FORM 8-K

Current report filing

Filing Date: **1996-12-30** | Period of Report: **1996-12-23**
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FILER

CONSEECO INC ET AL

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SIC: **6321** Accident & health insurance

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

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

Date of Report: December 23, 1996

CONSECO, INC.

State of Incorporation:
Indiana

Commission File Number No. 1-9250	IRS Employer Id. Number No. 35-1468632

Address of Principal Executive Offices:
11825 North Pennsylvania Street
Carmel, Indiana 46032

Telephone No.
(317) 817-6100

CONSECO, INC. AND SUBSIDIARIES

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<TABLE>
<CAPTION>

2.8 Agreement and Plan of Merger dated as of September 25, 1996, by and between Conseco, Inc. and Transport Holdings Inc.*

2.8.1 First Amendment to Agreement and Plan of Merger dated as of November 7, 1996, by and between Conseco, Inc. and Transport Holdings Inc.**

* Previously filed with Form 8-K dated September 25, 1996 filed by Conseco, Inc.

** Previously filed as an exhibit to the Registration Statement on Form S-4 (file no. 333-14377) filed by Conseco, Inc.

</TABLE>

CONSECO, INC. AND SUBSIDIARIES

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS.

On December 23, 1996, Conseco, Inc. ("Conseco") completed its merger with Transport Holdings Inc. ("THI"), in a transaction pursuant to which THI was merged with and into Conseco, with Conseco being the surviving corporation (the "Merger"). The Merger was consummated pursuant to an Agreement and Plan of Merger dated as of September 25, 1996, as amended by the First Amendment to the Agreement and Plan of Merger, dated as of November 7, 1996. In the Merger, each outstanding share of THI common stock was exchanged for 1.4 shares of Conseco's common stock. Conseco issued approximately 2.4 million shares of Conseco common stock or common stock equivalents with a value of approximately $121.7 million to acquire THI's common stock. In addition, pursuant to an exchange offer (the "Exchange Offer"), all of THI's Subordinated Convertible Notes (the "THI Convertible Notes") were exchanged for shares of Conseco common stock on an equivalent basis as the shares issued in the Merger plus a cash premium. Such THI Convertible Notes were converted into 2.1 million shares of Conseco common stock with a value of approximately $106.2 million. Conseco also paid a premium of approximately $10 million to the holders of the THI Convertible Notes in conjunction with the Exchange Offer.

The acquisition of THI will be accounted for under the purchase method of accounting in the fourth quarter of 1996. Under this method, the cost to acquire THI will be allocated to the assets and liabilities acquired based on fair values as of the date of the Merger, with the excess of the total purchase cost over the fair value of the assets acquired less the fair values of the liabilities assumed recorded as goodwill.

CONSECO, INC. AND SUBSIDIARIES

ITEM 7(a). Financial Statements and Exhibits

(a) Transport Holdings Inc. Unaudited Condensed Consolidated Financial Statements as of September 30, 1996, and for the nine months ended September 30, 1996 and 1995.

TRANSPORT HOLDINGS INC.

Condensed Consolidated Balance Sheets

<TABLE>
<CAPTION>

Assets	(in thousands) September 30, 1996 (unaudited)	December 31, 1995 (a) <F1>
<S>	<C>	<C>
Fixed maturities available for sale, at market (cost: 1996 - $476,722; 1995 - $482,626)	$ 482,993	$ 518,303
Equity securities, at market (cost: 1996 - $76; 1995 - $1,850)	1,074	3,473
Mortgage loans on real estate	8,335	9,348

Investment in real estate	301	195
Policy loans	16,886	18,487
Short-term investments	33,831	22,952
Other investments	6,212	4,872
Total investments	549,632	577,630
Cash and cash equivalents	742	2,198
Accrued investment income	5,704	6,258
Premiums due and unpaid	3,339	4,918
Due from reinsurers	328,564	298,867
Due from agents	3,408	5,332
Value of insurance in force	10,778	12,177
Deferred policy acquisition costs	28,392	29,531
Debt issue costs	3,439	3,738
Other assets	7,868	9,839
Total assets	$ 941,866	$ 950,488

(Continued)

<FN>
<F1>
(a) Condensed from audited financial statements.
</FN>

</TABLE>

TRANSPORT HOLDINGS INC.

Condensed Consolidated Balance Sheets, Continued

<TABLE>
<CAPTION>

Liabilities and Stockholders' Equity	(in thousands) September 30, 1996 (unaudited)	December 31, 1995 (a) <F1>
<S>	<C>	<C>
Notes payable to banks	$ 58,250	$ 60,250
Subordinated convertible notes payable	50,000	50,000
Future policy benefits	344,256	315,253
Unearned premiums	34,682	39,961
Policy and contract claims	241,653	229,179
Other policyholder funds	2,802	3,130
Income taxes payable	17,453	28,074
Accrued expenses and other liabilities	18,551	20,546
Total liabilities	767,647	746,393
Stockholders' equity		
Preferred stock, $0.01 par value per share, 2,000,000 shares authorized; shares issued and outstanding: 91,030 at September 30, 1996, 182,060 at December 31, 1995; redemption value: $25,630 at September 30, 1996, $46,911 at December 31, 1995	22,758	45,515
Class A common stock, $0.01 par value per share, 8,000,000 shares authorized; shares issued and outstanding: 1,592,048 at September 30, 1996, 1,590,461 at December 31, 1995	16	16
Class B common stock, $0.01 par value per share, 2,000,000 shares authorized, none issued	- -	- -
Paid in capital	169,732	169,665
Unrealized appreciation of securities, net	4,725	24,245
Retained (deficit)	(23,012)	(35,346)
Total equity	174,219	204,095
Total liabilities and stockholders' equity	$ 941,866	$ 950,488

<FN>
<F1>
(a) Condensed from audited financial statements.
</FN>

See accompanying notes to condensed consolidated financial statements.
</TABLE>

TRANSPORT HOLDINGS INC.

Condensed Consolidated Statements of Income

(Unaudited)

(in thousands, except per share amounts)

<TABLE>
<CAPTION>

	Three Months Ended September 30, 1996	Three Months Ended September 30, 1995	Nine Months Ended September 30, 1996	Nine Months Ended September 30, 1995
<S>	<C>	<C>	<C>	<C>
Revenues:				
Net premium income	$ 26,829	$ 51,449	$ 82,451	$ 160,067
Investment income, net of related expenses	9,673	13,668	29,552	39,708
Realized investment gains	20	(449)	334	(80)
Other income	794	- -	1,394	- -
Total revenues	37,316	64,668	113,731	199,695
Benefits and expenses:				
Incurred claims and other policy benefits, net	17,040	34,762	54,101	108,479
Commissions	5,933	10,573	17,266	33,728
Capitalization of deferred policy acquisition costs	(1,098)	(2,838)	(3,686)	(10,495)
Amortization of deferred policy acquisition costs and value of insurance in force	2,004	6,837	6,224	18,174
Interest expense and amortization of debt issue costs	2,238	- -	6,795	- -
Expenses of spin-off and related transactions	- -	2,209	- -	2,209
Other operating expenses	2,856	5,959	10,810	19,309
Total benefits and expenses	28,973	57,502	91,510	171,404
Income before tax	8,343	7,166	22,221	28,291
Provision for federal income tax	2,920	3,048	7,777	10,133
Net income	$ 5,423	$ 4,118	$ 14,444	$ 18,158
Earnings per share:				
Primary	$ 2.88	$ 238.20 a <F2>	$ 6.73	$ 3,116.72 a <F2>
Fully diluted	$ 1.68	$ 121.89 b <F3>	$ 4.06	$ 1,594.82 b <F3>

<FN>
<F2>
(a) Primary earnings per share was based on average shares outstanding of 17,288 for the three months ended September 30, 1995 and 5,826 for the nine months then ended. Earnings per share as if the entire 1,590,461 shares outstanding after the September 29, 1995 distribution had been outstanding for the entire period would have been $2.59 for the three months ended September 30, 1995 and $11.42 for the nine months then ended.
<F3>
(b) Fully diluted earnings per share was based on average shares outstanding of 33,786 for the three months ended September 30, 1995 and 11,386 for the nine months then ended. Earnings per share as if the entire 3,108,266 shares outstanding on a fully diluted basis after the September 29, 1995 distribution had been outstanding for the entire period would have been $1.32 for the three months ended September 30, 1995 and $5.84 for the nine months then ended.

</FN>
<FN>
See accompanying notes to condensed consolidated financial statements.
</FN>

</TABLE>

TRANSPORT HOLDINGS INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

<TABLE>
<CAPTION>

	(in thousands) Nine Months Ended September 30, 1996	1995
<S>	<C>	<C>
Operating activities:		
Net income	$ 14,444	$ 18,158
Adjustments to reconcile net income to net cash provided by operating activities:		

Gain on sale of securities	(334)	80
Accretion of bond discount or premium	(1,562)	(1,059)
Amortization debt issue costs	454	- -
Directors fees paid in capital stock	67	- -
Change in assets and liabilities:		
Accrued investment income	554	214
Premiums due and unpaid	1,579	1,146
Due from reinsurers	(29,697)	12,114
Due from agents	1,924	1,774
Value of insurance in force	1,399	1,847
Deferred policy acquisition costs	1,139	5,831
Other assets	1,972	1,686
Reserves for future policy benefits and claims	35,870	11,778
Income taxes payable	(110)	(1,849)
Accrued expenses and other liabilities	1,109	(270)
Net cash provided by operating activities	28,808	51,450
Investing activities:		
Sale of fixed maturities	64,251	143,190
Maturity of fixed maturities	5,150	- -
Sale of common stock	2,487	53,170
Sale of preferred stock	- -	1,936
Sale of investment in Travelers	- -	35,200
Sale of real estate	- -	16,585
Sale of mortgage	- -	7,000
Purchase of fixed maturities	(62,336)	(300,359)
Purchase of common stock	- -	(46,637)
Principal payments on mortgages	1,013	1,508
Principal payments on policy loans	1,601	1,662
Security transactions in course of settlement	(3,104)	- -
Change in short-term and other invested assets	(12,303)	23,652
Net cash used in investing activities	(3,241)	(63,093)
Financing activities:		
Issuance of long term debt	- -	112,000
Debt issue costs	- -	(3,868)
Dividends paid	- -	(105,000)
Cost of preferred stock issue	- -	(466)
Issuance of warrants	- -	93
Redemption of preferred stock	(24,868)	- -
Principal payments on bank debt	(2,000)	- -
Cost of borrowings capitalized	(155)	- -
Net cash used in financing activities	(27,023)	2,759
Decrease in cash and cash equivalents	(1,456)	(8,884)
Cash and cash equivalents at beginning of period	2,198	3,096
Cash and cash equivalents at end of period	$ 742	$ (5,788)
Supplemental disclosure of cash flow information:		
Cash paid for taxes	$ 7,561	$ 11,982
Interest paid	$ 6,696	$ - -

<FN>
See accompanying notes to condensed consolidated financial statements.
</FN>

</TABLE>

TRANSPORT HOLDINGS INC.

Condensed Consolidated Statement of Stockholders' Equity
(unaudited)
(in thousands except share amounts)

<TABLE>
<CAPTION>

	Preferred Stock Shares Issued	Preferred Stock Amount	Class A Common Stock Shares Issued	Class A Common Stock Amount	Paid in Capital	Unrealized appreciation (depreciation) of securities, net	Retained Deficit	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance December 31, 1995	182,060	$ 45,515	1,590,461	$ 16	$ 169,665	$ 24,245	$ (35,346)	$ 204,095
Net income							14,444	14,444
Issuance of shares to directors			1,587	0	67			67
Redemption of preferred stock	(91,030)	(22,757)					(2,110)	(24,867)

Unrealized investment losses, net of taxes						(19,520)		(19,520)
Balance, September 30, 1996	91,030	$ 22,758	1,592,048	$ 16	$ 169,732	$ 4,725	$ (23,012)	$ 174,219

<FN>
See accompanying notes to condensed consolidated financial statements.
</FN>

</TABLE>

TRANSPORT HOLDINGS INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization

Transport Holdings Inc. (the "Company") was incorporated under the laws of the State of Delaware. The Company is the sole stockholder of Intermediate Holdings Inc., a Delaware corporation. Intermediate Holdings Inc. is the sole stockholder of THD Inc., a Delaware corporation organized in 1996 and TLSD Inc., a Delaware corporation organized in 1995. THD Inc. is the sole shareholder of TLIC Life Insurance Company, a Texas life insurance company organized in 1995. TLIC Life Insurance Company is the sole shareholder of Transport Life Insurance Company, a Texas life insurance company organized in 1958 and in continuous operation since that time. Transport Life Insurance Company in turn owns all of the common stock of Continental Life Insurance Company, a Texas insurance company formed and in continuous operation since 1969, and a wholly owned subsidiary of Transport Life Insurance Company since 1971. TLIC Life Insurance Company, Transport Life Insurance Company, and Continental Life Insurance Company are principally engaged in the supplemental life and health insurance business.

These condensed consolidated financial statements include the accounts of the Company, Intermediate Holdings Inc., THD Inc., TLSD Inc., TLIC Life Insurance Company, Transport Life Insurance Company, and Continental Life Insurance Company, which have been combined for all periods presented. All material intercompany accounts and transactions have been eliminated. Prior to September 1995, there were no material assets, liabilities, or results of operations for any of the consolidated companies except Transport Life Insurance Company and Continental Life Insurance Company.

2. Basis of Presentation

The condensed consolidated financial statements as of and for the three months and nine months ended September 30, 1996 are unaudited and have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. The interim financial statements reflect all adjustments, consisting only of normal recurring adjustments, that are, in the opinion of management, necessary for a fair statement of the results for the interim periods.

These financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Annual Report dated March 22, 1996 and furnished to stockholders of the Company. The results of operations for the three month and nine month periods ended September 30, 1996 should not be considered indicative of the results to be expected for the entire year.

3. Earnings Per Share

Substantially all of the Company's Class A Common Stock was issued on September 29, 1995. On April 30, 1996, 1,587 shares of Class A Common Stock were issued to certain of the Company's directors in payment of directors' fees. Primary earnings per share was based on the weighted average number of Class A shares outstanding plus the weighted average number of common stock equivalents outstanding for stock options granted, using the treasury stock method. Fully diluted earnings per share was based on the number of shares that would be outstanding if the $50 million of subordinated convertible notes payable were converted into Class A shares (if such notes were presently convertible into Class A shares) and assuming the exercise of outstanding stock options using the treasury stock method. None of the stock options outstanding were exercisable at September 30, 1996.

On June 28, 1996, the Company redeemed 91,030 shares of preferred stock then outstanding at a cost of approximately $25 million. Approximately $2 million was charged to retained deficit for the excess of the redemption price, as determined pursuant to the preferred stock certificate, over the carrying value of the shares redeemed. This excess represented cumulative unpaid dividends on the preferred stock redeemed for the period from issuance (September 29, 1995) to redemption.

4. Pending Merger with Conseco, Inc.

On September 26, 1996, the Company announced that it had entered into an agreement to merge with and into Conseco, Inc. of Carmel, Indiana. Under the terms of the agreement, each share of the Company's common stock would be exchanged for the number of shares of Conseco, Inc. common stock determined by dividing $70 by the average trading price of the Conseco stock for the ten trading days immediately preceding the second trading day prior to closing (such number to be not more than 1.8301 nor less than 1.4000). The merger is subject to stockholder and regulatory approvals.

ITEM 7(a) Financial Statement and Exhibit, continued

(a), continued

Transport Holdings Inc. Audited Consolidated Financial Statements as of December 31, 1995 and 1994, and for each of the three years ended December 31, 1995.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Transport Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Transport Holdings, Inc. and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Transport Holdings, Inc. and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1995, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets to Be Disposed of."

/s/KPMG Peat Marwick LLP

KPMG Peat Marwick LLP

Dallas, Texas
February 22, 1996

TRANSPORT HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS

December 31, 1995 and 1994

<TABLE>
<CAPTION>

	1995	1994
	(in thousands)	
ASSETS		
Fixed maturities available for sale, at market (cost: 1995 -- $482,626; 1994 -- $514,852)	$518,303	$479,753
Equity securities, at market (cost: 1995 -- $1,850; 1994 -- $12,234)	3,473	12,416
Investment in Travelers, at market (cost $22,500)	--	35,200
Mortgage loans on real estate	9,348	18,600
Investment in real estate	195	16,483
Policy loans	18,487	20,223
Short-term investments	22,952	94,755
Other investments	4,872	3,942
Total investments	577,630	681,372
Cash and cash equivalents	2,198	3,096
Accrued investment income	6,258	8,358
Premiums due and unpaid	4,918	10,028
Due from reinsurers	298,867	54,522
Due from agents	5,332	4,261
Value of insurance in force	12,177	17,347
Deferred policy acquisition costs	29,531	89,455
Debt issue costs	3,738	--
Other assets	9,839	16,788
Total assets	$950,488	$885,227
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes payable to banks	$ 60,250	$ --
Subordinated convertible notes payable	50,000	--
Future policy benefits	315,253	271,049
Unearned premiums	39,961	51,436
Policy and contract claims	229,179	219,494
Other policyholder funds	3,130	2,540
Federal income taxes payable:		
Current	727	4,422
Deferred	27,347	34,741
Accrued expenses and other liabilities	20,546	12,183
Total liabilities	746,393	595,865
Stockholders' equity		
Preferred stock, $0.01 par value per share, 2,000,000 shares authorized, 182,060 shares issued and outstanding at December 31, 1995, redemption value $46,911 at December 31, 1995	45,515	--
Class A common stock, $0.01 par value per share, 8,000,000 shares authorized, 1,590,461 shares issued and outstanding at December 31, 1995	16	--
Class B common stock, $0.01 par value per share, 2,000,000 shares authorized, none issued	--	--
Paid in capital	169,665	215,569
Unrealized appreciation (depreciation) of securities, net	24,245	(22,694)
Retained (deficit) earnings	(35,346)	96,487
Total equity	204,095	289,362

Total liabilities and stockholders' equity	$950,488	$885,227

See accompanying notes to consolidated financial statements.
</TABLE>

TRANSPORT HOLDINGS INC.

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 1995, 1994, and 1993

<TABLE>
<CAPTION>

	1995	1994	1993
	(in thousands, except share amounts)		
Revenues:			
Premium income	$ 226,006	$ 255,809	$ 274,790
Premiums ceded	(35,844)	(28,131)	(17,858)
Net premium income	190,162	227,678	256,932
Investment income, net of related expenses	49,665	46,635	43,974
Other revenue	--	--	3,301
Realized investment gains (losses)	6,758	(3,393)	26,762
Total revenues	246,585	270,920	330,969
Benefits and expenses:			
Claims and other policy benefits	119,698	134,778	179,942
Reinsurance recoveries	(16,976)	(13,159)	(18,288)
Net claims and other policy benefits	102,722	121,619	161,654
Increase in future policy benefit reserves	29,171	25,905	20,396
Commissions	39,083	52,335	66,440
Capitalization of deferred policy acquisition costs	(11,688)	(21,931)	(27,939)
Amortization of deferred policy acquisition costs and value of insurance in force	24,472	27,848	26,702
Interest expense and amortization of debt issue costs	2,340	--	--
Expenses of spin-off and related transactions	2,209	--	--
Loss on sale of long term care business	68,549	--	--
Other operating expenses	30,892	29,172	33,762
Total benefits and expenses	287,750	234,948	281,015
Income (loss) before tax	(41,165)	35,972	49,954
Provision for federal income tax:			
Current	18,337	6,858	12,077
Deferred	(32,669)	6,163	5,072
	(14,332)	13,021	17,149
Income (loss) before cumulative effect of change in accounting principle	(26,833)	22,951	32,805
Cumulative effect on prior years of a change in accounting principle, net of taxes	--	--	(253)
Net (loss) income	$ (26,833)	$ 22,951	$ 32,552
Loss per share(a)	$ (69.66)	(b)	(b)

<FN>

(a) Loss per share was based on average shares outstanding of 405,241 for the year ended December 31, 1995. Loss per share as if the entire 1,590,461 shares outstanding after the September 29, 1995 distribution had been outstanding for the entire period would have been ($17.75).

(b) No per share amounts were applicable to the 1994 and 1993 periods, which were prior to the distribution of the Company's shares to the public.

See accompanying notes to consolidated financial statements.
</FN>

</TABLE>

TRANSPORT HOLDINGS INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	Preferred Stock Shares Issued	Preferred Stock Amount	Class A Common Stock Shares Issued	Class A Common Stock Amount	Paid-in Capital	Unrealized appreciation (depreciation) of securities, net	Retained Earnings (Deficit)	Total
			(in thousands except share amounts)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance December 31, 1992	--	$ --	$--		$197,331	$ 2,809	$ 64,884	$ 265,024
Net income							32,552	32,552
Dividends paid							(20,000)	(20,000)
Capital contributions					15,863			15,863
Tax benefit of stock options					411			411
Unrealized investment gains, net of taxes						9,218		9,218
Balance December 31, 1993	--	--	--	--	213,605	12,027	77,436	303,068
Net income							22,951	22,951
Dividends paid							(3,900)	(3,900)
Capital contributions					8,255			8,255
Noncash dividend					(6,573)			(6,573)
Tax benefit of stock options					282			282
Cumulative effect of adoption of Statement No. 115 at January 1, 1994, net of taxes						16,908		16,908
Unrealized investment losses, net of taxes						(51,629)		(51,629)
Balance December 31, 1994..........	--	--		--	215,569	(22,694)	96,487	289,362
Net loss							(26,833)	(26,833)
Dividends paid							(105,000)	(105,000)
Issuance of common stock			1,590,461	16	(16)			--
Issuance of common stock purchase warrants					93			93
Issuance of preferred stock.........	182,060	45,515			(45,515)			--
Cost of preferred stock issued					(466)			(466)
Unrealized investment gains, net of taxes						46,939		46,939
Balance December 31, 1995	182,060	$45,515	1,590,461	$16	$169,665	$24,245	$ (35,346)	$204,095

See accompanying notes to consolidated financial statements.
</TABLE>

TRANSPORT HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 1995, 1994, and 1993

<TABLE>
<CAPTION>

	1995	1994	1993
		(in thousands)	
<S>	<C>	<C>	<C>
Operating activities:			
Net income	$ (26,833)	$ 22,951	$ 32,552
Adjustments to reconcile net income to net cash provided by operating activities:			

(Gain) loss on sale of securities	(6,758)	3,393	(26,762)
Accretion of bond discount or premium	(1,598)	(928)	(4,193)
Amortization debt issue costs	151	--	--
Change in assets and liabilities:			
Change in real estate (depreciation)	--	933	556
Accrued investment income	2,100	(959)	(1,791)
Premiums due and unpaid	5,110	(303)	(114)
Due from reinsurers	(244,345)	(5,162)	17,451
Due from agents	(1,071)	2,735	734
Value of insurance in force	5,170	5,856	6,220
Deferred policy acquisition costs	59,924	61	(7,457)
Prepaid commissions	5,376	1,259	1,859
Intercompany receivables.......................	--	--	40,866
Other assets	1,573	1,383	864
Insurance reserves	43,004	6,854	39,328
Federal income taxes payable	(3,695)	2,521	(4,322)
Deferred income tax expense	(32,669)	6,163	5,072
Accrued expenses and other liabilities	8,363	361	(5,774)
Net cash (used in) provided by operating activities	(186,198)	47,118	95,089
Investing activities:			
Sale of fixed maturities	430,813	199,933	256,243
Maturity of fixed maturities	6,000	6,884	9,197
Sale of common stock...........................	8,614	85,596	110,680
Sale of preferred stock..........................	2,258	22,369	13,882
Sale of investment in Travelers................	35,200	--	--
Sale of real estate.............................	16,585	--	--
Acquisition of real estate through foreclosure...	(195)	--	--
Sale of mortgage	7,000	--	--
Purchase of fixed maturities	(396,796)	(231,091)	(371,603)
Purchase of preferred stock	--	(248)	(3,853)
Purchase of common stock	(28)	(80,826)	(102,708)
Principal payments on mortgages	2,252	4,942	1,831
Principal payments on policy loans	1,736	1,207	786
Change in short-term and other invested assets	70,873	(49,346)	(5,966)
Net cash provided by (used in) investing activities	184,312	(40,580)	(91,511)
Financing activities:			
Issuance of long term debt	112,000	--	--
Principal payments on long term debt	(1,750)	--	--
Debt issue costs................................	(3,889)	--	--
Dividends paid	(105,000)	(3,900)	(20,000)
Capital contribution	--	282	16,274
Cost of preferred stock issue	(466)	--	--
Issuance of warrants	93	--	--
Net cash provided by (used in) financing activities	988	(3,618)	(3,726)
(Decrease) increase in cash and cash equivalents ..	(898)	2,920	(148)
Cash and cash equivalents at beginning of year.....	3,096	176	324
Cash and cash equivalents at end of year..........	$2,198	$3,096	$ 176

See accompanying notes to consolidated financial statements.
</TABLE>

TRANSPORT HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1995, 1994 and 1993

(1) Organization

Transport Holdings Inc. ("the Company") was incorporated in 1990 under the laws of the State of Delaware. In a series of transactions which culminated on September 29, 1995, the Company became the sole stockholder of Intermediate Holdings Inc., a Delaware corporation. Intermediate Holdings Inc. is the sole stockholder of TLIC Life Insurance Company, a Texas life insurance company, and TLSD Inc., a Delaware corporation, both organized in 1995. TLIC Life Insurance Company is the sole stockholder of Transport Life Insurance Company, a Texas life insurance company organized in 1958 and in continuous operation since that time. Transport Life Insurance Company in turn owns all of the common stock of Continental Life Insurance Company, a Texas insurance company formed and in continuous operation since 1969, and a wholly owned subsidiary of Transport Life Insurance Company since 1971. Transport Life Insurance Company and Continental Life Insurance Company are principally engaged in the supplemental life and health insurance business. These products are marketed by two independent agencies.

On September 29, 1995, all of the outstanding Class A common stock of the Company was distributed to the stockholders of Travelers Group Inc. ("Travelers"). The Company was recapitalized on September 29, 1995 immediately prior to the distribution of its shares. The recapitalization involved the filing of a Restated Certificate of Incorporation which, among other things, authorized Class A and Class B Common Stock, increased the number of authorized shares of common stock, and authorized preferred stock. Upon the filing of the Restated Certificate of Incorporation, all of the outstanding shares of common stock then held by Travelers were exchanged for 1,590,461 shares of Class A Common Stock, $0.01 par value. The financial statements of the previously separate companies for prior periods have been restated on a consolidated basis.

These consolidated financial statements include the accounts of the Company, Intermediate Holdings Inc., TLIC Life Insurance Company, Transport Life Insurance Company, and Continental Life Insurance Company, which have been combined for all periods presented. All material intercompany accounts and transactions have been eliminated. Prior to 1995, there were no material assets, liabilities, or results of operations for any of the consolidated companies except Transport Life Insurance Company and Continental Life Insurance Company.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles prescribed for stock life insurance companies for all years presented.

(b) Investments

Fixed maturities available for sale are valued at market. These securities are classified as available for sale based on the possibility they could be sold prior to maturity. Although no impairments in value have occurred which would require adjustment to the carrying value of such securities, any such impairment identified in the future would result in a reduction of the carrying value and reflection of a corresponding realized capital loss in the consolidated statement of income. The Company's policy is to recognize such an impairment when the projected cash flows of these securities have been reduced on an "other than temporary basis," so that the realizable value is reduced to an amount less than the carrying value.

Equity securities include common and nonredeemable preferred stocks and are carried at market value. Unrealized gains and losses on marketable equity securities and fixed maturities available for sale, net of applicable income taxes, are reflected as a direct charge or credit to stockholder's equity.

Policy loans are reported at unpaid principal balances. Mortgage loans are reported at unpaid principal balances, net of any unamortized premium or discount. Real estate, other than property acquired in foreclosure, is reported at cost net of depreciation.

Realized gains and losses on sales of investments are included in net income. The cost of investment securities sold is determined based on the specific identification method.

(c) Cash

Cash includes cash on deposit with banking institutions.

(d) Deferred Policy Acquisition Costs

Those costs of acquiring new business which vary with and are primarily related to the production of new business have been deferred to the extent that such costs are deemed recoverable from future premiums. Such costs include commissions, certain costs of policy issuance and underwriting and certain variable agency expenses.

Deferred costs related to life insurance and accident and health policies are amortized over the premium paying period of the related policies in proportion to the ratio of annual premium revenues to total anticipated premium revenues. Such anticipated premium revenues are estimated using the same assumptions used for computing liabilities for future policy benefits.

(e) Value of Insurance in Force

The value of insurance in force, net of amortization, represents the actuarially determined present value of anticipated profits to be realized from life and accident and health business in force at December 31, 1988 when Transport Life Insurance Company was acquired in a purchase transaction, using the same assumptions that were used for computing the related liabilities on the date of acquisition. The value of insurance in force is amortized over the estimated premium paying periods in relation to anticipated premiums.

Accretion of interest on value of insurance in force is calculated based on the rates of interest used in setting the related policy reserves.

(f) Future Policy Benefits

Liabilities for future benefits on life and accident and health policies are established in an amount adequate to meet the estimated future obligations on policies in force. Liabilities for future policy benefits for accident and health and other long-term life insurance policies have been computed based on expected investment yields, morbidity, mortality, withdrawal rates and other assumptions. These assumptions include a margin for adverse deviation which varies with the characteristics of the plan of insurance, year of issue, age of insured and other appropriate factors. Interest rates average 9% for life policies and 8% for accident and health policies. The morbidity, mortality and withdrawal assumptions are based on the Company's experience as well as industry experience and standards.

The establishment of liabilities for future policy benefits is inherently based on estimates. Should actual future experience deviate substantially from the Company's expectations, the liability for future policy benefits may require adjustment in the future with respect to policies presently in force. Of all of the Company's cancer insurance policies presently in force, approximately 27% provide for radiation and chemotherapy benefits which are not limited in amount. These benefits have been the subject of substantial inflation over the past several years. The Company has applied for rate increases with respect to these polices with the various state departments of insurance where the Company does business. Rate increases were implemented in each of the last three years. The Company expects to apply for future rate increases for these policies as well. There can be

no assurance that future rate increases will be approved, or, if approved, will be in the amounts requested. An inability to obtain future rate increases could have a material adverse effect on the Company's financial position and results of operations.

(g) Policy Claims and Benefits

A liability for unpaid claim costs, including an estimate for incurred but not reported claims, is accrued when insured events occur. These estimates are determined using case basis estimates and lag studies of past experience and are reviewed regularly. Changes in estimates resulting from the review process and differences between estimates and actual payments are recognized in income in the period in which the estimates are changed or payments are made.

The nature of the Company's business is such that the time period over which an individual claim is settled can range from a few months to ten or more years. Because of the uncertainties surrounding the ultimate amount of claim costs with respect to any particular case, claim liabilities may require adjustment in the future with respect to claims which have been incurred as of the date of these financial statements.

(h) Reinsurance Arrangements

The Company's reinsurance activities relate to both ordinary life and accident and health reinsurance. The Company cedes insurance in order to limit losses, minimize exposure on large risks, and effect business sharing arrangements. Reinsurance is accomplished primarily through coinsurance and yearly renewable term.

In the normal course of business, the Company seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding reinsurance to other insurance enterprises or reinsurers under excess coverage and coinsurance contracts. The Company currently follows the policy of reinsuring that portion of the risk in excess of $100,000 on any single life for most life insurance plans. The Company also reinsures a portion of its accident and health business.

In December 1995, the Company sold its long term care insurance business. This transaction was effected by a reinsurance arrangement whereby the Company ceded all of its retained long-term care business in force to the buyer.

(i) Federal Income Taxes

For the three months ended December 31, 1995, the Company will file two consolidated income tax returns, one which includes Transport Holdings Inc. and Intermediate Holdings Inc. and another which includes the life insurance subsidiaries. For the nine months ended September 30, 1995 and the year 1994, Travelers Insurance Company, an indirect wholly owned subsidiary of Travelers, was the parent of the consolidated federal income tax return group which included the Company. For 1993, the Company's operations were included in the consolidated federal income tax return of Travelers Insurance Holdings Inc., an indirect wholly owned subsidiary of Travelers.

Income taxes are provided based on taxes incurred for the three months ended December 31, 1995. For prior periods, taxes were provided based on tax allocation agreements which included the Company and generally represent those taxes that would have been incurred if the Company had been filing its own separate tax returns.

Income taxes have been provided in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. Deferred income taxes result from temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases.

Income taxes are not provided on the Company's retained earnings designated as "policyholders' surplus" because such taxes will become payable only to the extent such retained earnings are distributed as a dividend

or exceed limits prescribed by federal law. Distributions are not contemplated from the Company's policyholders' surplus which aggregated approximately $2,144,000 at December 31, 1995.

(j) Recognition of Revenues and Related Expenses

Premiums are recognized as revenue over the premium paying periods of the policies. Benefits and expenses are associated with earned premiums so that profits are recognized over the life of the related contracts. This association is accomplished through the provision for future policy benefits and the amortization of deferred policy acquisition costs.

(k) Use of Estimates

The preparation of financial statements in conformity 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. Actual results could differ from these estimates.

(l) Accounting Pronouncements

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which addresses accounting and reporting for investments in equity securities that have a readily determinable fair value and for all debt securities. Those investments are classified in one of three categories. Debt securities that the Company has the positive intent and ability to hold to maturity are classified as "held to maturity" and are reported at amortized cost. Securities that are bought and held principally for the purpose of selling them in the near term are classified as "trading securities" and are reported at fair value, with unrealized gains and losses included in earnings. Securities that are neither to be held to maturity nor to be sold in the near term are classified as "available for sale" and are reported at fair value, with unrealized gains and losses included as a component of stockholders' equity, net of tax. The impact on consolidated stockholders' equity due to implementation of this Statement was an increase of approximately $16,908,000 relating to unrealized gains on the available for sale portfolio, net of deferred taxes.

In October 1994, the FASB issued Statement 119, "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments." Statement 119 requires disclosures about amounts, nature, and terms of derivative financial instruments not subject to the reporting provisions of Statement 105, "Disclosure of Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk." The disclosure provisions of Statement 119 require all entities to distinguish between financial instruments held or issued for trading purposes and financial instruments held or issued for purposes other than trading. The Company does not utilize derivative instruments in its business activities and has applied the reporting provisions of Statement 119 in these financial statements.

In March 1995, the FASB issued Statement 121, "Accounting for the

Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Statement 121 established accounting standards for the recognition and measurement of impairment on long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used and for long-lived assets and certain intangibles to be disposed of. This statement does not apply to long-lived assets such as deferred policy acquisition costs and deferred tax assets. The Company adopted Statement 121 in the fourth quarter of 1995, the adoption of which did not have a material impact on the financial statements.

(3) Investments

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to investment income using the effective interest method. Dividends and interest income are recognized when earned.

The amortized cost, unrealized gains and losses, and estimated market values of investments in fixed maturity securities are as follows (in thousands):

<TABLE>
<CAPTION>

	At December 31, 1995			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. government and agencies	$138,066	$16,038	$--	$154,104
States, municipalities and political subdivisions	18,114	966	--	19,080
Corporate securities	111,014	8,059	--	119,073
Mortgage-backed securities	191,114	9,187	(72)	200,229
Other debt securities	24,318	1,571	(72)	25,817
	$482,626	$35,821	$(144)	$518,303

</TABLE>

<TABLE>
<CAPTION>

	At December 31, 1994			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. government and agencies	$166,983	$ 373	$(14,509)	$152,847
States, municipalities and political subdivisions	7,882	2,362	(1,159)	9,085
Corporate securities	112,530	1,224	(5,219)	108,535
Mortgage-backed securities	186,377	1,094	(14,010)	173,461
Other debt securities	41,080	18	(5,273)	35,825
	$514,852	$5,071	$(40,170)	$479,753

</TABLE>

The amortized cost and estimated market value of fixed maturities at December 31, 1995 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Fixed maturities available for sale (in thousands):

	Amortized cost	Fair value
Due in one year or less	$ 5,144	$ 5,196
Due after one year through five years	49,245	52,337
Due after five years through ten years	124,540	131,988
Due after ten years	112,583	128,553
Mortgage-backed securities	191,114	200,229
	$482,626	$518,303

There were no investments in any entity in excess of 10% of stockholder's equity at December 31, 1995 and 1994, other than investments issued or guaranteed by the U.S. government. Publicly traded fixed maturity securities are valued based on quoted market prices. Private placement securities are valued based on the credit quality and duration of marketable securities deemed comparable by the Company, which may be of another issuer.

Investment in real estate at December 31, 1995 consists of a shopping center in Houston, Texas acquired by foreclosure. Investment in real estate at December 31, 1994 consisted of an investment in land and commercial improvements located in Minnesota with a net book value of $13,841,000 and properties in Texas acquired via foreclosure with a net book value of $2,642,000. These properties were sold in September 1995 to subsidiaries of Travelers in connection with the distribution of the Company's stock.

Major categories of net investment income consist of the following (in thousands):

	Year Ended December 31,		
	1995	1994	1993
Fixed maturity securities	$ 40,621	$ 35,899	$ 29,955
Policy loans	1,062	1,251	1,296
Mortgage loans	1,668	2,000	2,624
Short-term investments	3,934	3,104	2,490
Other	3,061	4,964	8,130
Investment revenue	50,346	47,218	44,495
Investment expense	(681)	(583)	(521)
Net investment income	$ 49,665	$ 46,635	$ 43,974

Proceeds from sales of bonds during 1995 and 1994 were $430,813,000 and $199,933,000, respectively. Gross realized gains and losses on such sales were $9,735,000 and $3,916,000, respectively, for the year ended December 31, 1995 and $2,022,000 and $6,290,000, respectively, for the year ended December 31, 1994.

Net unrealized gains (losses) included in stockholders' equity at December 31 were as follows (in thousands):

	1995	1994
Fixed maturities available for sale	$ 35,677	$(35,100)
Equity securities	1,623	186
Provision for deferred income tax (expense) benefit	(13,055)	12,220
Net unrealized gains (losses)	$ 24,245	$(22,694)

Net realized gains (losses) were as follows (in thousands):

	1995	1994	1993
Fixed maturities	$ 5,819	$ (4,268)	$21,977
Equity securities	512	815	4,754
Real estate	(69)	--	--
Other	495	60	31
	$ 6,757	$ (3,393)	$26,762

Securities with an amortized cost of approximately $7,518,000 and $7,503,000 at December 31, 1995 and 1994, respectively, were on deposit with various state insurance departments to comply with applicable insurance laws.

In April 1994, the Company exchanged investment securities with a cost of approximately $171,263,000 and a market value of approximately $167,114,000 with a subsidiary of Travelers for an equal amount, at market value, of securities and cash. The transaction resulted in a loss of $2,697,000 net of tax benefits of $1,452,000.

(4) Long Term Borrowings

On September 29, 1995, the Company borrowed $62 million from a group of banks and issued $50 million in subordinated convertible notes ($42 million of Series A notes and $8 million of Series B notes).

The bank loans bear interest at a floating rate based, at the Company's option, on a Eurodollar rate plus 1.25% or a rate which approximates the Chase Manhattan Bank's prime rate plus 0.25%. The weighted average interest rate in effect for the three months ended December 31, 1995 was 7.185%. Interest is payable quarterly. The bank loans mature in September 2001, and call for semi-annual principal payments. Payments aggregating $4.0 million are due in 1996; $6.75 million is due in 1997; $12.0 million is due in 1998; $14.0 million is due in 1999; $15 million is due in 2000; and $8.5 million is due on maturity.

The subordinated convertible notes bear interest at 8.5% payable semi-annually and mature in September 2005. No principal payments are required until maturity. The notes become convertible into Class B Common stock in September 1997 and become convertible into Class A Common stock in September 2000 (earlier under certain circumstances). The Series A notes become convertible into 1,335,987 shares of common stock and the Series B notes become convertible into 181,818 shares of common stock.

Interest expense on the bank loans is subject to fluctuation with changes in prevailing market rates. The Company has the option to fix rates of interest for periods of up to six months.

Cash payments for interest expense were $1,126,000 in 1995.

(5) Common Stock

Class A Common Stock and Class B Common Stock are identical except that holders of Class A Common Stock are entitled to one vote for each share held and holders of Class B Common Stock would be entitled to approximately 0.118 votes per share held. There is presently no Class B Common Stock outstanding. If issued, Class B Common Stock would become convertible into Class A Common Stock in September 2000 (earlier in certain circumstances).

The terms of the bank debt and the subordinated convertible notes restrict the payment of dividends on the common stock. Furthermore, the terms of the preferred stock prohibit the payment of dividends on common stock except for certain limited exceptions.

The Company has common stock purchase warrants outstanding at December 31, 1995 entitling the holders to purchase 250,000 shares of Class A common stock for $55 per share. The warrants are held by trusts for the benefit of family members of two of the Company's executives. The holders of the warrants have the right to require the Company to register, at the Company's expense, stock received from exercise of the warrants.

(6) Redeemable Preferred Stock

The Company's preferred stock has a redemption value per share of $257.67 at December 31, 1995. Dividends, at 12% per year, are cumulative and, if not declared and paid, are added to the redemption value quarterly. No dividends are required to be paid until 2003. At December 31, 1995, the entire preferred stock issue is held by Travelers. The preferred stock is redeemable at the option of the Company at the redemption value plus accrued dividends. Should the Company elect to redeem the preferred stock before September 1998, an additional redemption premium would be required if the preferred stock were held by a party other than Travelers. The Company must redeem the preferred stock in September 2006. The $1,396,000 aggregate excess of redemption value over carrying amount at December 31, 1995 represents undeclared cumulative dividends in arrears, which will be charged to retained earnings when and if declared.

At the option of the Company, after September 1997, the preferred stock may be exchanged in whole, but not in part, for debt securities having a face amount equal to the liquidation value of the preferred stock at the

date of the exchange and having economic terms substantially similar to the preferred stock. Holders of the preferred stock or any debt securities for which it may be exchanged have the right to require the Company to register these securities at the Company's expense.

(7) Sale of Long Term Care Business

In December 1995, the Company completed a sale of its long term care insurance business. The transaction was structured as a reinsurance arrangement whereby the Company transferred approximately $249,970,000 in cash and marketable securities to the buyer, who assumed all of the Company's liabilities for the business on a coinsurance basis. Net liabilities for the sold business were approximately $182,771,000 and costs associated with the sale were approximately $1,350,000, resulting in a pre-tax loss of approximately $68,549,000 on the sale.

In addition to the loss on the sale, $2,650,000 for costs of exiting the long term care business was charged to earnings in 1995. These costs included severance benefits for terminated employees and remaining contractual payments on vacated office space.

The long term care business represented a substantial portion of the Company's premium income and policies in force. There can be no assurance that the Company will be able to eliminate all or substantially all of the expenses which were associated with the marketing and administration of this block of business.

(8) Expenses of Spin-off and Related Transactions

Results of operations for 1995 reflect a charge of $2,209,000 before taxes for expenses associated with the distribution of the Company's shares and the related transactions. In addition, $3,900,000 of costs associated with long term borrowings were capitalized and are being amortized as a charge to income over the life of the associated borrowings, using the effective interest method. Expenses of $466,000 were charged to paid in capital in connection with the issuance of preferred stock.

(9) Earnings Per Share

All of the Company's 1,590,461 outstanding shares of Class A Common Stock were issued on September 29, 1995, and were outstanding for 93 days during 1995. Loss per share was based on the number of Class A shares outstanding. Fully diluted loss per share is not presented because such a computation would have the effect of decreasing the loss per share amount. The Company's subordinated convertible notes become convertible into 1,517,806 shares of Class B Common stock in September 1996 and into the same number of Class A Common shares in 2000 (earlier under certain circumstances). The Company also has outstanding 192,000 stock options granted during the fourth quarter of 1995, the assumed exercise of which would increase the number of common shares outstanding by 2,942 shares, using the treasury stock method.

(10) Transactions with Affiliates

In April 1994, the Company's investment in Travelers common stock with a cost of $22,500,000 was exchanged for a Travelers preferred stock issue with a market value of $35,200,000. The exchange resulted in an increase in paid-in capital of $8,255,000 net of a deferred tax liability of $4,445,000. The preferred stock was sold to Travelers in September 1995 in connection with the distribution of the Company's stock. No gain or loss resulted from the sale.

During 1993, the Company terminated a reinsurance treaty with a subsidiary of Travelers which resulted in a capital contribution of $15,863,000. Effective January 1, 1994, the Company reinsured its credit insurance block of business to a subsidiary of Travelers, resulting in a charge to paid-in capital of $6,573,000.

The Company has an investment advisory agreement with Associated Madison Companies, Inc. (AMAD), a subsidiary of Travelers. AMAD provides, on a fee basis to the Company, certain custodial and advisory services, including but not limited to the possession and trading of securities, the recommendation of investments and, subject to the Company's investment objectives, restrictions and limitations, the execution and performance of the Company's investment program. In 1995, 1994 and 1993, the Company paid fees to AMAD of approximately $681,000, $583,000 and $521,000, respectively, under the terms of the investment advisory agreement.

Until September 29, 1995, the Company had a service agreement with Resource Deployment, Inc. (RDI), a wholly owned subsidiary of Travelers, under which RDI provided certain management services to the Company. The Company paid fees to RDI of approximately $1,350,000 for the nine months ended September 30, 1995, $1,800,000 in 1994 and none in 1993. After September 29, 1995, certain RDI employees became employees of the Company.

(11) Reinsurance

Reinsurance contracts do not relieve the Company from its direct obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for any amounts determined to be uncollectible. At December 31, 1995, 1994 and 1993, no allowances were necessary. The Company evaluates the financial condition of its reinsurers periodically.

Summarized financial information for the credit block of business reinsured effective January 1, 1994 is as follows for 1993 (in thousands):

Premiums earned	$ 11,964
Investment income	1,769
Other income	3,301
	17,034
Benefits and expenses	(17,139)
Pretax operating loss	$ (105)

Life insurance in force and related reinsurance amounts at December 31 are summarized as follows (in millions):

	1995	1994	1993
Direct life insurance in force	$ 846	$ 1,234	$ 2,451
Reinsurance risk ceded to other companies	(620)	(985)	(1,959)
Net life insurance in force	$ 226	$ 249	$ 492

Amounts recoverable from reinsurers at December 31 are summarized as follows (in thousands):

	1995	1994
Future policy benefit reserves ceded	$159,006	$17,071
Unearned premiums ceded	34,064	19,436
Policy and contract claims ceded	105,797	18,015
Total amounts due from reinsurers	$298,867	$54,522

Of the balances due from reinsurers at December 31, 1995, 86% of future policy benefit reserves ceded, 69% of unearned premium reserves ceded, and 87% of claim reserves ceded were due from a single reinsurer in

connection with the sale of the long term care business. The aggregate amount due from this reinsurer was approximately $253,379,000 and was secured by assets (generally marketable securities) held in trust at a commercial bank. The trust fund balance was approximately $299,888,000 at December 31, 1995.

Of the balances due from reinsurers at December 31, 1994, all of unearned premium reserves ceded and 52% of claim reserves ceded were due from a single reinsurer.

(12) Policy and Contract Claims

Activity in the liability for policy and contract claims is summarized as follows (in thousands):

	1995	1994	1993
Beginning of year balance	$ 219,494	$ 215,737	$ 183,625
Less: reinsurance recoverables	(18,015)	(13,776)	(9,452)
Net balance beginning of year	201,479	201,961	174,173
Incurred related to:			
Current year	121,847	143,888	182,329
Prior years	(19,125)	(22,269)	(20,675)
Net incurred	102,722	121,619	161,654
Paid related to:			
Current year	24,873	44,592	57,779
Prior years	67,774	77,509	76,087
Total paid	92,647	122,101	133,866
Released in connection with sale of long term carebusiness	88,172	--	--
Net balance end of year	123,382	201,479	201,961
Plus: reinsurance recoverables	105,797	18,015	13,776
End of year balance	$ 229,179	$ 219,494	$ 215,737

The development of prior year claim reserves in all three years reflects normal changes in actuarial estimates. Both paid and incurred claims decreased from 1994 to 1995 because of the run-off of discontinued lines and the sale of the long term care business.

(13) Deferred Policy Acquisition Costs

The following reflects the amounts of policy acquisition costs deferred and amortized (in thousands):

	1995	1994	1993
Deferred acquisition cost:			
Beginning of year	$ 89,455	$ 89,516	$ 82,059
Capitalized	11,688	21,931	27,939
Amortized	(19,300)	(21,992)	(20,482)
Extinguished in connection with sale of long term care business	(52,312)	--	--
End of year	$ 29,531	$ 89,455	$ 89,516

(14) Income Taxes

Income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 35% in 1995, 1994 and 1993 to pretax income as a result of the following (in thousands):

	1995	1994	1993
Income tax expense computed at federal statutory rate	$(14,407)	$ 12,590	$ 17,484
Increase (decrease) in income taxes resulting from:			
Tax exempt interest	--	(551)	(1,079)
Dividends received deduction	(585)	(685)	(1,050)
Increase in tax rate(1%)	--	--	1,790
Expenses of spin-off	660	--	--
Other, net	--	--	4
Increase in valuation allowance on deferred tax asset	--	1,667	--
Total tax expense	$(14,332)	$ 13,021	$ 17,149

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 1995 and 1994 are presented below (in thousands):

	1995	1994
Deferred tax assets:		
Claim settlements	$ 1,167	$ 2,333
Investments	489	4,010
Accrued expenses	2,843	1,236
Deferred acquisition costs and value of insurance in force	981	--
Other, net	255	1,925
	5,735	9,504
Less valuation allowance	--	(1,667)
	$ 5,735	7,837
Deferred liabilities:		
Deferred acquisition costs and value of insurance in force	--	(18,201)
Investments	(13,711)	--
Policy reserves	(16,941)	(19,918)
Value of insurance licenses	(1,895)	(1,947)
Other, net	(535)	(2,512)
	(33,082)	(42,578)
Net deferred liability	$(27,347)	$(34,741)

At December 31, 1995, the Company's life insurance tax filing group had a net operating loss carryforward of approximately $1,183,000 and the Company's non-life tax filing group had a net operating loss carryforward of approximately $151,000. The Company had no tax credit carryforwards. During 1995, 1994 and 1993, the Company made approximately $22,032,000, $4,054,000 and $24,576,000 in income tax payments, respectively.

(15) Employee Benefit Plans

Effective October 1, 1995, the Company sponsored a defined contribution pension plan covering the majority of its employees. Employees who elect may defer a portion of their compensation in a savings plan

governed by Internal Revenue Code Section 401(k). The Company matches part of such employees' contributions. In addition, the Company may contribute an additional amount which is allocated to the accounts of all eligible employees (whether or not they participate in the savings plan) based on the employees' age. Pension costs associated with the plan were $124,000 in 1995. Prior to September 29, 1995, the Company participated in a plan sponsored by Travelers. Pension costs allocated to the Company pursuant to the Travelers plan were $220,000, $243,000 and $237,000 in 1995, 1994 and 1993, respectively.

Effective January 1, 1993, the Company implemented Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits." Statement 112 establishes accounting standards for employers who provide benefits to former or inactive employees after employment, but before retirement. These benefits include, but are not limited to, salary continuation, supplemental unemployment, severance, disability-related (including workers' compensation), job training and counseling, and continuation of benefits such as health care and life insurance coverage. The statement requires employers to recognize the cost of the obligation to provide these benefits on an accrual basis, and employers must implement Statement 112 by recognizing a cumulative effect of a change in accounting principle. This resulted in a noncash after-tax charge to net income of $253,000 ($389,000 pre-tax) in 1993. The Company continues to fund benefits on a "pay-as- you-go" basis. Payments and annual expense for providing postemployment benefits in 1995 and 1994 were not material.

(16) Stock Option Plan

The Company maintains a stock option plan pursuant to which 425,000 shares of common stock are reserved for issuance. The plan permits the Board of Directors to grant incentive stock options and nonqualified stock options. The following incentive stock options had been granted as of December 31, 1995:

Grant Date	Option Price	Number of Shares
October 31, 1995	$ 39.45	62,657
December 15, 1995	$ 39.83	129,343
		192,000

None of the granted options were exercisable at December 31, 1995, and no shares were issued in 1995 pursuant to the stock option plan. The options vest over a five year period at 20% per year on the anniversary date of the grant.

The plan also permits the Board of Directors to grant stock awards of restricted stock. Such awards have conditions and restrictions which are designed to encourage recipients to remain in the Company's service and retain stock ownership in the Company. There were no restricted shares issued under the plan in 1995.

(17) Fair Value of Invested Assets

The following information relates to estimated fair values of the Company's financial instruments as of December 31, 1995 and 1994.

Fair values for bonds and common and preferred stocks were obtained from independent brokers and published valuation guides, as disclosed in Note 3.

Mortgage and other loans are secured principally by commercial real estate. Weighted average interest rates for these loan portfolios as of December 31, 1995 were approximately 10% with maturities ranging from 1996 to 2004. Management believes that reported amounts approximate fair value.

Real estate acquired by foreclosure is valued at the lower of estimated market value at date of foreclosure or principal balance of the loan foreclosed.

Policy loans have a weighted average interest rate of 6% as of December 31, 1995 and 1994 and have no specified maturity dates. The aggregate market value of policy loans approximates the carrying value reflected on the consolidated balance sheet. These loans typically carry an interest rate that is tied to the crediting rate applied to the related policy and contract reserves. Policy loans are an integral part of the life insurance policies which the Company has in force and cannot be valued separately.

Carrying values of amounts due from reinsurers and agents, other receivables and certain other liabilities disclosed on the face of the balance sheets approximate fair value due to the relatively short period to maturity of the instruments.

For cash, cash equivalents and short-term investments, the carrying amounts approximate fair value because of the short maturity of these instruments.

(18) Contingent Liabilities and Commitments

(a) Litigation

In the normal course of its operations, the Company has been named as defendant in various legal actions seeking payments for claims denied by the Company and other monetary damages. In the opinion of the Company's management, the ultimate liability, if any, resulting from disposition of these claims will not have a material adverse effect on the Company's results of operations, financial position, or liquidity.

In recent years, the Company's major/catastrophic hospital insurance business has been the subject of claims by both private litigants and state insurance regulators. These claims, certain of which have resulted in adverse determinations against the Company, have generally involved allegations of misrepresentations on the part of independent agents selling certain insurance products of Transport Life Insurance Company (such agents were subsequently terminated), and plaintiffs have often sought (and in at least two instances have been awarded) punitive damages. Although such claims have declined in number in the last three years, there can be no assurance that claims based upon similar allegations will not be brought in the future by other persons or other regulatory authorities. Any such existing claims, or any other types of claims alleged in the future involving the marketing, sale or other aspects of the Company's insurance products, which could include claims for actual and punitive damages, or any regulatory actions which could impose fines or regulatory restrictions on operations, could have a material adverse effect on the Company.

(b) Leases

The Company leases its home office building, data processing equipment and other equipment. Future minimum lease commitments for noncancelable operating leases and sublease commitments which will partially offset these commitments are shown as follows (in thousands):

Year Ended December 31,	Leases	Sub-leases	Net Commitment
1996	$1,090	(598)	$492
1997	1,028	(576)	452
1998	1,028		1,028
1999	573		573
2000	28		28

Rent expense, net of sublease income, incurred under such lease agreements aggregated approximately $502,000, $645,000, and $1,236,000 in 1995, 1994 and 1993, respectively.

(c) Reinsurance Dispute

In March 1995, the Company became involved in a dispute with several foreign reinsurers concerning the underwriting of certain life policies written from 1974 to 1985. In the opinion of the Company's management, the ultimate liability, if any, resulting from disposition of this matter will not have a material adverse effect on the Company's results of operations, financial position, or liquidity.

(d) Declines in New Sales

The Company has experienced substantial declines in new sales over the past several years, and has ceased marketing long term care insurance, which accounted for a substantial part of the Company's premium income. Should the decline in new sales continue, the Company's future earnings could be materially adversely affected.

(19) Stockholders' Equity and Restrictions

The amount of statutory capital and surplus of the Company's insurance subsidiaries was $150,056,249, $110,065,457 and $94,532,010 at December 31, 1995, 1994 and 1993, respectively. Statutes in Texas restrict the payment of dividends by insurance companies to the available surplus funds derived from their net profits. The maximum amount of cash dividends that may be declared without regulatory approval in any twelve-month period is the greater of ten percent (10%) of the insurer's statutory surplus, as shown by its last annual statement on file with the Texas Department of Insurance, or one hundred percent (100%) of statutory net gain from operations for the preceding year. The maximum amount which may be paid by TLIC Life Insurance Company in 1996 without regulatory approval is approximately $15,000,000.

TLIC Life Insurance Company, Transport Life Insurance Company and Continental Life Insurance Company have calculated their risk based capital ("RBC") in accordance with the National Association of Insurance Commissioners' Model Rule and the RBC rules as adopted by their state of domicile, Texas. The RBC as calculated exceeded levels requiring company or regulatory action.

(20) Selected Quarterly Financial Data (unaudited)
<TABLE>
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	Year Ended December 31, 1995				
	First	Second	Third	Fourth	Total
	(in thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Net premium income	$ 55,815	$ 52,803	$ 51,449	$ 30,095	$ 190,162
Net investment income	12,637	13,403	13,668	9,957	49,665
Realized gains (losses)	479	(110)	(449)	6,838	6,758
Loss on sale of long term care business	--	--	--	(68,549)	(68,549)
Other benefits and expenses	(58,095)	(55,807)	(57,502)	(47,797)	(219,201)
Provision for income taxes	(3,638)	(3,447)	(3,048)	24,465	14,332
Net income	$ 7,198	$ 6,842	$ 4,118	$(44,991)	$ (26,833)
Earnings (loss) per share	(a)	(a)	$ 238.20	$ (29.15)	$(69.66)(b)

(a) No per share amounts are applicable to the first and second quarters, which were before the distribution of the Company's stock to the public.

(b) Amounts shown are based on actual shares outstanding. Loss per share as if the Company's stock which was distributed on September 29, 1995 had been outstanding for the entire year would have been $(17.75).

</TABLE>

<TABLE>
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	Year Ended December 31, 1994				
	First	Second	Third	Fourth	Total
	(in thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Net premium income	$ 59,795	$ 57,606	$ 55,561	$ 54,716	$ 227,678
Net investment income	10,731	11,133	12,605	12,166	46,635
Realized gains (losses)	817	(3,565)	(506)	(139)	(3,393)
Other benefits and expenses	(61,121)	(59,353)	(58,089)	(56,385)	(234,948)
Provision for income taxes	(2,848)	(3,288)	(3,394)	(3,491)	(13,021)

Net income	$ 7,374	$ 2,533	$ 6,177	$ 6,867	$ 22,951

No per share amounts are applicable to the 1994 periods, which were prior to distribution of the Company's stock to the public.
</TABLE>

CONSECO, INC. AND SUBSIDIARIES

ITEM 7(b). Financial Statements and Exhibits, continued

(b) Pro forma financial statements of Conseco, Inc. and subsidiaries.

CONSECO, INC. AND SUBSIDIARIES PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The unaudited pro forma consolidated statement of operations of Conseco, Inc. ("Conseco") for the nine months ended September 30, 1996, and for the year ended December 31, 1995, presents the consolidated operating results for Conseco as if the merger (the "Merger") of Transport Holdings Inc. ("THI") with and into Conseco, had occurred on January 1, 1995.

The pro forma consolidated statement of operations data for Conseco for the year ended December 31, 1995, set forth in the unaudited pro forma consolidated statement of operations under the column "Pro forma Conseco before the Merger" reflect the prior application of certain pro forma adjustments for the following transactions, all of which have already occurred, as if such transactions had occurred on January 1, 1995: (i) the issuance of $275.0 million of Trust Originated Preferred Securities ("TOPrS") having a distribution rate of 9.16 percent (the "TOPrS Offering") completed November 19, 1996; (ii) the issuance of $325.0 million of Capital Trust Pass-through Securities ("TruPS") having a distribution rate of 8.70 percent (the "TruPS Offering") completed November 27, 1996; (iii) the merger (the "ATC Merger") of American Travellers Corporation ("ATC") with and into Conseco completed December 17, 1996; (iv) the call for redemption of Conseco's Series D Convertible Preferred Stock (the "Series D Call") completed on September 26, 1996; (v) the acquisition of all of the outstanding common stock of American Life Holdings, Inc. ("ALH"), not previously owned by Conseco, and related transactions (the "ALH Transaction") completed on September 30, 1996; (vi) the acquisition of Life Partners Group, Inc. (the "LPG Merger") completed effective June 30, 1996; (vii) the acquisition of all of the outstanding common stock of CCP Insurance, Inc. ("CCP") not previously owned by Conseco and related transactions (including the repayment of the borrowings under Conseco's existing $250.0 million revolving credit agreement) completed August 31, 1995; (viii) the increase of Conseco's ownership in Bankers Life Holding Corporation ("BLH") to 90.4 percent, as a result of purchases of common shares of BLH by Conseco and BLH during 1995 and the first three months of 1996; (ix) the issuance of 4.37 million shares of Preferred Redeemable Increased Dividend Equity Securities Convertible Preferred Stock ("PRIDES") of Conseco in January 1996; (x) the BLH tender offer for and repurchase of its 13 percent senior subordinated notes due 2002 and related financing transactions completed in March 1996 (the "BLH Tender Offer"); and (xi) the debt restructuring of ALH in the fourth quarter of 1995. Such pro forma adjustments are set forth in: (i) Conseco's Current Report on Form 8-K dated December 17, 1996; (ii) Exhibit 99.2 included in Conseco's Current Report on Form 8-K dated September 25, 1996; (iii) Conseco's Current Report on Form 8-K dated August 2, 1996; and (iv) Exhibit 99.1 included in Conseco's Current Report on Form 8-K dated April 10, 1996.

The pro forma consolidated statement of operations data for Conseco for the nine months ended September 30, 1996, set forth in the unaudited pro forma consolidated statement of operations under the column "Pro forma Conseco before the Merger" reflect the prior application of certain pro forma adjustments for the following transactions, all of which have already occurred, as if such transactions had occurred on January 1, 1995: (i) the TOPrS Offering; (ii) the TruPs Offering; (iii) the ATC Merger; (iv) the Series D Call; (v) the ALH Transaction; (vi) the LPG Merger; (vii) the issuance of 4.37 million shares of Conseco PRIDES in January 1996; and (viii) the BLH Tender Offer. Such pro forma adjustments are set forth in: (i) Conseco's Current Report on Form 8-K dated December 17, 1996; and (ii) Exhibit 99.1 included in Conseco's Form 10-Q for the quarterly period ended September 30, 1996.

The unaudited pro forma consolidated balance sheet of Conseco as of September 30, 1996, gives effect to the Merger as if it had occurred on September 30, 1996.

The unaudited pro forma consolidated balance sheet data as of September 30, 1996, set forth in the unaudited pro forma balance sheet under the column

"Pro forma Conseco before the Merger" reflect the prior application of certain pro forma adjustments for the following transactions, all of which have already occurred, as if such transactions had occurred on September 30, 1996: (i) the TOPrS Offering; (ii) the TruPS Offering; and (iii) the ATC Merger. Such pro forma adjustments are set forth in Conseco's Current Report on Form 8-K dated December 17, 1996.

The pro forma consolidated financial statements are based on the historical financial statements of Conseco, LPG, ATC and THI and are qualified in their entirety by, and should be read in conjunction with, these financial statements and the notes thereto. The pro forma data are not necessarily indicative of the results of operations or financial condition of Conseco had these transactions occurred on January 1, 1995, nor the results of future operations. Conseco anticipates cost savings and additional benefits as a result of certain of the transactions contemplated in the pro forma financial statements. Such benefits and any other changes that might have resulted from management of the combined companies have not been included as adjustments to the pro forma consolidated financial statements. Certain amounts from the prior periods have been reclassified to conform to the current presentation.

The unaudited pro forma consolidated financial statements reflect cost allocations for the LPG Merger, the ALH Transaction, the ATC Merger and the Merger using estimated values of the assets and liabilities of LPG, ALH and ATC as of the assumed merger dates based on appraisals and other studies, which are not yet complete. Accordingly, the final allocations will be different than the amounts included in the accompanying pro forma consolidated financial statements. Although the final allocations will differ, the pro forma consolidated financial statements reflect management's best estimate based on currently available information as if the LPG Merger, the ALH Transaction, the ATC Merger and the Merger had occurred on the assumed merger dates.

<TABLE>
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CONSECO, INC AND SUBSIDIARIES
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
for the nine months ended September 30, 1996
(Amounts in millions, except per share amounts)
(unaudited)

	Pro forma Conseco before the Merger	THI historical	Pro forma adjustments relating to the Merger	Pro forma Conseco totals
<S>	<C>	<C>	<C>	<C>
Revenues:				
Insurance policy income	$1,632.3	$ 82.4	$ -	$1,714.7
Investment activity:				
Net investment income	1,118.7	29.6	(5.0)(1)	1,143.3
Net trading losses	(6.5)			(6.5)
Net realized gains	26.6	.3	(.3)(1)	26.6
Fee revenue	29.7			29.7
Restructuring income	30.4			30.4
Other income	11.4	1.4		12.8
Total revenues	2,842.6	113.7	(5.3)	2,951.0
Benefits and expenses:				
Insurance policy benefits and change in future policy benefits	1,149.4	54.1		1,203.5
Interest expense on annuities and financial products	549.5			549.5
Interest expense on notes payable	75.8	6.8	(6.8)(2) .9 (2)	76.7
Interest expense on investment borrowings	17.2			17.2
Amortization related to operations	273.6	6.2	(6.2)(3) 10.3 (3)	283.9
Amortization related to realized gains	22.3			22.3
Other operating				

costs and expenses	307.9	24.4		332.3
Total benefits and expenses	2,395.7	91.5	(1.8)	2,485.4
Income before income taxes, minority interest and extraordinary charge	446.9	22.2	(3.5)	465.6
Income tax expense	171.5	7.8	(1.2) (4)	178.1
Income before minority interest and extraordinary charge	275.4	14.4	(2.3)	287.5
Minority interest in consolidated subsidiaries:				
Dividends on Company - obligated mandatorily redeemable preferred securities of subsidiary trusts	26.1			26.1
Dividends on preferred stock	6.4			6.4
Equity in earnings	13.9			13.9
Income before extraordinary charge	$ 229.0	$ 14.4	$ (2.3)	$ 241.1
Earnings per common share and common equivalent share:				
Primary:				
Weighted average shares outstanding	87.6		4.5 (5)	92.1
Income before extraordinary charge	$2.61			$2.62
Fully diluted:				
Weighted average shares outstanding	93.1		4.5 (5)	97.6
Income before extraordinary charge	$2.47			$2.48

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

</TABLE>

<TABLE>
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CONSECO, INC AND SUBSIDIARIES
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
for the year ended December 31, 1995
(Amounts in millions, except per share amounts)
(unaudited)

<S>	Pro forma Conseco before the Merger <C>	THI historical <C>	Pro forma adjustments relating to the Merger <C>	Pro forma Conseco totals <C>
Revenues:				
Insurance policy income	$2,026.7	$ 190.2	$ -	$2,216.9

Investment activity:				
Net investment income	1,486.1	49.7	(6.9)(1)	1,528.9
Net trading income	2.5			2.5
Net realized gains	222.5	6.7	(6.7)(1)	222.5
Fee revenue	33.9			33.9
Restructuring income	15.2			15.2
Other income	12.6			12.6
Total revenues	3,799.5	246.6	(13.6)	4,032.5
Benefits and expenses:				
Insurance policy benefits and change in future policy benefits	1,434.3	131.9		1,566.2
Interest expense on annuities and financial products	758.5			758.5
Interest expense on notes payable	107.3	2.3	(2.3)(2) 1.2 (2)	108.5
Interest expense on investment borrowings	30.2			30.2
Amortization related to operations	345.2	24.5	(24.5)(3) 15.9 (3)	361.1
Amortization related to realized gains	144.4			144.4
Loss on sale of long-term care business	-	68.5	(68.5)(6)	-
Expenses of spin-off and related transactions	-	2.2	(2.2)(6)	-
Other operating costs and expenses	420.1	58.3		478.4
Total benefits and expenses	3,240.0	287.7	(80.4)	3,447.3
Income before income taxes, minority interest and extraordinary charge	559.5	(41.1)	66.8	585.2
Income tax expense	218.2	(14.3)	22.7 (4)	226.6
Income before minority interest and extraordinary charge	341.3	(26.8)	44.1	358.6
Minority interest in consolidated subsidiaries:				
Dividends on Company - obligated mandatorily redeemable preferred securities of subsidiary trusts	34.8			34.8
Dividends on preferred stock	8.7			8.7
Equity in earnings	12.6			12.6
Income before extraordinary charge	$ 285.2	$ (26.8)	$ 44.1	$ 302.5

Earnings per common share and common equivalent share:				
Primary:				
Weighted average shares outstanding	86.1		4.5 (5)	90.6
Income before extraordinary charge	$3.31			$3.34

Fully diluted:				
Weighted average shares outstanding	90.4		4.5 (5)	94.9
	====		======	====
Income before extraordinary charge	$3.15			$3.19
	=====			=====

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

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CONSECO, INC. AND SUBSIDIARIES
PRO FORMA CONSOLIDATED BALANCE SHEET
September 30, 1996
(Dollars in millions)
(unaudited)

<S>	Pro forma Conseco before the Merger <C>	THI historical <C>	Pro forma adjustments relating to the Merger <C>	Pro forma Conseco totals <C>
Assets				
Investments:				
Actively managed fixed maturity securities at fair value	$16,649.5	$ 483.0	$ (83.9)(7)	$17,048.6
Equity securities at fair value	104.2	1.1		105.3
Mortgage loans	372.9	8.3		381.2
Credit-tenant loans	393.8			393.8
Policy loans	526.0	16.9		542.9
Other invested assets	211.0	6.5		217.5
Short-term investments	224.5	34.6	83.9 (7) 18.5 (8) (102.4)(8)	259.1
Assets held in separate accounts	300.4			300.4
	--------	--------	---------	---------
Total investments	18,782.3	550.4	(83.9)	19,248.8
Accrued investment income	284.4	5.7		290.1
Cost of policies purchased	2,115.9	10.8	112.8 (9) (10.8)(9)	2,228.7
Cost of policies produced	541.0	28.4	(28.4)(10)	541.0
Reinsurance receivables	400.6	328.6	(260.0)(12)	469.2
Income taxes	85.6		(25.8)(11) (17.5)(11)	42.3
Goodwill	2,087.5			2,087.5
Property and equipment	109.8	.7		110.5
Securities segregated for future redemption of redeemable preferred stock of a subsidiary	45.0			45.0
Other assets	230.2	17.3		247.5
	---------	--------	---------	---------
Total assets	$24,682.3	$ 941.9	$ (313.6)	$25,310.6
	=========	========	=========	=========

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

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CONSECO, INC. AND SUBSIDIARIES
PRO FORMA CONSOLIDATED BALANCE SHEET
September 30, 1996
(Dollars in millions)
(unaudited)

<S>	Pro forma Conseco for the Merger <C>	THI historical <C>	Pro forma adjustments relating to the Merger <C>	Pro forma Conseco totals <C>
Liabilities:				
Insurance liabilities	$18,737.0	$ 623.4	$ (260.0)(12)	$19,100.4
Income tax liabilities	-	17.5	(17.5)(11)	-
Investment borrowings	539.4			539.4
Other liabilities	504.2	18.5		522.7
Liabilities related to separate accounts	300.1			300.1
Notes payable of Conseco	851.2	108.3	(58.3)(13) (50.0)(13) 18.5 (13)	869.7
Notes payable of Bankers Life Holding Corporation, not direct obligations of Conseco	418.1			418.1
Notes payable of American Life Holdings, Inc., not direct obligations of Conseco	13.0			13.0
Total liabilities	21,363.0	767.7	(367.3)	21,763.4
Minority interest in consolidated subsidiaries:				
Company - obligated mandatorily redeemable preferred securities of subsidiary trusts	600.0			600.0
Preferred stock	92.5			92.5
Common stock	55.3			55.3
Shareholders' equity:				
Preferred stock	267.1	22.8	(22.8)(14)	267.1
Common stock and additional paid-in capital	1,670.1	169.7	(169.7)(14) 121.7 (14) 106.2 (14)	1,898.0
Unrealized appreciation (depreciation) of securities	(47.0)	4.7	(4.7)(14)	(47.0)
Retained earnings	681.3	(23.0)	23.0 (14)	681.3
Total shareholders' equity	2,571.5	174.2	53.7	2,799.4
Total liabilities and shareholders' equity	$24,682.3	$941.9	$(313.6)	$25,310.6

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

</TABLE>

CONSECO AND SUBSIDIARIES
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

TRANSACTIONS RELATING TO THE MERGER

The Merger will be accounted for under the purchase method of accounting. Under this method, the total cost to acquire THI will be allocated to the assets and liabilities acquired based on their fair values as of the date of the Merger, with any excess of the total purchase cost over the fair value of the assets acquired less the fair value of the liabilities assumed recorded as goodwill. The Merger will not qualify to be accounted for under the pooling of interests method in accordance with APB No. 16 because THI was a subsidiary of another corporation within two years of the contemplated transaction. In the Merger, each outstanding share of THI common stock was exchanged for 1.4 shares of Conseco's common stock. Conseco issued approximately 2.4 million shares of Conseco common stock and common stock equivalents with a value of approximately $121.7 million to acquire THI's common stock (or equivalents). In addition, pursuant to an exchange offer (the "Exchange Offer"), all of THI's Subordinated Convertible Notes (the "THI Convertible Notes") were exchanged for shares of Conseco common stock on an equivalent basis as the shares issued in the Merger plus a cash premium. Such THI Convertible Notes were converted into 2.1 million shares of Conseco common stock with a value of approximately $106.2 million. Conseco also paid a premium of approximately $10.0 million to the holders of the THI Convertible Notes in conjunction with the Exchange Offer. Conseco estimates that it will incur costs related to the Merger (including contract termination, relocation, legal, accounting and other costs) of approximately $8.5 million.

The cost to acquire THI is allocated as follows (dollars in millions):
<TABLE>
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<S>	<C>
Book value of assets acquired based on the assumed date of the Merger (September 30, 1996)	$174.2
THI Convertible Notes converted to Conseco common stock pursuant to the Exchange Offer	50.0
Less book value of THI preferred stock	(22.8)
Increase (decrease) in THI's net asset value to reflect estimated fair value and asset reclassifications at the assumed date of the Merger:	
Cost of policies purchased (related to the Merger)	112.8
Cost of policies produced and cost of policies purchased (historical)	(39.2)
Income taxes	(25.8)
Premium paid in conjunction with the Exchange Offer	(10.0)
Premium incurred to retire THI preferred stock	(2.8)
Total estimated fair value adjustments	35.0
Total cost to acquire THI	$236.4

</TABLE>

Adjustments to the pro forma consolidated statement of operations to give effect to the Merger as of January 1, 1995, are summarized below.

(1) Net investment income and net realized gains of THI are adjusted to include the effect of adjustments to restate the amortized cost basis of fixed maturity securities to their estimated fair value and the effect of the assumed sale of $83.9 million fixed maturity investments investments, with the proceeds used to repay $58.3 million of bank debt and redeem preferred stock with a redemption value of $25.6 million.

(2) Interest expense is reduced to reflect the repayment of bank debt of $58.3 million and the conversion of the THI Convertible Notes into Conseco common stock pursuant to the Exchange Offer. Interest expense is increased to reflect borrowings by Conseco to: (i) pay the estimated cost of the Merger; and (ii) pay the $10.0 million premium in conjunction with the Exchange Offer.

(3) Amortization of the cost of policies produced and the cost of policies purchased prior to the Merger is replaced with the amortization of the cost of policies purchased (amortized in relation to estimated premiums on the policies purchased with interest equal to the liability rate which averages 5.5 percent).

(4) Reflects the tax adjustment for the pro forma adjustments at the approximate rate for the specific item.

(5) Common shares outstanding are increased to reflect the Conseco shares issued in the Merger and the conversion of the THI Convertible Notes in conjunction with the Exchange Offer.

(6) Effective October 1, 1995, THI sold its long term care business to ATC. An adjustment is made to remove the loss on the sale of the long term care business. However, the revenues, benefits and expenses related to this business prior to its sale are not eliminated, since the business is retained within the Conseco consolidated group after the ATC Merger (and pro forma adjustments for the ATC Merger do not include adjustments related to THI's long term care business prior to its purchase by ATC). In addition, expenses related to THI's spin-off from its parent are eliminated. Such costs include certain legal,

accounting, actuarial and advisory fees.

Adjustments to the pro forma consolidated balance sheet to give effect to the Merger as of September 30, 1996, are summarized below.

(7) Actively managed fixed maturity securities with a carrying value of $83.9 million are assumed to be sold at the date of the Merger.

(8) Short-term investments are reduced for: (i) payments made to complete the Merger; (ii) the repayment of bank debt with a balance of $58.3 million; (iii) the redemption of preferred stock with a redemption value of $25.6 million; and (iv) the payment of the $10.0 million premium in conjunction with the Exchange Offer. Short-term investments are increased by additional borrowings by Conseco of $18.5 million to complete the Merger and related transactions.

(9) THI's historical cost of policies purchased is eliminated and replaced with the cost of policies purchased recognized in the Merger. Cost of policies purchased reflects the estimated fair value of THI's business in force and represents the portion of the cost to acquire THI that is allocated to the value of the right to receive future cash flows from the acquired policies.

The 18 percent discount rate used to determine such value is the rate of return required by Conseco to invest in the business being acquired. In determining such rate of return, the following factors are considered.

- The magnitude of the risks associated with each of the actuarial assumptions used in determining the expected cash flows.
- Cost of capital available to fund the acquisition.
- The perceived likelihood of changes in insurance regulations and tax laws.
- Complexity of the acquired company.
- Prices paid (i.e., discount rates used in determining valuations) on similar blocks of business sold recently.

The value allocated to the cost of policies purchased is based on a preliminary valuation; accordingly, this allocation may be adjusted upon final determination of such value. Expected gross amortization of such value using current assumptions and accretion of interest based on an interest rate equal to the liability rate (such rate averages 5.5 percent) for each of the years in the five-year period ending September 30, 2001, are as follows (dollars in millions):

<TABLE>
<CAPTION>

Year ending September 30,	Beginning balance	Gross amortization	Accretion of interest	Net amortization	Ending balance
<S>	<C>	<C>	<C>	<C>	<C>
1997	$112.8	$19.2	$ 6.3	$12.9	$99.9
1998	99.9	15.9	5.6	10.3	89.6
1999	89.6	14.5	5.0	9.5	80.1
2000	80.1	13.3	4.4	8.9	71.2
2001	71.2	12.8	4.0	8.8	62.4

</TABLE>

(10) THI's cost of policies produced is eliminated since such amounts are reflected in the determination of the cost of policies purchased.

(11) All of the applicable pro forma balance sheet adjustments are tax affected at the appropriate rate. Deferred tax assets are netted against deferred tax liabilities.

(12) Reinsurance receivables and insurance liabilities related to business of THI ceded to ATC are eliminated in consolidation.

(13) Notes payable are increased to reflect: (i) the repayment of bank debt of $58.3 million; and (ii) the conversion of the THI Convertible Notes into Conseco common stock in conjunction with the Exchange

Offer. In addition, notes payable are increased to reflect additional borrowings by Conseco used to complete the Merger and related transactions.

(14) The prior shareholders' equity of THI is eliminated in conjunction with the Merger. Common stock and additional paid-in capital is increased by the value of Conseco common stock issued in the Merger. The value of the THI Convertible Notes represents the value of the Conseco common stock which was issued in conjunction with the Exchange Offer. Preferred stock of THI is eliminated to reflect its redemption.

ITEM 7(c). EXHIBITS.

(c) Exhibits

2.8 Agreement and Plan of Merger dated as of September 25, 1996, by and between Conseco, Inc. and Transport Holdings Inc.*

2.8.1 First Amendment to Agreement and Plan of Merger dated as of November 7, 1996, by and between Conseco, Inc. and Transport Holdings Inc.**

* Previously filed with Form 8-K dated September 25, 1996, filed by Conseco, Inc.

** Previously filed as an exhibit to the Registration Statement on Form S-4 (File No. 333-14377) filed by Conseco, Inc.

SIGNATURE

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

Date: December 23, 1996

CONSECO, INC.

By: /s/ ROLLIN M. DICK

Rollin M. Dick
Executive Vice President
and Chief Financial Officer