

# CNO FINANCIAL GROUP, INC.

## FORM 8-K (Current report filing)

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

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

# CONSECO INC

## FORM 8-K (Current report filing)

Filed 8/7/2007 For Period Ending 8/6/2007

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

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

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**FORM 8-K**

**CURRENT REPORT**

Pursuant to Section 13 or 15 (d) of  
the Securities Exchange Act of 1934

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Date of Report (Date of earliest event reported): August 6, 2007

**CONSECO, INC.**

(Exact name of registrant as specified in its charter)

Delaware ----- (State or other jurisdiction of organization)	001-31792 ----- (Commission File Number)	75-3108137 ----- (I.R.S. Employer Identification No.)
11825 North Pennsylvania Street Carmel, Indiana ----- (Address of principal executive offices)		46032 ----- (Zip Code)

(317) 817-6100

(Registrant's telephone number, including area code)

Not Applicable

(Former name or former address,  
if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 2.02. Results of Operations and Financial Condition.**

On August 6, 2007, the Company issued: (i) a press release announcing its financial results for the quarter ended June 30, 2007, a copy of which is attached hereto as Exhibit 99.1 and is incorporated herein by reference; and (ii) additional financial information related to the Company's financial and operating results for the quarter ended June 30, 2007, a copy of which is attached hereto as Exhibit 99.2 and is incorporated herein by reference.

The information contained under Item 2.02 in this Current Report on Form 8-K (including Exhibits 99.1 and 99.2) is being furnished and shall not be deemed "filed" for the purposes of Section 18 of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that Section. The information contained in this Current Report on Form 8-K shall not be incorporated by reference into any registration statement or other document pursuant to the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in any such filing.

**Item 9.01(d). Financial Statements and Exhibits.**

The following materials are furnished as exhibits to this Current Report on Form 8-K:

99.1 Press release dated August 6, 2007 related to financial results for the quarter ended June 30, 2007.

99.2 Second Quarter 2007 Financial and Operating Results for the period ended June 30, 2007.

**SIGNATURES**

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, hereunto duly authorized.

**CONSECO, INC.**

August 7, 2007

By: */s/ John R. Kline*

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*John R. Kline*  
*Senior Vice President and*  
*Chief Accounting Officer*

**NEWS**

**For Release Immediate**

Contacts (News Media) Tony Zehnder, Corporate Communications 312.396.7086  
(Investors) Investor Relations 317.817.2893

**Conseco Reports Second Quarter Results**

Carmel, Ind., August 6, 2007 - Conseco, Inc. (NYSE: CNO) today reported results for the second quarter of 2007.

"Results for the second quarter reflect a significant strengthening of our claim reserves in our other business in run-off segment," CEO Jim Prieur said. "While this strengthening should reduce the volatility of the loss experience in future periods, progress in the turnaround of that block of business will take several quarters before improvements in claims management and our re-rate program show significant impact as we position Conseco for future growth."

"During the second quarter, we strengthened run-off long-term care claim reserves by \$110 million," said Ed Bonach, Chief Financial Officer. "We have made every effort to ensure that our claim reserves are appropriate and forward looking. This action, which primarily relates to claims incurred in prior quarters, reflects our efforts to improve our reserving process, using more detailed data and reserving techniques, and carefully evaluating new experience emerging in recent periods."

"Sales overall grew 10% over the second quarter of 2006, boosted by continued strong performance at both our Bankers Life and Colonial Penn businesses, while the sales mix at Conseco Insurance Group again improved," Prieur said. Bankers Life total sales increased 19% year-over-year, with strong life production and private fee-for-service sales, while Colonial Penn's total sales grew 23% with heightened marketing efforts."

**Second quarter 2007 results:**

- o Net operating loss (1): \$54.4 million, compared to \$31.7 million in 2Q06 (including after-tax costs related to the proposed litigation settlement of \$22.8 million and \$102.1 million in 2Q07 and 2Q06, respectively)
- o Net operating loss per diluted share: 32 cents, compared to 21 cents in 2Q06 (including after-tax costs related to the proposed litigation settlement of 13 cents and 67 cents per share in 2Q07 and 2Q06, respectively)
- o Net loss applicable to common stock: \$64.5 million, compared to \$31.8 million in 2Q06 (including \$10.1 million of net realized investment losses in 2Q07 vs. \$.1 million of net realized investment losses in 2Q06)
- o Net loss per diluted share: 38 cents, compared to 21 cents in 2Q06 (including 6 cents of net realized investment losses in 2Q07 vs. nil net realized investment losses in 2Q06)
- o Loss before net realized investment losses, corporate interest and taxes ("EBIT") (2): \$60.2 million, compared to \$22.7 million in 2Q06 (including pre-tax costs related to the proposed litigation settlement of \$35.0 million and \$157.0 million in 2Q07 and 2Q06, respectively)
- o Sales (3): \$108.0 million, up 10% over 2Q06 (includes sales from Medicare Advantage Plans through our partnership with Coventry Health Care (Coventry))

**Six-month 2007 results:**

- o Net operating income (loss) (1): \$(39.8) million, compared to \$24.1 million in the first six months of 2006
- o Net operating income (loss) per diluted share: (25) cents, compared to 16 cents in the first six months of 2006
- o Net income (loss) applicable to common stock: \$(63.6) million, compared to \$23.3 million in the first six months of 2006
- o Net income (loss) per diluted share: (40) cents, compared to 15 cents in the first six months of 2006
- o EBIT (2): \$(6.9) million, compared to \$91.9 million in the first six months of 2006
- o Sales (4): \$242.2 million, up 10% over the first six months of 2006

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Financial strength at June 30, 2007:

- o Book value per common share, excluding accumulated other comprehensive income (loss) (4), was \$24.93, compared to \$27.06 at December 31, 2006
- o Book value per diluted share, excluding accumulated other comprehensive income (loss) (4), was \$24.90, compared to \$25.64 at December 31, 2006
- o Debt-to-total capital ratio, excluding accumulated other comprehensive income (loss) (4), was 20.3%, compared to 17.3% at December 31, 2006

Operating results

Our segments reflect the addition of Colonial Penn as a separate segment. All prior period segment disclosures have been restated to conform to our new presentation. Results by segment for the quarter were as follows (\$ in millions, except per share data):

	Three Months Ended June 30,	
	2007	2006
	----	----
EBIT (2), excluding costs related to the proposed litigation settlement:		
Bankers Life.....	\$ 65.5	\$ 63.7
Conseco Insurance Group.....	43.8	64.7
Colonial Penn.....	6.7	6.5
Other Business in Run-off.....	(133.2)	4.4
Corporate Operations, excluding corporate interest expense.....	(8.0)	(5.0)
	-----	-----
EBIT, excluding costs related to the proposed litigation settlement.....	(25.2)	134.3
Costs related to the proposed litigation settlement.....	(35.0)	(157.0)
	-----	-----
Total EBIT.....	(60.2)	(22.7)
Corporate interest expense.....	(16.9)	(12.0)
	-----	-----
Loss before net realized investment losses and taxes.....	(77.1)	(34.7)
Tax benefit.....	27.3	12.5
	-----	-----
Net loss before net realized investment losses.....	(49.8)	(22.2)
Preferred stock dividends:		
5.50% Class B mandatorily convertible preferred stock.....	(4.6)	(9.5)
	-----	-----
Net operating loss.....	(54.4)	(31.7)
Net realized investment losses, net of related amortization and taxes.....	(10.1)	(.1)
	-----	-----
Net loss applicable to common stock.....	\$ (64.5)	\$ (31.8)
	=====	=====
Per diluted share:		
Net operating loss.....	\$ (.32)	\$ (.21)
Net realized investment losses, net of related amortization and taxes.....	(.06)	-
	-----	-----
Net loss applicable to common stock.....	\$ (.38)	\$ (.21)
	=====	=====

In our Bankers Life segment, pre-tax operating earnings were \$65.5 million in the second quarter of 2007, compared to \$63.7 million in the second quarter of 2006. Results for the current period were in line with our expectations.

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In our Conseco Insurance Group segment, pre-tax operating earnings were \$43.8 million in the second quarter of 2007, compared to \$64.7 million in the second quarter of 2006. Significant factors affecting the segment's earnings in these periods included:

- o A \$21 million reduction in universal life earnings in the second quarter of 2007. This block experienced adverse mortality and we were required to recognize additional amortization expense since our current estimate of future profits on this block indicated that a portion of our insurance acquisition costs were not recoverable.
- o A \$6 million reduction in Medicare Supplement earnings in the second quarter of 2007 due to a higher benefit ratio and a smaller inforce block. This reduction was offset by a \$6 million increase in specified disease earnings in the second quarter of 2007 due to a lower benefit ratio.

Our Colonial Penn segment achieved pre-tax operating earnings of \$6.7 million in the second quarter of 2007, compared to \$6.5 million in the second quarter of 2006.

In our Other Business in Run-off segment, we recognized a pre-tax operating loss of \$133.2 million in the second quarter of 2007, compared to earnings of \$4.4 million in the second quarter of 2006. Significant factors affecting the segment's earnings in these periods included:

- o A \$118 million reduction in earnings in the second quarter of 2007 (compared to a \$20 million reduction in 2006) for increases to our estimates of claims incurred in prior periods. The reduction for the second quarter of 2007 includes \$110 million of reserve strengthening resulting from improvements to our reserving methods and assumptions to better reflect emerging trends.
- o A \$31 million reduction in earnings in the second quarter of 2007 for increases to the benefit ratio estimated for claims incurred in the quarter, compared to such benefit ratio estimated in the second quarter of 2006 for claims incurred in that quarter.
- o A \$9.4 million increase in earnings in the second quarter of 2006 due to release of certain reserve redundancies.

The Corporate Operations segment includes our investment advisory subsidiary and corporate expenses.

Net realized losses of \$10.1 million in the second quarter of 2007 primarily consisted of impairment losses on those assets expected to be transferred at the close of our previously announced sale of a block of fixed and equity-indexed annuities through a 100 percent coinsurance agreement. Upon closing the transaction, we expect to record a charge of approximately \$63 million plus after tax earnings on this block from July 1, 2007 through the close of the transaction.

Results in both quarters reflect the impact of the proposed litigation settlement we entered into in the second quarter of 2006 (including the additional cost of \$35 million in the current quarter we announced in our June 29 release). Our accrual for the cost of the settlement now reflects the final benefit options selected by all applicable policyholders.

#### Sales results

In addition to the sales of proprietary products, Bankers Life, through a partnership with Coventry, distributes risk-share Medicare PDP and private-fee-for-service plan (PFFS) through their career agents.

At Bankers Life (career distribution), total sales in 2Q07 were \$76.8 million, up 19% over 2Q06, reflecting strong growth in our life product line and PFFS sales through our partnership with Coventry. Partly offsetting these gains were lower annuity and medicare supplement sales.

At Conseco Insurance Group (independent distribution), total sales, including sales of PDP through Coventry, in 2Q07 were \$20.0 million, down 18% from 2Q06 reflecting lower sales of PDP and Medicare Supplement, partly offset by higher sales of annuities and specified disease.

At Colonial Penn (direct distribution), total 2Q07 sales were \$11.2 million, up 23% over 2Q06 as we continue to benefit from our investment in marketing.

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#### Conference Call

The company will host a conference call to discuss results at 10:00 a.m. Eastern Daylight Time on August 7, 2007. The webcast can be accessed through the Investors section of the company's website as follows:

<http://investor.conseco.com>. Listeners should go to the website at least 15 minutes before the event to register and download any necessary audio software. During the call, we will be referring to a presentation that will be available Tuesday morning through the investors section of the company's website.

#### About Conseco

Conseco, Inc.'s insurance companies help protect working American families and seniors from financial adversity: Medicare supplement, long-term care, cancer, heart/stroke and accident policies protect people against major unplanned expenses; annuities and life insurance products help people plan for their financial futures. For more information, visit Conseco's web site at [www.conseco.com](http://www.conseco.com).

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(1) Management believes that an analysis of Net Income (Loss) applicable to common stock before net realized investment gains or losses, net of related amortization and income taxes, ("Net Operating Income," a non-GAAP financial measure) is important to evaluate the financial performance of the company, and is a key measure commonly used in the life insurance industry. Management uses this measure to evaluate performance because realized investment gains or losses can be affected by events that are unrelated to the company's underlying fundamentals. A reconciliation of Net Operating Income to Net Income applicable to common stock is provided in the tables on page 2 and 8. Additional information concerning this non-GAAP measure is included in our periodic filings with the Securities and Exchange Commission that are available in the "Investor - SEC Filings" section of Conseco's website, [www.conseco.com](http://www.conseco.com).

(2) Management believes that an analysis of earnings or loss before net realized investment gains (losses), corporate interest and taxes ("EBIT," a non-GAAP financial measure) provides a clearer comparison of the operating results of the company quarter-over-quarter because it excludes: (i) corporate interest expense; and (ii) net realized investment gains (losses) that are unrelated to the company's underlying fundamentals. A reconciliation of EBIT to Net Income applicable to common stock is provided in the tables on page 2 and 8.

(3) Measured by new annualized premium, which includes 6% of annuity and 10% of single premium whole life deposits and 100% of all other premiums, PDP sales equal \$310 per enrolled policy, PFFS sales equal \$2,100 per enrolled policy.

(4) The calculation of this non-GAAP measure differs from the corresponding GAAP measure because accumulated other comprehensive income (loss) has been excluded from the value of capital used to determine this measure. Management believes this non-GAAP measure is useful because it removes the volatility that arises from changes in the unrealized appreciation (depreciation) of our investments. The corresponding GAAP measures for debt-to-total capital and book value per common share were 21.5% and \$23.19, respectively, at June 30, 2007, and 17.5% and \$26.58, respectively, at December 31, 2006.

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**Cautionary Statement Regarding Forward-Looking Statements.** Our statements, trend analyses and other information contained in this press release relative to markets for Conseco's products and trends in Conseco's operations or financial results, as well as other statements, contain forward-looking statements within the meaning of the federal securities laws and the Private Securities Litigation Reform Act of 1995. Forward-looking statements typically are identified by the use of terms such as "anticipate," "believe," "plan," "estimate," "expect," "project," "intend," "may," "will," "would," "contemplate," "possible," "attempt," "seek," "should," "could," "goal," "target," "on track," "comfortable with," "optimistic" and similar words, although some forward-looking statements are expressed differently. You should consider statements that contain these words carefully because they describe our expectations, plans, strategies and goals and our beliefs concerning future business conditions, our results of operations, financial position, and our business outlook or they state other "forward-looking" information based on currently available information. Assumptions and other important factors that could cause our actual results to differ materially from those anticipated in our forward-looking statements include, among other things: (i) our ability to obtain adequate and timely rate increases on our supplemental health products including our long-term care business; (ii) mortality, morbidity, usage of health care services, persistency, the adequacy of our previous reserve estimates and other factors which may affect the profitability of our insurance products; (iii) changes in our assumptions related to the cost of policies produced or the value of policies in force at the Effective Date; (iv) our ability to achieve anticipated expense reductions and levels of operational efficiencies including improvements in claims adjudication and continued automation and rationalization of operating systems; (v) performance of our investments; (vi) our ability to identify products and markets in which we can compete effectively against competitors with greater market share, higher ratings, greater financial resources and stronger brand recognition; (vii) the ultimate outcome of lawsuits filed against us and other legal and regulatory proceedings to which we are subject; (viii) our ability to remediate the material weakness in internal controls over the actuarial reporting process that we identified at year-end 2006 and to maintain effective controls over financial reporting; (ix) our ability to continue to recruit and retain productive agents and distribution partners and customer response to new products, distribution channels and marketing initiatives; (x) our ability to achieve an upgrade of the financial strength ratings of our insurance company subsidiaries as well as the potential impact of rating downgrades on our business; (xi) the risk factors or uncertainties listed from time to time in our filings with the Securities and Exchange Commission; (xii) regulatory changes or actions, including those relating to regulation of the financial affairs of our insurance companies, such as the payment of dividends to us, regulation of financial services affecting (among other things) bank sales and underwriting of insurance products, regulation of the sale, underwriting and pricing of products, and health care regulation affecting health insurance products; (xiii) general economic conditions and other factors, including prevailing interest rate levels, stock and credit market performance and health care inflation, which may affect (among other things) our ability to sell products and access capital on acceptable terms, the returns on and the market value of our investments, and the lapse rate and profitability of policies; and (xiv) changes in the Federal income tax laws and regulations which may affect or eliminate the relative tax advantages of some of our products.

Other factors and assumptions not identified above are also relevant to the forward-looking statements, and if they prove incorrect, could also cause actual results to differ materially from those projected. All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by the foregoing cautionary statement. Our forward-looking statements speak only as of the date made. We assume no obligation to update or to publicly announce the results of any revisions to any of the forward-looking statements to reflect actual results, future events or developments, changes in assumptions or changes in other factors affecting the forward-looking statements.

**- Tables Follow -**

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

	June 30, 2007 ----	December 31, 2006 ----
	(unaudited)	
<b>ASSETS</b>		
Investments:		
Actively managed fixed maturities at fair value (amortized cost:		
June 30, 2007 - \$23,414.1; December 31, 2006 - \$22,946.9).....	\$22,824.6	\$22,802.9
Equity securities at fair value (cost: June 30, 2007 - \$38.9;		
December 31, 2006 - \$23.9).....	40.2	24.8
Mortgage loans.....	1,736.6	1,642.2
Policy loans.....	410.3	412.5
Trading securities.....	800.6	675.2
Other invested assets .....	203.5	178.8
	-----	-----
Total investments.....	26,015.8	25,736.4
Cash and cash equivalents:		
Unrestricted.....	522.5	385.9
Restricted.....	29.8	24.0
Accrued investment income.....	353.7	344.5
Value of policies inforce at the Effective Date.....	1,998.7	2,137.2
Cost of policies produced.....	1,296.7	1,106.7
Reinsurance receivables.....	855.7	850.8
Income tax assets, net.....	1,966.6	1,786.9
Assets held in separate accounts.....	28.6	28.9
Other assets.....	369.8	316.0
	-----	-----
Total assets.....	\$33,437.9	\$32,717.3
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Liabilities for insurance products:		
Interest-sensitive products.....	\$13,060.1	\$13,018.0
Traditional products.....	12,352.9	12,094.1
Claims payable and other policyholder funds.....	847.4	832.3
Liabilities related to separate accounts.....	28.6	28.9
Other liabilities.....	706.9	611.8
Investment borrowings.....	868.9	418.3
Notes payable - direct corporate obligations.....	1,197.8	1,000.8
	-----	-----
Total liabilities.....	29,062.6	28,004.2
	-----	-----
Commitments and Contingencies		
Shareholders' equity:		
Preferred stock.....	-	667.8
Common stock (\$0.01 par value, 8,000,000,000 shares authorized, shares issued		
and outstanding: June 30, 2007 - 188,699,343; December 31, 2006 - 152,165,108)....	1.9	1.5
Additional paid-in capital.....	4,126.4	3,473.2
Accumulated other comprehensive loss.....	(329.9)	(72.6)
Retained earnings.....	576.9	643.2
	-----	-----
Total shareholders' equity.....	4,375.3	4,713.1
	-----	-----
Total liabilities and shareholders' equity.....	\$33,437.9	\$32,717.3
	=====	=====

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

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Revenues:				
Insurance policy income.....	\$ 767.8	\$ 739.7	\$1,530.6	\$1,494.4
Net investment income:				
General account assets.....	382.2	357.3	760.1	708.6
Policyholder and reinsurer accounts and other special-purpose portfolios.....	42.3	(13.7)	47.2	.4
Net realized investment losses.....	(28.3)	(3.7)	(63.2)	(6.8)
Fee revenue and other income.....	5.2	4.5	9.0	9.2
	-----	-----	-----	-----
Total revenues.....	1,169.2	1,084.1	2,283.7	2,205.8
	-----	-----	-----	-----
Benefits and expenses:				
Insurance policy benefits.....	930.9	705.2	1,732.2	1,432.0
Interest expense.....	27.9	17.1	51.5	33.5
Amortization.....	116.3	97.6	232.5	216.2
Costs related to the proposed litigation settlement.....	35.0	157.0	48.0	174.7
Other operating costs and expenses.....	151.8	142.1	296.0	283.2
	-----	-----	-----	-----
Total benefits and expenses.....	1,261.9	1,119.0	2,360.2	2,139.6
	-----	-----	-----	-----
Income (loss) before income taxes.....	(92.7)	(34.9)	(76.5)	66.2
Income tax expense (benefit) on period income.....	(32.8)	(12.6)	(27.0)	23.9
	-----	-----	-----	-----
Net income (loss).....	(59.9)	(22.3)	(49.5)	42.3
Preferred stock dividends.....	4.6	9.5	14.1	19.0
	-----	-----	-----	-----
Net income (loss) applicable to common stock.....	\$ (64.5)	\$ (31.8)	\$ (63.6)	\$ 23.3
	=====	=====	=====	=====
Earnings per common share:				
Basic:				
Weighted average shares outstanding.....	169,139,000	151,514,000	160,038,000	151,518,000
	=====	=====	=====	=====
Net income (loss).....	\$ (.38)	\$ (.21)	\$ (.40)	\$ .15
	=====	=====	=====	=====
Diluted:				
Weighted average shares outstanding.....	169,139,000	151,514,000	160,038,000	152,556,000
	=====	=====	=====	=====
Net income (loss).....	\$ (.38)	\$ (.21)	\$ (.40)	\$ .15
	=====	=====	=====	=====

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**CONSECO, INC. AND SUBSIDIARIES**  
**OPERATING RESULTS**

Results by segment for the six months ended June 30 were as follows (\$ in millions):

	Six Months Ended June 30,	
	2007	2006
EBIT (2), excluding costs related to the proposed litigation settlement:		
Bankers Life.....	\$ 108.3	\$ 120.9
Conseco Insurance Group.....	101.8	115.4
Colonial Penn.....	11.3	11.6
Other Business in Run-off.....	(164.1)	28.4
Corporate Operations, excluding corporate interest expense.....	(16.2)	(9.7)
	-----	-----
EBIT, excluding costs related to the proposed litigation settlement.....	41.1	266.6
Costs related to the proposed litigation settlement.....	(48.0)	(174.7)
	-----	-----
Total EBIT.....	(6.9)	91.9
Corporate interest expense.....	(33.0)	(24.4)
	-----	-----
Income (loss) before net realized investment losses and taxes.....	(39.9)	67.5
Tax (expense) benefit.....	14.2	(24.4)
	-----	-----
Net income (loss) before net realized investment losses.....	(25.7)	43.1
Preferred stock dividends:		
5.50% Class B mandatorily convertible preferred stock.....	(14.1)	(19.0)
	-----	-----
Net operating income (loss).....	(39.8)	24.1
Net realized investment losses, net of related amortization and taxes.....	(23.8)	(.8)
	-----	-----
Net income (loss) applicable to common stock.....	\$ (63.6)	\$ 23.3
	=====	=====
Per diluted share:		
Net operating income (loss).....	\$ (.25)	\$ .16
Net realized investment losses, net of related amortization and taxes.....	(.15)	(.01)
	-----	-----
Net income (loss) applicable to common stock.....	\$ (.40)	\$ .15
	=====	=====

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**CONSECO, INC. AND SUBSIDIARIES**  
**COLLECTED PREMIUMS**  
(Dollars in millions)

	Three months ended June 30,	
	2007	2006
Bankers Life segment:		
Annuity.....	\$200.5	\$238.3
Supplemental health.....	356.6	342.6
Life.....	52.1	46.6
	-----	-----
Total collected premiums.....	\$609.2	\$627.5
	=====	=====
Conseco Insurance Group segment:		
Annuity.....	\$113.0	\$ 92.4
Supplemental health.....	147.4	153.3
Life.....	70.0	78.3
	-----	-----
Total collected premiums.....	\$330.4	\$324.0
	=====	=====
Colonial Penn segment:		
Life.....	\$ 26.0	\$ 21.6
Supplemental health.....	2.7	3.1
	-----	-----
Total collected premiums.....	\$ 28.7	\$ 24.7
	=====	=====
Other Business in Run-off segment:		
Long-term care.....	\$ 75.6	\$ 80.2
Major medical.....	.6	2.2
	-----	-----
Total collected premiums.....	\$ 76.2	\$ 82.4
	=====	=====

**BENEFIT RATIOS ON MAJOR SUPPLEMENTAL HEALTH LINES OF BUSINESS**

	Three Months Ended June 30,	
	2007	2006
Bankers Life segment:		
Medicare Supplement:		
Earned premium.....	\$161 million	\$164 million
Benefit ratio(a).....	67.4%	67.8%
PDP and PFFS:		
Earned premium.....	\$47 million	\$16 million
Benefit ratio(a).....	77.6%	80.9%
Long-Term Care:		
Earned premium.....	\$155 million	\$148 million
Benefit ratio(a).....	96.8%	96.2%
Interest-adjusted benefit ratio (a non-GAAP measure)(b).....	66.0%	66.8%
Conseco Insurance Group (CIG) segment:		
Medicare Supplement:		
Earned premium.....	\$58 million	\$64 million
Benefit ratio(a).....	68.9%	56.9%
Specified Disease:		
Earned premium.....	\$90 million	\$89 million
Benefit ratio(a).....	72.5%	79.9%
Interest-adjusted benefit ratio (a non-GAAP measure)(b).....	39.7%	48.2%
Other Business in Run-off segment:		
Earned premium.....	\$78 million	\$82 million
Benefit ratio(a).....	296.7%	118.0%
Interest-adjusted benefit ratio (a non-GAAP measure)(b).....	236.7%	64.4%

- (a) The benefit ratio is calculated by dividing the related product's insurance policy benefits by insurance policy income.
- (b) The interest-adjusted benefit ratio (a non-GAAP measure) is calculated by dividing the product's insurance policy benefits less interest income on the accumulated assets backing the insurance liabilities by insurance policy income. Interest income is an important factor in measuring the performance of longer duration health products. The net cash flows generally cause an accumulation of amounts in the early years of a policy (accounted for as reserve increases), which will be paid out as benefits in later policy years (accounted for

as reserve decreases). Accordingly, as the policies age, the benefit ratio will typically increase, but the increase in the change in reserve will be partially offset by interest income earned on the accumulated assets. The interest-adjusted benefit ratio reflects the interest income offset. Since interest income is an important factor in measuring the performance of these products, management believes a benefit ratio, which includes the effect of interest income, is useful in analyzing product performance. Additional information concerning this non-GAAP measure is included in our periodic filings with the Securities and Exchange Commission that are available in the "Investor - SEC Filings" section of Conseco's website, [www.conseco.com](http://www.conseco.com).

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CONSECO®

## **Second Quarter 2007**

**Financial and Operating Results  
For the period ended June 30, 2007**

**Conseco, Inc.**



# Forward-Looking Statements

**Cautionary Statement Regarding Forward-Looking Statements.** Our statements, trend analyses and other information contained in these materials relative to markets for Consecos's products and trends in Consecos's operations or financial results, as well as other statements, contain forward-looking statements within the meaning of the federal securities laws and the Private Securities Litigation Reform Act of 1995. Forward-looking statements typically are identified by the use of terms such as "anticipate," "believe," "plan," "estimate," "expect," "project," "intend," "may," "will," "would," "contemplate," "possible," "attempt," "seek," "should," "could," "goal," "target," "on track," "comfortable with," "optimistic" and similar words, although some forward-looking statements are expressed differently. You should consider statements that contain these words carefully because they describe our expectations, plans, strategies and goals and our beliefs concerning future business conditions, our results of operations, financial position, and our business outlook or they state other "forward-looking" information based on currently available information. Assumptions and other important factors that could cause our actual results to differ materially from those anticipated in our forward-looking statements include, among other things: (i) our ability to obtain adequate and timely rate increases on our supplemental health products including our long-term care business; (ii) mortality, morbidity, usage of health care services, persistency, the adequacy of our previous reserve estimates and other factors which may affect the profitability of our insurance products; (iii) changes in our assumptions related to the cost of policies produced or the value of policies in force at the Effective Date; (iv) our ability to achieve anticipated expense reductions and levels of operational efficiencies including improvements in claims adjudication and continued automation and rationalization of operating systems; (v) performance of our investments; (vi) our ability to identify products and markets in which we can compete effectively against competitors with greater market share, higher ratings, greater financial resources and stronger brand recognition; (vii) the ultimate outcome of lawsuits filed against us and other legal and regulatory proceedings to which we are subject; (viii) our ability to remediate the material weakness in internal controls over the actuarial reporting process that we identified at year-end 2006 and to maintain effective controls over financial reporting; (ix) our ability to continue to recruit and retain productive agents and distribution partners and customer response to new products, distribution channels and marketing initiatives; (x) our ability to achieve an upgrade of the financial strength ratings of our insurance company subsidiaries as well as the potential impact of rating downgrades on our business; (xi) the risk factors or uncertainties listed from time to time in our filings with the Securities and Exchange Commission; (xii) regulatory changes or actions, including those relating to regulation of the financial affairs of our insurance companies, such as the payment of dividends to us, regulation of financial services affecting (among other things) bank sales and underwriting of insurance products, regulation of the sale, underwriting and pricing of products, and health care regulation affecting health insurance products; (xiii) general economic conditions and other factors, including prevailing interest rate levels, stock and credit market performance and health care inflation, which may affect (among other things) our ability to sell products and access capital on acceptable terms, the returns on and the market value of our investments, and the lapse rate and profitability of policies; and (xiv) changes in the Federal income tax laws and regulations which may affect or eliminate the relative tax advantages of some of our products. Other factors and assumptions not identified above are also relevant to the forward-looking statements, and if they prove incorrect, could also cause actual results to differ materially from those projected. All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by the foregoing cautionary statement. Our forward-looking statements speak only as of the date made. We assume no obligation to update or to publicly announce the results of any revisions to any of the forward-looking statements to reflect actual results, future events or developments, changes in assumptions or changes in other factors affecting the forward-looking statements.

## Non-GAAP Measures

This presentation contains the following financial measures that differ from the comparable measures under Generally Accepted Accounting Principles (GAAP): operating earnings measures; book value excluding accumulated other comprehensive income (loss) per diluted share; operating return measures; earnings before net realized investment gains (losses) and corporate interest and taxes; debt to capital ratios, excluding accumulated other comprehensive income (loss); and interest-adjusted benefit ratios. Reconciliations between those non-GAAP measures and the comparable GAAP measures are included in the Appendix, or on the page such measure is presented.

While management believes these measures are useful to enhance understanding and comparability of our financial results, these non-GAAP measures should not be considered substitutes for the most directly comparable GAAP measures.

Additional information concerning non-GAAP measures is included in our periodic filings with the Securities and Exchange Commission that are available in the “Investor – SEC Filings” section of Consec’s website, [www.conseco.com](http://www.conseco.com).

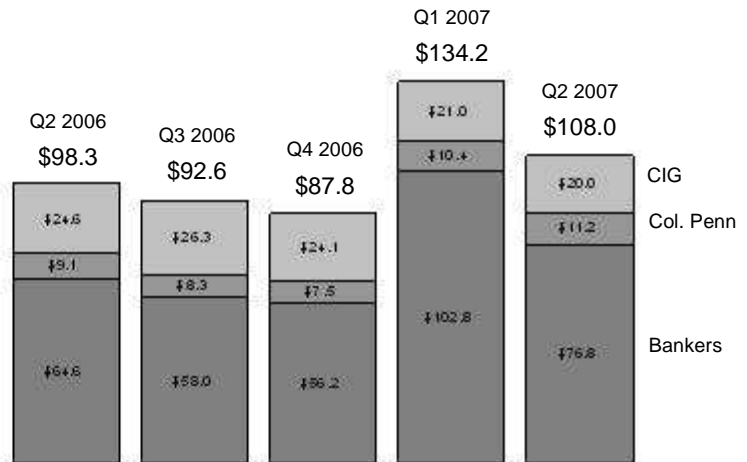
- **Significant increase of \$124 million in LTC Runoff block claim reserves**
  - **\$110 million represents reserve strengthening**
  - **This action should reduce earnings volatility from loss experience in future periods**
- **Continued strong sales growth at Bankers Life and Colonial Penn, better mix of business at CIG**
  - **Bankers sales up 19%, Colonial Penn's sales up 23%**
- **Progress on performance metrics for LTC Runoff block**

# New Business Volumes (NAP)

# CNO Consolidated

(in millions)

- Q2 2007 NAP up 10% vs Q2 2006, driven by increases at Colonial Penn (23%) and Bankers (19%)
- Trailing four quarters NAP up over 8% vs Q2 2006



Trailing 4 Quarters NAP:	\$390.4	\$403.0	\$401.0	\$412.9	\$422.6
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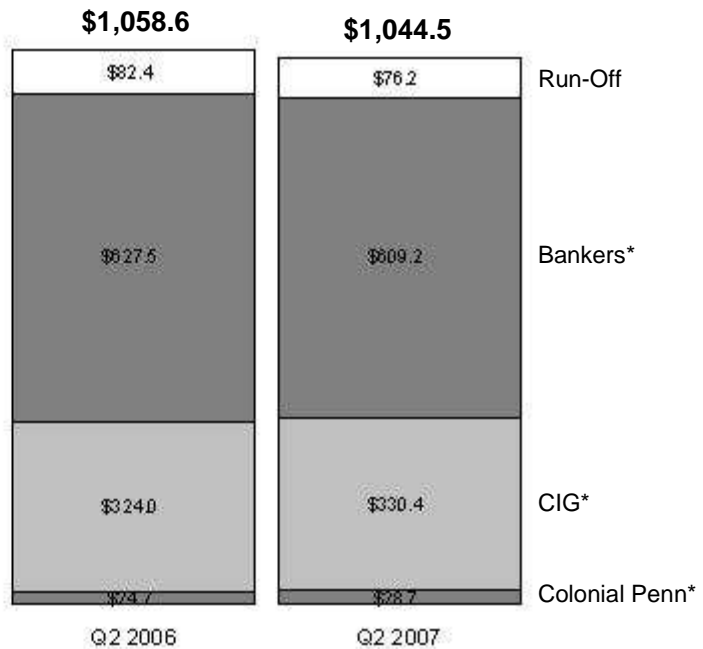
New business volumes are measured by new annualized premium, which includes 6% of annuity premiums, 10% of single-premium whole life deposits, and 100% of all other premiums. Prescription drug sales (PDP) NAP equal to \$310 per enrolled policy and private-fee-for-service (PFFS) NAP equal to \$2,100 per enrolled policy.

# Collected Premium

# CNO Consolidated

(\$ millions)

- **Collected premium in Q2 2007 was essentially flat vs Q2 2006, primarily driven by:**
  - Lower annuity volumes at Bankers
  - Lower life and Medicare supplement collections at CIG, offset by higher annuity volume
- **Trailing four quarters collected premium up over 9% vs 6/30/06**



	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007
Tr. 4 Qtrs. Col. Prem.-Core Businesses*:	\$3,706.6	\$3,897.8	\$3,958.7	\$4,060.3	\$4,052.4

# Operating ROE

CNO

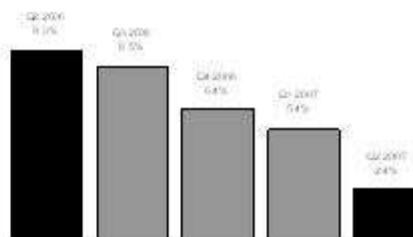
- Conseco has set a long-term goal of improving its Operating ROE – after-tax earnings divided by equity (excluding our NOL deferred tax asset from equity and other adjustments below) – to 11% in 2009

Operating ROE\*, Trailing 4 Quarters



\*Operating return excludes net realized investment gains (losses). Equity excludes accumulated other comprehensive income (loss) and the value of net operating loss carryforwards, and assumes conversion of preferred stock. See Appendix for corresponding GAAP measure.

Operating ROE (excl. proposed litigation settlement charges)\*\*, Trailing 4 Quarters



\*\*Operating return, as calculated and defined on the left side of this page, but before Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods. See Appendix for corresponding GAAP measure.

## Q2 Earnings

## CNO Consolidated

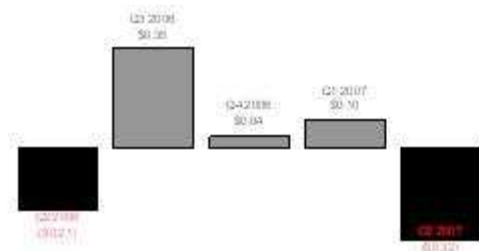
(\$ millions)	Q2 2006	Q2 2007
Bankers Life	<u>\$63.7</u>	<u>\$65.5</u>
Conseco Insurance Group	64.7	43.8
Colonial Penn	6.5	6.7
Other Business in Run-Off	4.4	(133.2)
Corporate operations, excluding interest expense	<u>(5.0)</u>	<u>(8.0)</u>
EBIT, excluding costs related to the proposed litigation settlement	134.3	(25.2)
Costs related to the proposed litigation settlement	(157.0)	(35.0)
Total EBIT*	<u>(22.7)</u>	<u>(60.2)</u>
Corporate interest expense	<u>(12.0)</u>	<u>(16.9)</u>
Loss before net realized investment losses and taxes	<u>(34.7)</u>	<u>(77.1)</u>
Tax benefit	<u>12.5</u>	<u>27.3</u>
Net loss before net realized investment losses	<u>(22.2)</u>	<u>(49.8)</u>
Preferred stock dividends	<u>9.5</u>	<u>4.6</u>
Net operating loss	<u>(31.7)</u>	<u>(54.4)</u>
Net realized investment losses, net of related amortization and taxes	<u>(0.1)</u>	<u>(10.1)</u>
Net loss applicable to common stock	<u><u>(\$31.8)</u></u>	<u><u>(\$64.5)</u></u>

\*Management believes that an analysis of earnings before net realized investment gains (losses) and corporate interest and taxes ("EBIT," a non-GAAP financial measure) provides an alternative measure to compare the operating results of the company quarter-over-quarter because it excludes: (1) corporate interest expense; and (2) net realized gains (losses) that are unrelated to the company's underlying fundamentals. The chart above provides a reconciliation of EBIT to net income applicable to common stock.

# Operating EPS (Diluted)

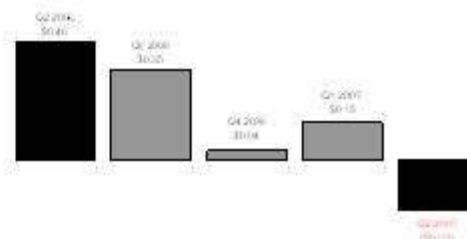
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Operating EPS\*



\*Operating earnings per share exclude net realized investment gains (losses). See Appendix for corresponding GAAP measure.

Operating EPS, Before Proposed Litigation Settlement Charges\*\*



\*\*Operating earnings per share, before Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods. See Appendix for corresponding GAAP measure.



## Q2 Earnings

## LTC Closed Block

(\$ millions)

	<u>Q2 2006</u>	<u>Q2 2007</u>
Insurance policy income	\$82.1	\$78.1
Net investment income	44.6	47.6
Fee revenue and other income	0.1	0.1
Total revenues	<u>126.8</u>	<u>125.8</u>
Insurance policy benefits	96.9	231.6
Amortization related to operations	3.5	5.8
Other operating costs and expenses	<u>22.0</u>	<u>21.6</u>
Total benefits and expenses	<u>122.4</u>	<u>259.0</u>
Income (loss) before net realized investment gains (losses) and income taxes	<u>\$4.4</u>	<u>(\$133.2)</u>

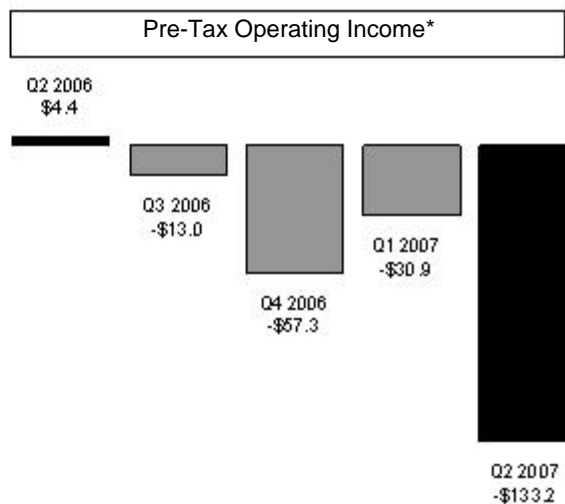
Management believes that an analysis of income (loss) before net realized investment gains (losses), net of related amortization (a non-GAAP financial measure), is important to evaluate the financial performance of our business, and is a measure commonly used in the life insurance industry. Management uses this measure to evaluate performance because realized gains or losses can be affected by events that are unrelated to a company's underlying fundamentals. The chart on Page 8 reconciles the non-GAAP measure to the corresponding GAAP measure. See Appendix for a reconciliation of the return on equity measure to the corresponding GAAP measure.

# Segment Performance

# LTC Closed Block

(\$ millions)

- **Q2 2007 reflects \$118 million of increases to prior-period incurred claims estimates**
  - Includes \$110 million of strengthening adjustments to claim reserve methods and assumptions
- **Q2 2006 included \$9.4 million release of benefit reserve redundancy**
- **Q2 2007 reflects minimal impact from rate increase and claim processing initiatives**



PTOI-Trailing 4 Quarters:	\$62.7	\$33.3	(\$41.9)	(\$96.8)	(\$234.4)
Revenues-Quarterly:	\$126.8	\$128.1	\$127.9	\$126.6	\$125.8
Revenues -Tr. 4 Quarters:	\$528.1	\$519.6	\$516.5	\$509.4	\$508.4
Collected Premiums-Quarterly:	\$82.4	\$80.4	\$76.6	\$81.2	\$76.2

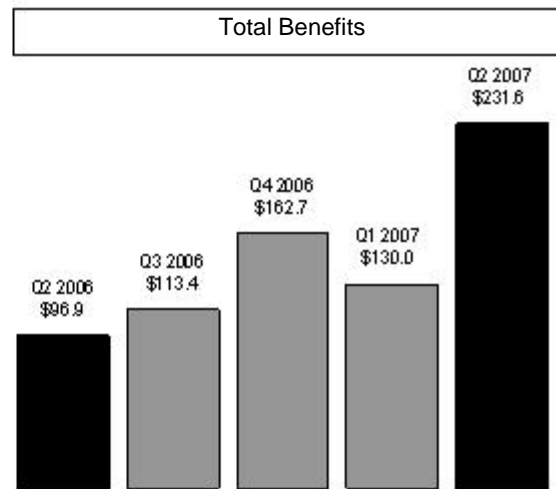
\*Operating earnings exclude net realized gains (losses). See Appendix for corresponding GAAP measure of our consolidated results of operations.

# Benefit Detail

(\$ millions)

- **Incurred claims in all periods reflect volatility due to development of out-of-period incurred claim estimates**
  - Includes reserve strengthening adjustments of \$110 million in Q2 2007
- **Increase in reserves for future benefits varies with persistency; Q2 2006 included \$9.4 million release of redundant reserves**

# LTC Closed Block



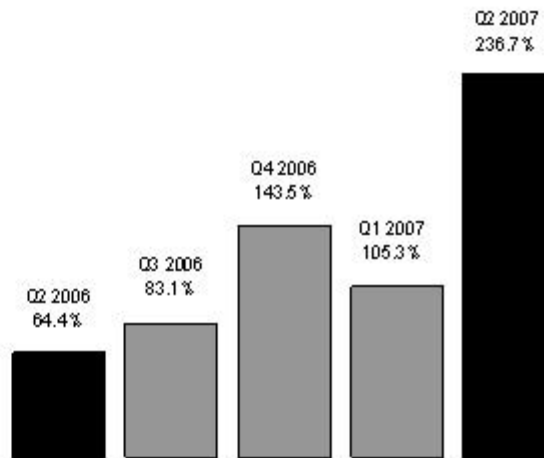
Incurring Claims	\$117.3	\$113.5	\$164.0	\$126.7	\$234.9
Increase in Reserves for Future Benefits	\$(20.4)	\$(0.1)	\$(1.3)	\$3.3	\$(3.3)
Verified Basis Incurred Claims	\$116.5	\$119.6	\$124.5	\$114.4	\$116.6

Total benefits equal incurred claims plus increase in reserve for future benefits. Verified basis incurred claims adjust all periods for claim reserve redundancies and deficiencies.

# Interest-Adjusted Benefit Ratio\*

# LTC Closed Block

- **Verified basis normalizes all periods for impact of claim reserve deficiencies**
  - **Prior period deficiencies increased benefit ratio by 152 percentage points in Q2 2007**
- **Q2 2006 benefit reserve adjustment reduced benefit ratio by 11 percentage points**



Trailing 4 Quarter Avg.:	52.1%	60.1%	83.2%	99.0%	141.0%
Qtrly. non-int. adjusted:	118.0%	136.0%	198.2%	163.5%	296.7%
Qtrly. Verified Basis non-int. adjusted:	116.9%	143.5%	147.6%	148.1%	145.1%

\*We calculate interest-adjusted benefit ratios by dividing insurance policy benefits less interest income on the accumulated assets backing the insurance liabilities by insurance policy income.

# Balance Sheet Detail

# LTC Closed Block

(\$ millions)

Insurance Liabilities and Intangible Assets, Net of Reinsurance

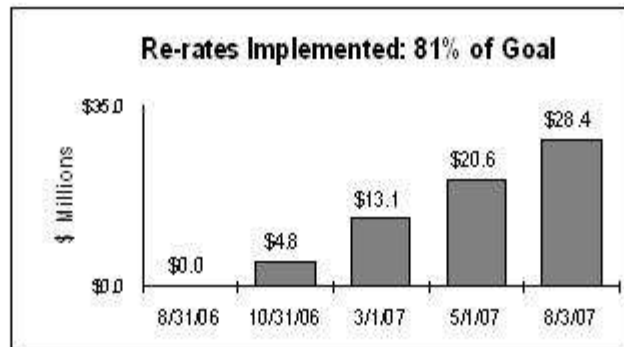
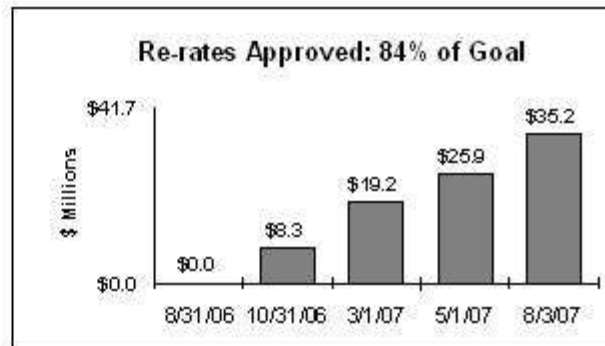
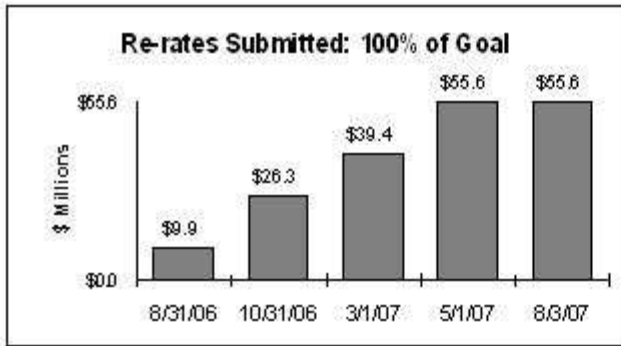
	<u>Q2 2006</u>	<u>Q3 2006</u>	<u>Q4 2006</u>	<u>Q1 2007</u>	<u>Q2 2007</u>
<b>Reserve for Future Benefits</b>	\$2,413.3	\$2,413.6	\$2,412.7	\$2,412.3	\$2,409.1
<b>Claim Reserve</b>	731.4	734.8	801.2	816.5	940.4
<b>Insurance Acquisition Costs</b>	(181.8)	(176.2)	(170.9)	(165.2)	(159.5)
<b>Net Liability</b>	<u>\$2,962.9</u>	<u>\$2,972.2</u>	<u>\$3,043.0</u>	<u>\$3,063.6</u>	<u>\$3,190.0</u>
<b>Percent Change</b>	-	0.3%	2.4%	0.7%	4.1%

- **Reserve increases in past four quarters relate to claim reserve**
  - Current claim reserve is 29% of net liability
  - Current claim reserve reflects expectation of adverse claim development
  - \$123.9 million increase in Q2 2007 includes \$110 million of strengthening adjustments
- **Insurance acquisition cost balance is 5% of net liability and is declining rapidly**
  - Balance remains recoverable under best estimate assumptions

- **Our program for improvement is having a positive effect on business fundamentals**
  - Premium re-rates
  - Claims management
  - Technology and organizational design

# Premium Re-rates

# LTC Closed Block



# Program for Improvement

# LTC Closed Block

## Rate Increase Plan – Round Two

	<u>Additional Premium (mil.)</u>	<u>Timeline</u>
<b>Filings</b>	\$46	Q2 2007 – Q1 2008
<b>Approvals</b>	\$28	Q3 2007 – Q4 2008
<b>Implementation</b>	\$22	Q3 2007 – Q1 2009

**Round Two filings have begun**



## ▪ Claims management

- Continued implementation of best practices through use of LTC industry experts
- Streamlined claims processes drive improved customer service and compliance
- Recertification of active claims has begun; program includes case management reviews and confirmation of claimants meeting policy requirements for benefits

## ▪ Technology and Organizational Design

- July 12 - announced study of systems and operational solution from Long Term Care Group, an industry leader
- Proposal under consideration would include outsourcing of:
  - Customer call center
  - Processing of continuing claims
  - Other transactions
- Expect to complete due diligence and make decision by early fall

## Segment Summary

# LTC Closed Block

- **Financial results impacted by reserve strengthening and recent experience**
- **Program for improvement initiatives continue to make good progress**
  - Implemented billing of \$28.4 million in approved rate increases, 81% of \$35 million program
  - Studying sourcing of system and select claim functions to a recognized industry leader

- **Book value per diluted share (excluding accumulated other comprehensive loss)**
  - \$24.90 at 6/30/07 vs \$25.84 a year earlier and \$25.64 at YE 2006
- **Debt and preferred stock to total capital ratio (excluding accumulated other comprehensive loss)**
  - 20.3% at 6/30/07 vs 26.6% a year earlier and 28.8% at YE 2006
- **Consolidated RBC ratio**
  - 330% at 6/30/07 vs 331% a year earlier and 357% at YE 2006
- **Net investment income**
  - \$381.5 million in Q2 2007 vs \$356.5 million in Q2 2006
  - Earned yield of 5.83% in Q2 2007 vs 5.71% a year earlier
- **Investment quality of fixed maturities (excluding investments from consolidated variable interest entity)**
  - 94% of bonds investment grade at 6/30/07 vs 95% at 12/31/06 and 97% at 6/30/06
  - Limited exposure to subprime market

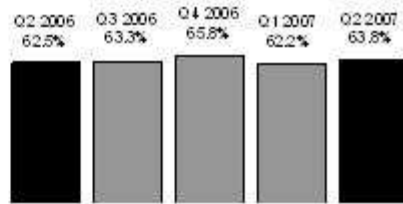
\*See appendix for detail on these indicators, including notes describing non-GAAP measures.

# Aggregate Interest-Adjusted Health Benefit Ratio\*

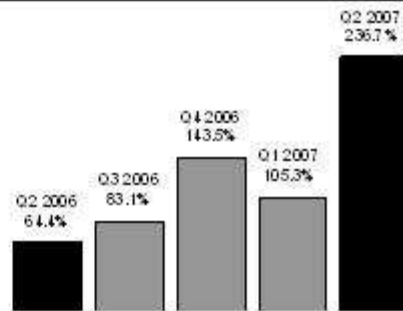
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- **Benefit ratios on core products are very stable and consistent with expectations**
- **Increase from Q2 2006 primarily driven by increase in PDP/PFFS products, which have higher expected loss ratios than other products**
- **Increase from Q1 2007 driven by release of return-of-premium reserve on CIG specified disease in the prior period, offset by improvement in Bankers long term care**

Aggregate Health Benefit Ratio – By Quarter  
Core (BLC, CIG & CP) Business



Aggregate Health Benefit Ratio – By Quarter  
Run-Off Business



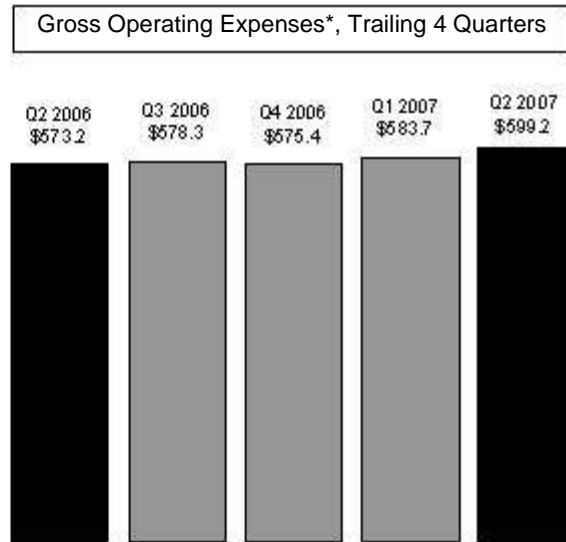
\*We calculate interest-adjusted benefit ratios by dividing insurance policy benefits, less interest income on the accumulated assets backing the insurance liabilities, by insurance policy income.

# Expenses

CNO

(\$ millions)

- **Higher legal fees and settlement costs in Q1 and Q2 2007**
- **Back-office consolidation on track to produce annual cost savings of \$25 million beginning in 2008**
  - Bankers Life policyholder service now managed in Carmel



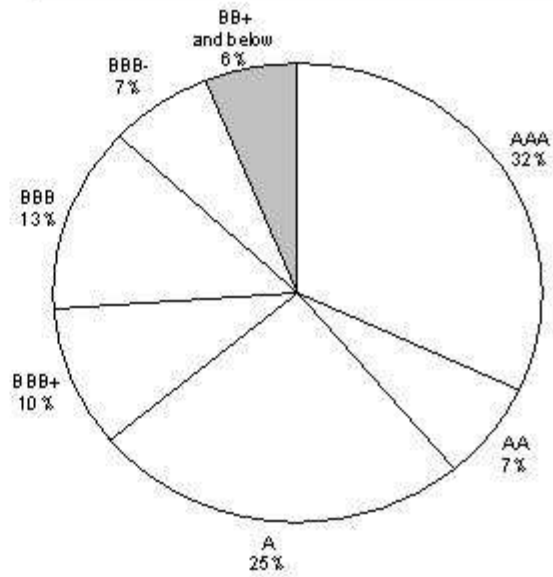
\*Gross operating expenses before capitalization of cost of policies produced, capitalization of software development costs and other adjustments. Costs related to the proposed litigation settlement are not included in our gross operating expenses. This measure is used by the Company to evaluate its progress in reducing gross operating expenses.

# High-Quality Assets

CNO

- Excludes investments from a variable interest entity we are required to consolidate, although such assets are legally isolated
- Only 6% of total portfolio is in below-investment grade securities

Actively Managed Fixed Maturities by Rating at 6/30/07 (Market Value)



	6/30/06	9/30/06	12/31/06	3/31/07	6/30/07
% of Bonds which are Investment Grade:	97%	97%	95%	95%	94%

# **Sub-prime Home Equity ABS and Structured Credit**

**CNO**

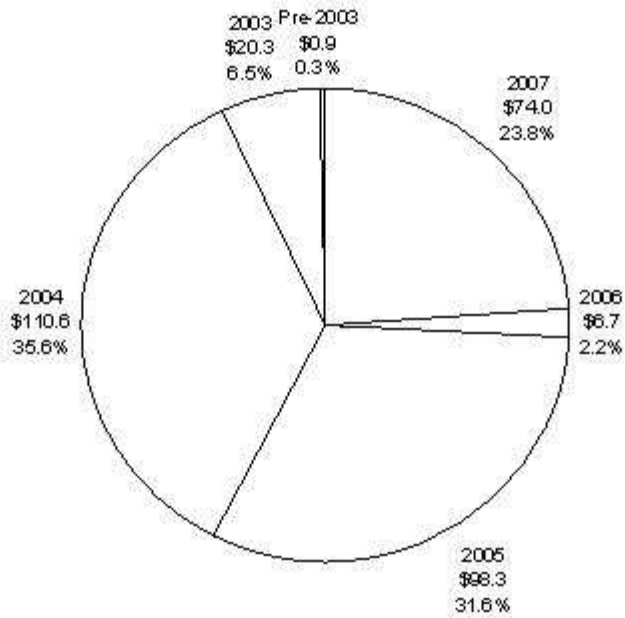
- **No downgraded securities**
- **No negative watch securities**
- **No ABS CDO investments**
- **No hedge fund investments**
- **No exposure to substandard servicers**
- **Nominal third-party CLO/structured credit exposure**
- **Highly developed cashflow and default analytic models, along with repeatable management oversight processes**



# Sub-prime Home Equity ABS at June 30, 2007

CNO

Exposure by Vintage Year (Market Value in mils.)



Only 0.03% of total portfolio exposed to 2006 vintage

# Sub-prime Home Equity ABS at June 30, 2007

**CNO**

<b>Rating</b>	<b>Market Value (mil.)</b>	<b>Book Value (mil.)</b>	<b>% of Subprime</b>	<b>% of Portfolio</b>	<b>Original Support</b>	<b>Current Support</b>
<b>AAA – Insured</b>	\$8.3	\$8.5	2.75%	0.03%	100.0%	100.0%
<b>AAA</b>	\$30.7	\$31.4	10.12%	0.13%	14.1%	33.5%
<b>AA</b>	\$65.8	\$67.4	21.67%	0.27%	10.7%	28.2%
<b>A</b>	\$169.9	\$173.1	55.68%	0.69%	7.1%	15.1%
<b>&lt;=BBB</b>	<u>\$30.0</u>	<u>\$30.4</u>	<u>9.77%</u>	<u>0.12%</u>	5.2%	5.2%
<b>Total</b>	\$304.7	\$310.8	100.00%	1.24%		

- 1.24% overall portfolio allocation to home equity
- No exposure to “affordability products” – negative amortization, option ARM collateral, etc.
- Only 9.8% (of 1.24%) rated lower than A category
- Current support in structures has met original expectations
- Even in current market conditions, very limited gain/loss exposure

## Q2 2007 Summary

## Bankers

- **Sales of \$76.8 million, 19% ahead of Q2 2006**
  - Growth driven by 30% improvement in life sales and private fee-for-service sales through our product partnership with Coventry
- **Higher earnings (vs Q2 2006) driven by:**
  - Improved spreads
  - Higher PDP/PFFS income, offset by increased Medicare supplement amortization expense

## Q2 Earnings

## Bankers

(\$ millions)

	<u>Q2 2006</u>	<u>Q2 2007</u>
Insurance policy income	\$384.6	\$424.0
Net investment income	122.4	155.1
Fee revenue and other income	2.0	2.7
Total revenues	<u>509.0</u>	<u>581.8</u>
Insurance policy benefits	306.8	341.1
Amounts added to policyholder account balances	42.0	58.6
Amortization related to operations	56.8	71.3
Other operating costs and expenses	<u>39.7</u>	<u>45.3</u>
Total benefits and expenses	<u>445.3</u>	<u>516.3</u>
Income before net realized investment gains (losses), net of related amortization and income taxes	<u>\$63.7</u>	<u>\$65.5</u>

*2007 YTD Return on Equity (before realized investment gains/(losses): 9.1%*

Management believes that an analysis of income (loss) before net realized investment gains (losses), net of related amortization (a non-GAAP financial measure), is important to evaluate the financial performance of our business, and is a measure commonly used in the life insurance industry. Management uses this measure to evaluate performance because realized gains or losses can be affected by events that are unrelated to a company's underlying fundamentals. The chart on Page 8 reconciles the non-GAAP measure to the corresponding GAAP measure. See Appendix for a reconciliation of the return on equity measure to the corresponding GAAP measure.

# Segment Performance

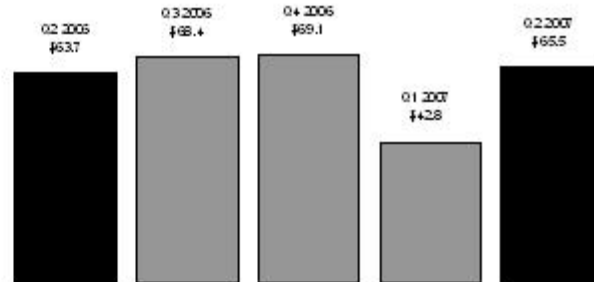
# Bankers

(\$ millions)

Pre-Tax Operating Income\*

■ **Higher earnings (vs Q1 2007)**  
**driven by:**

- Higher LTC margins due to favorable persistency
- Higher PDP/PFFS income
- Q1 2007 included higher Med supp and LTC amortization



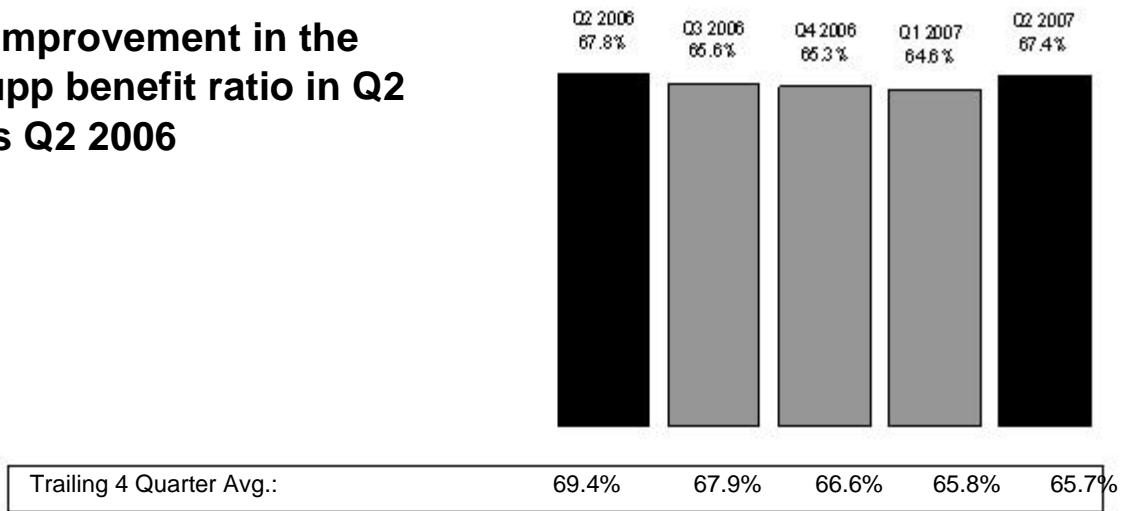
PTOI-Trailing 4 Quarters:	\$239.4	\$252.8	\$258.4	\$244.0	\$245.8
Revenues-Quarterly:	\$509.0	\$525.9	\$534.3	\$554.1	\$581.8
Revenues -Tr. 4 Quarters:	\$1,970.3	\$2,019.8	\$2,077.1	\$2,123.3	\$2,196.1

\*Operating earnings exclude net realized gains (losses). See Appendix for corresponding GAAP measure of our consolidated results of operations.

# Benefit Ratio\* – Medicare Supplement

# Bankers

- Slight improvement in the Med supp benefit ratio in Q2 2007 vs Q2 2006

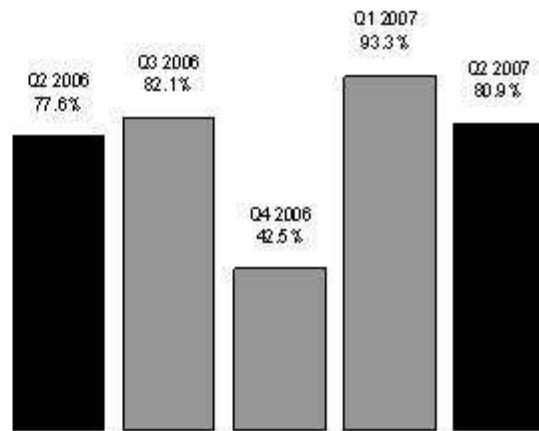


\*We calculate benefit ratios by dividing insurance policy benefits by insurance policy income.

# Benefit Ratio\* – PDP and PFFS Business

# Bankers

- Higher ratio in Q2 2007 (vs Q2 2006)
- Significant amount of seasonality

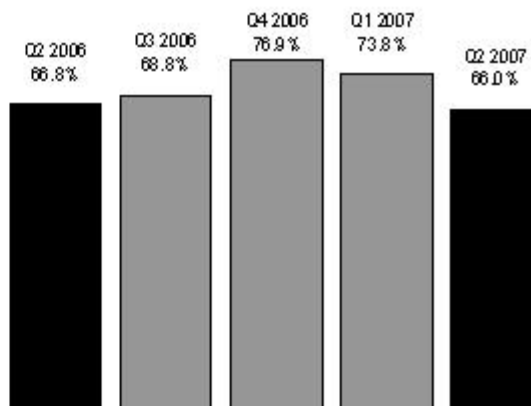


\*We calculate benefit ratios by dividing insurance policy benefits by insurance policy income.

# Interest-Adjusted Benefit Ratio\* – Long Term Care

## Bankers

- Q2 2007 consistent with Q2 2006
- Favorable persistency resulted in an improved benefit ratio vs Q1 2007



Trailing 4 Quarter Avg.:	66.4%	67.4%	69.9%	71.6%	71.4%
Qtrly. non-int. adjusted:	96.2%	98.2%	106.7%	104.3%	96.8%

\*We calculate interest-adjusted benefit ratios by dividing insurance policy benefits less interest income on the accumulated assets backing the insurance liabilities by insurance policy income.



## ■ Earnings

- The decrease in earnings is primarily driven by an increase in death claims and amortization expense on interest-sensitive life products and the continued decline in the Medicare supplement book, offset by improved specified disease results
- Sales down 18% from Q2 2006
  - Strong sales gains in annuities and supplemental health, offset by decreases in Medicare supplement and life

## Q2 Earnings

## CIG

(\$ millions)

	<u>Q2 2006</u>	<u>Q2 2007</u>
Insurance policy income	\$247.4	\$236.3
Net investment income	161.3	202.5
Fee revenue and other income	(0.1)	0.1
Total revenues	<u>408.6</u>	<u>438.9</u>
Insurance policy benefits	180.2	188.4
Amounts added to policyholder account balances	58.3	87.0
Amortization related to operations	36.7	47.0
Other operating costs and expenses	<u>68.7</u>	<u>72.7</u>
Total benefits and expenses	<u>343.9</u>	<u>395.1</u>
Income before net realized investment gains (losses), net of related amortization and income taxes, excluding costs related to the proposed litigation settlement	<u>\$64.7</u>	<u>\$43.8</u>

*2007 YTD Return on Equity (before realized investment gains/(losses): 6.2%*

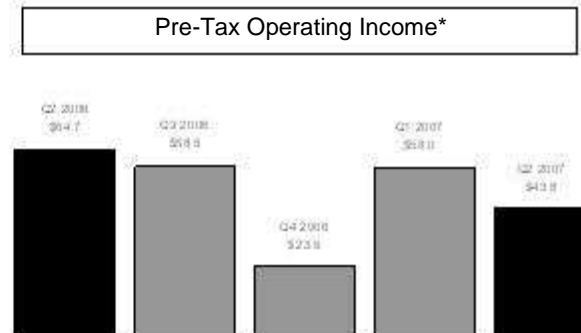
Management believes that an analysis of income (loss) before net realized investment gains (losses), net of related amortization (a non-GAAP financial measure), is important to evaluate the financial performance of our business, and is a measure commonly used in the life insurance industry. Management uses this measure to evaluate performance because realized gains or losses can be affected by events that are unrelated to a company's underlying fundamentals. The chart on Page 8 reconciles the non-GAAP measure to the corresponding GAAP measure. See Appendix for a reconciliation of the return on equity measure to the corresponding GAAP measure.

# Segment Performance

CIG

(\$ millions)

- **Decrease from Q2 2006 primarily due to:**
  - \$6 million reduction in Med supp earnings due to higher benefit ratio and smaller inforce block
  - \$21 million reduction in universal life earnings; adverse mortality experience and additional amortization
  - \$6 million increase in specified disease earnings due to lower benefit ratio
- **Q1 2007 includes a \$19.3 million release of specified disease return of premium reserve**



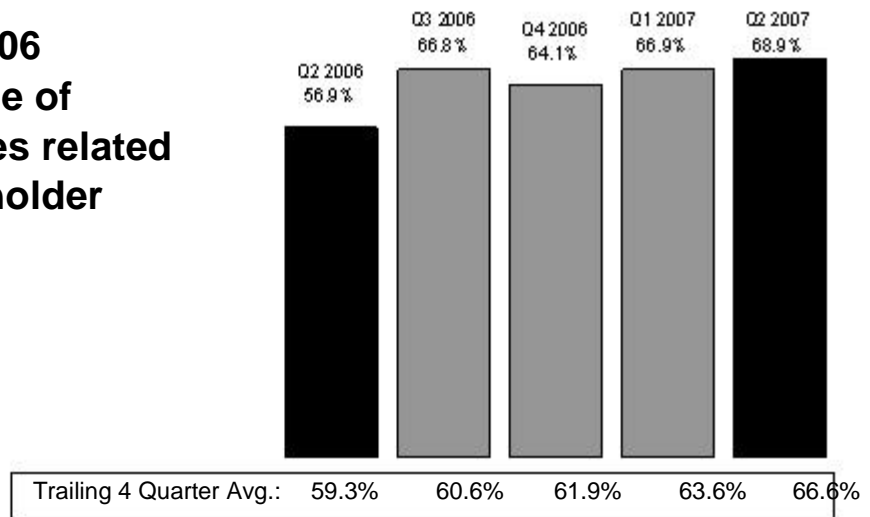
PTOI-Trailing 4 Quarters:	\$232.8	\$224.2	\$189.0	\$205.1	\$184.2
Revenues-Quarterly:	\$408.6	\$436.0	\$445.7	\$417.6	\$439.3
Revenues-Tr. 4 Quarters:	\$1,736.6	\$1,714.8	\$1,729.1	\$1,707.9	\$1,738.6

\*Operating earnings exclude: (1) net realized gains (losses); and (2) the Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods. See Appendix for corresponding GAAP measure of our consolidated results of operations.

# Benefit Ratio\* – Medicare Supplement

CIG

- Benefit ratio in Q2 2006 benefited from release of policy benefit reserves related to increase in policyholder lapses

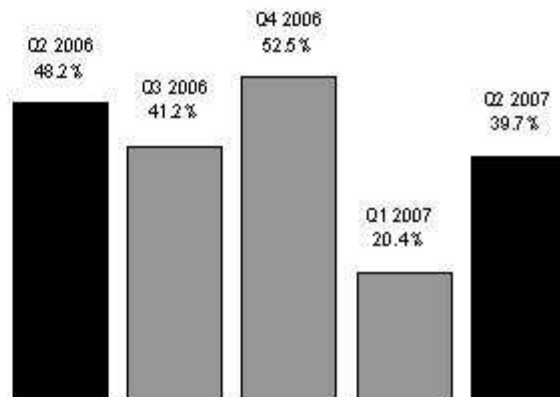


\*We calculate benefit ratios by dividing insurance policy benefits by insurance policy income.

# Interest-Adjusted Benefit Ratio\* – Specified Disease

CIG

- Q4 2006 reflects correction of valuation errors; without this adjustment, the ratio would have been 37.7%
- Q1 2007 reflects release of return of premium reserve; without this adjustment, the ratio would have been 41.8%
- Q2 2007 reflects no unusual adjustments



Trailing 4 Quarter Avg.:	46.7%	45.9%	47.0%	40.6%	38.4%
Qtrly. non-int. adjusted:	79.9%	73.6%	84.9%	53.2%	72.5%

\*We calculate interest-adjusted benefit ratios by dividing insurance policy benefits, less interest income on the accumulated assets backing the insurance liabilities, by insurance policy income.

## Q2 Earnings

## Colonial Penn

(\$ millions)

	<u>Q2 2006</u>	<u>Q2 2007</u>
Insurance policy income	\$25.6	\$29.4
Net investment income	9.1	9.4
Fee revenue and other income	<u>0.2</u>	<u>0.1</u>
Total revenues	<u>34.9</u>	<u>38.9</u>
Insurance policy benefits	20.7	23.9
Amounts added to policyholder account balances	0.3	0.3
Amortization related to operations	4.1	4.9
Other operating costs and expenses	<u>3.3</u>	<u>3.1</u>
Total benefits and expenses	<u>28.4</u>	<u>32.2</u>
Income before net realized investment gains (losses) and income taxes, net of related amortization	<u>\$6.5</u>	<u>\$6.7</u>

2007 YTD Return on Equity (before realized investment gains/(losses): 12.1%

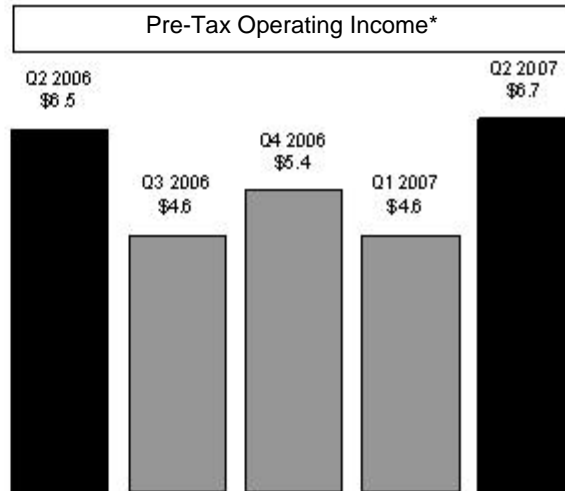
Management believes that an analysis of income (loss) before net realized investment gains (losses), net of related amortization (a non-GAAP financial measure), is important to evaluate the financial performance of our business, and is a measure commonly used in the life insurance industry. Management uses this measure to evaluate performance because realized gains or losses can be affected by events that are unrelated to a company's underlying fundamentals. The chart on Page 8 reconciles the non-GAAP measure to the corresponding GAAP measure. See Appendix for a reconciliation of the return on equity measure to the corresponding GAAP measure.

# Segment Performance

# Colonial Penn

(\$ millions)

- **Q2 2007 sales up 23%, driven by:**
  - Increased advertising
  - Strong media-based lead activity
  - Strong and improving direct-mail-based lead programs
  - Growth in direct mail reactivation campaigns
- **Continued stable earnings**



PTOI-Trailing 4 Quarters:	\$20.3	\$19.5	\$21.6	\$21.1	\$21.3
Revenues-Quarterly:	\$34.9	\$38.4	\$41.4	\$39.0	\$38.9
Revenues -Tr. 4 Quarters:	\$145.9	\$147.9	\$150.9	\$153.7	\$157.7

\*Operating earnings exclude net realized gains (losses). See Appendix for corresponding GAAP measure of our consolidated results of operations.

# CNO Summary

- **Runoff LTC block**
  - **Significant steps to reduce claims reserve volatility**
  - **Continued progress in business turnaround**
- **Core businesses**
  - **Sharper focus on driving profitable growth and delivering value**
- **Overall: On target to achieve \$100 million improvement in pretax earnings run-rate by year-end:**
  - **\$40 million from better claims management**
  - **\$35 million from LTC re-rates**
  - **\$25 million from operational consolidation**





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## **Questions and Answers**



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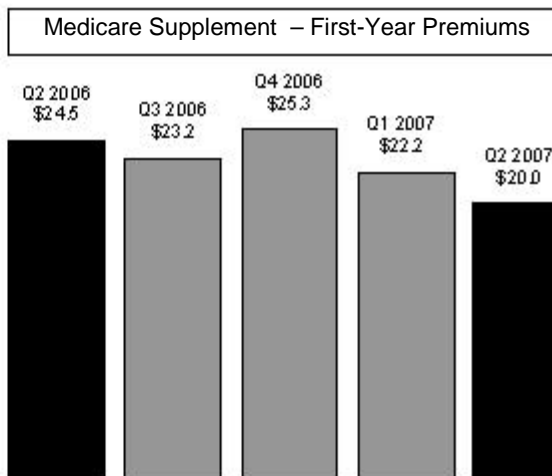
## **Appendix**

# Premiums – Medicare Supplement

# Bankers

(in millions)

- As expected, decline in sales continued in Q2 2007, due to competition from PFFS plans



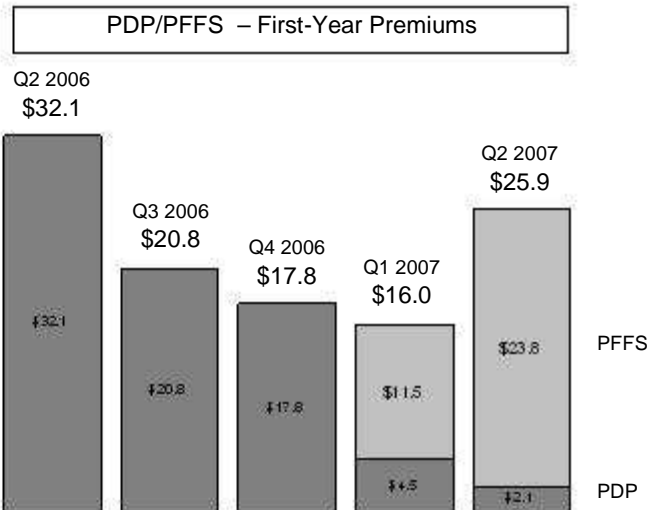
Med. Supp. First-Year Prems.-Tr. 4 Qtrs:	\$88.1	\$93.1	\$97.8	\$95.2	\$90.7
Med. Supp. Total Premiums-Quarterly:	\$156.7	\$146.7	\$157.2	\$167.0	\$153.8
Med. Supp. NAP-Quarterly:	\$18.4	\$15.3	\$18.4	\$14.7	\$14.7
Med. Supp. NAP-Trailing 4 Quarters:	\$76.7	\$76.2	\$72.8	\$66.8	\$63.1

# Premiums – PDP/PFFS

# Bankers

(in millions)

- Strong sales driven by PFFS
- Continued strong PFFS NAP enabled by the continued limited open enrollment period
- PFFS VNB 2x Med supp
- Less than 15% of PFFS sales due to internal Med supp exchanges



PDP NAP-Quarterly:	\$8.2	\$0.7	\$0.5	\$4.3	\$0.7
PFFS NAP-Quarterly:	-	-	-	\$46.8	\$22.2

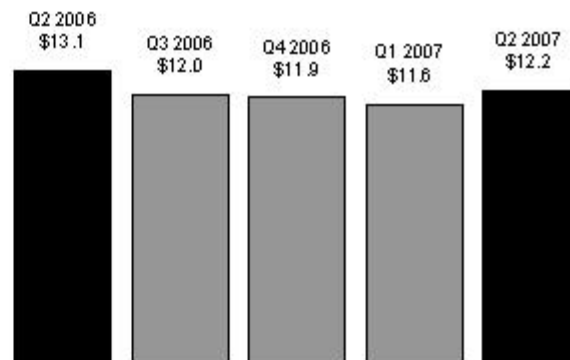
# Premiums – Long-Term Care

# Bankers

(\$ millions)

- **First-year premiums and NAP improved in Q2 2007**
- **New sales are meeting our return objectives**

Long-Term Care – First-Year Premiums



First-Year Prems.-Tr. 4 Qtrs:	\$58.5	\$54.6	\$51.2	\$48.6	\$47.7
Total Premiums-Quarterly:	\$151.5	\$145.0	\$150.2	\$158.2	\$155.4
NAP-Quarterly:	\$12.7	\$12.5	\$11.0	\$11.7	\$12.7
NAP-Trailing 4 Quarters:	\$52.5	\$50.4	\$47.6	\$47.9	\$47.9

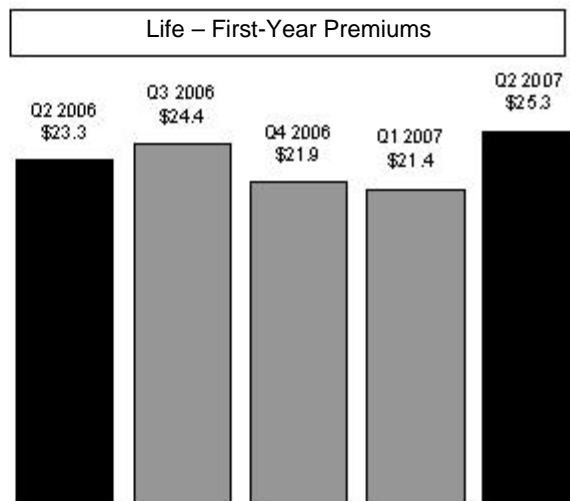
# Premiums – Life Insurance

# Bankers

(\$ millions)

■ **Growth driven by:**

- Continued focus on cross-selling into new PFFS customer base
- Broader availability of SPWL LTC rider
- Q2 2007 NAP up over 30% vs Q2 2006



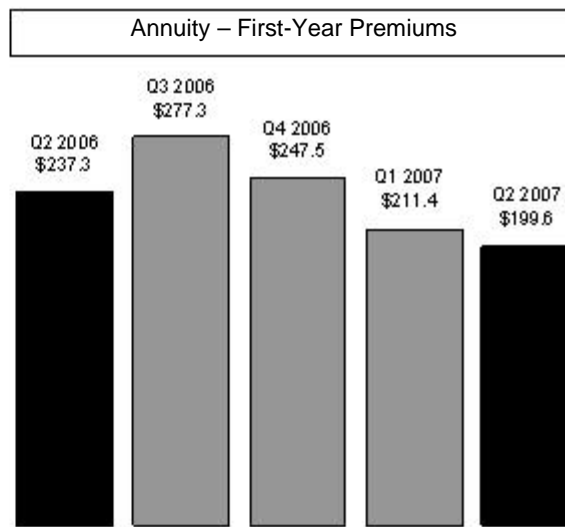
First-Year Prems.-Tr. 4 Qtrs:	\$88.4	\$90.4	\$90.3	\$91.0	\$93.0
Total Premiums-Quarterly:	\$46.6	\$47.8	\$46.6	\$48.1	\$52.1
NAP-Quarterly:	\$11.1	\$12.9	\$11.4	\$12.7	\$14.5
NAP-Trailing 4 Quarters:	\$42.8	\$44.7	\$46.3	\$48.1	\$51.5

# Premiums – Annuity

# Bankers

(\$ millions)

- Decline in annuity sales relates to changes in interest rate environment increasing the attractiveness of other products vs annuities



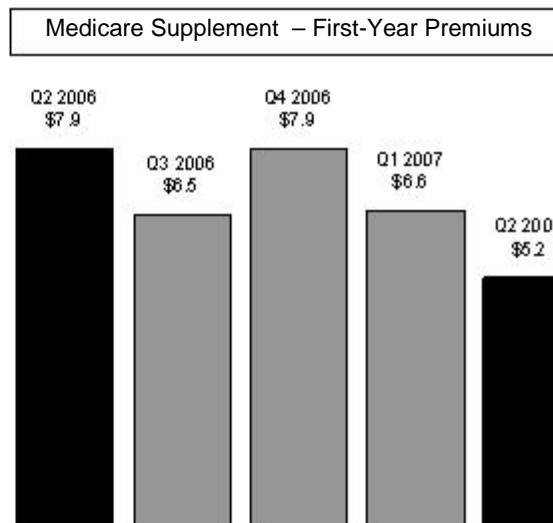
First-Year Prens.-Tr. 4 Qtrs:	\$960.1	\$1,010.7	\$994.6	\$973.5	\$935.8
Total Premiums-Quarterly:	\$238.3	\$278.2	\$247.6	\$212.2	\$200.5

# Premiums - Medicare Supplement



(\$ millions)

- Decline in sales was expected
- Rollout of new product in the Amerilife system in September 2007
- Signed LOI with national company to distribute new PFFS/Med Advantage beginning in the fall of 2007



First-Year Prems.-Tr. 4 Qtrs:	\$25.6	\$28.0	\$30.6	\$28.9	\$26.2
Total Premiums-Quarterly:	\$61.9	\$54.6	\$61.8	\$59.8	\$56.1
NAP-Quarterly:	\$9.0	\$6.2	\$6.4	\$4.9	\$2.9
NAP-Trailing 4 Quarters:	\$34.3	\$33.9	\$32.1	\$26.5	\$20.4

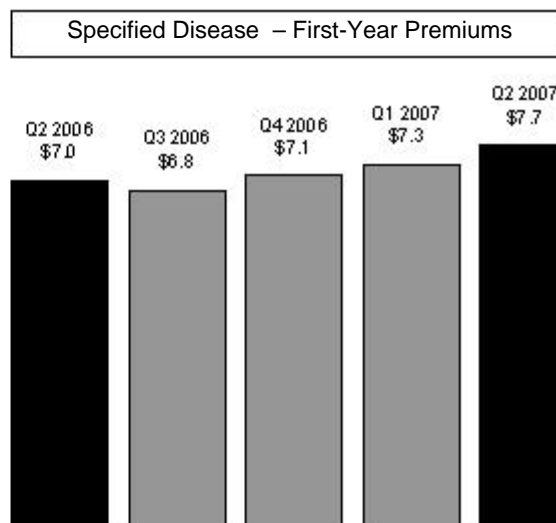


# Premiums – Specified Disease

**CIG**

(\$ millions)

- **31% increase in NAP vs Q2 2006**
- **Sales continue to gain momentum from refocus of PMA**
- **Increased non-PMA recruiting of new IMO's and agents**
- **Expanded product line**



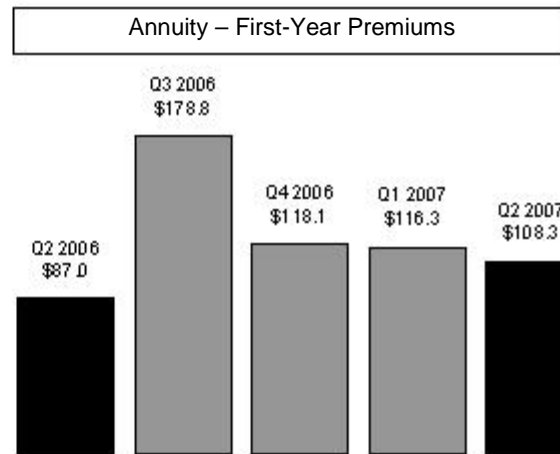
First-Year Prems.-Tr. 4 Qtrs:	\$28.8	\$28.4	\$28.1	\$28.2	\$28.9
Total Premiums-Quarterly:	\$88.8	\$88.1	\$89.4	\$92.1	\$89.1
NAP-Quarterly:	\$7.3	\$7.7	\$8.6	\$7.8	\$9.6
NAP-Trailing 4 Quarters:	\$27.9	\$28.5	\$29.8	\$31.4	\$33.7

# Premiums – Annuity



(\$ millions)

- **24% increase in first-year premiums vs Q2 2006**
- **Significant contributions from Legacy and ADS, our national partners**
- **TSA business is significantly ahead of last year**



First-Year Prems.-Tr. 4 Qtrs:	\$218.6	\$358.1	\$415.5	\$500.2	\$521.5
Total Premiums-Quarterly:	\$92.4	\$182.8	\$121.9	\$120.1	\$113.0

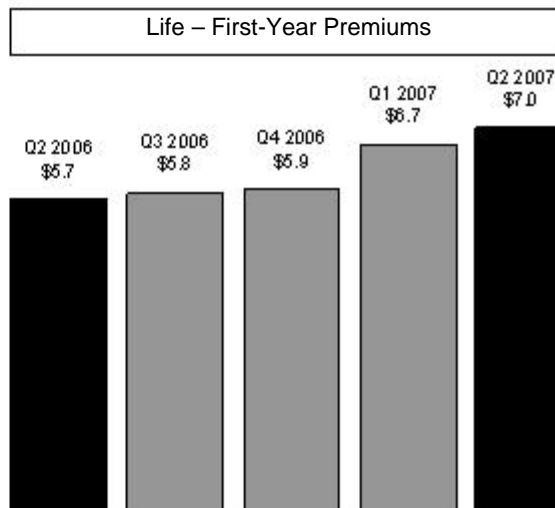
# Premiums – Life Insurance

# Colonial Penn

(\$ millions)

■ **Growth driven by:**

- Increased advertising
- Increased lead generation
- Growth in direct mail programs

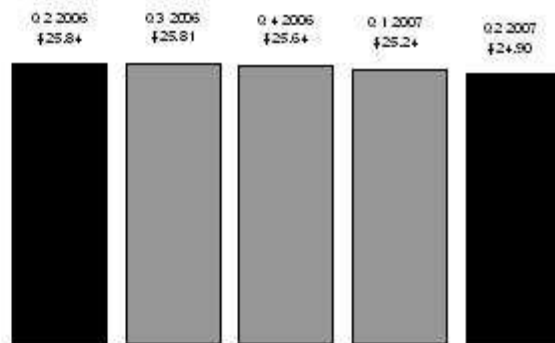


First-Year Prems.-Tr. 4 Qtrs:	\$21.2	\$22.0	\$22.9	\$24.1	\$25.4
Total Premiums-Quarterly:	\$21.6	\$25.4	\$26.8	\$26.7	\$26.0
NAP-Quarterly:	\$9.1	\$8.3	\$7.5	\$10.4	\$11.2
NAP-Trailing 4 Quarters:	\$32.2	\$33.0	\$33.3	\$35.3	\$37.4

# Book Value Per Diluted Share \*

CNO

- Reduction in Q2 2007 reflects the loss for the quarter

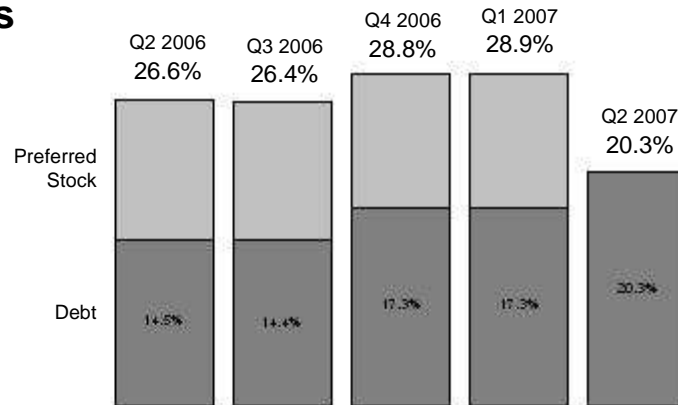


\*Book value excludes accumulated other comprehensive income (loss). Shares outstanding assumes: (1) conversion of convertible securities; and (2) the exercise of outstanding stock options and vesting of restricted stock (each calculated using the treasury stock method). See Appendix for corresponding GAAP measure.

# Debt and Preferred Stock to Total Capital Ratio\*

CNO

- **Decrease in Q2 2007 reflects the conversion of preferred stock into common shares, partially offset by the additional \$200 million borrowed in June 2007**

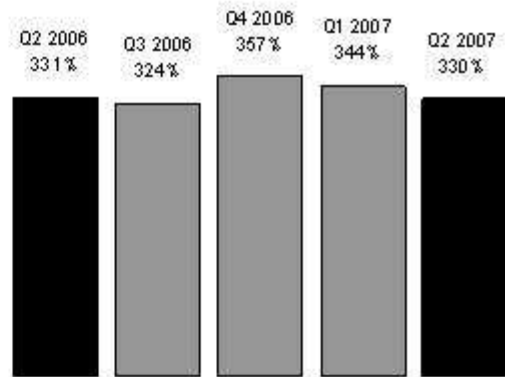


\*Excludes accumulated other comprehensive income (loss). See Appendix for corresponding GAAP measure.

# Consolidated RBC Ratio\*

CNO

- Continued strong capital levels at insurance companies



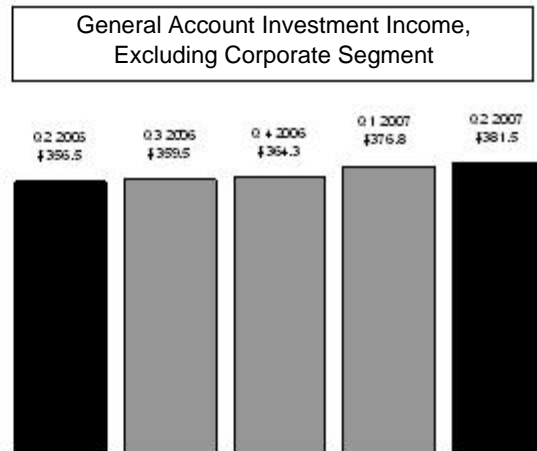
\*Risk-Based Capital ("RBC") requirements provide a tool for insurance regulators to determine the levels of statutory capital and surplus an insurer must maintain in relation to its insurance and investment risks. The RBC ratio is the ratio of the statutory consolidated adjusted capital of our insurance subsidiaries to RBC.

# Net Investment Income

CNO

(\$ millions)

- Yield remained constant from Q1 2007, despite reduction in prepayment income
- Yield up 12 bps from Q2 2006



Net investment income from the prepayment of securities:	\$5.3	\$0.5	\$1.0	\$5.0	\$1.1
Yield:	5.71%	5.72%	5.72%	5.83%	5.83%

## Information Related to Certain Non-GAAP Financial Measures

The following provides additional information regarding certain non-GAAP measures used in this presentation. A non-GAAP measure is a numerical measure of a company's performance, financial position, or cash flows that excludes or includes amounts that are normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. While management believes these measures are useful to enhance understanding and comparability of our financial results, these non-GAAP measures should not be considered as substitutes for the most directly comparable GAAP measures. Additional information concerning non-GAAP measures is included in our periodic filings with the Securities and Exchange Commission that are available in the "Investor – SEC Filings" section of Consecro's website, [www.consecro.com](http://www.consecro.com).

### Operating earnings measures

Management believes that an analysis of net income applicable to common stock before net realized gains or losses ("net operating income", a non-GAAP financial measure) is important to evaluate the performance of the Company and is a key measure commonly used in the life insurance industry. Management uses this measure to evaluate performance because realized investment gains or losses can be affected by events that are unrelated to the Company's underlying fundamentals.

In addition, our results were affected by an unusual and significant charge related to a proposed litigation settlement in Q2 2006 and refinements to such estimates recognized in subsequent periods. Management does not believe that a similar charge is likely to recur within two years, and there were no similar charges recognized within the prior two years. Management believes an analysis of operating earnings before this charge is important to evaluate the performance of the Company prior to the effect of this unusual and significant charge.



## Information Related to Certain Non-GAAP Financial Measures

A reconciliation of net income applicable to common stock to the net operating income, excluding Q2 2006 charge related to proposed litigation settlement and refinements to such estimates recognized in subsequent periods (and related per share amounts) is as follows (dollars in millions, except per share amounts):

	<u>Q2 06</u>	<u>Q3 06</u>	<u>Q4 06</u>	<u>Q1 07</u>	<u>Q2 07</u>
<b>Net income (loss) applicable to common stock</b>	\$ (31.8)	\$ 38.9	\$ (3.7)	\$ 0.9	\$ (64.5)
Net realized investment losses, net of related amortization and taxes	0.1	13.9	9.4	13.7	10.1
<b>Net operating income (loss) (a non-GAAP financial measure)</b>	(31.7)	52.8	5.7	14.6	(54.4)
2Q2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods, net of taxes	102.1	-	-	8.5	22.8
<b>Net operating income before Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods (a non-GAAP financial measure)</b>	<u>\$ 70.4</u>	<u>\$ 52.8</u>	<u>\$ 5.7</u>	<u>\$ 23.1</u>	<u>\$ (31.6)</u>
<b>Per diluted share:</b>					
<b>Net income (loss)</b>	\$ (0.21)	\$ 0.26	\$ (0.02)	\$ 0.01	\$ (0.38)
Net realized investment losses, net of related amortization and taxes	-	0.09	0.06	0.09	0.06
<b>Net operating income (loss) (a non-GAAP financial measure)</b>	(0.21)	0.35	0.04	0.10	(0.32)
Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods, net of taxes	0.67	-	-	0.05	0.13
<b>Net operating income before Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods (a non-GAAP financial measure)</b>	<u>\$ 0.46</u>	<u>\$ 0.35</u>	<u>\$ 0.04</u>	<u>\$ 0.15</u>	<u>\$ (0.19)</u>

## Information Related to Certain Non-GAAP Financial Measures

### Book value, excluding accumulated other comprehensive income, per diluted share

This non-GAAP financial measure differs from book value per diluted share because accumulated other comprehensive income has been excluded from the book value used to determine the measure. Management believes this non-GAAP financial measure is useful because it removes the volatility that arises from changes in accumulated other comprehensive income. Such volatility is often caused by changes in the estimated fair value of our investment portfolio resulting from changes in general market interest rates rather than the business decisions made by management.

## Information Related to Certain Non-GAAP Financial Measures

A reconciliation from book value per diluted share to book value per diluted share, excluding accumulated other comprehensive income (loss) is as follows (dollars in millions, except per share amounts):

	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
<b>Total shareholders' equity</b>	\$ 4,296.6	\$ 4,712.7	\$ 4,713.1	\$ 4,724.0	\$ 4,375.3
Less accumulated other comprehensive income (loss)	(445.6)	(71.8)	(72.6)	(41.8)	(329.9)
<b>Total shareholders' equity excluding accumulated other comprehensive income (loss) (a non-GAAP financial measure)</b>	<u>\$ 4,742.2</u>	<u>\$ 4,784.5</u>	<u>\$ 4,785.7</u>	<u>\$ 4,765.8</u>	<u>\$ 4,705.2</u>
Diluted shares outstanding for the period	183,554,073	185,354,251	186,665,776	188,784,663	188,962,041
<b>Book value per diluted share</b>	\$ 23.41	\$ 25.43	\$ 25.25	\$ 25.02	\$ 23.15
Less accumulated other comprehensive income (loss)	(2.43)	(0.38)	(0.39)	(0.22)	(1.75)
<b>Book value, excluding accumulated other comprehensive income (loss), per diluted share (a non-GAAP financial measure)</b>	<u>\$ 25.84</u>	<u>\$ 25.81</u>	<u>\$ 25.64</u>	<u>\$ 25.24</u>	<u>\$ 24.90</u>

## Information Related to Certain Non-GAAP Financial Measures

### Operating return measures

Management believes that an analysis of return before net realized gains or losses ("net operating income", a non-GAAP financial measure) is important to evaluate the performance of the Company and is a key measure commonly used in the life insurance industry. Management uses this measure to evaluate performance because realized investment gains or losses can be affected by events that are unrelated to the Company's underlying fundamentals.

In addition, our returns were affected by an unusual and significant charge related to a proposed litigation settlement in Q2 2006 and refinements to such estimates recognized in subsequent periods. Management does not believe that a similar charge is likely to recur within two years, and there were no similar charges recognized within the prior two years. Management believes an analysis of return before this charge and subsequent refinements is important to evaluate the performance of the Company prior to the effect of this unusual and significant charge.

This non-GAAP financial measure also differs from return on equity because accumulated other comprehensive income (loss) has been excluded from the value of equity used to determine this ratio. Management believes this non-GAAP financial measure is useful because it removes the volatility that arises from changes in accumulated other comprehensive income (loss). Such volatility is often caused by changes in the estimated fair value of our investment portfolio resulting from changes in general market interest rates rather than the business decisions made by management.

In addition, our equity includes the value of significant net operating loss carryforwards (included in income tax assets). In accordance with GAAP, these assets are not discounted, and accordingly will not provide a return to shareholders (until after it is realized as a reduction to taxes that would otherwise be paid). Management believes that excluding this value from the equity component of this measure enhances the understanding of the effect these non-discounted assets have on operating returns and the comparability of these measures from period-to-period. Equity in all periods assumes the conversion of our 5.5% Class B Mandatorily Convertible Preferred Stock (which occurred in May 2007). In addition, the Company plans to change the way compensation for its executives is determined in the future. Operating return measures will be the primary manner of measuring the performance of our business units and will be used as a basis for incentive compensation.

All references to segment operating return measures assume a 25% debt to total capital ratio at the segment level. Additionally, corporate expenses have been allocated to the segments.

## Information Related to Certain Non-GAAP Financial Measures

A reconciliation of return on common equity to operating return (less Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods) on common equity (excluding accumulated other comprehensive income (loss) and net operating loss carryforwards) is as follows (dollars in millions, except per share amounts):

	<u>Q2 06</u>	<u>Q3 06</u>	<u>Q4 06</u>	<u>Q1 07</u>	<u>Q2 07</u>
<b>Net income (loss) applicable to common stock</b>	\$ (31.8)	\$ 38.9	\$ (3.7)	\$ 0.9	\$ (64.5)
Net realized investment (gains) losses, net of related amortization and taxes	0.1	13.9	9.4	13.7	10.1
<b>Net operating income (loss) (a non-GAAP financial measure)</b>	(31.7)	52.8	5.7	14.6	(54.4)
Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods, net of taxes	102.1	-	-	8.5	22.8
Add preferred stock dividends, assuming conversion	9.5	9.5	9.5	9.5	4.6
<b>Net operating income before Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods (a non-GAAP financial measure)</b>	\$ 79.9	\$ 62.3	\$ 15.2	\$ 32.6	\$ (27.0)
Total shareholders' equity	\$ 4,296.6	\$ 4,712.7	\$ 4,713.1	\$ 4,724.0	\$ 4,375.3
Less preferred stock	667.8	667.8	667.8	667.8	-
Common shareholders' equity	3,628.8	4,044.9	4,045.3	4,056.2	4,375.3
Add preferred stock, assuming conversion	667.8	667.8	667.8	667.8	-
Less accumulated other comprehensive income (loss)	(445.6)	(71.8)	(72.6)	(41.8)	(329.9)
Common shareholder's equity, excluding accumulated other comprehensive income (loss) (a non-GAAP financial measure)	4,742.2	4,784.5	4,785.7	4,765.8	4,705.2
Add Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods	102.1	102.1	102.1	110.6	133.4
Less net operating loss carryforwards	1,346.6	1,346.7	1,340.0	1,334.1	1,349.8
Common shareholders' equity, excluding accumulated other comprehensive income (loss) and refinements to such estimates recognized in subsequent periods and net operating loss carryforwards (a non-GAAP financial measure)	\$ 3,497.7	\$ 3,539.9	\$ 3,547.8	\$ 3,542.3	\$ 3,488.8

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## Information Related to Certain Non-GAAP Financial Measures

(continued from previous page)

	<u>Q2 06</u>	<u>Q3 06</u>	<u>Q4 06</u>	<u>Q1 07</u>	<u>Q2 07</u>
Average common shareholders' equity	3,622.2	3,836.9	4,045.1	4,050.8	4,215.8
Average common shareholder's equity, excluding accumulated other comprehensive income (loss) (a non-GAAP financial measure)	4,624.9	4,763.4	4,785.1	4,775.8	4,735.5
Average common shareholders' equity, excluding accumulated other comprehensive income (loss), the Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods, and net operating loss carryforwards (a non-GAAP financial measure)	3,446.6	3,518.8	3,513.9	3,545.1	3,515.6
<b>Return on equity ratios:</b>					
<b>Return on common equity</b>	-3.5%	4.1%	-0.4%	0.1%	-6.1%
<b>Operating return (less Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods) on common equity, excluding accumulated other comprehensive income (loss) (a non-GAAP financial measure)</b>	6.9%	5.2%	1.3%	2.7%	-2.3%
<b>Operating return (less Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods) on common equity, excluding accumulated other comprehensive income (loss) and net operating loss carryforwards (a non-GAAP financial measure)</b>	9.3%	7.1%	1.7%	3.7%	-3.1%

## Information Related to Certain Non-GAAP Financial Measures

A reconciliation of pretax operating earnings (a non-GAAP financial measure) to segment operating income (loss) and consolidated net income (loss) for the six months ended June 30, 2007, is as follows (dollars in millions):

	CIG	Bankers	Colonial Penn	Other Business in Run-off	Corporate	Total
Pretax operating earnings (a non-GAAP financial measure)	\$ 101.8	\$ 108.3	\$ 11.3	\$ (164.1)	\$ (49.2)	\$ 8.1
Allocation of interest expense, excess capital and corporate expenses	(26.3)	(21.7)	(1.8)	(4.9)	54.7	-
Income tax (expense) benefit	(24.3)	(27.9)	(3.1)	54.6	(1.8)	(2.5)
Segment operating income (loss)	<u>\$ 51.2</u>	<u>\$ 58.7</u>	<u>\$ 6.4</u>	<u>\$ (114.4)</u>	<u>\$ 3.7</u>	<u>5.6</u>
Refinements made to Q2 2006 charge related to the proposed litigation settlement, net of taxes						(31.3)
Net realized investment losses, net of related amortization and taxes						<u>(23.8)</u>
Net income						<u>\$ (49.5)</u>

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## Information Related to Certain Non-GAAP Financial Measures

A reconciliation of common shareholders' equity, excluding accumulated other comprehensive income (loss), the Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods, and less income tax assets and assuming conversion of the convertible preferred stock (a non-GAAP financial measure) to common shareholders' equity is as follows (dollars in millions):

	CIG	Bankers	Colonial Penn	Other Business in Run-off	Corporate	Total
<b>December 31, 2006</b> (Continued from previous page)						
Common shareholders' equity, excluding accumulated other comprehensive income (loss), the Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods, and less income tax assets representing net operating loss carryforwards and assuming conversion of convertible preferred stock (a non-GAAP financial measure)	\$ 1,648.6	\$ 1,274.3	\$ 103.6	\$ 290.3	\$ 231.0	\$ 3,547.8
Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods	(102.1)	-	-	-	-	(102.1)
Net operating loss carryforwards	1,340.0	-	-	-	-	1,340.0
Accumulated other comprehensive income (loss)	(25.6)	(41.6)	(1.2)	(7.3)	3.1	(72.6)
Allocation of capital	515.5	424.8	34.6	96.8	(1,071.7)	-
Total shareholders' equity	<u>\$ 3,376.4</u>	<u>\$ 1,657.5</u>	<u>\$ 137.0</u>	<u>\$ 379.8</u>	<u>\$ (837.6)</u>	<u>4,713.1</u>
Less preferred stock						667.8
Common shareholders' equity						<u>\$ 4,045.3</u>
<b>June 30, 2007</b>						
Common shareholders' equity, excluding accumulated other comprehensive income (loss), the Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods, and less income tax assets representing net operating loss carryforwards and assuming conversion of convertible preferred stock (a non-GAAP financial measure)	\$ 1,653.2	\$ 1,326.7	\$ 109.4	\$ 206.9	\$ 192.6	\$ 3,488.8
Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods	(117.7)	-	-	-	(15.7)	(133.4)
Net operating loss carryforwards	1,349.8	-	-	-	-	1,349.8
Accumulated other comprehensive income (loss)	(137.8)	(133.2)	(5.5)	(58.1)	4.7	(329.9)
Allocation of capital	551.0	442.2	36.5	68.9	(1,098.6)	-
Total shareholders' equity	<u>\$ 3,298.5</u>	<u>\$ 1,635.7</u>	<u>\$ 140.4</u>	<u>\$ 217.7</u>	<u>\$ (917.0)</u>	<u>4,375.3</u>
Less preferred stock						-
Common shareholders' equity						<u>\$ 4,375.3</u>

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## Information Related to Certain Non-GAAP Financial Measures

A reconciliation of average common shareholders' equity, excluding accumulated other comprehensive income (loss), the Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods, and less income tax assets representing net operating loss carryforwards and assuming conversion of the convertible preferred stock (a non-GAAP financial measure) to average common shareholders' equity at June 30, 2007, is as follows (dollars in millions):

(Continued from previous page)

	<u>CIG</u>	<u>Bankers</u>	<u>Colonial Penn</u>	<u>Other Business in Run-off</u>	<u>Corporate</u>	<u>Total</u>
Average common shareholders' equity, excluding accumulated other comprehensive income (loss), the Q2 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods, and less income tax assets representing net operating loss carryforwards and assuming conversion of convertible preferred stock (a non-GAAP financial measure)	\$ 1,642.9	\$ 1,295.7	\$ 106.1	\$ 262.0	\$ 223.6	\$ 3,530.3
Average proposed litigation settlement charges and refinements to such estimates recognized in subsequent periods						(114.2)
Average net operating loss carryforwards						1,339.5
Average accumulated other comprehensive income (loss)						(121.5)
Average total shareholders' equity						4,634.1
Average preferred stock						500.9
Average common shareholders' equity						<u>\$ 4,133.2</u>
Return on equity ratios:						
Return on equity						-2.4%
Operating return on equity, excluding accumulated other comprehensive income (loss), the 2Q 2006 charge related to the proposed litigation settlement and refinements to such estimates recognized in subsequent periods, and less income tax assets representing net operating loss carryforwards and assuming conversion of convertible preferred stock (a non-GAAP financial measure)	6.2%	9.1%	12.1%	-87.3%	3.3%	0.3%

## Information Related to Certain Non-GAAP Financial Measures

### Debt to capital ratio, excluding accumulated other comprehensive income (loss)

This non-GAAP financial measure differs from the debt to capital ratio because accumulated other comprehensive income has been excluded from the value of capital used to determine this measure. Management believes this non-GAAP financial measure is useful because it removes the volatility that arises from changes in accumulated other comprehensive income. Such volatility is often caused by changes in the estimated fair value of our investment portfolio resulting from changes in general market interest rates rather than the business decisions made by management.

## Information Related to Certain Non-GAAP Financial Measures

Reconciliations of the: (i) debt to capital ratio to debt to capital, excluding accumulated other comprehensive loss; and (ii) debt and preferred stock to capital ratio to debt and preferred stock to capital, excluding accumulated other comprehensive loss, are as follows (dollars in millions):

	<u>Q2 06</u>	<u>Q3 06</u>	<u>Q4 06</u>	<u>Q1 07</u>	<u>Q2 07</u>
Corporate notes payable	\$ 805.5	\$ 805.6	\$ 1,000.8	\$ 999.3	\$ 1,197.8
Total shareholders' equity	<u>4,296.6</u>	<u>4,712.7</u>	<u>4,713.1</u>	<u>4,724.0</u>	<u>4,375.3</u>
Total capital	5,102.1	5,518.3	5,713.9	5,723.3	5,573.1
Less accumulated other comprehensive loss	<u>445.6</u>	<u>71.8</u>	<u>72.6</u>	<u>41.8</u>	<u>329.9</u>
Total capital, excluding accumulated other comprehensive loss (a non-GAAP financial measure)	<u>\$ 5,547.7</u>	<u>\$ 5,590.1</u>	<u>\$ 5,786.5</u>	<u>\$ 5,765.1</u>	<u>\$ 5,903.0</u>
Corporate notes payable	\$ 805.5	\$ 805.6	\$ 1,000.8	\$ 999.3	\$ 1,197.8
Preferred stock	<u>667.8</u>	<u>667.8</u>	<u>667.8</u>	<u>667.8</u>	<u>-</u>
Total notes payable and preferred stock	<u>\$ 1,473.3</u>	<u>\$ 1,473.4</u>	<u>\$ 1,668.6</u>	<u>\$ 1,667.1</u>	<u>\$ 1,197.8</u>
<b>Corporate notes payable to capital ratios:</b>					
<b>Corporate debt to total capital</b>	15.8%	14.6%	17.5%	17.5%	21.5%
<b>Corporate debt to total capital, excluding accumulated other comprehensive loss (a non-GAAP financial measure)</b>	14.5%	14.4%	17.3%	17.3%	20.3%
<b>Corporate debt and preferred stock to total capital</b>	28.9%	26.7%	29.2%	29.1%	21.5%
<b>Corporate debt and preferred stock to total capital, excluding accumulated other comprehensive loss (a non-GAAP financial measure)</b>	26.6%	26.4%	28.8%	28.9%	20.3%