three classes, as nearly equal in number as the then total number of Directors constituting the whole Board permits, with the term of office of one class expiring each year.

At each annual meeting of shareholders the successors to the class of Directors whose term shall then expire shall be elected and each Director so elected shall hold office until such Director's successor is elected and qualified, or until his or her earlier resignation or removal. If the number of Directors is changed, any increase or decrease in the number of Directors shall be apportioned among the three classes so as to make all classes as nearly equal in number as possible. Notwithstanding the foregoing, whenever holders of any Preferred Stock, or any series thereof, shall be entitled, voting separately as a class, to elect any Directors, all Directors so elected shall be allocated, each time they are so elected, to the class whose term expires at the next succeeding annual meeting of shareholders and the terms of all Directors so elected by such holders shall expire at the next succeeding annual meeting of shareholders, in each case except to the extent otherwise provided in the Articles of Incorporation.

Section 3.2. Vacancies. Except as may be otherwise provided in the Articles of Incorporation, any vacancy which may occur in the Board of Directors caused by resignation, death or other incapacity, or increase in the number of Directors shall be filled by a majority vote of the remaining members of the Board of Directors. Each replacement or new Director shall serve for the balance of the term of the class of the Director he or she succeeds or, in the event of an increase in the number of directors, of the class to which he or she is assigned.

Section 3.3. Quorum; Action. A majority of the actual number of Directors elected and qualified, from time to time, shall be necessary to constitute a quorum for the transaction of any business, except for any matters which the Articles of Incorporation, these Bylaws or any applicable statute specifies may be approved by a lesser number. If a quorum is present when a vote is taken, the affirmative vote of a majority of the Directors present is the act of the Board of Directors, unless the Articles of Incorporation or these Bylaws provide otherwise.

Section 3.4. Action by Consent. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting, if taken by all members of the Board of Directors, as the case may be, evidenced by one or more written consents signed by all such members and effective on the date, either prior or subsequent to the date of the consent, specified in the written consent, or if no effective date is specified in the written consent, the date on which the consent is filed with the minutes of proceedings of the Board of Directors.

Section 3.5. Telephonic Meetings. Directors, or any committee of Directors designated by the Board of Directors, may participate in a meeting of the Board of Directors or such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this
Section 3.5 shall constitute presence in person at such meeting.

Section 3.6. Attendance and Failure to Object or Abstain. A Director who is present at a meeting of the Board of Directors or a committee of the Board of Directors when corporate action is taken is deemed to have assented to the action taken unless:

(a) The Director objects at the beginning of the meeting (or promptly upon the Director's arrival) to holding it or transacting business at the meeting;

(b) The Director's dissent or abstention from the action taken is entered in the minutes of the meeting; or

(c) The Director delivers written notice of the Director's dissent or abstention to the presiding officer of the meeting before its adjournment or to the Secretary of the Corporation immediately after adjournment of the meeting. The right of dissent or abstention is not available to a Director who votes in favor of the action taken.

Section 3.7. Annual Meeting. Unless otherwise provided by resolution of the Board of Directors, the Board of Directors shall meet each year immediately after the annual meeting of the shareholders, at the place where such meeting of the shareholders has been held, for the purpose of appointment of committees, election of officers, and consideration of any other business that may properly be brought before the meeting. No notice of any kind to either old or new members of the Board of Directors for such annual meeting shall be necessary.

Section 3.8. Regular Meetings. Regular meetings of the Board of Directors may be held without any notice whatever at such places and times, as may be fixed from time to time by resolution of the Board of Directors.

Section 3.9. Special Meetings. Special meetings of the Board of Directors may be called at any time by the Chairman of the Board or the President, and shall be called on the written request of any two Directors. Notice of the date, time and place of such a special meeting shall be sent by the Secretary or an Assistant Secretary to each Director at his or her residence or usual place of business by letter, telegram or facsimile, at such time that, in regular course, such notice would reach such place not later than during the day immediately preceding the day for such meeting; or may be delivered by the Secretary or an Assistant Secretary to a Director personally at any time during such preceding day. The notice need not describe the purpose of the special meeting. In lieu of such notice, a Director may sign a written waiver of notice either before the time of the meeting, at the time of the meeting, or after the time of the meeting.

Any meeting of the Board of Directors for which notice is required shall be a legal meeting, without notice thereof having been given, if all the Directors, who do not waive notice thereof in writing, shall be present in person.

Section 3.10. Place of Meeting. The Directors may hold their meetings, within and without the State of Indiana.

Section 3.11. Compensation of Directors. The Board of Directors is empowered and authorized to fix and determine the compensation of Directors for attendance at meetings of the Board and additional compensation for such additional services any of such Directors may perform for the Corporation.

ARTICLE 4

Committees

Section 4.1. Committees. The Board of Directors may from time to time, in its discretion, by resolution passed by a majority of the entire Board of Directors, designate committees of the Board of Directors consisting of such number of directors as the Board of Directors shall determine, which shall have and may exercise such lawfully delegable powers and duties of the Board of Directors as shall be conferred or authorized by such resolution. The Board of Directors shall have the power to change at any time the members of any such committee, to fill vacancies and to dissolve any such committee.

Section 4.2. Quorum and Manner of Acting. A majority of the members of any committee of the Board of Directors shall constitute a quorum for the transaction of business at any meeting of such committee, and the act of a majority of the members present at any meeting at which a quorum is present shall be the act of such committee.

Section 4.3. Committee Chairman, Books and Records, Etc. The chairman of each committee of the Board of Directors shall be selected from among the members of such committee by the Board of Directors. Each committee shall keep a record of its acts and proceedings, and all actions of each committee shall be reported to the Board of Directors when required. Except to the extent inconsistent with the resolutions of the Board of Directors creating a committee, the provisions of these Bylaws concerning meetings of the Board of Directors, actions without meetings, notice and waiver of notice and telephonic participation apply to each committee.

Section 4.4. Executive Committee. Two or more Directors of the Corporation shall be appointed by the Board of Directors to act as an Executive Committee. The Executive Committee shall have and exercise all power and authority of the Board of Directors in the management of the Corporation to the fullest extent permitted by statute.

Section 4.5. Compensation Committee. Two or more Directors of the Corporation shall be appointed by the Board of Directors to act as a Compensation Committee, each of whom shall be a director who is not an employee of the Corporation or any subsidiary thereof. The Compensation Committee shall have the power and authority to set the compensation of the officers of the Corporation and to act with respect to the compensation, option and other benefit plans of the Corporation.

Section 4.6. Audit Committee. Two or more Directors of the Corporation shall be appointed by the Board of Directors to act as an Audit Committee, each of whom shall be a director who is not an employee of the Corporation or any subsidiary thereof. The Audit Committee shall have general oversight responsibility with respect to the Corporation's accounting and financial reporting activities, including meeting with the Corporation's independent auditors and its chief financial and accounting officers to review the scope, cost and results of the independent audit and to review internal accounting controls, policies and procedures. The Audit Committee also shall make recommendations to the Board of Directors as to the selection of independent auditors. In addition, the Audit Committee shall oversee the compliance programs of the Corporation and its subsidiaries where such oversight is delegated to the Audit Committee by either the Board of Directors or embodied in an agreement executed by the Corporation or the applicable subsidiary. In undertaking the foregoing responsibilities, the Audit Committee shall have unrestricted access, if necessary, to the Corporation's personnel and documents and shall be provided with the resources and assistance necessary to discharge its responsibilities, including periodic reports from management assessing the impact of regulation, accounting, and reporting of other significant matters that may affect the Corporation.

ARTICLE 5

Officers

Section 5.1. Officers, General Authority and Duties. The officers of the Corporation shall be a Chairman of the Board, a President, one (1) or more Vice Presidents, a Secretary, a Treasurer, a Chief Accounting Officer, and such other officers as may be elected or appointed in accordance with the provisions of Section 5.3. One (1) or more of the Vice Presidents may be designated by the Board to serve as an Executive Vice President. Any two (2) or more offices may be held by the same person. All officers and agents of the Corporation, as between themselves and the Corporation, shall have such authority and perform such duties in the management of the Corporation as may be provided in these Bylaws or as may be determined by resolution of the Board of Directors not inconsistent with these Bylaws.

Section 5.2. Election, Term of Office, Qualifications. Each officer (except such officers as may be appointed in accordance with the provisions of
Section 5.3) shall be elected by the Board of Directors. Each such officer (whether elected at an annual meeting of the Board of Directors or to fill a vacancy or otherwise) shall hold office until the officer's successor is chosen and qualified, or until death, or until the officer shall resign in the manner provided in Section 5.4 or be removed in the manner provided in Section 5.5. The Chairman of the Board shall be chosen from among the Directors. Any other officer may but need not be a Director of the Corporation. Election or appointment of an officer shall not of itself create contract rights.

Section 5.3. Other Officers, Election or Appointment. The Board of Directors from time to time may elect such other officers or agents (including one or more Second or Assistant Vice Presidents, one or more Assistant Secretaries and one or more Assistant Treasurers) as it may deem necessary or advisable. The Board of Directors may delegate to any officer the power to appoint any such officers or agents and to prescribe their respective terms of office, powers and duties.

Section 5.4. Resignation. Any officer may resign at any time by giving written notice of such resignation to the Board of Directors, the Chairman of the Board, the President or the Secretary of the Corporation. Unless otherwise specified in such written notice, such resignation shall take effect upon receipt thereof and unless otherwise specified in it, the acceptance of the resignation shall not be necessary to make it effective.

Section 5.5. Removal. The officers specifically designated in Section 5.1 may be removed, either for or without cause, at any meeting of the Board of Directors called for such purpose, by the vote of a majority of the actual number of Directors elected and qualified. The officers and agents elected or appointed in accordance with the provisions of Section 5.3 may be removed, either for or without cause, at any meeting of the Board of Directors at which a quorum be present, by the vote of a majority of the Directors present at such meeting, by any superior officer upon whom such power of removal shall have been conferred by the Board of Directors, or by any officer to whom the power to appoint such officer has been delegated by the Board of Directors pursuant to
Section 5.3. Any removal shall be without prejudice to the contract rights, if any, of the person so removed.

Section 5.6. Vacancies. A vacancy in any office by reason of death, resignation, removal, disqualification or any other cause, may be filled by the Board of Directors or by an officer authorized under Section 5.3 to appoint to such office.

Section 5.7. The Chairman of the Board. The Chairman of the Board, who shall be chosen from among the Directors, shall have general supervision and direction over the business and affairs of the Corporation and shall exercise executive management of the day-to-day operations of the Corporation, subject however to the control of the Board of Directors, shall preside at all meetings of the Board of Directors and the shareholders, and shall perform such other duties as, from time to time, may be assigned to him or her by the Board of Directors. The Chairman of the Board shall be the Chief Executive Officer.

Section 5.8. The President. The President shall perform all the duties ordinarily connected with the office of President and shall perform such other duties as, from time to time, may be assigned to him or her by the Board of Directors. In the case of the absence or inability to act of the Chairman of the Board, the President shall perform the duties of the Chairman of the Board, and, when so acting, shall have all the powers of the Chairman of the Board.

Section 5.9. The Vice Presidents. Each Vice President shall have such powers and perform such duties as the Board of Directors may from time to time prescribe or as the Chairman of the Board or the President may from time to time delegate to him or her. The Board of Directors may designate certain Vice Presidents as being in charge of designated divisions or functions of the Corporation's business and add appropriate descriptions to their titles. At the request of the President, any Executive Vice President may, in the case of the absence or inability to act of the President, temporarily act in such officer's place, and, when so acting, shall have all the powers of the President. In the case of the death of the President, or in the case of his or her absence or inability to act without having designated an Executive Vice President to act temporarily in his or her place, the Executive Vice President so to perform the duties of the President shall be designated by the Board of Directors.

Section 5.10. Second or Assistant Vice Presidents. Each Second or Assistant Vice President (if one or more Second or Assistant Vice Presidents be elected or appointed) shall perform such other duties as are from time to time delegated to him or her by the Chairman of the Board, the President, a Vice President, or the Board of Directors. At the request of one of the Vice Presidents, or in his or her absence or inability to act, a Second or Assistant Vice President designated by the Vice President shall perform the duties of such Vice President, and when so acting shall have all the powers of the Vice President. In the case of the death of a Vice President, or in the case of his or her absence or inability to act without having designated a Second or Assistant Vice President to act temporarily in his or her place, the Second or Assistant Vice President so to perform the duties of the Vice President shall be designated by the Board of Directors, the Chairman of the Board or the President.

Section 5.11. The Secretary. The Secretary shall:

(a) record all the proceedings of the meetings of the shareholders and of the Board of Directors in books to be kept for such purposes;

(b) cause all notices to be duly given in accordance with the provisions of these Bylaws and as required by statute;

(c) be custodian of the seal of the Corporation, and cause the seal to be affixed to all certificates representing shares of the Corporation prior to the issuance thereof (subject, however, to the provisions of Article 1) and to all instruments the execution of which on behalf of the Corporation under its seal shall have been duly authorized in accordance with these Bylaws;

(d) subject to the provisions of Article 1, sign certificates representing shares of the Corporation the issuance of which shall have been authorized by the Board of Directors; and,

(e) in general, perform all duties incident to the office of Secretary and such other duties as may, from time to time, be given to him or her by these Bylaws, the Board of Directors, the Chairman of the Board, the President or any Vice President.

Section 5.12. The Assistant Secretaries. Each Assistant Secretary (if one or more Assistant Secretaries be elected or appointed) shall assist the Secretary in his or her duties, and shall perform such other duties as the Board of Directors may from time to time prescribe or the Chairman of the Board, the President, any Vice President or the Secretary may from time to time delegate to him or her. At the request of the Secretary, any Assistant Secretary may, in the case of the absence or inability to act of the Secretary, temporarily act in the Secretary's place. In the case of the death of the Secretary, or in the case of his or her absence or inability to act without having designated an Assistant Secretary to act temporarily in his or her place, the Assistant Secretary so to perform the duties of the Secretary shall be designated by the Board of Directors, Chairman of the Board or the President.

Section 5.13. The Treasurer. The Treasurer shall:

(a) have charge of the funds, securities, receipts and disbursements of the Corporation;

(b) cause the moneys and other valuable effects of the Corporation to be deposited or invested in the name and to the credit of the Corporation in such banks or trust companies or with such bankers or other depositories or investments as shall be selected in accordance with resolutions adopted by the Board of Directors;

(c) cause the funds of the Corporation to be disbursed from the authorized depositories of the Corporation, and cause to be taken and preserved proper records of all moneys disbursed; and,

(d) in general, shall perform all the duties incident to the office of Treasurer and such other duties as, from time to time, may be assigned to him by the Board of Directors, the Chairman of the Board, the President or any Vice President.

Section 5.14. The Assistant Treasurers. Each Assistant Treasurer (if one or more Assistant Treasurers be elected or appointed) shall assist the Treasurer in his or her duties, and shall perform such other duties as the Board of Directors, the Chairman of the Board, the President, any Vice President or Treasurer may from time to time delegate to him or her. At the request of the Treasurer, any Assistant Treasurer may, in the case of the absence or inability to act of the Treasurer, temporarily act in his or her place. In the case of the death of the Treasurer, or in the case of his or her absence or inability to act without having designated an Assistant Treasurer to act temporarily in his or her place, the Assistant Treasurer so to perform the duties of the Treasurer shall be designated by the Board of Directors, the Chairman of the Board or the President.

Section 5.15. The Chief Accounting Officer. The Chief Accounting Officer shall:

(a) keep or cause to be kept full and accurate accounts of all assets, liabilities, commitments, receipts, disbursements, costs and expenses and other financial transactions of the Corporation in books belonging to the Corporation, and conform them to sound accounting principles with adequate internal control;

(b) cause regular audits of such books and records to be made;

(c) see that all expenditures are made in accordance with procedures duly established, from time to time, by the Corporation;

(d) render financial statements upon the request of the Board of Directors, and a full financial report prior to the annual meeting of shareholders, as well as such other financial statements as are required by law or regulation; and

(e) in general, perform all the duties ordinarily connected with the office of Chief Accounting Officer and such other duties as, from time to time, may be assigned to him or her by the Board of Directors, the Chairman of the Board, the President or any Vice President.

Section 5.16. Salaries. The salaries of the officers shall be fixed, from time to time, by the Board of Directors or the Compensation Committee. No officer shall be prevented from receiving such salary by reason of the fact he is also a Director of the Corporation.

ARTICLE 6

Corporate Instruments, Loans and Funds

Section 6.1. Execution of Instruments Generally. All deeds, contracts, notes, bonds and other instruments requiring execution by the Corporation may be signed by the Chairman of the Board, the President, any Vice President, Treasurer or the Secretary. Authority to sign any deed, contract, note, bond or other instrument requiring execution by the Corporation may be conferred by the Board of Directors upon any person or person whether or not such person or persons be officers of the Corporation. Such person or person may delegate, from time to time, by instrument in writing, all or any part of such authority to any other person or persons if authorized so to do by the Board of Directors.

Section 6.2. Execution and Endorsement of Negotiable Instruments. All checks, drafts, bills of exchange and orders for the payment of money of the Corporation shall, unless otherwise directed by the Board of Directors, or unless otherwise required by law, be signed or endorsed for deposit in its behalf by any one of the following officers: the Chairman of the Board, the President, any Vice President, the Treasurer, any Assistant Treasurer or the Secretary. Checks payable to the Corporation may also be endorsed for deposit in one of the bank accounts of the Corporation by the affixation of a rubber stamp bearing the legend "For Deposit Only -- CONSECO, INC.". Authority to sign any checks, drafts, bills of exchange and orders for payment of money requiring execution by the Corporation may be conferred by the Board of Directors upon any person or persons whether or not such person or persons be officers of the Corporation. Such person or persons may delegate, from time to time, by instrument in writing, all or any part of such authority to any other person or persons if authorized to do so by the Board of Directors.

Section 6.3. Opening of Bank Accounts. Bank accounts shall be opened in the name of the Corporation by any one of the following officers: The Chairman of the Board, the President, any Vice President, the Chief Accounting Officer, the Treasurer or any Assistant Treasurer of the Corporation. Each of such officers shall have power to open bank accounts in the name of the Corporation, singly, without necessity of countersignature. The Board of Directors may designate officers and employees of the Corporation, other than those named above, who may open bank accounts in the name of the Corporation. The term "bank accounts" shall include, without limiting the generality thereof, accounts with banks, banking associations, trust companies, building and loan associations, savings and loan associations, cooperative banks, investment bankers and brokerage firms.

Section 6.4. Voting of Stock Owned by Corporation. Subject always to the further orders and directions of the Board of Directors, any share or shares of stock issued by any other corporation and owned or controlled by the Corporation may be voted at any shareholders' meeting of such other corporation by the Chairman of the Board, the President, any Vice President or the Treasurer of the Corporation. Whenever, in the judgment of the Chairman of the Board, the President or Treasurer, it is desirable for the Corporation to execute a proxy or give a stockholders' consent in respect to any share or shares of stock issued by any other corporation and owned by the Corporation, such proxy or consent shall be executed in the name of the Corporation by the Chairman of the Board, the President, any Vice President or the Treasurer. Any person or persons designated in the manner above stated as the proxy or proxies of the Corporation shall have full right, power and authority to vote shares of stock issued by such other corporation and owned by the Corporation the same as such shares might be voted by the Corporation.

ARTICLE 7

Indemnification

Section 7.1. Indemnification of Officers, Directors and Other Eligible Persons. To the fullest extent not inconsistent with applicable law, every Eligible Person shall be indemnified by the Corporation against all Liability and Expense that may be incurred by him or her in connection with or resulting from any Claim, (a) if such Eligible Person is Wholly Successful with respect to the Claim, or (b) if not Wholly Successful, then if such Eligible Person is determined, as provided in either Section 7.7 or 7.8, to have acted in good faith, in what he or she reasonably believed to be the best interests of the Corporation or at least not opposed to its best interests and, in addition, with respect to any criminal claim, is determined to have had reasonable cause to believe that his or her conduct was lawful or had no reasonable cause to believe that his or her conduct was unlawful. The termination of any Claim, by judgment, order, settlement (whether with or without court approval), or conviction or upon a plea of guilty or of nolo contendere, or its equivalent, shall not create a presumption that an Eligible Person did not meet the standards of conduct set forth in clause (b) of this Section 7.1. The actions of an Eligible Person with respect to an employee benefit plan shall be deemed to have been taken in what the Eligible Person reasonably believed to be the best interests of the Corporation or at least not opposed to its best interests if the Eligible Person acted in good faith and in a manner he or she reasonably believed to be in the interest of the participants or beneficiaries of the employee benefit plan.

To the extent an Eligible Person has the right to receive indemnity from another entity (including, but not limited to, a subsidiary of the Corporation), the indemnity obligations of the Corporation under this Article 7 to the Eligible Person are (as between the Corporation and such other entity) subordinate and junior to the indemnity obligations of such entity to the Eligible Person. If the Corporation indemnifies an Eligible Person entitled to indemnity from another entity (including, but not limited to, a subsidiary of the Corporation), the Corporation shall have the right of subrogation to be reimbursed from such other entity the amount of indemnity payments the Eligible Person was otherwise entitled to receive from such other entity.

Section 7.2. Definition of Claim. The term "Claim" as used in this Article 7 shall include every pending, threatened or completed claim, action, suit or proceeding and all appeals thereof (whether brought by or in the right of the Corporation or any other corporation or otherwise, and whether civil, criminal, administrative or investigative, formal or informal), in which an Eligible Person may become involved, as a party or otherwise (including, without limitation, as a witness):

(a) by reasons of his or her being or having been an Eligible Person, or

(b) by reason of any action taken or not taken by such Eligible Person in his or her capacity as an Eligible Person, whether or not such Eligible Person continued in such capacity at the time any Liability or Expense related to such Claim shall have been incurred.

Section 7.3. Definition of Eligible Person. The term "Eligible Person" as used in this Article 7 shall mean every person (and the estate, heirs and personal representatives of such person) who is or was a director, officer or employee of the Corporation or a wholly-owned subsidiary of the Corporation (including, but not limited to, Conseco Services, LLC) or who, while a director, officer or employee of the Corporation or a wholly-owned subsidiary of the Corporation, is or was serving at the request of the Corporation or a wholly-owned subsidiary of the Corporation as a director, officer, employee, partner, member, manager, trustee or fiduciary of another foreign or domestic corporation, partnership, joint venture, limited liability company, trust, employee benefit plan or other organization or entity, whether for profit or not. An Eligible Person shall also be considered to have been serving an employee benefit plan at the request of the Corporation or a wholly-owned subsidiary of the Corporation if his or her duties to the Corporation or a wholly-owned subsidiary of the Corporation also imposed duties on, or otherwise involved services by, him or her to the plan or to participants in or beneficiaries of the plan. The Corporation shall not be required to indemnify a person in connection with a proceeding initiated by such person, including a counterclaim or cross claim, unless the proceeding was authorized by the Board of Directors or commenced following a Change of Control with respect to actions or failure to act prior to such Change of Control.

Section 7.4. Definitions of Liability and Expense. The Terms "Liability" and "Expense" as used in this Article 7 shall include, but shall not be limited to, reasonable counsel fees and disbursements and amounts of judgments, fines or penalties against (including excise taxes assessed with respect to an employee benefit plan), and amounts paid in settlement by or on behalf of, an Eligible Person.

Section 7.5. Definition of Wholly Successful. The term "Wholly Successful" as used in this Article 7 shall mean (i) termination of any Claim against the Eligible Person in question without any finding of liability or guilt against him or her, (ii) approval by a court, with knowledge of the indemnity herein provided, of a settlement of any Claim, or (iii) the expiration of a reasonable period of time after the making or threatened making of any Claim without the institution of the same, without any payment or promise made to induce a settlement.

Section 7.6. Definition of Change of Control. The term "Change of Control" as used in this Article 7 shall mean a change of control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities and Exchange Act of 1934 (the "1934 Act") as revised effective January 20, 1987, or, if Item 6(e) is no longer in effect, any regulations issued by the Securities and Exchange Commission pursuant to the 1934 Act which serve similar purposes; provided, that, without limitation, (x) such a change of control shall be deemed to have occurred if and when either (A) except as provided in (y) below, any "person" (as such term is used in Sections 13(d) and 14(d) of the 1934 Act) is or becomes a "beneficial owner" (as such term is defined in Rule 13d-3 promulgated under the 1934 Act), directly or indirectly, of securities of the Corporation representing 25% or more of the combined voting power of the Corporation's then outstanding securities entitled to vote with respect to the election of its Board of Directors or (B) as the result of a tender offer, merger, consolidation, sale of assets, or contest for election of directors, or any combination of the foregoing transactions or events, individuals who were members of the Board of Directors of the Corporation immediately prior to any such transaction or event shall not constitute a majority of the Board of Directors following such transaction or event, and (y) no such change of control shall be deemed to have occurred if and when either (A) any such change is the result of a transaction which constitutes a "Rule 13e-3 transaction" as such term is defined in Rule 13e-3 promulgated under the 1934 Act or (B) any such person becomes, with the approval of the Board of Directors of the Corporation, the beneficial owner of securities of the Corporation representing 25% or more but less than 50% of the combined voting power of the Corporation's then outstanding securities entitled to vote with respect to the election of its Board of Directors and in connection therewith represents, and at all times continues to represent, in a filing, as amended, with the Securities and Exchange Commission on Schedule 13D or Schedule 13G (or any successor Schedule thereto) that "such person has acquired such securities for investment and not with the purpose nor with the effect of changing or influencing the control of the Corporation, nor in connection with or as a participant in any transaction having such purpose or effect," or words of comparable meaning and import. The designation by any such person, with the approval of the Board of Directors of the Corporation, of a single individual to serve as a member of, or observer at meetings of, the Corporation's Board of Directors, shall not be considered "changing or influencing the control of the Corporation" within the meaning of the meaning of the immediately preceding clause (B), so long as such individual does not constitute at any time more than one-third of the total number of directors serving on such Board.

Section 7.7. Procedure for Determination of Entitlement to Indemnification. The determination of whether an Eligible Person who is or at the time of Claim was a Director (other than one who has been Wholly Successful with respect to any Claim or one who has requested indemnification following a Change of Control with respect to actions or failure to act prior to such Change of Control) is entitled to indemnification shall be made by any one of the following methods, such method to be selected by the Board of Directors:

(a) by the Board of Directors by a majority vote of a quorum consisting of Directors who are not and have not been parties to the Claim;

(b) if a quorum cannot be obtained under (a), by the majority vote of a committee duly designated by the Board of Directors (in which designation Directors who are or who have been parties to the Claim may participate), consisting solely of two or more Directors who are not and have not been parties to the Claim;

(c) by special legal counsel (which may be regular counsel of the Corporation) (i) selected by the Board of Directors or a committee thereof in the manner prescribed in (a) or (b); or (ii) if a quorum of the Board of Directors cannot be obtained under (a) and a committee cannot be designated under (b), selected by a majority vote of the full Board of Directors (in which selection Directors who are or who have been parties to the Claim may participate).

If a Change in Control shall have occurred, the Eligible Person who is or at the time of Claim was a Director shall be presumed to be entitled to indemnification (with respect to actions or failures to act occurring prior to such Change in Control) upon submission of a request for indemnification, and thereafter the Corporation shall have the burden of proof to overcome that presumption in reaching a contrary determination. The method for determining entitlement to indemnification shall be by special legal counsel selected by the Eligible Person, but only such special legal counsel to which a majority of the Directors who are not and have not been parties to the Claim do not object.

In the case of Eligible Persons who are not or were not Directors of the Corporation, the determination of whether the Eligible Person (other than one who has been Wholly Successful with respect to any Claim) is entitled to indemnification shall be made (a) by the Chairman of the Board or (b) if the Chairman of the Board so directs or in his or her absence, in the manner such determination would have been made if the Eligible Person was a Director of the Corporation.

Section 7.8. Application to Court for Determination. If an Eligible Person claiming indemnification pursuant to Section 7.7 is found not to be entitled thereto, the Eligible Person may apply for indemnification with respect to a Claim to a court of competent jurisdiction, including a court in which the Claim is pending against the Eligible Person. On receipt of an application, the court, after giving notice to the Corporation and giving the Corporation opportunity to present to the court any information or evidence relating to the claim for indemnification that the Corporation deems appropriate, may order indemnification if it determines that the Eligible Person is entitled to indemnification with respect to the Claim because such Eligible Person met the standards of conduct set forth in Section 7.1(b). If the court determines that the Eligible Person is entitled to indemnification, the court shall also determine the reasonableness of the Eligible Person's Expenses.

Section 7.9. Nonexclusivity. The rights of indemnification provided in this Article 7 shall be in addition to any rights to which any Eligible Person may otherwise be entitled. Irrespective of the provisions of this Article 7, the Board of Directors may, at any time and from time to time, (a) approve indemnification of any Eligible Person to the fullest extent permitted by the provisions of applicable law at the time in effect, whether on account of past or future transactions, and (b) authorize the Corporation to purchase and maintain insurance on behalf of any Eligible Person against any Liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the Corporation would have the power to indemnify him or her against such Liability.

Section 7.10. Advancement of Expenses. The Corporation shall advance to an Eligible Person who is a director or officer of the Corporation the Expenses incurred by such Eligible Person with respect to any Claim. The Corporation may advance to an Eligible Person who is not a director or officer of the Corporation the Expenses incurred by such Eligible Person with respect to any Claim. The Corporation shall advance such Expenses within sixty (60) days after the receipt by the Corporation of a statement or statements from the Eligible Person requesting such advance or advances from time to time, whether prior to or after final disposition of such Claim unless a determination has been made pursuant to Section 7.1 that such Eligible Person is not entitled to indemnification. Any such statement or statements shall reasonably evidence the expenses incurred by the Eligible Person and shall include a written affirmation or undertaking to repay advances if it is ultimately determined that the Eligible Person is not entitled to indemnification under this Article.

Section 7.11. Insurance, Contracts and Funding. The Corporation may purchase and maintain insurance to protect itself and any Eligible Person against any expense, judgments, fines and amounts relating to any Claim or incurred by any Eligible Person in connection with any Claim, to the fullest extent permitted by applicable law now or hereafter in effect. The Corporation may enter into agreements with any Eligible Person supplemental to or in furtherance of the provisions of this Article and may create a trust fund or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification and advancement of expenses as provided in this Article.

Section 7.12. Nature of Provisions. The provisions of this Article 7 shall be deemed to be a contract between the Corporation and each Eligible Person, and an Eligible Person's rights hereunder shall not be diminished or otherwise adversely affected by any repeal, amendment or modification of this Article 7 that occurs subsequent to such person becoming an Eligible Person with respect to acts occurring prior to such repeal, amendment or modification.

Section 7.13. Applicability of Provisions. The provisions of this Article 7 shall be applicable to Claims made or commenced after the adoption hereof, whether arising from acts or omissions to act occurring before or after the adoption hereof.

ARTICLE 8

Miscellaneous

Section 8.1. Amendments. The power to make, alter, amend, or repeal these Bylaws is vested in the Board of Directors, but the affirmative vote of a majority of the actual number of Directors elected and qualified, from time to time, shall be necessary to effect any alteration, amendment or repeal of these Bylaws.

Section 8.2. Seal. The seal of the Corporation shall be circular in form and mounted on a metal die, suitable for impressing the same upon paper. About the upper periphery of the seal shall appear the words "CONSECO, INC.," and about the lower periphery thereof, the word "Indiana." In the center of the seal shall appear the word "Seal."

Section 8.3. Fiscal Year. The fiscal year of the Corporation shall begin on the first day of January of each year and end upon the last day of December in the same year.

GREEN TREE FINANCIAL CORPORATION
RESTATED 1992 SUPPLEMENTAL STOCK OPTION PLAN

1. Purpose of Plan.

This Plan shall be known as the "Green Tree Financial Corporation Restated 1992 Supplemental Stock Option Plan" and is hereinafter referred to as the "Plan." The purpose of the Plan is to attract and retain the services of experienced and knowledgeable non-employee directors of Green Tree Financial Corporation (the "Company") and to provide additional incentive for such directors to increase their interest in the Company's long term success and progress. Options granted under this Plan shall be non-qualified stock options which do not qualify as Incentive Stock Options within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended (the "Code").

2. Stock Subject to Plan.

Subject to the provisions of Section 11 hereof, the stock to be subject to options under the Plan (the "Shares") shall be the Company's authorized Common Stock, par value $0.01 per share (the "Common Stock"). Such shares will be authorized but unissued shares. Subject to adjustment as provided in Section 11 hereof, the maximum number of shares on which options may be exercised under this Plan shall be 400,000(1) shares. If an option under the Plan expires, or for any reason is terminated or unexercised with respect to any Shares, such Shares shall again be available for options thereafter granted during the term of the Plan.

3. Administration of Plan.

The Plan shall be administered by the Board of Directors of the Company. The Board of Directors shall have plenary authority in its discretion, but subject to the express provisions of this Plan, to interpret the Plan, to prescribe, amend, and rescind rules and regulations relating to the Plan, and to make all other determinations necessary or advisable for the administration of the Plan. The Board of Directors' determinations on the foregoing matters shall be final and conclusive.

4. Eligibility.

An "Eligible Director" shall be a director of the Company who is not otherwise an employee of the Company or any subsidiary of the Company; provided, however, that so long as any director of the Company is serving as a representative of another organization and any options issued to such director under the Plan are required to be remitted to such organization, such director shall not be deemed to be an Eligible Director for purposes of the Plan.

5. Grant of Options.

Upon approval of the Plan by the Board of Directors, but subject to approval of the Plan by the stockholders of the Company pursuant to Section 14 hereof, each Eligible Director who completes a full fiscal quarter of service as a director of the Company after December 31, 1992 shall automatically be granted on the last business day of each such quarter an option to acquire 4,000(1) Shares under the Plan; provided, however, that no options shall be granted under the Plan for any fiscal quarter ending after June 30, 1998.

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(1)Adjusted to reflect the 1/31/93, 6/30/94 and 10/15/95 stock splits.

6. Price.

The option price for all options granted under the Plan shall be the fair market value of the Shares covered by the option at the time the option is granted. For the purpose of the preceding sentence and for all other valuation purposes under the Plan, the "fair market value" of the Common Stock as of any date shall be (i) the closing price of the Common Stock on such date, as reported on the consolidated reporting system for the New York Stock Exchange or such other national securities exchange as is then the primary exchange for trading in the Common Stock, or (ii) if the Common Stock is not then listed on a national securities exchange, the last sale price or highest closing bid price (whichever is applicable) as reported on the National Association of Securities Dealers Automated Quotation System. If, on the date of determination of fair market value, the Common Stock is not publicly traded, the Board of Directors shall make a good faith attempt to determine the fair market value of the Common Stock as required by this Section 6 and in connection therewith shall take such action as it deems necessary or advisable.

7. Term.

Each option and all rights and obligations thereunder shall, subject to the provisions of Section 9 herein, expire ten (10) years from the date of granting of the option.

8. Exercise of Option.

(a) Options granted under the Plan shall not be exercisable for a period of six months after the date of grant, or until stockholder approval of the Plan has been obtained, whichever occurs later, but thereafter will be exercisable in full at any time or from time to time during the term of the option, subject to the provisions of Section 9 hereof.

(b) The exercise of any option granted hereunder shall only be effective at such time as counsel to the Company shall have determined that the issuance and delivery of Common Stock pursuant to such exercise will not violate any state or federal securities or other laws. An optionee desiring to exercise an option may be required by the Company, as a condition of the effectiveness of any exercise of an option granted hereunder, to agree in writing that all Common Stock to be acquired pursuant to such exercise shall be held for his or her own account without a view to any further distribution thereof, that the certificates for such shares shall bear an appropriate legend to that effect and that such shares will not be transferred or disposed of except in compliance with applicable federal and state securities laws.

(c) An optionee electing to exercise an option shall give written notice to the Company of such election and of the number of Shares subject to such exercise. The full purchase price of such Shares shall be tendered with such notice of exercise. Payment shall be made to the Company either (i) in cash (including check, bank draft or money order), or (ii) by delivering shares of Common Stock already owned by the optionee having a fair market value equal to the full purchase price of the Shares, or (iii) by any combination of cash and such shares; provided, however, that an optionee shall

not be entitled to tender shares of Common Stock pursuant to successive, substantially simultaneous exercises of options granted under this or any other stock option plan of the Company. For purposes of the preceding sentence, the "fair market value" of such tendered shares shall be determined as provided in
Section 6 herein as of the date of exercise. Until such person has been issued the Shares subject to such exercise, he or she shall possess no rights as a stockholder with respect to such Shares.

9. Effect of Termination of Directorship or Death or Disability.

(a) In the event that an optionee shall cease to be an Ongoing Director (as defined in Section 9 (d), below) for any reason other than removal for cause due to his or her serious misconduct or his or her death or disability, such optionee shall have the right to exercise the option at any time within seven months after such termination of Ongoing Directorship to the extent of the full number of Shares he or she was entitled to purchase under the option on the date of termination, subject to the condition that no option shall be exercisable after the expiration of the term of the option.

(b) In the event that an optionee shall be removed for cause as an Ongoing Director by reason of his or her serious misconduct during the course of his or her service as an Ongoing Director, the option shall be terminated as of the date of the misconduct.

(c) If the optionee shall die while serving as an Ongoing Director or within three months after termination of his or her Ongoing Directorship for any reason other than removal for cause due to his or her serious misconduct, or become disabled (as determined by the Board of Directors in its sole discretion) while serving as an Ongoing Director and such optionee shall not have fully exercised the option, such option may be exercised at any time within twelve months after his or her death or disability by the personal representatives, administrators, or, if applicable, guardian, of the optionee or by any person or persons to whom the option is transferred by will or the applicable laws of descent and distribution, to the extent of the full number of shares he or she was entitled to purchase under the option on the date of death, disability, or termination of Ongoing Directorship, if earlier, and subject to the condition that no option shall be exercisable after the expiration of the term of the option.

(d) As used herein, the term "Ongoing Director" means (i) a director of the Company, (ii) a director of any corporation that controls in excess of 50% of the voting power of the outstanding equity securities of the Company (whether or not such Ongoing Director is a director of such corporation at the time an option is granted to him or her under the Plan, and (iii) a director of a wholly owned subsidiary of the Company.

10. Non-Transferability.

No option granted under the Plan shall be transferable by the optionee, otherwise than by will or the laws of descent and distribution as provided in
Section 9(c) herein. Except as provided in Section 9(c) herein with respect to disability of the optionee, during the lifetime of an optionee the option shall be exercisable only by such optionee.

11. Dilution or Other Adjustments.

If there shall be any change in the Common Stock through merger, consolidation, reorganization, recapitalization, stock dividend (of whatever amount), stock split or other change in the corporate structure, appropriate adjustments in the Plan and outstanding options shall be made by the Board of Directors. In the event of any such changes, adjustments shall include, where appropriate, changes in the aggregate number of shares subject to the Plan, the number of shares and the price per share subject to outstanding options in order to prevent dilution or enlargement of option rights.

12. Amendment or Discontinuance of Plan.

The Board of Directors may amend or discontinue the Plan at any time. However, subject to the provisions of Section 11 no amendment of the Plan shall, without stockholder approval: (i) increase the maximum number of Shares with respect to which options may be granted under the Plan as provided in Section 2 hereof, (ii) modify the eligibility requirements for participation in the Plan as provided in Section 4 hereof, or (iii) change the date of grant or exercise price of, or the number of Shares subject to, options granted or to be granted to Eligible Directors, as provided in Sections 5 and 6 hereof. The Board of Directors shall not alter or impair any option theretofore granted under the Plan without the consent of the holder of the option. Notwithstanding any other provision of the Plan or any option, without the approval of stockholders of the Company, no such amendment shall be made that, absent such approval, would cause the exemptions of Rule16b-3 to become unavailable with respect to the options hereunder or with respect to the ability of the Eligible Directors to satisfy the disinterested person requirements of Rule 16b-3 in administering any other stock-based compensation plan of the Company (this limitation on amendments to the Plan shall include, without limitation, a prohibition on any contemplated amendment within six months of any prior amendment, other than to comport with changes in the Code, the Employee Retirement Income Security Act, or the rules thereunder).

13. Time of Granting.

Nothing contained in the Plan or in any resolution adopted or to be adopted by the Board of Directors or by the stockholders of the Company, and no action taken by the Board of Directors (other than the execution and delivery of an option), shall constitute the granting of an option hereunder.

14. Effective Date and Termination of Plan.

(a) The Plan was approved by the Board of Directors on March 10, 1992 and shall be approved by the stockholders of the Company within twelve (12) months thereafter. The effective date of the Plan shall be the date of stockholder approval. The Plan was amended by the Board of Directors of the Company on November 22, 1997, and was subsequently amended by the Board of Directors and the stockholder of the Company as of July 1, 1998.

(b) Unless the Plan shall have been discontinued as provided in Section 12 hereof, the Plan shall terminate on December 31, 2002. No option may be granted after such termination, but termination of the Plan shall not, without the consent of the optionee, alter or impair any rights or obligations under any option theretofore granted.

(Restated as of July 1, 1998)

CONSECO, INC. AND SUBSIDIARIES

Computation of Ratio of Earnings to Fixed Charges,
Preferred Dividends and Distributions on Company-Obligated Mandatorily
Redeemable Preferred Securities of Subsidiary Trusts - Consolidated Basis
for the three months ended June 30, 1998 and the year ended December 31, 1997
(Dollars in millions)

	Six months ended June 30, 1998	Year ended December 31, 1997
Pretax income from operations:		
Net income (loss)	$(67.5)	$ 866.4
Add income tax expense	117.9	560.1
Add extraordinary charge on extinguishment of debt	30.3	6.9
Add minority interest	38.2	52.3
Pretax income from operations	118.9	1,485.7
Add fixed charges:		
Interest expense on annuities and financial products	370.6	697.1
Interest expense on corporate debt, including amortization	75.3	109.4
Interest expense on consumer and commercial finance debt	102.9	160.9
Interest expense on investment borrowings	37.1	42.0
Other	.3	.7
Portion of rental(1)	7.6	13.7
Fixed charges	593.8	1,023.8
Adjusted earnings	$712.7	$2,509.5
Ratio of earnings to fixed charges	1.20X	2.45X
Ratio of earnings to fixed charges, excluding interest on annuities and financial products and interest expense on debt related to finance receivables and other investments	2.43X	13.00X
Ratio of earnings (excluding nonrecurring charge related to Green Tree of $688.0 million) to fixed charges	2.36X	2.45X
Ratio of earnings (excluding nonrecurring charge related to Green Tree of $688.0 million) to fixed charges, excluding interest on annuities and financial products and interest expense of debt related to finance receivables and other investments	10.70X	13.00X
Fixed charges	$593.8	$1,023.8
Add dividends on preferred stock, including dividends on preferred stock of subsidiaries (divided by the rate of income before minority interest and extraordinary charge to pretax income)	6.8	40.4
Add distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts	58.4	75.4
Fixed charges	$659.0	$1,139.6
Adjusted earnings	$712.7	$2,509.5
Ratio of earnings to fixed charges, preferred dividends and distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts	1.08X	2.20X
Ratio of earnings to fixed charges, preferred dividends and distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts, excluding interest on annuities and financial products and interest expense on debt related to finance receivables and other investments	1.36X	6.72X
Ratio of earnings (excluding nonrecurring charge related to Green Tree of $688.0 million) to fixed charges, preferred dividends and distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts	2.13X	2.20X

Ratio of earnings (excluding nonrecurring charge related to Green Tree of $688.0 million) to fixed charges, preferred dividends and distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts, excluding interest on annuities and financial products and interest expense on debt related to finance receivables and other investments	6.00X	6.72X
	=====	=====

(1) Interest portion of rental is assumed to be 33 percent.

ARTICLE 7

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS	
FISCAL YEAR END	DEC 31 1998	
PERIOD END	JUN 30 1998	
DEBT HELD FOR SALE	22,544,300	
DEBT CARRYING VALUE	0	
DEBT MARKET VALUE	0	
EQUITIES	340,500	
MORTGAGE	1,122,500	[1]
REAL ESTATE	0	
TOTAL INVEST	28,094,400	
CASH	0	
RECOVER REINSURE	752,600	
DEFERRED ACQUISITION	3,557,000	[2]
TOTAL ASSETS	42,474,900	
POLICY LOSSES	23,628,900	
UNEARNED PREMIUMS	409,300	
POLICY OTHER	1,252,300	
POLICY HOLDER FUNDS	318,800	
NOTES PAYABLE	5,680,900	[3]
PREFERRED MANDATORY	1,388,800	
PREFERRED	105,600	
COMMON	2,661,200	
OTHER SE	2,217,400	[4]
TOTAL LIABILITY AND EQUITY	42,474,900	
PREMIUMS	1,979,900	
INVESTMENT INCOME	1,293,000	
INVESTMENT GAINS	117,100	
OTHER INCOME	434,100	[5]
BENEFITS	1,841,000	[6]
UNDERWRITING AMORTIZATION	283,600	[7]
UNDERWRITING OTHER	609,700	
INCOME PRETAX	118,900	
INCOME TAX	117,900	
INCOME CONTINUING	1,000	
DISCONTINUED	0	
EXTRAORDINARY	(30,300)	
CHANGES	0	
NET INCOME	(67,500)	
EPS PRIMARY	(.23)	
EPS DILUTED	(.23)	
RESERVE OPEN	0	
PROVISION CURRENT	0	
PROVISION PRIOR	0	
PAYMENTS CURRENT	0	
PAYMENTS PRIOR	0	
RESERVE CLOSE	0	
CUMULATIVE DEFICIENCY	0	

[1] Includes $646,900 of credit tenant loans.

[2] Includes $2,424,100 of cost of policies purchased.

[3] Includes $2,728,800 related to consumer and commercial finance debt.

[4] Includes retained earnings of $2,017,100, and accumulated other comprehensive income of $200,300.

[5] Includes gain on loan securitizations of $272,400 and fee revenue and other income of $161,700.

[6] Includes insurance policy benefits of $1,361,800 and amounts added to annuity and financial product policyholder account balances of $479,200.

[7] Includes amortization of cost of policies purchased of $107,600, amortization of cost of policies produced of $61,100 and amortization related to investment gains of $114,900.