CONSECO INC
Form 424B4
May 10, 2004

Table of Contents

As Filed Pursuant to Rule 424(b)(4)
Registration No. 333-112312

44,000,000 Shares

Conseco, Inc.

Common Stock

We are offering 44,000,000 shares of our common stock. Concurrently with this offering, we are offering 24,000,000 shares of our 5.50% class B mandatorily convertible preferred stock. The closing of this offering is not conditioned upon the closing of the class B preferred stock offering.

Our common stock is listed on the New York Stock Exchange under the symbol CNO. The last reported sale price of our common stock on May 6, 2004 was $18.28 per share.

Investing in our securities involves risks. See Risk Factors beginning on page 17 to read about factors you should consider before buying our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial price to public	$18.2500	$803,000,000
Underwriting discount	$ 0.7756	$ 34,127,500
Proceeds, before expenses, to Conseco	$17.4744	$768,872,500

To the extent that the underwriters sell more than 44,000,000 shares of common stock, the underwriters have the option to purchase up to an additional 6,600,000 shares from us at the initial price to public less the underwriting discount.

The underwriters expect to deliver the shares of common stock to purchasers on May 12, 2004.

Goldman, Sachs & Co. **Morgan Stanley**

Banc of America Securities LLC

Credit Suisse First Boston
Deutsche Bank Securities
JPMorgan
Lazard
Advest, Inc.
Keefe, Bruyette & Woods

Prospectus dated May 6, 2004.

TABLE OF CONTENTS

PROSPECTUS SUMMARY
Operating Results
Collected Premiums
Supplemental Health Product Loss Ratios
Statutory-Basis Measure
Selected Consolidated Financial Data
RISK FACTORS
OUR RECENT EMERGENCE FROM BANKRUPTCY
USE OF PROCEEDS
PRICE RANGE OF OUR COMMON STOCK
DIVIDEND POLICY
CAPITALIZATION
SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA
MANAGEMENT S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS
BUSINESS
MANAGEMENT
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS
PRINCIPAL STOCKHOLDERS
DESCRIPTION OF CAPITAL STOCK
SHARES ELIGIBLE FOR FUTURE SALE
UNDERWRITING
LEGAL MATTERS
EXPERTS
WHERE YOU CAN FIND MORE INFORMATION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

	Page
PROSPECTUS SUMMARY	1
RISK FACTORS	17
OUR RECENT EMERGENCE FROM BANKRUPTCY	35
USE OF PROCEEDS	37
PRICE RANGE OF OUR COMMON STOCK	37
DIVIDEND POLICY	38
CAPITALIZATION	39
SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA	40
MANAGEMENT S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS	42
BUSINESS	96
MANAGEMENT	122
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	132
PRINCIPAL STOCKHOLDERS	133
DESCRIPTION OF CAPITAL STOCK	134
SHARES ELIGIBLE FOR FUTURE SALE	142
UNDERWRITING	145
LEGAL MATTERS	148
EXPERTS	148
WHERE YOU CAN FIND MORE INFORMATION	148
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	F-1

Table of Contents

PROSPECTUS SUMMARY

Our Business

We are a holding company for a group of insurance companies operating throughout the United States that develop, market and administer supplemental health insurance, annuity, individual life insurance and other insurance products. We focus on serving the senior and middle-income markets, which we believe are attractive, high growth markets. We sell our products through three distribution channels: career agents, professional independent producers and direct marketing. As of December 31, 2003, we had $2.8 billion of shareholders equity and $29.9 billion of assets. For the four months ended December 31, 2003, we had $1,505.5 million of revenues and $96.3 million of net income.

We conduct our business operations through two primary operating segments, based primarily on method of product distribution, and a third segment comprised of businesses in run-off. Prior to September 30, 2003, we conducted our insurance operations through one segment. In the fourth quarter of 2003, we implemented changes contemplated in our restructuring plan to conduct our business through the following segments:

Bankers Life, which consists of the businesses of Bankers Life & Casualty Company and Colonial Penn Life Insurance Company. Bankers Life & Casualty markets and distributes Medicare supplement insurance, life insurance, long-term care insurance and fixed annuities to the senior market through approximately 4,000 exclusive career agents and sales managers. Colonial Penn markets life insurance directly to consumers through television advertising, direct mail, the internet and telemarketing. Both Bankers Life & Casualty and Colonial Penn market their products under their own brand names.

Conseco Insurance Group, which markets and distributes specified disease insurance, Medicare supplement insurance and certain life and annuity products to the senior and middle-income markets through over 500 independent marketing organizations that represent over 9,100 producing independent agents. This segment markets its products under the Conseco brand.

Other business in run-off, which includes blocks of business that we no longer market or underwrite and are managed separately from our other businesses. This segment consists of long-term care insurance sold through independent agents and major medical insurance.

We also have a corporate segment, which consists of holding company activities and certain non-insurance company businesses that are not related to our operating segments.

The following table sets forth information on our segments for the four months ended December 31, 2003 (dollars in millions):

	Collected Premiums		Income Before
	$	Percentage	Income Taxes
Bankers Life	$ 720.3	54.8%	$ 85.5
Conseco Insurance Group	421.6	32.0	94.3
Other Business In Run-off	173.9	13.2	12.8
Corporate			(43.1)
Total	$1,315.8	100.0%	$149.5

Our Restructuring

We are in the process of significantly restructuring our business through a process which included the bankruptcy of our predecessor company and our subsequent emergence from bankruptcy on September 10, 2003. None of our insurance company subsidiaries were a part of the bankruptcy petitions, although the bankruptcy did cause disruptions to our insurance operations.

Table of Contents

We have achieved several critical financial goals as part of our restructuring, including:

- reducing our debt and other obligations by $5.7 billion,
- disposing of the assets of our predecessor s finance business,
- selling non-core operating subsidiaries such as Conseco Variable Insurance Company,
- improving the risk profile of our investment portfolio, and
- improving the financial strength of our insurance companies as measured by risk-based capital.

We have also recruited and integrated new members into our management team, and we have a new board of directors. Since our emergence from bankruptcy, management has continued to take steps in an effort to improve our profitability and further streamline our business. For example, in September 2003, we sold our stake in the General Motors building in New York City, which increased the statutory capital and surplus of our insurance subsidiaries by over $350 million.

We have also undertaken several strategic initiatives to streamline our business lines, focusing on those businesses we believe are most profitable. These initiatives include emphasizing the sales of Medicare supplement and specified disease products and de-emphasizing sales of certain annuity and life products, ceasing sales of long-term care products in Conseco Insurance Group and attempting to re-price certain lines of business through significant rate increases.

The next stage of our restructuring, which includes the offering of our common stock and the offering of the class B preferred stock, is a recapitalization of our current balance sheet. The completion of the offering of our class B preferred stock is conditioned upon the completion of the offering of our common stock. The completion of the offering of our common stock is not conditioned upon the completion of the offering of our class B preferred stock. Our current capitalization is presented below:

	As of December 31, 2003
	(In millions)
Notes payable	$1,300.0
Equity:	
Preferred stock, par value $0.01 per share, 265,000,000 authorized; 34,386,740 shares of class A senior cumulative convertible exchangeable preferred stock issued and outstanding	887.5
Common stock, par value $0.01 per share, 8,000,000,000 authorized; 100,115,772 issued and outstanding	1.0
Additional paid-in-capital	1,641.9
Accumulated other comprehensive income	218.7
Retained earnings	68.5
Total equity	2,817.6
Total capitalization	$4,117.6

Our recapitalization has two components:

Redemption of our existing preferred stock. We plan to use a portion of the proceeds of the offerings to redeem all of our outstanding class A senior cumulative convertible exchangeable preferred stock.

Reduction and replacement or renegotiation of our existing bank credit facility. We intend to reduce our overall senior indebtedness, reduce our borrowing costs and improve the terms and conditions of our existing bank credit facility. We believe that we can achieve these goals by using a portion of the proceeds of the offerings of our common stock and our class B preferred stock to

Table of Contents

retire a portion of our existing debt and/or by renegotiating the terms of our existing bank credit facility.

By redeeming all the class A preferred stock and reducing our overall indebtedness, our goals are to improve the financial flexibility of our top-tier holding company and improve the financial strength ratings of our insurance companies. The completion of the common stock offering is not conditioned upon completion of the class B preferred stock offering, and if we complete the common stock offering but not the class B preferred stock offering, we will have fewer proceeds to apply in this regard.

Competitive Strengths

We believe our competitive strengths have enabled and will continue to enable us to capitalize on the opportunities in our target markets. These strengths include:

our position as a leading national provider of life and health insurance products to the senior market,

our broad-based distribution networks,

our strong, nationally recognized brand names, and

our experienced management with a proven track record.

Leading National Provider of Life and Health Insurance Products to the Senior Market. The Bankers Life segment is one of the leading national providers of life and health insurance products focused primarily on the senior market. The career agents and direct distribution channels within Bankers Life provide a number of products that are important to the financial well-being of seniors: supplemental health coverage, including Medicare supplement and long-term care insurance, as well as selected life and annuity products. According to the most recently published study on the Medicare supplement market by the Life Insurance Marketing Research Association, we were ranked third in sales of agent-distributed Medicare supplement insurance based on collected premiums in 2003. Our approximately 4,000 career agents are trained to cater to the needs of the senior market. Current demographic trends indicate that the senior market will continue to grow, and we believe our focus on seniors will provide us with a significant opportunity to increase our share of this market.

Broad-Based Distribution Networks. Our broad-based distribution networks provide us with a number of ways to reach our target markets. Our career agents and direct distribution channels focus on the senior market. We also have independent agents who focus on senior market products such as Medicare supplement insurance. Our independent agents also sell certain of our products that are specifically designed for the under-age-65 middle-income market. These products include our specified disease insurance coverage, such as cancer and heart/stroke products, as well as equity-indexed life insurance and equity-indexed annuities. Despite the bankruptcy, we have retained the majority of our career agents, including 80 percent of our top 1,000 career agents. Our top 1,000 career agents collectively accounted for over 50 percent of Bankers Life & Casualty s sales during 2003. In 2003, 52 percent of our sales were through career agents, 45 percent were through independent distributors and 3 percent were through direct marketing by Colonial Penn.

Strong, Nationally Recognized Brand Names. We believe our brands are widely recognized by our customers and distributors. We believe we have successfully developed product-focused consumer recognition in our chosen markets through three distinct brands Conseco, Bankers Life & Casualty and Colonial Penn. We believe our multiple-brand strategy has helped us maintain sales of certain key products, such as Medicare supplement, and retain business through our reorganization. We continue to raise the profile of our brands through our Step Up campaign and several national and local community sponsorship arrangements, including the Indy Racing League and the Conseco Fieldhouse in Indianapolis, home to the Indiana Pacers NBA basketball team. In addition, we continue to raise the profile of our Bankers Life brand through our continued relationship with the Alzheimer s Association and International Longevity Center as well as a renewed relationship with Paul Harvey, who for many years was the spokesperson for Bankers Life & Casualty. We believe that our brands give us a key competitive advantage, allowing us to continue to build and maintain strong relationships with our customers and distributors.

Table of Contents

Experienced Management With a Proven Track Record. Our strong, experienced senior management team has led us through our restructuring to date. Our management is led by our President and Chief Executive Officer, William J. Shea, who has over 25 years of financial services experience and joined Conseco in 2001. Mr. Shea has served as Vice Chairman and Chief Financial Officer of BankBoston Corporation and as Partner and Vice Chairman of PricewaterhouseCoopers LLP, formerly Coopers & Lybrand LLP. In addition to our experienced senior management team, our Non-Executive Chairman, R. Glenn Hilliard, has over 35 years of insurance experience, having served most recently as Chairman and CEO of ING Americas. Mr. Hilliard joined our board in September 2003. Our management s knowledge and experience have helped us maintain our business operations through the restructuring and are expected to provide us with opportunities to further enhance our business in the future.

Summary Risk Factors

You should carefully consider the following important risks:

Our recent bankruptcy and legal proceedings in which we are involved may continue to disrupt our operations and hamper our efforts to restore confidence in the Conseco brand, which may negatively impact our financial results and liquidity.

An important competitive factor for our insurance subsidiaries is the financial strength ratings they receive from nationally recognized rating organizations. Most of our competitors have higher financial strength ratings than we do and we believe it is critical for us to improve our ratings to be competitive. If we are not able to improve and maintain the financial strength ratings of our insurance subsidiaries, we may experience lower sales, increased agent attrition and increased policyholder lapses and redemptions.

Despite our recent emergence from bankruptcy, we continue to have a substantial amount of indebtedness. If we fail to meet our repayment obligations or to meet or maintain various covenants and financial ratios under our senior credit facility, our lenders are entitled to accelerate the repayment of these loans. If the loans are accelerated and we do not have sufficient liquidity to repay them, we may be forced to seek bankruptcy protection again. In addition, our senior credit facility may restrict our ability to engage in activities that may be beneficial to our future growth and profitability.

We are an insurance holding company with no business operations of our own. As a result, we depend on our subsidiaries for cash to meet our obligations. The ability of our insurance subsidiaries to distribute cash to us is subject to state insurance regulations. Accordingly, our ability to meet our obligations may be constrained by our subsidiaries ability under state insurance regulations to distribute cash to us.

We set premium rates on our insurance policies based on facts and circumstances at the time we issue the policies and on assumptions about numerous variables. When we set premium rates, we cannot predict with certainty what the actual claims on our policies will be. This is particularly true in the context of setting rates on our long-term care policies, for which we have relatively limited historical claims experience. If our premium rates are not adequate or if we are unable to obtain regulatory approval to increase our premium rates, our results of operations will be negatively affected.

Please see Risk Factors for information on these and other risks related to our business and this offering.

Table of Contents

Strategy

Our objective is to generate attractive returns on equity while growing a stable, well capitalized insurance business focused on serving the middle-income and senior markets. We intend to achieve these objectives by executing the following strategies:

- focus on the senior and middle-income markets,
- continue to improve our financial condition,
- use our distribution network to strengthen market access, and
- continue to improve our operational efficiency.

Focus on the Senior and Middle-Income Markets. We are committed to serving the senior and middle-income markets in the United States. Our customer base includes approximately 3.8 million policyholders. According to the January 2004 issue of Journal of Financial Service Professionals, the population of the United States age 50 or older is projected to increase by approximately 27 percent from 2004 to 2014. We have taken several steps in recent periods to sharpen our focus on both markets by strengthening our distribution, reducing our sales of non-core life and annuity products and introducing new and innovative supplemental health and retirement savings products targeting senior and middle-income customers.

Continue to Improve Our Financial Condition. We seek to continue to improve our financial condition by reducing debt at the holding company, maintaining adequate risk-based capital in our operating subsidiaries and focusing on marketing profitable products. We took a series of actions in 2002 and 2003 to enhance our financial condition. In addition to reducing our debt and other obligations at the holding company by $5.7 billion through the bankruptcy, we improved the risk profile of our investment portfolio and the financial strength of our insurance companies as measured by risk-based capital. Our fixed maturity investment portfolio is primarily comprised of government, investment grade and structured securities. Below-investment grade securities comprised 3.9 percent of our fixed maturity portfolio as of December 31, 2003, down from 6.5 percent as of December 31, 2002. Our insurance companies consolidated company action level risk-based capital ratio improved from 166 percent at December 31, 2002 to 287 percent at December 31, 2003. The risk-based capital ratio is one of the tools insurance regulators use to determine the adequacy of an insurance company s capital. See Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operations Statutory Information for further information. We intend to continue to manage our business with a view to improving our capitalization, financial strength and ratings.

Use Our Distribution Network to Strengthen Market Access. We seek to use our broad distribution channels to meet our customers needs and enhance our market presence. We believe we have created appropriate incentives focused on persistent and profitable production, as well as improved monitoring and tracking of production and persistency levels by distributor. We promote cross-selling of life, supplemental health and retirement savings products in certain markets to capture a greater share of our policyholders coverage needs. In addition, we utilize our independent producers and career agent network as important sources of information regarding the evolving needs of our customer base. As a result, our products are tailored to include the specific features that we believe are most important to our customers. If we are successful in raising our ratings, we expect to be able to add new agents to our career and independent agency distribution channels, which we believe will result in increased sales of our insurance products.

Continue to Improve Our Operational Efficiency. We have undertaken several initiatives to improve our operational efficiency and lower costs. We have simplified our organizational structure by divesting certain businesses and consolidating several legal entities. We are in the process of integrating policy administration and claims management systems from previous acquisitions to lower our operational costs in our Conseco Insurance Group segment. We intend to reduce the number of policy administration and related support systems by 50 percent, from 33 systems in April 2003 to 16 systems by the end of 2004. We have also reduced our headcount over the past two years and have focused on improving the productivity of our employees, career agents and independent distributors. We intend to continue to work to improve our

Table of Contents

operational efficiency by rationalizing expenses and systems in an effort to enhance our service standards and profitability.

We also intend to consider from time to time, as we have in the past, various strategic alternatives to enhance shareholder value, including but not limited to acquisitions, dispositions, business combinations, joint ventures and strategic alliances. We do not currently have any definitive plans to enter into any such transactions.

Recent Developments

We and certain of our subsidiaries emerged from chapter 11 bankruptcy proceedings on September 10, 2003. However, for accounting convenience, the effective date of the plan of reorganization was deemed to have occurred on August 31, 2003. Fresh start accounting has been implemented as of August 31, 2003, and accordingly, we restated all of our assets and liabilities to their current estimated value, reestablished shareholders equity at the reorganization value determined in connection with our Sixth Amended Joint Plan of Reorganization, and recorded the portion of the reorganization value which could not be attributed to specific tangible or identified intangible assets as goodwill. As a result, our financial statements for periods following August 31, 2003 are not comparable with those prepared before that date.

We announced on May 6, 2004 the following financial information for the quarter ended March 31, 2004. All of the following information is subject to revision based upon completion of our first quarter 2004 financial statements and the related review by our independent accountants in connection with the filing of our Form 10-Q for the quarter ended March 31, 2004.

Operating Results

For the quarter ended March 31, 2004, our reported net income (after dividends on convertible exchangeable preferred stock) was $49.9 million, or 50 cents per diluted common share. Results for the first quarter of 2004 included net after-tax gains of $12.9 million from realized investment gains. Our predecessor company previously reported a net loss for the quarter ended March 31, 2003 of $19.0 million. Results by segment were as follows (dollars in millions):

	Successor		Predecessor
	Three Months Ended March 31, 2004	Three Months Ended December 31, 2003	Three Months Ended March 31, 2003
Earnings (loss) before taxes:			
Bankers Life	$ 56.4	$ 60.0	$ 55.9
Conseco Insurance Group	60.5	68.8	16.3
Other business in run-off	14.9	10.7	(32.4)
Corporate	(39.1)	(29.0)	(112.4)
Realized gains, net of related amortization, and venture capital income (losses)	19.7	1.2	25.1
Earnings (loss) before taxes and discontinued operations	112.4	111.7	(47.5)
Tax expense (benefit)	39.6	39.6	(14.6)
Income (loss) before discontinued operations	72.8	72.1	(32.9)
Discontinued operations, net of income taxes			13.9
Net income (loss)	72.8	72.1	(19.0)
Preferred stock dividends	22.9	22.5	
Net income (loss) applicable to common stock	$ 49.9	$ 49.6	$ (19.0)

Earnings in our Bankers Life and Conseco Insurance Group segments were below our original expectations due, in part, to decreases in net investment income. Although the book value of our total investments increased, net investment income decreased by approximately $9.0 million between the fourth quarter of 2003 and the first quarter of 2004 primarily due to prevailing market interest rates and prepayments in our mortgage-backed securities portfolio. Net investment income in the first quarter of 2004 was reduced by approximately $6.2 million of premium amortization associated with prepayments on fixed maturity investments, primarily mortgage-backed securities, which had been marked to market as required by fresh start accounting, at prices above par. Investment purchases during the first quarter of 2004 were at average yields of 5.05 percent. The average portfolio yield on our fixed maturity portfolio was 5.55 percent at December 31, 2003 and 5.53 percent at March 31, 2004.

Pre-tax results in our Conseco Insurance Group segment included adverse life mortality experience of approximately $4.4 million from higher than expected death claims.

Pre-tax results in our corporate segment included severance expense of $4.4 million and a credit agreement charge of $2.0 million.

Table of Contents

Collected Premiums

Collected premiums in each of our operating segments by product line were as follows (dollars in millions):

	Successor		Predecessor
	Three Months Ended March 31, 2004	**Three Months Ended December 31, 2003**	**Three Months Ended March 31, 2003**
Bankers Life segment:			
Annuity products	$177.3	$190.2	$260.0
Supplemental health products	303.2	311.3	278.5
Life products	37.8	46.7	34.1
Total collected premiums	$518.3	$548.2	$572.6
Conseco Insurance Group segment:			
Annuity products	$ 13.4	$ 12.8	$ 37.8
Supplemental health products	190.9	204.6	196.5
Life products	101.8	97.3	105.9
Total collected premiums	$306.1	$314.7	$340.2
Other business in run-off segment:			
Long-term care products	$ 98.6	$102.8	$ 96.9
Major medical products	6.0	22.6	61.6

Table of Contents

Supplemental Health Product Loss Ratios

Loss ratios on major supplemental health lines of business in each of our segments were as follows:

	Successor		Predecessor
	Three Months Ended March 31, 2004	**Three Months Ended December 31, 2003**	**Three Months Ended March 31, 2003**
Bankers Life segment:			
Medicare Supplement:			
Earned premium	$162 million	$159 million	$162 million
Loss ratio	65.56%	61.56%	71.08%
Long-Term Care:			
Earned premium	$131 million	$130 million	$123 million
Loss ratio	89.26%	85.48%	83.31%
Interest-adjusted loss ratio(a)	62.86%	59.27%	66.90%
Conseco Insurance Group segment:			
Medicare Supplement:			
Earned premium	$ 96 million	$ 98 million	$ 96 million
Loss ratio	61.10%	66.02%	67.73%
Specified Disease:			
Earned premium	$ 90 million	$ 91 million	$ 92 million
Loss ratio	70.15%	61.92%	69.37%
Other business in run-off segment:			
Earned premium	$103 million	$109 million	$188 million
Loss ratio	98.06%	99.07%	113.57%
Interest-adjusted loss ratio(a)	59.99%	64.45%	95.02%

(a) Calculated as the product s (1) insurance policy benefits less interest income on the accumulated assets which back the insurance liabilities divided by (2) insurance policy income.

Statutory-Basis Measure

Our consolidated company action level risk-based capital ratio was an estimated 297 percent at March 31, 2004, up from 287 percent at December 31, 2003, and 166 percent at March 31, 2003.

Table of Contents

Selected Consolidated Financial Data

The following tables set forth selected financial data for Conseco as of and for the quarter ended March 31, 2004, as of December 31, 2003 and for the quarter ended March 31, 2003 (dollars in millions).

	Successor	
	March 31, 2004	December 31, 2003
	(unaudited)	
ASSETS		
Investments:		
Actively managed fixed maturities at fair value (amortized cost: March 31, 2004 - $20,145.4; December 31, 2003 - $19,470.7)	$20,963.4	$19,840.1
Equity securities at fair value (cost: March 31, 2004 - $72.3; December 31, 2003 - $71.8)	77.2	74.5
Mortgage loans	1,116.0	1,139.5
Policy loans	492.9	503.4
Trading securities	935.4	915.1
Other invested assets	195.8	324.1
Total investments	23,780.7	22,796.7
Cash and cash equivalents:		
Unrestricted	999.0	1,228.7
Restricted	15.5	31.9
Accrued investment income	309.0	315.5
Value of policies in force at the effective date	2,807.2	2,949.5
Cost of policies produced	181.4	101.8
Reinsurance receivables	924.4	930.5
Income tax assets	9.8	24.6
Goodwill	773.9	952.2
Other intangible assets	153.3	155.2
Assets held in separate accounts	34.8	37.7
Other assets	475.3	395.8
Total assets	$30,464.3	$29,920.1
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Liabilities for insurance and asset accumulation products:		
Interest-sensitive products	$12,443.7	$12,480.4
Traditional products	11,435.7	11,431.8
Claims payable and other policyholder funds	903.4	892.3
Liabilities related to separate accounts	34.8	37.7
Other liabilities	742.1	573.0
Investment borrowings	461.2	387.3
Notes payable direct corporate obligations	1,296.5	1,300.0
Total liabilities	27,317.4	27,102.5
Commitments and Contingencies		
Shareholders equity:		
Preferred stock	910.4	887.5
	1.0	1.0

Common stock ($0.01 par value, 8,000,000,000 shares authorized, shares issued and outstanding: March 31, 2004 100,115,772; December 31, 2003 100,115,772)		
Additional paid-in-capital	1,646.4	1,641.9
Accumulated other comprehensive income	470.7	218.7
Retained earnings	118.4	68.5
Total shareholders equity	3,146.9	2,817.6
Total liabilities and shareholders equity	$30,464.3	$29,920.1

Table of Contents

	Successor	Predecessor
	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
	(unaudited)	(unaudited)
Revenues:		
Insurance policy income	$ 748.4	$ 873.6
Net investment income:		
General account assets	312.0	347.3
Policyholder and reinsurer accounts	15.7	(23.1)
Venture capital income related to investment in AT&T Wireless Services, Inc.		2.5
Net realized investment gains	27.1	23.3
Fee revenue and other income	7.4	13.6
Total revenues	1,110.6	1,237.2
Benefits and expenses:		
Insurance policy benefits	719.7	858.7
Provision for losses		15.3
Interest expense (contractual interest: $97.6 for the three months ended March 31, 2003)	29.1	73.6
Amortization	98.2	158.0
Other operating costs and expenses	151.2	161.0
Reorganization items		18.1
Total benefits and expenses	998.2	1,284.7
Income (loss) before income taxes and discontinued operations	112.4	(47.5)
Tax expense (benefit) on period income (loss)	39.6	(14.6)
Income (loss) before discontinued operations	72.8	(32.9)
Discontinued operations, net of income taxes		13.9
Net income (loss)	72.8	(19.0)
Preferred stock dividends	22.9	
Net income (loss) applicable to common stock	$ 49.9	$ (19.0)
Earnings per common share:		
Basic:		
Weighted average shares outstanding	100,116,000	
Net income	$ .50	
Diluted:		
Weighted average shares outstanding	100,588,000	
Net income	$ .50	

11

Table of Contents

Corporate Information

We are a corporation organized under the laws of the State of Delaware, and the successor to Conseco, Inc., an Indiana corporation. We emerged from bankruptcy on September 10, 2003. Our principal executive offices are located at 11825 N. Pennsylvania Street, Carmel, Indiana 46032, and our telephone number at this location is (317) 817-6100. Our website is www.conseco.com. Information on our website should not be construed to be part of this prospectus.

Our common stock is listed on the New York Stock Exchange under the symbol CNO, and our series A warrants are listed on the New York Stock Exchange under the symbol CNOWS. Our class A preferred stock currently trades on the Over-the-Counter Bulletin Board under the symbol CNSJP.

Table of Contents

The Offering

Issuer	Conseco, Inc.
Common stock offered	44,000,000 shares
Initial price to public	$18.25 per share
Common stock to be outstanding after this offering	144,115,772 shares if the underwriters do not exercise the option to purchase additional shares.
Over-allotment option	6,600,000 shares
Use of proceeds	We intend to use the net proceeds of this offering, together with the net proceeds of the concurrent class B preferred stock offering, to redeem all of our outstanding class A preferred stock, to repay indebtedness under our existing senior credit facility, to contribute capital to our insurance subsidiaries and/ or for general corporate purposes. The completion of the common stock offering is not conditioned upon completion of the class B preferred stock offering.
NYSE symbol	CNO

The number of shares of our common stock shown above to be outstanding after this offering is based on 100,115,772 shares, the number of shares of our common stock outstanding as of May 4, 2004, and excludes:

- approximately 6 million shares of common stock issuable upon the exercise of outstanding series A warrants at an exercise price of $27.60 per share;

- approximately 43.6 million shares of common stock issuable upon the conversion of outstanding class A preferred stock at a conversion price of $20.35 per share, which shares are not convertible into common stock until September 30, 2005, and which we intend to redeem with the proceeds of this offering and the concurrent class B preferred stock offering;

- the shares of common stock issuable upon the conversion of the class B preferred stock expected to be issued in the concurrent offering;

- 1 million shares of common stock issuable upon the exercise of outstanding options at a weighted average exercise price per share of $18.01;

- an aggregate of approximately 2 million shares of unvested restricted stock granted to our directors and officers;

- approximately 3 million shares of common stock issuable upon the exercise of options to purchase common stock under our long-term equity incentive plan that we currently intend to grant to our officers on or shortly after the date of this prospectus at an exercise price equal to the greater of the fair market value on the date of grant and $21.00; and

- approximately 4 million shares of common stock available for other future grants under our long-term equity incentive plan.

Table of Contents

Summary Financial Data

The following table sets forth summary financial data for Conseco, Inc. as of and for the four months ended December 31, 2003, for the eight months ended August 31, 2003, and for each of the two years ended December 31, 2002. The data should be read in conjunction with Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operations and our consolidated financial statements and related notes included in this prospectus.

We and certain of our subsidiaries emerged from chapter 11 bankruptcy proceedings on September 10, 2003. However, for accounting convenience, the effective date of the plan of reorganization was deemed to have occurred on August 31, 2003. Fresh start accounting has been implemented as of August 31, 2003, and accordingly, we restated all of our assets and liabilities to their current estimated value, reestablished shareholders equity at the reorganization value determined in connection with our Sixth Amended Joint Plan of Reorganization, and recorded the portion of the reorganization value which could not be attributed to specific tangible or identified intangible assets as goodwill. As a result, our financial statements for periods following August 31, 2003 are not comparable with those prepared before that date.

For financial reporting purposes, we refer to Conseco and its subsidiaries on or prior to August 31, 2003 as the predecessor company and after August 31, 2003 as the successor company.

As part of our chapter 11 reorganization, we sold the assets of our finance business and exited this line of business effective March 31, 2003. In October 2002, we sold Conseco Variable Insurance Company, our primary writer of variable annuity products. The results of operations of these former businesses have been reported as discontinued operations in all periods prior to their sale presented in the summary financial data. The predecessor s net income (loss) includes amounts related to the discontinued operations of $16.0 million, $(2,216.8) million and $(100.6) million for the eight months ended August 31, 2003, and for the years ended December 31, 2002 and 2001, respectively. The sales of these businesses further affect the comparability of the summary financial data.

We have derived the summary financial data as of and for the four months ended December 31, 2003, for the eight months ended August 31, 2003, and for the years ended December 31, 2002 and 2001 from our audited consolidated financial statements included in this prospectus.

We have prepared the summary financial data, other than statutory data, in conformity with generally accepted accounting principles. We have derived the statutory data from the statements filed by our insurance subsidiaries with regulatory authorities and have prepared the statutory data in accordance with statutory accounting practices, which vary in certain respects from generally accepted accounting principles.

The following is a summary, and in order to more fully understand our historical consolidated financial data, you should read the following in conjunction with Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operations and our consolidated financial statements and notes thereto included in this prospectus.

Table of Contents

	Successor	Predecessor		
	As of or for the Four Months Ended December 31, 2003	For the Eight Months Ended August 31, 2003	Year Ended December 31,	
			2002	2001
		(Amounts in millions, except per share data)		
STATEMENT OF OPERATIONS DATA(a)				
Insurance policy income	$ 1,005.8	$2,204.3	$ 3,602.3	$3,992.7
Net investment income	474.6	969.0	1,334.3	1,550.0
Net realized investment gains (losses)	11.8	(5.4)	(556.3)	(340.0)
Total revenues	1,505.5	3,202.2	4,450.4	5,492.0
Interest expense on corporate notes payable and investment borrowings (contractual interest: $268.5 for the eight months ended August 31, 2003; and $345.3 for 2002)	36.8	202.5	341.9	400.0
Total benefits and expenses	1,356.0	1,030.0	6,082.6	5,735.4
Income (loss) before income taxes, minority interest, discontinued operations and cumulative effect of accounting change	149.5	2,172.2	(1,632.2)	(243.4)
Cumulative effect of accounting change, net of income tax			(2,949.2)	
Net income (loss)	96.3	2,201.7	(7,835.7)	(405.9)
Preferred stock dividends	27.8		2.1	12.8
Net income (loss) applicable to common stock	68.5	2,201.7	(7,837.8)	(418.7)
PER SHARE DATA				
Net income, basic	$ .68			
Net income, diluted	$ .67			
Book value per common share outstanding	$ 19.28			
Weighted average shares outstanding for basic earnings	100.1			
Weighted average shares outstanding for diluted earnings	143.5			
Shares outstanding at period end	100.1			
BALANCE SHEET DATA AT PERIOD END				
Total investments	$22,796.7			
Goodwill	952.2			
Total assets	29,920.1			
Corporate notes payable	1,300.0			
Total liabilities	27,102.5			
Shareholders equity	2,817.6			
STATUTORY DATA(b)				
Statutory capital and surplus	$ 1,514.1			
Asset valuation reserve	40.9			
Total statutory capital and surplus and asset valuation reserve	1,555.0			
OTHER FINANCIAL DATA				
Ratio of earnings to fixed charges(c)	1.79x			
Ratio of earnings to fixed charges and preferred stock dividends	1.46x			
Pro forma ratio of earnings to fixed charges(c)(d)	1.89x			
Pro forma ratio of earnings to fixed charges and preferred stock dividends(e)	1.71x			

(a)

Our financial condition and results of operations have been significantly affected during the periods presented by the discontinued finance operations. Please refer to note 19 to the audited consolidated financial statements included elsewhere in this prospectus.

(b) We have derived the statutory data from statements filed by our insurance subsidiaries with regulatory authorities and have prepared the statutory data in accordance with statutory accounting principles, which vary in certain respects from generally accepted accounting principles.

(c) For the purpose of computing the ratio of earnings to fixed charges , earnings represent consolidated net income (loss) before income taxes, minority interest, discontinued operations, extraordinary gain (loss), cumulative effect of accounting change and the fixed charges described in the following sentence. Fixed charges consist of: (1) interest expense on corporate debt, including amortization; (2) interest expense on investment borrowings; (3) interest added to policyholder account balances; and (4) the portion of rental expense we deem representative of the interest factor.

(d) For purposes of the pro forma ratio of earnings to fixed charges, fixed charges for the four months ended December 31, 2003 have been reduced and earnings have been increased by $9.8 million to reflect the reduction in

interest expense resulting from the repayment of $400 million of indebtedness under our senior credit facility using a portion of the proceeds from the offering of the common stock and class B preferred stock.

(e) For purposes of the pro forma ratio of earnings to fixed charges, fixed charges for the four months ended December 31, 2003 have been reduced and earnings have been increased by $9.8 million to reflect the reduction in interest expense resulting from the repayment of $400 million of indebtedness under our senior credit facility using a portion of the proceeds from the offering of the common stock and class B preferred stock. In addition, preferred stock dividends for the four months ended December 31, 2003 have been reduced by $24.4 million to reflect the reduction in preferred stock dividends resulting from the redemption of all outstanding class A preferred stock, net of dividends on the newly issued class B preferred stock.

RISK FACTORS

An investment in our securities involves significant risks. You should carefully consider the risks described below and the other information in this prospectus, including our consolidated financial statements and related notes contained in this prospectus, before you decide to buy our securities. If any of the following risks actually occur, our business prospects, financial condition and results of operations could be materially harmed, the market price of our securities could decline and you could lose all or part of your investment.

Risks Related to Our Business

Our recent bankruptcy may continue to disrupt our operations and hamper our efforts to restore confidence in the Conseco brand, which may contribute to lower sales, increased agent attrition and policyholder lapses and redemptions.

The announcement of our intention to seek a restructuring of our capital in August 2002 and our subsequent filing of bankruptcy petitions in December 2002 caused significant disruptions in our operations. We believe that adverse publicity in national and local media concerning our distressed financial condition and disputes with former members of our management caused sales of our insurance products to decline and policyholder lapses and redemptions to increase. For example, our total premium collections decreased 8.4 percent to $4,180.9 million for the year ended December 31, 2003, compared to 2002. In addition, withdrawals from annuities and other investment-type products exceeded deposits received by $615.4 million during the year ended December 31, 2003.

We also experienced increased agent attrition, which in some cases led us to increase agents commissions or sales incentives in order to retain agents. For example, the number of producing agents selling products through the Conseco Insurance Group segment decreased by approximately 45 percent to 9,100 at December 31, 2003 compared to a year earlier. The number of career agents selling products through the Bankers Life segment remained at approximately 4,000 throughout 2003. We implemented agent sales incentive programs to retain the career agency force during periods of negative media coverage, decreased ratings and increased competitive activity from agents selling competitors products. The total cost for the agent incentive programs during 2003 was $17 million.

While we cannot quantify with specificity the portion of these adverse changes that were caused by our distressed financial condition and the associated negative publicity, we believe that these events contributed significantly to these trends. Although we believe that the successful completion of the bankruptcy and our continuing restructuring efforts will reverse these trends and will enable us to restore confidence in the Conseco brand among customers, agents, regulators and our other constituencies, we only recently emerged from bankruptcy and there have not yet been any significant improvements in these trends. It may take several quarters of operating results following our emergence to determine the extent of our operational and reputational recovery from these events.

Legal proceedings that arose in the context of our bankruptcy and current regulatory investigations may continue to disrupt our operations, subject us to material liability and hamper our efforts to restore confidence in the Conseco brand, which may negatively impact our financial results and liquidity.

We continue to be involved in various legal proceedings that arose in the context of our restructuring. For example, since our August 2002 announcement that we would seek to restructure our capital, we and/or our predecessor and several of our former, and in some instances current, officers and directors have been named as defendants in lawsuits, including class action lawsuits, alleging, among other things, securities fraud and breaches of fiduciary duty under ERISA. While we were discharged from pre-petition obligations of our predecessor in connection with the bankruptcy, we still owe indemnity obligations to some of our current and former officers and directors for expenses and losses they may incur in connection with these lawsuits. Our ultimate financial exposure with respect to this indemnity may be limited by the availability of insurance, but

not all of the cases relating to periods prior to our bankruptcy are so limited and we cannot predict with certainty what our ultimate liability in these cases may be.

We are also involved in, and have been subject to subpoena with respect to, federal investigations relating to the accounting for certain interest-only securities by our predecessor s finance subsidiary, which was sold in connection with our reorganization. We have also commenced litigation against certain of our former officers and directors in connection with our efforts to collect amounts outstanding under our predecessor s director and officer loan programs.

Finally, the New York Attorney General and the SEC are conducting investigations concerning alleged market timing on the part of holders of variable annuity policies issued by Conseco Variable Insurance Company, a former wholly-owned subsidiary of Conseco Life Insurance Company of Texas, that occurred prior to the sale of Conseco Variable Insurance Company to an unrelated third party in October 2002, and could make a claim against us at any time. In addition, we may be subject to potential indemnity claims by the buyer in respect of our prior ownership. Other investigations by the SEC and state regulators concerning market timing allegedly permitted by mutual fund managers have resulted in highly publicized settlements involving substantial penalties. While we believe the facts in those other cases are distinguishable, it is not possible to predict the ultimate resolution of these investigations at this time.

We believe that adverse publicity in national and local media concerning the above proceedings may hamper our efforts to restore confidence in the Conseco brand, and impose impediments to our customers willingness to continue to buy our products and our ability to attract new customers. Similarly, the adverse publicity concerning these proceedings may make it more difficult for us to attract and retain agents and independent marketing organizations to market our products. While we believe that these events have affected, and may continue to affect, our customers and agents willingness to do business with us, we cannot quantify the extent of these effects with specificity. See Business Legal Proceedings.

A failure to improve and maintain the financial strength ratings of our insurance subsidiaries could cause us to experience lower sales, increased agent attrition and increased policyholder lapses and redemptions.

An important competitive factor for our insurance subsidiaries is the ratings they receive from nationally recognized rating organizations. Agents, insurance brokers and marketing companies who market our products and prospective purchasers of our products view ratings as an important factor in determining which insurer s products to market or purchase. This is especially true for annuity, interest-sensitive life insurance and long-term care products. Our insurance companies financial strength ratings were downgraded by all of the major rating agencies beginning in July 2002 in connection with the financial distress that ultimately led to our predecessor s bankruptcy. The current financial strength ratings of our insurance subsidiaries from A.M. Best Company, Standard & Poors Corporation and Moody s Investors Services, Inc. are B (Fair), BB- and Ba3, respectively, except that the current financial strength ratings of Conseco Senior Health Insurance Company from A.M. Best, Standard & Poor s and Moody s are B (Fair), CCC and Caa1, respectively. A B rating from A.M. Best is the seventh highest of sixteen possib ratings. A BB- rating from S&P is the thirteenth highest of twenty-one possible ratings, and a CCC rating from S&P is the eighteenth highest of twenty-one possible ratings. A Ba3 rating from Moody s is the thirteenth highest of twenty-one possible ratings, and a Caa1 rating from Moody s is the seventeenth highest of twenty-one possible ratings. Most of our competitors have higher financial strength ratings and we believe it is critical for us to improve our ratings to be competitive. The lowered ratings assigned to our insurance subsidiaries were one of the primary factors causing sales of our insurance products to decline and policyholder redemptions and lapses to increase during 2002 and 2003. We also experienced increased agent attrition, which in some cases led us to increase commissions or sales incentives in an effort to retain them. These events have had a negative effect on our ability to market our products and attract and retain agents, which in turn negatively affected our financial results.

Our plan of reorganization contemplated that our insurance subsidiaries would achieve an A category rating from A.M. Best approximately by the end of 2004. In order to achieve this rating, we believe that we

will have to demonstrate to the rating agencies a sustained improvement in our financial results, a lower debt to total capital ratio, and improved risk-based capital ratios of our insurance subsidiaries. While we believe that the improved capital position of our insurance subsidiaries, the lower debt to capital ratio that we expect to have upon completion of these offerings and our plan for continued improvements in our financial results will warrant an upgrade to an A category rating from A.M. Best, the decision to upgrade is a subjective one that will be made if and when A.M. Best believes it is warranted. If we fail to achieve and maintain an A category rating from A.M. Best, sales of our insurance products could fall further, we may face further defections among our independent and career sales force, and existing policyholders may redeem or allow their policies to lapse, adversely affecting our financial results, which in turn could lead to further downgrades.

If our financial performance or business prospects deteriorate, and we experience a downgrade in our current ratings, our product sales would likely decline significantly, we would likely experience substantial defections among our independent and career sales force, and our existing policyholders would likely redeem or allow their policies to lapse at higher rates. In addition, events that may cause the ratings agencies to downgrade our financial strength ratings may also cause us to be in breach of covenants under our senior credit facility, which would entitle our lenders to accelerate these borrowings. We presently do not have sufficient liquidity to repay these borrowings if they were to be accelerated, and we may not have such liquidity in the future or we may not be able to borrow money from other lenders to enable us to refinance these loans. If we are unable to repay or refinance these loans, we may be forced to seek bankruptcy protection again.

Our ability to meet our obligations, including our obligation to pay dividends on the class B preferred stock, may be constrained by our subsidiaries ability to distribute cash to us.

Conseco, Inc. and CDOC, Inc., our wholly owned subsidiary and a guarantor under the senior credit facility, are holding companies with no business operations of their own. As a result, they depend on their operating subsidiaries for cash to make principal and interest payments on debt, and to pay administrative expenses and income taxes. The cash they receive from insurance subsidiaries consists of dividends and distributions, principal and interest payments on surplus debentures, fees for services, tax-sharing payments, and from our non-insurance subsidiaries, loans and advances. A deterioration in the financial condition, earnings or cash flow of the significant subsidiaries of Conseco or CDOC for any reason could limit their ability to pay cash dividends or other disbursements to Conseco and CDOC, which, in turn, would limit the ability of Conseco and CDOC to meet debt service requirements and satisfy other financial obligations, including payment of cash dividends with respect to the class B preferred stock.

The ability of our insurance subsidiaries to pay dividends is subject to state insurance department regulations and is based on the financial statements of our insurance subsidiaries prepared in accordance with statutory accounting practices prescribed or permitted by regulatory authorities, which differ from GAAP. These regulations generally permit dividends to be paid from statutory earned surplus of the insurance company for any 12-month period in amounts equal to the greater of, or in a few states, the lesser of:

- statutory net gain from operations or statutory net income for the prior year; or

- 10 percent of statutory capital and surplus as of the end of the preceding year.

Any dividends in excess of these levels require the approval of the director or commissioner of the applicable state insurance department. Prior to their release on November 19, 2003, we were subject to consent orders with the Commissioner of Insurance for the State of Texas that, among other things, limited the ability of our insurance subsidiaries to pay dividends. The following table sets forth the aggregate amount of dividends and other distributions that our insurance subsidiaries would have been able to pay to us in each

of the last two fiscal years without obtaining specific approval from state insurance regulators, assuming that the Texas consent order released in November 2003 had not been in effect (dollars in millions):

	2003	2002
Dividends	$340.6	$230.8
Surplus debenture interest	52.1	56.0
Total that was available to be paid	$392.7	$286.8

Our business may be adversely impacted as a result of our substantial indebtedness, which requires the use of a substantial portion of our excess cash flow and may limit our access to additional capital.

We continue to have significant indebtedness after our emergence from bankruptcy. As of December 31, 2003, we had approximately $1.3 billion of indebtedness under our senior credit facility. The following table sets forth the aggregate amount of our debt payment obligations, including estimated interest, for each of the next five years (dollars in millions):

	2004	2005	2006	2007	2008	5 Year Total
Scheduled principal payments	$ 53.0	$ 53.0	$103.0	$153.0	$153.0	$515.0
Projected interest payments	107.2	101.3	97.1	88.1	76.2	469.9
Total debt service	$160.2	$154.3	$200.1	$241.1	$229.2	$984.9

As of December 31, 2003, our debt to total capital ratio was 32 percent. This ratio is higher than the ratio of most of our competitors. As adjusted to give effect to the concurrent offerings of our common stock and class B preferred stock and the use of proceeds thereof as described under Use of Proceeds, our debt to total capital ratio as of December 31, 2003 would have been 22 percent. In order to raise our financial strength ratings, we will need to improve this ratio by either lowering our indebtedness or increasing our equity capital or through a combination of both.

Our substantial indebtedness could have important consequences to you. For example, it could:

- increase our vulnerability to adverse economic and industry conditions by limiting our flexibility in planning for and reacting to changes in our business and industry;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, therefore diverting funds from other beneficial uses;
- limit our ability to make strategic acquisitions or take other significant corporate actions;
- place us at a competitive disadvantage compared to our competitors that have proportionately less debt; and
- limit our ability to borrow funds and increase the cost of funds that we can borrow.

Moreover, if are unable to meet our repayment obligations, our lenders are entitled to accelerate their loans, and we may be forced to seek bankruptcy protection again.

S&P and Moody s have assigned ratings on our senior secured debt of B- (Weak) and Caa1 (Very Poor) , respectively. In S&P s view, an obligation rated B- is vulnerable to nonpayment, but the obligor currently has the capacity to meet its commitment on the obligation. S&P has a total of twenty-two separate categories in which to rate senior debt, ranging from AAA (Extremely Strong) to D (Payment Default) . A B- rating is the seventeenth highest rating. In Moody s view, an obligation rated Caa is of poor standing and may be in default, or there may be present

elements of danger with respect to the payment of principal or interest. Moody s has a total of twenty-one separate categories in which to rate senior debt, ranging from Aaa (Exceptional) to C (Lowest Rated) . A Caa rating is the seventeenth highest rating.

Table of Contents

Our current senior debt ratings may restrict our access to capital, and therefore our ability to refinance our senior credit facility.

If we fail to meet or maintain various covenants and financial ratios under our senior credit facility, our lenders are entitled to accelerate the repayment of these loans; if the loans are accelerated and we do not have sufficient liquidity to repay them, we may be forced to seek bankruptcy protection again.

Our senior credit facility imposes a number of covenants and financial ratios that we must meet or maintain. For example, we must:

- have earnings before interest, taxes, depreciation and amortization of greater than or equal to $490 million for the two quarters ended March 31, 2004, and increasing over time to $1,296.0 million for the four quarters ending March 31, 2010. This amount was approximately $290 million for the one quarter period ended December 31, 2003;

- have a debt to total capitalization (excluding unrealized gains (losses)) ratio of .356 to 1.0 or less at December 31, 2003, with such ratio decreasing over time to .20 to 1.0 at June 30, 2008 and remaining level thereafter. At December 31, 2003, our debt to total capitalization ratio was .334 to 1.0;

- have an interest coverage ratio of greater than 1.0 to 1.0 for the quarter ending December 31, 2003, and increasing over time to 4.50 to 1.0 for the four quarters ending December 31, 2009 and remaining level thereafter. Our interest coverage ratio was greater than 1.25 to 1.0 for the quarter ending December 31, 2003.

Although we believe we are on track to meet and/or maintain these covenants and financial ratios, our ability to do so may be affected by events outside of our control. If we default under these requirements, the lenders could declare all outstanding borrowings immediately due and payable, the aggregate amount of which was approximately $1.3 billion as of December 31, 2003. We presently do not have sufficient liquidity to repay these borrowings if they were to be accelerated, and we may not have sufficient liquidity in the future and may not be able to borrow money from other lenders to enable us to refinance these loans. Accordingly, if we default under these requirements and the loans are accelerated, we may be forced to seek bankruptcy protection again.

Our operating flexibility is limited in significant respects by the restrictive covenants in our senior credit facility.

Our senior credit facility imposes restrictions on us that could increase our vulnerability to adverse economic and industry conditions by limiting our flexibility in planning for and reacting to changes in our business and industry. Specifically, these restrictions limit our ability to:

- incur additional indebtedness;

- issue stock of subsidiaries;

- create liens;

- transfer or sell assets.

- enter into transactions with affiliates;

- fundamentally change the type of business in which we engage;

- enter into mergers or other types of business combination transactions;

- pay cash dividends and make cash distributions on certain classes of equity securities;

- repurchase stock;

Table of Contents

make investments; and

make capital expenditures.

Our ability to engage in these types of transactions is generally limited by the terms of our senior credit facility, even if we believe that a specific transaction would contribute to our future growth, operating results or profitability. If we are able to enter into these types of transactions under the terms of our senior credit facility, or if we obtain a waiver from our lenders with respect to any specific transaction, that transaction may cause our indebtedness to increase, may not result in the benefits we anticipate or may cause us to incur greater costs or suffer greater disruptions in our business than we anticipate, and could therefore negatively impact our business and operating results.

The results of operations of our insurance business will decline if our premium rates are not adequate or if we are unable to obtain regulatory approval to increase rates.

We set the premium rates on our health insurance policies based on facts and circumstances known at the time we issue the policies and on assumptions about numerous variables, including the actuarial probability of a policyholder incurring a claim, the probable size of the claim, maintenance costs to administer the policies and the interest rate earned on our investment of premiums. In setting premium rates, we consider historical claims information, industry statistics, the rates of our competitors and other factors, but we cannot predict with certainty what the actual claims on our products will be. If our actual claims experience proves to be less favorable than we assumed and we are unable to raise our premium rates, our financial results may be adversely affected.

Most of our supplemental health policies allow us to increase premium rates when warranted by our actual claims experience. These rate increases must be approved by the applicable state insurance departments, and we are required to submit actuarial claims data to support the need for the rate increases. The re-rate application and approval process on supplemental health products is a normal recurring part of our business operations and reasonable rate increases are typically approved by the state departments as long as they are supported by actual claims experience and are not unusually large in either dollar amount or percentage increase. For policy types on which rate increases are a normal recurring event, our estimates of insurance liabilities assume we will be able to raise rates if the blocks warrant such increases in the future.

The loss ratios for our long-term care products included in the other business in run-off segment have increased in recent periods and exceeded 103 percent during the four months ended December 31, 2003. We will have to raise rates or take other actions with respect to some of these policies or this business will continue to be unprofitable and our financial results will be adversely affected. During 2002 and 2003, we filed for and received approval on rate increases totaling $44 million and $37 million, respectively, relating to this long-term care business that had approximately $400 million of collected premiums.

We review the adequacy of our premium rates regularly and file proposed rate increases on our products when we believe existing premium rates are too low. It is possible that we will not be able to obtain approval for premium rate increases from currently pending requests or requests filed in the future. If we are unable to raise our premium rates because we fail to obtain approval for a rate increase in one or more states, our net income may decrease. Moreover, in some instances our ability to exit unprofitable lines of business is limited by the guaranteed renewal feature of the policy. In that situation we cannot exit the business without regulatory approval, which may require that we continue to service products at a loss for an extended period of time. For example, most of our long-term care business is guaranteed renewable, meaning we cannot terminate these policies without regulatory approval. Therefore, without approval of necessary rate increases, we may have no other option but to operate this business at a loss for an extended period of time.

If we are successful in obtaining regulatory approval to raise premium rates, the increased premium rates may reduce the volume of our new sales and cause existing policyholders to allow their policies to lapse. This could result in significantly higher claim costs as a percentage of premiums if healthier policyholders who can get coverage elsewhere allow their policies to lapse, while policies related to less

healthy policyholders continue in force. This would reduce our premium income and profitability in future periods.

On home health care policies issued in some areas of Florida and other states, payments for the benefit of policyholders have exceeded the premiums we receive by a significant amount. On April 20, 2004, the Florida Office of Insurance Regulation issued an order to our subsidiary, Conseco Senior Health Insurance Company, that affects approximately 18,000 home health care policies issued in Florida by Conseco Senior Health and its predecessor companies. The order provides for Conseco Senior Health to offer the following three alternatives to holders of these policies:

- retention of their current policy with a maximum rate increase of 50 percent in the first year and actuarially justified increases in subsequent years;

- receipt of a replacement policy with reduced benefits and a maximum rate increase in the first year of 25 percent and no more than 15 percent in subsequent years;

- receipt of a paid up policy, allowing the holder to file future claims up to 100 percent of the amount of premiums paid since the inception of the policy.

The order also requires Conseco Senior Health to pursue a similar course of action with respect to approximately 21,000 home health care policies issued by Conseco Senior Health and its predecessor companies in other states, subject to consideration and approval by other state insurance departments. If we are unsuccessful in obtaining rate increases or other forms of relief in other states, or if the policy changes approved by the Florida Office of Insurance Regulation prove inadequate, our future results of operations could be adversely affected. We are also aggressively seeking rate increases on other long-term care policies in our other business in run-off segment.

The limited historical claims experience on our long-term care products could negatively impact our operations if our estimates prove wrong and we have not adequately set premium rates.

In setting premium rates, we consider historical claims information and other factors, but we cannot predict with certainty what the actual claims on our products will be. This is particularly true in the context of setting premium rates on our long-term care insurance products, for which we have relatively limited historical claims experience. Long-term care products tend to have lower frequency of claims than other health products such as Medicare supplement or specified disease, but when claims are incurred on long-term care policies they tend to be much higher in dollar amount. Also, long-term care products have a much longer tail, meaning that claims are incurred much later in the life of the policy than other supplemental health products. As a result of these product traits, longer historical experience is necessary in order to price products appropriately.

Our Bankers Life segment has offered long-term care insurance since 1985. Bankers Life s experience on its long-term care blocks has generally been within its pricing expectations. Our acquired blocks of long-term care insurance included in the other business in run-off segment were acquired through acquisitions completed in 1996 and 1997. The majority of the business was written between 1990 and 1997. The experience on these acquired blocks has generally been worse than the acquired companies original pricing expectations. We have requested and received approval for numerous premium rate increases in recent years on these blocks. Even with the various rate increases, these blocks experienced loss ratios of 103 percent in the four months ended December 31, 2003, 170 percent in the eight months ended August 31, 2003, 139 percent in 2002 and 96 percent in 2001. If future claims experience proves to be worse than anticipated as our long-term care blocks continue to age, our financial results could be adversely affected.

Our reserves for future insurance policy benefits and claims may prove to be inadequate, requiring us to increase liabilities and resulting in reduced net income and shareholders equity.

We calculate and maintain reserves for the estimated future payment of claims to our policyholders based on assumptions made by our actuaries. For our life insurance business, our limit of risk retention for each policy is generally $.8 million or less because amounts above $.8 million are ceded to reinsurers. For

our health insurance business, we establish an active life reserve plus a liability for due and unpaid claims, claims in the course of settlement, and incurred but not reported claims, as well as a reserve for the present value of amounts on claims not yet due. For our long-term care insurance business, we establish reserves based on the same assumptions and estimates of factors that we consider when we set premium rates. Many factors can affect these reserves and liabilities, such as economic and social conditions, inflation, hospital and pharmaceutical costs, regulatory actions, changes in doctrines of legal liability and extra-contractual damage awards. Therefore, the reserves and liabilities we establish are necessarily based on estimates, assumptions and prior years statistics. Establishing reserves is an uncertain process, and it is possible that actual claims will materially exceed our reserves and have a material adverse effect on our results of operations and financial condition. We have recently incurred significant losses which have exceeded our expectations as a result of actual claim costs and persistency of our long-term care business included in the other business in run-off segment. For example, we increased claim reserves by $130 million during 2002 and $85 million during the eight months ended August 31, 2003 as a result of adverse developments and changes in our estimates of ultimate claims for these products. Our financial performance depends significantly upon the extent to which our actual claims experience is consistent with the assumptions we used in setting our reserves. If our assumptions with respect to future claims are incorrect, and our reserves are insufficient to cover our actual losses and expenses, we would be required to increase our liabilities, and it could result in a default under our senior credit facility.

Our net income and revenues will suffer if policyholder surrender levels differ significantly from our assumptions.

Surrenders of our annuities and life insurance products can result in losses and decreased revenues if surrender levels differ significantly from assumed levels. At December 31, 2003, approximately 18 percent of our total insurance liabilities, or approximately $4.5 billion, could be surrendered by the policyholder without penalty. The surrender charges that are imposed on our fixed rate annuities typically decline during a penalty period which ranges from five to twelve years after the date the policy is issued. Surrenders and redemptions could require us to dispose of assets earlier than we had planned, possibly at a loss. Moreover, surrenders and redemptions require faster amortization of the acquisition costs or commissions associated with the original sale of a product, thus reducing our net income. We believe policyholders are generally more likely to surrender their policies if they believe the issuer is having financial difficulties, or if they are able to reinvest the policy s value at a higher rate of return in an alternative insurance or investment product.

For example, policyholder redemptions of annuity and, to a lesser extent, life products increased following the downgrade of our A.M. Best financial strength rating to B (Fair) in August of 2002. When redemptions are greater than our previous assumptions, we are required to accelerate the amortization of insurance intangibles to write off the balance associated with the redeemed policies. We recorded additional amortization related to higher redemptions and changes to our lapse assumptions of $203.2 million in 2002. Such additional amortization was not significant in 2003.

Recently enacted and pending or future legislation could adversely affect the financial performance of our insurance operations.

During recent years, the health insurance industry has experienced substantial changes, including those caused by healthcare legislation. Recent federal and state legislation and legislative proposals relating to healthcare reform contain features that could severely limit or eliminate our ability to vary our pricing terms or apply medical underwriting standards with respect to individuals, which could have the effect of increasing our loss ratios and have an adverse effect on our financial results. In particular, Medicare reform could affect our ability to price or sell our products or profitably maintain our blocks in force. For example, recent reforms provide some additional incentives under the Medical Advantage program for health plans to offer managed care plans to seniors. Any resulting growth of managed care plans over time could decrease sales of the traditional Medicare supplement products we sell.

Proposals currently pending in Congress and some state legislatures may also affect our financial results. These proposals include the implementation of minimum consumer protection standards for inclusion

Table of Contents

in all long-term care policies, including: guaranteed premium rates; protection against inflation; limitations on waiting periods for pre-existing conditions; setting standards for sales practices for long-term care insurance; and guaranteed consumer access to information about insurers, including lapse and replacement rates for policies and the percentage of claims denied. Enactment of any proposal that would limit the amount we can charge for our products, such as guaranteed premium rates, or increase in benefits we must pay, such as limitations on waiting periods, or otherwise increase the costs associated with our business, could adversely affect our financial results.

Tax law changes could adversely affect our insurance product sales and profitability.

We sell deferred annuities and some forms of life insurance products which we believe are attractive to purchasers, in part, because policyholders generally are not subject to United States Federal income tax on increases in policy values until some form of distribution is made. Recently, Congress enacted legislation to lower marginal tax rates, reduce the federal estate tax gradually over a ten-year period, with total elimination of the federal estate tax in 2010, and increase contributions which may be made to individual retirement accounts and 401(k) accounts. While these tax law changes will expire at the beginning of 2011 absent future congressional action, they could in the interim diminish the appeal of our annuity and life insurance products since the benefit of tax deferral is not as great if tax rates are lower and because fewer people may purchase these products if they are able to contribute more money to individual retirement accounts and 401(k) accounts. Additionally, Congress has considered, from time to time, other possible changes to the U.S. tax laws, including elimination of the tax deferral on the accretion of value within certain annuities and life insurance products, which would make these products less attractive to prospective purchasers and therefore would be likely to reduce our sales of these products.

Our results of operations may be negatively impacted if we are unable to achieve the goals of the initiatives we have undertaken with respect to the restructuring of our principal insurance businesses.

Our Conseco Insurance Group segment has experienced declining sales and expense levels that exceed product pricing. We have adopted several initiatives designed to improve these operations, including focusing sales efforts on higher margin products, such as our specified disease products; reducing operating expenses by eliminating or reducing the costs of marketing some of our products; personnel reductions and streamlined administrative procedures; increasing retention rates on our more profitable blocks of inforce business; stabilizing the profitability of the long-term care block of business in run-off sold through independent agents through premium rate increases, improved claim adjudication procedures and other actions as necessary; and combining legal insurance entities to improve the efficient use of capital and eliminate the costs of separate financial reporting requirements. Conseco Insurance Group has 29 separate policy administration systems for its three main lines of business: life, health and annuities. Many of our initiatives are intended to address issues resulting from the substantial number of acquisitions undertaken by our predecessor. Between 1982 and 1997, our predecessor completed 19 transactions involving the acquisition of 44 separate insurance companies. Our future performance depends, in part, on our ability to successfully integrate these prior acquisitions. This process of integration may involve unforeseen expenses, complications and delays, including, among other things, further difficulties in integrating the systems and operations of the acquired companies, and our current initiatives may be inadequate to address such issues. In addition, some of our initiatives have only recently been adopted, and may not be successfully implemented. Our initiatives include the elimination of duplicate processing systems by converting all similar business currently accounted for on multiple systems to a single system. We expect to spend over $35 million on capital expenditures in 2004 (including amounts related to these initiatives). Even if we are able to successfully implement these measures, these measures alone may not be sufficient to improve our results of operations.

Table of Contents

Our investment portfolio is subject to several risks which may diminish the value of our invested assets and negatively impact our profitability.

The values of the assets in our investment portfolio are subject to numerous factors, which are difficult to predict, and are in many instances beyond our control. These factors include, but are not limited to, the following:

Changes in interest rates can reduce the value of our investments. Actively managed fixed maturity investments comprised 87 percent of our total investments as of December 31, 2003. The value of these investments can be affected by changing levels of market interest rates. For example, an increase in interest rates of 10 percent could reduce the value of our actively managed fixed maturity investments and short-term investments, net of corresponding changes in the value of insurance intangibles, by approximately $625 million, in the absence of other factors.

Our actively managed fixed maturity investments are subject to a deterioration in the ability of the issuer to make timely repayment of the securities. This risk is significantly greater with respect to below-investment grade securities, which comprised 3.9 percent of our actively managed fixed maturity investments as of December 31, 2003. We have sustained substantial credit-related investment losses in recent periods when a number of large, highly leveraged issuers experienced significant financial difficulties resulting in our recognition of other-than-temporary impairments. For example, we have recognized other-than-temporary declines in value of several of our investments, including K-Mart Corp., Amerco, Inc., Global Crossing, MCI Communications, Mississippi Chemical, United Airlines and Worldcom, Inc. We have recorded writedowns of fixed maturity investments, equity securities and other invested assets as a result of conditions which caused us to conclude a decline in the fair value of the investment was other than temporary as follows: $9.6 million in the four months ended December 31, 2003; $51.3 million in the eight months ended August 31, 2003; $556.8 million in 2002; and $361.7 million in 2001.

In order to reduce our exposure to similar credit losses, we have taken a number of specific steps, including:

reducing the percentage of below-investment grade fixed maturity investments from 5.9 percent at December 31, 2001 to 3.9 percent at December 31, 2003;

implementing conservative portfolio compliance guidelines which generally limit our exposure to single issuer risks; and

expanding our portfolio reporting procedures to proactively identify changes in value related to credit risk in a more timely manner.

Our structured security investments, which comprised 29 percent of our actively managed fixed maturity investments at December 31, 2003, are subject to risks relating to variable prepayment and default on the assets underlying such securities, such as mortgage loans. To the extent that structured security investments prepay faster than the expected rate of repayment, refinancing or default on the assets underlying the securities, such investments, which have a cost basis in excess of par, may be redeemed at par, thus resulting in a loss. In order to mitigate this risk, we have adopted policies that generally direct our investment in structured securities to securities with contractual or structured protections against prepayment risk.

Our need for liquidity to fund substantial product surrenders or policy claims may require that we maintain highly liquid, and therefore lower-yielding, assets, or that we sell assets at a loss, thereby further eroding the performance of our portfolio.

We have sustained substantial investment losses in the past and may again in the future. Because a substantial portion of our net income is derived from returns on our investment portfolio, significant losses in the portfolio may have a direct and materially adverse impact on our results of operations. In addition, losses on our investment portfolio could reduce the investment returns which we are able to credit to our customers on certain of our products, thereby impacting our sales and further eroding our financial performance.

Changing interest rates may adversely affect our results of operations.

Our profitability may be directly affected by the level of and fluctuations in interest rates. While we monitor the interest rate environment and have previously employed hedging strategies designed to mitigate the impact of changes in interest rates, our financial results could be adversely affected by changes in interest rates. Our spread-based insurance and annuity business is subject to several inherent risks arising from movements in interest rates, especially if we fail to anticipate or respond to such movements. First, interest rate changes can cause compression of our net spread between interest earned on investments and interest credited on customer deposits, thereby adversely affecting our results. Our ability to adjust for such a compression is limited by virtue of the guaranteed minimum rates that we must credit to policyholders on certain of our products, as well as by the fact that we are able to reduce the crediting rates on most of our products only at limited, pre-established intervals. Approximately 40 percent of our insurance liabilities were subject to interest rates that may be reset annually; 45 percent have a fixed explicit interest rate for the duration of the contract; 10 percent have credited rates which approximate the income we earn; and the remainder have no explicit interest rates. Second, if interest rate changes produce an unanticipated increase in surrenders of our spread-based products, we may be forced to sell invested assets at a loss in order to fund such surrenders. The profits from many non-spread-based insurance products, such as long-term care policies, are adversely affected when interest rates decline because we may be unable to reinvest the cash flows generated from premiums received and our investment portfolio at the interest rates anticipated when we sold the policies. Finally, changes in interest rates can have significant effects on the performance of our structured securities portfolio, including collateralized mortgage obligations, as a result of changes in the prepayment rate of the loans underlying such securities. We follow asset/ liability strategies that are designed to mitigate the effect of interest rate changes on our profitability but do not currently employ derivative instruments for this purpose. We may not be successful in implementing these strategies and achieving adequate investment spreads.

We use computer models to simulate the cash flows expected from our existing insurance business under various interest rate scenarios. These simulations help us measure the potential gain or loss in fair value of our interest-sensitive financial instruments. With such estimates, we seek to manage the relationship between the duration of our assets and the expected duration of our liabilities. When the estimated durations of assets and liabilities are similar, exposure to interest rate risk is minimized because a change in the value of assets should be largely offset by a change in the value of liabilities. At December 31, 2003, the duration of our fixed maturity securities and short-term investments was approximately 6.7 years, and the duration of our insurance liabilities was approximately 7.2 years. We estimate that our fixed maturity securities and short-term investments, net of corresponding changes in the value of insurance intangibles, would decline in fair value by approximately $625 million if interest rates were to increase by 10 percent from their December 31, 2003 levels. This compares to a decline in fair value of $595 million based on amounts and rates at December 31, 2002. The calculations involved in our computer simulations incorporate numerous assumptions, require significant estimates and assume an immediate change in interest rates without any management of the investment portfolio in reaction to such change. Consequently, potential changes in value of our financial instruments indicated by the simulations will likely be different from the actual changes experienced under given interest rate scenarios, and the differences may be material. Because we actively manage our investments and liabilities, our net exposure to interest rates can vary over time.

A decline or increased volatility in the securities markets, and other economic factors, may adversely affect our business, particularly our sales of certain of our life insurance products and annuities.

Fluctuations in the securities markets and other economic factors may adversely affect sales and/or policy surrenders of our annuities and life insurance policies. For example, volatility in the equity markets may cause potential new purchasers of equity-indexed annuities to refrain from purchasing these products and may cause current policyholders to surrender their policies for the cash value or reduce their investments. Our sales of these products decreased significantly in 2001 and 2002 during periods of significant declines in the equity markets. Sales of equity-indexed annuities totaled $220.1 million in 2002 and $380.9 million in 2001,

as compared to $643.5 million in 2000. In addition, significant or unusual volatility in the general level of interest rates could negatively impact sales and/or lapse rates on certain types of insurance products.

We are subject to further risk of loss notwithstanding our reinsurance agreements.

We transfer exposure to certain risks to others through reinsurance arrangements. Under these arrangements, other insurers assume a portion of our losses and expenses associated with reported and unreported claims in exchange for a portion of policy premiums. The availability, amount and cost of reinsurance depend on general market conditions and may vary significantly. As of December 31, 2003, our reinsurance receivables totaled $930.5 million. Our ceded life insurance in force totaled $23.4 billion. Our seven largest reinsurers accounted for 80 percent of our ceded life insurance in force. We face credit risk with respect to reinsurance. When we obtain reinsurance, we are still liable for those transferred risks if the reinsurer cannot meet its obligations. Therefore, the inability of our reinsurers to meet their financial obligations may require us to increase liabilities, thereby reducing our net income and shareholders equity.

Our goodwill and other intangible assets are subject to impairment tests, which may require us to reduce shareholders equity.

Upon our emergence from bankruptcy, we revalued our assets and liabilities to estimated fair value as of August 31, 2003 and established our capital accounts at the reorganization value determined in conjunction with our bankruptcy plan. We recorded the $1,141.6 million of reorganization value which could not be attributed to specific tangible or identified intangible assets as goodwill.

Under GAAP, we are required to evaluate our goodwill and other intangible assets for impairment on an annual basis, or more frequently if there is an indication that an impairment may exist. If certain criteria are met, we are required to record an impairment charge. We obtained independent appraisals to determine the value of the company in conjunction with the preparation of our bankruptcy plan which indicated no impairments of our goodwill or other intangible assets existed. However, we cannot assure you that we will not have to recognize an impairment charge in future periods.

The appraisals prepared to determine the value of our subsidiaries are based on numerous estimates and assumptions which, though considered reasonable by management, may not be realized, and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. These estimates and assumptions had a significant effect on the determination of our reorganization value and the amount of goodwill we recognized. Accordingly, if our actual experience differs from our estimates and assumptions, it is possible we will have to recognize an impairment charge in future periods.

Our business is subject to extensive regulation, which limits our operating flexibility and could result in our insurance subsidiaries being placed under regulatory control or otherwise negatively impact our financial results.

Our insurance business is subject to extensive regulation and supervision in the jurisdictions in which we operate. Our insurance subsidiaries are subject to state insurance laws that establish supervisory agencies with broad administrative powers relative to granting and revoking licenses to transact business, regulating sales and other practices, approving premium rate increases, licensing agents, approving policy forms, setting reserve and solvency requirements, determining the form and content of required statutory financial statements, limiting dividends and prescribing the type and amount of investments we can make.

We have been operating under heightened scrutiny from state insurance regulators. For example, our insurance subsidiaries domiciled in Texas, Bankers National Life Insurance Company and Conseco Life Insurance Company of Texas, on behalf of itself and its subsidiaries, entered into consent orders with the Commissioner of Insurance for the State of Texas on October 30, 2002, which were formally released on November 19, 2003. These consent orders applied to all of our insurance subsidiaries and, among other things, restricted the ability of our insurance subsidiaries to pay dividends and other amounts to the parent company without regulatory consent. Notwithstanding the release of these consent orders, we have agreed

with the Texas Department of Insurance to provide prior notice of certain transactions, including up to 30 days prior notice for the payment of dividends by an insurance subsidiary to any non-insurance company parent, and to provide information periodically concerning our financial performance and condition. As noted above, state laws generally provide state insurance regulatory agencies with broad authority to protect policyholders in their jurisdictions. Accordingly, we cannot assure you that regulators will not seek to assert greater supervision and control over our insurance subsidiaries businesses and financial affairs.

Our insurance subsidiaries are also subject to risk-based capital requirements. These requirements were designed to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks associated with asset quality, mortality and morbidity, asset and liability matching and other business factors. The requirements are used by states as an early warning tool to discover potentially weakly-capitalized companies for the purpose of initiating regulatory action. Generally, if an insurer s risk-based capital falls below specified levels, the insurer would be subject to different degrees of regulatory action depending upon the magnitude of the deficiency. The 2003 statutory annual statements filed with the state insurance regulators of each of our insurance subsidiaries reflected total adjusted capital in excess of the levels subjecting the subsidiaries to any regulatory action. However, as a result of losses on the long-term care business within our other business in run-off segment, the risk-based capital ratio of Conseco Senior Health Insurance Company, which issued most of the long-term care business in our other business in run-off segment, is near the level which would require it to submit a comprehensive plan aimed at improving its capital position. Furthermore, we may not be able to maintain the risk-based capital ratios of our subsidiaries above levels that could give rise to regulatory action.

Our insurance subsidiaries may be required to pay assessments to fund policyholder losses or liabilities and this may negatively impact our financial results.

The solvency or guaranty laws of most states in which an insurance company does business may require that company to pay assessments up to certain prescribed limits to fund policyholder losses or liabilities of other insurance companies that become insolvent. Insolvencies of insurance companies increase the possibility that these assessments may be required. These assessments may be deferred or forgiven under most guaranty laws if they would threaten an insurer s financial strength and, in certain instances, may be offset against future premium taxes. We cannot estimate the likelihood and amount of future assessments. Although past assessments have not been material, if there were a number of large insolvencies, future assessments could be material and could have a material adverse effect on our financial results and financial position.

Litigation and regulatory investigations are inherent in our business and may harm our financial strength and reduce our profitability.

Insurance companies historically have been subject to substantial litigation resulting from claims, disputes and other matters. In addition to the traditional policy claims associated with their businesses, insurance companies typically face policyholder suits and class action suits. The class action and policyholder suits are often in connection with insurance sales practices, policy and claims administration practices and other market conduct issues. State insurance departments focus on sales practices and product issues in their market conduct examinations. Negotiated settlements of class action and other lawsuits have had a material adverse effect on the business, financial condition and results of operations of insurance companies. We are, in the ordinary course of our business, a plaintiff or defendant in actions arising out of our insurance business, including class actions and reinsurance disputes, and, from time to time, are also involved in various governmental and administrative proceedings and investigations. Our subsidiary, Philadelphia Life Insurance Company, which is now known as Conseco Life Insurance Company, is a defendant in two purported nationwide class action lawsuits alleging fraudulent sales practices and seeking unspecified damages in Florida federal court. Four lawsuits are pending in Mississippi against Conseco Life Insurance Company alleging similar claims. Our former subsidiary, Manhattan National Life Insurance Company, is a defendant in a purported nationwide class action lawsuit alleging fraud by non-disclosure of additional charges for policyholders wishing to pay premiums on other than an annual basis and seeking unspecified damages in New Mexico state court. Four of our subsidiaries have also been named in purported nationwide class action

lawsuits seeking unspecified damages in Colorado state court alleging claims similar to those alleged in the New Mexico suit naming Manhattan National Life Insurance Company. Conseco Life Insurance Company has been named as a defendant in 13 recently filed purported class actions and individual cases alleging, among other things, breach of contract with regard to a change made in the way monthly deductions are calculated for insurance coverage. The ultimate outcome of these lawsuits, however, cannot be predicted with certainty, and although we do not presently believe that any of these lawsuits, individually, are material, they could, in the aggregate, have a material adverse effect on our financial condition. Because our insurance subsidiaries were not part of our bankruptcy proceedings, the bankruptcy proceedings did not result in the discharge of any claims, including claims asserted in litigation, against our insurance subsidiaries. The New York Attorney General and the SEC are also conducting investigations concerning alleged market timing on the part of holders of variable annuity policies issued by Conseco Variable Insurance Company, a former wholly-owned subsidiary of Conseco Life of Texas, that occurred prior to the sale of Conseco Variable Insurance Company to an unrelated third party in October 2002, and could make a claim against us at any time. In addition, we may be subject to potential indemnity claims by the buyer in respect of our prior ownership. In other cases involving the investigation of market timing allegedly permitted by mutual fund managers, the SEC and state regulators have sought to impose penalties far in excess of the alleged losses to the investing public, and we cannot assure you that they would not seek to do so with us. While we would vigorously defend against efforts to impose substantial penalties against us, any such penalties, if imposed, could have a material adverse effect on our financial condition. See Business Legal Proceedings below.

Competition from companies that have greater market share, higher ratings and greater financial resources may impair our ability to retain existing customers and sales representatives, attract new customers and sales representatives and maintain or improve our financial results.

The supplemental health insurance, annuity and individual life insurance markets are highly competitive. Competitors include other life and accident and health insurers, commercial banks, thrifts, mutual funds and broker-dealers.

Our principal competitors vary by product line. Our main competitors for agent sold long-term care insurance products include GE Financial Assurance, John Hancock Financial Services, Aegon USA, Lincoln Benefit Life, MetLife and Unum Provident. Our main competitors for agent sold Medicare supplement insurance products include Mutual of Omaha, Blue Cross and Blue Shield of Florida, Physicians Mutual and Standard Life and Accident.

In some of our product lines, such as life insurance and fixed annuities, we have a relatively small market share. Even in some of the lines in which we are one of the top five writers, our market share is relatively small. For example, while our Bankers Life segment ranked third in agent sold long-term care insurance products in 2003 with a market share of approximately seven percent, the top two writers of agent sold long-term care insurance products had a combined market share of approximately 45 percent during the period. In addition, while our Bankers Life segment was ranked third and our Conseco Insurance Group segment was ranked fourth in agent sold Medicare supplement insurance products in 2003 with a combined market share of approximately 17 percent, the top two writers of agent sold Medicare supplement insurance products had a combined market share of approximately 63 percent during the period.

Virtually all of our major competitors have higher financial strength ratings than we do. Many of our competitors are larger companies that have greater capital, technological and marketing resources, and have access to capital at a lower cost. Recent industry consolidation, including business combinations among insurance and other financial services companies, has resulted in larger competitors with even greater financial resources. Furthermore, recent changes in federal law have narrowed the historical separation between banks and insurance companies, enabling traditional banking institutions to enter the insurance and annuity markets and further increase competition. This increasing competition may harm our ability to maintain or increase our profitability.

In addition, because the actual cost of products is unknown when they are sold, we are subject to competitors who may sell a product at a price that does not cover its actual cost. Accordingly, if we do not

Table of Contents

also lower our prices for similar products, we may lose market share to these competitors. If we lower our prices to maintain market share, our profitability will decline.

We must attract and retain sales representatives to sell our insurance and annuity products. Strong competition exists among insurance and financial services companies for sales representatives. We compete with other insurance and financial services companies for sales representatives primarily on the basis of our financial position, financial strength ratings, support services and compensation and product features. Our competitiveness for such agents also depends upon the relationships we develop with these agents. If we are unable to attract and retain sufficient numbers of sales representatives to sell our products, our ability to compete and our revenues would suffer.

If we are unable to attract and retain independent agents for the distribution of products sold through the Conseco Insurance Group segment, sales of our products will decline.

Our Conseco Insurance Group segment markets and distributes its products, including specified disease insurance, Medicare supplement insurance, equity-indexed life insurance and equity-indexed annuities, exclusively through independent agents. Premiums collected by our Conseco Insurance Group segment through independent distributors totaled: $1,301.6 million, or 31 percent, of our collected premiums in 2003; $1,680.2 million, or 37 percent, of collected premiums in 2002; and $2,048.0 million, or 40 percent, of collected premiums in 2001. Given the significance of this distribution channel to our business, our ability to maintain our relationships with these independent agents is critical to our financial performance. This ability is dependent upon, among other things, the compensation we offer independent distributors and the overall attractiveness of our products to their customers. In addition, the distribution of our life insurance and annuity products through this channel is particularly sensitive to the financial strength ratings of our insurance subsidiaries. The downgrades of our ratings in 2002, as well as our bankruptcy, caused significant defections among our independent agents and increased our costs of retaining them, which had a material adverse effect on our results of operations. Following the downgrade of our A.M. Best rating to B++ in July 2002, the premiums we collected from business distributed by independent agents decreased to $762.6 million in the last six months of 2002 and $668.7 million in the first six months of 2003, compared to $917.6 million in the first six months of 2002, the period immediately preceding the downgrade. In the event that we are unable to attract and retain qualified independent distributors of our products, our operations and financial results may be materially adversely affected.

We may require additional capital in the future, which may not be available or may only be available on unfavorable terms.

Our future capital requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. While we currently expect to fund our capital needs for the next several years from our operations, if those prove to be insufficient we may need to raise additional funds through future financings and, if we are unable to raise additional funds, we may need to curtail our growth and reduce our assets. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. In the case of equity financings, dilution to our shareholders could result, and in any case such securities may have rights, preferences and privileges that are senior to those of the shares offered hereby. If we cannot obtain adequate capital on favorable terms or at all, our business, operating results and financial condition could be adversely affected.

Our financial results would be negatively impacted if we are required to indemnify the purchasers of businesses that we have recently sold.

We are subject to retained liabilities and indemnification obligations related to businesses we have sold. For example, we retained liabilities for certain purported class action litigation in connection with our sale of Manhattan National Life Insurance Company in June 2002. In addition, the agreement entered into in connection with our sale of Conseco Variable Insurance Company imposes continuing indemnification obligations with respect to liabilities relating to our period of ownership of Conseco Variable Insurance Company, and the agreement entered into in connection with our sale of Conseco Finance imposes continuing

tax sharing obligations with respect to tax liabilities relating to our period of ownership of Conseco Finance. We cannot assure you that we will not be subject to claims with respect to these continuing or residual obligations, or that any such claims would not be material.

Risks Related to the Offering

The price of our common stock may fluctuate significantly, and you could lose all or part of your investment.

Volatility in the market price of our common stock may prevent you from being able to sell your shares at or above the price you paid for your shares. The market price of our common stock could fluctuate significantly for various reasons which include:

- our quarterly or annual earnings or those of other companies in our industry;
- the public s reaction to our press releases, our other public announcements and our filings with the Securities and Exchange Commission;
- changes in earnings estimates or recommendations by research analysts who track our common stock or the stocks of other companies in our industry;
- new laws or regulations or new interpretations of laws or regulations applicable to our business;
- changes in accounting standards, policies, guidance, interpretations or principles;
- changes in general conditions in the U.S. and global economies or financial markets, including those resulting from war, incidents of terrorism or responses to such events; and
- sales of common stock by our directors and executive officers.

In addition, in recent years, the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in the insurance industry. The changes frequently appear to occur without regard to the operating performance of these companies. The price of our common stock could drop materially based upon factors that have little or nothing to do with Conseco.

If our share price is volatile, we may be the target of additional securities litigation, which is costly and time-consuming to defend. In the past, following periods of market volatility in the price of a company s securities, security holders have often instituted class action litigation. If the market value of our common stock experiences adverse fluctuations and we become involved in this type of litigation, regardless of the outcome, we could incur substantial legal costs and our management s attention could be diverted from the operation of our business, causing our business to suffer.

There is a limited trading history in our common stock and an active market may not continue.

We emerged from bankruptcy, and our common stock was approved for listing on the New York Stock Exchange, on September 10, 2003. Accordingly, there is a limited trading history in our common stock and an active market may not continue in shares of our common stock. The liquidity of the market for shares of our common stock and the prices at which the stock trades will depend upon the amount outstanding, the number of holders thereof, the interest of securities dealers in maintaining a market in the securities and other factors beyond our control. Consequently, you may not be able to sell shares of our common stock at prices equal to or greater than the price you paid in this offering.

Issuance of additional common stock or preferred stock could adversely affect holders of our common stock.

We may issue additional shares of common stock in the future, either in subsequent offerings, in connection with future acquisitions or business combinations or upon exercise, conversion or exchange of

other securities. Under certain circumstances, we are authorized to issue, without stockholder approval, over 7.0 billion additional shares of common stock. After the completion of this offering, we will have 144,115,772 outstanding shares of common stock, or 150,715,772 shares if the underwriters exercise in full their option to purchase additional shares. This number includes 50,600,000 shares that we are selling in this offering, assuming the underwriters exercise in full their option to purchase additional shares, which may be resold immediately in the public market. Holders of our outstanding series A warrants are entitled to purchase one share of our common stock at a price of $27.60 per share for each such warrant. The series A warrants are exercisable for an aggregate of up to 5,999,977 shares of common stock and expire on September 10, 2008. Holders of our class B preferred stock issued in the concurrent offering will be entitled at their option at any time on or after the day immediately following the issue date of the class B preferred stock to convert the shares of class B preferred stock into an aggregate of 26,947,200 shares of our common stock and, under specified circumstances, such shares could be convertible into an aggregate of up to 32,877,600 shares of our common stock, subject to anti-dilution adjustments. In the event that we are unable to pay all accumulated dividends on the class B preferred stock in cash on the mandatory conversion date pursuant to the terms thereof, we are obligated to deliver additional shares of our common stock in respect of such unpaid dividends.

In connection with our reorganization, we entered into registration rights agreements with creditors of our predecessor with respect to our common stock and class A preferred stock. Under these agreements, these stockholders have the right, subject to limitations, to require us to effect the registration of their shares upon written demand. In addition, subject to limitations, if we file a registration statement covering our equity securities for our own account or for the account of any holder of our equity securities (including the registration statement of which this prospectus is a part), we must offer to holders of registrable securities the opportunity to register such number of shares of registrable securities as such holder may request.

In addition, our board of directors is authorized to issue additional series of shares of preferred stock without any action on the part of our stockholders. Our board of directors also has the power, without stockholder approval, to set the terms of any such series of shares of preferred stock that may be issued, including voting rights, conversion rights, dividend rights, preferences over our common stock with respect to dividends or if we liquidate, dissolve or wind up our business and other terms. If we issue preferred stock in the future that has preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected. We are also authorized to issue, without stockholder approval, securities convertible into either common stock or preferred stock.

We also consider from time to time various strategic alternatives that could involve issuances of additional common stock, including but not limited to acquisitions and business combinations, but do not currently have any definitive plans to enter into any of these transactions.

The issuance of additional common stock or securities convertible into common stock would result in dilution of existing stockholders equity interests in us. Issuances of substantial amounts of our common stock, or the perception that such issuances could occur, may adversely affect prevailing market prices for our common stock.

Provisions in our certificate of incorporation and our bylaws may make it more difficult and expensive for investors to remove our current board of directors and management.

Provisions in our amended and restated certificate of incorporation and our second amended and restated bylaws may make it more difficult and expensive for investors to remove our current board of directors and management. These provisions include:

- a classified board of directors, which could prevent a stockholder, or group of stockholders, having majority voting power, from obtaining control of our board of directors until the second annual meeting of stockholders following September 10, 2003, the effective date of our emergence from bankruptcy;

Table of Contents

- advance notice requirements for stockholder proposals and director nominations; and
- removal of directors only for cause prior to the second annual meeting of stockholders following September 10, 2003, the effective date of our emergence from bankruptcy.

State insurance laws may delay, deter or prevent a takeover attempt that may be in the best interests of stockholders.

State insurance laws include provisions that may delay, deter or prevent a takeover attempt that may be in the best interests of stockholders. For instance, state insurance holding company laws and regulations applicable to us generally provide that no person may acquire control of a company, and thus indirect control of its insurance subsidiaries, unless the person has provided required information to, and the acquisition is approved or not disapproved by, the appropriate insurance regulatory authorities. Generally, any person acquiring beneficial ownership of 10 percent or more of the voting power of our capital stock would be presumed to have acquired control, unless the appropriate insurance regulatory authorities, upon advance application, determine otherwise. In addition, they may prevent stockholders from receiving the benefit from any premium over the market price of our common stock offered by a bidder in a potential takeover. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging takeover attempts in the future.

Table of Contents

OUR RECENT EMERGENCE FROM BANKRUPTCY

On December 17, 2002, our predecessor and certain of its non-insurance company subsidiaries filed voluntary petitions for relief under chapter 11 of the bankruptcy code in the United States Bankruptcy Court for the Northern District of Illinois, Eastern Division. We emerged from bankruptcy protection under the plan of reorganization, which was confirmed pursuant to an order of the bankruptcy court on September 9, 2003, and became effective on September 10, 2003. Upon the confirmation of the plan of reorganization, we implemented fresh start accounting in accordance with Statement of Position 90-7 Financial Reporting by Entities in Reorganization under the Bankruptcy Code . Our accounting and actuarial systems and procedures are designed to produce financial information as of the end of a month. Accordingly, for accounting convenience purposes, we applied the effects of fresh start accounting on August 31, 2003. Our activities for the period from September 1, 2003 through September 10, 2003 are therefore included in the successor s statement of operations and excluded from the predecessor s statement of operations. See Selected Consolidated Financial and Operating Data and the notes entitled Basis of Presentation and Fresh Start Reporting in our audited consolidated financial statements included elsewhere in this prospectus for more information on fresh start accounting.

The plan of reorganization generally provided for the full payment or reinstatement of allowed administrative claims, priority claims, fully secured claims and certain intercompany claims, and the distribution of new equity securities and warrants to partially secured and unsecured creditors of our predecessor. Holders of claims arising under our predecessor s $1.5 billion senior bank credit facility also received a pro rata interest in our new senior credit facility. Holders of our predecessor s common stock and preferred stock did not receive any distribution under the plan of reorganization, and these securities, together with all other prepetition securities and the $1.5 billion senior bank credit facility of our predecessor, were cancelled on the effective date.

On the effective date, under the terms of the plan of reorganization, we emerged from the bankruptcy proceedings with a capital structure consisting of:

- our new $1.3 billion senior credit facility;
- approximately 34.4 million shares of class A preferred stock with an initial aggregate liquidation preference of approximately $859.7 million;
- 100.0 million shares of common stock, excluding shares issued to our new non-executive chairman upon his appointment and shares issued or to be issued to directors, officers or employees under a new equity incentive plan; and
- series A warrants to purchase 6.0 million shares of our common stock.

Under the terms of the plan of reorganization, we distributed the equity securities to the creditors of our predecessor in the amounts outlined below:

- lenders under our predecessor s senior bank credit facility and director and officer loan program received approximately 34.4 million shares of our class A preferred stock, with an initial aggregate liquidation preference of $859.7 million;
- holders of our predecessor s senior notes received approximately 32.3 million shares of our common stock;
- holders of our predecessor s guaranteed senior notes received approximately 60.6 million shares of our common stock;
- holders of our predecessor s general unsecured claims received approximately 3.8 million shares of our common stock; and
- holders of trust preferred securities issued by our predecessor s subsidiary trusts received approximately 1.5 million shares of our common stock and series A warrants to purchase 6.0 million shares of our common stock at an exercise price of $27.60 per share.

Table of Contents

The distribution of our common stock summarized above represents approximately 98 percent of all of the shares of common stock to be distributed under the plan of reorganization. As of December 31, 2003, approximately 1.8 million shares of outstanding common stock have been reserved for distribution under the plan of reorganization in respect of disputed claims, the resolution of which is still pending. If reserved shares remain after resolution of these disputed claims, then the reserved shares will be reallocated to other general unsecured creditors of our predecessor as provided for under the plan of reorganization.

As part of our chapter 11 reorganization, we sold substantially all of the assets of our predecessor s finance business and exited from this line of business. Our finance business was conducted through our predecessor s indirect wholly-owned subsidiary, Conseco Finance Corp. We accounted for our finance business as a discontinued operation in 2002 once we formalized our plans to sell it. On April 1, 2003, Conseco Finance Corp. and 22 of its direct and indirect subsidiaries, which collectively comprised substantially all of the finance business, filed liquidating plans of reorganization with the bankruptcy court in order to facilitate the sale of this business. The sale of the finance business was completed in the second quarter of 2003. We did not receive any proceeds from this sale in respect of our interest in Conseco Finance Corp., nor did any creditors of our predecessor. As of March 31, 2003, we ceased to include the assets and liabilities of Conseco Finance Corp. on our predecessor s consolidated balance sheet.

For a complete discussion of the distributions provided for under the plan of reorganization, you should refer to the complete text of the plan of reorganization confirmed by the bankruptcy court, which is filed as an exhibit to the registration statement of which this prospectus forms a part.

Table of Contents

USE OF PROCEEDS

Net proceeds from the offering of the common stock will be approximately $767.5 million, or $882.8 million if the underwriters exercise in full their option to purchase additional shares of common stock in the offering, at a public offering price of $18.25 per share, and after deducting underwriting discounts and commissions and the estimated expenses of the offering. Concurrently with the offering of the common stock, we are offering 24,000,000 shares of class B preferred stock. Net proceeds from the offering of the class B preferred stock will be approximately $581.0 million, or $668.3 million if the underwriters exercise in full their option to purchase additional shares of class B preferred stock in the offering, at a public offering price of $25 per share, and after deducting underwriting discounts and commissions and the estimated expenses of the offering. The closing of the common stock offering is not conditioned upon the closing of the class B preferred stock offering.

We expect to use the net proceeds from the offering of the common stock and the class B preferred stock as follows:

- approximately $928.9 million to redeem all outstanding shares of our class A preferred stock,
- approximately $400.0 million to repay indebtedness under our senior credit facility, which matures in 2009 and currently has a weighted average interest rate of 7.8 percent,
- approximately $19.6 million to contribute capital to our insurance subsidiaries, and
- any remaining amount for general corporate purposes.

If we do not complete the class B preferred stock offering or for any other reason do not raise sufficient proceeds to accomplish all of our intended objectives, we intend to first redeem all of the outstanding shares of our class A preferred stock.

PRICE RANGE OF OUR COMMON STOCK

All of our predecessor s common stock was cancelled pursuant to the plan of reorganization, which became effective September 10, 2003. Our common stock has traded on the New York Stock Exchange under the symbol CNO since September 12, 2003. The high and low sale prices of our common stock, as reported on the New York Stock Exchange, for the quarterly periods beginning September 12, 2003, are set forth below. On May 6, 2004, the last reported sale price of our common stock on the New York Stock Exchange was $18.28. As of May 4, 2004, there were 100,115,772 shares of our common stock outstanding, and there were approximately 67,000 holders of our common stock.

	Conseco Common Stock	
	High	Low
2003		
Third Quarter (beginning September 12)	$22.50	$17.70
Fourth Quarter	22.18	18.05
2004		
First Quarter	$23.89	$20.90
Second Quarter (through May 6)	24.00	18.15

Table of Contents

DIVIDEND POLICY

We have not declared or paid any cash dividends on our common stock since our emergence from bankruptcy, nor do we expect to pay any cash dividends on our common stock for the foreseeable future. We intend to pay cash dividends on our class B preferred stock in accordance with its terms. We currently intend to retain any additional future earnings to finance our operations and growth. Any future determination to pay cash dividends on our common stock will be at the discretion of our board of directors and will be dependent on our earnings, financial condition, operating results, capital requirements, any contractual restrictions, regulatory and other restrictions on the payment of dividends by our subsidiaries to us, and other factors that our board of directors deems relevant. In addition, our senior credit facility contains limitations on our ability to declare and pay cash dividends. Moreover, the payment of dividends on our common stock is subject to our prior satisfaction of our obligations under any outstanding shares of preferred stock with preference as to the payment of dividends, including our existing class A preferred stock and the class B preferred stock.

As an insurance holding company, the assets of which consist primarily of direct and indirect equity interests in our insurance company subsidiaries, our ability to pay dividends to our stockholders and meet our other obligations, including operating expenses and debt service, depends primarily on the receipt of dividends and other payments from our insurance company subsidiaries. The payment of dividends by our insurance subsidiaries is regulated under the insurance laws of the states in which they are organized. These regulations generally permit dividends to be paid from statutory earned surplus of the relevant insurance company for any 12-month period in amounts equal to the greater of, or in a few states, the lesser of:

- statutory net gain from operations or statutory net income for the prior year; or

- 10 percent of statutory capital and surplus as of the end of the preceding year.

Any dividends in excess of these levels require the approval of the director or commissioner of the applicable state insurance department. See Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operations Liquidity and Capital Resources.

Table of Contents

CAPITALIZATION

The following table sets forth, as of December 31, 2003, our actual consolidated capitalization and our capitalization as adjusted to give effect to:

the sale of 44,000,000 shares of common stock at a public offering price of $18.25 per share, after deducting underwriting discounts and commissions and the estimated expenses of the offering; and

the sale of 24,000,000 shares of class B preferred stock at a public offering price of $25 per share, after deducting underwriting discounts and commissions and the estimated expenses of the offering; and

the application of the estimated net proceeds from the offerings as set forth under Use of Proceeds as if the offerings had occurred as of December 31, 2003.

The table should be read in conjunction with Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operations and our audited consolidated financial statements and the related notes thereto appearing elsewhere in this prospectus.

	As of December 31, 2003	
	Actual	**As Adjusted**
	(In millions)	
Notes payable	$1,300.0	$ 900.0
Equity:		
Preferred stock, par value $0.01 per share, 265,000,000 authorized:		
34,386,740 shares of class A preferred stock issued and outstanding actual; no shares of class A preferred stock issued and outstanding as adjusted	887.5	
No shares of class B preferred stock issued and outstanding actual; 24,000,000 shares of class B preferred stock issued and outstanding as adjusted		581.0
Common stock, par value $0.01 per share, 8,000,000,000 authorized: 100,115,772 shares issued and outstanding actual; 144,115,772 shares issued and outstanding as adjusted	1.0	1.4
Additional paid-in-capital	1,641.9	2,409.0
Accumulated other comprehensive income	218.7	218.7
Retained earnings	68.5	68.5
Total equity	2,817.6	3,278.6
Total capitalization	$4,117.6	$4,178.6

Table of Contents

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The following table sets forth selected financial data for Conseco, Inc. as of and for the four months ended December 31, 2003, as of and for the eight months ended August 31, 2003, and as of and for each of the four years ended December 31, 2002. The data should be read in conjunction with Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operations and our consolidated financial statements and related notes included in this prospectus.

For financial reporting purposes, we refer to Conseco and its subsidiaries on or prior to August 31, 2003 as the predecessor and after August 31, 2003 as the successor.

We and certain of our subsidiaries emerged from chapter 11 bankruptcy proceedings on September 10, 2003. However, for accounting convenience, the effective date of the plan of reorganization was deemed to have occurred on August 31, 2003. Fresh start accounting has been implemented as of August 31, 2003, and accordingly, we restated all of our assets and liabilities to their current estimated value, reestablished shareholders equity at the reorganization value determined in connection with our plan of reorganization, and recorded the portion of the reorganization value which could not be attributed to specific tangible or identified intangible assets as goodwill. As a result, our financial statements for periods following August 31, 2003, are not comparable with those prepared before that date.

As part of our chapter 11 reorganization, we sold the assets of our finance business and exited this line of business effective March 31, 2003. In October 2002, we sold Conseco Variable Insurance Company, our primary writer of variable annuity products. The results of operations of these former businesses have been reported as discontinued operations in all periods presented in the selected financial data prior to their sale. The predecessor s net income (loss) includes amounts related to the discontinued operations of $16.0 million, $(2,216.8) million, $(100.6) million, $(381.9) million and $117.3 million for the eight months ended August 31, 2003 and the years ended December 31, 2002, 2001, 2000 and 1999, respectively. The sales of these businesses further affect the comparability of the selected financial data.

We have derived the selected financial data for the four months ended December 31, 2003, the eight months ended August 31, 2003, the years ended December 31, 2002 and 2001 and as of December 31, 2003 and 2002 from our audited consolidated financial statements included in this prospectus. We have derived the selected financial data for the years ended December 31, 2000 and 1999 and as of December 31, 2001, 2000 and 1999 from our audited consolidated financial statements not included in this prospectus.

We have prepared the selected financial data, other than statutory data, in conformity with generally accepted accounting principles. We have derived the statutory data from the statements filed by our insurance subsidiaries with regulatory authorities and have prepared the statutory data in accordance with statutory accounting practices, which vary in certain respects from generally accepted accounting principles.

Table of Contents

	Successor	Predecessor				
	As of or for the Four Months Ended December 31, 2003	As of or for the Eight Months Ended August 31, 2003	Years Ended December 31, 2002	2001	2000	1999
			(Amounts in millions, except per share data)			
STATEMENT OF OPERATIONS DATA(a)						
Insurance policy income	$ 1,005.8	$ 2,204.3	$ 3,602.3	$ 3,992.7	$ 4,170.7	$ 3,990.4
Net investment income	474.6	969.0	1,334.3	1,550.0	1,578.1	2,287.7
Net realized investment gains (losses)	11.8	(5.4)	(556.3)	(340.0)	(304.8)	80.0
Total revenues	1,505.5	3,202.2	4,450.4	5,492.0	5,581.4	6,315.3
Interest expense on corporate notes payable and investment borrowings (contractual interest: $268.5 for the eight months ended August 31, 2003; and $345.3 for 2002)	36.8	202.5	341.9	400.0	454.3	300.2
Total benefits and expenses	1,356.0	1,030.0	6,082.6	5,735.4	6,358.9	5,301.2
Income (loss) before income taxes, minority interest, discontinued operations and cumulative effect of accounting change	149.5	2,172.2	(1,632.2)	(243.4)	(777.5)	1,014.1
Cumulative effect of accounting change, net of income tax			(2,949.2)		(55.3)	
Net income (loss)	96.3	2,201.7	(7,835.7)	(405.9)	(1,191.2)	595.0
Preferred stock dividends	27.8		2.1	12.8	11.0	1.5
Net income (loss) applicable to common stock	68.5	2,201.7	(7,837.8)	(418.7)	(1,202.2)	593.5
PER SHARE DATA						
Net income, basic	$ .68					
Net income, diluted	$ .67					
Book value per common share outstanding	$ 19.28					
Weighted average shares outstanding for basic earnings	100.1					
Weighted average shares outstanding for diluted earnings	143.5					
Shares outstanding at period end	100.1					
BALANCE SHEET DATA AT PERIOD END						
Total investments	$22,796.7	$22,018.3	$21,783.7	$25,067.1	$25,017.6	$26,431.6
Goodwill	952.2	99.4	100.0	3,695.4	3,800.8	3,927.8
Total assets	29,920.1	28,318.1	46,509.0	61,432.2	58,589.2	52,185.9
Corporate notes payable and commercial paper	1,300.0			4,085.0	5,055.0	4,624.2
Liabilities subject to compromise		6,951.4	4,873.3			
Total liabilities	27,102.5	30,519.5	46,637.9	54,764.7	51,810.9	43,990.6
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts			1,921.5	1,914.5	2,403.9	2,639.1
Shareholders equity (deficit)	2,817.6	(2,201.4)	(2,050.4)	4,753.0	4,374.4	5,556.2
STATUTORY DATA(b)						
Statutory capital and surplus	$ 1,514.1		$ 1,064.4	$ 1,649.8	$ 1,881.8	$ 2,170.5
Asset valuation reserve	40.9		11.6	105.1	266.8	362.8
	1,555.0		1,076.0	1,754.9	2,148.6	2,533.3

Total statutory capital and surplus and asset valuation reserve

(a) Our financial condition and results of operations have been significantly affected during the periods presented by the discontinued finance operations. Please refer to note 19 to the audited consolidated financial statements included elsewhere in this prospectus.

(b) We have derived the statutory data from statements filed by our insurance subsidiaries with regulatory authorities and have prepared the statutory data in accordance with statutory accounting principles, which vary in certain respects from generally accepted accounting principles.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF

CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following analysis of the consolidated results of our operations and financial condition should be read in conjunction with Selected Consolidated Financial and Operating Data and the consolidated financial statements and the related notes to the financial statements and the other financial information included elsewhere in this prospectus.

Special Note Regarding Forward-Looking Statements

This prospectus contains forward-looking statements. 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, attempts, seeks, track, comfortable with, optimistic and similar words, although some forward-looking statements are expressed differently. You should consider statements that contain these words carefully because they describe our expectations, plans, strategies and goals and our beliefs concerning future business conditions, our results of operations, financial position, and our business outlook or they state other forward-looking information based on currently available information. The Risk Factors section of this prospectus provides examples of risks, uncertainties and events that could cause our actual results to differ materially from the expectations expressed in our forward-looking statements. Assumptions and other important factors that could cause our actual results to differ materially from those anticipated in our forward-looking statements include, among other things:

- the potential adverse impact of our predecessor s chapter 11 petition on our business operations, and relationships with our customers, employees, regulators, distributors and agents;
- our ability to operate our business under the restrictions imposed by our senior bank credit facility or future credit facilities;
- our ability to improve the financial strength ratings of our insurance company subsidiaries and the impact of recent rating downgrades on our business;
- our ability to obtain adequate and timely rate increases on our supplemental health products including our long-term care business;
- general economic conditions and other factors, including prevailing interest rate levels, stock and credit market performance and health care inflation, which may affect our ability to sell products and access capital on acceptable terms, the market value of our investments, and the lapse rate and profitability of policies;
- our ability to achieve anticipated synergies and levels of operational efficiencies;
- customer response to new products, distribution channels and marketing initiatives;
- mortality, morbidity, usage of health care services, persistency and other factors which may affect the profitability of our insurance products;
- performance of our investments;
- changes in the Federal income tax laws and regulations which may reduce or eliminate the relative tax advantages of some of our products;
- increasing competition in the sale of insurance and annuities;
- regulatory changes or actions, including those relating to regulation of the financial affairs of our insurance companies, including the payment of dividends to us, regulation of financial services affecting bank sales and underwriting of insurance products, regulation of the sale, underwriting and pricing of products, and health care regulation affecting health insurance products;

Table of Contents

the ultimate outcome of lawsuits filed against us and other legal and regulatory proceedings to which we are subject; and

the risk factors or uncertainties listed from time to time in our other filings with the Securities and Exchange Commission.

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. The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

Overview

We are a holding company for a group of insurance companies operating throughout the United States that develop, market and administer supplemental health insurance, annuity, individual life insurance and other insurance products. We focus on serving the senior and middle-income markets, which we believe are attractive, high growth markets. We sell our products through three distribution channels: career agents, professional independent producers, some of whom sell one or more of our product lines exclusively, and direct marketing.

We conduct our business operations through two primary operating segments, based primarily on method of product distribution, and a third segment comprised of businesses in run-off. Prior to September 30, 2003, we conducted our insurance operations through one segment. In the fourth quarter of 2003, we implemented changes contemplated in our restructuring plan to conduct our business through the following segments:

Bankers Life, which consists of the businesses of Bankers Life and Casualty and Colonial Penn. Bankers Life and Casualty markets and distributes Medicare supplement insurance, life insurance, long-term care insurance and fixed annuities to the senior market through approximately 4,000 exclusive career agents and sales managers. Colonial Penn markets graded benefit and simplified issue life insurance directly to consumers through television advertising, direct mail, the internet and telemarketing. Both Bankers Life and Casualty and Colonial Penn market their products under their own brand names.

Conseco Insurance Group, which markets and distributes specified disease insurance, Medicare supplement insurance and certain life and annuity products to the senior and middle-income markets through over 500 independent marketing organizations that represent over 9,100 producing independent agents. This segment markets its products under the Conseco brand.

Other business in run-off, which includes blocks of business that we no longer market or underwrite and are managed separately from our other businesses. This segment consists of long-term care insurance sold through independent agents and major medical insurance.

We also have a corporate segment, which consists of holding company activities and certain noninsurance company businesses that are not related to our operating segments.

We have restated all historical periods presented in Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operations to reflect our new segments.

We emerged from bankruptcy protection under our plan of reorganization, which was confirmed pursuant to an order of the bankruptcy court on September 9, 2003, and became effective on September 10, 2003. Upon the confirmation of the plan of reorganization, we implemented fresh start accounting in accordance with Statement of Position 90-7 Financial Reporting by Entities in Reorganization under the Bankruptcy Code. Our accounting and actuarial systems and procedures are designed to produce financial information as of the end of a month. Accordingly, for accounting convenience purposes, we applied the effects of fresh start accounting on August 31, 2003. Our activities for the period September 1, 2003 through

Table of Contents

September 10, 2003 are therefore included in the successor s statement of operations and excluded from the predecessor s statement of operations. We believe the net income impact of the use of the convenience date is immaterial.

In accordance with Statement of Position 90-7, we restated all of our assets and liabilities to their current estimated value, reestablished shareholders equity at the reorganization value determined in connection with our plan of reorganization and recorded the portion of the reorganization value which could not be attributed to specific tangible or identified intangible assets as goodwill. As a result, our financial statements for periods following August 31, 2003, are not comparable with those prepared before that date.

For the four months ended December 31, 2003, net income after dividends on our convertible exchangeable preferred stock totaled $68.5 million, or 67 cents per diluted share. Results for the four month period included net after-tax gains of $3.4 million from realized investment gains and venture capital losses.

Despite low ratings and our decisions to discontinue or curtail sales of some of our products in order to conserve capital coming out of bankruptcy, collected premiums in our core products have been relatively stable since our emergence from bankruptcy.

The past year was a year of transition for us. We continue to focus on the factors that we believe are most important to achieving our key business objective, improving the financial strength ratings of our insurance subsidiaries:

Combined statutory earnings (loss) (a non-GAAP measure) totaled $286.1 million and $(465.0) million in 2003 and 2002, respectively. Included in such earnings (loss) are net realized capital gains (losses), net of income taxes, of $32.8 million and $(516.1) million in 2003 and 2002, respectively. The 2003 statutory results included several positive income items resulting from the sale of the General Motors building in the third quarter, as well as expense reductions and other operating improvements.

Combined statutory capital and surplus (a non-GAAP measure) at December 31, 2003, was $1.5 billion, up from $1.1 billion at year-end 2002.

Combined risk-based capital ratio (a non-GAAP measure) was 287 percent at December 31, 2003, up from 166 percent at year-end 2002.

Our other major goals for 2004 are to reduce our capital cost, strengthen our balance sheet and improve our execution on the basics of our business by:

further reducing operating expenses and improving the efficiency of our operations across all business functions;

continuing to address the problems in the acquired blocks of long-term care business in the other business in run-off segment;

consolidating and streamlining our back-office systems to reduce complexity, lower our costs and improve customer service; and

expanding the reach of the career agents in our Bankers Life segment into new geographic markets.

Critical Accounting Policies

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management has made estimates in the past that we believed to be appropriate but were subsequently revised to reflect actual experience. If our future experience differs materially from these estimates and assumptions, our results of operations and financial condition could be affected.

Table of Contents

We base our estimates on historical experience and other assumptions that we believe are reasonable under the circumstances. We continually evaluate the information used to make these estimates as our business and the economic environment change. The use of estimates is pervasive throughout our financial statements. The accounting policies and estimates we consider most critical are summarized below. Additional information on our accounting policies is included in the note to our consolidated financial statements included elsewhere in this prospectus entitled Summary of Significant Accounting Policies .

Investments

At December 31, 2003, the carrying value of our investment portfolio was $22.8 billion. The accounting risks associated with these assets relate to the recognition of income, our determination of other-than-temporary impairments and our estimation of fair values.

We defer any fees received or costs incurred when we originate investments. We amortize fees, costs, discounts and premiums as yield adjustments over the contractual lives of the investments. We consider anticipated prepayments on structured securities in determining estimated yields on such securities. Adjustments to yields as a result of actual prepayments being different than anticipated are recognized as investment income (loss).

When we sell a security, other than trading securities or venture capital investments, we report the difference between the sale proceeds and the amortized cost, determined based on specific identification, as a realized investment gain or loss.

We regularly evaluate all of our investments for possible impairment based on current economic conditions, credit loss experience and other investee-specific developments. If there is a decline in a security s net realizable value that is other than temporary, the decline is recognized as a realized loss and the cost basis of the security is reduced to its estimated fair value. During the four months ended December 31, 2003, we recorded $9.6 million of writedowns of fixed maturities, equity securities and other invested assets as a result of conditions that caused us to conclude a decline in the fair value of the investments was other than temporary. During the eight months ended August 31, 2003, we recorded writedowns of fixed maturity investments, equity securities and other invested assets totaling $51.3 million.

If a decline in value is determined to be other than temporary and the cost basis of the security is written down to fair value, we review the circumstances which caused us to believe that the decline was other than temporary with respect to other investments in our portfolio. If such circumstances exist with respect to other investments, those investments are also written down to fair value. Future events may occur, or additional or updated information may become available, which may necessitate future realized losses of securities in our portfolio. Significant losses in the carrying value of our investments could have a material adverse effect on our earnings in future periods.

Our evaluation of investments for impairment requires significant judgments to be made, including:

- the identification of potentially impaired securities;
- the determination of their estimated fair value; and
- assessment of whether any decline in estimated fair value is other than temporary.

Our periodic assessment of whether unrealized losses are other than temporary also requires significant judgment. Factors considered include:

- the extent to which market value is less than the cost basis;
- the length of time that the market value has been less than cost;
- whether the unrealized loss is event driven, credit-driven or a result of changes in market interest rates;
- the near-term prospects for improvement in the issuer and/or its industry;

Table of Contents

- whether the investment is investment grade and our security analyst s view of the investment s rating and whether the investment has been downgraded since its purchase;
- whether the issuer is current on all payments in accordance with the contractual terms of the investment and is expected to meet all of its obligations under the terms of the investment;
- our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery; and
- the underlying asset and enterprise values of the issuer.

If new information becomes available or the financial condition of the investee changes, our judgments may change resulting in the recognition of a realized investment loss at that time. At December 31, 2003, our net accumulated other comprehensive income included gross unrealized losses on investments of $34.5 million. We consider all such declines in estimated fair value to be temporary.

Estimated fair values for our investments are determined based on estimates from nationally recognized pricing services, broker-dealer market makers and internally developed methods. Our internally developed methods require us to make judgments about the security s credit quality, liquidity and market spread.

Below-investment grade securities have different characteristics than investment grade corporate debt securities. Risk of loss upon default by the borrower is significantly greater with respect to below-investment grade securities than with other corporate debt securities. Below-investment grade securities are generally unsecured and are often subordinated to other creditors of the issuer. Also, issuers of below-investment grade securities usually have higher levels of debt and are more sensitive to adverse economic conditions, such as recession or increasing interest rates, than are investment grade issuers. We attempt to reduce the overall risk in the below-investment grade portfolio, as in all investments, through careful credit analysis, strict investment policy guidelines, and diversification by issuer and/or guarantor and by industry.

During the four months ended December 31, 2003, we sold $604.9 million of fixed maturity investments which resulted in gross realized investment losses, before income taxes, of $7.3 million. During the first eight months of 2003, we sold $2.7 billion of fixed maturity investments which resulted in gross realized investment losses, before income taxes, of $62.4 million. Securities sold at a loss are sold for a number of reasons including but not limited to:

- changes in the investment environment;
- expectation that the market value could deteriorate further;
- desire to reduce our exposure to an issuer or an industry;
- changes in credit quality; and
- our analysis indicating there is a high probability that the security is other-than-temporarily impaired.

We seek to manage the relationship between the estimated duration of our invested assets and the expected duration of our insurance liabilities. When the estimated durations of assets and liabilities are similar, exposure to interest rate risk is minimized because a change in the value of assets should be largely offset by a change in the value of liabilities. A mismatch of the durations of invested assets and insurance liabilities could have a significant impact on our results of operations and financial position. See Quantitative and Qualitative Disclosures About Market Risks for additional discussion of the duration of our invested assets and insurance liabilities.

For more information on our investment portfolio and our critical accounting policies related to investments, see the note to our consolidated financial statements included elsewhere in this prospectus entitled Investments .

Table of Contents

Value of Policies Inforce at the Effective Date and Cost of Policies Produced

In conjunction with the implementation of fresh start accounting, we eliminated the historical balances of our predecessor s cost of policies purchased and cost of policies produced as of the effective date and replaced them with the value of policies inforce.

The cost assigned to the right to receive future cash flows from contracts existing at August 31, 2003 is referred to as the value of policies inforce. We also defer renewal commissions paid in excess of ultimate commission levels related to the existing policies in this account. The balance of this account is amortized, evaluated for recovery, and adjusted for the impact of unrealized gains (losses) in the same manner as the cost of policies produced described below. We expect to amortize approximately 10 percent of the December 31, 2003 balance of value of policies inforce in 2004, 10 percent in 2005, 9 percent in 2006, 8 percent in 2007 and 8 percent in 2008.

The cost of policies produced are those costs that vary with, and are primarily related to, producing new insurance business. These amounts are amortized using the interest rate credited to the underlying policy:

- in relation to the estimated gross profits for investment and universal life-type products; or
- in relation to future anticipated premium revenue for other products.

The amortization for investment and universal life-type products is adjusted retrospectively when estimates of current or future gross profits and margins to be realized from a group of products and contracts are revised.

When we realize a gain or loss on investments backing our universal life or investment-type products, we adjust the amortization to reflect the change in estimated gross profits from the products due to the gain or loss realized and the effect of the event on future investment yields. We also adjust the cost of policies produced for the change in amortization that would have been recorded if actively managed fixed maturity securities had been sold at their stated aggregate fair value and the proceeds reinvested at current yields. We include the impact of this adjustment in accumulated other comprehensive income (loss) within shareholders equity.

At December 31, 2003, the combined balance of the value of policies inforce and cost of policies produced was $3.1 billion. The recovery of these costs is dependent on the future profitability of the related business.

Each year, we evaluate the recoverability of the unamortized balance of the value of policies inforce and the cost of policies produced. We consider estimated future gross profits or future premiums, expected mortality or morbidity, interest earned and credited rates, persistency and expenses in determining whether the balance is recoverable. If we determine a portion of the unamortized balance is not recoverable, it is charged to amortization expense.

The assumptions we use to amortize and evaluate the recoverability of the value of policies inforce and the cost of policies produced involve significant judgment. A revision to these assumptions could have a significant adverse effect on our results of operations and financial position.

Goodwill

Upon our emergence from bankruptcy, we revalued our assets and liabilities to current estimated fair value and established our capital accounts at the reorganization value determined in connection with the plan of reorganization. We recorded the $1,141.6 million of the reorganization value which could not be attributed to specific tangible or identified intangible assets as goodwill. Under current accounting rules, which became effective January 1, 2002, goodwill is not amortized but is subject to an annual impairment test, or if there is an indication that an impairment may exist, more frequent tests. We obtained an independent appraisal of our business in connection with the preparation of the plan of reorganization which indicated no impairment of our goodwill existed. However, we may have to recognize impairment charges in the future if circumstances change.

Although the goodwill balance will not be subject to amortization, it will be reduced by future use of our net deferred income tax assets, including the deferred tax assets associated with tax operating loss carryforwards, existing at August 31, 2003. The goodwill balance was reduced by $189.4 million in the four months ended December 31, 2003 as a result of our use of that amount of our tax operating loss carryforward during that period. A valuation allowance has been provided for the remaining balance of such net deferred income tax assets due to the uncertainties regarding their realization. See Income Taxes below for further discussion.

Income Taxes

Our income tax expense includes deferred income taxes arising from temporary differences between the financial reporting and tax bases of assets and liabilities, capital loss carryforwards and net operating loss carryforwards. In assessing the realization of deferred income tax assets, we consider whether it is more likely than not that the deferred income tax assets will be realized. The ultimate realization of our deferred income tax assets depends upon generating future taxable income during the periods in which our temporary differences become deductible and before our net operating loss carryforwards expire. In addition, the use of our net operating loss carryforwards is dependent, in part, on whether the IRS ultimately agrees with the tax position we plan to take in our current and future tax returns. With respect to the deferred income tax assets, we assess the need for a valuation allowance on a quarterly basis.

At the time of our emergence from bankruptcy, we established a valuation allowance for the entire balance of net deferred income tax assets as we believed that the realization of such net deferred income tax assets in future periods was uncertain. As of December 31, 2003, we continue to believe that the realization of our net deferred income tax asset is uncertain and continue to maintain a valuation allowance for the entire balance of net deferred income tax assets. We reached this conclusion after considering the losses we realized in recent years, the uncertainties related to the tax treatment for the worthlessness of our investment in Conseco Finance, which is more fully discussed below, and the likelihood of future taxable income exclusive of reversing temporary differences and carryforwards.

As of December 31, 2003, we had approximately $3.6 billion of net operating loss carryforwards, after taking into account the reduction in tax attributes described in the paragraph which follows and the loss resulting from the worthlessness of our predecessor s investment in Conseco Finance discussed below. These net operating loss carryforwards expire as follows: $11.2 million in 2004; $4.6 million in 2005; $.2 million in 2006; $5.8 million in 2007; $6.6 million in 2008; $10.5 million in 2009; $4.2 million in 2010; $2.5 million in 2011; $16.0 million in 2012; $43.4 million in 2013; $6.9 million in 2014; $60.4 million in 2016; $41.5 million in 2017; $3,399.5 million in 2018; $.7 million in 2019; $5.5 million in 2020; and $1.0 million in 2022. The timing and manner in which we will utilize the net operating loss carryforwards in any year or in total may be limited by various provisions of the Internal Revenue Code, and interpretation thereof, and our ability to generate sufficient future taxable income in the relevant carryforward period.

The Code provides that any income realized as a result of the cancellation of indebtedness in bankruptcy will reduce certain tax attributes, including net operating loss carryforwards. We realized an estimated $2.5 billion of cancellation of debt income when we emerged from bankruptcy. Accordingly, our net operating loss carryforwards were reduced by $2.5 billion.

The following paragraphs summarize some of the various limitations and contingencies which exist with respect to the future utilization of the net operating loss carryforwards.

We realized an estimated $5.4 billion tax loss in 2003 as a result of our investment in Conseco Finance. In consultation with our tax advisors and based on relevant provisions of the Code, we intend to treat this loss as an ordinary loss, thereby increasing our net operating loss carryforward. We have requested a pre-filing examination by the IRS to confirm that this loss should be treated as an ordinary loss. If the IRS were to disagree with our conclusion and such determination ultimately prevailed, the loss would be treated as a capital loss, which would only be available to reduce future capital gains for the next 5 years. The procedures related to the pre-filing examination are in process, but are not expected to be completed before August 2004.

Table of Contents

The Code limits the extent which losses realized by one or more a non-life entities may offset income from one or more life insurance companies to the lesser of:

35 percent of the income of the life insurance company; or

35 percent of the total loss.

There is no limitation with respect to the ability to utilize net operating losses generated by a life insurance company. Subsequent to our emergence from bankruptcy, we reorganized some of our subsidiaries to improve their capital position and, as a result, the loss related to Conseco Finance was realized by a life insurance company. Accordingly, we believe the loss should be treated as a life insurance loss and should not be subject to the limitations described above. However, if the IRS were to disagree with our conclusion and such determination ultimately prevailed, the loss related to Conseco Finance would be subject to the limitation described in the first sentence of this paragraph.

The timing and manner in which we will be able to utilize some or all of our net operating loss carryforwards may be limited by section 382 of the Code. Section 382 imposes limitations on a corporation s ability to use its net operating losses if the company undergoes an ownership change. Because we underwent an ownership change pursuant to our reorganization, we have determined that this limitation applies to us. In order to determine the amount of this limitation, we must determine how much of our net operating loss carryforward relates to the period prior to our emergence from bankruptcy (and, as a result is subject to the section 382 limitation) and how much relates to the period after emergence (and, as a result is not subject to the section 382 limitation). Pursuant to the Code, we may:

allocate the current year tax loss on a pro rata basis to determine earnings (loss) post- and pre-emergence; or

specifically identify transactions in each period and record them in the period in which they actually occurred.

We intend to elect the latter, which we believe will result in a substantial portion of the loss related to Conseco Finance being treated as post-emergence and therefore not subject to the section 382 limitation. Any losses that are subject to the section 382 limitation will only be utilized by us up to approximately $140 million per year, with any unused amounts carried forward to the following year.

The reduction of any portion of our deferred income tax valuation allowance, including the deferred tax assets associated with net operating loss carryforwards existing as of August 31, 2003, will be accounted for as a reduction of goodwill when eliminated pursuant to Statement of Position 90-7. If all goodwill is eliminated, any additional reduction of the valuation allowance existing at August 31, 2003 will be accounted for as a reduction of other intangible assets until exhausted and thereafter as an addition to paid-in-capital. Goodwill was reduced by $189.4 million during the four months ended December 31, 2003 due to a reduction in the valuation allowance for net deferred income tax assets established at the effective date.

Liabilities for Insurance Products

At December 31, 2003, the total balance of our liabilities for insurance and asset accumulation products was $24.8 billion. These liabilities are often payable over an extended period of time and the profitability of the related products is dependent on the pricing of the products and other factors. Differences between our expectations when we sold these products and our actual experience could result in future losses.

We calculate and maintain reserves for the estimated future payment of claims to our policyholders based on actuarial assumptions. For our supplemental health insurance business, we establish an active life reserve plus a liability for due and unpaid claims, claims in the course of settlement and incurred but not reported claims, as well as a reserve for the present value of amounts not yet due on claims. Many factors can affect these reserves and liabilities, such as economic and social conditions, inflation, hospital and pharmaceutical costs, changes in doctrines of legal liability and extra-contractual damage awards. Therefore, the reserves and liabilities we establish are necessarily based on extensive estimates, assumptions and historical experience. Establishing reserves is an uncertain process, and it is possible that actual claims will

materially exceed our reserves and have a material adverse effect on our results of operations and financial condition. Our financial results depend significantly upon the extent to which our actual claims experience is consistent with the assumptions we used in determining our reserves and pricing our products. If our assumptions with respect to future claims are incorrect, and our reserves are insufficient to cover our actual losses and expenses, we would be required to increase our liabilities, which would negatively affect our operating results.

Liabilities for insurance products are calculated using management s best judgments of mortality, morbidity, lapse rates, investment experience and expense levels that are based on our past experience and standard actuarial tables.

In accordance with Statement of Position 90-7, we established insurance liabilities and an asset for the value of policies inforce at the effective date using current assumptions. Adjustments to the predecessor s liabilities for insurance and asset accumulation products as of August 31, 2003 are summarized below (dollars in millions):

	Predecessor Balance Sheet	Fresh Start Adjustments	Successor Balance Sheet
Liabilities for insurance and asset accumulation products:			
Traditional and limited payment products:			
Traditional life insurance products	$ 1,885.3	$ 320.3	$ 2,205.6
Limited pay annuities	880.0	140.0	1,020.0
Individual accident and health	5,245.8	1,887.9	7,133.7
Group life and health	692.0	136.7	828.7
Unearned premiums	3.3		3.3
Total liabilities for traditional and limited payment products	8,706.4	2,484.9	11,191.3
Interest-sensitive products:			
Investment contracts	8,489.8	132.9	8,622.7
Universal life-type products	3,994.6	(15.4)	3,979.2
Total liabilities for interest-sensitive products	12,484.4	117.5	12,601.9
Other liabilities for insurance and asset accumulation products:			
Separate accounts and investment trusts	87.7		87.7
Claims payable and other policyholder funds	897.1	(10.3)	886.8
Total other liabilities for insurance and asset accumulation products	984.8	(10.3)	974.5
Total liabilities for insurance and asset accumulation products	$22,175.6	$2,592.1	$24,767.7

The following provides explanations for the fresh-start adjustment to insurance liabilities related to our insurance inforce at the effective date.

Traditional Insurance and Limited Pay Products

In accordance with Statement of Financial Accounting Standards No. 60, Accounting and Reporting by Insurance Enterprises and Statement of Financial Accounting Standards No. 97, Accounting and Reporting by Insurance Enterprises for certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments , the predecessor used the original actuarial assumptions determined when traditional long-duration and limited payment insurance contracts were issued in determining liability calculations through the fresh start date, provided the resulting liabilities were adequate to provide for future benefits and expenses under the related contracts. This accounting principle

is referred to as the lock in principle and is only applicable to traditional insurance and limited pay products. The use of assumptions that

are locked in at the time of issue means that absent loss recognition, the same assumptions are used in accounting for a particular block of business unless the block is subject to purchase or fresh start accounting.

At the effective date, the successor established insurance liabilities at the present value of future benefits and expenses associated with the policies by using current best-estimate assumptions with provisions for adverse deviation. Such assumptions include estimates as to investment yields, mortality, morbidity, withdrawals, lapses and maintenance expenses. The current best-estimate assumptions for these blocks of business differ from the original actuarial assumptions determined when the business was acquired or issued as further described in the following paragraphs.

Due to the current interest rate environment and the requirement to mark the value of the investment portfolio to market, we changed our assumptions related to future investment earnings. The weighted average expected yield on our investment portfolio decreased to approximately 5.6 percent at the effective date from 6.7 percent at December 31, 2002. Approximately $.9 billion of the fresh-start increase to insurance liabilities is the result of changes in future expected investment earnings.

The performance of our long-term care business (especially the acquired block originally sold through independent agents) has generally been unfavorable relative to the predecessor s assumptions established when these blocks of business were acquired. For example, variance in actual versus estimated morbidity, lapses and expenses have been unfavorable to original assumptions. Approximately $1.4 billion of the increase to insurance liabilities is the result of changes in non-interest assumptions for our long-term care policies. Our assumption changes for long-term care business included:

- changes in morbidity assumptions from estimates made when the business was acquired to recent company experience;
- changes in mortality assumptions related to certain blocks of this business from the 1958 and 1980 Commissioners Standard Ordinary Mortality table to the 1983 Group Annuity Mortality table; and
- changes in ultimate lapse ratios from a range of approximately 3 percent to 5.5 percent prior to the adoption of fresh start accounting to a range of 2 percent to 3.5 percent.

Interest-Sensitive Products Subject to Requirements of SFAS 97

The insurance liability for asset accumulation products such as deferred annuities and universal life products is generally equal to current policyholder account balances. These balances generally do not change as a result of the adoption of fresh start accounting. The fresh-start adjustment to insurance liabilities for interest-sensitive products primarily results from:

- the adoption of Statement of Position 03-01 as of the effective date; and
- certain predecessor insurance liabilities that were different from the present value of estimated future benefits as of August 31, 2003.

The adoption of Statement of Position 03-01 as of the effective date required a change in methodology regarding persistency bonuses provided to policyholders who continue to keep their policies inforce for a stated period of time. The predecessor recognized the cost of this benefit over the period prior to the time the benefit is credited in proportion to estimated gross profits and assumed a certain number of policies would terminate before the benefit was credited. Under Statement of Position 03-01, the cost for such benefits is recognized ratably over the period prior to the time the benefit is credited without assuming policy terminations. Insurance liabilities increased by approximately $.1 billion as a result of the adoption of Statement of Position 03-01.

In addition, the insurance liabilities for certain predecessor insurance liabilities were different than the present value of estimated future benefits as of the effective date.

The predecessor had previously established an insurance liability related to some of its business to recognize the future loss expected to be recognized for the former practice of reducing the cost of insurance charges to amounts below the level permitted under the provisions of the policy. The predecessor amortized

this liability into income in proportion to estimated gross profits on the business, consistent with Statement of Financial Accounting Standards No. 97 requirements for unearned revenues. The predecessor had previously decided to discontinue the practice of providing this nonguaranteed benefit. Accordingly, the remaining insurance liability established for this benefit was no longer required at August 31, 2003, resulting in a $.1 billion reduction to reserves in conjunction with our adoption of fresh-start accounting.

The liabilities established for our equity-indexed annuity products, including the value of options attributable to policyholders for the estimated life of the annuity contract and accounted for as embedded derivatives, are established pursuant to different accounting rules than other interest-sensitive products. At the effective date, the present value of estimated future benefits for our equity-indexed products exceeded the value of the predecessor s liabilities by $.2 billion, resulting in a fresh-start adjustment.

Liabilities for Loss Contingencies Related to Lawsuits and Our Guarantees of Bank Loans and Related Interest Loans

We are involved on an ongoing basis in lawsuits relating to our operations, including with respect to sales practices, and we and current and former officers and directors are defendants in pending class action lawsuits asserting claims under the securities laws and in derivative lawsuits. The ultimate outcome of these lawsuits cannot be predicted with certainty. We recognize an estimated loss from these loss contingencies when we believe it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. However, it is difficult to measure the actual loss that might be incurred related to litigation. The ultimate outcome of these lawsuits could have a significant impact on our results of operations and financial position.

In conjunction with the plan of reorganization, $481.3 million principal amount of bank loans made to certain former directors and certain current and former officers and key employees to enable them to purchase common stock of the predecessor were transferred to the successor. These loans had been guaranteed by the predecessor. We received all rights to collect the balances due pursuant to the original terms of these loans. In addition, we hold loans to participants for interest on the bank loans which total approximately $220 million. The former bank loans and the interest loans are collectively referred to as the director and officer loans. We regularly evaluate the collectibility of these loans in light of the collateral we hold and the creditworthiness of the participants. At December 31, 2003, we have estimated that approximately $51.0 million of the director and officer loan balance, which is included in other assets, is collectible, net of the cost of collection. An allowance has been established to reduce the recorded balance of the director and officer loans to this balance.

Pursuant to the settlement that was reached with the official committee of the trust originated preferred securities holders and the official committee of unsecured creditors in the plan of recognition, the former holders of the trust originated preferred securities (issued by the predecessor s subsidiary trusts and eliminated in our reorganization) who did not opt out of the bankruptcy settlement, will be entitled to receive 45 percent of any proceeds from the collection of certain director and officer loans in an aggregate amount not to exceed $30 million. We have established a liability of $23.1 million, which is included in other liabilities, representing our estimate of the amount which will be paid to the former holders of the trust originated preferred securities pursuant to the settlement.

Results of Operations

Due to the application of fresh start accounting, the reported historical financial statements of our predecessor for periods prior to August 31, 2003 generally are not comparable to our financial statements prepared after that date. Therefore, our results of operations have not been combined with those of our predecessor. Please read this discussion in conjunction with the accompanying consolidated financial statements and notes included elsewhere in this prospectus.

After our emergence from bankruptcy, we began to manage our business operations through two primary operating segments, based primarily on method of product distribution, and a third segment comprised of business in run-off. We refer to these segments as: (1) Bankers Life; (2) Conseco Insurance Group; and (3) other business in run-off. Prior to its disposition effective March 31, 2003, we also had a finance segment. We also have a corporate segment, which consists of holding company activities and certain noninsurance company businesses that are not related to our other operating segments. The following tables and narratives summarize the operating results of our segments for the periods presented as we currently manage them (dollars in millions):

	Successor	Predecessor		
	Four Months Ended December 31, 2003	Eight Months Ended August 31, 2003	Years Ended December 31,	
			2002	2001
Earnings (losses) before taxes:				
Bankers Life	$ 85.5	$ 159.6	$ 136.5	$ 289.3
Conseco Insurance Group	94.3	299.9	(211.5)	186.0
Other business in run-off	12.8	(171.3)	(216.8)	(106.0)
Corporate operations	(43.1)	1,884.0	(1,340.4)	(612.7)
Income (loss) before income taxes, minority interest, discontinued operations and cumulative effect of accounting change	$149.5	$2,172.2	$(1,632.2)	$(243.4)

General: Conseco, Inc. is the top tier holding company for a group of insurance companies operating throughout the United States that develop, market and administer supplemental health insurance, annuity, individual life insurance and other insurance products. We distribute these products through a career agency force and direct response marketing, which, together, represent our Bankers Life segment, and through professional independent producers, which represent our Conseco Insurance Group segment. Our other business in run-off segment consists of:

long-term care products written in prior years through independent agents;

small group and individual major medical business which we began to nonrenew in 2001; and

other group major medical business which we no longer actively market.

Most of the long-term care business in run-off relates to business written by certain of our subsidiaries prior to their acquisitions by Conseco in 1996 and 1997.

Bankers Life (dollars in millions)

	Successor	Predecessor		
	Four Months Ended December 31, 2003	Eight Months Ended August 31, 2003	Years Ended December 31,	
			2002	2001
Premiums and asset accumulation product collections:				
Annuities	$253.8	$ 698.4	$ 740.9	$ 513.1
Supplemental health	407.9	759.6	1,159.4	1,097.4
Life	58.6	102.7	139.0	286.3

Total premium collections	$720.3	$1,560.7	$2,039.3	$1,896.8

53

Table of Contents

	Successor	Predecessor		
	Four Months Ended December 31, 2003	Eight Months Ended August 31, 2003	Years Ended December 31, 2002	Years Ended December 31, 2001
Average liabilities for insurance products:				
Annuities:				
Mortality based	$ 325.7	$ 286.5	$ 271.7	$ 257.6
Equity-linked	262.9	264.8	301.0	320.8
Deposit based	3,156.2	2,847.7	2,248.4	1,864.3
Health	2,620.8	1,916.3	1,712.0	1,497.6
Life:				
Interest sensitive	333.0	324.4	311.6	300.0
Non-interest sensitive	747.3	652.4	654.0	1,083.2
Total average liabilities for insurance products, net of reinsurance ceded	$7,445.9	$6,292.1	$5,498.7	$5,323.5
Revenues:				
Insurance policy income	$ 456.8	$ 892.7	$1,300.1	$1,400.1
Net investment income:				
General account invested assets	128.9	253.4	382.2	391.9
Equity-indexed products based on the change in value of the S&P 500 call options	6.6	4.8	(14.8)	(15.5)
Trading account income related to policyholder and reinsurer accounts	5.2			
Change in value of embedded derivatives related to modified coinsurance agreements	(5.2)			
Net realized investment gains (losses)	3.4	5.5	(128.7)	(43.5)
Fee revenue and other income	.5	.2	1.3	1.2
Total revenues	596.2	1,156.6	1,540.1	1,734.2
Expenses:				
Insurance policy benefits	338.2	705.6	973.4	1,002.7
Amounts added to policyholder account balances:				
Annuity products and interest-sensitive life products other than those listed below	50.6	89.5	116.9	105.5
Equity-indexed products based on S&P 500 Index	7.0		.6	.6
Amortization related to operations	62.3	113.4	171.9	198.4
Amortization related to net realized investment gains (losses)		.5	(3.2)	(5.0)
Interest expense on investment borrowings	.8	3.4	4.6	6.1
Other operating costs and expenses	51.8	84.6	94.4	130.6
Special charges			45.0	6.0
Total benefits and expenses	510.7	997.0	1,403.6	1,444.9
Income before income taxes, minority interest, discontinued operations and cumulative effect of accounting change	$ 85.5	$ 159.6	$ 136.5	$ 289.3

	Successor	Predecessor		
	Four Months Ended December 31, 2003	Eight Months Ended August 31, 2003	Years Ended December 31, 2002	2001
Health loss ratios:				
All health lines:				
Insurance policy benefits	$283.7	$ 578.5	$840.9	$770.8
Loss ratio(a)	73.11%	75.30%	74.06%	70.23%
Medicare Supplement:				
Insurance policy benefits	$133.3	$ 283.3	$437.6	$443.1
Loss ratio(a)	62.79%	66.39%	67.15%	66.87%
Long-Term Care:				
Insurance policy benefits	$148.0	$ 287.2	$394.3	$316.2
Loss ratio(a)	86.06%	86.08%	83.69%	75.31%
Interest-adjusted loss ratio(b)	60.04%	69.26%	67.95%	60.91%
Other:				
Insurance policy benefits	$ 2.4	$ 8.0	$ 9.0	$ 11.5
Loss ratio(a)	63.79%	101.05%	71.21%	76.45%

(a) We calculate loss ratios by taking the related product s (1) insurance policy benefits divided by (2) insurance policy income.

(b) We calculate the interest-adjusted loss ratio for Bankers Life s long-term care products by taking the product s (1) insurance policy benefits less interest income on the accumulated assets which back the insurance liabilities divided by (2) policy income. Interest income is an important factor in measuring losses on this product. The net cash flows from long-term care products generally result in the accumulation of amounts in the early years of a policy (accounted for as reserve increases) which will be paid out as benefits in later policy years (accounted for as reserve decreases). Accordingly, as the policies age, the loss ratio will typically increase, but the increase in the change in reserve will be partially offset by investment income earned on the assets which have accumulated. The interest-adjusted loss ratio reflects the effects of the investment income offset.

Total premium collections were $720.3 million in the four months ended December 31, 2003; $1,560.7 million in the eight months ended August 31, 2003; and $2,039.3 million and $1,896.8 million in 2002 and 2001, respectively. Bankers Life s annuity premium collections in 2003 were positively impacted by sales inducements provided to purchasers of our annuities and sales incentives to our career agents. These programs ended at various times during the second quarter of 2003. Premium collections on Bankers Life s other products have been negatively impacted by the A.M. Best ratings downgrade to B (Fair). See Premium and Asset Accumulation Product Collections for further analysis.

Average liabilities for insurance products, net of reinsurance ceded, were $7.4 billion in the four months ended December 31, 2003; $6.3 billion in the eight months ended August 31, 2003; and $5.5 billion and $5.3 billion in 2002 and 2001, respectively. The increase in such liabilities through August 31, 2003 is primarily due to increases in annuity reserves. As discussed above under Total premium collections , annuity premium collections in our Bankers Life segment were positively impacted during 2003 by sales inducements and incentives. The increase in such liabilities for the four months ended December 31, 2003 reflects the adoption of fresh start accounting. Bankers Life s average life reserves decreased by $417.6 million, or 30 percent, in 2002 as compared to 2001, primarily due to a first quarter 2002 reinsurance transaction which ceded approximately $400 million of liabilities to the assuming company. The reinsurance transaction is discussed further in the note to the consolidated financial statements included elsewhere in this prospectus entitled Summary of Significant Accounting Policies Reinsurance.

Table of Contents

Insurance policy income is comprised of (1) premiums earned on policies which provide mortality or morbidity coverage and (2) fees and other charges made against other policies. See Premium and Asset Accumulation Product Collections for further analysis.

Net investment income on general account invested assets, which excludes income on policyholder and reinsurer accounts, was:

$128.9 million in the four months ended December 31, 2003;

$253.4 million in the eight months ended August 31, 2003;

$382.2 million in 2002; and

$391.9 million in 2001.

The average balance of general account invested assets was:

$7.0 billion in the four months ended December 31, 2003;

$6.6 billion in the eight months ended August 31, 2003;

$6.1 billion in 2002; and

$5.7 billion in 2001.

The yield on these assets was:

5.5 percent in the four months ended December 31, 2003;

5.7 percent in the eight months ended August 31, 2003;

6.3 percent in 2002; and

6.9 percent in 2001.

The decrease in yield for the four months ended December 31, 2003, reflects the adoption of fresh start accounting which effectively reset the yields to market rates at August 31, 2003. The decrease in yield in the other periods reflects the lower interest rate environment prevailing during the periods presented and the resulting lower rates earned on invested assets. In 2002, net investment income and the average balance of general account invested assets both reflect the transfer of a portion of our investment portfolio to the reinsurer pursuant to the above-mentioned first quarter 2002 reinsurance transaction.

Net investment income related to equity-indexed products based on the change in value of the S&P 500 call options represents the change in the estimated fair value of Bankers Life s S&P 500 Index call options which are purchased in an effort to cover certain benefits accruing to the policyholders of our equity-indexed products. Our equity-indexed products are designed so that the investment income spread earned on the related insurance liabilities should be more than adequate to cover the cost of the S&P 500 call options and other costs related to these policies. Option costs that are attributable to benefits provided were:

$2.9 million in the four months ended December 31, 2003;

$7.7 million in the eight months ended August 31, 2003;

$15.2 million in 2002; and

$16.0 million in 2001.

These costs are reflected in the change in market value of the S&P 500 call options included in the investment income amounts. Net investment income (loss) related to equity-indexed products before this expense was:

$9.5 million in the four months ended December 31, 2003;

$12.5 million in the eight months ended August 31, 2003;

$.4 million in 2002; and

$.5 million in 2001.

These amounts were partially offset by the corresponding charge (credit) to ***amounts added to policyholder account balances for equity-indexed products based on S&P 500 Index*** of:

$7.0 million in the four months ended December 31, 2003;

nil in the eight months ended August 31, 2003;

$.6 million in 2002; and

$.6 million in 2001.

Such income and related charge fluctuate based on the value of options embedded in the segment s equity-indexed annuity policyholder account balances subject to this benefit and to the performance of the S&P 500 Index to which the returns on these products are linked.

Change in value of embedded derivatives related to modified coinsurance agreements are described in the note to our consolidated financial statements for the period ended December 31, 2003 included elsewhere in this prospectus entitled Summary of Significant Accounting Policies Accounting for Derivatives. We have transferred the specific block of investments related to these agreements to our trading securities account, which we carry at estimated fair value with changes in such value recognized as trading account income. We expect the change in the value of the embedded derivatives largely to be offset by the change in value of the trading securities.

Net realized investment gains (losses) fluctuate from period to period. During the four months ended December 31, 2003, net realized investment gains in our Bankers Life segment included:

$8.6 million of net gains from the sales of investments (primarily fixed maturities), net of

$5.2 million of writedowns of fixed maturity investments, equity securities and other invested assets as a result of conditions which caused us to conclude a decline in fair value of the investment was other than temporary.

During the first eight months of 2003, we recognized net investment gains of $5.5 million. During the first eight months of 2003, the net realized investment gains included:

$20.5 million of net gains from the sales of investments (primarily fixed maturities), net of

$15.0 million of writedowns of fixed maturity investments, equity securities and other invested assets as a result of conditions which caused us to conclude a decline in fair value of the investment was other than temporary.

During 2002 and 2001, Bankers Life recognized net realized investment losses of $128.7 million and $43.5 million, respectively. The net realized investment losses during 2002 included:

$138.5 million to write down certain securities to fair value due to an other-than-temporary decline in value (including issuers who have faced significant problems: K-Mart Corp., Amerco, Inc., Global Crossing, MCI Communications, Mississippi Chemical, United Airlines and Worldcom, Inc.); and

$9.8 million of net gains from the sales of investments (primarily fixed maturities).

The net realized investment losses during 2001 included writedowns of $69.4 million related to:

the impact of higher default rate assumptions on certain structured investments;

losses on investments held in our private equity portfolio; and

the writedown of certain securities to fair value due to an other-than-temporary decline in value or our plan to sell the securities in connection with investment restructuring activities (including issuers

who have faced significant problems: Sunbeam Corp., Enron Corp., Crown Cork & Seal Company Inc., Global Crossing Ltd. and K-Mart Corp.).

Insurance policy benefits fluctuated as a result of the factors summarized in the explanations for loss ratios related to specific products which follow. Loss ratios are calculated by taking the related insurance product s (1) insurance policy benefits divided by (2) policy income.

The loss ratios on Bankers Life s Medicare supplement products have generally been in line with our expectations. Governmental regulations generally require us to attain and maintain a ratio of total benefits incurred to total premiums earned (as calculated based on amounts reported for statutory accounting purposes) of not less than 65 percent on these products. The loss ratio for the four months ended December 31, 2003, reflected the elimination of $5.8 million of reserve redundancies based on the ultimate development of reserves at August 31, 2003.

The loss ratios on Bankers Life s long-term care products have generally been in line with expectations. The net cash flows from our long-term care products generally result in the accumulation of amounts in the early years of a policy (accounted for as reserve increases) which will be paid out as benefits in later policy years (accounted for as reserve decreases). Accordingly, as the policies age, the loss ratio will typically increase, but the increase in the change in reserve will be partially offset by investment income earned on the assets which have accumulated. The interest-adjusted loss ratio for long-term care products is calculated by taking the insurance product s: (1) insurance policy benefits less interest income on the accumulated assets which back the insurance liabilities divided by (2) policy income. The loss ratio on Bankers Life s long-term care products during 2001 reflected the elimination of reserve redundancies based on the ultimate development of reserves at December 31, 2000. The decrease in the interest-adjusted loss ratio for the four months ended December 31, 2003, is primarily due to the adoption of fresh start accounting which increased the reserves on this block of business.

The loss ratios on our other products fluctuate due to the smaller size of these blocks of business. The loss ratios on this business have generally been in line with our expectations.

Amounts added to policyholder account balances for annuity products and interest-sensitive life products were:

$50.6 million in the four months ended December 31, 2003;

$89.5 million in the eight months ended August 31, 2003;

$116.9 million in 2002; and

$105.5 million in 2001.

The increases are primarily due to increases in annuity reserves. The weighted average crediting rates for these products were:

4.4 percent for the four months ended December 31, 2003;

4.2 percent for the eight months ended August 31, 2003;

4.6 percent in 2002; and

4.9 percent in 2001.

Amounts added to equity-indexed products based on S&P 500 Index correspond to the related investment income accounts described above.

Amortization related to operations includes amortization of the value of policies inforce at the effective date, cost of policies produced and the cost of policies purchased (such amortization is collectively referred to as amortization of insurance intangibles). Insurance intangibles are amortized:

in relation to the estimated gross profits for universal life-type and investment-type products or

in relation to future anticipated premium revenue for other products.

Table of Contents

Bankers Life s amortization expense was in line with our expectations given the related premium revenue and gross profits for the periods.

Amortization related to net realized investment gains (losses) represents the increases or decreases in amortization which result from realized investment gains or losses. When we sell securities at a gain (loss) and reinvest the proceeds at a different yield, we increase (reduce) the amortization of insurance intangibles in order to reflect the change in future expected yields. Sales of fixed maturity investments resulted in an increase (decrease) in the amortization of insurance intangibles of:

nil in the four months ended December 31, 2003;

$.5 million in the eight months ended August 31, 2003;

$(3.2) million in 2002; and

$(5.0) million in 2001.

Interest expense on investment borrowings fluctuates along with our investment borrowing activities and the interest rates thereon. Average investment borrowings in our Bankers Life segment, excluding borrowings related to the General Motors building, were:

$173.6 million during the four months ended December 31, 2003;

$263.7 million during the eight months ended August 31, 2003;

$452.2 million in 2002; and

$222.4 million in 2001.

The weighted average interest rates on such borrowings, excluding borrowings related to the General Motors building, were:

1.4 percent during the four months ended December 31, 2003;

1.9 percent during the eight months ended August 31, 2003;

1.0 percent during 2002; and

2.7 percent during 2001.

Other operating costs and expenses in our Bankers Life segment were:

$51.8 million in the four months ended December 31, 2003;

$84.6 million in the eight months ended August 31, 2003;

$94.4 million in 2002; and

$130.6 million in 2001.

Increases in these expenses in 2003 are primarily related to increased policy acquisition costs which were non-deferrable. Such expenses decreased in 2002 by $36.2 million, or 28 percent compared to 2001, reflecting cost cutting programs implemented in the Bankers Life segment.

Special charges in 2002 included: (1) a loss of $39.0 million on a reinsurance transaction entered into as part of our cash raising initiatives; and (2) other items totaling $6.0 million primarily related to severance benefits and costs incurred with the transfer of certain customer service and backroom operations to our former India subsidiary. Special charges in 2001 were $6.0 million. Such charges primarily related to severance benefits and costs incurred in conjunction with the transfer of certain customer service and backroom operations to our former India subsidiary.

Table of Contents

Conseco Insurance Group (dollars in millions)

	Successor	Predecessor		
	Four Months Ended December 31, 2003	Eight Months Ended August 31, 2003	Years Ended December 31,	
			2002	2001
Premiums and asset accumulation product collections:				
Annuities	$18.1	$74.0	$351.9	$710.6
Supplemental health				