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CONSECO INC

FORM 8-K
(Current report filing)

Filed 10/14/94 for the Period Ending 09/29/94

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CIK	0000719241
SIC Code	6321 - Accident and Health Insurance
Industry	Insurance (Life)
Sector	Financial
Fiscal Year	12/31

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CONSECO INC

FORM 8-K
(Unscheduled Material Events)

Filed 10/14/1994 For Period Ending 9/29/1994

Address	11825 N PENNSYLVANIA ST
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Sector	Financial
Fiscal Year	12/31

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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 (date of earliest event reported):
September 29, 1994

CONSECO, INC.

State of Incorporation:
Indiana

Commission File	IRS Employer ID.
No. 0-11164	No. 35-1468632

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

Telephone No.
(317) 573-6100

CONSECO, INC. AND SUBSIDIARIES

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	2.1 Agreement and Plan of Merger dated as of May 1, 1994 by and among Conseco Capital Partners II, L.P., CCP II Acquisition Company and The Statesman Group, Inc.	
	4.12 Indenture dated as of September 29, 1994 between ALHC Merger Corporation and LTCB Trust Company and First Supplemental Indenture dated as of September 29, 1994 between American Life Holding Company and the Trustees for the 11-1/4% Senior Subordinated Notes due 2004.	
	The document defining the rights of the holders of the Senior Term Loan obtained by ALHC Merger Corporation as described in Item 2 has been omitted as an exhibit to the Form 8-K, pursuant to Item 601 (b)(4)(iii) of Regulation S-K, because the total amount of the ALHC Senior Term Loan is less than 10 percent of the total assets of the Registrant and its subsidiaries on a consolidated basis. The Registrant hereby undertakes to furnish copies of such documents to the Commission upon request.	

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

On September 29, 1994, Conseco Capital Partners II, L.P. ("CCP II"), a Delaware limited partnership, completed the acquisition (the "Acquisition") of The Statesman Group, Inc. ("Statesman"). After the Acquisition and related financing transactions, CCP II owns approximately 80 percent of the outstanding shares of Statesman's common stock. Conseco, Inc. ("Conseco") formed CCP II in February 1994 with several other investors for the purpose of investing in acquisitions of annuity, life and accident and health insurance companies and related businesses. Conseco Partnership Management, Inc., a wholly owned subsidiary of Conseco, is the sole general partner of CCP II. Because a subsidiary of Conseco is the sole general partner of CCP II, Conseco controls CCP II and Statesman. Accordingly, Conseco's consolidated financial statements will include the accounts of CCP II and Statesman. Conseco, through its direct investment and through its equity interest in the investments made by Bankers Life Holding Corporation ("BLH"), CCP Insurance, Inc. ("CCP Insurance") and Western National Corporation ("WNC"), has approximately a 27 percent ownership interest in Statesman. The remaining 73 percent ownership interest in Statesman is described as the "Statesman Minority Interest".

The Acquisition was consummated pursuant to an Agreement and Plan of Merger dated May 1, 1994, providing for the merger of Statesman with a subsidiary of CCP II. Statesman's former stockholders received $15.25 in cash per common equivalent share plus a contingent payment right to receive up to another $2.00 in cash per common equivalent share ("the Contingent Consideration") based on the outcome of Statesman's pending litigation against the U.S. Government concerning Statesman's former savings bank subsidiary (the "Government Litigation").

The Acquisition and related transactions were funded with: (i) $45.0 million of cash contributions made to CCP II by its partners (including $7.2 million provided by wholly owned subsidiaries of Conseco, $1.8 million by BLH, $1.8 million by CCP Insurance, and $3.6 million by WNC), (ii) $57.0 million in cash from the sale in a private placement of the payment-in-kind preferred stock of Statesman (the "Statesman PIK Preferred Stock") (including $25.9 million purchased by BLH and $24.0 million purchased by CCP Insurance) (iii) $150.0 million in cash from the sale in a public offering by ALHC Merger Corporation, a subsidiary of CCP II which was merged into American Life Holding Company ("ALHC"), a wholly owned subsidiary of Statesman, of its 11-1/4% Senior Subordinated Notes due 2004 (the "ALHC Senior Subordinated Notes") and (iv) $200.0 million in cash from a senior secured loan (the "ALHC Senior Term Loan") obtained by ALHC Merger Corporation (collectively referred to herein as the "Statesman Financing"). The sources and uses of this financing are summarized below (dollars in millions).

Sources of Funds:		
ALHC Senior Term Loan:		
Borrowed upon closing of the Acquisition	$170.0	
Borrowed upon determination of Government Litigation	30.0	(i)
ALHC Senior Subordinated Notes	150.0	
Statesman PIK Preferred Stock	57.0	
Common equity contribution from CCP II	45.0	
Total sources	$452.0	
Uses of Funds:		
Payment of cash consideration to acquire Statesman	$314.1	(ii)
Payment upon determination of Government Litigation	30.1	(i)
Repayment of bank indebtedness of a subsidiary of Statesman	55.5	(iii)
Transaction fees and expenses	14.8	
Purchase of surplus note from American Life and Casualty Insurance Company ("American Life") Statesman's principal operating subsidiary	24.0	
Cash retained	13.5	
Total uses	$452.0	

(i) In the event of an unfavorable determination of the Government Litigation against the U.S. Government, $30.1 million would be paid to the holders of Statesman's 1988 Series I and II Preferred Stock $1 Par (the "Statesman 1988 Series Preferred Stock"), which is currently held by the U.S. Government. In the event of a favorable determination of this litigation, the same amount, representing a portion of the Contingent Consideration, would be paid to the other former stockholders of Statesman.

(ii) This amount assumes conversion of all outstanding 6-1/4% Convertible Subordinated Debentures due 2003 of Statesman (the "Convertible Debentures"), which were convertible into an aggregate of 4,528,125 shares of Statesman common stock. To the extent that any holders of the Convertible Debentures do not convert such securities, the proceeds which would have been used to pay such holders will be held in escrow until the Convertible Debentures are converted by the holders thereof, are redeemed by Statesman, or mature.

(iii) A subsidiary of Statesman was the borrower under a credit facility with an outstanding balance including accrued interest and fees of $55.5 million at the Acquisition date which was repaid with a portion of the proceeds from the Statesman Financing.

In accordance with the CCP II partnership agreement, Conseco received fees for services provided of (i) $4.0 million related to the ALHC Senior Term Loan and the ALHC Senior Subordinated Notes and (ii) $.9 million from the CCP II Partners.

The ALHC Senior Term Loan was provided by a syndicate of lenders with Bank of America Illinois (formerly Continental Bank, N.A.) (the "Bank") as the agent. The loan has two tranches. One tranche has an aggregate principal amount of $160.0 million ("Tranche A") and the other tranche has an aggregate principal amount of $40.0 million ("Tranche B"). On the Acquisition date, $130.0 million and $40.0 million were borrowed under Tranche A and Tranche B, respectively, with the remaining $30.0 million to be borrowed at a later date when needed to redeem the Statesman 1988 Series Preferred Stock or pay the Contingent Consideration, depending on the outcome of the Government Litigation.

Tranche A and Tranche B bear interest at a rate of either the Banks's Alternate Reference Rate plus an applicable margin payable monthly or the Interbank Offered Rate ("IBOR") plus an applicable margin for periods of one, two, three or six months as selected by ALHC from time to time (such rate selected for the first three month period was 7.5 percent and 8.0 percent for Tranche A and Tranche B, respectively.) The applicable margin for the rate based on the Bank's Alternate Reference Rate will vary from .25 percent to 1.0 percent for Tranche A and from .75 percent to 1.5 percent for Tranche B depending on the principal amount plus unused commitments. The applicable margin for the rate based on IBOR will vary from 1.5 percent to 2.25 percent for Tranche A and from 2.0 percent to 2.75 percent for Tranche B depending on the principal amount plus unused commitments.

The principal amounts of Tranche A and Tranche B are payable in annual installments on April 1 of each year according to the following amortization schedule (dollars in millions):

Payment Date	Principal Installment Tranche A	Tranche B
1995	$ 15.0	$ -
1996	16.5	.5
1997	23.5	.5
1998	26.0	.5
1999	26.0	.5
2000	26.0	.5
2001	27.0	.5
2002	-	37.0
	$160.0	$40.0

Mandatory prepayments will be required (i) from 50 percent of Excess Cash Flow (as defined in the loan agreement), (ii) upon the sale or disposition of any significant assets other than in the ordinary course of business and (iii) upon the sale or issuance of debt or equity securities of Statesman or any of its subsidiaries. The ALHC Senior Term Loan is secured by, among other things, pledges of the capital stock of ALHC's subsidiaries (American Life and American Life and Casualty Marketing Division Co. ("AMCO") and the surplus notes of American Life held by ALHC. The ALHC Senior Term Loan is unconditionally guaranteed by Statesman and AMCO. Statesman has pledged the common stock of ALHC as security for its guarantee. In addition, CCP II has pledged to the lenders the Statesman common stock owned by CCP II.

The ALHC Senior Subordinated Notes bear interest at 11.25 percent, payable semiannually on March 15 and September 15, and will mature on September 15, 2004. The ALHC Senior Subordinated Notes are redeemable at the option of ALHC, in whole or in part, at any time on and after September 15, 1999, initially at 105.625 percent of their principal amount, plus accrued interest, declining to 100 percent of their principal amount, plus accrued interest, on and after September 15, 2001.

Dividends on the Statesman PIK Preferred Stock accrue annually at 13 percent in additional shares of Statesman PIK Preferred Stock through 2005. Thereafter, dividends are payable quarterly at 15 percent per annum in cash. The Statesman PIK Preferred Stock ranks senior to the Statesman common stock with respect to dividends, and upon liquidation, the Statesman PIK Preferred Stock will carry a liquidation preference equal to $1,000 per share, plus accrued unpaid dividends. The Statesman PIK Preferred Stock is redeemable at the option of Statesman, in whole or from time to time in part. The optional redemption price of the Statesman PIK Preferred Stock will be $1,000 per share, plus any accrued and unpaid dividends, and the Statesman PIK Preferred Stock generally will not have any voting rights. As partial consideration for the purchase of the Statesman PIK Preferred Stock, the purchasers received common stock, representing 20 percent of the outstanding common stock of Statesman immediately after the Acquisition.

ITEM 7(a). FINANCIAL STATEMENTS

THE STATESMAN GROUP, INC. and Subsidiaries

CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

ASSETS

	June 30, 1994 (Unaudited)	December 31, 1993 (Audited)
Investments		
Fixed maturities		
Held-to-maturity	$ 1,395,977	$ 747,741
Available-for-sale	2,611,978	3,136,315
	4,007,955	3,884,056
Equity securities	22,639	20,411
Mortgage loans on real estate	71,000	66,541
Policy loans	58,065	56,265
Short-term investments	110,500	13,919
Other	18,596	14,991
Total investments	4,288,755	4,056,183
Cash	2,258	9,993
Accrued investment income	56,726	49,653
Accounts and notes receivable	9,778	10,310
Deferred policy acquisition costs	346,193	293,938
Deferred federal income taxes	45,275	
Property and equipment	9,916	10,518
Securities segregated for the future redemption of preferred stock of wholly-owned subsidiary	36,901	35,560
Other assets	13,276	11,747
Assets held in separate accounts	10,680	12,809
Total assets	$ 4,819,758	$ 4,490,711

See accompanying notes.

CONSOLIDATED BALANCE SHEETS--(Continued)
(dollars in thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 1994 (Unaudited)	December 31, 1993 (Audited)
Liabilities		
Policy liabilities and accruals:		
Annuity reserves	$ 4,089,891	$ 3,690,557
Life insurance reserves	307,370	301,284
Other	15,387	17,226
	4,412,648	4,009,067
Other policyholders' funds	66,761	60,395
Accrued expenses and other liabilities	46,386	44,512
Long-term debt	123,980	120,375
Liabilities related to separate accounts	10,680	12,809
Total liabilities	4,660,455	4,247,158
Commitments and contingencies		
Preferred stock of wholly-owned subsidiary	95,429	95,298
Redeemable preferred stock		
1987 Series II Preferred Stock $1 Par, at liquidation value, less ESOP loan guarantee balance; 100,000 shares issued; 77,130 shares outstanding	3,713	2,963
Stockholders' equity		
Series Preferred Stock $1 Par, 5,000,000 shares authorized including redeemable preferred shares; issued and outstanding--338,640 shares (aggregate liquidation preference $15,339)	339	339
Common stock, $1 par value, 35,000,000 shares authorized; 14,939,899 shares issued	14,940	14,940
Additional paid-in capital	58,616	58,796
Unrealized depreciation of securities	(99,970)	(345)
Retained earnings	94,307	79,447
Common stock in treasury, at cost--1994--1,525,172 shares; 1993--1,510,243 shares	(8,071)	(7,885)
Total stockholders' equity	60,161	145,292
Total liabilities and stockholders' equity	$ 4,819,758	$ 4,490,711

See accompanying notes.

THE STATESMAN GROUP, INC. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(dollars in thousands, except per share amounts)

	Six Months Ended June 30,	
	1994	1993
Revenues:		
Premiums and policy fund charges	$ 26,266	$ 24,335
Net investment income	160,812	144,369
Realized gains (losses) on investments	5,084	10,852
Other	2,746	2,831
	194,908	182,387
Benefits, losses and expenses:		
Benefits, claims, losses and settlement expenses	119,114	110,920
Amortization of deferred policy acquisition costs	22,268	18,546
Underwriting, acquisition, insurance and other expenses	17,318	17,204
Interest	4,152	2,295
	162,852	148,965
Income before income Taxes and minority interest	32,056	33,422
Federal income tax expense	10,280	11,415
Minority interest-dividends on preferred stock of wholly-owned subsidiary	4,504	4,271
Net income	17,272	17,736
Less dividend requirements of Series Preferred Stock $1 Par, less applicable income tax benefits	796	823
Net income applicable to common stock	$ 16,476	$ 16,913
Net income per common share:		
Primary	$ 1.17	$ 1.17
Fully diluted	.84	.89
Average shares outstanding used in computations (in thousands):		
Primary	14,105	14,496
Fully diluted	22,302	19,835

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(dollars in thousands)

	Six Months Ended June 30,	
	1994	1993
Operating activities		
Net income	$ 17,272	$ 17,736
Adjustments to reconcile net income to net cash from operating activities	38,600	10,640
Net cash from operating activities	55,872	28,376
Investing activities		
Purchases of fixed maturity investments	(1,122,887)	(1,933,346)
Mortgage loans originated	(22,802)	(1,077)
Purchases of equity securities	(20,571)	(1,199)
Purchase of securities placed in escrow account		(9,895)
Net purchases of short-term and other investments	(100,367)	(113,365)
Principal repayments on mortgage-backed securities and proceeds from the redemption and maturity of fixed maturity investments	351,782	298,643
Proceeds from sales of fixed maturity investments	511,772	1,170,638
Principal repayments on and sales of mortgage loans	17,939	21,843
Proceeds from the redemption and sales of equity securities	7,291	29,585
Proceeds from sales of real estate acquired in satisfaction of debt	56	3,406
Net sales (purchases) of property and equipment	22	(777)
Net cash used in investing activities	(377,765)	(535,544)
Financing activities		
Issuance of long-term debt	20,600	98,694
Payments on long-term debt	(16,384)	(25,975)
Treasury stock acquired	(559)	(2,310)
Stock options exercised	193	
Receipts from interest-sensitive insurance and annuity contracts	549,238	565,614
Benefit payments on interest-sensitive insurance and annuity contracts	(236,120)	(135,358)
Repayments on interest rate swap transaction	(1,164)	(1,052)
Dividends paid to stockholders	(1,646)	(740)
Net cash from financing activities	314,158	498,873
Net decrease in cash and cash equivalents	(7,735)	(8,295)
Cash and cash equivalents at beginning of period	9,993	19,404
Cash and cash equivalents at end of period	$ 2,258	$ 11,109
Schedule of noncash investing and financing activities:		
Reduction in ESOP loan guarantee	$ 750	$ 900
Exchange of subordinated debentures for redeemable preferred stock of wholly-owned subsidiary		30,000
Exchange of treasury stock for exercised stock options	180	

See accompanying notes.

THE STATESMAN GROUP, INC. and Subsidiaries

Notes to Consolidated Financial Statements

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the consolidated financial statements and notes thereto for the year ended December 31, 1993.

On September 29, 1994, Conseco Capital Partners II, L.P. ("CCP II"), a Delaware limited partnership, completed the acquisition (the "Acquisition") of the Company (see Note E). The Acquisition will be accounted for as a purchase business combination pursuant to which the reported values of the acquired assets and liabilities of the Company are adjusted to their estimated fair values at the Acquisition date. As such, future results of operations and financial condition of the Company may vary significantly from historical reported results of operations and financial condition.

NOTE B--STOCKHOLDERS' EQUITY AND REDEEMABLE PREFERRED STOCK

On January 13, 1994, the Company's Board of Directors authorized the repurchase by the Company of up to 1,000,000 shares of the Company's common stock in the open market at then-current market prices during calendar year 1994. Shares thus acquired will be used for general corporate purposes. Through June 30, 1994, the Company had acquired 47,312 shares at an aggregate cost of $559,000 through the repurchase program. As a result of entering into the merger agreement described in Note E, the Company is prohibited from acquiring any shares of its capital stock while the merger is pending.

The Board of Directors is authorized to issue 5,000,000 shares of Series Preferred Stock $1 Par from time to time in one or more series and to fix the number of shares, designations, voting powers (if any), preferences and rights, and qualifications, limitations or restrictions of each series. Each series of Series Preferred Stock $1 Par shall be distinctly designated and, except as otherwise stated, shall rank equally and be identical in all respects. There were no changes in the number of shares of issued and outstanding Series Preferred Stock $1 Par during the period ended June 30, 1994.

The Company's redeemable preferred stock consists of 100,000 shares of 1987 Series II Preferred Stock $1 Par, of which there were 77,130 shares outstanding at June 30, 1994 and December 31, 1993. The preferred shares provide that the holder may require the Company to redeem the shares if there is a change in control, as defined, of the Company. The outstanding redeemable preferred shares are presented at their $100 per share liquidation preference, less the outstanding ESOP loan guarantee balance of $4,000,000 and $4,750,000 at June 30, 1994 and December 31, 1993, respectively.

At June 30, 1994 there were 9,183,724 shares of common stock reserved for conversion of the Series Preferred Stock and 6 1/4% Convertible Subordinated Debentures and for exercise of stock options (includes 1,058,335 shares reserved for conversion of 1987 Series II Preferred Stock $1 Par reported as redeemable preferred stock).

The Company declared a cash dividend on common stock of $.10 per share in January 1994, which was paid in February 1994. All cumulative dividends on the Company's Series Preferred Stock have been declared and paid by the Company except that cumulative dividends aggregating $4,657,000 have been declared on the 143,640 issued and outstanding shares of the Company's 1988 Series I and II Preferred Stock (the "1988 Series Preferred Stock") but have not been paid and cumulative dividends on the 1988 Series Preferred Stock aggregating $575,000 have not been declared. The Company has set off the amount of the declared dividends on the 1988 Series Preferred Stock against damages believed by the Company to be owing to it by the United States of America arising from pending litigation related to the takeover of the Company's former savings bank subsidiary by government regulators in July 1990 (see Note C).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE C--CONTINGENCIES

The Company's subsidiaries are involved in various pending or threatened legal proceedings arising from the conduct of their businesses. These proceedings in some instances include claims for punitive damages and similar types of relief in unspecified or substantial amounts, in addition to amounts for alleged contractual liability or claims for equitable relief. In management's opinion, after consultation with counsel and review of available facts, these proceedings will be ultimately resolved without materially affecting the Company's financial condition.

The Company's insurance subsidiaries reinsure with other reinsurers that portion of risks exceeding each company's retention limit. These reinsured risks are treated as though, to the extent of the reinsurance, they are risks for which the subsidiaries are not liable. The Company remains contingently liable in the event that the reinsuring companies do not meet their obligations under these reinsurance contracts.

Prior to 1984, a portion of the life insurance subsidiaries' income was not subject to current income taxation, but was accumulated, for income tax purposes, in "policyholders' surplus accounts." At December 31, 1993, the balances in the policyholders' surplus accounts aggregated $12,672,000. These amounts are not taxable unless distributed to stockholders or unless they exceed certain limitations under the Internal Revenue Code. Management does not intend to take actions nor does it expect any events to occur that would cause income tax to be payable on these amounts; therefore, deferred income taxes of $4,435,000 have not been provided on these amounts.

The Company has entered into employment continuation agreements with certain executives of the Company and its subsidiaries that provide for payments to these executives of amounts up to four times their annual compensation if there is a change in control of the Company (as defined), and a termination of their employment. The agreements do not constitute employment contracts and only apply in circumstances following a change in control. The maximum contingent liability at June 30, 1994 under these agreements is $6,407,000.

From time to time, mandatory assessments are levied on the Company's insurance subsidiaries by life and health guaranty associations of most states in which these subsidiaries are licensed to cover losses to policyholders of insolvent or rehabilitated insurance companies. These associations levy assessments (up to prescribed limits) on all member insurers in a particular state in order to pay claims on the basis of the proportionate share of premiums written by member insurers in the lines of business in which the insolvent or rehabilitated insurer engaged. These assessments may be deferred or forgiven in certain states if they would threaten an insurer's financial strength and, in some states, these assessments can be partially recovered through a reduction in future premium taxes. Prior to 1991, these assessments were not material to the Company's financial statements. However, during 1989 through 1992, the economy and other factors caused a number of failures of several large life insurance companies which could result in future assessments in material amounts. Assessments levied against the Company's insurance subsidiaries and charged to expense for the six months ended June 30, 1994 and 1993 and for the three months ended June 30, 1994 and 1993 were $934,000, $228,000, $614,000 and $65,000, respectively. The accompanying consolidated financial statements include provisions for all known assessments that will be levied against the Company as indicated to date by the various state guaranty associations. At the present time, the Company is not able to reasonably estimate what amounts will ultimately be assessed to its subsidiaries in the future for failures that have occurred to date and, as such, the accompanying consolidated financial statements do not include any provision for such potential assessments.

In August 1990, the Company filed suit in the United States Claims Court (the "Claims Court") against the United States of America. The pending lawsuit concerns contractual agreements which were made by the Federal Savings and Loan Insurance Corporation and the Federal Home Loan Bank Board, former government regulatory agencies that were abolished by the Financial Institutions Reform, Recovery and Enforcement Act of 1989, to induce the Company to capitalize Statesman Bank for Savings, FSB (the "savings bank"), formerly a wholly-owned subsidiary of the Company, for the purpose of acquiring four failed thrift institutions. In the lawsuit, the Company claims that the defendant has breached its contractual agreements with respect to regulatory capital. Accordingly, the pending lawsuit contends that this breach of contract, which resulted in the disallowance of $21 million of capital which the defendant promised would be perpetual for regulatory accounting purposes, constitutes a taking of the Company's property without just compensation and due process of law, in violation of the Fifth Amendment of the United States Constitution.

NOTE C--CONTINGENCIES--Continued

The pending lawsuit seeks rescission of the transaction between the Company and the government agencies and recovery of the Company's investment plus compensation for monies expended, costs incurred and the value of benefits conferred on the defendant through the Company's purchase, operation and management of the savings bank. Total restitution sought exceeds $30 million.
In July 1992, the Claims Court granted the Company's motion for summary judgment as to the defendant's liability in the above-described lawsuit. The Claims Court also consolidated this case with two others and certified these cases for interlocutory appeal to the United States Court of Appeals for the Federal Circuit (the "Court of Appeals"). Subsequently, the Court of Appeals reversed the order of the Claims Court by a margin of two to one and the Company filed a Petition for Rehearing with Suggestion for Rehearing in Banc (the "Rehearing Petition") with the Court of Appeals. On August 18, 1993, the Court of Appeals accepted the Rehearing Petition, vacated its judgment entered on May 25, 1993 in favor of the defendant and withdrew its opinion accompanying the judgment. The rehearing was held on February 10, 1994 and a decision is pending.

In 1985 the Company sold Statesman Insurance Company, a former property-casualty insurance subsidiary. As part of this sale and as part of a certain reinsurance agreement between Statesman Insurance Company and an unconsolidated affiliated property-casualty insurance company, the Company guaranteed and indemnified Statesman Insurance Company that it would suffer no loss on the insurance liability reinsured by it in excess of the loss and loss adjustment expense reserves transferred to the affiliate pursuant to the terms of the reinsurance agreement. The Company does not believe that the ultimate settlement of the remaining outstanding claims covered by this guarantee will materially exceed existing liabilities provided for such contingency.

NOTE D--ADOPTION OF NEW ACCOUNTING STANDARD

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," that became effective for fiscal years beginning after December 15, 1993. The primary impact of Statement 115 is to require companies to classify their securities into categories based upon the company's intent relative to the eventual disposition of the securities. Under the new rules, the Company's investments in debt securities (including mortgage-backed securities) and equity securities that have readily determinable fair values are to be classified in three categories and accounted for as follows:

Held-to-Maturity Securities: Debt securities which the Company has the positive intent and ability to hold until maturity shall be reported at amortized cost.

Trading Securities: Debt and marketable equity securities purchased with the intent to sell in the near term shall be reported at fair value and unrealized gains and losses shall be included in results of operations.

Available-for-Sale Securities: Debt and marketable equity securities not classified as either held-to-maturity or trading shall be reported at fair value with unrealized gains and losses reported as adjustments to stockholders' equity.

Beginning in the fourth quarter of 1992 and prior to the adoption of this standard, the Company segregated its fixed maturity investments into those that would be held until maturity and those that would be available for sale. Available-for-sale fixed maturity investments were reported at the lower of cost or estimated fair value, in the aggregate. At December 31, 1993 there was no unrealized net loss on these investments.

NOTE D--ADOPTION OF NEW ACCOUNTING STANDARD--Continued

As of January 1, 1994, the Company adopted the provisions of Statement 115 for investments held as of or acquired after that date. In accordance with Statement 115, prior-period financial statements have not been restated to reflect the change in accounting principle. The cumulative effect as of January 1, 1994 of adopting Statement 115 increased stockholders' equity by $38,171,000 (net of adjustments to deferred policy acquisition costs of $41,831,000 and deferred income taxes of $20,554,000) to reflect the net unrealized holding gains on securities previously carried at amortized cost; there was no effect on net income as a result of the adoption of Statement 115. In the six-month period ended June 30, 1994, those net unrealized holding gains decreased by $136,109,000 (net of adjustments to deferred policy acquisition costs of $59,616,000 and deferred income taxes of $73,290,000). As of June 30, 1994, the Company's available-for-sale fixed maturity securities had net unrealized losses of $97,938,000 (net of adjustments to deferred policy acquisition costs of $17,785,000 and deferred income taxes of $52,736,000).

NOTE E--MERGER AGREEMENT

On September 29, 1994, CCP II completed the Acquisition of the Company. Pursuant to an Agreement and Plan of Merger, the Company's former stockholders received $15.25 in cash per common equivalent share, plus the right to receive up to another $2.00 in cash per common equivalent share based on the outcome of the Company's pending litigation against the U. S. Government concerning the Company's former savings bank subsidiary. CCP II is a Delaware limited partnership which was formed by Conseco, Inc. ("Conseco") to invest in acquisitions of annuity, life, and accident and health insurance companies and related businesses. In connection with the Acquisition, the line of credit of a subsidiary of the Company with a balance at the acquisition date of approximately $54,800,000 was repaid.

The Acquisition will be accounted for as a purchase business combination pursuant to which the reported values of the acquired assets and liabilities of the Company are adjusted to their estimated fair values at the Acquisition date. The Company incurred indebtedness aggregating $350 million to partially finance the Acquisition. As such, future results of operations and the financial condition of the Company may vary significantly from historical reported results of operations and financial condition.

The Company and certain of the persons then serving on the Board of Directors have been named in a purported class action suit commenced on May 3, 1994 relating to the Acquisition. The complainant seeks injunctive relief and compensatory damages. The Company believes that such suit is without merit and intends to contest it vigorously.

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
The Statesman Group, Inc.

We have audited the accompanying consolidated balance sheets of The Statesman Group, Inc. and subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 consolidated financial position of The Statesman Group, Inc. and subsidiaries at December 31, 1993 and 1992, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note C to the consolidated financial statements, during 1993 the Company changed its method of accounting for income taxes.

ERNST & YOUNG LLP

Des Moines, Iowa
January 27, 1994

CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

ASSETS

	December 31, 1993	December 31, 1992
Investments:		
Fixed maturities:		
Held for investment (market: 1993--$777,975; 1992--$2,393,615)	$ 747,741	$2,329,571
Available for sale (market: 1993--$3,221,593; 1992--$586,389)	3,136,315	580,977
	3,884,056	2,910,548
Equity securities (cost: 1993--$20,942; 1992--$39,647)	20,411	38,160
Mortgage loans on real estate, less allowances for loan losses of $1,000 in 1993 and 1992	66,541	87,086
Policy loans	56,265	53,403
Short-term investments	13,919	7,712
Other	14,991	4,546
Total investments	4,056,183	3,101,455
Cash	9,993	19,404
Accrued investment income	49,653	42,779
Accounts and notes receivable, less allowances for doubtful accounts of $2,636 in 1993 and $3,330 in 1992	10,310	5,744
Deferred policy acquisition costs	293,938	235,071
Property and equipment, less allowances for depreciation of $10,592 in 1993 and $9,596 in 1992	10,518	10,334
Securities segregated for the future redemption of preferred stock of wholly-owned subsidiary	35,560	23,183
Other assets	11,747	11,075
Assets held in separate accounts	12,809	17,002
Total assets	$4,490,711	$3,466,047

See accompanying notes.

CONSOLIDATED BALANCE SHEETS--(Continued)
(dollars in thousands, except per share amounts)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1993	December 31, 1992
Liabilities:		
Policy liabilities and accruals:		
Annuity reserves	$3,690,557	$2,798,602
Life insurance reserves	301,284	286,904
Other	17,226	14,342
	4,009,067	3,099,848
Other policyholders' funds	60,395	53,964
Accrued expenses and other liabilities	44,512	42,398
Long-term debt	120,375	71,633
Liabilities related to separate accounts	12,809	17,002
	4,247,158	3,284,845
Commitments and contingencies		
Preferred stock of wholly-owned subsidiary	95,298	65,172
Redeemable preferred stock		
1987 Series II Preferred Stock $1 Par, at liquidation value, less ESOP loan guarantee balance; issued--100,000 shares; outstanding--1993--77,130 shares; 1992--81,901 shares	2,963	2,290
Stockholders' equity:		
Series Preferred Stock $1 Par, 5,000,000 shares authorized including redeemable preferred shares; issued and outstanding--1993--338,640 shares (aggregate liquidation preference $15,339); 1992--343,640 shares	339	344
Common stock, $1 par value, 35,000,000 shares authorized; issued--1993--14,939,899 shares; 1992--14,252,127 shares	14,940	14,252
Additional paid-in capital	58,796	50,594
Unrealized depreciation of equity securities	(345)	(1,487)
Retained earnings	79,447	52,968
Common stock in treasury, at cost--1993--1,510,243 shares; 1992--1,142,888 shares	(7,885)	(2,931)
Total stockholders' equity	145,292	113,740
Total liabilities and stockholders' equity	$4,490,711	$3,466,047

CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except per share amounts)

	Year Ended December 31,		
	1993	1992	1991
Revenues:			
Premiums and policy fund charges	$ 49,959	$ 51,723	$ 53,321
Net investment income	298,902	272,231	244,409
Realized gains on investments	24,803	12,369	10,655
Other	5,557	3,712	3,468
	379,221	340,035	311,853
Benefits, losses and expenses:			
Benefits, claims, losses and settlement expenses	227,642	225,184	222,002
Amortization of deferred policy acquisition costs	41,559	30,727	16,881
Underwriting, acquisition, insurance and other expenses	35,461	35,500	31,477
Interest	6,097	5,570	5,846
	310,759	296,981	276,206
Income from continuing operations before income taxes and minority interest	68,462	43,054	35,647
Federal income tax expense	22,440	14,867	12,240
Minority interest--dividends on preferred stock of wholly-owned subsidiary	8,775	2,170	
Income from continuing operations	37,247	26,017	23,407
Discontinued operations:			
Net loss from operations and in 1991, net loss on disposal of subsidiaries of $541		(71)	(756)
Income before extraordinary credit	37,247	25,946	22,651
Extraordinary credit--reduction of federal income tax expense arising from carryforward of prior years' realized losses on investments and non-life operating losses		4,875	5,750
Net income	37,247	30,821	28,401
Less dividend requirements of Series Preferred Stock $1 Par, less applicable income tax benefits	1,593	1,650	1,776
Net income applicable to common stock	$ 35,654	$ 29,171	$ 26,625
Primary earnings per common share:			
Income from continuing operations	$ 2.49	$ 1.71	$ 1.57
Loss from discontinued operations			(.06)
Extraordinary credit		.34	.42
Net income	$ 2.49	$ 2.05	$ 1.93
Weighted average shares outstanding (in thousands)	14,322	14,258	13,777
Fully diluted earnings per common share:			
Income from continuing operations	$ 1.85	$ 1.42	$ 1.29
Loss from discontinued operations			(.04)
Extraordinary credit		.27	.33
Net income	$ 1.85	$ 1.69	$ 1.58
Weighted average shares outstanding (in thousands)	21,111	18,050	17,681

See accompanying notes.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(dollars in thousands, except per share amounts)

	Year Ended December 31,		
	1993	1992	1991
Series Preferred Stock $1 Par:			
Balance, beginning of year	$ 344	$ 344	$ 344
Conversion into common stock	(5)		
Balance, end of year	$ 339	$ 344	$ 344
Common stock:			
Balance, beginning of year	$14,252	$14,252	$14,231
5% stock dividend	688		
Exercise of stock options			21
Balance, end of year	$14,940	$14,252	$14,252
Additional paid-in capital:			
Balance, beginning of year	$50,594	$50,371	$50,246
5% stock dividend	8,683		
Issuance of treasury stock to employee benefit plans		88	(205)
Exchange of common stock for 1987 Series II Preferred Stock	270	135	309
Conversion of 1976 Series Preferred Stock	(39)		
Tax benefit related to issuance of shares under stock option plan	180		
Exercise of stock options	(892)		21
Balance, end of year	$58,796	$50,594	$50,371
Unrealized depreciation of equity securities:			
Balance, beginning of year	$(1,487)	$ (678)	$ (923)
(Increase) decrease during year	1,142	(809)	245
Balance, end of year	$ (345)	$(1,487)	$ (678)
Retained earnings (deficit):			
Balance, beginning of year	$52,968	$26,839	$ (744)
Net income	37,247	30,821	28,401
Cash dividends:			
1976 Series Preferred Stock	(85)	(85)	(85)
1987 Series II Preferred Stock	(555)	(621)	(904)
1988 Series I and II Preferred Stock	(287)	(3,508)	
Common stock (1993 and 1992--$.05 per share)	(655)	(653)	
5% stock dividend	(9,371)		
Tax benefit on 1987 Series II Preferred Stock dividends	185	175	300
Redemption of preferred stock purchase rights			(129)
Balance, end of year	$79,447	$52,968	$26,839
Common stock in treasury:			
Balance, beginning of year	$(2,931)	$(3,092)	$(4,220)
Cost of shares acquired	(6,189)		
Issued to employee benefit plans		65	703
Net issuance under stock option plans	984		
Exchange of common stock for 1987 Series II Preferred Stock	207	96	425
Conversion of 1976 Series Preferred Stock	44		
Balance, end of year	$(7,885)	$(2,931)	$(3,092)

See accompanying notes.

THE STATESMAN GROUP, INC. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	Year Ended December 31,		
	1993	1992	1991
OPERATING ACTIVITIES			
Continuing operations:			
Income from continuing operations	$ 37,247	$ 26,017	$ 23,407
Adjustments to reconcile income from continuing operations to net cash provided by continuing operations:			
Changes in:			
Policy liabilities and accruals	157,756	144,952	141,328
Other policyholders' funds, accrued expenses and other liabilities	10,967	12,377	22,181
Accrued investment income	(6,874)	(5,648)	(4,634)
Accounts and notes receivable	(7,982)	1,798	66
Deferred policy acquisition costs	(58,867)	(12,411)	(17,159)
Amortization of discounts and premiums on investments, net	(53,568)	(43,761)	(13,262)
Provision for depreciation and amortization	1,432	1,412	1,475
Realized gains on investments	(24,803)	(12,369)	(10,655)
Other	(3,159)	(3,846)	(2,153)
Net cash provided by continuing operations	52,149	108,521	140,594
Net cash provided by (used in) discontinued operations:			
Net loss		(71)	(756)
Items not affecting cash			(463)
		(71)	(1,219)
Net cash provided by operating activities	52,149	108,450	139,375
INVESTING ACTIVITIES			
Purchases of fixed maturity investments	(3,817,415)	(1,705,842)	(1,994,318)
Mortgage loans originated	(7,318)	(16,765)	(64,861)
Purchases of equity securities	(23,898)	(9,698)	(2,753)
Purchases of short-term and other investments	(17,325)	(2,262)	(5,054)
Purchases of securities placed in escrow account	(9,895)	(22,588)	
Principal repayments on mortgage-backed securities and proceeds from the redemption and maturity of fixed maturity investments	755,245	430,348	112,621
Proceeds from sales of fixed maturity investments	2,166,253	816,701	1,572,416
Principal repayments on and sales of mortgage loans	26,671	81,290	19,409
Proceeds from sales and maturities of short-term and other investments	484	246	44,921
Proceeds from sales of equity securities	41,092	1,550	413
Proceeds from sales of real estate acquired in satisfaction of debt	5,514	2,768	3,234
Proceeds from the sale of subsidiary			1,011
Net purchases of property and equipment	(1,205)	(514)	(1,240)
Net cash used in investing activities	(881,797)	(424,766)	(314,201)

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS--(Continued)
(dollars in thousands)

	Year Ended December 31,		
	1993	1992	1991
FINANCING ACTIVITIES			
Issuance of long-term debt	$ 115,656	$ 16,677	$ 21,100
Payments on long-term debt	(37,332)	(9,133)	(6,344)
Issuance of preferred stock by wholly-owned subsidiary		65,088	
Issuance of common stock	91		42
Treasury stock acquired	(6,189)		
Receipts from interest-sensitive insurance and annuity contracts	1,035,003	478,237	354,018
Benefit payments on interest-sensitive insurance and annuity contracts	(283,539)	(217,787)	(190,906)
Repayments on interest rate swap transaction	(2,158)	(1,950)	(1,762)
Dividends paid to stockholders and redemption of stock purchase rights	(1,295)	(1,359)	(1,118)
Net cash provided by financing activities	820,237	329,773	175,030
Net increase (decrease) in cash	(9,411)	13,457	204
Cash and cash equivalents, beginning of year	19,404	5,947	5,743
Cash and cash equivalents, end of year	$ 9,993	$ 19,404	$ 5,947
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 4,801	$ 5,872	$ 5,717
Income taxes	19,963	12,575	5,150
Noncash Investing and Financing Activities:			
Reduction in ESOP loan guarantee balance	1,150	1,100	1,000
Exchange of subordinated debentures for redeemable preferred stock of wholly-owned subsidiary	30,000		
Exchange of common stock for 1987 Series II Preferred Stock	477	231	734
Exchange of treasury stock for exercised stock options	809		
Conversion of 1976 Series Preferred Stock into common stock	44		
Common stock issued to employee benefit plans		153	498
Foreclosure on mortgage of subsidiary's home office building		2,616	
Equity security received upon sale of subsidiary			127

See accompanying notes.

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP"), which, as to the subsidiary insurance companies, differ in some respects from statutory accounting practices followed in the preparation of financial statements submitted to state insurance departments.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of all significant intercompany accounts and transactions.

Investments: Fixed maturity investments (bonds, notes and redeemable preferred stocks) are reported at amortized cost less adjustments for other than temporary declines in value and the allowance for credit losses unless they have been identified for possible sale prior to maturity, in which case they are carried at the lower of cost or estimated fair value, in the aggregate (see Note B for discussion of the impact of the adoption of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," on January 1, 1994). The Company has the ability and the intent to hold those fixed maturities reported as held for investment until maturity. Actual principal prepayments and estimates of future principal prepayments are used in the determination of amortized cost for certain mortgage-backed securities. Factors used in determining estimates of future prepayments include historical prepayment data and expected prepayment performance under varying interest rate scenarios.

Equity securities (common and non-redeemable preferred stocks) are carried at current market value. Mortgage loans and policy loans are reported at unpaid principal less allowance for loan losses. Short-term investments are carried at amortized cost, which approximates fair value.

Realized gains and losses on sales of investments are determined on the specific identification basis and are recognized in net income upon sale. Unrealized gains and losses on equity securities and unrealized net losses on fixed maturities available for sale net of applicable deferred income taxes, are included directly in stockholders' equity and, accordingly, have no effect on net income.

Recognition of Revenues: Premiums for traditional life insurance products, which include those products with fixed and guaranteed premiums and benefits, are recognized as revenues when due. Accident and health insurance premiums are earned pro rata over the periods to which the premiums relate.

Revenues for investment contracts (principally deferred annuities) and universal life and single premium whole life insurance policies consist of policy fund charges for cost of insurance, policy administration, and surrender charges assessed against policyholder account balances and amortization of policy initiation fees. Universal life insurance, single premium whole life insurance and immediate annuity policies generate unearned policy fund charges that represent fees assessed against policyholder fund balances in the policy issue year. These unearned charges are included in other liabilities and are amortized into income over the period benefitted using the same assumptions and factors used to amortize deferred policy acquisition costs.

Deferred Policy Acquisition Costs: Commissions and other costs of issuing and acquiring new business that vary with and are primarily related to the production of new and renewal business, to the extent recoverable, have been deferred.

Traditional life insurance deferred policy acquisition costs are being amortized (with interest) over the expected premium-paying period of the related policies using assumptions consistent with those used in computing policy benefit reserves, including provisions for possible unfavorable deviations.

For deferred annuity contracts and universal life and single premium whole life insurance policies, deferred policy acquisition costs are being amortized generally in proportion to the present value (using the assumed crediting rate) of expected gross profits from surrender charges and investment, mortality and expense margins over the expected life of the policies, but not more than fifteen years. This amortization is adjusted retrospectively when estimates of current or future gross profits to be realized are revised. In 1993 and 1992, realized investment gains resulted in accelerated amortization expense of $9,760,000 and $5,250,000, respectively.

Policy Liabilities and Accruals -- Future Policy Benefits and Unearned Premiums: Benefit reserves for deferred annuity contracts and universal life and single premium whole life insurance policies are computed under a retrospective deposit method and represent policyholder account balances before applicable surrender charges. Policyholder account balances consist of policyholder deposits accumulated at credited interest rates generally ranging from 5.00% to 8.10% in 1993, 6.00% to 8.10% in 1992 and 7.00% to 8.95% in 1991, less withdrawals and charges for mortality, administrative and policy initiation expenses. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policyholder account balances.
The liabilities for traditional life insurance policy benefits have been determined using the net level reserve method including assumptions as to investment yields, mortality, withdrawals and other assumptions based on the life insurance
subsidiaries' prior experience modified as necessary to reflect anticipated trends and to include provisions for possible unfavorable deviations. Reserve interest assumptions generally range from 2.75% to 8.75%. Policy benefit claims are charged to expense in the period that claims are incurred. Participating business is immaterial and dividends related to such business are included as part of the policy reserves.

Accident and health insurance reserves are comprised of unearned premium reserves computed on the pro rata basis, and return of premium reserves and the present value of amounts not yet due on long-term disability policies computed on the same basis as life insurance.

Reinsurance: Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standard No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts." Under Statement 113, insurance liabilities are reported before the effects of reinsurance. Reinsurance receivables, including amounts related to insurance liabilities, are reported as assets. Amounts recoverable from reinsurers are estimated in a manner consistent with the liabilities relating to the underlying reinsured contracts.

Prior to the adoption of Statement 113, insurance liabilities were reported net of amounts ceded to and recoverable from reinsurers. As permitted by Statement 113, the Company has elected not to reclassify prior year balance sheet amounts to conform to the 1993 presentation and accordingly, policy liabilities and accruals at December 31, 1992 were reduced by $6,089,000 for estimated recoveries under reinsurance contracts.

Separate Account Assets and Liabilities: Separate account assets and liabilities represent funds held for the exclusive benefit of certain annuity contract holders. Fees are received for administrative expenses and for assuming certain mortality, investment and expense risks. Operations of the separate account are not included in the accompanying consolidated financial statements.

Real Estate Acquired in Satisfaction of Debt: Real estate acquired in satisfaction of debt is reported at the lower of the recorded investment in the loan satisfied or estimated fair value of the assets received, adjusted for estimated disposal costs. Specific write-downs for the estimated losses are provided when the carrying value of real estate acquired exceeds the estimated disposal value based on current appraisal.

Property and Equipment: Property and equipment, which includes a building and equipment recorded under a capitalized lease obligation, are reported at cost, less accumulated depreciation and amortization. Provisions for depreciation and amortization are computed by straight-line and declining-balance methods over the estimated useful lives of the assets.

Excess of Cost Over Net Assets of Acquired Subsidiaries ("Goodwill"):
Goodwill arising from acquisitions after 1970 is amortized over 40 years on a straight-line basis, while amounts arising from acquisitions prior to 1971 are not amortized because, in the opinion of management, there is a continuing benefit.

Income Taxes: As discussed in Note C, effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under Statement 109, deferred income tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities and are measured using the enacted marginal tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax expenses or credits are based on the changes in the asset or liability from period to period. Prior to the adoption of Statement 109, deferred income tax expenses or credits were recorded to reflect the income tax consequences of timing differences between the recording of income and expenses for financial reporting purposes and for purposes of filing federal income tax returns at income tax rates in effect when the difference arose.

Interest Rate Swaps and Collar: Net interest received or paid on interest rate swap and collar contracts that qualify as hedges is recognized as an interest adjustment as earned or incurred over the term of the contract. Gains or losses on termination of such contracts are deferred and amortized as an interest adjustment over the remaining original term of the contract. Interest rate swaps that do not qualify as hedges are reported at the lower of cost (accrued value of periodic net settlement amounts) or market, with changes in the value of such swaps recognized in net investment income.

Employee Benefits: Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Post-retirement Benefits Other Than Pensions," and Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits." Statements 106 and 112 required companies to recognize expense related to anticipated postretirement and postemployment benefits, other than pensions, for current or former employees, their beneficiaries and covered dependents and retirees. Adoption of these new statements did not have a material impact on results of operations for the year ended December 31, 1993 and the cumulative effect of the change in accounting was not material. Prior year financial statements were not restated to reflect adoption of these new statements.

Earnings Per Share: Primary earnings per common share is based on the weighted average number of common and common equivalent shares outstanding and net income, after recognition of dividend requirements of the Series Preferred Stock $1 Par and the tax benefits on the 1987 Series II Preferred Stock dividends.

Fully diluted earnings per common share assumes that the Series Preferred Stock $1 Par and the 6 1/4% Convertible Subordinated Debentures were converted into common stock as of the date of issuance and that the related dividend and interest requirements were eliminated. In addition, net income has been reduced by the additional contribution to the employee stock ownership plan ("ESOP"), less applicable income tax benefits, that would be required to service the ESOP debt, if the shares of 1987 Series II Preferred Stock were converted into common stock.

The number of shares and per share amounts reported for earnings per share have been restated to give retroactive effect to the 5% stock dividend paid in December 1993.

Cash Flow Information: For purposes of the consolidated statements of cash flows, the Company considers all demand deposits and all interest-bearing accounts not related to the investment function to be cash equivalents.

Business Segments: The Company operates in the single business segment of providing individual life insurance and annuity coverage within the United States.

Fair Values of Financial Instruments: The following methods and assumptions were used by the Company in determining estimated fair values of financial instruments:

Cash and cash equivalents, short-term investments: The carrying amount reported in the consolidated balance sheets for these instruments approximates their estimated fair value.

Investment securities: Estimated fair values for fixed maturity securities and equity securities are based on quoted market prices, where available. For investment securities not actively traded, estimated fair values are determined using values obtained from independent pricing services or, in the case of private placements, are determined by discounting expected future cash flows using current market interest rates applicable to the yield, credit quality, and for fixed maturity securities, maturity of the investments. The estimated fair values for equity securities are recognized in the consolidated balance sheets.

Mortgage loans and policy loans: The estimated fair values of mortgage loans and policy loans are determined by discounting future expected cash flow, using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations.

Off-balance sheet financial instruments: Estimated fair values of interest rate swaps and the collar are based on bids from swap dealers which represent the net value or cost of terminating the contracts at the balance sheet date. Estimated fair values for the Company's lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

Investment contracts: Estimated fair values of the Company's annuity contracts are equal to the cash surrender value available to the policyholder on the balance sheet date. Estimated fair values for the Company's liabilities under other investment-type insurance contracts, such as supplementary contracts without life contingencies, are determined by discounting expected future cash flows using interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued.

The following table presents the reported value and estimated fair value of deferred and immediate annuities and supplementary contracts without life contingencies at December 31, 1993 and 1992:

	Reported Value	Fair Value
	(dollars in thousands)	
December 31, 1993		
Deferred and immediate annuities	$3,690,557	$3,446,954
Supplementary contracts without life contingencies	58,483	60,821
	$3,749,040	$3,507,775
December 31, 1992		
Deferred and immediate annuities	$2,798,602	$2,612,922
Supplementary contracts without life contingencies	51,358	53,056
	$2,849,960	$2,665,978

Estimated fair values of the Company's insurance contracts other than investment contracts are not required to be disclosed. However, the estimated fair values of liabilities under all insurance contracts are taken into consideration in the Company's overall management of interest rate risk.

Long-term debt: The estimated fair value of the Company's publicly-traded convertible subordinated debentures is based on quoted market prices. The estimated fair value of other fixed rate long-term debt is determined by discounting expected future cash flows using assumed incremental borrowing rates for similar duration borrowing arrangements. The estimated fair value of variable rate long-term debt approximates its reported value.

Redeemable preferred stock: The estimated fair value of the publicly-traded redeemable preferred stock issued by the Company's wholly-owned subsidiary is based on quoted market prices. The estimated fair value of the privately placed redeemable preferred stock issued by the Company's wholly-owned subsidiary is determined by discounting expected future cash flows using assumed incremental dividend rates for similar duration securities. The estimated fair value of the parent company's redeemable preferred stock (1987 Series II) is determined using pricing models for convertible equity securities.

Pending Accounting Standards: In May 1993, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan." Statement 114 applies to all loans except large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, loans measured at fair value or at lower of cost or fair value, leases and debt securities as defined in Statement 115. Statement 114 requires that impaired loans be valued at the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price or the fair market value of the collateral if the loan is collateral dependent. Statement 114 is effective for fiscal years beginning after December 15, 1994, with earlier adoption encouraged.

Statement 114 applies primarily to the Company's mortgage loan portfolio. The Company actively monitors this portfolio and evaluates the net realizable value of any loan which is deemed to be impaired. Net realizable value is generally assessed based upon current appraisal value of the underlying collateral. If carrying value exceeds this estimated realizable value, carrying value is reduced to the estimated realizable value by a charge to earnings (realized loss on investments). As such, this statement does not represent a material change from the Company's current accounting practices and the Company does not expect adoption of this Statement to have any material effect on its reported financial results.

In June 1993, the FASB issued an Exposure Draft entitled "Accounting for Stock-based Compensation." If adopted as a SFAS in its present form, this exposure draft would require that compensation expense be recognized for all stock options in an amount equal to "fair value" on the date of grant. Fair value is to be calculated using an option pricing model or similar valuation technique. Recognition of compensation expense using this methodology is expected to be required for options granted after December 31, 1996 with pro-forma disclosure for the options granted after December 31, 1993. The terms of the stock options granted by the Company in recent years have always been fixed with option prices equal to market value on the date of grant. As a result, the Company does not currently recognize compensation expense on these options. The final form of the proposed SFAS has not been issued and, accordingly, the effect of implementation of the proposed SFAS on the Company has not been determined.

Reclassification: Certain items in the 1992 and 1991 consolidated financial statements and notes thereto have been reclassified to conform to the presentations made in the 1993 consolidated financial statements.

NOTE B--INVESTMENTS

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," that becomes effective for fiscal years beginning after December 15, 1993. The primary impact of Statement 115 is to require companies to classify their securities into categories based upon the company's intent relative to the eventual disposition of the securities. Under the new rules, the Company's investments in debt securities (including mortgage-backed securities) and equity securities that have readily determinable fair values are to be classified in three categories and accounted for as follows:

Held-to-Maturity Securities: Debt securities which the Company has the positive intent and ability to hold until maturity shall be reported at amortized cost.

Trading Securities: Debt and marketable equity securities purchased with the intent to sell in the near term shall be reported at fair value and unrealized gains and losses shall be included in results of operations.

Available-for-Sale: Debt and marketable equity securities not classified as either held-to-maturity or trading shall be reported at fair value with unrealized gains and losses reported as adjustments to stockholders' equity.

During the fourth quarter of 1992, the Company segregated its fixed maturity investments into those that would be held until maturity and those that would be available for sale. Available for sale fixed maturity investments are presently reported at the lower of cost or estimated fair value, in the aggregate. Unrealized net losses on these investments were $0 at December 31, 1993 and 1992. Statement 115 precludes sales of securities classified as held-to-maturity as well as transfers of such securities to one of the other two classifications except in very limited circumstances. As a result, a greater portion of the Company's fixed maturity investments are classified as available for sale at December 31, 1993 than at December 31, 1992.

The adoption of Statement 115 will expose the Company's stockholders' equity to greater volatility due to changes in market interest rates and the attendant changes in the reported value of securities classified as available-for-sale. The Company presently does not anticipate entering into certain portfolio management practices, such as hedging transactions, to minimize this volatility; however, the Company will continue to study this matter. The Company intends to adopt Statement 115 on January 1, 1994. Upon adoption, there may be some changes in the classifications of securities from those reported herein but such changes are not expected to be significant.

Upon adoption of Statement 115 on January 1, 1994, stockholders' equity will increase by the amount of net unrealized gain on securities designated as available-for-sale ($85,278,000 at December 31, 1993) less adjustments for (a) additional amortization of certain deferred policy acquisition costs that would have been reported if such gains were realized estimated at 40% - 50% of the net unrealized gain and (b) applicable federal income taxes of 35% of the difference between the net unrealized gain and the deferred policy acquisition cost adjustment. The net increase in stockholders' equity attributable to the adoption of Statement 115 is estimated to be $30,000,000 - $35,000,000.

The reported value and estimated fair value of fixed maturity investments are as follows:

	Reported Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(dollars in thousands)		
December 31, 1993				
Held for investment:				
U.S. Treasury securities	$ 22,537	$ 3,046		$ 25,583
Corporate securities	453,490	25,628	$ 1,513	477,605
Mortgage-backed securities	271,714	5,482	2,409	274,787
	$ 747,741	$ 34,156	$ 3,922	$ 777,975
Available for sale:				
U.S. Treasury securities	$ 88,579	$ 8,846	$ 15	$ 97,410
Corporate securities	1,018,191	49,746	7,836	1,060,101
Mortgage-backed securities	2,019,545	49,596	16,185	2,052,956
Other debt securities	10,000	1,126		11,126
	$3,136,315	$109,314	$24,036	$3,221,593
December 31, 1992				
Held for investment:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 111,386	$ 2,239	$ 315	$ 113,310
Corporate securities	725,028	22,743	4,509	743,262
Mortgage-backed securities	1,480,903	69,916	26,196	1,524,623
Other debt securities	12,254	244	78	12,420
	$2,329,571	$ 95,142	$31,098	$2,393,615
Available for sale:				
U.S. Treasury securities	$ 39,879	$ 414	$ 153	$ 40,140
Mortgage-backed securities	541,098	16,276	11,125	546,249
	$ 580,977	$ 16,690	$11,278	$ 586,389

The reported value and estimated fair value of fixed maturity securities at December 31, 1993 including those available for sale, by contractual maturity, are as follows. 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.

	Reported Value	Estimated Fair Value
	(dollars in thousands)	
Due in one year or less	$ 7,576	$ 7,766
Due after one year through five years	44,987	47,183
Due after five years through ten years	154,163	166,709
Due after ten years	1,386,071	1,450,167
	1,592,797	1,671,825
Mortgage-backed securities	2,291,259	2,327,743
	$3,884,056	$3,999,568

Proceeds from sales of fixed maturity investments were $2,166 million, $817 million and $1,572 million for the years ended December 31, 1993, 1992 and 1991, respectively. Realized gains (losses) on investments included in revenues are as follows:

	Year Ended December 31		
	1993	1992	1991
	(dollars in thousands)		
Fixed maturities:			
Gross gains	$ 84,595	$ 32,675	$ 53,088
Gross losses	(55,680)	(15,368)	(20,989)
Security writedowns and increase in allowance for credit losses		(3,106)	(16,370)
	28,915	14,201	15,729
Equity securities	(2,895)	(166)	106
Mortgage loans on real estate	(1,027)	(1,182)	(2,708)
Other	(190)	(484)	(2,472)
	$ 24,803	$ 12,369	$ 10,655

At December 31, 1993, there were no fixed maturity securities which had been written down to net realizable value. The $3,000,000 allowance for credit losses established in 1991 to provide a general allowance for potential losses on fixed maturity securities for which specific write-downs are not yet required was unchanged at December 31, 1993 and 1992.

Net investment income is summarized as follows:

	Year Ended December 31		
	1993	1992	1991
	(dollars in thousands)		
Fixed maturities	$281,713	$250,937	$223,119
Equity securities	1,444	3,154	14
Mortgage loans on real estate	8,206	14,946	15,750
Policy loans	3,366	3,515	3,322
Short-term investments	6,138	1,427	4,389
Other	2,538	1,196	527
	303,405	275,175	247,121
Less investment expenses	4,503	2,944	2,712
	$298,902	$272,231	$244,409

Mortgage loans on real estate and other investments with reported values at December 31, 1993 of $98,000 and $345,000, respectively, were non-income producing for the year ended December 31, 1993.

The changes in unrealized appreciation (depreciation) of investments are as follows:

	Year Ended December 31		
	1993	1992	1991
	(dollars in thousands)		
Equity securities	$ 956	$ (809)	$ 245
Deferred income tax benefit	186		
	1,142	(809)	245
Fixed maturities	46,056	(9,750)	135,422
	$47,198	$(10,559)	$135,667

At December 31, 1993, gross unrealized appreciation pertaining to equity securities was $313,000 and gross unrealized depreciation was $844,000 (before federal income tax benefit of $186,000).

The estimated fair value of policy loans at December 31, 1993 and 1992 was $53,424,000 and $51,606,000, respectively.

The Company's mortgage loans on real estate, which represented less than 2% of total investments, are diversified by geographic location and property type. The reported value and estimated fair value of the Company's mortgage loans on real estate are as follows:

	Reported Value	Estimated Fair Value
	(dollars in thousands)	
December 31, 1993		
Commercial mortgages	$55,453	$56,906
Residential mortgages	12,088	12,250
Total mortgage loans	$67,541	$69,156
December 31, 1992		
Commercial mortgages	$68,344	$69,101
Residential mortgages	19,742	20,076
Total mortgage loans	$88,086	$89,177

The Company manages its investments to limit credit risk by diversifying its portfolio among various security types and industry sectors. At December 31, 1993, the Company's unrated or below investment grade corporate fixed maturities amounted to 1% of the Company's fixed maturity investments and less than 1% of total investments and total assets.

Investments in mortgage-backed securities at December 31, 1993 principally consisted of collateralized mortgage obligations ("CMOs") and comprised 59% of the Company's fixed maturity investments at that date. Included in such investments were $1.5 billion of CMOs and mortgage-backed pass-through securities issued by non-government agencies (39% of total fixed maturity investments). The Company's holdings primarily consist of senior securities in the CMO structures which are collateralized by first mortgage liens on single family and multifamily residences. Approximately 53% of such investments are secured by properties located in California with no other state representing more than 7%. All of these securities are rated investment grade with more than 85% of such securities rated AAA by Standard & Poor's Corporation, or the comparable equivalent rating by another independent nationally recognized rating agency.

Investments, all of which are fixed maturities, in any entity in excess of ten percent of stockholders' equity at December 31, 1993, other than investments in affiliates and investments issued or guaranteed by the United States Government or a United States Government agency, are as follows. Mortgage-backed securities issued by non-government entities are aggregated by the issuing entity with the number of individual securities identified parenthetically following the issuer's name. The creditworthiness of these securities is based solely on the underlying segregated pools of mortgage loan collateral and related credit enhancements rather than the general creditworthiness of the issuing entity.

	Reported Value	Estimated Fair Value
	(dollars in thousands)	
Allegheny Generating Company	$ 20,180	$ 19,475
Borden, Inc.	14,940	15,188
Chemical Mortgage Securities	18,886	18,895
Cincinnati Bell Telephone	19,926	19,550
Countrywide Funding (3 issues)	107,351	104,849
Dayton Hudson	20,466	21,966
Florida Power & Light	20,750	21,220
GE Capital Mortgage Corp. (4 issues)	137,587	137,170
GTE Corporation	15,209	15,600
Housing Securities Inc. (2 issues)	73,784	74,451
Interstate Power	16,716	17,289
K Mart Corporation	15,087	15,415
Limited Inc.	16,329	16,500
Loral	15,309	14,260
Metropolitan Life Insurance	20,406	19,885
New York Telephone	20,644	19,475
Northern Indiana Public Service	15,500	15,554
Nova Alberta Corporation	15,155	15,900
Pacific Gas & Electric	22,917	22,475
Pacificcorp	15,500	15,832
Prudential Home Mortgage (17 issues)	469,582	468,430
Residential Funding Corp. (8 issues)	272,894	275,970
Ryland Acceptance Corp.	36,153	35,989
Sears Mortgage Securities (2 issues)	49,986	50,769
Securitized Asset Sales	25,713	24,948
SMART Mortgage	28,503	29,272
Southern California Edison	20,522	19,885
U.S. West Communications	27,583	27,875

NOTE C--INCOME TAXES

Effective January 1, 1993, the Company changed its method of accounting for income taxes from the deferred method to the liability method required by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (see Note A). The cumulative effect of adopting Statement 109 as of January 1, 1993 and the effect of the change on federal income tax expense for the year ended December 31, 1993 was not material. Under Statement 109, the Company no longer reports the tax benefits from operating and capital loss carryforwards as extraordinary credits. As permitted by Statement 109, the Company has elected not to restate prior years' financial statements.

Under Statement 109, deferred income taxes reflect the net income tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Income tax liabilities and assets as of December 31, 1993 and January 1, 1993 are as follows:

	Dec. 31	Jan. 1
	(dollars in thousands)	
Deferred income tax liabilities		
Deferred policy acquisition costs and policy initiation fees	$93,688	$75,073
Payment-in-kind dividends		3,245
Other items	859	1,001
Total deferred income tax liabilities	94,547	79,319
Deferred income tax assets		
Policy liabilities and accruals	78,954	66,416
Net operating loss carryforwards	9,143	8,330
Reduction in reported values of investments not currently deductible for tax	3,867	4,806
Accrued expenses	1,334	1,254
Allowance for doubtful accounts	1,052	1,254
Other items	1,059	1,042
Total deferred income tax assets	95,409	83,102
Valuation allowance, including $506 attributable to unrealized depreciation of equity securities at January 1, 1993	2,688	4,575
Net deferred income tax assets	92,721	78,527
Net deferred income tax liabilities	$ 1,826	$ 792
Current income tax liabilities (assets)	$ 150	$ (742)

Federal income tax expense is included in the accompanying consolidated statements of income as follows:

	Year Ended December 31		
	1993	1992	1991
	(dollars in thousands)		
Continuing operations			
Current	$21,220	$12,274	$13,019
Deferred	1,220	2,593	(779)
Subtotal	22,440	14,867	12,240
Discontinued operations			
-current		(37)	(365)
Extraordinary credit			
-current		(2,712)	(5,879)
-deferred		(2,163)	129
Subtotal		(4,875)	(5,750)
Total	$22,440	$ 9,955	$ 6,125

Federal income tax expense differs from that computed at the applicable statutory federal income tax rate (35% in 1993, 34% in 1992 and 1991) as follows:

	Year Ended December 31		
	1993	1992	1991
	(dollars in thousands)		
Computed income tax expense at statutory rate	$23,962	$14,638	$12,120
Change in valuation allowance for deferred income tax assets, excluding impact on unrealized depreciation of equity securities	(1,381)		
Other items--net	(141)	229	120
	$22,440	$14,867	$12,240

The Company files a consolidated federal income tax return including all eligible subsidiaries. At December 31, 1993, the Company has net operating loss carry-forwards of $26,123,000 which expire in 1999 through 2008. These loss carryforwards relate to the operations of the non-life consolidated group. Utilization of these loss carryforwards to offset taxable income of the life insurance subsidiaries is limited under existing federal income tax rules and regulations. Valuation allowances of $2,688,000 and $4,069,000 have been established at December 31, 1993 and January 1, 1993, respectively, to offset the related deferred income tax assets due to the uncertainty of realizing the benefit of the loss carryforwards.

The Omnibus Reconciliation Act of 1993 changed the Company's prevailing federal income tax rate from 34% to 35% effective January 1, 1993. The Company's additional federal income tax expense for 1993 due to the increase in the tax rate was $685,000. The application of the 35% tax rate to the December 31, 1992 deferred income tax liability balance did not have a material effect on the Company's 1993 provision for federal income taxes.

The components of deferred income tax expense (benefit) for the years ended December 31, 1992 and 1991 are as follows:

	1992	1991
	(dollars in thousands)	
Deferred policy acquisition costs and policy initiation fees	$ 444	$2,070
Policy and other reserves	(2,873)	(2,809)
Utilization of net operating losses and capital losses to offset deferred income taxes	(4,828)	(127)
Deferred income taxes arising from utilization of net operating loss carryforwards	1,553	1,567
Investment income items	2,009	1,287
Capital losses	2,665	(1,311)
Losses on mortgage loans and other invested assets	693	(1,110)
Allowance for uncollectible accounts receivable	1,117	
Other items--net	(350)	(217)
	$ 430	$ (650)

Prior to 1984, a portion of the life insurance subsidiaries' income was not subject to current income taxation, but was accumulated, for income tax purposes, in "policyholders' surplus accounts." At December 31, 1993, the balances in the policyholder surplus accounts aggregated $12,672,000. These amounts are not taxable unless distributed to stockholders or unless they exceed certain limitations under the Internal Revenue Code. Management does not intend to take actions nor does it expect any events to occur that would cause income tax to be payable on these amounts; therefore, deferred income taxes of $4,435,000 have not been provided on these amounts.

NOTE D--LONG-TERM DEBT

Long-term debt is summarized as follows:

	December 31, 1993	1992
	(dollars in thousands)	
Reported Value		
Parent Company:		
6 1/4% convertible subordinated debentures	$ 66,347	
Senior bank debt and ESOP notes	4,750	$ 15,400
By Subsidiaries:		
11 1/2% subordinated debentures		30,000
Bank line of credit	45,366	22,110
10% real estate mortgage	2,281	2,387
10% capitalized lease obligation	1,619	1,662
Other	12	74
	$120,375	$71,633
Estimated Fair Value	$128,278	$74,721

6 1/4% Convertible Subordinated Debentures Due 2003: On April 28, 1993, the Company issued $69 million face amount of 6 1/4% Convertible Subordinated Debentures due 2003. Net proceeds from the public offering of $66,161,000 were used to retire all outstanding senior bank debt, to repurchase 516,600 shares of the Company's common stock through open market purchases, to fund a $35 million capital contribution to the Company's primary life insurance subsidiary and for general corporate purposes.

The debentures are presented at their face amount less unamortized issuance costs, pay interest semi-annually and are subordinated in right of payment to all senior indebtedness as defined in the indenture governing the debentures. The indenture does not restrict the Company or any subsidiary from incurring additional senior indebtedness or other obligations.

The debentures are convertible at any time prior to maturity, unless previously redeemed, into shares of the Company's common stock at a conversion ratio of 65.625 shares of common stock for each 1,000 principal amount of debentures ($15.24 per share of common stock). The debentures are redeemable, in whole or in part, at the option of the Company, at any time on or after May 1, 1996 initially at 106% of the principal amount and declining to 100% of the principal amount on or after May 1, 1999. In the event of a change in control as defined in the indenture, debenture holders have the right to require the Company to purchase all or any part of such holder's debentures at 100% of the principal amount plus accrued interest. At the option of the Company, such purchase may be made for cash or shares of the Company's common stock.

Senior Bank Debt and ESOP Notes: In January 1993, the Company entered into a new senior credit facility with a commercial bank. Under the new facility, the final maturity of the Company's then outstanding term loan was extended until July 1997 and the Company borrowed an additional $10,000,000 under a new $10,000,000 revolving line of credit. Proceeds from the additional borrowing were used to fund an escrow account established by the Company's subsidiary in connection with the exchange of that subsidiary's 11 1/2% subordinated debentures for redeemable preferred stock issued by the subsidiary (see Note G). In April 1993, the Company used a portion of the net proceeds from the sale of its 6 1/4% convertible subordinated debentures to retire all of its outstanding senior bank debt and the revolving line of credit facility was terminated.

The commercial bank referred to above also holds the outstanding notes issued by the Company's employee stock ownership plan (the "ESOP"). The $4,750,000 outstanding principal balance on these notes at December 31, 1993 is repayable as follows: $750,000 in 1994, annual installments of $1,000,000 each in 1995 and 1996 and two $1,000,000 installments in 1997. Interest charges on the ESOP notes are payable quarterly at 97% of the prime rate of the commercial bank. The annual rate of interest is subject to adjustment in the event that certain changes in federal income tax laws or rates occur. In addition, the Company has agreed to pay the commercial bank a quarterly fee so that, after giving effect to such fee and the interest paid by the ESOP, the commercial bank would receive an aggregate payment equal to the greater of the prime rate of the commercial bank plus .5% or the Federal Funds Rate plus 1%.

The obligations to the commercial bank for the ESOP notes are secured by a pledge of, and a security interest in, 37,396 shares of the Company's 1987 Series II Preferred Stock $1 Par owned by the ESOP. The ESOP loan is further secured by the Company's guaranty and the Company's agreement to make contributions to the ESOP from time to time in such amounts as may be necessary to enable the ESOP to make all payments of principal and interest on the ESOP notes when due.

The ESOP credit agreement contains restrictions and covenants which, among other things, limit the amount of future indebtedness, limit the amounts and types of investments including investments in below investment grade bonds, equity securities and real property, require the maintenance of specified amounts of consolidated tangible net worth, statutory capital and surplus and fixed charge coverage and limit the payment of cash dividends. Under the most restrictive of these covenants, $17,042,000 of consolidated retained earnings at December 31, 1993 is not restricted as to the declaration or payment of cash dividends. The credit agreement also contains a change of control covenant that may result in the acceleration of the payment of all amounts due under the ESOP notes in the event of a change in control as defined in the agreement.

11 1/2% Subordinated Debentures: In 1991 and 1990, a wholly-owned subsidiary of the Company issued $30,000,000 of 11 1/2% subordinated debentures. Proceeds from the debenture issues were invested in preferred stock and surplus notes issued by the Company's primary life insurance subsidiary. On February 2, 1993, the Company's subsidiary redeemed the debentures at par by exchanging $30,000,000 of a new series of its redeemable preferred stock for all of the outstanding debentures (see Note G).

Subsidiary's Bank Line of Credit: On September 30, 1993, a non-insurance subsidiary of the Company entered into an amended and restated credit agreement with several commercial banks pursuant to which the banks agreed to provide this subsidiary with a $125,000,000 line of credit. The new agreement amended and restated an existing agreement previously entered into in May 1990, as subsequently amended, between the Company's noninsurance subsidiary and the commercial bank referred to above to provide for, among other things, an increase in the amount of the credit facility and for additional lenders to become parties thereto. At December 31, 1993, $79,798,000 remains available through June 1995 under this line of credit. The actual amount funded will be determined based on the amount of new annuity business written by the Company's primary life insurance subsidiary during the funding period.

Principal and interest on the funds drawn under this line of credit are payable in sixteen quarterly installments beginning on the eighth calendar day following the end of each calendar year quarter in which the funds are drawn. The credit agreement requires the Company's subsidiary to make loan prepayments with any excess funds not otherwise used to fund commission payments to agents or to make scheduled principal and interest payments. Interest charges are, at the Company's option, LIBOR plus 1.25% or the greater of the agent bank's prime rate or the Federal Funds Rate plus .5%, and a quarterly commitment fee is charged equal to .375% per annum of the average daily unused amount of the line of credit. The weighted average interest rate on the outstanding loan balance at December 31, 1993 was 4.74%.

Borrowings under the line of credit are principally secured by a pledge of certain contract rights between the Company's primary life insurance subsidiary and the Company's non-insurance subsidiary. The credit agreement imposes various restrictions on the Company's non-insurance subsidiary and requires it to hedge at least $25,000,000 of borrowings through July 1996 to protect itself against three-month LIBOR exceeding 4.74% per annum. Pursuant to that requirement, this subsidiary is the fixed rate payor under an interest rate swap contract having a notional amount of $25,000,000 and a term of three years ending July 1996 (see Note I).

In addition to customary events of default, the credit agreement specifies certain events of default with respect to the Company and its subsidiaries, including its primary life insurance subsidiary, which include, among other things, the occurrence of a change in control, as defined in the credit agreement, of the Company, its non-insurance subsidiary, its primary life insurance subsidiary and another non-insurance subsidiary, payment defaults by the Company or its primary life insurance subsidiary on certain obligations to the non-insurance subsidiary, and failure by the primary life insurance subsidiary to maintain specified amounts of statutory capital and surplus and to limit the amount of future indebtedness and the amount of its investments in below investment grade bonds, equity securities and real property. The occurrence of any event of default could result in the commercial banks terminating their commitments under the credit agreement and/or accelerating the payment of amounts due thereunder. The credit agreement is an "evergreen" agreement renewable for additional eighteen month periods by mutual consent of the Company, its subsidiaries and the commercial banks. The line of credit is not guaranteed by the Company, its primary life insurance subsidiary or any of its other subsidiaries.

Real Estate Mortgage: The 10% real estate mortgage is payable in monthly installments of $28,000 including interest, through 1994 with a balloon payment of $2,185,000 due in December 1994. The net book value at December 31, 1993 of the Company's home office building pledged as collateral for the loan is $4,067,000.

Capitalized Lease Obligation: The 10% capitalized lease obligation requires monthly payments of $17,000, including interest, through 2009. The lease relates to a subsidiary's former home office building financed through the issuance of a municipality's industrial development revenue bonds. The subsidiary's former home office building, land and equipment, having a cost of $3,101,000 and accumulated amortization of $1,050,000 at December 31, 1993, are pledged as collateral for the lease obligation. Approximately 90% of this building is subleased to unrelated parties under sublease agreements expiring in 1995 and 1998 with aggregate annual sublease payments of $475,000.

Aggregate Maturities of Long-term Debt: Aggregate maturities of long-term debt, including the present value of the 10% capitalized lease obligation, during each of the five years subsequent to 1993 are as follows:
1994--$19,909,000; 1995--$15,120,000; 1996--$11,771,000; 1997--$5,813,000 and 1998--$66,000.

NOTE E--SERIES PREFERRED STOCK

The Board of Directors is authorized to issue 5,000,000 shares of Series Preferred Stock $1 Par from time to time in one or more series and to fix the number of shares, designations, voting powers (if any), preferences and rights, and qualifications, limitations or restrictions of each series. Each series of Series Preferred Stock $1 Par shall be distinctly designated and, except as otherwise stated, shall rank equally and be identical in all respects.

Redeemable Preferred Stock: There were 77,130 shares and 81,901 shares of 1987 Series II Preferred Stock $1 Par outstanding at December 31, 1993 and 1992, respectively. All of the 1987 Series II shares are owned by the Company's employee stock ownership plan (the "ESOP") (see Note H) and the shares are presented at their $100 per share liquidation preference less the outstanding ESOP loan guarantee balance (see Note D). The estimated fair value of the 1987 Series II shares at December 31, 1993 and 1992 was $14,848,000 and $14,496,000, respectively.

The 1987 Series II shares are entitled to annual cumulative cash dividends equal to the issue price multiplied by the prime rate of a specified commercial bank plus 3/4 of 1% (6.75% at December 31, 1993), payable quarterly. Cash dividends paid in 1993, 1992 and 1991 were equivalent to $6.75 per share, $7.37 per share and $9.87 per share, respectively.

The Company may, at its option, redeem the 1987 Series II shares, in whole or in part, at any time after ten years from date of issue at a price of $100 per share plus cumulative unpaid dividends. In the event of a change in control of the Company, as specified in the resolution creating the series, each 1987 Series II share shall be redeemed at a price equal to the greater of $100 per share, plus cumulative unpaid dividends or the fair market value thereof. In liquidation, 1987 Series II stockholders are entitled to $100 per share (aggregate $7,713,000) plus cumulative unpaid dividends before any distribution shall be made to common stockholders. The 1987 Series II shares rank on parity with the other Series Preferred Stock shares with respect to dividends and distributions.

During 1993, 1992, and 1991, the Company exchanged 70,510 shares, 32,403 shares and 126,166 shares, respectively, of its common stock with the ESOP for 4,771 shares, 2,312 shares and 7,334 shares, respectively, of its 1987 Series II Preferred Stock for the purpose of making distributions of the 1987 Series II shares to terminated ESOP plan
participants.

Each 1987 Series II share is entitled to eleven votes on each matter submitted to a vote at any meeting of the Company's stockholders. In addition, with respect to the approval of certain business combinations, the 1987 Series II shares are entitled to vote separately as a class, and the affirmative vote of at least 75% of the outstanding 1987 Series II shares is required for such approval.

Each 1987 Series II share is convertible at any time into 13.7214 shares of common stock. Antidilution rights of the owners of 1987 Series II shares are specified in the resolutions creating the series. At December 31, 1993, 1,058,335 shares of common stock are reserved for conversion of the 1987 Series II shares.

1976 Series Preferred Stock: The Company has issued 200,000 shares of 1976 Series Preferred Stock $1 Par, of which there were 195,000 shares and 200,000 shares outstanding at December 31, 1993 and 1992, respectively. During 1993, 5,000 1976 Series shares were converted into 15,281 shares of common stock.

The 1976 Series shares are entitled to annual cumulative cash dividends of $.425 per share, payable semi-annually. All of the 1976 Series shares are owned by the ESOP (see Note H). The Company may, at its option, redeem the 1976 Series shares, in whole or in part, at any time at a price of $5 per share plus cumulative unpaid dividends. In liquidation, 1976 Series stockholders are entitled to receive $5 per share (aggregate $975,000) plus cumulative unpaid dividends before any distribution shall be made to common stockholders. The 1976 Series shares rank on parity with the other Series Preferred Stock shares with respect to dividends and distributions.

Each 1976 Series share is entitled to one vote and is convertible at any time into 3.21 shares of common stock. Antidilution rights of the owners of 1976 Series shares are specified in the resolutions creating the series. At December 31, 1993, 625,769 shares of common stock are reserved for conversion of the 1976 Series shares.

1988 Series I and Series II Preferred Stock: In 1988 and 1989, the Company issued a total of 143,640 shares of 1988 Series I and Series II Preferred Stock (the "1988 Series shares") to its former savings bank subsidiary which was taken over by government regulators in 1990 (see Note K). The Company has a lawsuit pending against the United States government which litigation seeks, among other things, recovery of the Company's investment in its former savings bank subsidiary, including the 1988 Series shares. Because there is no assurance beyond a reasonable doubt that the Company will prevail in its lawsuit, the 1988 Series shares are presented as issued and outstanding in the accompanying consolidated financial statements as of December 31, 1993 and 1992 and were given full recognition in the computations of primary and fully diluted earnings per share for all periods presented.

Beginning in 1990, the 1988 Series shares are entitled to annual cumulative cash dividends of $8 per share, payable quarterly. The Company has declared but not paid cumulative dividends on the 1988 Series shares aggregating $4,657,000 ($40 per share on 7,560 shares of 1988 Series II Preferred Stock and $32 per share on the balance of the 1988 Series shares), including $862,000 ($6 per share) declared in January 1994. As discussed above, the 1988 Series shares are involved in the pending litigation related to the takeover of the Company's former savings bank subsidiary (see Note K) and the Company has set off the amount of the declared dividends against damages believed by the Company to be owing to the Company by the United States of America.

The Company may, at its option, redeem the 1988 Series shares, in whole or in part, at any time after ten years (five years for the 1988 Series II shares) from the date of issue at a price of $100 per share plus cumulative unpaid dividends. In liquidation, 1988 Series stockholders are entitled to $100 per share (aggregate $14,364,000) plus cumulative unpaid dividends before any distribution shall be made to common stockholders. The 1988 Series shares rank on parity with the other Series Preferred Stock shares with respect to dividends and distributions.

The 1988 Series shares are non-voting except as required by the Delaware General Corporation Law and except if the Company fails to pay dividends on such shares for six consecutive quarters, in which case holders of the 1988 Series shares are entitled to one vote per share on each matter submitted to a vote at any meeting of the Company's stockholders. Each 1988 Series share is convertible at any time into 13.7214 shares of common stock. Antidilution rights of the owners of 1988 Series shares are specified in the resolutions creating the series. At December 31, 1993, 1,970,942 shares of common stock are reserved for conversion of the 1988 Series shares.

Preferred Stock Purchase Rights: In April 1991, the Company redeemed all of its outstanding preferred stock purchase rights that had been issued pursuant to a Rights Agreement adopted in 1987. Each share of the Company's common stock had one preferred stock purchase right attached and received the redemption price of $.01 per right. Subsequent to the rights redemption, the Board of Directors eliminated the series of 250,000 shares of Series A Junior Participating Preferred Stock, which had been designated and reserved for issuance upon exercise of the now redeemed rights, from the Company's Certificate of Incorporation.

NOTE F--STOCKHOLDERS' EQUITY AND RESTRICTIONS

Changes in the number of shares of common stock outstanding are as follows:

	Year Ended December 31		
	1993	1992	1991
Outstanding at beginning of year	13,109,239	13,055,186	12,708,020
5% stock dividend			
Shares issued (a)	687,772		
Shares acquired for treasury (b)	(52,628)		
Shares acquired through open market purchases	(516,600)		
Issued in exchange for 1987 Series II Preferred Stock	70,510	32,403	126,166
Conversion of 1976 Series Preferred Stock	15,281		
Issued to employee benefit plans		21,650	200,000
Issued upon exercise of stock options	116,082		21,000 (a)
Outstanding at end of year	13,429,656	13,109,239	13,055,186

(a) Issued from authorized but unissued shares. All other issuances were from common stock in treasury.
(b) Includes 50,823 shares issued to a subsidiary and 1,805 fractional shares purchased for cash.

On May 5, 1993, the Company's stockholders approved an amendment to the Company's Certificate of Incorporation increasing the number of authorized shares of common stock from 25,000,000 to 35,000,000 shares. On May 19, 1993, the Company's Board of Directors authorized the repurchase by the Company of up to 1,000,000 shares of the Company's common stock. This authorization expired on December 31, 1993 and 516,600 shares were acquired for treasury through the repurchase program. Authorization for the Company to repurchase up to 1,000,000 additional shares of its common stock during calendar year 1994 was approved by its Board of Directors on January 13, 1994.

At December 31, 1993, there were 9,224,270 shares of common stock reserved for conversion of the Series Preferred Stock and 6 1/4% Convertible Subordinated Debentures and for exercise of stock options. Treasury stock at December 31, 1993 and 1992 included 927,299 shares and 1,016,476 shares, respectively, of common stock owned by a subsidiary of the Company. Treasury shares held by subsidiaries are entitled to dividends but do not have voting rights.

The net assets of the insurance subsidiaries available for transfer to the Company are limited to the amounts by which the insurance subsidiaries' net assets, as determined in accordance with statutory accounting practices prescribed or permitted by state regulatory authorities, exceed minimum regulatory statutory capital and surplus requirements; however, payment of dividends or other distributions to stockholders may also be subject to prior approval by regulatory authorities. In addition, the ability of the insurance subsidiaries to transfer funds to the Company is limited by certain provisions in the Company's loan agreements relating to the maintenance of specified minimum levels of statutory capital and surplus (see Note D). At December 31, 1993, $43,856,000 of consolidated stockholders' equity (based on amounts reported in accordance with statutory accounting practices) represents net assets of the insurance subsidiaries that cannot be transferred to the Company in the form of dividends, surplus note payments, loans or advances.

Combined capital and surplus of the insurance subsidiaries, as reported in accordance with statutory accounting practices of their respective states of domicile, was $214,317,000 and $178,842,000 at December 31, 1993 and 1992, respectively. Combined statutory net income for 1993, 1992 and 1991 was $32,019,000, $16,538,000 and $32,566,000, respectively.

NOTE G--PREFERRED STOCK OF WHOLLY-OWNED SUBSIDIARY

On August 25, 1992, a wholly-owned subsidiary of the Company issued 2,760,000 shares of non-convertible redeemable preferred stock at a public offering price of $25 per share. $42,500,000 of the net proceeds from the offering were contributed to the capital of the Company's primary life insurance subsidiary. Remaining net proceeds of approximately $22,600,000 were used to purchase $69,000,000 face amount of zero coupon U.S. Treasury securities maturing in August 2007. These securities have been placed in an escrow account to be used for the future redemption of the redeemable preferred stock on or before its mandatory redemption date in 2007.

The subsidiary's redeemable preferred stock is entitled to annual cumulative cash dividends of $2.16 per share, payable quarterly. The redeemable preferred stock is mandatorily redeemable in September 2007 at a redemption price of $25 per share, plus cumulative unpaid dividends. In liquidation, holders of the subsidiary's redeemable preferred stock are entitled to $25 per share (aggregate $69,000,000) plus cumulative unpaid dividends.

On February 2, 1993, the subsidiary referred to above issued 1,200,000 shares of a non-convertible redeemable preferred stock at an issue price of $25 per share (aggregate $30,000,000) in exchange for all of the subsidiary's outstanding 11 1/2% subordinated debentures which were retired (see Note D). In connection therewith, the subsidiary purchased $30,000,000 face amount of zero coupon U.S. Treasury securities maturing in February 2008 with the proceeds of a $10,000,000 borrowing under the Company's revolving line of credit (see Note D). These securities have been placed in an escrow account to be used for the future redemption of the second series of redeemable preferred stock on or before its mandatory redemption date in 2008.

The second series of the subsidiary's redeemable preferred stock is entitled to annual cumulative cash dividends of $2.32 per share, payable quarterly. This series of redeemable preferred stock is mandatorily redeemable in February 2008 at a redemption price of $25 per share, plus cumulative unpaid dividends. In liquidation, holders of this series of the subsidiary's redeemable preferred stock are entitled to $25 per share (aggregate $30,000,000) plus cumulative unpaid dividends.

The subsidiary's redeemable preferred stock is presented at its fair value on the date of issue ($69,000,000 and $30,000,000, respectively) less unamortized issue costs. The excess of the mandatory redemption value over the reported value is being accreted by periodic charges to income from continuing operations over the life of the issue. The aggregate fair value of the subsidiary's redeemable preferred stock was $109,276,000 and $65,895,000, at December 31, 1993 and 1992, respectively.

NOTE H--EMPLOYEE BENEFIT PLANS

The Company and its subsidiaries participate in a qualified trusteed plan, The Statesman Group, Inc. Employee Stock Ownership Plan and Trust ("Plan"), which provides for a uniform noncontributory retirement program covering all eligible employees of the Company and its subsidiaries. Contributions to the Plan are equal to 10% of eligible compensation of all participants plus such additional amounts (2.9%, 3.1% and 1.8% for 1993, 1992 and 1991, respectively) as may be determined annually by the Board of Directors. In addition, the Company has agreed that it will make contributions to the Plan from time to time in such amounts as may be necessary to enable the Plan to make all payments of principal and interest on the Plan's bank loan when due (see Note D). Total plan expense for 1993, 1992 and 1991 amounted to $900,000, $900,000 and $815,000, respectively.

In 1987, the Plan purchased 100,000 shares of the Company's 1987 Series II Preferred Stock $1 Par for $10,000,000 financed by a ten-year bank loan guaranteed by the Company (see Note D). For the years ended December 31, 1993, 1992 and 1991, interest expense of $293,000, $367,000 and $577,000, respectively, on the ESOP loan was funded by the dividends received on the 1987 Series II Preferred Stock. The remaining ESOP loan guarantee balance of $4,750,000 at December 31, 1993, which is included in long-term debt and deducted from redeemable preferred stock in the accompanying consolidated balance sheets, will be further reduced in future years as the Plan's debt is reduced and shares are allocated to Plan participants. At December 31, 1993, the Plan owned 44,757 shares of the Company's common stock, 195,000 shares of the Company's 1976 Series Preferred Stock $1 Par and 77,130 shares of the Company's 1987 Series II Preferred Stock $1 Par.

The Company and its subsidiaries participate in the Statesman Savings Plan 401(k) (the "401(k) plan"), a qualified salary deferral retirement plan covering all eligible employees of the Company and its subsidiaries. Employees may contribute a portion of their annual salary, subject to limitation, to the 401(k) plan. The Company and its subsidiaries contribute an additional amount, subject to limitation but not to exceed 2% of eligible compensation, based on the voluntary contributions of the employees. The 401(k) plan provides that all employer matching contributions will be invested in shares of Company stock. At December 31, 1993, the 401(k) plan held 55,900 shares of the Company's common stock. Plan contributions charged to expense for 1993, 1992 and 1991 were $90,000, $85,000 and $76,000, respectively.

NOTE I--COMMITMENTS AND CONTINGENCIES

Litigation: The Company's subsidiaries are involved in various pending or threatened legal proceedings arising from the conduct of their businesses. These proceedings in some instances include claims for punitive damages and similar types of relief in unspecified or substantial amounts, in addition to amounts for alleged contractual liability or claims for equitable relief. In management's opinion, after consultation with counsel and review of available facts, these proceedings will ultimately be resolved without materially affecting the Company's financial condition.

Reinsurance: 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. The Company's maximum retention limit on any one life is $100,000. Reinsurance assumed from other companies is not significant.

Reinsurance contracts do not relieve the Company from its obligations to its policyholders. The Company remains contingently liable to its policyholders for the portion reinsured to the extent that the reinsuring companies do not meet their obligations assumed under the reinsurance agreements. The aggregate receivable from reinsurers at December 31, 1993 was $6,026,000, all of which was deemed collectible. Ceded reinsurance premiums deducted from premiums and policy fund charges were $4,437,000, $4,389,000 and $4,724,000 for the years ended December 31, 1993, 1992 and 1991, respectively.

Certain policy liabilities were reinsured under reinsurance transactions which represented financing arrangements and, in accordance with generally accepted accounting principles, are not reflected in the accompanying consolidated financial statements except for the risk fees paid to reinsurers. These transactions were effectively terminated as of December 31, 1993. Net statutory surplus provided by such treaties totaled $24.7 million at December 31, 1992. Risk fees paid to the reinsurers approximated 2.75% of the net amount of surplus provided.

Employment Arrangements: The Company has entered into employment continuation agreements with certain executives of the Company and its subsidiaries that provide for payments to these executives of amounts up to four times their annual compensation if there is a change in control of the Company (as defined), and a termination of their employment. The agreements do not constitute employment contracts and only apply in circumstances following a change in control. The maximum contingent liability at December 31, 1993 under these agreements is $6,167,000.

Guaranty Fund Assessments: From time to time, mandatory assessments are levied on the Company's insurance subsidiaries by life and health guaranty associations of most states in which these subsidiaries are licensed to cover losses to policyholders of insolvent or rehabilitated insurance companies. These associations levy assessments (up to prescribed limits) on all member insurers in a particular state in order to pay claims on the basis of the proportionate share of premiums written by member insurers in the lines of business in which the insolvent or rehabilitated insurer engaged. These assessments may be deferred or forgiven in certain states if they would threaten an insurer's financial strength and, in some states, these assessments can be partially recovered through a reduction in future premium taxes. Prior to 1991, these assessments were not material to the Company's financial statements. However, the economy and other factors have recently caused a number of failures of substantially larger companies which could result in future assessments in material amounts. Assessments levied against the Company's insurance subsidiaries and charged to expense in 1993, 1992 and 1991 were $2,623,000, $2,233,000, and $638,000, respectively. The accompanying consolidated financial statements include provisions for all known assessments that will be levied against the Company's insurance subsidiaries by various state guaranty associations. At the present time, the Company is not able to reasonably estimate what amounts will ultimately be assessed to its subsidiaries in the future for failures that have occurred to date and, as such, the accompanying consolidated financial statements do not include any provision for such potential assessments.

Interest Rate Swaps: The Company has entered into certain interest rate swap and collar agreements to match the interest rate characteristics of investments and related insurance liabilities for a portion of its single premium deferred annuity liabilities. These agreements involve the exchange of fixed and floating rate interest payments without an exchange of the underlying notional principal amounts. The interest rate swap and collar agreements effectively modify the interest rate characteristics of the single premium deferred annuity liabilities which reprice annually at discretionary rates determined by the Company to be less sensitive to changes in interest rates. In addition, a non-insurance subsidiary of the Company has entered into interest rate swap agreements to limit its exposure to increases in short-term borrowing rates.

Swap agreements subject the Company to the risk that the swap counterparty will fail to perform. However, the potential credit loss is limited to the periodic net settlement amounts due under the agreements and nonperformance is not anticipated. In addition, with respect to those swap contracts that do not qualify as hedges, the Company is subject to market risk associated with changes in interest rates and declines in value of the underlying financial instrument and with respect to the interest rate swaps used to hedge floating rate bank debt, the Company has incurred higher interest costs than if these agreements were not in place because short-term borrowing rates have been lower than the applicable fixed rates indicated in the swap agreements.

The notional amounts of interest rate swap and collar financial instruments in effect at December 31, 1993 and 1992 are as follows:

	1993	1992
	(dollars in millions)	
Used to hedge single premium deferred annuity liabilities:		
Receive variable rates:		
Interest rate collar	$ 250	$ 250
Interest rate swap	50	50
Used to offset a portion of the costs of interest rate collar and swap used as hedges:		
Receive fixed rates	300	300
Received variable rates	250	
Used to hedge non-insurance subsidiary's floating rate bank debt	25	5

The interest rate collar and $250 million of interest rate swaps on which the Company receives fixed rates expire in May 1996. The interest rate collar is a combination of an interest rate cap and floor whereby the Company is to receive payment if the six-month LIBOR exceeds 14% (the "cap") or is to make payment if the six-month LIBOR is less than 7.35% (the "floor"). There is no cost to either party while the six-month LIBOR is between 7.35% and 14%. At December 31, 1993, the effective six-month LIBOR rate under this agreement was 3.50%.

The interest rate swaps which expire in May 1996 discussed above offset a portion of the cost of the floor and, as long as the six-month LIBOR remains at or below the 7.35% floor rate, the net cost of the floor is fixed as the difference between 7.35% and the weighted average fixed rate under the swaps of 6.59%. Amounts payable under the floor are netted against amounts receivable under the interest rate swaps.

The Company also has a $250 million interest rate swap in effect at December 31, 1993 under which the Company receives six-month LIBOR and pays the swap counterparty six-month LIBOR minus .37%. In the event that six-month LIBOR increases by more than .50% on any semi-annual reset date, the amount the Company receives for the subsequent six month period is capped at the previous six-month LIBOR plus .50%. The purpose of this swap is to further reduce the cost of the interest rate floor described above, however this swap exposes the Company to incremental liability in the event that the six-month LIBOR increases at a faster rate than .87% every six months. This swap expires in May 1996.

In 1989, the Company entered into a $50 million interest rate swap contract and, at the inception of this agreement, received a $10,000,000 advance payment of the swap counterparty's obligations over the term of the swap agreement, which amount is being repaid with interest as an adjustment to the net interest settlements during the five year term of the swap. This advance, net of a $150,000 arrangement fee, is being amortized on the interest method over the term of the swap using the interest rate implicit in the payment adjustment. The unamortized amount of the advance included in accrued expenses and other liabilities in the accompanying consolidated balance sheets was $2,388,000 and $4,545,000 at December 31, 1993 and 1992, respectively.

In May 1991, the Company effectively terminated the $50 million interest rate swap referred to above by entering into an offsetting $50 million interest rate swap. The loss on termination of $1,312,000, which was equal to the discounted present value of the net future payments under both swaps of $435,000 annually, exclusive of the repayment of the $10,000,000 advance, is being recognized over three and one-half years, the remaining term of both swaps on the date of termination. The unrecognized loss on termination was $354,000 and $740,000 at December 31, 1993 and 1992, respectively, and the remaining term of the two offsetting $50 million interest rate swaps at December 31, 1993 was eleven months.

Under the $25 million interest rate swap used to hedge floating rate bank debt, the Company receives a floating rate equal to three-month LIBOR and pays the swap counterparty a fixed rate of 4.74%. This swap expires in July 1996.

Income (expense) recognized in the accompanying consolidated statements of income for interest rate swaps and the interest rate collar, including periodic settlement amounts and realized and unrealized gains and losses recognized on interest rate swaps that do not qualify as hedges, is as follows:

	Year Ended December 31		
	1993	1992	1991
	(dollars in thousands)		
Reported as			
Net investment income	$(2,143)	$ 898	$(1,002)
Interest expense	(281)	(284)	(160)

The reported amount and estimated fair value of the Company's liabilities (assets) under the interest rate swaps and the interest rate collar are as follows:

	Reported Amount	Estimated Fair Value
	(dollars in thousands)	
December 31, 1993		
Qualifying for hedge accounting	$ 2,852	$ 6,043
Not qualifying for hedge accounting	(157)	15
December 31, 1992	$ 5,276	$13,216

Leases: Total rental expense for all leases is as follows: 1993 -- $1,238,000; 1992 -- $1,141,000; and 1991 -- $1,346,000. Future minimum rental commitments for operating leases having initial or remaining noncancelable lease terms in excess of one year are not material.

NOTE J--STOCK OPTIONS AND STOCK APPRECIATION RIGHTS

Under the terms of two stock option plans adopted by the Company's stockholders in 1984, certain officers and key employees of the Company and its subsidiaries may be granted options to purchase up to 1,246,292 shares of the Company's common stock. Because the exercise price of all stock options awarded under these plans can be no less than the fair market value of a share of optioned stock at the date of grant, no compensation expense has been recorded for these awards. Options expire no later than ten years after the date of grant and no options can be granted after 1993.

In addition, one of the stock option plans provides for the granting of stock appreciation rights ("SARs") on a maximum of 465,034 shares of the Company's common stock. SARs entitle the holder to receive, upon exercise, a cash payment equal to the excess of the fair market value of a share of common stock on the date of exercise over the option price. Compensation expense of $31,000, $610,000 and $90,000 is included in the 1993, 1992 and 1991 consolidated statement of income, respectively, based on the difference between the market value of the rights outstanding at the end of each year and the option price and cash payments made during each year on SARs exercised.

Information concerning stock options and SARs is as follows. All shares and option prices have been adjusted to give retroactive effect to stock dividends declared subsequent to the date of grant. Outstanding stock options and SARs will expire over periods ending no later than November 2003.

	Number of Shares		Price
	Options	SARs	Per Share
Outstanding, January 1, 1991	434,601	161,831	$1.90-$ 4.81
Granted	641,550		2.38- 2.60
Exercised	(22,050)		1.90
Terminated or expired	(5,775)	(26,973)	2.60- 4.81
Outstanding, December 31, 1991	1,048,326	134,858	2.38- 4.81
Exercised		(28,832)	4.81
Outstanding, December 31, 1992	1,048,326	106,026	2.38- 4.81
Granted	170,500	157,500	12.38
Exercised	(177,727)	(28,832)	2.60- 4.81
Outstanding, December 31, 1993	1,041,099	234,694	2.38- 12.38
Exercisable, December 31, 1993	1,000,849	77,194	2.38- 12.38
Available for future grant, December 31, 1992	175,916	195,315	

NOTE K--DISCONTINUED OPERATIONS

In July 1990, the Office of Thrift Supervision ("OTS"), an office of the United States Department of Treasury, placed Statesman Bank for Savings, FSB (the "savings bank"), formerly a wholly-owned subsidiary of the Company, in receivership and a new federal institution, operating under the oversight of the Resolution Trust Corporation, assumed the savings bank's assets and liabilities. The OTS action was predicated on its assertion that the savings bank failed to meet the minimum federal regulatory capital requirements under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") which became effective in December 1989. The Company had previously capitalized the savings bank with $8,400,000 of cash and 126,000 shares of its 1988 Series Preferred Stock $1 Par (see Note E) in March 1988 for the purpose of acquiring four failed thrift institutions with federal agency financial assistance. The Company reduced the carrying value of its investment in the savings bank to zero and recognized a loss on disposal in its 1990 consolidated financial statements.

In August 1990, the Company filed suit in the United States Claims Court (the "Claims Court") against the United States of America. The pending lawsuit concerns contractual agreements which were made by the Federal Savings and Loan Insurance Corporation and the Federal Home Loan Bank Board, former government regulatory agencies that were abolished by FIRREA, to induce the Company to capitalize the savings bank, for the purpose of acquiring the four failed thrift institutions. In the lawsuit, the Company claims that the defendant has breached its contractual agreements with respect to regulatory capital. Accordingly, the pending lawsuit contends that this breach of contract, which resulted in the disallowance of $21 million of capital which the defendant promised would be perpetual for regulatory accounting purposes, constitutes a taking of the Company's property without just compensation and due process of law, in violation of the Fifth Amendment of the United States Constitution.

The pending lawsuit seeks rescission of the transaction between the Company and the government agencies and recovery of the Company's investment plus compensation for monies expended, costs incurred and the value of benefits conferred on the defendant through the Company's purchase, operation and management of the savings bank. Total restitution sought exceeds $30 million.

In July 1992, the Claims Court granted the Company's motion for summary judgment as to the defendant's liability in the above-described lawsuit. The Claims Court also consolidated this case with two others and certified these cases for interlocutory appeal to the United States Court of Appeals for the Federal Circuit (the "Court of Appeals"). Subsequently, the Court of Appeals reversed the order of the Claims Court by a margin of two to one and the Company filed a Petition for Rehearing with Suggestion for Rehearing in Banc (the "Rehearing Petition") with the Court of Appeals. On August 18, 1993, the Court of Appeals accepted the Company's Rehearing Petition. The Court of Appeals also vacated its judgment entered on May 25, 1993 in favor of the defendant and withdrew its opinion accompanying the judgment. The rehearing is currently scheduled for February 10, 1994.

In 1985, the Company sold Statesman Insurance Company, a former property-casualty insurance subsidiary. As part of this sale and as part of a certain reinsurance agreement between Statesman Insurance Company and another former affiliate, the Company guaranteed and indemnified Statesman Insurance Company that it would suffer no loss on the insurance liability reinsured by it in excess of the loss and loss adjustment expense reserves transferred to the affiliate pursuant to the terms of the reinsurance agreement. The Company does not believe that the ultimate settlement of the remaining outstanding claims covered by this guarantee will materially exceed existing liabilities provided for such contingency.

In 1989, the Company sold its investment banking and retail brokerage subsidiary. The stock purchase agreement between the Company and the purchaser provided in part that the Company could be required to indemnify the purchaser for certain uncollectible receivables and debits of the former subsidiary and certain claims by or against the former subsidiary. In 1990, the purchaser filed for bankruptcy protection under Chapter 7 of the federal bankruptcy laws and the Bankruptcy Trustee for the purchaser purported to assign the purchaser's indemnification rights, if any, under the stock purchase agreement to the former subsidiary.

In January 1991, the former subsidiary filed a declaratory judgement action seeking indemnification by the Company with respect to certain claims by or against the former subsidiary. The Company vigorously disputed its former subsidiary's claim to indemnification and believes that it had meritorious defenses to such claim. To avoid the cost and uncertainty of long-term litigation, the Company entered into a settlement agreement and release with the former subsidiary in October 1991. The charge related to the settlement, including related attorneys' fees in excess of amounts previously accrued at December 31, 1990, was recognized in the fourth quarter of 1991 as a loss on disposal of subsidiaries and did not have a material effect on the Company's financial position or results of operations.

NOTE L--QUARTERLY FINANCIAL INFORMATION (Unaudited)

Unaudited quarterly results of operations are as follows:

	Quarter			
	1st	2nd	3rd	4th
	(dollars in thousands, except per share amounts)			
Year Ended December 31, 1993				
Premiums and policy fund charges	$12,812	$11,523	$12,388	$13,236
Net investment income	70,494	73,875	78,259	76,274
Realized gains on investments	6,423	4,429	6,274	7,677
Total revenues	91,054	91,333	98,329	98,505
Net income	8,947	8,789	9,392	10,119
Net income applicable to common stock	8,536	8,377	8,981	9,760
Primary earnings per common share	.59	.58	.63	.69
Fully diluted earnings per common share	.49	.41	.47	.48
Year Ended December 31, 1992				
Premiums and policy fund charges	13,675	13,247	11,921	12,880
Net investment income	65,136	67,245	69,515	70,335
Realized gains on investments	1,382	2,318	3,120	5,549
Total revenues	80,959	83,580	85,522	89,974
Income from continuing operations	5,779	6,665	7,705	5,868
Income before extraordinary credit	5,769	6,619	7,690	5,868
Extraordinary credit	550	810	1,090	2,425
Net income	6,319	7,429	8,780	8,293
Net income applicable to common stock	5,892	7,002	8,363	7,914
Primary earnings per common share				
Income from continuing operations	.38	.44	.51	.38
Income before extraordinary credit	.38	.44	.51	.38
Extraordinary credit	.04	.05	.08	.17
Net income	.42	.49	.59	.55
Fully diluted earnings per common share				
Income from continuing operations	.32	.36	.42	.32
Income before extraordinary credit	.32	.36	.42	.32
Extraordinary credit	.03	.05	.06	.13
Net income	.35	.41	.48	.45

Earnings per share amounts for each quarter are computed independently of earnings per share amounts for the year. All per share amounts prior to the fourth quarter of 1993 have been restated to give retroactive effect to the 5% stock dividend paid in December 1993.

Amounts previously reported as discontinued operations for the first three quarters of 1993 have been reclassified to be consistent with the year end presentation.

Insurance operations are typically not seasonal in nature. However, the recognition of realized gains and losses on investments may vary from quarter to quarter as indicated above. Fourth quarter 1992 operations include additional amortization of deferred policy acquisition costs related to realized gains on investments of $4,125,000.

NOTE M -- SUBSEQUENT EVENT (UNAUDITED)

On September 29, 1994, CCP II completed the Acquisition of the Company. Pursuant to an Agreement and Plan of Merger, the Company's former stockholders received $15.25 in cash per common equivalent share, plus the right to receive up to another $2.00 in cash per common equivalent share based on the outcome of the Company's pending litigation against the U. S. Government concerning the Company's former savings bank subsidiary. CCP II is a Delaware limited partnership which was formed by Conseco, Inc. ("Conseco") to invest in acquisitions of annuity, life, and accident and health insurance companies and related businesses. In connection with the Acquisition, the line of credit of a subsidiary of the Company with a balance at the acquisition date of approximately $54,800,000 was repaid.

The Acquisition will be accounted for as a purchase business combination pursuant to which the reported values of the acquired assets and liabilities of the Company are adjusted to their estimated fair values at the Acquisition date. The Company incurred indebtedness aggregating $350 million to partially finance the Acquisition. As such, future results of operations and the financial condition of the Company may vary significantly from historical reported results of operations and financial condition.

The Company and certain of the persons then serving on the Board of Directors have been named in a purported class action suit commenced on May 3, 1994 relating to the Acquisition. The complainant seeks injunctive relief and compensatory damages. The Company believes that such suit is without merit and intends to contest it vigorously.

ITEM 7(b). PRO FORMA CONSOLIDATED FINANCIAL INFORMATION OF CONSECO, INC. AND SUBSIDIARIES.

CONSECO, INC. AND SUBSIDIARIES
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
For the Six Months Ended June 30, 1994
(Dollars in millions, except per share amounts)
(Unaudited)

	Pro Forma Conseco Before the Statesman Acquisition	Statesman Historical	Pro Forma Adjustments Relating to the Statesman Acquisition	Pro Forma Conseco
Revenues:				
Insurance policy income	$633.9	$ 26.3	($.2) (1)	$660.0
Investment activity:				
Net investment income	142.4	160.8	(.3) (2)	302.4
			(.5) (2)	
Net trading loss	(2.4)			(2.4)
Net realized gain (loss)	(7.4)	5.1	(3.9) (2)	(6.2)
Fee and commission revenue	28.1			28.1
Equity in earnings of CCP Insurance, Inc.	17.2		(.1) (2)	17.1
Equity in earnings of Western National Corporation	20.3			20.3
Other income	.2	2.7		2.9
Total revenues	832.3	194.9	(5.0)	1,022.2
Benefits and expenses:				
Insurance policy benefits and change in future policy benefits	476.7	16.3		493.0
Interest expense on annuities and financial products	32.8	102.8		135.6
Interest expense on long-term debt	24.2	4.1	11.1 (3)	39.4
Interest expense on short-term debt	4.9			4.9
Amortization related to operations	64.0	19.5	1.4 (1)	87.2
			2.3 (4)	
Amortization and change in future policy benefits related to realized gains	(.3)	2.8	(1.8) (5)	.7
Other operating costs and expenses	103.6	17.3		120.9
Total benefits and expenses	705.9	162.8	13.0	881.7
Income before income taxes, minority interest and extraordinary charge	126.4	32.1	(18.0)	140.5
Income tax expense	37.7	10.3	(5.5) (6)	42.5

(Continued on next page)

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

PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS
For the Six Months Ended June 30, 1994, continued
(Dollars in millions, except per share amounts)
(Unaudited)

	Pro Forma Conseco Before the Statesman Acquisition	Statesman Historical	Pro Forma Adjustments Relating to the Statesman Acquisition		Pro Forma Conseco
Income before minority interest and extraordinary charge	88.7	21.8	(12.5)		98.0
Less minority interest	22.6	4.5	.7	(7)	29.0
			(1.1)	(8)	
			2.3	(9)	
Income before extraordinary charge	$ 66.1	$17.3	($14.4)		$69.0
Earnings before extraordinary charge per common share and common equivalent share:					
Primary:					
Weighted average shares	27,396,000				27,396,000
Earnings before extraordinary charge	$2.07				$2.18
Fully diluted:					
Weighted average shares	31,905,000				31,905,000
Earnings before extraordinary charge	$2.07				$2.16

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

CONSECO, INC. AND SUBSIDIARIES

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
For the Year Ended December 31, 1993
(Dollars in millions, except per share amounts)
(unaudited)

	Pro Forma Conseco Before the Statesman Acquisition	Statesman Historical	Pro Forma Adjustments Relating to the Statesman Acquisition	Pro Forma Conseco
Revenues:				
Insurance policy income	$1,272.7	$50.0	($.4)(1)	$1,322.3
Investment activity:				
Net investment income	279.5	298.9	(.2)(2)	577.1
			(1.1)(2)	
Net trading income	44.9			44.9
Net realized gains	64.9	24.8	(13.0)(2)	76.7
Equity in earnings of CCP Insurance, Inc.	40.1		(.2)(2)	39.9
Equity in earnings of Western National Corporation	47.4			47.4
Fee and commission revenue	41.5			41.5
Other income	1.4	5.5		6.9
Total revenues	1,792.4	379.2	(14.9)	2,156.7
Benefits and expenses:				
Insurance policy benefits and change in future policy benefits	943.2	31.7		974.9
Interest expense on annuities and financial products	75.4	195.9		271.3
Interest expense on long-term debt	54.4	6.1	24.4 (3)	84.9
Interest expense on short-term debt	4.4			4.4
Amortization related to operations	134.2	31.7	4.4 (1)	174.9
			4.6 (4)	
Amortization and change in future policy benefits related to realized gains	47.6	9.8	(3.2)(5)	54.2
Other operating costs and expenses	219.6	35.5		255.1
Total benefits and expenses	1,478.8	310.7	30.2	1,819.7
Income before income taxes, minority interest and extraordinary charge	313.6	68.5	(45.1)	337.0
Income tax expense	99.0	22.5	(13.1) (6)	108.4

(Continued on next page)

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

CONSECO, INC. AND SUBSIDIARIES

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
For the Year Ended December 31, 1993, continued
(Dollars in millions, except per share amounts)
(unaudited)

	Pro Forma Conseco Before the Statesman Acquisition	Statesman Historical	Pro Forma Adjustments Relating to the Statesman Acquisition	Pro Forma Conseco
Income before minority interest and extraordinary charge	214.6	46.0	(32.0)	228.6
Less minority interest	56.3	8.8	(.9) (7) (2.2) (8) 4.1 (9)	66.1
Income before extraordinary charge	$ 158.3	$ 37.2	($33.0)	$ 162.5
Earnings before extraordinary charge per common share and common equivalent share:				
Primary:				
Weighted average shares	29,245,000			29,245,000
Earnings before extraordinary charge	$4.71			$4.85
Fully diluted:				
Weighted average shares	33,495,000			33,495,000
Earnings before extraordinary charge	$4.62			$4.75

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

CONSECO, INC. AND SUBSIDIARIES

PRO FORMA CONSOLIDATED BALANCE SHEET
June 30, 1994
(Dollars in millions)

	Conseco as Reported	Statesman Historical	Pro Forma Adjustments Relating to the Statesman Acquisition	Pro Forma Conseco
Assets				
Investments:				
Fixed maturities:				
Actively managed	$2,788.5	$2,612.0	$1,240.5 (10)	$6,641.0
Held to maturity	-	1,396.0	(1,240.5)(10)	-
			(155.5)(11)	
Equity securities	14.7	22.6		37.3
Mortgage loans	77.2	71.0	.9 (11)	149.1
Credit-tenant loans	46.0			46.0
Policy loans	116.9	58.1		175.0
Investment in CCP Insurance, Inc.	218.1			218.1
Investment in Western National Corporation	193.1			193.1
Other invested assets	49.2	18.6		67.8
Trading account securities	27.8			27.8
Short-term investments	472.0	110.5	2.3 (12)	595.8
			422.0 (12)	
			(380.8)(13)	
			(30.2)(14)	
Assets held in separate accounts	73.7	10.7		84.4
Total investments	4,077.2	4,299.5	(141.3)	8,235.4
Cash	-	2.3	(2.3)(12)	-
Accrued investment income	56.9	56.7		113.6
Reinsurance receivables	39.4			39.4
Deferred income taxes	48.0	45.3	14.8 (15)	108.1
Cost of policies purchased	621.6		478.2 (16)	1,099.8
Cost of policies produced	216.7	346.2	(346.2)(17)	216.7
Goodwill	316.0	2.8	244.3 (18)	563.1
Property and equipment	74.3	9.9	2.2 (11)	86.4
Securities segregated for the future redemption of preferred stock of wholly owned subsidiary	-	36.9	(1.1)(11)	35.8
Other assets	149.3	20.2	(5.2)(19)	164.3
Total assets	$5,599.4	$4,819.8	$243.4	$10,662.6

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

CONSECO, INC. AND SUBSIDIARIES

PRO FORMA CONSOLIDATED BALANCE SHEET
June 30, 1994
(Dollars in millions)

	Conseco as Reported	Statesman Historical	Pro Forma Adjustments Relating to the Statesman Acquisition	Pro Forma Conseco
Liabilities:				
Insurance liabilities	$3,527.6	$4,479.4		$8,007.0
Investment borrowings	189.7			189.7
Other liabilities	258.2	46.4	22.5 (20) (3.5)(21) 30.1 (22)	353.7
Liabilities related to separate accounts	72.9	10.7		83.6
Long-term debt	230.5			230.5
Notes payable of CCP II entities, not direct obligations of Conseco	-	124.0	182.8 (23)	306.8
Notes payable of BLH, not direct obligations of Conseco	279.7			279.7
Total liabilities	4,558.6	4,660.5	231.9	9,451.0
Minority interest	185.9	95.4	67.1 (24) 6.0 (25)	354.4
Redeemable preferred stock	-	3.7	(3.7)(26)	-
Shareholders' equity:				
Preferred stock	287.5			287.5
Series Preferred Stock	-	.3	(.3)(26)	
Common stock and additional paid-in capital	172.4	65.5	(65.5)(26)	172.4
Unrealized depreciation	(118.5)	(99.9)	99.9 (26)	(118.5)
Retained earnings	513.5	94.3	(94.3)(26) 2.3 (14)	515.8
Total shareholders' equity	854.9	60.2	(57.9)	857.2
Total liabilities and shareholders' equity	$5,599.4	$4,819.8	$ 243.4	$10,662.6

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

CONSECO, INC. AND SUBSIDIARIES

NOTES TO PRO FORMA
CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

BASIS OF PRESENTATION

On September 29, 1994, Conseco Capital Partners II, L.P. ("CCP II"), a Delaware limited partnership, completed the acquisition (the "Acquisition") of The Statesman Group, Inc. ("Statesman"). After the Acquisition and related financing transactions, CCP II owns approximately 80 percent of the outstanding shares of Statesman's common stock. Conseco, Inc. ("Conseco") formed CCP II in February 1994 with several other investors for the purpose of investing in acquisitions of annuity, life and accident and health insurance companies and related businesses. Conseco Partnership Management, Inc., a wholly owned subsidiary of Conseco, is the sole general partner of CCP II. Because a subsidiary of Conseco is the sole general partner of CCP II, Conseco controls CCP II and Statesman. Accordingly, Conseco's consolidated financial statements will include the accounts of CCP II and Statesman. Conseco, through its direct investment and through its equity interest in the investments made by Bankers Life Holding Corporation ("BLH"), CCP Insurance, Inc. ("CCP Insurance") and Western National Corporation ("WNC"), has a 27 percent ownership interest in Statesman. The remaining 73 percent ownership interest in Statesman is described as the "Statesman Minority Interest."

The unaudited pro forma consolidated statements of operations of Conseco for the year ended December 31, 1993, and the six months ended June 30, 1994, present the consolidated operating results for Conseco as if the Acquisition had occurred on January 1, 1993. The unaudited pro forma consolidated balance sheet as of June 30, 1994, gives effect to the Acquisition as if it had occurred on June 30, 1994. The historical statement of operations data for Conseco set forth in the unaudited pro forma consolidated statements of operations for the year ended December 31, 1993, and for the six months ended June 30, 1994, under the column "Pro Forma Conseco Before the Statesman Acquisition", to which the pro forma adjustments for the Acquisition are being applied, already reflect the prior application of certain pro forma adjustments for the following transactions, all of which occurred prior to June 30, 1994, as if such transactions had occurred on January 1, 1993: the initial public offering of WNC, the initial public offering of BLH, the purchase by Conseco of 13.3 million additional shares of BLH common stock in September 1993 and the purchase by Conseco of 2.0 million additional shares of CCP Insurance common stock in September 1993. These pro forma adjustments are set forth in Exhibit 99.1 to Conseco's Form 10-Q for the quarterly period ended June 30, 1994.

The unaudited pro forma consolidated financial statements should be read in conjunction with the accompanying notes, the historical financial statements and notes thereto of Conseco, the historical financial statements of Statesman as of June 30, 1994, and for the six months then ended and for the year ended December 31, 1993 included in Item 7(a) herein, and the unaudited pro forma financial information of Conseco as of June 30, 1994, and for the six months then ended and for the year ended December 31, 1993, contained in Exhibit 99.1 to Conseco's Form 10-Q for the quarterly period ended June 30, 1994. Certain amounts from the prior periods have been reclassified to conform to the current presentation.

PRO FORMA ADJUSTMENTS

Transactions Relating to the Acquisition of Statesman

The Acquisition was consummated pursuant to an Agreement and Plan of Merger dated May 1, 1994, providing for the merger of Statesman with a subsidiary of CCP II. Statesman's former stockholders received $15.25 in cash per common equivalent share plus a contingent payment right to receive up to another $2.00 in cash per common equivalent share ("the Contingent Consideration") based on the outcome of Statesman's pending litigation against the U.S. Government concerning Statesman's former savings bank subsidiary (the "Government Litigation").

The Acquisition and related transactions were funded with: (i) $45.0 million of cash contributions made to CCP II by its partners (including $7.2 million provided by wholly owned subsidiaries of Conseco, $1.8 million by BLH, $1.8 million by CCP Insurance and $3.6 million by WNC), (ii) $57.0 million in cash from the sale in a private placement of the payment-in-kind preferred stock of Statesman (the "Statesman PIK Preferred Stock") (including $25.9 million purchased by BLH and $24.0 million purchased by CCP Insurance), (iii) $150.0 million in cash from the sale in a public offering by ALHC Merger Corporation, a subsidiary of CCP II which was merged into American Life Holding Company ("ALHC"), a wholly owned subsidiary of Statesman, of its 11-1/4% Senior Subordinated Notes due 2004 (the "ALHC Senior Subordinated Notes") and (iv) $200.0 million in cash from a senior secured loan (the "ALHC Senior Term Loan") obtained by ALHC Merger Corporation (collectively referred to herein as the "Statesman Financing"). The sources and uses of this financing are summarized below (dollars in millions).

Sources of Funds:		
ALHC Senior Term Loan:		
Borrowed upon closing of the Acquisition	$170.0	
Borrowed upon determination of Government Litigation	30.0	(i)
ALHC Senior Subordinated Notes	150.0	
Statesman PIK Preferred Stock	57.0	
Common equity contribution from CCP II	45.0	
Total sources	$452.0	
Uses of Funds:		
Payment of cash consideration to acquire Statesman	$314.1	(ii)
Payment upon determination of Government Litigation	30.1	(i)
Repayment of bank indebtedness of a subsidiary of Statesman	55.5	(iii)
Transaction fees and expenses	14.8	
Purchase of surplus note from American Life and Casualty Insurance Company ("American Life"), Statesman's principal operating subsidiary	24.0	
Cash retained	13.5	
Total uses	$452.0	

(i) In the event of an unfavorable determination of the Government Litigation, $30.1 million would be paid to the holders of Statesman's 1988 Series I and II Preferred Stock $1 Par (the "Statesman 1988 Series Preferred Stock"), which is currently held by the U.S. Government. In the event of a favorable determination of this litigation, the same amount, representing a portion of the Contingent Consideration, would be paid to the other former stockholders of Statesman.

(ii) This amount assumes conversion of all outstanding 6-1/4% Convertible Subordinated Debentures due 2003 of Statesman (the "Convertible Debentures"), which are convertible into an aggregate of 4,528,125 shares of Statesman common stock. To the extent that any holders of the Convertible Debentures do not convert such securities, the proceeds which would have been used to pay such holders will be held in escrow until the Convertible Debentures are converted by the holders, are redeemed by Statesman, or mature.

(iii) A subsidiary of Statesman was the borrower under a credit facility with an outstanding balance of $51.9 million at June 30, 1994. The outstanding balance under this facility (which totalled $55.5 million at the Acquisition date) was repaid with a portion of the proceeds from the Statesman Financing.

The pro forma adjustments are applied to the historical consolidated financial statements of Conseco and Statesman to account for the Acquisition using the purchase method of accounting. Under purchase accounting, the total purchase cost of Statesman will be allocated to the assets and liabilities acquired based on their relative fair values as of the date of acquisition, 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 cost allocations will be based on appraisals and other studies, which are not yet completed. Accordingly, the final allocations will be different from the amounts reflected herein. Although the final allocations will differ, the pro forma consolidated financial statements reflect management's best estimate based on currently available information.

Adjustments to give effect to the Acquisition and related transactions are summarized as follows:

(1) Amortization of deferred acquisition costs and the recognition of deferred revenues for policies sold by Statesman prior to January 1, 1993, are replaced with the amortization of cost of policies purchased (amortized in relation to estimated profits on the policies purchased with interest equal to the liability or contract rates ranging from 5.3% to 8.2%). See Note 16 below.

(2) Net investment income and net realized gains of Statesman are adjusted to include the effect of the restatement of (i) fixed maturities, (ii) mortgage loan investments and (iii) interest rate swap and collar agreements to estimated fair value as of January 1, 1993, the assumed date of the Acquisition. The reported value and estimated fair value of fixed maturities, mortgage loan investments and interest rate swap and collar agreements as of January 1, 1993, are as follows (dollars in millions):

	Reported Value	Estimated Fair Value
Fixed maturities	$2,910.6	$2,980.0
Mortgage loan investments	87.1	88.2
Interest rate swap and collar agreements	(.7)	(7.5)

In addition, net investment income is reduced to reflect the reduction in short-term investments in connection with the purchase of investments in CCP II and the Statesman PIK Preferred Stock by Conseco and its consolidated subsidiaries. Additionally, equity in earnings of CCP Insurance is reduced to reflect the reduction in net investment income as a result of its investment in CCP II and the Statesman PIK Preferred Stock.

No additional investment income is assumed to be earned on the cash retained from the proceeds of the Statesman Financing after payment of the costs of the Acquisition and related transactions. Pro forma net realized gain
(loss) represents the difference between (i) the actual proceeds from the sales of investments and (ii) the fair value of the investments as of the assumed date of the Acquisition, adjusted for the accretion of discount or premium based on the new cost basis.

(3) Interest expense is adjusted to reflect the following transactions as if they occurred as of the assumed date of the Acquisition:

	Year Ended December 31, 1993	Six Months Ended June 30, 1994
Use of proceeds to repay certain bank indebtedness of a subsidiary of Statesman	$(2.4)	$(1.6)
The assumed conversion of all of the Convertible Debentures	(3.3)	(2.4)
The borrowings under the ALHC Senior Term Loan (i)	12.1	6.1
The issuance of the ALHC Senior Subordinated Notes (ii)	16.9	8.4
Amortization of debt issuance costs (iii)	1.1	.6
	$24.4	$11.1

(i) Based on borrowings of $170.0 million ($130.0 million at an assumed interest rate of 7.0% and $40.0 million at an assumed interest rate of 7.5%).

(ii) Based on a principal amount of $150.0 million at an assumed interest rate of 11.25%.

(iii) Based on debt issuance costs of $6.8 million and $8.0 million related to the ALHC Senior Subordinated Notes and the ALHC Senior Term Loan, respectively, which are amortized at a level yield over the term of such debt.

A change in interest rates on the ALHC Senior Term Loan of .5% would result in (i) an increase (or decrease) in pro forma interest expense of $.9 million and $.4 million for the year ended December 31, 1993 and the six months ended June 30, 1994, respectively, and (ii) a decrease (or increase) in pro forma net income of $.1 million and $.1 million for the same respective periods. Under the terms of the ALHC Senior Term Loan, $30 million will remain available to borrow at a later date when needed to pay a portion of the Contingent Consideration or to pay to the holders of the Statesman 1988 Series Preferred Stock upon the determination of the Government Litigation. If such $30 million were outstanding during 1993 and the six months ended June 30, 1994 (with an assumed interest rate of 7.0% during such periods), pro forma interest expense would increase by $2.1 million and $1.1 million, respectively, and pro forma net income would decrease by $.3 million and $.2 million, respectively.

(4) Amortization of goodwill calculated as of January 1, 1993 is recognized over a 40-year period on a straight-line basis.

(5) Anticipated returns, including realized gains and losses, from the investment of policyholder balances are considered in determining the amortization of the cost of policies purchased. Amortization of cost of policies purchased is adjusted to reflect amortization related to pro forma realized gains by Statesman during the period.

(6) All applicable pro forma adjustments to operations are tax effected at the appropriate rate. Additionally, for the year ended December 31, 1993, income tax expense is increased by $1.1 million to reflect the effect of the increase in the corporate income tax rate to 35% from 34% on adjustments to deferred income tax liabilities resulting from pro forma adjustments.

(7) The Statesman Minority Interest in the earnings of Statesman is recognized.

(8) After the Acquisition, investment advisory services are provided to Statesman by a subsidiary of Conseco. Statesman's historical net investment income is not reduced to reflect the advisory fees to be paid under the agreement in excess of investment expenses incurred prior to the Acquisition, since, in accordance with GAAP, such intercompany fees are eliminated in consolidation. Minority interest, however, is adjusted to charge the Statesman Minority Interest for its portion of such investment advisory fees. Net investment income is not increased to reflect any additional investment income and realized gains which may be earned as a result of services provided by the Conseco subsidiary.

(9) All investors in the Statesman PIK Preferred Stock, other than BLH and CCP Insurance to the extent of Conseco's interest therein, have approximately a 56 percent ownership interest in such Statesman PIK Preferred Stock (the "Statesman PIK Preferred Minority Interest"). Income is reduced to reflect the dividends accrued on the Statesman PIK Preferred Stock attributable to the Statesman PIK Preferred Minority Interest.

(10) After the Acquisition, all existing fixed maturity investments are classified as available-for-sale. Fixed maturities previously classified as held-to-maturity are reclassified as available-for-sale.

(11) Statesman's fixed maturity investments, mortgage loans, property and equipment and securities segregated for the future redemption of preferred stock of a wholly owned subsidiary are restated to market value as of the assumed date of the Acquisition.

(12) After the Acquisition, all cash is invested in short-term investments. Short-term investments are increased to reflect the gross proceeds from the Statesman Financing.

(13) Short-term investments are reduced for the amounts distributed related to the Acquisition.

(14) Short-term investments are reduced to reflect the investment of Conseco and its consolidated subsidiaries in CCP II related to the Acquisition and in Statesman PIK Preferred Stock, offset by fees of $4.9 million paid to Conseco. Retained earnings is increased by $2.3 million to reflect net income attributable to the fees collected from the Statesman Minority Interest.

(15) All of the applicable pro forma balance sheet adjustments are tax effected at the appropriate rate.

(16) Cost of policies purchased reflects the estimated fair value of the business in force and represents the portion of the cost to acquire Statesman that is allocated to the value of the right to receive future cash flows from insurance contracts existing as of the assumed date of the Acquisition. Such value is the present value of the actuarially determined projected cash flows from the acquired policies.

The 15% discount rate used to determine such value is the rate of return required by CCP II 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 expected future 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 cost of policies purchased is based on a preliminary valuation; accordingly, this allocation may be adjusted upon final determination of such value. On a pro forma basis, assuming that the Acquisition occurred as of June 30, 1994, expected gross amortization using current assumptions and accretion of interest based on an interest rate equal to the liability or contract rate (such rates ranging from 5.3% to 7.7%) for each of the years in the five-year period ending June 30, 1999 is as follows (dollars in millions):

Year ended June 30	Beginning Balance	Gross Amortization	Accretion of Interest	Net Amortization	Ending Balance
1995	$478.2	$68.5	$24.9	$43.6	$434.6
1996	434.6	69.6	22.0	47.6	387.0
1997	387.0	65.7	19.5	46.2	340.8
1998	340.8	61.4	17.1	44.3	296.5
1999	296.5	56.2	14.8	41.4	255.1

(17) Deferred acquisition costs of Statesman are eliminated since such amounts are reflected in the determination of the cost of policies purchased.

(18) Goodwill reflects the excess of cost of investment in Statesman over the net assets acquired.

(19) Several deferred costs of Statesman that are not relevant after the acquisition are eliminated as of the assumed date of the Acquisition.

(20) A liability is established to reflect the fair value of interest rate swap and collar agreements of Statesman outstanding as of the assumed date of the Acquisition. The fair value was determined based on estimates obtained from an unaffiliated dealer in such instruments.

(21) Deferred revenues on certain life insurance and annuity policies of Statesman are eliminated, since such amounts are reflected in the determination of the cost of policies purchased.

(22) A liability is established for the amount payable when the outcome of the Government Litigation is determined.

(23) Long-term debt is reduced as of June 30, 1994 to reflect the repayment of the bank debt of a subsidiary of Statesman (with a principal balance as of June 30, 1994 of $51.9 million), repayment of notes payable issued by Statesman's employee stock ownership plan (principal balance as of June 30, 1994 of $4.0 million) and the assumed conversion and retirement of the Convertible Debentures. Additionally, long-term debt is increased to reflect
(i) $170.0 million gross proceeds from the ALHC Senior Term Loan and (ii) $150.0 million gross proceeds from the ALHC Senior Subordinated Notes, reduced by $14.8 million to reflect the costs associated with the issuance of such debt. Under the terms of the ALHC Senior Term Loan, $30.0 million will remain available to borrow when needed to pay a portion of the Contingent Consideration or to pay to the holder of the Statesman 1988 Series Preferred Stock upon the determination of the Government Litigation. See Note 22 above.

(24) An adjustment is made to reflect the Statesman Minority Interest in the common equity of Statesman and the Statesman PIK Preferred Minority Interest related to the Statesman PIK Preferred Stock.

(25) The carrying value of the preferred stock of a wholly owned subsidiary of Statesman is adjusted to its estimated fair value as of the assumed date of the Acquisition.

(26) The prior shareholders' equity and the redeemable preferred stock of Statesman are eliminated in conjunction with the Acquisition and related transactions.

ITEM 7(c). EXHIBIT.

(c) Exhibits

2.1 Agreement and Plan of Merger dated as of May 1, 1994 by and among Conseco Capital Partners II, L.P., CCP II Acquisition Company and The Statesman Group, Inc.

4.12 Indenture dated as of September 29, 1994 between ALHC Merger Corporation and LTCB Trust Company and First Supplemental Indenture dated as of September 29, 1994 between American Life Holding Company and the Trustees for the 11-1/4% Senior Subordinated Notes due 2004.

The document defining the rights of the holders of the Senior Term Loan obtained by ALHC Merger Corporation (the "ALHC Senior Term Loan") as described in Item 2 has been omitted as an exhibit to the Form 8-K, pursuant to Item 601(b)(4)(iii) of Regulation S-K, because the total amount of the ALHC Senior Term Loan is less than 10 percent of the total assets of the Registrant and its subsidiaries on a consolidated basis. The Registrant hereby undertakes to furnish copies of such documents to the Commission upon request.

CONSECO, INC. AND SUBSIDIARIES

SIGNATURE

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

CONSECO, INC.

Dated: October 13, 1994

By: /s/ ROLLIN M. DICK

Rollin M. Dick
Executive Vice President and
Chief Financial Officer
(authorized officer and
principal financial officer)

AGREEMENT AND PLAN OF MERGER

DATED AS OF May 1, 1994

By and Among

CONSECO CAPITAL PARTNERS II, L.P.,

CCP II ACQUISITION COMPANY

and

THE STATESMAN GROUP, INC.

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AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (the "Agreement") is made and entered into as of May 1, 1994 by and among CONSECO CAPITAL PARTNERS II, L.P., a Delaware limited partnership ("CCP II"), CCP II ACQUISITION COMPANY, a Delaware corporation and wholly-owned subsidiary of CCP II ("CCP II Acquisition"), and THE STATESMAN GROUP, INC., a Delaware corporation (the "Company"). CCP II Acquisition and the Company are sometimes referred to collectively herein as the "Constituent Corporations."

PREAMBLE

WHEREAS, the respective Boards of Directors of Conseco Partnership Management, Inc., an Indiana corporation and the sole general partner of CCP II ("CPMI"), CCP II Acquisition and the Company have approved the merger of CCP II Acquisition with and into the Company, upon the terms and subject to the conditions set forth herein; and

WHEREAS, CPMI, CCP II, CCP II Acquisition and the Company desire to make certain representations, warranties, covenants and agreements in connection with such merger and also to prescribe various conditions to such merger;

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

1.1 Definitions. The capitalized terms used in this Agreement and not defined herein shall have the meanings specified in Exhibit A. Unless the context otherwise requires, such capitalized terms shall include the singular and plural and the conjunctive and disjunctive forms of the terms defined.

ARTICLE II

THE MERGER

2.1 The Merger. Subject to the terms and conditions of this Agreement, at the Effective Time (as such term is defined in Section 2.2 hereof), CCP II Acquisition shall be merged with and into the Company (the "Merger") in accordance with the Delaware General Corporation Law (the "Delaware Code") and the separate corporate existence of CCP II Acquisition shall cease and the Company shall continue as the surviving corporation under the laws of the State of Delaware under the name "The Statesman Group, Inc." (the "Surviving Corporation") with all the rights, privileges, immunities and powers, and subject to all the duties and liabilities, of a corporation organized under the Delaware Code.

2.2 Effective Time. The Merger shall be effected as promptly as practicable after satisfaction or, if permissible, waiver of the Conditions set forth in Article VII and Article VIII and in no event later than 10 business days thereafter, by the filing of a duly executed Certificate of Merger in proper form required by the Delaware Code with the Secretary of State of the State of Delaware. When used in this Agreement, the term "Effective Time" shall mean the date and time at which the Certificate of Merger is filed with the Secretary of State of the State of Delaware.

2.3. Effects of the Merger. At the Effective Time, the separate existence of CCP II Acquisition shall cease and the Constituent Corporations shall be merged into the Surviving Corporation, with the Surviving Corporation possessing all the rights, privileges, powers and franchises of both a public and private nature, and being subject to all the restrictions, disabilities and duties of each of such corporations so merged; and all the rights, privileges, powers and franchises of each of the Constituent Corporations, and all property, real, personal and mixed, and all debts due to any of said Constituent Corporations on whatever account, as well for stock subscriptions as all other things in action or belonging to each of such Constituent Corporations shall be vested in the Surviving Corporation; and all property, rights, privileges, powers and franchises, and all other interests shall be thereafter as effectually the property of the Surviving Corporation as they were of the several and respective Constituent Corporations, and the title to any real estate vested by deed or otherwise, under the laws of the State of Delaware, in any of such Constituent Corporations, shall not revert or in any way be impaired by reason of the Merger. All rights of creditors and all liens upon any property of any of the Constituent Corporations shall be preserved unimpaired, and all debts, liabilities, and duties of the respective Constituent Corporations shall attach to the Surviving Corporation, and may be enforced against it to the same extent as if said debts, liabilities and duties had been incurred or contracted by it. The Surviving Corporation shall be substituted in any action or proceeding, whether civil, criminal or administrative, pending by or against any of the Constituent Corporations.

2.4 Certificate of Incorporation. The Certificate of Incorporation of the Company, as in effect immediately prior to the Effective Time, shall be the Certificate of Incorporation of the Surviving Corporation until thereafter amended as provided by Law.

2.5 By-Laws. The By-Laws of the Company, as in effect immediately prior to the Effective Time, shall be the By-Laws of the Surviving Corporation until thereafter amended as provided by Law.

2.6 Directors. The directors of CCP II Acquisition at the Effective Time shall be the directors of the Surviving Corporation and will hold office from the Effective Time until their respective successors are duly elected or appointed and qualify in the manner provided in the Certificate of Incorporation and By-Laws of the Surviving Corporation, or as otherwise provided by Law.

2.7 Officers. The officers of the Company at the Effective Time shall be the officers of the Surviving Corporation.

2.8 Conversion of Shares, Preferred Stock, Options and SARs.
(a) Each of the Shares issued and outstanding immediately prior to the Effective Time (other than Shares held as treasury shares by the Company or held by any direct or indirect majority-owned subsidiary of the Company and other than Appraisal Shares, as defined in Section 2.10 hereof) shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into (i) a right to receive $15.25 in cash (the "Cash Merger Consideration") payable to the holder thereof, without interest thereon, upon surrender of the certificate representing such Share or Shares at any time after the Effective Time and (ii) a right to receive a contingent right to receive up to $2.00 in future cash distributions as set forth in Section 2.9 hereof (a "Contingent Payment Right").

(b) Each Share issued and outstanding immediately prior to the Effective Time which is then held as a treasury share by the Company immediately prior to the Effective Time shall, by virtue of the Merger and without any action on the part of the Company, be canceled and retired and cease to exist, without any conversion thereof. Each Share issued and outstanding prior to the Effective Time which is then held by any direct or indirect majority-owned subsidiary of the Company shall remain outstanding and shall not be entitled to receive the consideration set forth in Section 2.8(a).

(c) Each Option outstanding immediately prior to the Effective Time, whether or not such Option is then vested or exercisable, shall, by virtue of the Merger and without any action on the part of the holder thereof, be canceled and converted into
(i) the right to receive in cash an amount equal to (x) the difference between (A) the Cash Merger Consideration and (B) the exercise price of such Option multiplied by (y) the number of Shares covered by the Option and (ii) the right to receive a Contingent Payment Right for each Share covered by the Option.

(d) Each SAR outstanding immediately prior to the Effective Time, whether or not such SAR is then vested or exercisable, shall, by virtue of the Merger and without any action on the part of the holder thereof, be canceled and converted into (i) the right to receive in cash an amount equal to (x) the difference between (A) the Cash Merger Consideration and (B) the exercise price of such SAR multiplied by (y) the number of Shares subject to such SAR and
(ii) the right to receive a Contingent Payment Right for each Share subject to such SAR.

(e) Prior to the Effective Time, the Company shall (i) use its best efforts to obtain any consents from holders of Options and SARs granted under the Company's stock or compensation plans or arrangements, and (ii) make any amendments to the terms of such stock or compensation plans or arrangements that, in the case of either clauses (i) or (ii), are necessary to give effect to the conversions contemplated by Section 2.8(c) and (d). Notwithstanding any other provision of this Section 2.8, payment may be withheld in respect of any Option or SAR until any necessary consents are obtained.

(f) Each share of 1976 Series Preferred Stock $1 Par (the "1976 Series Preferred Shares") and 1987 Series II Preferred Stock $1 Par (the "1987 Series Preferred Shares") issued and outstanding immediately prior to the Effective Time (other than shares held as treasury shares by the Company or Appraisal Shares) shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into (i) the right to receive, in cash, (x) the Cash Merger Consideration multiplied by (y) the number of Shares into which such 1976 Series Preferred Share or 1987 Series Preferred Share, as the case may be, was convertible immediately prior to the Effective Time pursuant to the terms of the applicable certificate of designations for such 1976 Series Preferred Share or 1987 Series Preferred Share, as the case may be, payable to the holder thereof, without interest thereon, upon surrender of the certificate representing such share and (ii) the right to receive a Contingent Payment Right for each Share into which such 1976 Series Preferred Share or 1987 Series Preferred Share, as the case may be, was convertible immediately prior to the Effective Time.

2.9 Contingent Payment Rights. (a)Appointment of Trustee; Issuance of the Note. Prior to the Effective Time, the Company shall appoint a trustee (the "Trustee"), to serve as such from and after the Effective Time, for the Persons entitled to receive Con- tingent Payment Rights (the "Rights Holders") pursuant to Section
2.8. At the Effective Time, the Surviving Corporation shall deliv- er to the Trustee for the benefit of the Rights Holders a contin- gent payment note (the "Note"), a form of which is attached hereto as Exhibit B. The Trustee shall hold, receive and make payments with respect to the Note as provided in a note trust agreement (the "Note Trust Agreement") which shall provide for the matters set forth in this Section 2.9 and otherwise shall be on terms reason- ably satisfactory to CCP II and the Company and which shall be entered into on or before the Effective Time.

(b) Nature of the Rights. The Contingent Payment Rights shall be non-transferable (other than pursuant to the laws of descent and distribution or by operation of law or by the trustee of any Benefit Plan to any participant or successor Benefit Plan pursuant to the operation of such plan), shall be governed solely by the terms of this Agreement, the Note and the Note Trust Agree- ment and shall not be represented by any certificate or other instrument.

(c) Principal Balance of the Note and Adjustments. The outstanding principal balance of the Note (the "Principal Balance") shall initially be $46,000,000 and shall not bear interest. The Principal Balance shall be increased or decreased, as the case may be, as provided in this Section 2.9 and the Note Trust Agreement. Any required increases or decreases to the Principal Balance (each, an "Adjustment") shall be made by the Trustee on behalf of the Surviving Corporation and the Rights Holders in accordance with the procedures set forth in Section 2.9(e) by the amounts set forth in this Section 2.9(c) below:

(i) the Principal Balance shall be decreased by an amount equal to all payments made by the Surviving Corporation on account of cumulative unpaid dividends, redemption value or conversion value, or otherwise, to the holder of record at the Effective Time of the Company's 1988 Series I Preferred Shares or 1988 Series II Preferred Shares (other than such shares held by, or any such payments made to, the Surviving Corporation or any Subsidiary); provided, however, that if such holder of the 1988 Series I Preferred Shares and 1988 Series II Preferred Shares exercises its right to convert such Preferred Shares to Shares prior to the Effective Time and it is determined in a Partial Litigation Resolution or Final Litigation Resolution that such holder's Shares are entitled to receive payments in respect of their Contingent Payment Rights and are included in the pro rata calculation in Section 2.9(g)(iv) by the terms thereof, no reduction shall be made to the Principal Balance pursuant to this clause (i) relating to such payments; provided, further, that in all other cases in which it is determined in a Partial Litigation Resolution or Final Litigation Resolution that such holder is entitled to receive payments with respect to Contingent Payment Rights on the same basis as if such Preferred Shares had been converted to Shares prior to the Effective Time, the reduction to the Principal Balance relating to payments on the Contingent Payment Rights of such holder shall be equal to the amount obtained by making the pro rata calculation in 2.9(g)(iv) assuming (A) such holder's 1988 Series I Preferred Shares and 1988 Series II Preferred Shares are included therein (on an as-converted basis) and (B) no payments were made for the Contingent Payment Rights of such holder.

(ii) the Principal Balance shall be (A) decreased by the amount by which the total cash proceeds and fair market value of any other consideration or amounts received by the Surviving Corporation or any Subsidiary, excluding any recov- ery relating to the return or cancellation of the 1988 Series I Preferred Shares or 1988 Series II Preferred Shares by the holder to the Surviving Corporation or any Subsidiary (in the aggregate, the "Recovery Amount") in the lawsuit against the United States of America currently pending in the United States Court of Claims as disclosed in the Filed SEC Documents, or in any other court to which such proceedings may be transferred (the "Company Litigation") is less than Sixteen Million Dollars ($16,000,000) or (B) increased by the amount by which the Recovery Amount is greater than Sixteen Million Dollars ($16,000,000). For purposes of this Section 2.9(c)(ii), "fair market value of any other consideration or amounts received" shall be determined in good faith by mutual agreement of the Surviving Corporation and the Committee;

(iii) the Principal Balance shall be decreased by an amount equal to all out-of-pocket costs and expenses rea- sonably incurred by the Surviving Corporation or any Subsidiary after December 31, 1993, including, without limita- tion, all reasonable legal or other professional fees and costs and travel expenses incurred by the Surviving Corpora- tion in connection with prosecuting or settling the Company Litigation, to the extent such costs and expenses (A) are in excess of $400,000 (the accrued expense liability established in preparing the balance sheets of the Insurance Subsidiaries in accordance with SAP as of December 31, 1993) and (B) are not recovered by the Surviving Corporation or any Subsidiary in such Company Litigation (collectively, "Costs and Expens- es");

(iv) The Principal Balance shall be decreased by (A) all costs and expenses of the Trustee and the Committee which are reimbursed by the Surviving Corporation pursuant to Sections 2.9(k) and 2.9(l) hereof and (B) all payments in respect of the Surviving Corporation's indemnification obligations under Section 2.9(m) or Section 2.9(n); provided, however, that the Principal Balance shall not be decreased as a result of costs and expenses incurred by the Trustee or the Committee and reimbursed by the Surviving Corporation under Sections 2.9(k) and 2.9(l) or indemnification payments made by the Surviving Corporation under Sections 2.9(m) or 2.9(n), if such costs and expenses or indemnification payments are related to the Trustee's or the Committee's enforcing against the Surviving Corporation their respective rights to collect or the Surviving Corporation's obligations to make payments due under Section 2.9(g);

(v) the Principal Balance shall be decreased by $150,000 on the first anniversary date of the Effective Time and by $100,000 on each of the next three succeeding anniversary dates thereafter; provided, that, if the Adjustment is calculated other than on an anniversary date, the decrease shall be prorated based on the actual days elapsed from the preceding anniversary date to the date the Adjustment is determined;

(vi) the Principal Balance shall be decreased by an amount equal to the difference (if positive) between (A) all federal income taxes payable with respect to the cash proceeds and other consideration or amounts received by the Surviving Corporation or any Subsidiary with respect to the Company Litigation assuming that no net operating loss is utilized in such calculation, and (B) any allowable decrease in federal income taxes payable by the Surviving Corporation or any Subsidiary attributable to payments, costs and expenses, as the case may be, referred to above in Section 2.9(c), including any amounts under Section (c)(v); and

(vii) the Principal Balance shall be decreased by the amount of any Principal Payment made by the Surviving Corporation to the Rights Holders under the Note.

(d) Settlement Procedures.

(i) In the course of prosecuting or settling the Company Litigation, the Surviving Corporation shall consult with the Committee regarding the status of such Company Litigation and any pending negotiations with respect thereto and provide to the Committee any applicable documents and other information so as to permit the Committee to evaluate the status of such Company Litigation.

(ii) In addition to the requirements of Section 2.9(d)(i) above, neither CCP II nor the Surviving Corporation shall enter into or agree to any settlement which would give rise to an Adjustment Event under Section 2.9, without the prior written consent of the Committee (which consent shall not be unreasonably withheld).

(e) Procedures Regarding Adjustments.

(i) No Adjustments shall be made except those made in compliance with this Agreement, including, without limitation, this Section 2.9(e).

(ii) Within 30 days following a Partial Litigation Resolution or the Final Litigation Resolution, the Surviving Corporation shall give the Trustee and the Committee written notice (an "Adjustment Notice") setting forth (A) the amount of the proposed Adjustment ("Proposed Adjustment"), (B) a summary of the Adjustment Events giving rise to the Proposed Adjustment and (C) copies of all relevant documentation in the possession of the Surviving Corporation or any Subsidiary or any of their respective legal or financial advisors relating to the Adjustment Events and Proposed Adjustment.

(iii) If the Committee objects to such Proposed Adjustment, it shall give written notice of its objection to the Trustee and the Surviving Corporation within thirty (30) days after receipt of the Adjustment Notice. If the Committee so notifies the Surviving Corporation and the Trustee of its objection to the Proposed Adjustment, the Surviving Corpora- tion and the Committee shall, within 30 days following such notice (the "Resolution Period"), attempt in good faith to re- solve the dispute and any resolution by them as to any disput- ed items shall be final and binding. Any amounts remaining in dispute after the Resolution Period shall be resolved by binding arbitration pursuant to Section 2.9(f) hereof. No Adjustment to the Principal Balance shall be made by the Trustee until the objection is withdrawn, the dispute is set- tled between the parties and notice of such settlement is provided to the Trustee or an arbitration award with respect thereto shall have been issued and a copy provided to the Trustee. The Trustee shall, on the tenth (10th) day following the date on which the Trustee receives the withdrawal of the objection, notice of settlement or copy of the arbitration award, as the case may be, adjust the Principal Balance in accordance with and as directed by such withdrawal, notice of settlement or arbitration award, as the case may be.

(iv) If no objection to a Proposed Adjustment shall have been received by the Trustee within thirty (30) days after the date of the applicable Adjustment Notice, the Committee shall be deemed to have acknowledged the correctness of and accepted such Adjustment, and the Trustee shall, on the thirty-fifth (35th) day following the date of the Adjustment Notice, increase or reduce the Principal Balance by the amount of the Adjustment.

(v) Prior to a Principal Payment in connection with the Final Litigation Resolution, if after an Adjustment has been made in accordance with the foregoing procedures, but within 360 days from the date of the Adjustment, circumstances change or facts are discovered resulting in the Adjustment being inapplicable or inappropriate, in whole or in part, then upon 30 days notice by the Committee or the Surviving Corpora- tion, as the case may be, to the Trustee and the other Person, either party may request a reconsideration of the Adjustment. The parties shall follow similar procedures regarding the reconsideration as were applicable with respect to the Proposed Adjustment.

(f) Binding Arbitration. Any dispute between the Committee and the Surviving Corporation arising under or related in any way to the Contingent Payment Rights under Sections 2.9(c) and (e) shall be submitted to a firm of nationally recognized independent public accountants (the "Neutral Auditors") selected by the Surviving Corporation and the Committee for binding arbitration in Chicago, Illinois. If the Surviving Corporation and the Committee are unable to agree on the Neutral Auditors, the Surviving Corporation and the Committee shall each have the right to request the Ameri- can Arbitration Association to appoint the Neutral Auditors who shall not have had a material relationship with the Surviving Corporation, CCP II or any of their respective affiliates within the past four years. Each party agrees to execute, if requested by the Neutral Auditors, a reasonable engagement letter. All fees and expenses relating to the work, if any, to be performed by the Neutral Auditors shall be borne equally by the Surviving Corporation and the Committee. The Neutral Auditors may upon application compel the pro- duction of relevant, non-privileged documents or other evidence and a disclosure of a complete list of witnesses who may testify at hearings. The party seeking such discovery may be ordered to pay the reasonable costs thereof. The Neutral Auditor's determination rendered in these proceedings shall be made within 60 days of their selection, shall be set forth in a written statement delivered to the Surviving Corporation and the Committee, shall be final, binding and conclusive and shall be enforceable in any court of competent jurisdiction.

(g) Payment Dates; Payment Procedures.

(i) Upon the occurrence of (A) each partial resolution of the Company Litigation, whether by settlement or final non-appealable decision of a court of competent jurisdiction (a "Partial Litigation Resolution") or (B) the final resolution of the Company Litigation, whether by settlement or final non-appealable decision of a court of competent jurisdiction (the "Final Litigation Resolution"), the Note shall become due and payable (a "Principal Payment") to the Trustee in an amount equal to the then Principal Balance, as adjusted pursuant to Section 2.9(c), less any amounts that the Committee and the Surviving Corporation shall agree in good faith are reasonably required as a reserve to cover any remaining unresolved Adjustment Events pursuant to
Section 2.9(c). The Principal Payment required to be made pursuant to this paragraph (g)(i) shall be paid within 10 business days after the Adjustments have been determined pursuant to Section 2.9(e).

(ii) If any Principal Payment is not made within three (3) days of the date when due pursuant to paragraph
(g)(i) above, the unpaid installment of such Principal Balance shall bear interest from the date due until paid at a rate of ten percent (10%) per annum.

(iii) Notwithstanding any other provision of this
Section 2.9 to the contrary, if the Committee and the Sur- viving Corporation shall mutually agree (in writing signed by the parties) to modify, add or supplement the terms and provisions regarding Adjustments of and payments on the Principal Balance, then the Principal Balance shall be adjusted and paid in accordance with such modified, additional or supplemental terms.

(iv) Upon receipt of any Principal Payment pursuant to Section 2.9(g)(i), the Trustee shall immediately deposit all of such funds ("Proceeds") in a segregated account in accordance with the Note Trust Agreement. Within thirty (30) days of the receipt of any Proceeds, the Trustee shall make payments of cash to the Rights Holders. All payments to Rights Holders hereunder shall be made pro rata to each Rights Holder pursuant to the following formula: the then balance of the Proceeds times a fraction, the numerator of which is the sum of (A) the number of Shares held of record by such Rights Holder at the Effective Time, (B) the number of Shares into which all 1976 Series Preferred Shares and 1987 Series Pre- ferred Shares held of record by such Rights Holder at the Effective Time are convertible immediately prior to the Effec- tive Time, (C) the number of Shares covered by all Options held by such Rights Holder at the Effective Time and (D) the number of Shares subject to all SARs held by such Rights Holder at the Effective Time, and the denominator of which is the sum of (I) the number of Shares held of record by all Rights Holders at the Effective Time, (II) the number of Shares into which all 1976 Series Preferred Shares and 1987 Series Preferred Shares held of record by all Rights Holders at the Effective Time are convertible immediately prior to the Effective Time, (III) the number of Shares covered by all Op- tions held by all Rights Holders at the Effective Time, (IV) the number of Shares subject to all SARs held by all Rights Holders at the Effective Time and (V) the number of Shares into which all issued and outstanding Convertible Debentures at the Effective Time were convertible immediately prior to the Effective Time. Any payments of cash pursuant to this
Section 2.9(g)(iv) shall be made to each Rights Holder by check drawn by the Trustee payable to the order of the Rights Holder and mailed to such person at the address shown on the list referred to in the Note Trust Agreement. Ten (10) days prior to the date the Trustee mails payments to Rights Holders, the Trustee shall publish a general notice that such payments are being made, in a daily newspaper of national circulation, which shall be The Wall Street Journal, unless it is not then so circulated. Any monies on deposit with the Trustee in respect of any Principal Payment shall be invested by the Trustee as provided in the Note Trust Agreement. In the event any checks representing a payment of Contingent Payment Rights shall not be presented for payment, the Trustee shall hold such cash in the segregated account without liabil- ity to the Rights Holders for interest thereon, for the benefit of the respective Rights Holders. After any such cash has been held in such segregated account for nine (9) months after the final distribution of checks to Rights Holders, the Trustee shall certify the respective amounts thereof and the identity of the Rights Holders and deliver such certificate and such cash to the Surviving Corporation. Thereafter, such Rights Holders shall have an unsecured claim against the Surviving Corporation in respect of payment of such cash.

(v) Upon payment by the Surviving Corporation to the Trustee of any remaining Principal Balance pursuant to Section 2.9(g)(i), the Note shall be canceled and returned to the Surviving Corporation and all of the Surviving Corpora- tion's obligations under this Section 2.9 shall be fully satisfied and discharged, except with respect to its obligations pursuant to Sections 2.9(k), (l), (m) and (n), which shall remain in full force and effect.

(vi) Notwithstanding any other provision of this Section 2.9 or the Note Trust Agreement, at such time as the Surviving Corporation shall have made aggregate Principal Pay- ments equal to $2.00 multiplied by the aggregate number of Contingent Payment Rights, the Note shall be canceled and re- turned to the Surviving Corporation and all of the Surviving Corporation's obligations under this Section 2.9 shall be fully satisfied and discharged, except with respect to its obligations pursuant to Sections 2.9(k), (l), (m) and (n), which shall remain in full force and effect. No Principal Payment shall be required to be made, if the Principal Balance does not then exceed $1,000,000. If such Principal Balance does not exceed $1,000,000 on the fourth anniversary of the Effective Time, the Note shall be canceled and returned to the Surviving Corporation and all of the Surviving Corporation's obligations under this Section 2.9 shall be fully satisfied and discharged, except with respect to its obligations under Sections 2.9 (k), (l), (m) and (n), which shall remain in full force and effect.

(h) Obligations of the Surviving Corporation. After the Effective Time, the Surviving Corporation shall use its reasonable efforts to resolve all potential Adjustment Events on a basis which will preserve the initial Principal Balance to the maximum extent.

(i) The Contingent Rights Committee; Limitations on Privileges of Rights Holders.

(i) Prior to the Effective Time,the Company shall name three persons who shall serve as the initial members of the Contingent Rights Committee (the "Committee"). The Com- mittee shall at all times have three members. The Committee may act only with the concurrence of a majority of its mem- bers, and all writings to be signed by the Committee must be executed by at least two members.

(ii) The Committee shall be charged with making, on behalf of all Rights Holders, not singly but as a whole, any and all determinations, decisions and judgments for all purposes and with respect to (A) the matters set forth in Section 2.9(e) hereof, (B) all other matters expressly set forth herein and in the Note Trust Agreement and (C) any other such matters in order to cure any ambiguity or to correct or supplement any provision herein, including, without limi- tation, (x) determining (subject to the Surviving Corporation's rights hereunder and under the Note Trust Agree- ment) when the Rights Holders are entitled to receive payments on account of Contingent Payment Rights pursuant to the terms of this Agreement and the Note Trust Agreement, (y) sending notices to the Trustee and the Surviving Corporation and ob- jecting to notices sent by the Surviving Corporation pursuant to the terms hereof and of the Note Trust Agreement and (z) resolving, compromising and settling any and all claims and disputes that may arise. All rights of action on behalf of the Rights Holders with respect to the Contingent Payment Rights, the Note Trust Agreement and the Note shall be vested solely in the Trustee and the Committee.

(iii) The Committee shall have no duties or responsibilities hereunder except as expressly set forth herein or in the Note Trust Agreement. The Committee shall, when exercising the rights granted to it herein, exercise and use the same degree of skill and care as a reasonably prudent person would exercise or use in a similar situation. In taking any action hereunder, or in refraining therefrom, the Committee, and the members thereof, shall be protected in relying upon any notice, paper or other document believed by it or them to be genuine and signed by the proper parties, or upon any evidence deemed by it or them to be sufficient. The Committee, and the members thereof, may rely on the statements contained in such writings. In no event shall the Committee or any member thereof be liable to other Rights Holders for any act or omission by it or any of the members in the absence of gross negligence or willful misconduct. In the event that the Committee, or the members thereof, consult with counsel or financial or accounting advisors or other experts in connec- tion with its or their duties hereunder, it and they shall be fully protected by any act taken, suffered or permitted by it or them in good faith and in accordance with the advice of such counsel or financial or accounting advisors or other experts. The Committee shall not be bound in any way by any agreement or contract (other than this Agreement and the Note Trust Agreement) between any of the parties hereto or thereto (whether or not it has knowledge thereof).

(iv) Neither the Committee nor its members shall be required to post any bond or other security with respect to its or their duties and responsibilities hereunder.

(v) If, prior to the Effective Time, any member of the Committee shall resign, die or become incapacitated or otherwise unable to act as a member of the Committee hereunder, the Company shall appoint a successor. If these events occur after the Effective Time, the remaining members of the Committee shall appoint a successor. If the two remaining members are unable to agree on a successor, the Trustee, in its capacity as a fiduciary for the Rights Holders, shall also be entitled to vote to select a third member of the Committee, who shall then be elected by a majority vote. The successor shall be entitled to all the rights, powers, immunities and privileges as was his or her predecessor, without the need of any further act or writing.

(j) Limitation on Expenses. In the event that the actual aggregate out-of-pocket Costs and Expenses incurred by the Surviving Corporation (excluding any amounts paid by the Surviving Corporation pursuant to Sections 2.9(k), (l), (m) and (n)) in prosecuting or settling the Company Litigation shall exceed an amount equal to (A) the cash proceeds and fair market value of any other consideration or amounts, including any recovery relating to the return or cancellation of the 1988 Series I Preferred Shares or the 1988 Series II Preferred Shares, received in respect of the Company Litigation plus (B) (i) $1,500,000, to the extent such Costs and Expenses are incurred in connection with the determi- nation of liability of the United States of America in the Company Litigation or (ii) $3,000,000 to the extent such Costs and Expenses are incurred in connection with the determination of such liability and/or damages to be paid by the United States of America in the Company Litigation, then the Note shall be canceled and shall be returned to the Surviving Corporation and all of the Surviving Corporation's obligations under this Section 2.9 shall be fully satisfied and discharged, except with respect to Sections 2.9(k),
(l), (m) and (n), which shall remain in full force and effect; provided, however, notwithstanding the foregoing, the Committee may, in its sole discretion, advance additional sums for such Costs and Expenses and in such event the Note shall remain in full force and effect and any such amounts so advanced shall be repaid to the Committee by the Surviving Corporation out of any amount recovered by the Surviving Corporation or any subsidiary in the Company Litigation, including any Recovery Amount and any recovery relating to the return or cancellation of the 1988 Series I Preferred Shares or 1988 Series II Preferred Shares.

(k) Compensation to and Expenses of the Trustee. The Trustee shall be entitled to receive compensation from the Surviving Corporation for its regular services as Trustee in accor- dance with a fee schedule to be agreed to by the Trustee, CCP II and the Company prior to the Effective Time, and the Trustee shall be reimbursed by the Surviving Corporation for all reasonable ex- penses it incurs in fulfilling its obligations under this Section 2.9, including the reasonable fees and disbursements of legal coun- sel. The reimbursement of such amounts shall result in an Adjust- ment Event pursuant to Section 2.9(c)(iv).

(l) Compensation to and Expenses of the Committee. Nei- ther the Committee nor the members thereof shall be compensated for serving as such hereunder. The Committee shall be reimbursed by the Surviving Corporation for all reasonable out-of-pocket costs and expenses it incurs in fulfilling its obligations under this
Section 2.9, including reasonable fees and disbursements of legal counsel and financial or accounting advisors or other experts. The reimbursement of such amounts shall result in an Adjustment Event pursuant to Section 2.9(c)(iv).

(m) Indemnification of Trustee. It is understood and agreed that the Surviving Corporation shall indemnify the Trustee, its officers, directors, employees and agents, and hold it and them harmless from and against any and all claims, liabilities, losses, actions, suits or proceedings, at law or in equity, which it or they may incur or with which it or they may be threatened by reason of its acting as Trustee under this Agreement or the Note Trust Agreement including, without limitation, for the prosecution of any claim to collect on the Note, except in the case of the Trustee's own willful misconduct or gross negligence; and in connection therewith to indemnify the Trustee, its officers, directors, em- ployees and agents against any and all expenses, including rea- sonable attorneys' fees and the cost of defending or prosecuting any action, suit or proceeding, or resisting any claim. The provisions of this Section 2.9(m) are intended to be for the benefit of and shall be enforceable by each such indemnified party and each such indemnified party's successors, heirs and representatives.

(n) Indemnification of the Committee. It is understood and agreed that the Surviving Corporation shall indemnify the Com- mittee, its members and agents, and hold it and them harmless from and against any and all claims, liabilities, losses, actions, suits or proceedings, at law or in equity, which it or they may incur or with which it or they may be threatened by reason of their acting as the Committee under this Agreement or the Note Trust Agreement, including, without limitation, for the prosecution of any claim to collect on the Note, except in the case of the Committees' own willful misconduct or gross negligence; and in connection therewith to indemnify the Committee, its members and agents against any and all expenses, including reasonable attorneys' fees and the cost of defending or prosecuting any action, suit or proceeding, or resisting any claim. The provisions of this Section 2.9(n) are intended to be for the benefit of and shall be enforceable by each such indemnified party and each such indemnified party's heirs and representatives.

2.10 Appraisal Shares. If provided for under the Delaware Code, notwithstanding anything in this Agreement to the contrary, each Share or Preferred Share which is issued and outstanding immediately prior to the Effective Time and which is held by a holder, who has timely filed with the Company a written demand for appraisal pursuant to Section 262 of the Delaware Code ("Section 262") and, as of the Effective Time, has not failed to perfect or effectively withdrawn or lost such holder's appraisal rights under
Section 262, is herein called an "Appraisal Share." Each Appraisal Share shall not be converted into or represent a right to receive the consideration with respect thereto pursuant to Section 2.8 hereof and the holder thereof shall be entitled only to such rights as are granted by Section 262. Each holder of Appraisal Shares who becomes entitled to payment for such Appraisal Shares pursuant to the provisions of Section 262 shall receive payment therefor from the Surviving Corporation (but only after the amount thereof shall have been agreed upon or finally determined pursuant to such provisions). The Company shall give CCP II (i) prompt notice of any demands received from any shareholder pursuant to such provisions and (ii) the opportunity to direct all negotiations and proceedings with respect to demands for appraisal pursuant to such provisions. If the holder of Appraisal Shares shall have failed to perfect, or shall have effectively withdrawn or lost, such holder's right to appraisal and payment for such Shares under Section 262, each such Share or Preferred Share shall thereupon be deemed to have been converted, as of the Effective Time, into and represent the right to receive the consideration set forth in Section 2.8.

2.11 Conversion of CCP II Acquisition Common Stock. All of the shares of common stock, no par value per share, of CCP II Acquisition issued and outstanding immediately prior to the Effective Time shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into and exchangeable for a number of shares of common stock, $1 par value per share, of the Surviving Corporation equal to the number of shares of common stock, $1 par value per share, of the Company, outstanding immediately prior to the Effective Time other than Shares held by any direct or indirect majority-owned subsidiary of the Company.

2.12 Shareholders' Meeting. (a) The Company, acting through its Board of Directors, shall, in accordance with applicable law:

(i) (A) duly call and give notice of a special meeting (the "Special Meeting") of its shareholders, as soon as reasonably practicable following the execution of this Agreement, for the purpose of voting upon the approval and adoption of this Agreement and the Merger and (B) thereafter convene and hold the Special Meeting;

(ii) include in the Proxy Statement (as hereinafter defined) sent to shareholders of the Company the recommendation of its Board of Directors that shareholders of the Company vote in favor of the approval and adoption of this Agreement and the Merger; and

(iii) use its best efforts as promptly as practicable (A) to obtain and furnish the information required to be included by it in the Proxy Statement, and
(x) file the Proxy Statement with the applicable regulatory authorities, (y) respond promptly to any comments made by the applicable regulatory authorities with respect to the Proxy Statement and any preliminary version thereof and (z) cause the Proxy Statement to be mailed to its shareholders in accordance with Subsection 2.12(a)(i)(A) above and (B) to have the necessary vote on this Agreement and the Merger by its shareholders.

(b) CCP II shall use its best efforts to obtain and furnish promptly the information required to be included by it and CCP II Acquisition, or such other information reasonably requested by the Company or required by the applicable regulatory authorities for inclusion, in the Proxy Statement.

(c) Notwithstanding the foregoing, the Company shall not be obligated to use its best efforts or take any action pursuant to this Section 2.12 if the Board of Directors has determined in good faith after consultation with, and based as to legal matters upon, the advice of its counsel that such actions would be inconsistent with its fiduciary duties to the Company's shareholders under applicable law.

2.13 Exchange of Shares.

(a) Pursuant to an agreement (the "Disbursing Agent Agreement") which shall provide for the matters set forth in this Section 2.13 and otherwise on terms reasonably satisfactory to CCP II and the Company and which shall be entered into on or before the Effective Time between CCP II Acquisition and a disbursing agent reasonably satisfactory to the Company and CCP II Acquisition (the "Disbursing Agent"), CCP II Acquisition shall deposit with the Disbursing Agent at the Effective Time in trust for the benefit of the shareholders of the Company and other Persons who have rights to receive payments upon consummation of the Merger, pursuant to Section 2.8 hereof, the Cash Merger Consideration (in immediately available funds) to which holders of Shares, 1976 Series Preferred Shares, 1987 Series Preferred Shares, Options and SARs shall be entitled pursuant to Section 2.8. The Disbursing Agent shall invest portions of the cash deposited with it in such manner as the Surviving Corporation directs, provided that all of such investments be in obligations of or guaranteed by the United States of America (collectively, "Permitted Investments") or in money market funds which are invested solely in Permitted Investments; provided, further, that the maturities of Permitted Investments shall be such as to permit the Disbursing Agent to make prompt payment of the Cash Merger Consideration to shareholders of the Company and other Persons who have rights to receive payments upon consummation of the Merger pursuant to Section 2.8 hereof. Any interest or income produced by Permitted Investments shall be payable to the Surviving Corporation. The Surviving Corporation shall replace any monies lost through any investment made at its direction pursuant to this Section 2.13(a). If outstanding certificates for Shares, 1976 Series Preferred Shares or 1987 Series Preferred Shares are not surrendered or the Cash Merger Consideration therefor set forth in Section 2.8 hereof is not claimed prior to the two hundred seventieth (270th) day after the Closing Date, the unclaimed amounts shall be returned to the Surviving Corporation and persons entitled thereto may look only to the Surviving Corporation for payment thereof.

(b) As soon as practicable after the Effective Time, the Disbursing Agent shall send a notice and form of letter of transmittal (which shall specify that delivery shall be effected and risk of loss and title to the certificates shall pass, only upon proper delivery of the certificate to the Disbursing Agent) to each record holder of a certificate which evidenced Shares, 1976 Series Preferred Shares or 1987 Series Preferred Shares immediately prior to the Effective Time (other than certificates representing Shares held as treasury shares by the Company or held by any direct or indirect majority-owned subsidiary of the Company and other than Appraisal Shares) advising such holder of the effectiveness of the Merger and the procedure for surrendering to the Disbursing Agent (who may appoint forwarding agents with the approval of CCP II) such certificate or certificates for exchange into the consideration set forth in Section 2.8. Each holder of a certificate theretofore evidencing Shares, 1976 Series Preferred Shares or 1987 Series Preferred Shares converted into a right to receive the consideration set forth in Section 2.8, upon surrender thereof to the Disbursing Agent together with and in accordance with a duly executed letter of transmittal, shall be entitled to receive in exchange therefor the consideration set forth in Section 2.8 payable (as to the Cash Merger Consideration, in the form of a check or, if so

requested by such holder, wire transfer) in respect of each Share, 1976 Series Preferred Share or 1987 Series Preferred Share theretofore evidenced by the certificate or certificates so surrendered. Any payments due with respect to the Contingent Payment Rights shall be made pursuant to Section 2.9 hereof and the Note Trust Agreement. Upon such surrender, the Disbursing Agent will, as promptly as practicable pay the Cash Merger Consideration. Until surrendered, each such certificate which immediately prior to the Effective Time evidenced Shares, 1976 Series Preferred Shares or 1987 Series Preferred Shares (other than certificates representing shares held as treasury shares by the Company or held by any direct or indirect majority-owned subsidiary of the Company and other than Appraisal Shares), shall be deemed for all purposes to evidence only the right to receive the consideration set forth in Section 2.8. In no event shall the holder of any such surrendered certificate be entitled to receive interest on the Cash Merger Consideration set forth in Section 2.8.

(c) If the Cash Merger Consideration (or any portion thereof) is to be delivered to a person other than the person in whose name the certificates surrendered in exchange therefor are registered, it shall be a condition to the payment of the Cash Merger Consideration that the certificates so surrendered shall be properly endorsed and otherwise in proper form for transfer, that such transfer otherwise be proper and that the person requesting such transfer pay to the Disbursing Agent any transfer or other taxes payable by reason of the foregoing or establish to the satisfaction of the Disbursing Agent that such taxes have been paid or are not required to be paid.

(d) Cash payments made pursuant to Section 2.8 for Options and SARs shall be made by the Company at or prior to the Effective Time.

(e) From and after the Effective Time, the stock transfer books of the Company in place prior to the Effective Time shall be closed, and thereafter there shall be no transfers on such books (other than transfers by, to or for the Company or CCP II) of the Shares, 1976 Series Preferred Shares or 1987 Series Preferred Shares which were outstanding immediately prior to the Effective Time. If, after the Effective Time, certificates are presented to the Surviving Corporation, they shall be canceled and exchanged for the Cash Merger Consideration as provided in Section 2.8.

2.14 Closing. The Closing shall (unless the parties hereto otherwise agree) take place on the Closing Date at the offices of Skadden, Arps, Slate, Meagher & Flom in Chicago, Illinois at 10:00
a.m. or such other date and time as the Company and CCP II shall mutually agree.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to CCP II and CCP II Acquisition as follows:

3.1 Organization of the Company and its Subsidiaries. Each of the Company and its Subsidiaries is a corporation duly organized, validly existing, and in good standing under the laws of its respective jurisdiction of organization and the Company has the requisite corporate power and authority to enter into this Agreement and to perform its obligations under this Agreement (other than, with respect to the Merger, the approval and adoption of this Agreement by the holders of a majority of the voting power of the Shares and Preferred Shares entitled to vote thereon and filing and recordation of the appropriate documents under the Delaware Code). Each of the Company and its Subsidiaries is duly licensed, qualified, or admitted to do business and is in good standing in all jurisdictions in which the failure to be so licensed, qualified, or admitted and in good standing, individually or in the aggregate with other such failures, has or would reasonably be expected to have a material adverse effect on the validity or enforceability of this Agreement, on the ability of the Company to perform its obligations under this Agreement, or on the Business or Condition of the Company and its Subsidiaries, taken as a whole. The Company has furnished to CCP II true and complete copies of the articles or certificate of incorporation or organization and the by-laws of each of the Company and its Significant Subsidiaries, in each case including all amendments thereto. After the date hereof, the Company shall furnish to CCP II true and complete copies of the articles or certificate of incorporation or organization and the by-laws of each other Subsidiary of the Company.

3.2 Authority of the Company. The Board of Directors of the Company has duly and validly approved this Agreement and the transactions contemplated hereby. The execution and delivery of this Agreement by the Company and the performance by the Company of its obligations under this Agreement have been duly and validly authorized by all necessary corporate action on the part of the Company (other than, with respect to the Merger, the approval and adoption of this Agreement by the holders of a majority of the voting power of the Shares and Preferred Shares entitled to vote thereon and filing and recordation of the appropriate documents under the Delaware Code). Assuming the due authorization, execution and delivery by CCP II and CCP II Acquisition of this Agreement, this Agreement constitutes a valid and binding obligation of the Company and is enforceable against the Company in accordance with its terms, except to the extent that (a) enforcement may be limited by or subject to any bankruptcy, insolvency, reorganization, moratorium, or similar Laws now or hereafter in effect relating to or limiting creditors' rights generally and (b) the remedy of specific performance and injunctive and other forms of equitable relief are subject to certain equitable defenses and to the discretion of the court or other similar entity before which any proceeding therefor may be brought.

3.3 Capital Stock. The authorized capital stock of the Company consists of 35,000,000 shares of Common Stock par value $1.00 per share (the "Shares"), and 5,000,000 shares of Series Preferred Stock $1 par (the "Preferred Shares"). As of March 31, 1994, (i) 13,399,727 Shares, 195,000 1976 Series Preferred Shares, 77,130.267 1987 Series Preferred Shares, 126,000 shares of 1988 Series I Preferred Stock $1 Par ("1988 Series I Preferred Shares"), and 17,640 shares of 1988 Series II Preferred Stock $1 Par ("1988 Series II Preferred Shares") were issued and outstanding (excluding Shares held in treasury or by any Subsidiary), (ii) 612,873 Shares were held by the Company in its treasury, (iii) 927,299 Shares were held by Vulcan Life Insurance Company, an indirect majority-owned Subsidiary of the Company, (iv) 22,869.733 1987 Series Preferred Shares were held by the Company in its treasury (v) 625,768.95 Shares were reserved for conversion of the 1976 Series Preferred Shares, (v) 1,058,335.24561 Shares were reserved for conversion of the 1987 Series II Preferred Shares, (vii) 1,728,896.4 Shares were reserved for conversion of the 1988 Series I Preferred Shares,
(vii) 242,045.496 Shares were reserved for conversion of the 1988 Series II Preferred Shares, and (ix) 4,528,125 Shares were reserved for conversion of the Convertible Debentures. All outstanding Shares and Preferred Shares are duly authorized, validly issued, fully paid and nonassessable, and no class of capital stock of the Company is entitled to preemptive rights. Except as disclosed in
Section 3.9 of the Disclosure Schedule, there are outstanding on the date hereof no options, warrants or other rights, agreements, arrangements or commitments of any character relating to the issued or unissued capital stock of the Company or any of its Subsidiaries to issue or sell any shares of capital stock of, or other equity interests in, the Company or any of its Subsidiaries other than (i) the right to convert Preferred Shares into Shares and the Convertible Debentures into Shares, and (ii) Options representing in the aggregate the right to purchase up to 1,015,553 Shares and SARs with respect to 234,694 Shares. Except as disclosed in the Filed SEC Documents or in Section 3.3 of the Disclosure Schedule, all outstanding shares of capital stock of the Company's Subsidiaries are duly authorized, validly issued, fully paid and nonassessable and owned by the Company or another Subsidiary, and each such share owned by the Company or by another Subsidiary is owned free and clear of all Liens.

3.4 Subsidiaries. Except as disclosed in Section 3.4 of the Disclosure Schedule, the Company has no subsidiaries and does not Control any other Person.

3.5 Conflicts or Violations. Except as disclosed in Section 3.5 of the Disclosure Schedule, the execution and delivery of this Agreement by the Company does not, and the performance by the Company of its obligations under this Agreement will not:

(a) subject to obtaining the approvals contemplated by Sections 5.1 and 5.2 and Sections 6.1 and 6.2 hereof, violate any term or provision of any Law or any writ, judgment, decree, injunction, or similar order applicable to the Company or any of its Subsidiaries except for such violations as would not individually or in the aggregate be reasonably likely to have a material adverse effect on the ability of the Company to perform its obligations under this Agreement or have a material adverse effect on the Business or Condition of the Company and its Subsidiaries, taken as a whole;

(b) conflict with or result in a violation or breach of any of the terms, conditions or provisions of the articles or certificate of incorporation or by-laws of the Company or any of its Subsidiaries;

(c) result in the creation or imposition of any Lien upon the Company or any of its Subsidiaries, or any of their respective Assets and Properties under any Contract to which the Company or any of its Subsidiaries is bound or any of their Assets and Properties are bound or affected, that individually or in the aggregate has or would reasonably be expected to have a material adverse effect on the validity or enforceability of this Agreement, on the ability of the Company to perform its obligations under this Agreement, or on the Business or Condition of the Company and its Subsidiaries, taken as a whole;

(d) conflict with or result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default under, or give to any Person any right of termination, cancellation, acceleration, or modification in or with respect to, any Contract to which the Company or any of its Subsidiaries is a party or by which any of their respective Assets or Properties may be bound and as to which any such conflicts, violations, breaches, defaults, or rights individually or in the aggregate have or would reasonably be expected to have a material adverse effect on the validity or enforceability of this Agreement, on the ability of the Company to perform its obligations under this Agreement, or on the Business or Condition of the Company and its Subsidiaries taken, as a whole; or

(e) require the Company or any of its Subsidiaries to obtain any consent, approval, or action of, or make any filing with or give any notice to, any Person except
(i) as contemplated in Section 5.1 or 5.2 and 6.1 or 6.2 hereof, (ii) as disclosed in Section 3.5 of the Disclosure Schedule, or (iii) those which the failure to obtain, make, or give individually or in the aggregate with any other such failures has or would reasonably be expected to have no material adverse effect on the validity or enforceability of this Agreement, on the ability of the Company to perform its obligations under this Agreement, or on the Business or Condition of the Company and its Subsidiaries, taken as a whole.

3.6 SAP Statements. The Company has previously delivered to CCP II true and complete copies of the Annual Statements for each Insurance Subsidiary for each of the years ended December 31, 1991, 1992 and 1993.

Each such SAP Statement was timely filed with the insurance regulatory authorities as required under applicable insurance laws, rules and regulations. Each such SAP Statement complied in all material respects with all applicable insurance laws, rules and regulations when filed. Except as disclosed in Section 3.6 of the Disclosure Schedule, each such SAP Statement, including without limitation each balance sheet and each of the statements of operations, changes in capital and surplus, and cash flows contained in the respective SAP Statement, was prepared in accordance with SAP and fairly presents in all material respects the admitted assets, liabilities, and capital and surplus of each Insurance Subsidiary as of the respective dates thereof and their respective results of operations and cash flows for the respective periods covered thereby.

3.7 Reserves. All material reserves and other material liabilities with respect to insurance and annuities and for claims and benefits incurred but not reported, as established or reflected in the respective SAP Statements of each Insurance Subsidiary, were determined in accordance with GAAS consistently applied, are fairly stated in all material respects in accordance with sound actuarial principles, are based on actuarial assumptions that are in accordance in all material respects with those called for by the provisions of the related insurance and annuity contracts and in the related reinsurance, coinsurance and other similar contracts, and meet the requirements in all material respects of the insurance laws, rules and regulations of the respective states in which they are domiciled. Adequate provision for all such reserves and liabilities has been made in all material respects (under GAAS consistently applied) to cover the total amount of all reasonably anticipated matured and unmatured benefits, dividends, claims and other liabilities of each Insurance Subsidiary under all insurance and annuity contracts under which any Insurance Subsidiary has any liability (including without limitation any liability arising under or as a result of any reinsurance, coinsurance or other similar Contract) on the respective dates of each such SAP Statement based on then current information and assumptions regarding investment income, mortality and morbidity experience, persistency and expenses. Each Insurance Subsidiary owns assets that qualify as legal reserve assets under applicable insurance laws, rules and regulations of their respective state of domicile in an amount at least equal to all such material reserves and liabilities.

3.8 SEC Documents; No Undisclosed Liabilities. The Company has filed all SEC Documents since January 1, 1991. As of their respective dates, the SEC Documents, as amended, complied in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to such SEC Documents, and none of the SEC Documents, as of its respective date, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the SEC Documents have been prepared in accordance with GAAP applied on a consistent basis (except as may be indicated in the notes thereto) and fairly present the consolidated financial position of the Company and its consolidated Subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end adjustments). Except as set forth in the Filed SEC Documents or in Section 3.8 of the Disclosure Schedule, and except for liabilities and obligations incurred in the ordinary course of business consistent with past practice since the date of the most recent audited consolidated balance sheet included in the Filed SEC Documents, neither the Company nor any of its Subsidiaries has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) required by GAAP to be recognized or disclosed on a consolidated balance sheet of the Company and its consolidated Subsidiaries or in the notes thereto which would individually or in the aggregate have a material adverse effect on the Business or Condition of the Company and its Subsidiaries, taken as a whole.

3.9 Absence of Changes. Except as disclosed in the Filed SEC Documents or in Section 3.9 of the Disclosure Schedule, since the date of the most recent audited financial statements included in the Filed SEC Documents or except for changes or developments which occur as a result of actions taken by the Company in conducting the business of the Company and its Subsidiaries after the date of this Agreement which are taken in accordance with this Agreement, (i) there has not occurred any material adverse change in the Business or Condition of the Company and its Subsidiaries, taken as a whole,
(ii) the Company and each Significant Subsidiary has operated only in the ordinary course of business and consistent with past practice, and
(iii) (without limiting the generality of the foregoing) there has not been, occurred or arisen:

(a) any declaration, setting aside, or payment of any dividend or other distribution in respect of the capital stock of the Company or any of its Subsidiaries or any direct or indirect redemption, purchase or other acquisition by the Company or any of its Subsidiaries of any such stock or of any interest in or right to acquire any such stock;

(b) any increase in the salary, wages, or other compensation of any kind, whether current or deferred, of any Employee of the Company or any Subsidiary, other than increases that were made in the ordinary course of business and consistent with past practice or as required by applicable employment agreements or Benefit Plans or applicable Law; or any creation of any Benefit Plan or any amendment or modification to increase the level of benefits under any Benefit Plan; or any election by or on behalf of the Company or any Subsidiary made pursuant to the provisions of any Benefit Plan to accelerate any payments, obligations or vesting schedules under any Benefit Plan;

(c) any material work stoppage, strike, labor difficulty or union organizational campaign (in process or, to the Knowledge of the Company, threatened) at or affecting the Company or any Significant Subsidiary;

(d) any change in accounting practice or policy followed by the Company or any Subsidiary other than as required by a change in GAAP or SAP;

(e) any amendment to the articles or certificate of incorporation or by-laws of the Company or any Subsidiary;

(f) any material expenditure or commitment for additions to property, plant, equipment or other tangible or intangible capital assets of the Company or any Subsidiary;

(g) any issuance of Options, Preferred Shares or SARs; or

(h) any Contract to take any of the actions described in this Section 3.9 other than actions expressly permitted under this Section 3.9.

3.10 Taxes. Except as disclosed in the Filed SEC Documents or in Section 3.10 of the Disclosure Schedule (with paragraph references corresponding to those set forth below):

(a) All material Tax Returns required to be filed with respect to the Company and the Subsidiaries have been duly and timely filed, and all such Tax Returns are true and complete in all material respects. The Company and each of the Subsidiaries have duly and timely paid all Taxes that are shown as due, or claimed or asserted by any taxing authority to be due, from it for the periods covered by such Tax Returns and have made all required estimated payments of Taxes sufficient to avoid any penalties for underpayment, or have duly provided for all such Taxes in the financial statements included in the Filed SEC Documents and in the SAP Statements. There are no Liens with respect to Taxes (except for Liens for Taxes not yet due) upon any of the Assets and Properties of the Company or any Subsidiary.

(b) With respect to any period for which Tax Returns have not yet been filed, or for which Taxes are not yet due or owing, the Company and its Insurance Subsidiaries have made sufficient current accruals for such Taxes in accordance with SAP and GAAP, and such current accruals through December 31, 1993 are duly provided for in the financial statements included in the Filed SEC Documents and in the SAP Statements.

(c) The material Tax Returns of the Company and its Subsidiaries have not been audited or examined by the IRS, and the statute of limitations for all periods through 1989 has expired. There are no outstanding agreements, waivers or arrangements extending the statutory period of limitation applicable to any claim for, or the period for the collection or assessment of, Taxes due from the Company or any Subsidiary for any taxable period. The Company has previously delivered to CCP II true and complete copies of each of the United States federal, state, local and foreign income Tax Returns, for each of the last three taxable years, filed by the Company or any Subsidiary.

(d) No audit or other proceeding by any court, governmental or regulatory authority, or similar entity is pending or, to the Knowledge of Company, threatened with respect to any material Taxes due from the Company or any Subsidiary or any material Tax Return filed by or relating to the Company or any Subsidiary. To the Knowledge of Company, no assessment of Tax is proposed or, based on existing facts and circumstances, is threatened against the Company or any Subsidiary or any of their respective Assets and Properties.

(e) No election under any of Section 108, 338, or 4977 of the Code (or any predecessor provisions) has been made or filed by or with respect to the Company or any Subsidiary or any of their Assets and Properties. No consent to the application of Section 341(f)(2) of the Code (or any predecessor provision) has been made or filed by or with respect to the Company or any Subsidiary or any of their Assets and Properties.

(f) Neither the Company nor any Subsidiary has agreed to or is required to make any adjustment pursuant to Section 481(a) of the Code (or any predecessor provision) by reason of any change in any accounting method or has any application pending with any taxing authority requesting permission for any changes in any accounting method of any of them, and the IRS has not proposed any such adjustment or change in accounting method.

(g) Neither the Company nor any Subsidiary has been or is in violation (or with notice or lapse of time or both, would be in violation) of any applicable Law relating to the payment or withholding of any material Taxes. The Company and its Subsidiaries have duly and timely withheld from employee salaries, wages and other compensation and paid over to the appropriate taxing authorities all material amounts required to be so withheld and paid over for all periods under all applicable Laws based upon information provided by such employees to the Company and its Subsidiaries.

3.11 Litigation. Except as disclosed in the Filed SEC Documents or in Section 3.11 of the Disclosure Schedule, there are no actions, suits, investigations or proceedings pending or, to the Knowledge of Company, threatened that individually or in the aggregate have or would reasonably be expected to have a material adverse effect on the validity or enforceability of this Agreement, on the ability of the Company to perform its obligations under this Agreement or on the Business or Condition of the Company and its Subsidiaries, taken as a whole. There are no writs, judgments, decrees or similar orders of any court, regulator, arbitrator or governmental or administrative body outstanding against the Company or its Subsidiaries that individually or in the aggregate have or would reasonably be expected to have a material adverse effect on the Business or Condition of the Company and its Subsidiaries, taken as a whole, and there are no injunctions or similar orders of any court, regulator, arbitrator or governmental or administrative body outstanding against the Company or its Subsidiaries which individually or in the aggregate have or would be reasonably likely to have a material adverse effect on the Business or Condition of the Company and its Subsidiaries, taken as a whole.

3.12 Compliance With Laws. Except as disclosed in the Filed SEC Documents, neither the Company nor any Subsidiary is in violation of any term or provision of any Law or any writ, judgment, decree, injunction or similar order applicable to any of them or any of their respective Assets and Properties which violations, individually or in the aggregate, have or would reasonably be expected to have a material adverse effect on the Business or Condition of the Company and its Subsidiaries, taken as a whole.

3.13 Benefit Plans, ERISA.

(a) No Employee Pension Benefit Plan or Employee Welfare Benefit Plan constitutes a "multiemployer plan", as defined in Section 3(37) of ERISA (a "Multiemployer Plan").

(b) No "accumulated funding deficiency", as defined in Section 412 of the Code, has been incurred with respect to any Employee Pension Benefit Plan subject to Title IV of ERISA, whether or not waived.

(c) To the Knowledge of the Company, there exists no "reportable event", within the meaning of Section 4043 of ERISA, with respect to any Employee Pension Benefit Plan subject to Title IV of ERISA which will have a material adverse effect on the Business or Condition of the Company and its Subsidiaries, taken as a whole.

(d) Neither the Company nor any of its affiliates has incurred any liability under Title IV of ERISA arising in connection with the termination of any Employee Pension Benefit Plan subject to Title IV of ERISA or complete or partial withdrawal from any Multiemployer Plan which could have a material adverse effect on the Business or Condition of the Company and its Subsidiaries, taken as a whole. For purposes of this Section 3.13, "affiliate" of any Person means any other Person which, together with such Person, would be treated as a single employer under Section 414 of the Code.

(e) To the Knowledge of the Company, no transaction or holding of any asset under or in connection with any Employee Pension Benefit Plan or Employee Welfare Benefit Plan has or will make the Company or any Subsidiary, any officer or director of the Company or any Subsidiary subject to any liability under Title I of ERISA or liable for any tax pursuant to Section 4975 of the Code which could have a material adverse effect on the Business or Condition of the Company and its Subsidiaries, taken as a whole.

(f) Except as disclosed in Section 3.13(f) of the Disclosure Schedule, the Company has received a determination letter from the IRS with respect to each Employee Pension Benefit Plan intended to qualify under
Section 401(a) of the Code and, to the Knowledge of the Company, no event has occurred since the date of such letter that would jeopardize the qualified status of such plan.

3.14 Properties. Except as disclosed in the Filed SEC Documents:

(a) each of the Company and its Subsidiaries has good and valid title, or valid leasehold rights in the case of leased property, to all real property and all material personal property owned or leased by it, free and clear of all Liens except Liens which, when viewed in the aggregate, are not material to the Business or Condition of the Company and its Subsidiaries, taken as a whole.

(b) the Company and each of its Subsidiaries owns or has adequate rights to use (i) all marks, names, trademarks, service marks, patents, patent rights, assumed names, logos, trade secrets, copyrights, trade names, and service marks that are used in and material to the conduct of its business, operations, or affairs, and
(ii) all computer software, programs, and similar systems that are used in and material to the conduct of its business, operations, or affairs. To the Knowledge of the Company, neither the Company nor any Subsidiary is in conflict with or in violation or infringement of, nor has the Company or any Subsidiary received any notice of any conflict with or violation or infringement of or any claimed conflict with any asserted rights of any other Person with respect to any intellectual property or any computer software, programs, or similar systems used by them in the conduct of their business, operations or affairs which conflicts, violations or infringements, individually or in the aggregate, have or would be reasonably expected to have a material adverse effect on the Business or Condition of the Company and its Subsidiaries, taken as a whole.

3.15 Contracts. Except as disclosed in Section 3.15 of the Disclosure Schedule, neither the Company nor any of the Subsidiaries has violated, breached or defaulted under any Contract or, with or without notice or lapse of time or both, would be in

violation or breach of or default under any Contract, except for breaches, violations or defaults which, individually or in the aggregate do not have or would not reasonably be expected to have a material adverse effect on the Business or Condition of the Company and its Subsidiaries, taken as a whole. Except as disclosed in the Filed SEC Documents or in Section 3.15 of the Disclosure Schedule, neither the Company nor any of the Subsidiaries is a party to or bound by any Contract that was not entered into in the ordinary course of business and consistent with past practice and the performance of which by the Company or any of the Subsidiaries or the failure to perform by the other party has or would reasonably be expected to have, individually or in the aggregate with the performance of or failure to perform pursuant to any other such Contracts, a material adverse effect on the Business or Condition of the Company and its Subsidiaries, taken as a whole. Neither the Company nor any of the Subsidiaries is a party to or bound by any collective bargaining or similar labor Contract.

3.16 Insurance Issued by Insurance Subsidiaries. Except as disclosed in the Filed SEC Documents:

(a) No outstanding insurance or annuity Contract issued, reinsured, or underwritten by any Insurance Subsidiary entitles the holder thereof or any other Person to receive dividends, distributions, or other benefits based on the revenues or earnings of such Insurance Subsidiary or any other Person.

(b) The underwriting standards utilized and ratings applied by each Insurance Subsidiary and, to the Knowledge of Company, by any other Person that is a party to or bound by any reinsurance, coinsurance, or other similar Contract with each Insurance Subsidiary conform in all material respects to the standards and ratings required pursuant to the terms of the applicable reinsurance, coinsurance, or other similar Contracts, if any.

(c) To the Knowledge of the Company, no party to any material reinsurance, coinsurance, or other similar Contracts with any Insurance Subsidiary is so impaired as to materially and adversely affect its ability to perform its obligations under such Contract.

3.17 Licenses and Permits. Except as disclosed in the Filed SEC Documents, the Company and each Subsidiary owns or validly holds all licenses, franchises, permits, approvals, authorizations, exemptions, classifications, certificates, registrations, and similar documents or instruments that are legally required for its business, operation, and affairs ("Licenses"); and all such Licenses are valid, binding, and in full force and effect except where the failure to own or validly hold any such License or for such License to be valid, binding and in full force and effect, individually or in the aggregate, has not had or would not reasonably be expected to have a material adverse effect on the Business or Condition of the Company and its Subsidiaries, taken as a whole.

3.18 Actuarial Report. The Company has delivered to CCP II a true and complete copy of any actuarial reports prepared by independent actuaries with respect to any of the Company's Insurance Subsidiaries during the 12 month period ended April 15, 1994, and all attachments, addenda, supplements and modifications thereto (the "Actuarial Analyses"). To the Knowledge of the Company, at the time delivered, the policy information and experience data furnished by the Company to its independent actuaries in connection with the preparation of the Actuarial Analyses were accurate in all material respects.

3.19 Opinion of Financial Adviser. The Company has provided CCP II with a signed copy of the opinion of Bear, Stearns & Co. Inc., dated on or prior to the date of this Agreement, received by the Company's Board of Directors in connection with the Merger.

3.20 Brokers. Except with respect to Kemper Securities, Inc. and Bear, Stearns & Co. Inc., all negotiations relative to this Agreement and the transactions contemplated hereby have been carried out by the Company directly with CCP II, without the intervention of any Person on behalf of the Company in such manner as to give rise to any valid claim by any Person against CCP II, the Company or any Subsidiary for a finder's fee, brokerage commission, or similar payment.

3.21 Proxy Statement. The Proxy Statement (other than the portions thereof containing information supplied for inclusion therein by CCP II, CCP II Acquisition or their representatives), at the time of filing with the SEC and of mailing to shareholders (a) will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading and (b) will comply in all material respects with the applicable rules and regulations prescribed by the SEC. The letter to shareholders, notice of meeting, proxy, form of proxy, or the information statement, as the case may be, to be distributed to shareholders in connection with the Merger, or any schedule required to be filed with the SEC and any other applicable regulatory authority in connection therewith are collectively referred to herein as the "Proxy Statement."

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF CCP II AND CCP II ACQUISITION

CCP II and CCP II Acquisition hereby represent and warrant to the Company as follows:

4.1 Organization of CCP II and CCP II Acquisition. Each of CCP II and CCP II Acquisition is duly organized, validly existing, and in good standing under the laws of its respective jurisdiction of organization and has the requisite power and authority to enter into this Agreement and to perform its obligations under this Agreement. Each of CCP II and CCP II Acquisition is duly licensed, qualified, or admitted to do business in all jurisdictions in which the failure to be so licensed, qualified, or admitted and is in good standing, individually or in the aggregate with other such failures, has or would reasonably be expected to have a material adverse effect on the validity or enforceability of this Agreement, on the ability of CCP II or CCP II Acquisition to perform its obligations under this Agreement or on the Business or Condition of CCP II or CCP II Acquisition.

4.2 Authority of CCP II and CCP II Acquisition. The Board of Directors of CCP II Acquisition and CPMI have duly and validly approved this Agreement and the transactions contemplated hereby. The execution and delivery of this Agreement by CCP II and CCP II Acquisition and the performance by each of CCP II and CCP II Acquisition of its obligations under this Agreement have been duly and validly authorized by all necessary partnership or corporate action on the part of CCP II and CCP II Acquisition, respectively. Assuming the due authorization, execution and delivery by the Company of this Agreement, this Agreement constitutes a valid, and binding obligation of CCP II and CCP II Acquisition and is enforceable against CCP II and CCP II Acquisition in accordance with its terms, except to the extent that (a) enforcement may be limited by or subject to any bankruptcy, insolvency, reorganization, moratorium, or similar Laws now or hereafter in effect relating to or limiting creditors' rights generally and (b) the remedy of specific performance and injunctive and other forms of equitable relief are subject to certain equitable defenses and to the discretion of the court or other similar entity before which any proceeding therefor may be brought.

4.3 Conflicts or Violations. The execution and delivery of this Agreement by CCP II and CCP II Acquisition do not, and the performance by CCP II and CCP II Acquisition of their respective obligations under this Agreement will not:

(a) subject to obtaining the approvals contemplated by Sections 5.1 and 5.2 and 6.1 and 6.2 hereof, violate any term or provision of any Law or any writ, judgment, decree, injunction, or similar order applicable to CCP II or CCP II Acquisition except for such violations as would not, individually or in the aggregate, be reasonably likely to have a material adverse effect on the ability of CCP II or CCP II Acquisition to perform their respective obligations under this Agreement or have a material adverse effect on the Business or Condition of CCP II or CCP II Acquisition;

(b) conflict with or result in a violation or breach of any of the terms, conditions, or provisions of the Agreement of Limited Partnership of CCP II or the certificate of incorporation of CCP II Acquisition;

(c) result in the creation or imposition of any Lien upon CCP II or CCP II Acquisition or any of their respective Assets and Properties under any Contract to which CCP II or CCP II Acquisition is bound or any of their Assets and Properties are bound or affected, that individually or in the aggregate has or would reasonably be expected to have a material adverse effect on the validity or enforceability of this Agreement, on the ability of CCP II or CCP II Acquisition to perform its obligations under this Agreement or on the Business or Condition of CCP II or CCP II Acquisition;

(d) conflict with or result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default under, or give to any Person any right of termination, cancellation, acceleration, or modification in or with respect to, any Contract to which CCP II or CCP II Acquisition is a party or by which any of their respective Assets and Properties may be bound and as to which any such conflicts, violations, breaches, defaults, or rights individually or in the aggregate have or would reasonably be expected to have a material adverse effect on the validity or enforceability of this Agreement, on the ability of CCP II or CCP II Acquisition to perform its obligations under this Agreement or on the Business or Condition of CCP II or CCP II Acquisition; or

(e) require CCP II or CCP II Acquisition to obtain any consent, approval, or action of, or make any filing with or give any notice to, any Person except (i) as contemplated in Section 6.1 or 6.2 hereof, (ii) or those which the failure to obtain, make, or give individually or in the aggregate with other such failures has or would reasonably be expected to have no material adverse effect on the validity or enforceability of this Agreement, on the ability of CCP II or CCP II Acquisition to perform its obligations under this Agreement or on the Business or Condition of CCP II or CCP II Acquisition.

4.4 Litigation. There are no actions, suits, investigations, or proceedings pending against CCP II or CCP II Acquisition, or, to the Knowledge of CCP II, threatened, that individually or in the aggregate have or would reasonably be expected to have a material adverse effect on the validity or enforceability of this Agreement, on the ability of CCP II or CCP II Acquisition to perform its obligations under this Agreement or on the Business or Condition of CCP II or CCP II Acquisition.

4.5 Financing. CCP II has or will have available on the Closing Date cash in an amount sufficient to consummate the Merger as contemplated hereby.

4.6 No Regulatory Disqualifiers. To the Knowledge of CCP II, no event has occurred or condition exists or, to the extent it is within the control of CCP II, will occur or exist with respect to CCP II that, in connection with the Merger would cause CCP II or CCP II Acquisition to fail to satisfy on its face any applicable statute or written regulation of any applicable insurance regulatory authority.

4.7 Brokers. All negotiations relative to this Agreement and the transactions contemplated hereby have been carried out by CCP II directly with the Company, without the intervention of any Person on behalf of CCP II in such manner as to give rise to any valid claim by any Person against the Company or any of the Subsidiaries for a finder's fee, brokerage commission, or similar payment.

4.8 Proxy Statement. None of the information supplied by CCP II, CCP II Acquisition or their representatives for inclusion in the Proxy Statement will, at the time of filing with the SEC and of mailing to the shareholders of the Company, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

ARTICLE V

COVENANTS OF THE COMPANY

The Company covenants and agrees with CCP II that, at all times before the Closing, the Company will comply, and will cause its Subsidiaries to comply, with all covenants and provisions of this Article V, except to the extent CCP II may otherwise consent in writing.

5.1 Regulatory and Other Approvals. Subject to the terms and conditions herein provided, the Company will, and will cause its

Subsidiaries to (a) subject to its fiduciary duties under applicable Law as determined by the Board of Directors in good faith after consultation with and based as to legal matters upon the advice of counsel or as otherwise provided in this Agreement, use reasonable efforts to obtain shareholder approval of this Agreement, (b) take all reasonable steps necessary or desirable, and proceed diligently and in good faith and use all reasonable efforts to obtain all approvals required by any applicable Contract of the Company and its Subsidiaries to consummate the transactions contemplated hereby, (c) take all reasonable steps necessary or desirable, and proceed diligently and in good faith and use all reasonable efforts to obtain all approvals, authorizations, and clearances of governmental and regulatory authorities required of the Company and its Subsidiaries to permit the Company to consummate the transactions contemplated hereby, (d) provide such other information and communications to such governmental and regulatory authorities as CCP II or such authorities may reasonably request, and (e) cooperate with CCP II in obtaining all approvals, authorizations, and clearances of governmental or regulatory authorities and others required of CCP II to consummate the transactions contemplated hereby, including without limitation any required approvals of the regulatory authorities in Alabama and Iowa.

5.2 HSR Filings. The Company will (a) take promptly all actions necessary to make the filings required of the Company under the HSR Act, (b) comply at the earliest practicable date with any request for additional information received by the Company from the Federal Trade Commission or Antitrust Division of the Department of Justice pursuant to the HSR Act, (c) cooperate with CCP II in connection with CCP II's filings under the HSR Act, and (d) request early termination of the applicable waiting period.

5.3 Investigation by CCP II. Subject to any currently existing contractual and legal restrictions applicable to the Company, the Company will provide, and will cause its Subsidiaries to provide CCP II, its lenders, and their respective counsel, accountants, actuaries, and other representatives (collectively "Representatives") with reasonable access, upon reasonable notice and during normal business hours, to all facilities, officers, employees, accountants, actuaries, Assets and Properties, and Books and Records of the Company and its Subsidiaries and will furnish CCP II and such Representatives during such period with all such information and data (including without limitation copies of Contracts, Benefit Plans, and other Books and Records) concerning the business, operations, and affairs of the Company and its Subsidiaries as CCP II or any Representatives reasonably may request.

5.4 No Negotiations, etc. (a) Subject to Subsection 5.4(b) below, the Company will not, and will not permit any Subsidiary and will use their reasonable best efforts to cause their respective officers, directors, employees and agents retained by the Company

and its Subsidiaries not to (i) take, directly or indirectly, any action, except as permitted or required by this Agreement, to seek or encourage any offer or proposal from any Person relating to any acquisition, business combination or purchase of all or any significant portion of the Assets and Properties of (other than with respect to sales of investments in the ordinary course of business) or any direct or indirect equity interest in the Company or any of its Subsidiaries (a "Transaction"), or (ii) furnish or cause to be furnished any non-public information with respect to the Company or any Subsidiary to any Person relating to or concerning a Transaction. If the Company receives from any Person (other than CCP II or CCP II Acquisition) any bona fide offer, proposal, or informational request that it believes is subject to this Section 5.4, the Company will promptly deliver a copy, if such offer, proposal or request is in writing, or a summary of material terms, if such offer, proposal or request is oral, to CCP II.

(b) In the event that, notwithstanding the compliance by the Company with subsection (a) above, an unsolicited offer, proposal or request for information relating to any merger, sale of assets, sale of shares of capital stock of the Company or any Subsidiary (an "Acquisition Proposal") from a Person other than CCP II is received by the Company while this Agreement remains in effect, the Company may directly or indirectly, furnish information and access to such Person and may participate in negotiations with such Person concerning the Acquisition Proposal if the Board of Directors determines in good faith after consultation with and based, as to legal matters, upon the advice of counsel, that failing to take such action would be a breach of its fiduciary duties under applicable law. If the Board of Directors determines in good faith after consultation with and based, as to legal matters, upon the advice of counsel that it would breach its fiduciary duties to the stockholders of the Company by not accepting such Acquisition Proposal and entering into a definitive agreement pursuant thereto, or modifying or withdrawing its recommendation of the Merger, then the Company may cancel and terminate this Agreement by delivering a written notice of such cancellation to CCP II, together with copies of the pertinent Acquisition Proposal, and paying or causing to be paid to CCP II, as liquidated damages and not as a penalty, the sum of $7,500,000, in immediately available funds, such payment to accompany the written notice delivered to CCP II.

5.5 Conduct of Business. The Company will and will cause its Subsidiaries to conduct their business only in the ordinary course and consistent with past practice, except as otherwise provided in this Agreement or except as may be consented to in writing by CCP II. Without limiting the generality of the foregoing, the Company will or will cause its Subsidiaries to:

(a) use all reasonable efforts to (i) preserve intact its present business organization, reputation, and policyholder or customer relations (ii) keep available

the services of its present key officers, directors, employees, agents, consultants, and other similar representatives, (iii) maintain all licenses, qualifications, and authorizations to do business in each jurisdiction in which it is so licensed, qualified, or authorized, (iv) maintain in full force and effect all Contracts, documents, and arrangements disclosed in the Filed SEC Documents which are materially beneficial to the Company, (v) maintain all of its Assets and Properties in good working order and condition, ordinary wear and tear excepted, (vi) continue all current marketing and selling activities relating to its business, operations, or affairs in accordance with its current marketing plan, and (vii) with respect to each Insurance Subsidiary, maintain the rating classification, or its equivalent, assigned as of the date hereof to it by A. M. Best Company, Inc.

(b) not permit a material change in any applicable underwriting, investment, actuarial, financial reporting, accounting practice or policy or reserving method of the Company or any Significant Subsidiary or in any assumption underlying such a practice or policy, or in any method of calculating any bad debt, contingency, or other reserve for financial reporting purposes or for other accounting purposes (including without limitation any practice, policy, assumption, or method relating to or affecting the determination of insurance or annuities in force, premium or investment income, reserve liabilities, or operating ratios with respect to expenses, losses, or lapses), except as may be required to conform with changes in SAP, GAAS or GAAP or as otherwise required by Law.

(c) use all reasonable efforts to maintain in full force and effect until the Closing substantially the same levels of coverage as the insurance afforded under the Contracts existing on the date hereof.

5.6 Financial Statements, Reports and SEC Filings.

(a) As promptly as practicable after each calendar quarter and year ending between the date hereof and the Closing Date, the Company will deliver to CCP II true and complete copies of the following:

(i) the Annual Statement and Quarterly Statement filed by each Insurance Subsidiary for each year and quarter then ended; and

(ii) presentations for American Life and Casualty Insurance Company reflecting, as of the end of each such quarter, the information of the type required by the line items set forth on pages 2, 3, 4, 4A, 5, 8, 9, 12, 12A, and 14 and on Schedules A through DB and S of the December 31, 1993 Annual Statement.

(b) As promptly as practicable after the end of each month prior to the Effective Time, the Company shall furnish to CCP II (i) a production report, (ii) a schedule setting forth the information that would be included in the Schedule D for each Insurance Subsidiary in its Annual Statement and (ii) a general ledger trial balance.

(c) As promptly as practicable between the date hereof and the Closing Date, the Company will deliver to CCP II true and complete copies of any and all filings made by the Company with the SEC.

5.7 Investments. Each of the Company and its Subsidiaries will invest its future cash flow, any cash from matured and maturing investments, any cash proceeds from the sale of its Assets and Properties, and any cash funds currently held by it, exclusively in cash equivalent assets or in short-term investments (consisting of United States government issued or guaranteed securities, or commercial paper rated A-1 or P-1), except (i) as otherwise required by Law, (ii) as required to provide cash (in the ordinary course of business and consistent with past practice) to meet its actual or anticipated obligations or (iii) in accordance with the investment policy of the Company or any Subsidiary in effect on the date hereof.

5.8 Employee Matters.

(a) Except as may be required by Law or in fulfilling its obligations under this Agreement, the Company will refrain, and will cause the Company and any of the Subsidiaries to refrain from, directly or indirectly:

(i) making any representation or promise, oral or written, to any Employee or former director, officer or employee of the Company or any subsidiary which is inconsistent with the terms of any Benefit Plan;

(ii) making any change to, or amending in any way, the Contracts, salaries, wages, or other compensation of any Employee or any agent or consultant of the Company or any subsidiary whose annual compensation exceeds $75,000 other than routine changes or amendments that (a) are made in the ordinary course of business and consistent with past practice, (b) are required under existing Contracts or (c) do not and will not cause a material increase in benefits or compensation expense to the Company;

(iii) adopting, entering into, amending, altering or terminating, partially or completely, any Benefit Plan or any election made pursuant to the provisions of any Benefit Plan, to accelerate any payments, obligations or vesting schedules under any Benefit Plan; or

(iv) approving any general or company- wide pay increases for Employees other than in ordinary course of business consistent with past practice.

5.9 No Charter Amendments. Except as disclosed in Schedule 3.9 of the Disclosure Schedule, the Company will and will cause each of the Subsidiaries to refrain from amending its articles or certificate of incorporation or organization or by-laws and from taking any action with respect to any such amendment.

5.10 No Issuance of Securities. The Company will and will cause each of the Subsidiaries to refrain from authorizing or issuing any shares of its capital stock or other equity securities or entering into any Contract or granting any option, warrant, or right calling for the authorization or issuance of any such shares or other equity securities, or creating or issuing any securities directly or indirectly convertible into or exchangeable for any such shares or other equity securities, or issuing any options, warrants, or rights to purchase any such convertible securities (other than pursuant to the exercise of issued and outstanding Options or SARs or upon conversion of the Convertible Debentures or the Preferred Shares or pursuant to any existing Benefit Plan with an employee stock fund, dividend reinvestment plan or employee stock ownership feature or pursuant to the issuance or exercise of Options granted to the outside directors of the Company in accordance with the 1994 Stock Option Plan of the Company).

5.11 No Dividends. Except for dividends paid on the preferred stock of the Company or its Subsidiaries issued and outstanding on the date hereof, in accordance with the terms of their respective certificates of designation, or as otherwise required to fund the current obligations of the Company or any of the Subsidiaries, the Company will and will cause each of the Subsidiaries to refrain from declaring, setting aside, or paying any dividend or other distribution in respect of its capital stock (not including surplus notes) and from directly or indirectly redeeming, purchasing, or otherwise acquiring any of its capital stock (not including surplus notes) or any interest in or right to acquire any such stock.

5.12 No Disposal of Property. Except as otherwise expressly provided in this Agreement, the Company will and will cause each of the Subsidiaries to refrain from (a) disposing of any of its material Assets and Properties (other than investments disposed of in the ordinary course of business and in compliance with the investment policy of the Company in effect on the date hereof) and from permitting any of its material Assets and Properties to be subjected to any Liens, except to the extent any such disposition or any such Lien is made or incurred in the ordinary course of the business and consistent with past practice, (b) entering into any Contracts obligating it to administer the insurance operations of any other Person and (c) entering into any Contracts permitting any other Person to administer its insurance operations.

5.13 No Breach or Default. The Company will and will cause each of the Subsidiaries to refrain from taking or failing to take any action which would make any of the representations and warranties of the Company contained in this Agreement untrue or incorrect as of the date when made.

5.14 No Indebtedness. The Company will and will cause each of the Subsidiaries to refrain from (i) creating, incurring or assuming any long-term or short-term indebtedness or issuing any debt securities except for borrowings under existing lines of credit in the ordinary course of business consistent with past practice or pursuant to the terms of the Convertible Debentures or
(ii) guaranteeing or otherwise becoming liable for the obligations of any other Person except in the ordinary course of business consistent with past practice and in amounts not material to the Company and its Subsidiaries, taken as a whole.

5.15 No Acquisitions. The Company will and will cause each of the Subsidiaries to refrain from acquiring (a) by merger, consolidation, or otherwise any other Person, or (b) all or substantially all of the Assets and Properties or capital stock or other equity securities of any other Person.

5.16 Resignations of Directors. The Company will cause such members of the Boards of Directors of the Company and its Subsidiaries as are designated by CCP II in writing at least 5 days prior to the Closing Date to tender, effective at the Closing, their resignations from such Boards of Directors.

5.17 Tax Matters. The Company will refrain and will cause each of its Subsidiaries to refrain from making, filing, or entering into (whether before or after the closing) any election, consent, or agreement with respect to any material tax liability of the Company.

5.18 Appraisal Rights. The Company shall not settle or compromise any claim relating to a shareholder's appraisal rights under the Delaware Code prior to the Effective Time.

5.19 The ESOP. The Company shall use its reasonable efforts to obtain, prior to the Effective Time, a determination from the IRS on the qualified status of the ESOP, as amended through December 31, 1993. Furthermore, the Company shall take such steps as may be necessary (including amending the ESOP and its related trust) to cause the Trustee of the ESOP and the Administrative Committee to (i) allocate the aggregate consideration received pursuant to Section 2.8 hereof with respect to shares of the capital stock of the Company (as described in Section 3.3 hereof) that were held in any Participant's (as such term is defined in the ESOP) ESOP account(s) immediately prior to the Effective Time to such Participant's ESOP account(s); (ii) use the aggregate consideration received pursuant to Section 2.8 hereof with respect to shares of the capital stock of the Company (as described in
Section 3.3 hereof) that were held in the Loan Suspense Account (as such term is defined in the ESOP) immediately prior to the Effective Time to pay off the balance of the Acquisition Loan (as such term is defined in the ESOP) and interest owing thereon; (iii) allocate any excess of such aggregate consideration remaining after the Acquisition Loan is paid off solely among all Participants' accounts existing under the ESOP immediately prior to the Effective Time on a pro rata basis in accordance with the provisions of the ESOP regarding the allocation of trust earnings; and (iv) offer each ESOP Participant the opportunity to receive the vested portion of his account balances under the ESOP in a lump sum distribution as soon as practicable after the later of (x) such Participant's termination of employment following the Effective Time or (y) the date the amounts described herein have been allocated; provided, however, that the allocation described in (iii) above is contingent upon the receipt of a favorable determination letter from the IRS providing that such allocation will not adversely affect the qualified status of the ESOP, and provided, further, that if the Company or the Surviving Corporation does not receive such a favorable determination from the IRS, the Company (or if the Effective Time has occurred, the Surviving Corporation) shall take all such actions as may be necessary and appropriate to provide for such allocation without adversely affecting the qualified status of the ESOP, provided further, that if after taking all such actions as may be necessary and appropriate to provide for such allocation, the Company or the Surviving Corporation, as the case may be, is not able to obtain a favorable determination from the IRS providing that such allocation will not adversely affect the qualified status of the ESOP, the Company or the Surviving Corporation, as the case may be, shall take all such actions as may be necessary and appropriate to retain the qualified status of the ESOP. The provisions of this Section 5.19 are intended to be for the benefit of, and shall be enforceable by, each ESOP Participant and each ESOP Participant's heirs and assigns.

5.20 Notice. The Company will notify CCP II promptly in writing of any event, transaction, or circumstance occurring after the date of this Agreement that causes or will likely cause any covenant or agreement of the Company under this Agreement to be breached, or that renders or will likely render untrue any representation or warranty of the Company contained in this Agreement.

ARTICLE VI

COVENANTS OF CCP II AND CCP II ACQUISITION

CCP II and CCP II Acquisition covenant and agree with the Company that, at all times before the Closing, CCP II and CCP II Acquisition will comply with all covenants and provisions of this Article VI, except to the extent the Company may otherwise consent in writing.

6.1 Regulatory and Other Approvals. Subject to the terms and conditions herein provided, CCP II and CCP II Acquisition will (a) take all reasonable steps necessary or desirable, and proceed diligently and in good faith and use all reasonable efforts to obtain, all approvals, authorizations, and clearances of governmental and regulatory authorities required of CCP II and CCP II Acquisition to consummate the transactions contemplated hereby, including without limitation any required approvals of the regulatory authorities in Alabama and Iowa, (b) provide such other information and communications to such governmental and regulatory authorities as the Company or such authorities may reasonably request, and (c) cooperate with the Company and the Subsidiaries in obtaining all approvals, authorizations, and clearances of governmental or regulatory authorities required of the Company and the Subsidiaries to consummate the transactions contemplated hereby.

6.2 HSR Filings. CCP II and CCP II Acquisition will (a) take promptly all actions necessary to make the filings required of CCP II and CCP II Acquisition or their Affiliates under the HSR Act,
(b) comply at the earliest practicable date with any request for additional information received by CCP II and CCP II Acquisition or their Affiliates from the Federal Trade Commission or Antitrust Division of the Department of Justice pursuant to the HSR Act, (c) cooperate with the Company in connection with the Company's filings under the HSR Act, and (d) request early termination of the applicable waiting period.

6.3 Notice. CCP II or CCP II Acquisition will notify the Company promptly in writing of any event, transaction, or circumstance occurring after the date of this Agreement that causes or will likely cause any covenant or agreement of CCP II or CCP II Acquisition under this Agreement to be breached, or that renders or will likely render untrue any representation or warranty of CCP II or CCP II Acquisition contained in this Agreement.

6.4 Indemnification. (a) In the event of any threatened or actual claim, suit, proceeding or investigation, whether civil, criminal or administrative, in which any of the present or former directors, officers or employees or the trustee and the Administrative Committee of the ESOP (the "Indemnified Parties") of the Company or any of its Subsidiaries is, or is threatened to be, made a party by reason of the fact that he or she is or was a director, officer, employee or agent of the Company or any of its Subsidiaries, or is or was serving at the request of the Company or any of its Subsidiaries as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, whether before or after the Effective Time (including, without limitation, the transactions contemplated by this Agreement), the parties hereto agree to cooperate and use their best efforts to defend against and respond thereto. It is understood and agreed that the Surviving Corporation shall indemnify and hold harmless to the fullest extent permitted under applicable law (and shall also advance expenses incurred to the fullest extent permitted under applicable law, provided that the person to whom expenses are advanced provides an undertaking to repay such advances if it is ultimately determined that such person is not entitled to indemnification), each such Indemnified Party against any losses, claims, damages, liabilities, costs, expenses (including attorneys' fees), judgments, fines and amounts paid in settlement in connection with any such claim, action, suit, proceeding or investigation, and in the event of any such claim, action, suit, proceeding or investigation (whether arising before or after the Effective Time), (i) the Indemnified Parties may retain counsel satisfactory to them, and the Surviving Corporation shall pay all fees and expenses of such counsel for the Indemnified Parties promptly as statements therefor are received and (ii) the Surviving Corporation will use its best efforts to assist in the vigorous defense of any such matter; provided that the Surviving Corporation shall not be liable for any settlement effected without its prior written consent (which consent shall not be unreasonably withheld); and provided further that the Surviving Corporation shall have no obligation hereunder to any Indemnified Party when and if a court of competent jurisdiction shall ultimately determine, and such determination shall have become final and non- appealable, that indemnification of such Indemnified Party in the manner contemplated hereby is prohibited by applicable law. Any Indemnified Party wishing to claim indemnification under this Section 6.4(a), upon learning of any such claim, action, suit, proceeding or investigation, shall notify the Surviving Corporation.

(b) CCP II agrees that all rights to indemnification (including with respect to the advancement of expenses) for acts or omissions occurring prior to the Effective Time now existing in favor of the Indemnified Parties as provided in the certificates of incorporation or by-laws of the Company or its Subsidiaries shall survive the Merger and shall continue in full force and effect in accordance with their terms for a period of three years following the Effective Time; provided, however, that all rights to indemnification in respect to any claim ("Claim") asserted or made within such period shall continue until disposition of such Claim.

(c) CCP II will cause to be maintained for a period of not less than three years from the Effective Time of the Merger each of the Company's current directors' and officers' insurance and indemnification policy (the "D&O Insurance") and Pension and Welfare Fund and Fiduciary Responsibility insurance policy ("Fiduciary Insurance") to the extent that they provide coverage for events occurring prior to the Effective Time of the Merger, so long as the annual premium for each such policy would not be in excess of 200% of its last annual premium for each such policy paid prior to the date of this Agreement (the "Maximum Premium"). CCP II may, in lieu of maintaining such current policies as provided above, cause comparable coverage to be provided under another policy or policies so long as the material terms thereof are no less advantageous than the existing D&O Insurance or Fiduciary Insurance, as the case may be. If the existing D&O Insurance or Fiduciary Insurance as the case may be expires, is terminated or canceled during such three-year period, CCP II will use reasonable efforts to cause to be obtained as much D&O Insurance or Fiduciary Insurance, as the case may be, as can be obtained for the remainder of such period for an annualized premium not in excess of the Maximum Premium for each such policy, on terms and conditions no less advantageous than the existing D&O Insurance or Fiduciary Insurance, as the case may be. The Company represents to CCP II that the Maximum Premium for the D&O Insurance is $349,000 and the Maximum Premium for the Fiduciary Insurance is $15,670.

(d) The provisions of this Section 6.4 are intended to be for the benefit of, and shall be enforceable by, each such Indemnified Party and each such Indemnified Party's heirs and representatives.

6.5 Employment Continuation Agreements. (a) CCP II agrees and acknowledges that the consummation of the Merger shall constitute a "Change of Control of the Company" and the Effective Time shall be deemed the "Change Date" under each of the Employment Continuation Agreements set forth in the Filed SEC Documents and agrees that following the consummation of the Merger, it shall, and shall cause the Surviving Corporation to, satisfy and discharge the terms and provisions of the Employment Continuation Agreements, including the obligations resulting from such a Change of Control of the Company.

(b) The provisions of Section 6.5(a) are intended to be for the benefit of, and shall be enforceable by the officers and employees party to such Employment Continuation Agreements and their respective heirs and representatives.

6.6 Guarantee of Performance. CCP II hereby guarantees (i) the performance by CCP II Acquisition of its obligations under this Agreement (ii) the obligations of the Surviving Corporation to make the payments required by Article II hereof, subject to the terms and conditions of this Agreement and (iii) the indemnification obligations of the Surviving Corporation pursuant to Section 6.4.

6.7 The ESOP. CCP II or CCP II Acquisition shall take such steps as may be necessary (including amending the ESOP and its related trust) to cause the Trustee of the ESOP and the Administrative Committee to (i) use the aggregate consideration received pursuant to Section 2.8 hereof with respect to shares of the capital stock of the Company (as described in Section 3.3 hereof) that were held in the Loan Suspense Account (as such term is defined in the ESOP) immediately prior to the Effective Time to pay off the balance of the Acquisition Loan (as such term is defined in the ESOP) and interest owing thereon; (ii) allocate any excess of such aggregate consideration remaining after the Acquisition Loan is paid off solely among all Participants' accounts existing under the ESOP immediately prior to the Effective Time on a pro rata basis in accordance with the provisions of the ESOP regarding the allocation of trust earnings; and (iii) offer each ESOP Participant the opportunity to receive the vested portion of his account balances under the ESOP in a lump sum distribution as soon as practicable after the later of (x) such Participant's termination of employment following the Effective Time or (y) the date the amounts described herein have been allocated; provided, however, that the allocation described in (ii) above is contingent upon the receipt of a favorable determination letter from the IRS providing that such allocation will not adversely affect the qualified status of the ESOP, and provided, further, that if the Surviving Corporation does not receive such a favorable determination from the IRS, the Surviving Corporation, if the Effective Time has occurred, shall take all such actions as may be necessary and appropriate to provide for such allocation without adversely affecting the qualified status of the ESOP, provided further, that if after taking all such actions as may be necessary and appropriate to provide for such allocation, the Surviving Corporation is not able to obtain a favorable determination from the IRS providing that such allocation will not adversely affect the qualified status of the ESOP, the Surviving Corporation shall take all such actions as may be necessary and appropriate to retain the qualified status of the ESOP. The provisions of this Section 6.7 are intended to be for the benefit of, and shall be enforceable by, each ESOP Participant and each ESOP Participant's heirs and assigns.

ARTICLE VII

CONDITIONS TO OBLIGATIONS OF CCP II AND CCP II ACQUISITION

The obligations of CCP II and CCP II Acquisition hereunder are subject to the fulfillment, at or before the Closing, of each of the following conditions (all or any of which may be waived in whole or in part by CCP II and CCP II Acquisition).

7.1 Representations and Warranties. The representations and warranties made by the Company in this Agreement shall be true as of the Closing Date as though such representations, warranties, and statements were made on and as of the Closing Date except to the extent such representations and warranties expressly relate to a date or dates other than the Closing Date; provided, however, that notwithstanding anything to the contrary contained in this Section 7.1, this Section 7.1 shall be deemed to be satisfied even if such representations and warranties are not true and correct unless the failure to be so true and correct would be reasonably likely to have, individually or in the aggregate, a material adverse effect on the Business or Condition of the Company and its Subsidiaries, taken as a whole or on the ability of the Company to perform its obligations under this Agreement.

7.2 Performance. The Company shall have performed and complied with in all material respects all agreements, covenants, obligations, and conditions required by this Agreement to be so performed or complied with by the Company at or before the Closing, including those specifically referred to elsewhere in this Article VII.

7.3 Officer's Certificates. The Company shall have delivered to CCP II and CCP II Acquisition a certificate, dated the Closing Date in form reasonably acceptable to CCP II and CCP II Acquisition and executed by the chief executive officer or chief financial officer of the Company, certifying (with respect to the Company and, as appropriate, the Company and the Subsidiaries) as to the fulfillment of the conditions set forth in Sections 7.1 and 7.2 hereof. In addition, the Company shall have delivered to CCP II a certificate, dated the Closing Date and executed by the secretary or any assistant secretary of the Company, certifying that the Company has duly and validly taken all corporate action necessary to authorize its execution and delivery of this Agreement and its performance of its obligations under this Agreement, and that the resolutions (true and complete copies of which shall be attached to the certificate) of the Board of Directors of the Company with respect to this Agreement and the transactions contemplated hereby have been duly and validly adopted and are in full force and effect.

7.4 HSR Act Approval. All waiting periods applicable to this Agreement and the transactions contemplated hereby under the HSR Act shall have expired or been terminated.

7.5 No Injunction. There shall not be in effect on the Closing Date any writ, judgment, injunction, decree, or similar order of any court or governmental agency of competent jurisdiction restraining, enjoining, or otherwise preventing consummation of any of the transactions contemplated by this Agreement.

7.6 Consents, Authorizations, etc. This Agreement shall have been approved and adopted by the affirmative vote of the holders of a majority of the voting power of the Shares and Preferred Shares entitled to vote thereon in accordance with the Delaware Code and the Company's certificate of incorporation. All orders, consents, permits, authorizations, approvals, and waivers required to be obtained to permit CCP II to perform its obligations under this Agreement and to consummate the transactions contemplated hereby and to permit CCP II Acquisition to acquire the Shares and the Preferred Shares pursuant to this Agreement (including without limitation any requisite action of the regulatory authorities in Alabama and Iowa, in each case without the material abrogation or material diminishment of the authority or license of the Company or any Significant Subsidiary or the imposition of restrictions upon the transactions contemplated hereby) shall have been obtained and shall be in full force and effect except where the failure to obtain or be in full force and effect would not be reasonably likely to have, individually or in the aggregate, a material adverse effect on the abilities of CCP II and CCP II Acquisition to perform their respective obligations hereunder or the Business or Condition of the Surviving Corporation after the Effective Time.

7.7 Appraisal Shares. No more than 20% of the Shares (other than Shares held as treasury shares by the Company or held by any direct or indirect majority-owned subsidiary of the Company) shall have become Appraisal Shares.

ARTICLE VIII

CONDITIONS TO OBLIGATIONS OF COMPANY

The obligations of the Company hereunder are subject to the fulfillment, at or before the Closing, of each of the following conditions (all or any of which may be waived in whole or in part by the Company).

8.1 Representations and Warranties. The representations and warranties made by each of CCP II and CCP II Acquisition in this Agreement shall be true as of the Closing Date as though such representations, warranties, and statements were made on and as of the Closing Date except to the extent such representations and warranties expressly relate to a date or dates other than the Effective Date; provided however, that notwithstanding anything to the contrary contained in this Section 8.1, this Section 8.1 shall be deemed to be satisfied even if such representations and warranties are not true and correct unless the failure to be so true and correct would be reasonably likely, individually or in the aggregate to have a material adverse effect on the ability of CCP II and CCP II Acquisition to perform their respective obligations hereunder.

8.2 Performance. Each of CCP II and CCP II Acquisition shall have performed and complied in all material respects with all agreements, covenants, obligations, and conditions required by this Agreement to be so performed or complied with by them at or before the Closing.

8.3 Officer's Certificates. Each of CPMI and CCP II Acquisition shall have delivered to the Company a certificate, dated the Closing Date in form reasonably acceptable to Company and executed by the chief executive officer or the chief financial officer of CPMI and CCP II Acquisition, respectively, certifying as to the fulfillment of the conditions set forth in Sections 8.1 and 8.2 hereof, as applicable. In addition, each of CPMI and CCP II Acquisition shall have delivered to the Company a certificate, dated the Closing Date and executed by the secretary or any assistant secretary of CPMI and CCP II Acquisition, respectively, certifying that it has duly and validly taken all action necessary to authorize its execution and delivery of this Agreement and its performance of its obligations under this Agreement, that it has duly and validly taken all corporate action necessary to authorize the acquisition of the Shares, and that the resolutions (true and complete copies of which shall be attached to the certificate) of the respective Board of Directors of CPMI and CCP II Acquisition with respect to this Agreement and the transactions contemplated hereby have been duly and validly adopted and are in full force and effect.

8.4 HSR Act Approval. All waiting periods applicable to this Agreement and the transactions contemplated hereby under the HSR Act shall have expired or been terminated.

8.5 No Injunction. There shall not be in effect on the Closing Date any writ, judgment, injunction, decree, or similar order of any court or governmental agency of competent jurisdiction restraining, enjoining, or otherwise preventing consummation of any of the transactions contemplated by this Agreement.

8.6 Consents, Authorizations, etc. This Agreement shall have been approved and adopted by the affirmative vote of the holders of a majority of the voting power of the Shares and the Preferred Shares entitled to vote thereon in accordance with the Delaware Code and the Company's certificate of incorporation. All orders, consents, permits, authorizations, approvals and waivers required to permit the Company to perform its obligations under this Agreement and to consummate the transactions contemplated hereby shall have been obtained and shall be in full force and effect except where failure to obtain or be in full force and effect would not be reasonably likely to have, individually or in the aggregate, a material adverse effect on the Business or Condition of the Company and its Subsidiaries, taken as a whole, or on the Company's ability to perform its obligations under this Agreement.

ARTICLE IX

SURVIVAL OF PROVISIONS

9.1 Survival. The representations and warranties respectively required to be made by the Company, CCP II and CCP II Acquisition in this Agreement, or in any certificate, respectively, delivered by the Company or CCP II pursuant to Section 7.3 or Section 8.3 hereof will not survive the Closing.

ARTICLE X

TERMINATION

10.1 Termination. This Agreement may be terminated, and the transactions contemplated hereby may be abandoned, upon notice by the terminating party to the other party:

(a) pursuant to the provisions of Section 5.4(b) hereof;

(b) at any time before the Closing, by mutual written agreement of the Company and CCP II;

(c) at any time by the Company if any breach of any representation, warranty, covenant or agreement on the part of CCP II or CCP II Acquisition or if any representation or warranty of CCP II or CCP II Acquisition shall have become untrue, in either case such that the conditions set forth in Section 8.1 and 8.2 are incapable of being satisfied by December 31, 1994 (or as otherwise extended);

(d) at any time by CCP II if any breach of any representation, warranty, covenant or agreement on the part of the Company or if any representation or warranty of the Company shall have become untrue in either case such that the conditions set forth in Sections 7.1 and 7.2 are incapable of being satisfied by December 31, 1994 (or as otherwise extended);

(e) by either the Company or CCP II, upon a vote at a duly held meeting of the shareholders of the Company or any adjournment thereof, if any required approval of the shareholders shall not have been obtained or any permanent injunction or action by any court, arbitrator, governmental body or agency shall have become final and non-appealable; or

(f) at any time after December 31, 1994, by the Company or CCP II, if the transactions contemplated by this Agreement have not been consummated on or before such date and such failure to consummate is not caused by a breach of this Agreement (or any representation, warranty, covenant, or agreement included herein) by the party electing to terminate pursuant to this clause (d); provided, however, that either party may by notice to the other extend such date to March 31, 1995 if the only conditions to Closing not satisfied as of December 31, 1994 are those set forth in Sections 7.4, 7.6, 8.4 or 8.6 hereof.

10.2 Effect of Termination. Except as set forth in Section 5.4(b) hereof, if this Agreement is validly terminated pursuant to Section 10.1 hereof, this Agreement will thereupon become null and void, and there will be no Liability on the part of the Company or CCP II (or any of their respective officers, directors, employees, agents, consultants, or other representatives), except that (a) the provisions relating to confidentiality in Section 12.4 hereof will continue to apply following any such termination and (b) any such termination shall be without prejudice to any claim which either party may have against the other for willful breach of this Agreement (or any representation, warranty, covenant, or agreement included herein).

ARTICLE XI

NOTICES

11.1 Notices. All notices and other communications under this Agreement must be in writing and will be deemed to have been duly given if delivered, telecopied or mailed, by certified mail, return receipt requested, first-class postage prepaid, to the parties at the following addresses:

If to the Company, to:

The Statesman Group, Inc.
1400 Des Moines Building
Des Moines, Iowa 50309
Attention: David J. Noble
Telephone: (515) 284-7505
Telecopy: (515) 242-3208

with a copy to:

Skadden, Arps, Slate, Meagher & Flom 333 West Wacker Drive
Chicago, Illinois 60606
Attention: Wayne W. Whalen
Telephone: (312) 407-0600
Telecopy: (312) 407-0411

If to CCP II, to:

Conseco Capital Partners II, L.P.

11825 N. Pennsylvania Street
Carmel, Indiana 46032

Attention: Lawrence W. Inlow, Esq. Telephone: (317) 573-6163
Telecopy: (317) 573-6327

If to CCP II Acquisition, to:

CCP II Acquisition Company
11825 N. Pennsylvania Street
Carmel, Indiana 46032
Attention: Lawrence W. Inlow, Esq. Telephone: (317) 573-6163
Telecopy: (317) 573-6327

All notices and other communications required or permitted under this Agreement that are addressed as provided in this Article XI will, if delivered personally, be deemed given upon delivery, will, if delivered by telecopy, be deemed delivered when confirmed and will, if delivered by mail in the manner described above, be deemed given on the third Business Day after the day it is deposited in a regular depository of the United States mail. Any party from time to time may change its address for the purpose of notices to that party by giving a similar notice specifying a new address, but no such notice will be deemed to have been given until it is actually received by the party sought to be charged with the contents thereof.

ARTICLE XII

MISCELLANEOUS

12.1 Entire Agreement. Except for documents executed by the Company, CCP II and CCP II Acquisition pursuant hereto, this Agreement supersedes all prior discussions and agreements between the parties with respect to the subject matter of this Agreement, and this Agreement (including the exhibits hereto, the Disclosure Schedule, and other Contracts and documents delivered in connection herewith) and the Confidentiality Agreement contain the sole and entire agreement between the parties hereto with respect to the subject matter hereof.

12.2 Expenses. Except as otherwise expressly provided in this Agreement, each of the Company, CCP II and CCP II Acquisition will pay its own costs and expenses in connection with this Agreement and the transactions contemplated hereby.

12.3 Public Announcements. At all times at or before the Closing, the Company and CCP II will each consult with the other before issuing or making any reports, statements, or releases to the public with respect to this Agreement or the transactions contemplated hereby and will use good faith efforts to agree on the text of a joint public report, statement, or release or will use good faith efforts to obtain the other party's approval of the text of any public report, statement, or release to be made solely on behalf of a party. If the Company and CCP II are unable to agree on or approve any such public report, statement, or release and such report, statement, or release is, in the opinion of legal counsel to a party, required by Law or the rules and regulations of any applicable stock exchange or may be appropriate in order to discharge such party's disclosure obligations, then such party may make or issue the legally required report, statement, or release. Any such report, statement, or release approved or permitted to be made pursuant to this Section 12.3 may be disclosed or otherwise provided by the Company or CCP II to any Person, including without limitation to any employee or customer of either party hereto and to any governmental or regulatory authority.

12.4 Confidentiality. Each of the Company and CCP II will hold, and will cause its respective Affiliates and their respective officers, directors, employees, agents, consultants, and other representatives to hold, in strict confidence, all confidential documents and confidential or proprietary information concerning the other party furnished to it by the other party or such other party's officers, directors, employees, agents, consultants, or representatives in connection with this Agreement or the transactions contemplated hereby on the terms and conditions consistent with the terms and conditions contained in the Confidentiality Agreement.

12.5 Waiver. Any term or condition of this Agreement may be waived at any time by the party that is entitled to the benefit thereof; such waiver must be in writing and must be executed by the Chairman of the Board, chief executive officer, chief financial officer, general counsel, or chief operating officer of such party. A waiver on one occasion will not be deemed to be a waiver of the same or any other breach on a future occasion. All remedies, either under this Agreement, or by Law or otherwise afforded, will be cumulative and not alternative.

12.6 Amendment. This Agreement may be modified or amended only by a writing duly executed by or on behalf of all parties hereto.

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

12.8 No Third Party Beneficiary. Except as otherwise provided herein, the terms and provisions of this Agreement are intended solely for the benefit of the parties hereto, and their respective successors or assigns, and it is not the intention of the parties to confer third-party beneficiary rights upon any other Person.

12.9 Governing Law. This Agreement shall be governed by and construed in accordance with the Laws of the State of Delaware.

12.10 Binding Effect. This Agreement is binding upon and will inure to the benefit of the parties and their respective successors and assignees.

12.11 Assignment Limited. Except as otherwise provided herein, this Agreement or any right hereunder or part hereof may not be assigned by any party hereto without the prior written consent of the other party hereto.

12.12 Headings, Gender, etc. The headings used in this Agreement have been inserted for convenience and do not constitute matter to be construed or interpreted in connection with this Agreement. Unless the context of this Agreement otherwise requires, (a) words of any gender are deemed to include each other gender; (b) words using the singular or plural number also include the plural or singular number, respectively; (c) the terms "hereof," "herein," "hereby," "hereto," and derivative or similar words refer to this entire Agreement; (d) the terms "Article" or "Section" refer to the specified Article or Section of this Agreement; and (e) all references to "dollars" or "$" refer to currency of the United States of America.

12.13 Invalid Provisions. If any provision of this Agreement is held to be illegal, invalid, or unenforceable under any present or future Law, and if the rights or obligations of the Company or CCP II under this Agreement will not be materially and adversely affected thereby, (a) such provision will be fully severable; (b) this Agreement will be construed and enforced as if such illegal, invalid, or unenforceable provision had never comprised a part hereof; and (c) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid, or unenforceable provision or by its severance herefrom.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of the Company, CCP II and CCP II Acquisition effective as of the date first written above.

CONSECO CAPITAL PARTNERS II, L.P.
By: CONSECO PARTNERSHIP
MANAGEMENT, INC., its
sole general partner

By: /s/ ROLLIN M. DICK
Rollin M. Dick,
Executive Vice President

CCP II ACQUISITION COMPANY

By: /s/ ROLLIN M. DICK
Rollin M. Dick,
Executive Vice President

THE STATESMAN GROUP, INC.

By: /s/ DAVID J. NOBLE
David J. Noble,
Chairman of the Board, President
and Chief Executive Officer

Exhibit A

DEFINITIONS OF TERMS

"Acquisition Proposal" shall have the meaning ascribed to it in Section 5.4(b) of this Agreement.

"Actuarial Analyses" shall have the meaning ascribed to it in Section 3.18 of this Agreement.

"Adjustment" shall have the meaning ascribed to it in Section 2.9(c) of this Agreement.

"Adjustment Event" shall mean any event or occurrence that would give rise to an Adjustment.

"Adjustment Notice" shall have the meaning ascribed to it in Section 2.9(e) of this Agreement.

"Affiliate" shall mean any Person that directly, or indirectly through one or more intermediaries, Controls, is Controlled by, or is under common Control with the Person specified.

"Agreement" shall mean this Agreement and Plan of Merger, together with the exhibits attached hereto and the Disclosure Schedule.

"Annual Statement" shall mean any annual statement of an Insurance Subsidiary filed with or submitted to the regulatory authority in the state in which it is domiciled on forms prescribed or permitted by such authority.

"Appraisal Share" shall have the meaning ascribed to it in Section 2.10 of this Agreement.

"Assets and Properties" shall mean all assets or properties of every kind, nature, character, and description (whether real, personal, or mixed, whether tangible or intangible, whether absolute, accrued, contingent, fixed, or otherwise, and wherever situated) as now operated, owned, or leased by a specified Person, including without limitation cash, cash equivalents, securities, accounts and notes receivable, real estate, equipment, furniture, fixtures and insurance or annuities in force.

"Benefit Plans" shall mean all Employee Pension Benefit Plans, all Employee Welfare Benefit Plans, all stock bonus, stock ownership, stock option, stock purchase, stock appreciation rights, phantom stock, and other stock plans (whether qualified or non- qualified), and all other pension, welfare, severance, retirement, bonus, deferred compensation, incentive compensation, insurance (whether life, accident and health, or other and whether key man, group, workers compensation, or other), profit sharing, disability, thrift, day care, legal services, leave of absence, layoff, and supplemental or excess benefit plans, and all other benefit Contracts, arrangements, or procedures having the effect of a plan, in each case existing on or before the Closing Date under which the Company or any Subsidiary is or may hereafter become obligated in any manner (including without limitation obligations to make contributions or other payments) and which cover some or all of the Employees or former directors, officers or employees of the Company or any Subsidiary; provided, however, that such term shall include severance benefit programs but shall not include (a) routine employment policies and procedures developed and applied in the ordinary course of business and consistent with past practice, including without limitation sick leave, vacation, and (b) directors and officers liability insurance.

"Books and Records" shall mean all accounting, financial reporting, Tax, business, marketing, corporate, and other files, documents, instruments, papers, books, and records of a specified Person, including without limitation financial statements, budgets, projections, ledgers, journals, deeds, titles, policies, manuals, minute books, stock certificates and books, stock transfer ledgers, Contracts, franchises, permits, agency lists, policyholder lists, supplier lists, reports, computer files, retrieval programs, operating data or plans, and environmental studies or plans.

"Business Day" shall mean a day other than Saturday, Sunday, or any day on which the principal commercial banks located in New York are authorized or obligated to close under the Laws of New York.

"Business or Condition" shall mean the business, financial condition, results of operations, of a specified Person.

"Cash Merger Consideration" shall have the meaning ascribed to it in Section 2.8 of this Agreement.

"CCP II" shall have the meaning ascribed to it in the preamble of this Agreement.

"CCP II Acquisition" shall have the meaning ascribed to it in the preamble of this Agreement.

"Closing" shall mean the closing of the transactions contemplated by this Agreement.

"Closing Date" shall mean (a) the date upon which the Effective Time occurs, or (b) such other date as CCP II and Company may mutually agree upon in writing.

"Code" shall mean the Internal Revenue Code of 1986, as amended (including without limitation any successor code), and the rules and regulations promulgated thereunder.

"Committee" shall have the meaning ascribed to it in Section 2.9(i) of this Agreement.

"Company" shall have the meaning ascribed to it in the preamble of this Agreement.

"Company Litigation" shall have the meaning ascribed to it in Section 2.9(c) of this Agreement.

"Confidentiality Agreement" means the confidentiality agreement dated April 22, 1994, by and between Conseco, Inc. and the Company.

"Constituent Corporations" shall have the meaning ascribed to it in the preamble of this Agreement.

"Contingent Payment Right" shall have the meaning ascribed to it in Section 2.8 of this Agreement.

"Contract" shall mean any agreement, lease, sublease, license, sublicense, promissory note, evidence of indebtedness, insurance policy, annuity, or other contract or commitment.

"Control" (and its derivative terms "Controlled" "Controls", etc.) shall mean the ability to determine the actions and decisions of another Person, whether by ownership of Voting Securities, the ability to elect a majority of the Board of Directors or other managing board or committee, management contract, or otherwise.

"Costs and Expenses" shall have the meaning ascribed to it in Section 2.9(c) of this Agreement.

"Convertible Debentures" shall mean the Company's 6 1/4% Convertible Subordinated Debentures due 2003, issued pursuant to the Indenture, dated as of April 21, 1993, between the Company and Boatmen's Trust Company, as trustee.

"CPMI" shall have the meaning ascribed to it in the preamble of this Agreement.

"Disbursing Agent" shall have the meaning ascribed to it in Section 2.13 of this Agreement.

"Disbursing Agent Agreement" shall have the meaning ascribed to it in Section 2.13 of this Agreement.

"Disclosure Schedule" shall mean the bound record dated as of the date of this Agreement furnished by the Company to CCP II, and containing all lists, descriptions, exceptions, and other information and materials as are required to be included therein pursuant to this Agreement.

"Effective Time" shall have the meaning ascribed to it in Section 2.2 of this Agreement.

"Employee" shall mean any present officer, director or employee, of the Company or any Subsidiary.

"Employee Pension Benefit Plan" shall mean each employee pension benefit plan (whether or not insured), as defined in Section 3(2) of ERISA which is or was in existence on or before the Closing Date and to which the Company or any of the Subsidiaries is or would hereafter become obligated in any manner as an employer.

"Employee Stock Ownership Plan" shall mean any defined contribution plan which is an employee stock ownership plan within the meaning of Section 4975(e)(7) of the Code.

"Employee Welfare Benefit Plan" shall mean each employee welfare benefit plan (whether or not insured), as defined in Section 3(1) of ERISA, which is or was in existence on or before the Closing Date and to which the Company or any of the Subsidiaries is or would hereafter become obligated in any manner as an employer.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended (including without limitation any successor act), and the rules and regulations promulgated thereunder.

"ERISA Affiliate" shall mean any Person under common Control (as defined in Section 414 of the Code) with the Company or any of the Subsidiaries.

"ESOP" shall mean "The Statesman Group, Inc. Employee Stock Ownership Plan and Trust (a Stock Bonus Plan)," effective January 1, 1989, as amended, including "The Statesman Group, Inc. Leveraged ESOP."

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Filed SEC Documents" shall mean all of the SEC Documents filed and publicly available prior to the date of this Agreement.

"Final Litigation Resolution" shall have the meaning ascribed to it in Section 2.9(g).

"GAAP" shall mean generally accepted accounting principles, consistently applied throughout the specified period and in the immediately prior comparable period, except as disclosed in the notes to the Company's financial statements.

"GAAS" shall mean generally accepted actuarial standards.

"HSR Act" shall mean Section 7A of the Clayton Act (Title II of the Hart-Scott-Rodino Antitrust Improvements Act of 1976), as amended (including without limitation any successor act), and the rules and regulations promulgated thereunder.

"Indemnified Parties" shall have the meaning ascribed to it in Section 6.4(a).

"Insurance Subsidiary" means each Subsidiary of the Company which is organized, qualified, or licensed as a company authorized to conduct the business of underwriting, issuing or reinsuring insurance policies.

"IRS" shall mean the United States Internal Revenue Service or any successor agency.

"Knowledge of CCP II" means the actual knowledge of any officer of CPMI.

"Knowledge of Company" means the actual knowledge of any one or more of any officer of the Company or any Significant Subsidiary.

"Laws" shall mean all laws, statutes, ordinances and regulations, having the effect of law of the United States of America, or any state, commonwealth, city, municipality, court, tribunal, agency, governmental agency or authority, arbitrator, or instrumentality thereof.

"Liabilities" shall mean all debts, obligations, and other liabilities of a Person (whether absolute, accrued, contingent, fixed, or otherwise, or whether due or to become due) which are recognized as liabilities in accordance with SAP or GAAP.

"Licenses" shall have the meaning ascribed to it in Section 3.19 of this Agreement.

"Lien" shall mean any mortgage, pledge, assessment, security interest, lien, adverse claim, levy, charge, or other encumbrance of any kind, or any conditional sale Contract, title retention Contract, or other Contract to give or to refrain from giving any of the foregoing other than Permitted Encumbrances.

"1988 Series I Preferred Shares" shall have the meaning ascribed to it in Section 3.3 of this Agreement.

"1988 Series II Preferred Shares" shall have the meaning ascribed to it in Section 3.3 of this Agreement.

"1987 Series Preferred Shares" shall have the meaning ascribed to it in Section 2.8 of this Agreement.

"1976 Series Preferred Shares" shall have the meaning ascribed to it in Section 2.8 of this Agreement.

"Litigation Resolution" shall have the meaning ascribed to it in Section 2.9(g) of this Agreement.

"Neutral Auditors" shall have the meaning ascribed to it in
Section 2.9(f) of this Agreement.

"Note" shall have the meaning ascribed to it in Section 2.9(a) of this Agreement.

"Note Trust Agreement" shall have the meaning ascribed to it in Section 2.9(a) of this Agreement.

"Option" shall mean any option to purchase shares of the common capital stock of the Company which has been granted to officers, employees or directors of the Company and remains outstanding immediately prior to the Effective Time.

"PBGC" shall mean the Pension Benefit Guaranty Corporation established under ERISA.

"Partial Litigation Resolution" shall have the meaning ascribed to it in Section 2.9(g).

"Permitted Encumbrances" shall mean the following encumbrances: (i) Liens for taxes or assessments or other governmental charges or levies, either not yet due and payable or to the extent that nonpayment thereof is permitted by the terms of this Agreement; (ii) pledges or deposits securing obligations under worker's compensation, unemployment insurance, social security or public liability laws or similar legislation; (iii) pledges or deposits securing bids, tenders, contracts (other than contracts for the payment of money) or leases to which Company or any of its Affiliates is a party as lessee made in the ordinary course of business; (iv) deposits securing public or statutory obligations of Company or any of its Affiliates; (v) workers', mechanics', suppliers', carriers', warehousemen's or other similar liens arising in the ordinary course of business, not yet due and payable; (vi) deposits securing or in lieu of surety, appeal or customs bonds in proceedings to which Company or any of its Affiliates is a party; (vii) pledges or deposits effected by Company as a condition to obtaining or maintaining any License of such Person; (viii) any attachment or judgment lien, unless the judgment it secures shall not, within 60 days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or shall not have been discharged within 60 days after the expiration of any such stay; and (ix) zoning restrictions, easements, licenses, or other restrictions on the use of real property or other minor irregularities in title (including leasehold title) thereto, so long as the same do not materially impair the use, value, or marketability of such real property, leases or leasehold estates.

"Permitted Investments" shall have the meaning ascribed to it in Section 2.13(a) of this Agreement.

"Person" shall mean any natural person, corporation, limited liability company, general partnership, limited partnership, or other entity, enterprise, authority, or business organization.

"Preferred Shares" shall have the meaning ascribed to it in Section 3.3 of this Agreement.

"Principal Balance" shall have the meaning ascribed to it in Section 2.9(c) of this Agreement.

"Principal Payment" shall have the meaning ascribed to it in Section 2.9(g).

"Proceeds" shall have the meaning ascribed to it in Section 2.9(g) of this Agreement.

"Proposed Adjustment" shall have the meaning ascribed to it in Section 2.9(e) of this Agreement.

"Proxy Statement" shall have the meaning ascribed to it in Section 3.21 of this Agreement.

"Quarterly Statement" shall mean any quarterly statement of an Insurance Subsidiary filed with or submitted to the regulatory authority in the state in which it is domiciled on forms prescribed or permitted by such authority.

"Real Estate" means all real property and interests therein, including without limitation leasehold interests, owned or held at any time by the Company or any Subsidiary or nominee thereof.

"Recovery Amount" shall have the meaning ascribed to it in Section 2.9(c) of this Agreement.

"Representative" shall have the meaning ascribed to it in Section 5.3 of this Agreement.

"Reserve Amounts" shall have the meaning ascribed to it in Section 2.9(g) of this Agreement.

"Resolution Period" shall have the meaning ascribed to it in Section 2.9(e) of this Agreement.

"Rights Holders" shall have the meaning ascribed to it in Section 2.9(a) of this Agreement.

"SAP" shall mean the accounting practices prescribed or permitted by the regulatory authority in the state in which each Insurance Subsidiary is domiciled, as the case may be, consistently applied throughout the specified period and in the immediately prior comparable period.

"SAP Statements" shall mean the Annual Statements and Quarterly Statements prepared in accordance with SAP and delivered to CCP II pursuant to this Agreement.

"SAR" shall mean any stock appreciation right on the common capital stock of the Company which has been granted to certain officers and key employees of the Company and remains outstanding immediately prior to the Effective Time.

"SEC" shall mean the Securities and Exchange Commission or any successor agency.

"SEC Documents" shall mean all reports, schedules, forms, statements and other documents required to be filed with the SEC under the Securities Act or Exchange Act.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Shares" shall have the meaning ascribed to it in Section 3.3 of this Agreement.

"Significant Subsidiary" shall mean any of the Subsidiaries which falls within the meaning of Section 1-02 of Regulation S-X promulgated by the SEC.

"Subsidiaries" shall mean all subsidiaries of the Company as of the date hereof, including those listed in Section 3.4 of the Disclosure Schedule.

"subsidiary" shall mean each of those Persons, regardless of jurisdiction of organization, of which another Person, directly or indirectly through one or more subsidiaries, Controls securities having more than 50% of the voting power of such Person (without giving effect to any contingent voting rights).

"Taxes" shall mean all taxes, charges, fees, levies, or other similar assessments or Liabilities, including without limitation income, gross receipts, ad valorem, premium, excise, real property, personal property, windfall profit, sales, use, transfer, licensing, withholding, employment, payroll, Phase III, and franchise taxes imposed by the United States of America or any state, local, or foreign government, or any subdivision, agency, or other similar Person of the United States or any such government; and such term shall include any interest, fines, penalties, assessments, or additions to tax resulting from, attributable to, or incurred in connection with any such tax or any contest or dispute thereof.

"Tax Returns" shall mean any report, return, or other information required to be supplied to a taxing authority in connection with Taxes.

"Transaction" shall have the meaning ascribed to it in Section 5.4 of this Agreement.

"Trustee" shall have the meaning ascribed to it in Section 2.9(a) of this Agreement.

CONFORMED COPY

ALHC MERGER CORPORATION

11-1/4% Senior Subordinated Notes Due 2004

INDENTURE

Dated as of September 29, 1994

LTCB TRUST COMPANY

Trustee

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(b)(1)	N.A.
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(c)	11.02
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(b)	N.A.
(c)(1)	11.04
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N.A. means Not Applicable.

Note: This Cross-Reference Table shall not, for any purpose, be deemed to be part of the Indenture.

INDENTURE dated as of September 29, 1994, between ALHC MERGER CORPORATION, a Delaware corporation (the "Company"), and LTCB TRUST COMPANY, a New York corporation (the "Trustee").

Each party agrees as follows for the benefit of the other party and for the equal and ratable benefit of the Holders of the Company's 11-1/4% Senior Subordinated Notes Due 2004 (the "Securities"):

ARTICLE 1.

Definitions and Incorporation by Reference

SECTION 1.01. Definitions.

"Acquisition" means the acquisition by the Partnership of Statesman as contemplated by the Agreement and Plan of Merger dated as of May 1, 1994 by and among the Partnership, CCP II Acquisition Company and Statesman.

"Affiliate" of any Person (hereinafter "first Person") means (i) any other Person which, directly or indirectly, is in control of, is controlled by or is under common control with such first Person; or (ii) any Person who is a director or executive officer (as defined in Rule 3b-7 of the Exchange Act) of either:
(1) such first Person or (2) any Person described in clause
(i) above. For purposes of this definition, "control" of a Person means the power, direct or indirect, to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"AMCO" means American Life and Casualty Marketing Division Co.

"American Life" means American Life and Casualty Insurance Company.

"Asset Sale" means any direct or indirect sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) of shares of Capital Stock of a Subsidiary (other than directors' qualifying shares or Investments by foreign nationals mandated by applicable law) or any property or other assets of the Company or a Subsidiary (each referred to for the purposes of this definition as a "sale") by the Company or by any of its Subsidiaries other than (i) a sale by a Subsidiary to the Company or by a Subsidiary to a Wholly Owned Subsidiary, (ii) a disposition of property or assets in the ordinary course of business, including, without limitation, (1) a sale by the Company or a Subsidiary of any of its Investments

constituting a portion of its investment portfolio in the ordinary course of business or (2) a disposition of obsolete assets in the ordinary course of business, (iii) a disposition of assets or property pursuant to any reinsurance arrangements in the ordinary course of business (other than any bulk reinsurance or retrocession arrangements) or (iv) a disposition of any capital assets if the net proceeds thereof are used to replace such capital assets within 30 days after receipt of such net proceeds.

"Average Life" means, as of the date of determination, with respect to any Indebtedness or Preferred Stock, the quotient obtained by dividing (i) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of such Indebtedness or redemption or similar payment with respect to such Preferred Stock multiplied by the amount of such payment by (ii) the sum of all such payments.

"Bank Agent" means the Representative for the Credit Agreement.

"Board of Directors" means the Board of Directors of the Company or, except for purposes of the definition of "Change of Control" and Section 4.07, any committee thereof duly authorized to act on behalf of such Board.

"Business Day" means each day which is not a Legal Holiday.

"Capital Lease Obligation" of a Person means any obligation that is required to be classified and accounted for as a capital lease on the face of a balance sheet of such person prepared in accordance with generally accepted accounting principles; the amount of such obligations shall be the capitalized amount thereof, determined in accordance with generally accepted accounting principles, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"Capital Stock" means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) corporate stock, including any Preferred Stock.

"Change of Control" means an event whereby (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) other than one or more Permitted Holders, is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that a person shall be deemed to have "beneficial ownership" of all shares that any such

person has the right to acquire, whether such right is exercisable immediately or after the passage of time, excluding, however, any right to acquire which is subject to any Federal, state or other similar regulatory approval or any applicable waiting period pursuant thereto until such time as such approval is obtained or such waiting period has expired), directly or indirectly, of more than 50% of the Voting Shares (as defined in the last sentence of this definition) then outstanding of the Company or more than 50% of the "Common Stock" (as defined in the last sentence of this definition) of the Company, provided that the Permitted Holders "beneficially own" (as so defined) a lesser percentage of the Voting Shares than such other person and do not have the right or ability by voting power, contract or otherwise to elect or designate for election a majority of the Board of Directors (for purposes of this clause (i), such other person (the "owner") shall be deemed to beneficially own any Voting Shares or Common Stock of a person held by any other person (the "parent"), if such owner beneficially owns (as defined in this clause (i)), directly or indirectly, more than 50% of the Voting Shares of such parent or more than 50% of the Common Stock of such parent); (ii) the Company consolidates with or merges into another corporation, or any corporation consolidates with or merges into the Company, in either event pursuant to a transaction in which the outstanding Voting Shares are changed into or exchanged for cash, securities or other property, other than any such transaction where (A) the outstanding Voting Shares are changed into or exchanged for (x) voting shares of the surviving corporation which are not Redeemable Stock and/or
(y) cash, securities and other property in an amount which could be paid by the Company as a Restricted Payment as described in Section 4.05 (and such amount shall be treated as a Restricted Payment subject to the provisions of Section 4.05), and (B) the holders of the Voting Shares immediately prior to such transaction own, directly or indirectly, more than 50% of the Voting Shares and more than 50% of the Common Stock of the surviving corporation immediately after such transaction;
(iii) the Company conveys (including, without limitation, by means of one or more reinsurance arrangements), transfers or leases all or substantially all of its assets to any Person (other than a Wholly Owned Subsidiary); or (iv) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors (together with any new directors whose election by such Board or whose nomination for election by the stockholders of the Company was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors then in office. The acquisition by any Person engaged in business as an underwriter of securities of any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of 45 days after the date of such acquisition shall not be deemed to result

in a Change of Control. For purposes of this definition, "Voting Shares" shall mean all classes of Capital Stock of a corporation then outstanding and normally entitled to vote in elections of directors, and "Common Stock" shall mean shares of Capital Stock of any entity other than Preferred Stock of such entity.

"Closing Date" means the date of the closing of the issue and sale of the Securities by the Company.

"Company" means the party named as such in this Indenture until a successor replaces it and, thereafter, means the successor and, for purposes of any provision contained herein and required by the TIA, each other obligor on the indenture securities.

"Company Request" and "Company Order" mean, respectively, a written request or order signed in the name of the Company by its Chairman of the Board, President or a Vice President, and by its Treasurer, an Assistant Treasurer, Controller, an Assistant Controller, Secretary or an Assistant Secretary, and delivered to the Trustee.

"Consolidated Fixed Charge Coverage Ratio" with respect to any period means the ratio of (i) the aggregate amount of Consolidated Net Income plus, to the extent deducted in calculating such Consolidated Net Income and without duplication, Consolidated Interest Expense, income tax expense, depreciation expense, amortization expense and any other non-cash charges (excluding (a) any such non-cash charge which requires an accrual of or reserve for cash charges for any future period, (b) any non-cash charge constituting an extraordinary item of loss and
(c) amortization of the present value of future profits and of deferred policy acquisition costs) to (ii) the aggregate amount of Consolidated Interest Expense for such period, in each case for the Company and its consolidated Subsidiaries, computed in accordance with generally accepted accounting principles; provided, however, that: (A) in making such computation, the Consolidated Interest Expense of such Person attributable to interest on any Indebtedness, computed on a pro forma basis and bearing a floating interest rate, shall be computed as if the rate in effect on the date of computation had been the applicable rate for the entire period; (B) in making such computation, the Consolidated Interest Expense of such Person attributable to interest on any Indebtedness under a revolving credit facility, computed on a pro forma basis, shall be computed based upon the average daily balance of such Indebtedness during the applicable period; and (C) in making any calculation of the Consolidated Fixed Charge Coverage Ratio for any period prior to the date of closing of the Acquisition, the Acquisition shall be deemed to have taken place on the first day of such period (with the same purchase accounting adjustments made by the Company as of the Closing Date being deemed to have been made in the same amounts on the deemed Acquisition date).

"Consolidated Interest Expense" means, for any period, without duplication, the total interest expense of the Company and its consolidated Subsidiaries, including (i) interest expense attributable to Capital Lease Obligations, (ii) amortization of debt discount and debt issuance cost (including any original issue discount), (iii) capitalized interest, (iv) non-cash interest payments, (v) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing, (vi) accrued interest, (vii) the net costs associated with any interest rate or currency swap, floor, cap or collar, (viii) the interest portion of any deferred obligation,
(ix) interest actually paid by the Company or any such Subsidiary under any Guarantee of Indebtedness or other obligation of any other person and (x) cash dividends paid or cash distributions made on any Preferred Stock of the Company or any Subsidiary held by any person other than the Company or a Wholly Owned Subsidiary; provided, however, that there shall be excluded from the computation of Consolidated Interest Expense (1) interest and similar amounts payable with respect to forward or reverse repurchase obligations, collateralized mortgage or bond obligations, or other collateralized investment obligations, or interest rate swaps, floors, caps or collars, in all cases relating to the assets in the investment portfolio of an Insurance Subsidiary; and (2) interest and similar amounts credited to the accounts of holders of insurance policies, annuities, guaranteed investment contracts and similar products underwritten by any Insurance Subsidiary.

"Consolidated Net Income" means, for any period, the net income of the Company and its consolidated Subsidiaries determined on a consolidated basis in accordance with generally accepted accounting principles (and if not otherwise deducted, after deduction of amounts applicable to minority interests); provided, however, that there shall not be included in Consolidated Net Income (i) any net income of any Person if such Person is not a Subsidiary, except that (a) the Company's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Subsidiary (subject to the limitations contained in clause (v) below) as a dividend or other distribution and (b) the Company's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income, (ii) any net income of any Person acquired by the Company or a Subsidiary in a pooling of interests transaction for any period prior to the date of such acquisition, (iii) any gain (but not loss), net of related taxes or other directly related accelerated or deferred amortization or expense (including, without limitation, amortization of the present value of future profits), realized upon the sale or other disposition

of any property, plant or equipment of the Company or its consolidated Subsidiaries which is not sold or otherwise disposed of in the ordinary course of business and any gain (but not loss) realized upon the sale or other disposition of any Capital Stock of any Person, (iv) any gain or loss, net of related taxes or other directly related accelerated or deferred amortization or expense (including, without limitation, amortization of the present value of future profits), realized upon the sale or other disposition by the Company or any Subsidiary of any Investment constituting a portion of its investment portfolio or any other security, (v) any net income of any Subsidiary to the extent that such net income exceeds the maximum aggregate amount of cash that such Subsidiary is permitted to pay as a dividend or other distribution to the Company or another Subsidiary at the date of determination without any prior governmental approval (which has not been obtained) and which is not prohibited, directly or indirectly, by the terms of such Subsidiary's charter or any agreement, instrument, judgment, decree, order, writ, injunction, certificate, statute, rule, law, code, ordinance or governmental regulation applicable to such Subsidiary or its shareholders, subject, in the case of dividends, distributions or payments to another Subsidiary, to the limitations in this clause (v); provided, however, that the Company's equity in a net loss of any such Subsidiary for such period shall be included in determining such Consolidated Net Income, (vi) any extraordinary gain (but not loss), as well as the tax effects thereof and all reasonable expenses incurred in connection therewith, (vii) any restoration to income of any contingency reserve (not including insurance and reinsurance reserves and reserves for reinsurance recoverables), except to the extent that provision for such reserve reduced Consolidated Net Income for any period following the Closing Date, (viii) any unrealized gains and losses on investment securities to the extent such gains and losses affect such net income (loss) and (ix) the amount of investment income earned on any securities escrowed for the repayment or redemption of any securities issued by the Company or any Subsidiary.

"Consolidated Net Worth" means, with respect to any Person, the total of the amounts shown on the balance sheet of such Person and its consolidated Subsidiaries, determined on a consolidated basis in accordance with generally accepted accounting principles, as of any date selected by the Company not more than 30 days prior to the taking of any action for the purpose of which the determination is being made, as (i) the par or stated value of all outstanding Capital Stock of such Person plus (ii) paid-in capital or capital surplus relating to such Capital Stock plus (iii) any retained earnings or earned surplus less (A) any accumulated deficit and (B) any amounts attributable to Redeemable Stock (to the extent included in (i) through (iii)).

"Credit Agreement" means the Senior Term Loan together with the related documents thereto (including, without

limitation, any Guarantees and security documents), in each case, as such agreements may be amended (including any amendment and restatement thereof), supplemented, replaced or otherwise modified from time to time, including any agreement extending the maturity of, refinancing or otherwise restructuring (including, but not limited to, the inclusion of additional borrowers or Guarantors thereunder that are Subsidiaries of the Company and whose obligations are Guaranteed by the Company thereunder) all or any portion of the Indebtedness under such agreements or any successor agreements; provided that there shall be at any one time only one instrument, together with any related documents (including, without limitation, any Guarantees or security documents), that is the Credit Agreement under this Indenture.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Designated Senior Indebtedness" is defined to mean
(i) the Credit Agreement and (ii) any other Indebtedness constituting Senior Indebtedness that, at any date of determination, has an aggregate principal amount of at least $25 million and is specifically designated by the Company in the instrument creating or evidencing such Senior Indebtedness as "Designated Senior Indebtedness."

"Dollar Equivalent" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the spot rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by Bankers Trust Company in New York City at approximately 11:00 a.m. (New York time) on the date two applicable Business Days prior to such determination.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission thereunder.

"generally accepted accounting principles" or "GAAP" means generally accepted accounting principles as in effect from time to time and as implemented by the Company.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term "Guarantee" will not include endorsements for collection or deposit in the ordinary course of business.

"Holder" or "Securityholder" means the person in whose name a Security is registered on the Registrar's books.

"Indebtedness" means, with respect to any Person on any date of determination (without duplication), (i) the principal of and premium (if any) in respect of Indebtedness of such Person for borrowed money; provided, however, that any such premium shall only be Indebtedness to the extent such premium is reflected on such Person's balance sheet determined in accordance with GAAP; (ii) the principal of and premium (if any) in respect of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments (including surplus notes or debentures); provided, however, that any such premium shall only be Indebtedness to the extent such premium is reflected on such Person's balance sheet determined in accordance with GAAP;
(iii) all Capital Lease Obligations of such Person; (iv) all obligations of such Person to pay the deferred and unpaid purchase price of property or services (except Trade Payables), which purchase price is due more than six months after the date of placing such property in service or taking delivery and title thereto or the completion of such services; (v) all obligations of such Person in respect of letters of credit, banker's acceptances or other similar instruments or credit transactions (including reimbursement obligations with respect thereto), other than obligations with respect to letters of credit securing obligations (other than obligations described in clauses
(i) through (iv)) entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the third business day following receipt by such Person of a demand for reimbursement following payment on any such letter of credit; (vi) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Redeemable Stock or, with respect to any Subsidiary of the Company, any Preferred Stock (but excluding, in each case, any accrued dividends); (vii) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; provided, however, that the amount of such Indebtedness shall be the lesser of (A) the fair market value of such asset at such date of determination and (B) the amount of such Indebtedness of such other Person; (viii) all Indebtedness of other Persons to the extent Guaranteed by such Person; and (ix) to the extent not otherwise included in this definition, obligations in respect of interest rate and currency swaps, floors, caps, collars or similar transactions. The amount of Indebtedness of any Person

at any date will be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingent obligations at such date. Indebtedness of the Company or any of its Subsidiaries will not include obligations under insurance (including annuity), reinsurance or retrocession contracts entered into by the Company or any such Subsidiary, in the capacity of insurer, reinsurer or ceding company, as the case may be, in the ordinary course of business of the Company or any such Subsidiary to the extent that the obligations thereunder are not overdue for more than one year after notice or are being contested in good faith by appropriate proceedings.

"Indenture" means this Indenture as amended or supplemented from time to time pursuant to the terms of this Indenture.

"Insurance Business" means any business consisting principally of the ownership or issuance of insurance policies or annuity contracts that have not expired or the ownership or operation of any other similar assets of an insurer, or any interest therein, located in the United States, that would be reflected on the balance sheet of the Company prepared in accordance with generally accepted accounting principles. Without limiting the foregoing, the term "Insurance Business" shall include a direct or indirect ownership interest in a Person which issues insurance policies, annuity contracts or similar products or performs investment, management, administrative or similar services related or adaptable to the business of the Company or one or more of its Subsidiaries, so long as such ownership interest would be reflected on the balance sheet of the Company prepared in accordance with generally accepted accounting principles.

"Insurance Subsidiary" means any Subsidiary that is subject to regulation as an insurance company by the insurance regulatory authorities of its jurisdiction of domicile.

"Invested Assets" means (i) with respect to any Person which is an insurance company that files statutory financial statements with a governmental agency or authority, the amount shown as the line item "Cash and Invested Assets" (or any equivalent line item(s) setting forth the type of assets which would be reflected in the line item "Cash and Invested Assets" on the Closing Date) in such insurance company's balance sheet included in its most recent statutory financial statements filed with such governmental agency or authority; and (ii) with respect to any other Person, the amount on a consolidated basis of its Investments as reflected on such Person's most recent balance sheet.

"Investment" means any direct or indirect loan or advance to any other Person, any purchase or acquisition of any Capital Stock, bonds, notes, debentures or other similar instruments issued by any other Person, any capital contribution (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others) or other extension of credit (including by way of Guarantee) to any other Person or any other item that would be classified as an investment on a balance sheet prepared in accordance with GAAP, other than the following: (i) loans or advances to employees or insurance agents in the ordinary course of business; (ii) negotiable instruments endorsed for collection in the ordinary course of business; and (iii) policy loans made to holders of insurance policies issued by the Company or any Insurance Subsidiary.

"Investment Grade Securities" means (i) cash or cash equivalents, (ii) debt securities or debt instruments with a BBB- or higher rating by Standard and Poor's Corporation (or its successors) ("S&P"), Baa-3 or higher rating by Moody's Investors Service, Inc. (or its successors) ("Moody's"), or Class (2) or higher rating by the National Association of Insurance Commissioners (or its successors) ("NAIC"), or (iii) commercial paper with an A-2 or higher rating by S&P or a P-2 or higher rating by Moody's, or the equivalent of such ratings by S&P, Moody's or the NAIC, or, if neither S&P, Moody's nor the NAIC makes a rating publicly available, the equivalent of such ratings by a nationally recognized securities rating agency or agencies, as the case may be, selected by the Company which shall be substituted for S&P, Moody's or the NAIC.

"Lien" means any lien, mortgage, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement and any lease in the nature thereof).

"Mandatory Scheduled Principal Payments" at any time shall mean the mandatory principal payments actually made on or prior to such time under the instruments governing the Credit Agreement as in effect from time to time.

"Material Subsidiary" means any Subsidiary which at the time of determination (i) was the owner of assets which, as of the date of the Company's most recent quarterly consolidated balance sheet, constituted at least 10% of the Company's total assets computed in accordance with generally accepted accounting principles on a consolidated basis as of such date, or (ii) had revenues for the 12-month period ending on the date of the Company's most recent quarterly consolidated statement of income that constituted at least 10% of the Company's total revenues computed in accordance with generally accepted accounting principles on a consolidated basis for such period.

"Net Available Cash" means cash and cash equivalent payments received by the Company or any Subsidiary from any Asset Sale (including cash payments received by way of fees, expense reimbursements, refunds, rebates, and deferred payment of principal pursuant to a note or installment receivable or otherwise, but only as and when received), in each case net of
(i) all accounting, appraisal, legal, title and recording tax expenses, (ii) the amount of any Indebtedness secured by the property or assets subject to such Asset Sale and/or required to be repaid by any Subsidiary on the occasion of such Asset Sale,
(iii) the amount of accrued employee benefits required to be paid on the occasion of such Asset Sale, (iv) commissions and other reasonable fees and expenses incurred and any taxes payable and reasonably estimated income or other taxes payable as a consequence of such Asset Sale or as a consequence of any repatriation of such cash payments and (v) all distributions and other payments made to holders of minority interests in Subsidiaries as a result of such Asset Sale.

"Net Proceeds", with respect to any issuance or sale of Capital Stock, means the cash proceeds of such issuance or sale, and the fair market value (as determined in good faith by the Board of Directors and evidenced by an Officers' Certificate delivered to the Trustee) of any publicly-traded debt or equity securities of any issuer which is not an Affiliate of the Company received by the Company in consideration for such issuance or sale (which debt or equity securities must otherwise be permitted to be acquired pursuant to Section 4.05), in each case net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Non-Investment Grade Investments" means any (i) equity securities or debt securities or debt instruments other than Investment Grade Securities, except for any such Investment issued by any Subsidiary, (ii) real estate mortgage loan or
(iii) owned real estate, whether acquired as an investment or through foreclosure.

"Note Obligations" is defined to mean any principal of, premium, if any, and interest on the Securities payable pursuant to the terms of the Securities or upon acceleration, including any amounts received upon the exercise of rights of rescission or other rights of action (including claims for damages) or otherwise, to the extent relating to the purchase price of the Securities or amounts corresponding to such principal, premium if any, or interest on the Securities.

"Officer" means the Chairman of the Board, the President, any Vice President, the Treasurer or the Secretary of the Company.

"Officers' Certificate" means a certificate signed by two Officers.

"Opinion of Counsel" means a written opinion from legal counsel who is reasonably acceptable to the Trustee. The counsel may be an employee of or counsel to the Company or the Trustee.

"Pari Passu", as applied to the ranking of any Indebtedness of a Person in relation to other Indebtedness of such Person, means that each such Indebtedness either (i) is not subordinated in right of payment to any Indebtedness or (ii) is subordinate in right of payment to the same Indebtedness as is the other, and is so subordinate to the same extent, and is not subordinate in right of payment to each other or to any Indebtedness as to which the other is not so subordinate.

"Partnership" means Conseco Capital Partners II, L.P.

"Permitted Holders" means Conseco, the Partnership, Statesman, any entities controlled by any of them and each of their respective Subsidiaries.

"Permitted Indebtedness" means (i) Indebtedness actually outstanding under the Senior Term Loan not to exceed $200 million in principal amount at any time; (ii) additional Indebtedness incurred after the Closing Date which together with Indebtedness outstanding pursuant to clause (i) above shall not exceed $200 million in aggregate principal amount less the amount of Mandatory Scheduled Principal Payments at such time,
(iii) Indebtedness outstanding on the Closing Date (other than that described in clauses (i), (iv) and (v)) or Indebtedness incurred in exchange for, or the proceeds of which are used to refinance, such Indebtedness so long as (1) the principal amount of the Indebtedness so incurred on exchange or refinancing does not exceed the principal amount of the Indebtedness so exchanged or refinanced, plus the amount of any premium required to be paid in connection with such exchange or refinancing or the amount of any premium necessary to accomplish such exchange or refinancing by means of a tender offer or privately negotiated repurchase, plus the amount of expenses of the Company incurred in connection with such exchange or refinancing, (2) the Indebtedness so incurred on exchange or refinancing will not mature prior to the Stated Maturity of the Indebtedness so exchanged or refinanced, and (3) the Indebtedness so incurred on exchange or refinancing has an Average Life equal to or greater than the remaining Average Life of the Indebtedness so exchanged or refinanced;
(iv) the Securities and any Indebtedness incurred in exchange for, or the proceeds of which are used to refinance, the Securities or any other Indebtedness permitted by this clause
(iv), so long as (1) the principal amount of the Indebtedness so incurred does not exceed the principal amount of the Indebtedness so exchanged or refinanced (or 101% of the principal amount of the Securities in the case of Indebtedness incurred to refinance

Securities to be repurchased pursuant to a Change of Control),
(2) the Indebtedness so incurred will not mature prior to the Stated Maturity of the Indebtedness so exchanged or refinanced, and (3) the Indebtedness so incurred has an Average Life equal to or greater than the remaining Average Life of the Indebtedness so exchanged or refinanced; (v) Indebtedness owed to and held by a Wholly Owned Subsidiary; provided, however, that any subsequent issuance or transfer of any Capital Stock which results in any such Wholly Owned Subsidiary ceasing to be a Wholly Owned Subsidiary, or any transfer of such Indebtedness (other than to the Company or a Wholly Owned Subsidiary), will be deemed to constitute the incurrence of such Indebtedness; (vi) guarantees by the Company of Indebtedness incurred by a Subsidiary which is permitted to be incurred under this Indenture; provided, however, that any subsequent issuance or transfer of any Capital Stock that results in such Subsidiary's ceasing to be a Subsidiary, or any assumption of such Indebtedness (other than by the Company or a Wholly Owned Subsidiary), will be deemed to constitute the incurrence of Indebtedness by the Company; (vii) Indebtedness (or Indebtedness incurred to refinance such Indebtedness) consisting of deferred payment obligations resulting from the adjudication or settlement of any claim or litigation; (viii) Indebtedness (or Indebtedness incurred to refinance such Indebtedness) pursuant to any interest rate or currency swaps, floors, caps or collars to protect against fluctuations in interest or currency exchange rates, provided that such Indebtedness (1) relates to Indebtedness permitted to be incurred hereunder and provided that the notional amount thereof is not greater than the principal amount of such Indebtedness or (2) relates to a Permitted Investment and provided that the notional amount thereof is not greater than the principal amount of such Permitted Investment;
(ix) Indebtedness incurred in exchange for, or the proceeds of which are used to refinance, any Indebtedness (other than Permitted Indebtedness) incurred pursuant to Section 4.03(a), so long as such Indebtedness so incurred will (1) not exceed in principal amount the principal amount of the Indebtedness so exchanged or refinanced, plus the amount of any premium required to be paid in connection with such refinancing or the amount of any premium necessary to accomplish such refinancing by means of a tender offer or privately negotiated repurchase, plus the amount of expenses of the Company incurred in connection with such refinancing, (2) not mature prior to the Stated Maturity of the Indebtedness so exchanged or refinanced, and (3) have an Average Life greater than or equal to the remaining Average Life of the Indebtedness so exchanged or refinanced; and
(x) Indebtedness, which Indebtedness may be Senior Indebtedness, Senior Subordinated Indebtedness or Subordinated Indebtedness (other than Indebtedness permitted by the foregoing clauses
(i) through (ix)) in an aggregate principal amount at any one time outstanding not to exceed $25 million less the aggregate principal amount of such Indebtedness then outstanding pursuant to clause (viii) of Section 4.04. For purposes of this definition and Section 4.04, any Indebtedness incurred to fund a defeasance or covenant defeasance shall be considered Indebtedness incurred in exchange for or the proceeds of which are used to refinance outstanding Indebtedness.

"Permitted Investment" means any Investment made by the Company or any Subsidiary; provided, however, that notwithstanding the foregoing, no investment may be made in any Non-Investment Grade Investment if, as determined at the date such Investment is made and after giving effect thereto:
(1) such Investment, together with all other Investments by the Company and its Subsidiaries in any Non-Investment Grade Investment, would exceed in the aggregate 15% of the total Invested Assets of the Company and its Subsidiaries determined as of the end of the most recent calendar quarter ending at least 45 days prior to the date of determination; and (2) in the case of any Investment in any Non-Investment Grade Investment of any Affiliate of the Company or any of its Subsidiaries (which Investment will also be included in the calculation under clause (1)), such Investment, together with all other Investments by the Company and its Subsidiaries in Non-Investment Grade Investments of any Affiliate of the Company or any of its Subsidiaries, would exceed in the aggregate 10% of the total Invested Assets of the Company and its Subsidiaries determined as of the end of the most recent calendar quarter ending at least 45 days prior to the date of determination; provided further, however, that any Investment by any Insurance Subsidiary in any Investment of any single issuer, together with all other Investments by the Company and its Subsidiaries in the same issuer, as determined as of the date such Investment is made and after giving effect thereto, will not exceed, in the aggregate, those percentages of the total Invested Assets of the Company and of its Subsidiaries permitted by operation of the terms of the charter of such Insurance Subsidiary or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Insurance Subsidiary, determined as of the end of the most recent calendar quarter ending at least 45 days prior to the date of determination.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, limited liability company, trust, unincorporated organization or government or any agency or political subdivision thereof or any other entity.

"Preferred Stock" as applied to the Capital Stock of any corporation, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such corporation, over shares of Capital Stock of any other class of such corporation.

"principal" of a Security means the principal of the Security plus the premium, if any, payable on the Security which is due or overdue or is to become due at the relevant time.

"Principal Insurance Subsidiary" means (i) all Insurance Subsidiaries of the Company existing as of the Closing Date, in each case until such Person ceases to be a Subsidiary;
(ii) any other Subsidiary that may succeed, by merger, consolidation or otherwise, to all or substantially all of the business of one or more of such Persons as specified in clause
(i), as determined in good faith by the Board of Directors, such determination to be evidenced by a resolution of the Board of Directors; and
(iii) any other Subsidiary which shall at the applicable time of determination be a Material Subsidiary principally engaged in the Insurance Business.

"Prospectus" means the Company's Prospectus dated September 23, 1994, relating to the offering of the Securities.

"Redeemable Cumulative Preferred Stock" means the Company's $2.16 Redeemable Cumulative Preferred Stock and $2.32 Redeemable Cumulative Preferred Stock.

"Redeemable Stock" of a corporation means any Capital Stock of such corporation that by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise, is convertible or exchangeable for Indebtedness (other than Preferred Stock) or Redeemable Stock, or is or may be redeemable at the option of the holder thereof, in whole or in part, on or prior to the first anniversary of the Stated Maturity of the Securities.

"Redemption Fund" means the Zero Coupon Securities and any proceeds therefrom.

"Representative" means the trustee, agent or other authorized representative (if any) for an issue of Senior Indebtedness.

"SEC" means the Securities and Exchange Commission.

"Securities" means the Securities issued under this Indenture.

"Senior Indebtedness" means (i) the principal of, premium, if any, and accrued interest (including, except as provided in clause (1) below, interest accruing at the rate provided for in the documents evidencing such Senior Indebtedness after the commencement of any voluntary or involuntary bankruptcy or insolvency proceedings or any receivership, liquidation,

reorganization, dissolution or other winding-up of the Company, to the extent such interest is allowed in such proceeding) owing with respect to (1) Indebtedness of the Company for money borrowed, whether outstanding on the date of execution of this Indenture or thereafter created, assumed or otherwise incurred, including Indebtedness incurred under the Credit Agreement (including interest accruing at the rate provided for in the documents evidencing the Credit Agreement after the commencement of any voluntary or involuntary bankruptcy or insolvency proceedings or any receivership, liquidation, reorganization, dissolution or other winding-up of the Company, whether or not an allowed claim in such proceeding and the obligation of the Company to repay any amount previously paid by the Company pursuant to the document evidencing the Credit Agreement which amounts have been returned to the Company or to a trustee or to any other Person pursuant to 11 U.S.C. Section 547), and all expenses, penalties, fees, claims, indemnifications, reimbursements, liabilities and other amounts owing with respect to the Credit Agreement, (2) express written guarantees by the Company of Indebtedness for money borrowed by any other person, whether outstanding on the date of execution of this Indenture or thereafter created, assumed or otherwise incurred, (3) Indebtedness evidenced by notes, debentures, bonds or other instruments of Indebtedness for the payment of which the Company is responsible or liable, by Guarantee or otherwise, whether outstanding on the date of execution of this Indenture or thereafter created, assumed or otherwise incurred, (4) Capital Lease Obligations of the Company whether outstanding on the date of execution of this Indenture or thereafter created, assumed or otherwise incurred, (5) obligations of the Company under interest rate or currency swaps, floors, caps or collars, and similar arrangements and foreign currency hedges entered into in respect of any such Indebtedness or obligation and (ii) amendments, supplements, modifications, renewals, extensions, refinancings, replacements and refundings of any such Indebtedness (whether or not coincident therewith) in clauses (1) through (5) above, unless, in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such Indebtedness, or such amendments, modifications, renewals, extensions, refinancings, replacements or refundings thereof, are not superior in right of payment to the Securities; provided, however, that Senior Indebtedness shall not be deemed to include
(a) any obligations of the Company to any of its Subsidiaries,
(b) any Indebtedness of the Company of any type described above under clause (i) or (ii) which is subordinate or junior in ranking to, or which ranks Pari Passu with, the Securities,
(c) any Indebtedness of the Company incurred in violation of the provisions of this Indenture or the Credit Agreement, (d) Indebtedness represented by the Securities, (e) any repurchase, redemption or other obligation in respect of Redeemable Stock,
(f) any Indebtedness of the Company to any employee, officer or director of the Company or any of its Subsidiaries, (g) any liability for federal, state, local or other taxes owed or owing by the Company or (h) any Trade Payables.

"Senior Subordinated Indebtedness" means the Securities and any other Indebtedness of the Company that specifically provides that such Indebtedness ranks Pari Passu with other Senior Subordinated Indebtedness of the Company and is not subordinated to any Indebtedness of the Company which is not Senior Indebtedness.

"Senior Term Loan" means the Credit Agreement dated as of September 14, 1994, among the Company, the lenders and co- agents named therein and Bank of America Illinois, as administrative agent.

"Stated Maturity" when used with respect to any security or any installment of interest on any security, means the date specified in such security as the fixed date on which the principal of such security or such installment of interest, respectively, is finally due and payable, except as otherwise provided in the case of Capital Lease Obligations.

"Statesman" means The Statesman Group, Inc.

"Statutory Accounting Practices" means applicable statutory accounting practices prescribed or permitted by the state of domicile of the Company or its Subsidiaries.

"Subordinated Indebtedness" means any Indebtedness of the Company (whether outstanding on the date hereof or hereafter incurred), which is subordinate in right of payment to the Securities, including any obligations (other than Securities) of the Company to a Subsidiary.

"Subsidiary" of any Person will mean any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person, (ii) such Person and one or more Subsidiaries of such Person or (iii) one or more Subsidiaries of such Person.

"TIA" means the Trust Indenture Act of 1939 (15 U.S.C. Sections 77aaa-77bbbb) as in effect on the date of this Indenture.

"Trade Payables" is defined to mean any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by the Company or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

"Trust Officer" means any officer or assistant officer of the Trustee assigned by the Trustee to administer its corporate trust matters.

"Trustee" means the party named as such in this Indenture until a successor replaces it in accordance with the provisions of this Indenture and, thereafter, means the successor.

"Uniform Commercial Code" means the New York Uniform Commercial Code as in effect from time to time.

"U.S. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable at the issuer's option.

"Vulcan" means Vulcan Life Insurance Company.

"Wholly Owned" is defined to mean, with respect to any Subsidiary of any Person, such Subsidiary if all of the outstanding common stock or other similar equity ownership interests (but not including Preferred Stock) in such Subsidiary (other than any director's qualifying shares or Investments by foreign nationals mandated by applicable law) is owned directly or indirectly by such Person; provided, however, that Vulcan will be deemed to be a Wholly Owned Subsidiary of the Company as long as not less than 97% of its outstanding common stock is owned, directly or indirectly, by the Company.

"Zero Coupon Securities" means the zero coupon securities which have been placed in escrow prior to the date of this Indenture to be used, to the extent legally available, to redeem the Redeemable Cumulative Preferred Stock.

SECTION 1.02. Other Definitions.

Term	Defined in Section
"Asset Sale Purchase Price"	4.08
"Bankruptcy Law"	6.01
"covenant defeasance option"	8.01(b)
"Custodian"	6.01
"Event of Default"	6.01
"incur"	4.03
"legal defeasance option"	8.01(b)
"Legal Holiday"	11.08
"Offer"	4.08
"Offer Amount"	4.08
"Offer Period"	4.08
"Paying Agent"	2.03
"Payment Blockage Period"	10.03
"Purchase Date"	4.08
"Registrar"	2.03
"Repurchase Amount"	4.09
"Repurchase Date"	4.09
"Repurchase Offer"	4.09
"Repurchase Period"	4.09
"Repurchase Price"	4.09
"Restricted Payment"	4.05

SECTION 1.03. Incorporation by Reference of Trust Indenture Act. Whenever this Indenture refers to a provision of the TIA, that provision is incorporated by reference in and made a part of this Indenture. This Indenture shall also include those provisions of the TIA required to be included herein by the Trust Indenture Reform Act of 1990. The following TIA terms used in this Indenture have the following meanings:

"Commission" means the SEC.

"indenture securities" means the Securities.

"indenture security holder" means a Securityholder.

"indenture to be qualified" means this Indenture.

"indenture trustee" or "institutional trustee" means the Trustee.

"obligor" on the indenture securities means the Company or any other obligor on the indenture securities.

All other TIA terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by SEC rule have the meanings assigned to them by such definitions.

SECTION 1.04. Rules of Construction. Unless the context otherwise requires:

(1) a term has the meaning assigned to it;

(2) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles as in effect from time to time;

(3) "or" is not exclusive;

(4) "including" means including, without limitation;

(5) words in the singular include the plural and words in the plural include the singular;

(6) unsecured debt shall not be deemed to be subordinate or junior to secured debt merely by virtue of its nature as unsecured debt;

(7) the principal amount of any noninterest bearing or other discount security at any date shall be the principal amount thereof that would be shown on a balance sheet of the issuer dated such date prepared in accordance with generally accepted accounting principles and accretion of principal on such security shall be deemed to be the incurrence of Indebtedness; and

(8) the principal amount of any Redeemable Stock shall be (i) the maximum liquidation value of such Redeemable Stock or (ii) the maximum mandatory redemption or mandatory repurchase price with respect to such Redeemable Stock, whichever is greater.

ARTICLE 2.

The Securities

SECTION 2.01. Form and Dating. The Securities and the Trustee's certificate of authentication shall be substantially in the form of Exhibit A, which is hereby incorporated in and expressly made a part of this Indenture. The Securities may have notations, legends or endorsements required by law, stock exchange rule, agreements to which the Company is subject, if any, or usage (provided that any such notation, legend or endorsement is in a form acceptable to the Company). Each Security shall be dated the date of its authentication. The terms of the Securities set forth in Exhibit A are part of the terms of this Indenture.

SECTION 2.02. Execution and Authentication. Two Officers shall sign the Securities for the Company by manual or facsimile signature. The Company's seal shall be impressed, affixed, imprinted or reproduced on the Securities and may be in facsimile form.

If an Officer whose signature is on a Security no longer holds that office at the time the Trustee authenticates the Security, the Security shall be valid nevertheless.

A Security shall not be valid until an authorized signatory of the Trustee manually signs the certificate of authentication on the Security. The signature shall be conclusive evidence that the Security has been authenticated under this Indenture.

The Trustee shall authenticate and deliver Securities for original issue in an aggregate principal amount of $150,000,000, upon a written order of the Company signed by two Officers or by an Officer and either an Assistant Treasurer or an Assistant Secretary of the Company. Such order shall specify the amount of the Securities to be authenticated and the date on which the original issue of Securities is to be authenticated. The aggregate principal amount of Securities outstanding at any time may not exceed that amount except as provided in Section 2.07.

The Trustee may appoint an authenticating agent reasonably acceptable to the Company to authenticate the Securities. Unless limited by the terms of such appointment, an authenticating agent may authenticate Securities whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as any Registrar, Paying Agent or agent for service of notices and demands.

SECTION 2.03. Registrar and Paying Agent. The Company shall maintain an office or agency where Securities may be presented for registration of transfer or for exchange (the "Registrar") and an office or agency where Securities may be presented for payment (the "Paying Agent"). The Registrar shall keep a register of the Securities and of their transfer and exchange. The Company may have one or more co-registrars and one or more additional paying agents. The term "Paying Agent" includes any additional paying agent.

The Company shall enter into an appropriate agency agreement with any Registrar, Paying Agent or co-registrar not a

party to this Indenture, which shall incorporate the applicable terms of the TIA and shall implement the provisions of this Indenture that relate to such agent. The Company shall notify the Trustee of the name and address of any such agent. If the Company fails to maintain a Registrar or Paying Agent, the Trustee shall act as such and shall be entitled to appropriate compensation therefor pursuant to Section 7.07. The Company or any Subsidiary or Affiliate may act as Paying Agent, Registrar or co-registrar.

The Company initially appoints the Trustee as Registrar and Paying Agent in connection with the Securities.

SECTION 2.04. Paying Agent To Hold Money in Trust. Not later than the close of business one Business Day prior to each due date of the principal and interest on any Security, the Company shall deposit with the Paying Agent a sum sufficient to pay such principal and interest when so becoming due. The Company shall require each Paying Agent (other than the Trustee) to agree in writing that the Paying Agent shall hold in trust for the benefit of Securityholders or the Trustee all money held by the Paying Agent for the payment of principal of or interest on the Securities and shall notify the Trustee of any default by the Company in making any such payment. If the Company or a Subsidiary acts as Paying Agent, it shall segregate the money held by it as Paying Agent and hold it as a separate trust fund. The Company at any time may require a Paying Agent to pay all money held by it to the Trustee and to account for any funds disbursed by the Paying Agent. Upon complying with this Section, the Paying Agent shall have no further liability for the money delivered to the Trustee.

SECTION 2.05. Securityholder Lists. The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Securityholders. If the Trustee is not the Registrar, the Company shall furnish to the Trustee, in writing at least five Business Days before each interest payment date and at such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Securityholders.

SECTION 2.06. Transfer and Exchange. The Securities shall be issued in registered form and shall be transferable only upon the surrender of a Security for registration of transfer. When a Security is presented to the Registrar or a co-registrar with a request to register a transfer, the Registrar shall register the transfer as requested if the requirements of Section 8-401(1) of the Uniform Commercial Code are met. When Securities are presented to the Registrar or a co-registrar with a request to exchange them for an equal principal amount of Securities of other denominations, the Registrar shall make the exchange as requested if the same requirements are met. To permit

registration of transfers and exchanges, the Company shall execute and the Trustee shall authenticate Securities at the Registrar's or co-registrar's request. The Company may require payment of a sum sufficient to pay all taxes, assessments or other governmental charges in connection with any transfer or exchange pursuant to this Section. The Company shall not be required to make and the Registrar need not register transfers or exchanges of Securities selected for redemption (except, in the case of Securities to be redeemed in part, the portion thereof not to be redeemed) or any Securities for a period of 15 days before a selection of Securities to be redeemed or 15 days before an interest payment date.

Prior to the due presentation for registration of transfer of any Security, the Company, the Trustee, the Paying Agent, the Registrar or any co-registrar may deem and treat the person in whose name a Security is registered as the absolute owner of such Security for the purpose of receiving payment of principal of and interest on such Security and for all other purposes whatsoever, whether or not such Security is overdue, and none of the Company, the Trustee, the Paying Agent, the Registrar or any co-registrar shall be affected by notice to the contrary.

All Securities issued upon any transfer or exchange pursuant to the terms of this Indenture will evidence the same debt and will be entitled to the same benefits under this Indenture as the Securities surrendered upon such transfer or exchange.

SECTION 2.07. Replacement Securities. If a mutilated Security is surrendered to the Registrar or if the Holder of a Security claims that the Security has been lost, destroyed or wrongfully taken, the Company shall issue and the Trustee shall authenticate a replacement Security if the requirements of
Section 8-405 of the Uniform Commercial Code are met and the Holder satisfies any other reasonable requirements of the Trustee. If required by the Trustee or the Company, such Holder shall furnish an indemnity bond sufficient in the judgment of the Company and the Trustee to protect the Company, the Trustee, the Paying Agent, the Registrar and any co-registrar from any loss which any of them may suffer if a Security is replaced. The Company and the Trustee may charge the Holder for their expenses in replacing a Security.

Every replacement Security is an additional obligation of the Company.

SECTION 2.08. Outstanding Securities. Securities outstanding at any time are all Securities authenticated by the Trustee except for those canceled by it, those delivered to it for cancellation and those described in this Section as not outstanding. A Security does not cease to be outstanding because the Company or an Affiliate of the Company holds the Security.

If a Security is replaced pursuant to Section 2.07, it ceases to be outstanding unless the Trustee and the Company receive proof satisfactory to them that the replaced Security is held by a bona fide purchaser.

If the Paying Agent segregates and holds in trust, in accordance with this Indenture, on a redemption date or maturity date money sufficient to pay all principal and interest payable on that date with respect to the Securities to be redeemed or maturing, as the case may be, and the Paying Agent is not prohibited from paying such money to the Securityholders on that date pursuant to the terms of this Indenture, then on and after that date such Securities cease to be outstanding and interest on them ceases to accrue.

SECTION 2.09. Temporary Securities. Until definitive Securities are ready for delivery, the Company may prepare and the Trustee shall authenticate temporary Securities. Temporary Securities shall be substantially in the form of definitive Securities but may have variations that the Company considers appropriate for temporary Securities. Without unreasonable delay, the Company shall prepare and the Trustee shall authenticate definitive Securities and deliver them in exchange for temporary Securities.

SECTION 2.10. Cancellation. The Company at any time may deliver Securities to the Trustee for cancellation. The Registrar and the Paying Agent shall forward to the Trustee any Securities surrendered to them for registration of transfer, exchange or payment. The Trustee and no one else shall cancel and destroy (subject to the record retention requirements of the Exchange Act) all Securities surrendered for registration of transfer, exchange, payment or cancellation and deliver a certificate of such destruction to the Company unless the Company directs the Trustee to deliver canceled Securities to the Company. The Company may not issue new Securities to replace Securities it has redeemed, paid or delivered to the Trustee for cancellation.

SECTION 2.11. Defaulted Interest. If the Company defaults in a payment of interest on the Securities, the Company shall pay defaulted interest (plus interest on such defaulted interest to the extent lawful) in any lawful manner. The Company may pay the defaulted interest to the persons who are Securityholders on a subsequent special record date, which date shall be at least five Business Days prior to the payment date. The Company shall fix or cause to be fixed any such special record date and payment date, and, at least 15 days before any such special record date, the Company shall mail to each Securityholder a notice that states the special record date, the payment date and the amount of defaulted interest to be paid.

ARTICLE 3.

Redemption

SECTION 3.01. Notices to Trustee. If the Company elects to redeem Securities pursuant to paragraph 5 of the Securities, it shall notify the Trustee in writing of the redemption date and the principal amount of Securities to be redeemed.

The Company shall give each notice to the Trustee provided for in this Section at least 60 days before the redemption date unless the Trustee consents to a shorter period. Such notice shall be accompanied by an Officers' Certificate and an Opinion of Counsel from the Company to the effect that such redemption will comply with the conditions herein. If fewer than all the Securities are to be redeemed, the record date relating to such redemption shall be selected by the Company and given to the Trustee, which record date shall be not less than 15 days after the date of notice to the Trustee.

SECTION 3.02. Selection of Securities To Be Redeemed. If fewer than all the Securities are to be redeemed, the Trustee shall select the Securities to be redeemed pro rata or by lot or by a method that complies with applicable legal and securities exchange requirements, if any, and that the Trustee in its sole discretion considers fair and appropriate and in accordance with methods generally used at the time of selection by fiduciaries in similar circumstances. The Trustee shall make the selection from outstanding Securities not previously called for redemption. The Trustee may select for redemption portions of the principal of Securities that have denominations larger than $1,000. Securities and portions of them the Trustee selects shall be in amounts of $1,000 or a whole multiple of $1,000. Provisions of this Indenture that apply to Securities called for redemption also apply to portions of Securities called for redemption. The Trustee shall notify the Company promptly of the Securities or portions of Securities to be redeemed.

SECTION 3.03. Notice of Redemption. At least 30 days but not more than 60 days before a date for redemption of Securities, the Company shall mail or cause to be mailed a notice of redemption by first-class mail to each Holder of Securities to be redeemed at such Holder's address as it appears in the records of the Registrar.

The notice shall identify the Securities to be redeemed and shall state:

(1) the redemption date;

(2) the redemption price;

(3) the name and address of the Paying Agent;

(4) that Securities called for redemption must be surrendered to the Paying Agent to collect the redemption price;

(5) if fewer than all the outstanding Securities are to be redeemed, the identification and principal amounts of the particular Securities to be redeemed;

(6) that, unless the Company defaults in making such redemption payment, interest on Securities (or portion thereof) called for redemption ceases to accrue on and after the redemption date and the only remaining right of the Holder shall be to receive payment of the redemption price upon presentation and surrender to the Paying Agent of the Securities;

(7) if any Security is being redeemed in part, the portion of the principal amount of such Security to be redeemed and that, after the redemption date, upon presentation and surrender of such Security, a new Security or Securities in principal amount equal to the unredeemed portion thereof will be issued; and

(8) that no representation is made as to the correctness or accuracy of the CUSIP number, if any, listed in such notice or printed on the Securities.

At the Company's request, the Trustee shall give the notice of redemption in the Company's name and at the Company's expense. In such event, the Company shall provide the Trustee with the information required by this Section.

SECTION 3.04. Effect of Notice of Redemption. Once notice of redemption is mailed, Securities called for redemption become due and payable on the redemption date and at the redemption price stated in the notice. Upon presentation and surrender to the Paying Agent, such Securities shall be paid at the redemption price stated in the notice, plus accrued interest to the redemption date. Failure to give notice or any defect in the notice to any Holder shall not affect the validity of the notice to any other Holder.

SECTION 3.05. Deposit of Redemption Price. Not later than the close of business one Business Day prior to the redemption date, the Company shall deposit with the Paying Agent (or, if the Company or a Subsidiary acts as the Paying Agent, shall segregate and hold in trust) money sufficient to pay the redemption price of and accrued interest on all Securities to be redeemed on that date other than Securities or portions thereof called for redemption which have been delivered by the Company to the Trustee for cancellation.

SECTION 3.06. Securities Redeemed in Part. Upon surrender of a Security that is redeemed in part, the Company shall execute and the Trustee shall authenticate for and deliver to the Holder (at the Company's expense) a new Security equal in principal amount to the unredeemed portion of the Security surrendered.

ARTICLE 4.

Covenants

SECTION 4.01. Payment of Securities. The Company shall promptly pay the principal of and interest on the Securities on the dates and in the manner provided in the Securities and in this Indenture. Principal and interest shall be considered paid on the date due if on such date the Trustee or the Paying Agent holds in accordance with this Indenture money sufficient to pay all principal and interest then due and the Trustee or the Paying Agent, as the case may be, is not prohibited from paying such money to the Securityholders on that date pursuant to the terms of this Indenture.

The Company shall pay interest on overdue principal at the rate specified therefor in the Securities, and it shall pay interest on overdue installments of interest at the same rate to the extent lawful.

SECTION 4.02. SEC Reports. The Company shall file with the Trustee and provide Securityholders, within 15 days after it files them with the SEC, copies of its annual report and of the information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may by rules and regulations prescribe) which the Company is required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act. Notwithstanding that the Company may not be required to remain subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company shall continue to file with the SEC and provide the Trustee and Securityholders with such annual reports and such information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may by rules and regulations prescribe) which are specified in Sections 13 and 15(d) of the Exchange Act. The Company also shall comply with the other provisions of TIA Section 314(a).

SECTION 4.03. Limitation on Indebtedness. (a) The Company shall not issue, incur, create, assume, guarantee or in any manner become directly or indirectly responsible for the payment of (collectively, "incur") any Indebtedness other than Permitted Indebtedness unless the Consolidated Fixed Charge Coverage Ratio for the four consecutive fiscal quarters (treated as one accounting period) immediately preceding the incurrence of such Indebtedness for which the consolidated financial statements of the Company and its Subsidiaries are available (provided that 45 days after the end of the Company's first, second and third fiscal quarters and 90 days after the end of the Company's fiscal year, the foregoing period shall be the four most recent consecutive fiscal quarters (treated as one accounting period) even if for any reason such financial statements are not then available) (as shown by a pro forma consolidated income statement

of the Company and its consolidated Subsidiaries) after giving pro forma effect to: (1) the incurrence of such Indebtedness and (if applicable) the application of the net proceeds therefrom to retire or repay other Indebtedness as if such Indebtedness was incurred and the application of such proceeds occurred at the beginning of such four-quarter period; (2) the incurrence, repayment or retirement of any other Indebtedness by the Company or any Subsidiary since the first day of the first fiscal quarter covered by such income statement as if such Indebtedness was incurred, repaid or retired at the beginning of such four-quarter period; and (3) the acquisition or disposition of any company or business acquired or disposed of by the Company or any Subsidiary since the first day of such four-quarter period, including any acquisition which will be consummated contemporaneously with the incurrence of such Indebtedness, as if such acquisition or disposition occurred at the beginning of the period, exceeds the following ratios (each, an "Indebtedness Ratio") for Indebtedness incurred during the calendar years indicated below:

Year	Indebtedness Ratio
1994-1996	2.0:1.0
1997-1998	2.25:1.0
1999 and thereafter	2.5:1.0

(b) Notwithstanding the foregoing Section 4.03(a), the Company may not incur any Indebtedness: (i) which is subordinated or junior in ranking or right of payment in respect to any Senior Indebtedness unless such Indebtedness is Senior Subordinated Indebtedness or is expressly subordinated in right of payment to Senior Subordinated Indebtedness; (ii) which is Subordinated Indebtedness unless such Subordinated Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Securities, and has an Average Life greater than or equal to the Average Life of the Securities; or (iii) if the proceeds thereof are used, directly or indirectly, to repay, prepay, redeem, defease, retire or refinance any (1) Securities or other Senior Subordinated Indebtedness unless such Indebtedness is made pari passu with or subordinate to the Securities or (2) Subordinated Indebtedness unless such Indebtedness is made subordinate to the Securities to at least the same extent as such Subordinated Indebtedness, and in each case such Indebtedness (x) has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness so

refinanced and (y) has an Average Life greater than or equal to the Average Life of the Indebtedness so refinanced. A given instrument or agreement of the Company or a Subsidiary (including, without limitation, the Credit Agreement) may provide for or relate to more than one type or category of Permitted Indebtedness or other Indebtedness of the Company or its Subsidiaries permitted to be incurred or outstanding under this
Section or Section 4.04; provided, however, that Indebtedness incurred under the Senior Term Loan on or prior to the Closing Date shall be treated as incurred pursuant to clause (i) of the definition of "Permitted Indebtedness."

For purposes of this Indenture, the amount of any Indebtedness denominated in a currency other than U.S. dollars shall be the Dollar Equivalent of such currency at the date of the issuance thereof by the Company.

SECTION 4.04. Limitation on Indebtedness and Preferred Stock of Subsidiaries. The Company shall not permit any of its Subsidiaries to incur or issue, directly or indirectly, any Indebtedness or Preferred Stock except (i) Indebtedness or Preferred Stock of a Subsidiary issued and outstanding on the Closing Date, (ii) Indebtedness incurred or Preferred Stock issued to and held by the Company or a Wholly Owned Subsidiary; provided, however, that any subsequent issuance or transfer of any Capital Stock which results in any such Wholly Owned Subsidiary ceasing to be a Wholly Owned Subsidiary or any subsequent transfer of any such Indebtedness or Preferred Stock (except to the Company or any Wholly Owned Subsidiary) will be deemed, in each case, to constitute the incurrence of such Indebtedness or the issuance of such Preferred Stock,
(iii) Indebtedness or Preferred Stock of a Subsidiary existing and outstanding on the date on which such Subsidiary became a Subsidiary (other than Indebtedness incurred or Preferred Stock issued in connection with or in anticipation of such Subsidiary becoming a Subsidiary); provided, however, that after giving effect to the incurrence or issuance thereof, the Company could incur $1.00 of Indebtedness (other than Permitted Indebtedness) pursuant to Section 4.03(a), (iv) Indebtedness incurred or Preferred Stock issued in exchange for, or the proceeds of which are used to refinance, Indebtedness or Preferred Stock referred to in clauses (i) and (iii) above, so long as (1) the principal amount of such Indebtedness incurred or the liquidation value of such Preferred Stock issued does not exceed the sum of the principal amount or liquidation value of the Indebtedness or Preferred Stock so exchanged or refinanced, plus the amount of any premium required to be paid in connection with such exchange or refinancing or the amount of any premium necessary to accomplish such exchange or refinancing by means of a tender offer or privately negotiated repurchase, plus the amount of expenses of the Company incurred in connection with such exchange or refinancing, (2) the Indebtedness incurred or Preferred Stock issued has a Stated Maturity or final mandatory redemption date

(if any) no earlier than the Stated Maturity of the Indebtedness or final mandatory redemption date (if any) of the Preferred Stock being exchanged or refinanced, and (3) the Indebtedness incurred or Preferred Stock issued has an Average Life greater than or equal to the Average Life of the Indebtedness or Preferred Stock so exchanged or refinanced, (v) Indebtedness (or Indebtedness incurred to refinance such Indebtedness) consisting of deferred payment obligations resulting from the adjudication or settlement of any claim or litigation, (vi) Indebtedness (or Indebtedness incurred to refinance such Indebtedness) pursuant to any interest rate or currency swaps, floors, caps or collars to protect against fluctuations in interest or currency exchange rates, provided that such Indebtedness (1) relates to Indebtedness permitted to be incurred hereunder and provided that the notional amount thereof is not greater than the principal amount of such Indebtedness or (2) relates to a Permitted Investment and provided that the notional amount thereof is not greater than the principal amount of such Permitted Investment, (vii) Indebtedness (or Indebtedness incurred to refinance such Indebtedness) of an Insurance Subsidiary evidenced by forward or reverse repurchase agreements, mortgage-backed security transactions, dollar rolls, collateralized mortgage or bond obligations, or other collateralized investment obligations, in all cases relating to the assets in the investment portfolio of such Insurance Subsidiary, and (viii) Indebtedness in an aggregate principal amount or Preferred Stock having an aggregate liquidation value which, together with all other Indebtedness and Preferred Stock of all Subsidiaries then outstanding (other than Indebtedness or Preferred Stock described in clauses (i) through (vii) of this Section), does not exceed $25 million less the aggregate principal amount of Indebtedness then outstanding pursuant to clause (x) of the definition of Permitted Indebtedness.

SECTION 4.05. Limitation on Restricted Payments. (a) The Company shall not, and shall not permit any Subsidiary, directly or indirectly, to: (i) declare or pay any dividend or make any distribution on its Capital Stock (except dividends or distributions payable solely in its Capital Stock (other than Redeemable Stock) or in options, warrants or other rights to purchase its Capital Stock (other than Redeemable Stock) and except dividends or distributions (other than dividends or distributions of Redeemable Stock) payable to the Company or a Subsidiary (and, if a Subsidiary has minority stockholders, pro rata to such stockholders)); (ii) purchase, redeem or otherwise acquire or retire for value (including, without limitation, the exchange of Indebtedness for Preferred Stock or any other exchange) any Capital Stock of the Company or any Subsidiary or any direct or indirect parent of the Company; (iii) make any principal payment on, or purchase, repurchase, redeem, defease or otherwise acquire or retire for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment, any Subordinated Indebtedness other than Subordinated

Indebtedness purchased in anticipation of a sinking fund obligation, principal installment or final maturity, in each case due no more than one year after the date of acquisition; or
(iv) make any Investment in any Person other than a Permitted Investment (any such dividend, distribution, payment, purchase, redemption, repurchase, defeasance, other acquisition, retirement or Investment (but in the case of any Investment, only for so long as such Investment is outstanding) being hereinafter referred to as a "Restricted Payment"), if at the time the Company or such Subsidiary makes such Restricted Payment or after giving effect to such Restricted Payment: (1) a Default shall have occurred and be continuing (or would result therefrom); (2) the Company could not incur an additional $1.00 of Indebtedness (other than Permitted Indebtedness) pursuant to Section 4.03(a); or (3) the aggregate amount of such Restricted Payment and all other Restricted Payments made since the Closing Date would exceed the sum of: (a) 50% of the cumulative Consolidated Net Income accrued during the period (treated as one accounting period) subsequent to the Closing Date (or, in case such cumulative Consolidated Net Income is a deficit, minus 100% of such deficit); (b) the aggregate Net Proceeds received by the Company subsequent to the Closing Date from (i) the issue or sale of its Capital Stock or options, warrants or other rights to purchase its Capital Stock (in each case, other than Redeemable Stock and other than to a Subsidiary), including cash received upon conversion of Indebtedness for Capital Stock or (ii) the making of any capital contribution by any shareholder of the Company; and (c) $5 million.

(b) Notwithstanding the foregoing, Section 4.05(a) will not prohibit: (i) any purchase, redemption or other acquisition of Capital Stock or Subordinated Indebtedness of the Company made by exchange for, or out of the Net Proceeds received by the Company from, the substantially concurrent sale of Capital Stock of the Company (other than Redeemable Stock and other than to a Subsidiary) or substantially concurrent capital contribution made by any shareholder of the Company; (ii) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company made by exchange for, or out of the proceeds of the substantially concurrent sale of, Indebtedness of the Company permitted to be incurred under Section 4.03; (iii) the repayment of Indebtedness of the Company to Statesman, purchase of surplus notes and preferred stock of American Life held by Statesman, redemption of preferred stock of the Company held by Statesman, repayment of Indebtedness of AMCO and payment by the Company of a dividend to Statesman, all on the Closing Date in connection with financing the Acquisition and related transactions, as described in the Prospectus under "The Acquisition"; (iv) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Indebtedness from the net proceeds of an Asset Sale to the extent permitted pursuant to Section 4.08;
(v) dividends or distributions which are paid within 60 days

after the date of declaration thereof if at such date of declaration such dividends or distributions would have complied with the provisions hereof; (vi) the repurchase of any Subordinated Indebtedness at a price not in excess of the Repurchase Price pursuant to a provision substantially similar to
Section 4.09, if and only if the Company shall have first fully complied, or be simultaneously complying, in all respects with its obligations pursuant to such Section 4.09, including without limitation paying the full Repurchase Price for all Securities tendered pursuant thereto; (vii) the payment by the Company to Statesman (whether by dividend, loan or the repayment of outstanding liability, provided that if made by dividend, any related liability must be concurrently extinguished) of an amount of up to $30,100,000 in order to fund payments under the Contingent Payment Rights or of the Per Share Cash Consideration in respect of the Government Preferred Stock, each as described in the Prospectus under "The Acquisition," provided that such payment may not be made by the Company until payment is required to be made under the Contingent Payment Rights or to the holder of the Government Preferred Stock; (viii) the payment to Statesman of any amounts recovered by the Company or any Subsidiary in the Statesman Litigation (as defined in the Prospectus), less any portion of such amounts not required to be paid to the holders of the Contingent Payment Rights; (ix) the payment of aggregate dividends of up to $8,750,000 per year on the shares of the Redeemable Cumulative Preferred Stock outstanding on the Closing Date, provided that no Default has occurred and is then continuing; (x) the payment of any or all of the proceeds of the Zero Coupon Securities to repurchase or redeem shares of the Redeemable Cumulative Preferred Stock; and
(xi) the payment of dividends by the Company on the Company's common stock following an initial public offering of the Company's or Statesman's common stock not to exceed 4% per annum of the net proceeds received by the Company in such public offering or received by Statesman and contributed to the Company as equity. The Restricted Payments permitted to be made as described in clauses (ii), (iii), (iv), (vii), (viii) and (x) will not be included in such calculation of the amount of Restricted Payments which may be made thereafter pursuant to the preceding paragraph but the Restricted Payments permitted to be made as described in clauses (i), (v), (vi), (ix) and (xi) will be included in such calculation of the amount of Restricted Payments which may be made thereafter.

Amounts paid to the Company pursuant to any agreement or arrangement relating to tax sharing or tax allocation payments will not be considered capital contributions by a stockholder for any purpose under this Indenture.

SECTION 4.06. Limitation on Restrictions on Distributions from Subsidiaries. (a) The Company shall not, and shall not permit any Subsidiary to, create or otherwise cause or permit to exist or become effective any voluntary or consensual

encumbrance or voluntary or consensual restriction on the ability of any Subsidiary to: (i) pay dividends or make any other distributions on its Capital Stock or pay any Indebtedness or other obligation owed to the Company or its other Subsidiaries,
(ii) make any loans or advances to the Company or (iii) transfer any of its property or assets to the Company or any Subsidiary except: (1) any encumbrance or restriction pursuant to an agreement or stipulation in effect at or entered into on the date of this Indenture; (2) any encumbrance or restriction with respect to a Subsidiary imposed by any applicable insurance or other laws or regulations now or hereafter in effect or imposed by order of or agreement with any governmental authority now or hereafter in effect (provided the Company and such Subsidiary have used reasonable efforts to have any such order or agreement diminished or removed by any governmental authority authorized to do so and to obtain any exemptive orders from the relevant governmental authority with respect to any such encumbrance or restriction to the extent such exemptive orders are reasonably available under applicable laws and regulations); (3) any encumbrance or restriction with respect to a Subsidiary in effect on or prior to the date on which such Subsidiary was acquired by the Company or any Subsidiary (other than any such encumbrance or restriction established in connection with Indebtedness incurred in connection with or in anticipation of the acquisition of such Subsidiary) and outstanding on such date; (4) any encumbrance or restriction pursuant to an agreement effecting a refinancing of Indebtedness issued pursuant to an agreement referred to in the foregoing clause (1) or (3), so long as the encumbrances and restrictions contained in any such refinancing agreement are no more restrictive (taken in the aggregate) than encumbrances and restrictions contained in such agreements; (5) in the case of clause (iii) above, encumbrances or restrictions contained in loan agreements or security or similar agreements permitted by this Indenture securing Indebtedness permitted by this Indenture to the extent such restrictions restrict the transfer of property subject to such security agreements or consist of customary negative pledge covenants; and (6) any encumbrance or restriction consisting of customary nonassignment provisions in leases, installment purchase contracts, requirement contracts, or other similar agreements to the extent such provisions restrict the transfer of the lease, contract or agreement or any right thereunder.

(b) The Company will not, and will not permit any of its Subsidiaries to, enter into any amendment or modification, or agree to or accept any waiver, of the provisions of (a) any of its surplus notes or debentures outstanding on the Closing Date or (b) any intercompany tax sharing or tax allocation agreement in effect on the Closing Date the result of which amendment, modification or waiver would have a material adverse effect on the Company's ability to repay the Securities (such determination to be made by the chief financial officer of the Company pursuant to an Officers' Certificate delivered to the Trustee) unless such

amendment, modification or waiver is required by any applicable insurance or other laws and regulations now or hereafter in effect or required by order of or agreement with any governmental authority now or hereafter in effect, provided that the Company or the Subsidiary required to make such amendment, modification or waiver has used its reasonable efforts to have such order or agreement imposed after the Closing Date diminished by any governmental authority authorized to do so and to obtain any exemptive order from the relevant governmental authority with respect to such amendment, modification or waiver to the extent such exemptive order is reasonably available under applicable laws and regulations.

SECTION 4.07. Limitation on Transactions with Affiliates. (a) The Company shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, conduct any business or enter into any transaction or series of transactions (including the purchase, sale, lease or exchange of any property or the rendering of any service or the making of any Investment by the Company or any Subsidiary in any securities of the Partnership, any subsidiary of the Partnership or any Affiliate of the Partnership) with any Affiliate of the Company (other than a Wholly Owned Subsidiary) or with any beneficial owner (or any Affiliate of such an owner) of 10% or more of any class of Capital Stock of the Company unless (i) the terms of such business or transaction are (A) set forth in writing and (B) at least as favorable to the Company or such Subsidiary as terms that could be obtained at the time for a comparable transaction in arm's length dealings with an unrelated third Person, and (ii) if such transaction or series of transactions has a value greater than $5 million, the Company shall have delivered to the Trustee (A) an Officer's Certificate to the effect that the Board of Directors and a majority of the disinterested directors, if any, have approved the business or transaction or series of transactions in good faith or (B) an opinion from an independent national investment banking firm or, if no such investment banking firm is in a position to render such an opinion, an independent firm of national reputation chosen by the Company having expertise in the specific area which is the subject of such opinion, certifying that such transaction or series of transactions is fair to the Company or such Subsidiary, as the case may be, from a financial point of view.

(b) The foregoing provisions of Section 4.07(a) will in no event restrict or prohibit: (i) the entering into or performance by the Company or its Subsidiaries of the separate advisory agreements in effect on the Closing Date between Conseco Capital Management, Inc., and each of American Life Holding Company, American Life and Vulcan, in accordance with the terms of such agreements as set forth therein, it being understood that the terms of any renewal, amendment or modification thereof shall be subject, in all respects, to the immediately preceding paragraph, (ii) any Restricted Payment permitted to be paid pursuant to Section 4.05, (iii) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise

pursuant to, or the funding of, employment arrangements, stock options and stock ownership plans approved by the Board of Directors, (iv) loans or advances to officers, directors and employees in the ordinary course of business consistent with past practice, (v) the payment of reasonable fees to directors of the Company and of its Subsidiaries who are not employees of the Company or any Subsidiary, (vi) reasonable and customary indemnification arrangements between the Company or any Subsidiary and their respective directors and officers pursuant to which the Company or any such Subsidiary agrees to indemnify such persons against losses and expenses incurred by such persons in connection with their service to the Company or such Subsidiary, as the case may be (to the extent such indemnification arrangements are permitted under applicable law),
(vii) any transaction or series of transactions in an amount not in excess of $250,000 or (viii) any transaction between the Company and a Wholly Owned Subsidiary or between Wholly Owned Subsidiaries.

SECTION 4.08. Limitation on Sales of Assets and Subsidiary Stock. (a) The Company shall not, and shall not permit any Subsidiary to, make any Asset Sale unless (i) the Company or such Subsidiary receives consideration at the time of such Asset Sale at least equal to the fair market value of the shares and assets subject to such Asset Sale (which, in the case of any Asset Sale involving shares or assets having a fair market value of more than $10 million, will be determined in good faith by the Board of Directors (including as to the value of all noncash consideration)), and at least 75% of such consideration is cash and cash equivalents, and/or the assumption of liabilities (other than Subordinated Indebtedness) of the Company or its Subsidiaries by the acquiror, and (ii) the Company shall within one year from the later of the date of such Asset Sale or the receipt of Net Available Cash therefrom, use such Net Available Cash (1) to permanently repay or redeem Senior Indebtedness or Indebtedness of a Principal Insurance Subsidiary,
(2) to acquire one or more Insurance Businesses or invest in one or more Principal Insurance Subsidiaries or (3) to the extent the aggregate Net Available Cash from all such Asset Sales not applied pursuant to clauses (1) and (2) exceeds $5 million, to make an Offer (as defined in paragraph (b) below) to purchase Securities pursuant to and subject to the conditions of paragraph (b) below. Notwithstanding the foregoing, the Company will not be required to apply any such Net Available Cash in accordance with clause (ii) of the preceding sentence except to the extent that the aggregate Net Available Cash from all Asset Sales not so applied exceeds $10 million.

(b) In the event of an Asset Sale that requires the purchase of Securities pursuant to paragraph (a) above, the Company will be required to purchase Securities tendered pursuant to a tender offer by the Company for the Securities (an "Offer") at a purchase price (an "Asset Sale Purchase Price") of 100% of their principal amount, plus accrued and unpaid interest to the Purchase Date (as defined in paragraph (c) below) in accordance with the procedures (including prorating in the event of oversubscription) set forth in paragraph (c) of this Section.

(c) (1) Promptly, and in any event within 30 days following the one year anniversary from the later of the date of any Asset Sale, or the receipt of the Net Available Cash from such Asset Sale, as to which the Company must make an Offer for Securities, the Company shall deliver to the Trustee and send, by first-class mail, to each Holder, a written notice stating that the Holder may elect to have such Holder's Securities purchased by the Company either in whole or in part (subject to prorating as hereinafter described in the event the Offer is oversubscribed) in integral multiples of $1,000 of principal amount, at the applicable Asset Sale Purchase Price. The notice shall specify a purchase date not less than 30 days nor more than 60 days after the date such notice is mailed unless otherwise required by applicable law (the "Purchase Date") and shall contain information concerning the circumstances and relevant facts regarding such Asset Sale which the Company in good faith believes will enable such Holders to make an informed decision regarding the Offer, including but not limited to information with respect to historical income, cash flow and capitalization after giving pro forma effect to such Asset Sale to the extent practicable. The notice shall specify that unless the Company shall default in the payment of the Asset Sale Purchase Price, after the Purchase Date interest thereon will cease to accrue with respect to any Securities accepted for purchase by the Company, and shall contain all instructions and materials necessary to tender Securities pursuant to the Offer, together with the information contained in clause (3) below.

(2) Not later than the date upon which written notice of an Offer is delivered to the Trustee as provided above, the Company shall deliver to the Trustee an Officers' Certificate as to (i) the amount of the Offer (the "Offer Amount"), (ii) the allocation of the Net Available Cash from the Asset Sale pursuant to which the Offer is being made and (iii) the compliance of such allocation with the provisions of paragraph (a) of this Section. On or before such date, the Company shall also irrevocably deposit with the Paying Agent (or, if the Company is acting as its own paying agent, segregate and hold in trust) in immediately available funds an amount equal to the Offer Amount to be held for payment in accordance with the provisions of this Section. Upon the expiration of the period for which the Offer remains open (the "Offer Period"), the Company shall deliver to the Trustee the Securities or portions thereof which have been properly tendered to and are to be accepted by the Company. The Paying Agent shall, on or promptly after the Purchase Date, mail or deliver payment to each tendering Holder in the amount of the Asset Sale Purchase Price with respect to the Securities tendered by such Holder and accepted by the Company from the funds provided by the Company for such payment. In the event that the aggregate Asset Sale Purchase Price of all Securities delivered by the Company to the Trustee is less than the Offer Amount, the Paying Agent shall deliver the excess to the Company immediately after the expiration of the Offer Period.

(3) Holders electing to have Securities purchased will be required to surrender the Securities to the Company at the address specified in the notice at least three Business Days prior to the Purchase Date. A Holder will be entitled to withdraw its election if the Trustee or the Company receives not later than three Business Days prior to the Purchase Date, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Securities which were delivered for purchase by the Holder and a statement that such Holder is withdrawing its election to have such Securities purchased. If at the expiration of the Offer Period the aggregate principal amount of Securities surrendered by Holders exceeds the Offer Amount, the Company shall select the Securities to be purchased on a pro rata basis (with such adjustments as may be deemed appropriate by the Company so that only Securities in denominations of $1,000 or integral multiples thereof shall be purchased first). Holders whose Securities are purchased only in part will be issued new Securities of the same series equal in principal amount to the unpurchased portion of the Securities surrendered.

(4) At the time the Company delivers Securities to the Trustee which are to be accepted for purchase, the Company will also deliver an Officers' Certificate stating that such Securities are to be accepted by the Company pursuant to and in accordance with the terms of this Section and an Opinion of Counsel stating that the terms of this Indenture have been complied with. Securities shall be deemed to have been accepted for purchase at the time the Paying Agent mails or delivers payment therefor to the surrendering Holder.

(5) The Company shall comply with any tender offer rules under the Exchange Act which may then be applicable, including Rule 14e-1, or other applicable laws or regulations in connection with any Offer required to be made by the Company to repurchase the Securities pursuant to this Section. In the event of any conflict between such tender offer rules or other applicable laws or regulations and the provisions of this Section, such rules or other laws or regulations shall control. The Company may assign its obligation to repurchase the Securities as a result of an Asset Sale to a third party (which may or may not be an Affiliate), so long as the Company remains an obligor of the Securities not repurchased and agrees to repurchase the Securities on the Purchase Date to the extent such third party fails to do so. Any such offer by a third party must comply with any applicable tender offer rules or other applicable laws or regulations.

SECTION 4.09. Change of Control. (a) In the event of a Change of Control, the Company will be required to repurchase all or any part of each Holder's Securities tendered pursuant to a tender offer by the Company for the Securities (a "Repurchase Offer") at a purchase price in cash (the "Repurchase Price") equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of such purchase in accordance with the procedures set forth in paragraph (b) of this Section.

(b) (1) Within 30 days following any Change of Control, the Company shall deliver to the Trustee and send, by first-class mail, to each Holder, a written notice stating that a Change of Control has occurred and that the Holder may elect to have such Holder's Securities repurchased by the Company either in whole or in part in integral multiples of $1,000 of principal amount, at the Repurchase Price. The notice shall specify a purchase date (the "Repurchase Date") not less than 30 days nor more than 60 days after the date of such notice (or such longer period as may be reasonably necessary for the Company to comply with any applicable laws and regulations), and shall contain information concerning the circumstances and relevant facts regarding such Change of Control which the Company in good faith believes will enable such Holders to make an informed decision regarding the Repurchase Offer, including but not limited to information with respect to historical income, cash flow and capitalization after giving pro forma effect to the Change of Control to the extent practicable. The notice shall specify that unless the Company shall default in the payment of the Repurchase Price, after the Repurchase Date interest thereon will cease to accrue with respect to any Securities timely tendered, and shall contain all instructions and materials necessary to tender Securities pursuant to the Repurchase Offer, together with the information contained in clause (3) below.

(2) Not later than the Repurchase Date, the Company shall irrevocably deposit with the Paying Agent (or, if the Company is acting as its own paying agent, segregate and hold in trust) in immediately available funds an amount equal to the total amount necessary to repurchase all the Securities (the "Repurchase Amount") to be held for payment in accordance with the provisions of this Section. Upon the expiration of the period for which the Repurchase Offer remains open (the "Repurchase Period"), the Company shall deliver to the Trustee the Securities or portions thereof which have been properly tendered to and are to be accepted by the Company. The Paying Agent shall, on or promptly after the Repurchase Date, mail or deliver payment to each tendering Holder in the amount of the Repurchase Price with respect to the Securities tendered by such Holder and accepted by the Company from the funds provided by the Company for such payment. In the event that the aggregate Repurchase Price of all Securities delivered by the Company to the Trustee is less than the Repurchase Amount, the Paying Agent shall deliver the excess to the Company immediately after the expiration of the Repurchase Period.

(3) Holders electing to have Securities repurchased will be required to surrender the Securities to the Company at the address specified in the notice at least three Business Days prior to the Repurchase Date. A Holder will be entitled to withdraw its election if the Trustee or the Company receives not later than three Business Days prior to the Repurchase Date, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Securities which were delivered for repurchase by the Holder and a statement that such Holder is withdrawing its election to have such Securities repurchased. Holders whose Securities are repurchased only in part will be issued new Securities of the same series equal in principal amount to the non-repurchased portion of the Securities surrendered.

(4) At the time the Company delivers Securities to the Trustee which are to be accepted for repurchase, the Company will also deliver an Officers' Certificate stating that such Securities are to be accepted by the Company pursuant to and in accordance with the terms of this Section and an Opinion of Counsel stating that the terms of the Indenture have been complied with. Securities shall be deemed to have been accepted for repurchase at the time the Trustee receives such delivery and Officers' Certificate and Opinion of Counsel from the Company.

(5) The Company shall comply with any tender offer rules under the Exchange Act which may then be applicable, including Rule 14e-1, or other applicable laws or regulations in connection with any offer required to be made by the Company to repurchase the Securities pursuant to this Section. In the event of any conflict between such tender offer rules or other applicable laws or regulations and the provisions of this Section, such rules or other laws or regulations shall control. The Company may assign its obligation to repurchase the Securities as a result of a Change of Control to a third party (which may or may not be an Affiliate), so long as the Company remains an obligor of the Securities not repurchased and agrees to repurchase the Securities on the Repurchase Date to the extent such third party fails to do so. Any such offer by a third party also must comply with any applicable tender offer rules or other applicable laws or regulations.

SECTION 4.10. Limitation on Liens Securing Subordinated or Pari Passu Indebtedness. If the Company or any Subsidiary creates, incurs, assumes or suffers to exist any Lien of any kind (i) securing any Subordinated Indebtedness of the Company or Indebtedness of the Company which ranks Pari Passu with the Securities, then the Company will or will cause its

Subsidiaries, as the case may be, concurrently or immediately thereafter, to provide that the Securities are equally and ratably secured; provided, however, that in the case of Subordinated Indebtedness, the Lien securing such Subordinated Indebtedness shall be subordinate and junior to the Lien securing the Securities with the same relative priority as such Subordinated Indebtedness shall have with respect to the Securities; provided further, however, that this Section 4.10 shall not apply to the Lien encumbering the Redemption Fund; or
(ii) securing any assumption, guarantee or other liability of any Subsidiary in respect of any Subordinated Indebtedness of the Company or Indebtedness of the Company which ranks Pari Passu with the Securities, then a substantially similar assumption, guarantee or other liability of such Subsidiary in respect of the Securities, concurrently or immediately thereafter, shall be equally and ratably secured; provided, however, that in the case of Subordinated Indebtedness, the Lien securing the assumption, guarantee or other liability of any Subsidiary in respect of such Subordinated Indebtedness shall be subordinate and junior to the Lien securing the assumption, guarantee or other liability of such Subsidiary in respect of the Securities with the same relative priority as such Subordinated Indebtedness shall have with respect to the Securities.

SECTION 4.11. Business Activities. The Company will not, and will not permit any Subsidiary to, engage in any business other than (i) the insurance and reinsurance business and such business activities incidental or related thereto,
(ii) such other businesses as the Company or its Subsidiaries are engaged in on the date of this Indenture and (iii) businesses which are conducted through Subsidiaries other than those referred to in (i) or (ii) above as long as the aggregate Investments of the Company and its Subsidiaries in such Subsidiaries do not exceed 5% of the total Invested Assets of the Company and its Subsidiaries.

SECTION 4.12. Limitation on Issuance of Guarantees by Subsidiaries. (a) The Company will not permit any Subsidiary, directly or indirectly, to Guarantee any Indebtedness of the Company which is Pari Passu with or subordinate in right of payment to the Securities ("Guaranteed Indebtedness"), unless
(i) such Subsidiary simultaneously executes and delivers a supplemental indenture to this Indenture providing for a Guarantee (a "Subsidiary Guarantee") of payment of the Securities by such Subsidiary and (ii) such Subsidiary waives, and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Subsidiary as a result of any payment by such Subsidiary under its Subsidiary Guarantee. If the Guaranteed Indebtedness is (A) Pari Passu with the Securities, then the Guarantee of such Guaranteed Indebtedness shall be Pari Passu with, or subordinated to, the

Subsidiary Guarantee or (B) subordinated to the Securities, then the Guarantee of such Guaranteed Indebtedness shall be subordinated to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Securities.

(b) Notwithstanding the foregoing Section 4.12(a), any Subsidiary Guarantee by a Subsidiary shall provide by its terms that it shall be automatically and unconditionally released and discharged upon (i) any sale, exchange or transfer, to any Person not an Affiliate of the Company, of all of the Company's and each Subsidiary's Capital Stock in, or all or substantially all the assets of, such Subsidiary (which sale, exchange or transfer is not prohibited by this Indenture) or (ii) the release or discharge of the Guarantee which resulted in the creation of such Subsidiary Guarantee, except a discharge or release by or as a result of payment under such Guarantee.

SECTION 4.13. Compliance Certificate. The Company shall deliver to the Trustee, within 120 days after the end of each fiscal year, an Officers' Certificate stating that a review of the activities of the Company and its Subsidiaries during the preceding fiscal year has been made under the supervision of the signing officers with a view to determining whether each has kept, observed, performed and fulfilled its obligations under this Indenture, and further stating as to each such officer signing such Officers' Certificate, that to the best of his or her knowledge each has kept, observed, performed and fulfilled each and every covenant contained in this Indenture and is not in default in the performance or observance of any terms, provisions and conditions hereof (or, if a Default or Event of Default shall have occurred, describing all such Defaults or Events of Default of which he or she may have knowledge and what action each is taking or proposes to take with respect thereto). The Company also shall comply with TIA Section 314(a)(4) in the event that it imposes any requirement which is not satisfied by compliance by the Company with the requirements of the preceding sentence.

SECTION 4.14. Further Instruments and Acts. Upon request of the Trustee, the Company will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purpose of this Indenture.

ARTICLE 5.

Successor Company

SECTION 5.01. When Company May Merge or Transfer Assets. The Company shall not consolidate with or merge with or into any other Person or sell, convey, assign, transfer, lease or otherwise dispose of all or substantially all of its assets as an entirety to any Person unless:

(i) either (1) the Company shall be the continuing corporation or (2) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or the Person that acquires by sale, assignment, conveyance, transfer, lease or other disposition of all or substantially all of the properties and assets of the Company as an entirety (A) shall be a corporation organized and validly existing under the laws of the United States or any State thereof or the District of Columbia and (B) shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of (and premium, if any) and interest on all the Securities and the performance and observance of all other obligations under this Indenture on the part of the Company to be performed or observed;

(ii) immediately before and immediately after giving pro forma effect to such transaction (and treating any Indebtedness not previously an obligation of the Company or a Subsidiary which becomes the obligation of the Company or any of its Subsidiaries in connection with or as a result of such transaction as having been incurred at the time of such transaction), no Default shall have occurred and be continuing;

(iii) immediately after giving pro forma effect to such transaction, the resulting, surviving or transferee Person has Consolidated Net Worth in an amount which is not less than the Consolidated Net Worth of the Company immediately prior to such transaction;

(iv) immediately after giving pro forma effect to such transaction, the resulting, surviving or transferee Person would be able to incur an additional $1.00 of Indebtedness pursuant to Section 4.03(a), other than Permitted Indebtedness; and

(v) the Company or such Person shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that the conditions specified in clauses (i) through (iv) above have been satisfied.

Notwithstanding anything in this Section 5.01 to the contrary, the Company shall merge with American Life Holding Company concurrently with the issuance of the Securities, and American Life Holding Company shall expressly assume by an indenture supplemental hereto, executed and delivered to the Trustee in the form of Annex B hereto (the "First Supplemental Indenture"), the due and punctual payment of the principal of, premium, if any, and interest on all the Securities and the performance and observance of all other obligations under this Indenture and the Securities on the part of the Company to be performed or observed.

SECTION 5.02. Successor Substituted. Upon any consolidation or merger, or any sale, assignment, conveyance, transfer, lease or other disposition of all or substantially all of the properties and assets of the Company as an entirety in accordance with Section 5.01, the successor Person formed by such consolidation or into which the Company is merged or the successor Person to which such sale, assignment, conveyance, transfer, lease or disposition is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor had been named as the Company herein; and thereafter, the Company shall be discharged from all obligations and covenants under this Indenture and the Securities; provided, however, that in the case of a lease, the Company shall not be released from the obligation to pay the principal of and interest on the Securities.

ARTICLE 6.

Defaults and Remedies

SECTION 6.01. Events of Default.

"Event of Default", wherever used herein, means any one of the following events (whatever the reason for such Event of Default and whether it shall be occasioned by the provisions of Article 10 or be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) (i) default in the payment when due of the principal of (or premium, if any, on) any Security when the same becomes due and payable at its Stated Maturity, upon redemption, upon declaration or otherwise, or (ii) a failure to redeem or purchase Securities when required pursuant to this Indenture or the Securities;

(2) default in the payment of any interest on any Security when it becomes due and payable, and continuance of such default for a period of 30 days;

(3) default in the performance, or breach, of any other term, covenant or warranty of the Company contained in the Securities or this Indenture, and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in aggregate principal amount of the Securities a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder;

(4) default with respect to any obligation of the Company or any Subsidiary, whether as principal, guarantor, surety or other obligor, under any Indebtedness having an aggregate principal amount in excess of $10 million and (i) either (1) such default is upon the Stated Maturity of such Indebtedness or
(2) as a result of such default the maturity of such Indebtedness has been accelerated prior to its Stated Maturity and (ii) such Indebtedness has not been paid in full or such acceleration has not been rescinded, annulled or waived prior to the entry of a final judgment in favor of the holders thereof;

(5) any holder or holders holding $10 million of secured Indebtedness individually or in the aggregate shall commence foreclosure proceedings against any assets or properties of the Company having a fair market value in excess of $10 million;

(6) one or more final and nonappealable judgments, orders or decrees which require the payment in money, either individually or in an aggregate amount, of more than $10 million shall be entered against the Company or any Subsidiary or any of their respective properties which is not covered by insurance (treating any deductibles as not so covered) and shall not be discharged and either (i) an enforcement proceeding is commenced upon such judgment, order or decree or (ii) there shall have been a period of 60 days during which a stay of enforcement of such judgment, order or decree, by reason or any appeal or otherwise, shall not be in effect;

(7) the entry by a court having jurisdiction in the premises of a decree or order for relief in respect of the Company or any Material Subsidiary in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, rehabilitation, liquidation, conservation or supervision or other similar law now or hereafter in effect (each, a "Bankruptcy Law") or appointing a custodian, rehabilitator, conservator, supervisor, trustee, sequestrator or other similar official (any of the foregoing, a "Custodian") of the Company or any Material Subsidiary for any substantial part of its or their property, or ordering the winding up or liquidation of its or their affairs, and the continuance of any such decree or order unstayed and in effect for a period of 60 consecutive days; or

(8) the commencement by the Company or any Material Subsidiary of a voluntary case or proceeding under any applicable Bankruptcy Law, or the consent by the Company or any Material Subsidiary to the entry of a decree or order for relief in respect of the Company or such Material Subsidiary in an involuntary case or proceeding under any applicable Bankruptcy Law, or to the commencement of any bankruptcy, insolvency or similar case or proceeding against it, or the consent by the Company or any Material Subsidiary to the filing of such petition or the appointment of or taking possession by a Custodian of the Company or any such Material Subsidiary or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by the Company or any Material Subsidiary in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company or any Material Subsidiary in furtherance of any such action.

The Company shall deliver to the Trustee, within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate of any event which is or with the giving of notice or the lapse of time would become an Event of Default, its status and what action the Company is taking or proposes to take with respect thereto.

SECTION 6.02. Acceleration. If an Event of Default (other than an Event of Default specified in Section 6.01(7) or (8)) occurs and is continuing, the Trustee by notice to the Company, or the Holders of at least 25% in principal amount of the Securities by notice to the Company and the Trustee, may declare the principal of and accrued interest on all the Securities to be due and payable. Upon such a declaration, such principal and interest shall be due and payable immediately. If an Event of Default specified in Section 6.01(7) or (8) occurs, the principal of and interest on all the Securities shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Securityholders.

At any time after such declaration of acceleration has been made and before a judgment or decree for payment of money due has been obtained by the Trustee as hereinafter provided, the Holders of a majority in principal amount of the Securities, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if:

(a) the Company has paid or deposited with the Trustee a sum sufficient to pay

(1) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel,

(2) all overdue interest on all Securities,

(3) the principal of (and premium, if any, on) any Securities which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Securities, and

(4) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate borne by the Securities; and

(b) all Events of Default, other than the nonpayment of principal of the Securities which has become due solely by such declaration of acceleration, shall have been cured or waived. No such rescission shall affect any subsequent Default or impair any right consequent thereon.

SECTION 6.03. Other Remedies. If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal of or interest on the Securities or to enforce the performance of any provision of the Securities or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Securities or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Securityholder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

SECTION 6.04. Waiver of Past Defaults. The Holders of a majority in principal amount of the Securities by notice to the Trustee may waive an existing Default and its consequences except
(i) a Default in the payment of the principal of or interest on a Security or (ii) a Default in respect of a provision that under
Section 9.02 cannot be amended without the consent of each Securityholder affected. When a Default is waived, it is deemed cured, but no such waiver shall extend to any subsequent or other Default or impair any consequent right.

SECTION 6.05. Control by Majority. The Holders of a majority in principal amount of the Securities may direct the time, method and place of conducting any proceeding for any

remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture or, subject to Section 7.01, that the Trustee determines is unduly prejudicial to the rights of other Securityholders or would involve the Trustee in personal liability; provided, however, that the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction. Prior to taking any action hereunder, the Trustee shall be entitled to indemnification satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action. This Section 6.05 shall be in lieu of
Section 316(a)(I)(A) of the TIA and such Section 316(a)(I)(A) is hereby expressly excluded from this Indenture, as permitted by the TIA.

SECTION 6.06. Limitation on Suits. A Securityholder may not pursue any remedy with respect to this Indenture or the Securities unless:

(1) the Holder gives to the Trustee written notice stating that an Event of Default is continuing;

(2) the Holders of at least 25% in principal amount of the Securities make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer to the Trustee reasonable security or indemnity against any loss, liability or expense;

(4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of security or indemnity; and

(5) the Holders of a majority in principal amount of the Securities do not give the Trustee a direction inconsistent with the request during such 60-day period.

A Securityholder may not use this Indenture to prejudice the rights of another Securityholder or to obtain a preference or priority over another Securityholder.

SECTION 6.07. Rights of Holders to Receive Payment. Notwithstanding any other provision of this Indenture, the right of any Holder to receive payment of principal of and interest on the Securities held by such Holder, on or after the respective due dates expressed in the Securities, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

SECTION 6.08. Collection Suit by Trustee. If an Event of Default in payment of interest or principal specified in Section 6.01(1) or (2) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount of principal and interest remaining unpaid (together with interest on such unpaid interest to the extent lawful) and the amounts provided for in Section 7.07.

SECTION 6.09. Trustee May File Proofs of Claim. The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Securityholders allowed in any judicial proceedings relative to the Company, its creditors or its property and, unless prohibited by law or applicable regulations, may vote on behalf of the Holders in any election of a trustee in bankruptcy or other person performing similar functions, and any Custodian in any such judicial proceeding is hereby authorized by each Holder to make payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and its counsel, and any other amounts due the Trustee under Section 7.07.

SECTION 6.10. Priorities. If the Trustee collects any money or property pursuant to this Article 6, it shall pay out the money or property in the following order:

FIRST: to the Trustee for amounts due under Section 7.07;

SECOND: to holders of Senior Indebtedness to the extent required by Article 10;

THIRD: to Securityholders for amounts due and unpaid on the Securities for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Securities for principal and interest, respectively; and

FOURTH: to the Company.

The Trustee may fix a record date and payment date for any payment to Securityholders pursuant to this Section. At least 15 days before such record date, the Company shall mail to each Securityholder and the Trustee a notice that states the record date, the payment date and amount to be paid.

SECTION 6.11. Undertaking for Costs. In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by

it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a Holder pursuant to Section 6.07 or a suit by Holders of more than 10% in principal amount of the Securities.

SECTION 6.12. Waiver of Stay or Extension Laws. The Company (to the extent it may lawfully do so) shall not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and shall not hinder, delay or impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE 7.

Trustee

SECTION 7.01. Duties of Trustee. (a) If an Event of Default has occurred and is continuing, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of an Event of Default:

(1) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. However, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own wilful misconduct, except that:

(1) this paragraph does not limit the effect of paragraph (b) of this Section;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(3) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to
Section 6.05.

(d) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b) and (c) of this Section.

(e) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Company.

(f) Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

(g) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(h) Every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section and to the provisions of the TIA.

SECTION 7.02. Rights of Trustee. (a) The Trustee may rely and shall be protected in acting or refraining from acting on any document believed by it to be genuine and to have been signed or presented by the proper person. The Trustee need not investigate any fact or matter stated in the document.

(b) Any request or direction of the Company referred to herein shall be sufficiently evidenced by a Company Request or Company Order. Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on the Officers' Certificate or Opinion of Counsel.

(c) The Trustee may act through agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers; provided, however, that the Trustee's conduct does not constitute wilful misconduct, negligence or bad faith.

(e) The Trustee may consult with counsel, and the advice or opinion of counsel with respect to legal matters relating to this Indenture and the Securities shall be full and complete authorization and protection from liability in respect to any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

(f) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Holders, pursuant to the provisions of this Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

SECTION 7.03. Individual Rights of Trustee. The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company or its affiliates with the same rights it would have if it were not Trustee. Any Paying Agent, Registrar, co-registrar or co-paying agent may do the same with like rights. However, the Trustee must comply with Sections 7.10 and 7.11.

SECTION 7.04. Trustee's Disclaimer. The Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture or the Securities, it shall not be accountable for the Company's use of the proceeds from the Securities, and it shall not be responsible for any statement of the Company in the Indenture or in any document issued in connection with the sale of the Securities or in the Securities other than the Trustee's certificate of authentication.

SECTION 7.05. Notice of Defaults. If a Default occurs and is continuing and if it is known to the Trustee, the Trustee shall mail to each Securityholder notice of the Default within 90 days after it occurs. Except in the case of a Default in payment of principal of or interest on any Security (including payments pursuant to the mandatory redemption provisions of such Security), the Trustee may withhold the notice if and so long as a committee of its Trust Officers in good faith determines that withholding the notice is in the interests of Securityholders.

SECTION 7.06. Reports by Trustee to Holders. As promptly as practicable after each May 15 beginning with the May 15 following the date of this Indenture, and in any event prior to July 15 in each year, the Trustee shall mail to each Securityholder a brief report dated as of May 15 that complies with TIA Section 313(a), if an event has occurred requiring a report under such section. The Trustee also shall comply with TIA Section 313(b).

A copy of each report at the time of its mailing to Securityholders shall be filed with the SEC and each stock exchange (if any) on which the Securities are listed. The Company agrees to notify promptly the Trustee whenever the Securities become listed on any stock exchange and of any delisting thereof.

SECTION 7.07. Compensation and Indemnity. The Company shall pay to the Trustee from time to time reasonable compensation for its services. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee upon request for all reasonable out-of-pocket expenses incurred or made by it, including costs of collection, in addition to the compensation for its services. Such expenses shall include the reasonable compensation and expenses, disbursements and advances of the Trustee's agents, counsel, accountants and experts. The Company shall indemnify the Trustee against any and all loss, liability or expense (including attorneys' fees) incurred by it in connection with the administration of this trust and the performance of its duties hereunder, including the costs and expenses of defending itself against any claim or liability in connection therewith. The Trustee shall notify the Company promptly of any claim for which it may seek indemnity. Failure by the Trustee to so notify the Company shall not relieve the Company of its obligations hereunder. The Company shall defend the claim and the Trustee may have separate counsel and the Company shall pay the fees and expenses of such counsel. The Company need not reimburse any expense or indemnify against any loss, liability or expense incurred by the Trustee through the Trustee's own wilful misconduct, negligence or bad faith.

To secure the Company's payment obligations in this Section, the Trustee shall have a lien prior to the Securities on all money or property held or collected by the Trustee other than money or property held in trust to pay principal of and interest on particular Securities.

The Company's payment obligations pursuant to this
Section shall survive the discharge of this Indenture.

When the Trustee incurs expenses after the occurrence of a Default specified in Section 6.01(7) or (8) with respect to the Company, the expenses are intended to constitute expenses of administration under the Bankruptcy Law.

SECTION 7.08. Replacement of Trustee. The Trustee may resign at any time by so notifying the Company. The Holders of a majority in principal amount of the Securities may remove the Trustee by so notifying the Trustee and may appoint a successor Trustee. The Company shall remove the Trustee if:

(1) the Trustee fails to comply with
Section 7.10;

(2) the Trustee is adjudged bankrupt or insolvent;

(3) a receiver or other public officer takes charge of the Trustee or its property; or

(4) the Trustee otherwise becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason (the Trustee in such event being referred to herein as the retiring Trustee), the Company shall promptly appoint a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Securityholders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in
Section 7.07.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of a majority in principal amount of the Securities may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 7.10, any Securityholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

Notwithstanding the replacement of the Trustee pursuant to this Section, the Company's obligations under Section 7.07 shall continue for the benefit of the retiring Trustee.

SECTION 7.09. Successor Trustee by Merger. If the Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation or banking association, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee; provided, that such successor Trustee shall qualify and be eligible under Section 7.10 hereof.

In case at the time such successor or successors by merger, conversion or consolidation to the Trustee shall succeed to the trusts created by this Indenture any of the Securities shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor trustee, and deliver such Securities so authenticated; and in case at that time any of the Securities shall not have been authenticated, any successor to the Trustee may authenticate such Securities either in the name of any predecessor hereunder or in the name of the successor to the Trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Securities or in this Indenture provided that the certificate of the Trustee shall have.

SECTION 7.10. Eligibility; Disqualification. The Trustee shall at all times satisfy the requirements of TIA
Section 310(a). The Trustee shall have a combined capital and surplus of at least $50,000,000 as set forth in its most recent published annual report of condition. The Trustee shall comply with TIA
Section 310(b); provided, however, that there shall be excluded from the operation of TIA Section 310(b)(1) any indenture or indentures under which other securities or certificates of interest or participation in other securities of the Company are outstanding if the requirements for such exclusion set forth in TIA Seciton 310(b)(1) are met.

SECTION 7.11. Preferential Collection of Claims Against Company. The Trustee shall comply with TIA Section 311(a), excluding from the operation thereof any creditor relationship listed in TIA Section 311(b). A Trustee who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated.

ARTICLE 8.

Discharge of Indenture; Defeasance

SECTION 8.01. Discharge of Liability on Securities; Defeasance. (a) When (i) the Company delivers to the Trustee all outstanding Securities (other than Securities

replaced pursuant to Section 2.07) for cancellation or (ii) all outstanding Securities have become due and payable and the Company irrevocably deposits with the Trustee funds sufficient to pay at maturity all outstanding Securities, including interest thereon (other than Securities replaced pursuant to Section 2.07), and if in either case the Company pays all other sums payable hereunder by the Company, then this Indenture shall, subject to Sections 8.01(c) and 8.06, cease to be of further effect. The Trustee shall acknowledge satisfaction and discharge of this Indenture on demand of the Company accompanied by an Officers' Certificate and an Opinion of Counsel and at the cost and expense of the Company.

(b) Subject to Sections 8.01(c), 8.02 and 8.06, the Company at any time may terminate (i) all its obligations under the Securities and this Indenture ("legal defeasance option") or
(ii) its obligations under Sections 4.03 through 4.12, 5.01(iii) and 5.01(iv) and the operation of Sections 6.01(3) (with respect to Sections 4.03 through 4.12, 5.01(iii) and 5.01(iv)), 6.01(4), 6.01(5), 6.01(6), 6.01(7) (with respect to any Material Subsidiary) and 6.01(8) (with respect to any Material Subsidiary) ("covenant defeasance option"). The Company may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option.

If the Company exercises its legal defeasance option, payment of the Securities may not be accelerated because of an Event of Default. If the Company exercises its covenant defeasance option, payment of the Securities may not be accelerated because of an Event of Default specified in
Section 6.01(3) (with respect to Sections 4.03 through 4.12, 5.01(iii) and 5.01(iv)), 6.01(4), 6.01(5), 6.01(6), 6.01(7) (with respect to any Material Subsidiary) or 6.01(8) (with respect to any Material Subsidiary).

Upon satisfaction of the conditions set forth herein and upon request of the Company, the Trustee shall acknowledge in writing the discharge of those obligations that the Company terminates.

(c) Notwithstanding clauses (a) and (b) above, the Company's obligations in Sections 2.03, 2.04, 2.05, 2.06, 2.07, 7.07, 7.08, 8.04, 8.05 and 8.06 shall survive until the Securities have been paid in full. Thereafter, the Company's obligations in Sections 7.07, 8.04 and 8.05 shall survive.

SECTION 8.02. Conditions to Defeasance. The Company may exercise its legal defeasance option or its covenant defeasance option only if:

(1) the Company irrevocably deposits in trust with the Trustee money or U.S. Government Obligations for the payment of principal and interest on the Securities to maturity or redemption, as the case may be;

(2) the Company delivers to the Trustee a certificate from a nationally recognized firm of independent accountants expressing their opinion that the payments of principal and interest when due and without reinvestment on the deposited U.S. Government Obligations plus any deposited money without investment will provide cash at such times and in such amounts (but, in the case of the legal defeasance option only, not more than such amounts) as will be sufficient to pay principal and interest when due on all the Securities to maturity or redemption, as the case may be;

(3) 123 days pass after the deposit is made and during the 123-day period no Default specified in Section 6.01(7) or (8) with respect to the Company occurs which is continuing at the end of the period;

(4) no Default has occurred and is continuing on the date of such deposit and after giving effect thereto;

(5) the deposit does not constitute a default under any other agreement binding on the Company and is not prohibited by Article 10;

(6) the Company delivers to the Trustee an Opinion of Counsel to the effect that the trust resulting from the deposit does not constitute, or is qualified as, a regulated investment company under the Investment Company Act of 1940;

(7) in the case of the legal defeasance option, the Company shall have delivered to the Trustee an Opinion of Counsel stating that (i) the Company has received from, or there has been published by, the Internal Revenue Service a ruling, or (ii) since the date of this Indenture there has been a change in the applicable Federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Securityholders will not recognize income, gain or loss for Federal income tax purposes as a result of such defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred;

(8) in the case of the covenant defeasance option, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Securityholders will not recognize income, gain or loss for Federal income tax purposes as a result of such covenant defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred; and

(9) the Company delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent to the defeasance and discharge of the Securities as contemplated by this Article 8 have been complied with.

Before or after a deposit, the Company may make arrangements satisfactory to the Trustee for the redemption of Securities at a future date in accordance with Article 3.

SECTION 8.03. Application of Trust Money. The Trustee shall hold in trust money or U.S. Government Obligations deposited with it pursuant to this Article 8. It shall apply the deposited money and the money from U.S. Government Obligations through the Paying Agent and in accordance with this Indenture to the payment of principal of and interest on the Securities. Money and securities so held in trust are not subject to Article 10.

SECTION 8.04. Repayment to Company. The Trustee and the Paying Agent shall promptly turn over to the Company upon request any excess money or securities held by them at any time.

Subject to any applicable abandoned property law, the Trustee and the Paying Agent shall pay to the Company upon request any money held by them for the payment of principal or interest that remains unclaimed for two years, and, thereafter, Securityholders entitled to the money must look to the Company for payment as general creditors.

SECTION 8.05. Indemnity for Government Obligations. The Company shall pay and shall indemnify the Trustee against any tax, fee or other charge imposed on or assessed against deposited U.S. Government Obligations or the principal and interest received on such U.S. Government Obligations.

SECTION 8.06. Reinstatement. If the Trustee or Paying Agent is unable to apply any money or U.S. Government Obligations in accordance with this Article 8 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Company's obligations under this Indenture and the Securities shall be revived and reinstated as though no deposit had occurred pursuant to this Article 8 until such time as the Trustee or Paying Agent is permitted to apply all such money or U.S. Government Obligations in accordance with this Article 8; provided, however, that, if the Company has made any payment of interest on or principal of any Securities because of the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Securities to receive such payment from the money or U.S. Government Obligations held by the Trustee or Paying Agent.

ARTICLE 9.

Amendments

SECTION 9.01. Without Consent of Holders. The Company and the Trustee may amend this Indenture or the Securities without notice to or consent of any Securityholder:

(1) to cure any ambiguity, omission, defect or inconsistency;

(2) to comply with Article 5;

(3) to provide for uncertificated Securities in addition to or in place of certificated Securities; provided, however, that the uncertificated Securities are issued in registered form for purposes of Section 163(f) of the Internal Revenue Code of 1986, as amended, or in a manner such that the uncertificated Securities are described in Section 163(f)(2)(B) of the Internal Revenue Code of 1986, as amended;

(4) to make any change in Article 10 that would limit or terminate the benefits available to any holder of Senior Indebtedness (or any trustee or other representative therefor) under Article 10;

(5) to add guarantees with respect to the Securities;

(6) to add to the covenants of the Company for the benefit of the Holders or to surrender any right or power herein conferred upon the Company;

(7) to comply with any requirements of the SEC in connection with qualifying this Indenture under the TIA;

(8) to make any change that does not adversely affect the rights of any Securityholder; or

(9) to provide for the assumption pursuant to the First Supplemental Indenture, as contemplated by Section 5.01, by American Life Holding Company of the due and punctual payment of the principal of, premium, if any, and interest on all the Securities and the performance and observance of all other obligations under this Indenture and the Securities on the part of the Company to be performed or observed.

An amendment under this Section may not make any change that adversely affects the rights under Article 10 of any holder of Senior Indebtedness then outstanding unless the holders of such Senior Indebtedness (required pursuant to the terms of such Senior Indebtedness to give such consent) consent to such change.

After an amendment under this Section (other than the amendment contemplated by Section 9.01(9)) becomes effective, the Company shall mail to Securityholders a notice briefly describing such amendment. The failure to give such notice to all Securityholders, or any defect therein, shall not impair or affect the validity of an amendment under this Section.

SECTION 9.02. With Consent of Holders. The Company and the Trustee may amend this Indenture or the Securities without notice to any Securityholder but with the written consent of the Holders of at least a majority in principal amount of the Securities. However, without the consent of each Securityholder affected, an amendment may not:

(1) reduce the amount of Securities whose Holders must consent to an amendment;

(2) reduce the rate of or extend the time for payment of interest on any Security;

(3) reduce the principal of or extend the fixed maturity of any Security;

(4) reduce the premium payable upon the redemption of any Security or change the time at which any Security may or shall be redeemed;

(5) make any Security payable in money other than that stated in the Security;

(6) make any change in Article 10 that adversely affects the rights of any Securityholder under Article 10; or

(7) make any change in Section 6.04 or 6.07 or the second sentence of this Section.

It shall not be necessary for the consent of the Holders under this Section to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof.

An amendment under this Section may not make any change that adversely affects the rights under Article 10 of any holder of Senior Indebtedness then outstanding unless the holders of such Senior Indebtedness (required pursuant to the terms of such Senior Indebtedness to give such consent) consent to such change.

After an amendment under this Section becomes effective, the Company shall mail to Securityholders a notice briefly describing such amendment. The failure to give such notice to all Securityholders, or any defect therein, shall not impair or affect the validity of an amendment under this Section.

SECTION 9.03. Compliance with Trust Indenture Act. Every amendment to or supplement of this Indenture or the Securities shall comply with the TIA as then in effect.

SECTION 9.04. Revocation and Effect of Consents and Waivers. A consent to an amendment or a waiver by a Holder of a Security shall bind the Holder and every subsequent Holder of that Security or portion of the Security that evidences the same debt as the consenting Holder's Security, even if notation of the consent or waiver is not made on the Security. However, any such Holder or subsequent Holder may revoke the consent or waiver as to such Holder's Security or portion of the Security if the Trustee receives the notice of revocation before the date the amendment or waiver becomes effective. After an amendment or waiver becomes effective, it shall bind every Securityholder.

The Company may, but shall not be obligated to, fix a record date for the purpose of determining the Securityholders entitled to give their consent or take any other action described above or required or permitted to be taken pursuant to this Indenture. If a record date is fixed, then notwithstanding the immediately preceding paragraph, those persons who were Securityholders at such record date (or their duly designated proxies), and only those persons, shall be entitled to give such consent or to revoke any consent previously given or to take any such action, whether or not such persons continue to be Holders after such record date. No such consent shall be valid or effective for more than 120 days after such record date.

SECTION 9.05. Notation on or Exchange of Securities. If an amendment changes the terms of a Security, the Trustee may require the Holder of the Security to deliver it to the Trustee. The Trustee may place an appropriate notation on the Security regarding the changed terms and return it to the Holder. Alternatively, if the Company or the Trustee so determines, the Company in exchange for the Security shall issue and the Trustee shall authenticate a new Security that reflects the changed terms. Failure to make the appropriate notation or to issue a new Security shall not affect the validity of such amendment.

SECTION 9.06. Trustee to Sign Amendments. The Trustee shall sign any amendment authorized pursuant to this Article 9 if the amendment does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may but need not sign it. In signing such amendment the Trustee shall be entitled to receive indemnity reasonably satisfactory to it and to receive, and (subject to Section 7.01) shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel stating that such amendment is authorized or permitted by this Indenture. Each amendment pursuant to this Article 9 shall be in the form of a supplemental indenture.

SECTION 9.07. Payment for Consent. Neither the Company, any Affiliate of the Company nor any Subsidiary shall, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of this Indenture or the Securities unless such consideration is offered to be paid or agreed to be paid to all Holders which so consent, waive or agree to amend in the time frame set forth in solicitation documents relating to such consent, waiver or agreement.

ARTICLE 10.

Subordination

SECTION 10.01. Agreement To Subordinate. The Company agrees, and each Securityholder by accepting a Security agrees, that the indebtedness evidenced by the Securities is subordinated in right of payment, to the extent and in the manner provided in this Article 10, to the prior payment of all Senior Indebtedness and that the subordination is for the benefit of and enforceable by the holders of Senior Indebtedness. The Securities shall in all respects rank pari passu with all other Senior Subordinated Indebtedness of the Company and only indebtedness of the Company which is Senior Indebtedness shall rank senior to the Securities in accordance with the provisions set forth herein. All provisions of this Article 10 shall be subject to Section 10.11.

SECTION 10.02. Liquidation, Dissolution, Bankruptcy. Upon any payment or distribution of assets or securities of the Company, of any kind or character, whether in cash, property or securities, in connection with any dissolution or winding up or total or partial liquidation or reorganization of the Company, whether voluntary or involuntary, or in bankruptcy, insolvency, receivership or other proceedings, all amounts due or to become due upon all Senior Indebtedness shall first be paid in full, in cash or cash equivalents, before the Holders, or the Trustee on their behalf, shall be entitled to receive any payment by the Company on account of Note Obligations, or any payment to acquire any of the Securities for cash, property or securities, or any distribution with respect to the Securities of any cash, property or securities (in each case, other than a payment or distribution consisting solely of equity securities or debt or other securities which are subordinated to Senior Indebtedness to the same extent as the Securities or which rank junior to the Securities). Before any payment or distribution may be made by,

or on behalf of, the Company on any Note Obligations in connection with any such dissolution, winding up, liquidation or reorganization, any payment or distribution of assets or securities of the Company of any kind or character, whether in cash, property or securities (other than a payment or distribution consisting solely of equity securities or debt or other securities which are subordinated to Senior Indebtedness to the same extent as the Securities or which rank junior to the Securities), to which the Holders, or the Trustee on their behalf, would be entitled, but for this Article 10, shall be made by the Company or by any receiver, trustee in bankruptcy, liquidating trustee, agent or other similar Person making such payment or distribution or by the Holders or the Trustee if received by them or it, directly to the holders of the Senior Indebtedness (pro rata to such holders on the basis of the respective amounts of Senior Indebtedness held by such holders) or their Representatives, as their respective interests appear, to the extent necessary to pay all such Senior Indebtedness in full, in cash or cash equivalents, after giving effect to any concurrent payment, distribution or provision therefor to or for the holders of such Senior Indebtedness.

SECTION 10.03. Default on Senior Indebtedness. No direct or indirect payment by or on behalf of the Company of Note Obligations, whether pursuant to the terms of the Securities or upon acceleration or otherwise, shall be made if, at the time of such payment, there exists a default in the payment of all or any portion of any Senior Indebtedness or any other default on Senior Indebtedness occurs and the maturity of such Senior Indebtedness is accelerated in accordance with its terms, unless, in either case, such default shall have been cured or waived or the benefits of this sentence waived by or on behalf of the holders of such Senior Indebtedness or such Senior Indebtedness shall have been repaid in full in cash or cash equivalents. In addition, during the continuance of any other event of default with respect to (i) the Credit Agreement pursuant to which the maturity thereof may be accelerated, upon receipt by the Trustee of written notice from the Bank Agent, no payment of Note Obligations may be made by or on behalf of the Company for a period (a "Payment Blockage Period") commencing on the date of receipt of such notice and ending 179 days thereafter (unless (x) such Payment Blockage Period shall be terminated by written notice to the Trustee from the Bank Agent, (y) such event of default has been cured or waived or (z) such Senior Indebtedness shall have been repaid in full in cash or cash equivalents) or
(ii) any other Designated Senior Indebtedness pursuant to which the maturity thereof may be accelerated, upon receipt by the Trustee of written notice from the Representative for the holders of such other Designated Senior Indebtedness (or the holders of at least a majority in principal amount of such other Designated Senior Indebtedness then outstanding), no payment of Note Obligations may be made by or on behalf of the Company for a Payment Blockage Period commencing on the date of receipt of such

notice and ending 179 days thereafter (unless (x) such Payment Blockage Period shall be terminated by written notice to the Trustee from such Representative, or such holders, (y) such event of default has been cured or waived or (z) such Designated Senior Indebtedness shall have been repaid in full in cash or cash equivalents). Not more than one Payment Blockage Period may be commenced with respect to the Securities during any period of 360 consecutive days; provided that, subject to the limitations set forth in the next sentence, the commencement of a Payment Blockage Period by the Representative for, or the holders of, Designated Senior Indebtedness, other than under the Credit Agreement, shall not bar the commencement of another Payment Blockage Period by the Bank Agent within such period of 360 consecutive days. Notwithstanding anything in this Indenture to the contrary, there must be 181 consecutive days in any 360-day period in which no Payment Blockage Period is in effect. No event of default that was, or that reasonably should have been, known to exist or be continuing on the date of commencement of any Payment Blockage Period with respect to the Designated Senior Indebtedness initiating such Payment Blockage Period shall be, or shall be made, the basis for the commencement of a second Payment Blockage Period by the Representative for, or the holders of, such Designated Senior Indebtedness, whether or not within a period of 360 consecutive days, unless such event of default shall have been cured or waived for a period of not less than 90 consecutive days.

SECTION 10.04. When Distribution Must Be Paid Over. If a distribution is made to Securityholders that because of this Article 10 should not have been made to them, the Securityholders who receive the distribution shall hold it in trust for holders of Senior Indebtedness and pay it over to them as their interests may appear.

SECTION 10.05. Subrogation. After all Senior Indebtedness is paid in full and until the Securities are paid in full, Securityholders shall be subrogated to the rights of holders of Senior Indebtedness to receive distributions applicable to Senior Indebtedness. A distribution made under this Article 10 to holders of Senior Indebtedness which otherwise would have been made to Securityholders is not, as between the Company and Securityholders, a payment by the Company on Senior Indebtedness.

SECTION 10.06. Relative Rights. This Article 10 defines the relative rights of Securityholders and holders of Senior Indebtedness. Nothing in this Indenture shall:

(1) impair, as between the Company and Securityholders, the obligation of the Company, which is absolute and unconditional, to pay principal of, premium, if any, and interest on the Securities in accordance with their terms; or

(2) prevent the Trustee or any Securityholder from exercising its available remedies upon a Default, subject to the rights of holders of Senior Indebtedness to receive distributions otherwise payable to Securityholders.

SECTION 10.07. Subordination May Not Be Impaired by Company. No right of any holder of Senior Indebtedness to enforce the subordination of the indebtedness evidenced by the Securities shall be impaired by any act or failure to act by the Company or by its failure to comply with this Indenture.

SECTION 10.08. Rights of Trustee and Paying Agent. Notwithstanding Section 10.03, the Trustee or Paying Agent may continue to make payments on the Securities and shall not be charged with knowledge of the existence of facts that would prohibit the making of any such payments unless, not less than two Business Days prior to the date of such payment, a Trust Officer of the Trustee receives notice satisfactory to it that payments may not be made under this Article 10. The Company, the Registrar or co-registrar, the Paying Agent, a Representative for the holders of Senior Indebtedness or a holder of Senior Indebtedness may give the notice; provided, however, that, if an issue of Senior Indebtedness has a Representative, only such Representative may give the notice.

The Trustee in its individual or any other capacity may hold Senior Indebtedness with the same rights it would have if it were not Trustee. The Registrar and co-registrar and the Paying Agent may do the same with like rights. The Trustee shall be entitled to all the rights set forth in this Article 10 with respect to any Senior Indebtedness which may at any time be held by it, to the same extent as any other holder of Senior Indebtedness; and nothing in Article 7 shall deprive the Trustee of any of its rights as such holder. Nothing in this Article 10 shall apply to claims of, or payments to, the Trustee under or pursuant to Section 7.07.

SECTION 10.09. Distribution or Notice to Representative. Whenever a distribution is to be made or a notice given to holders of Senior Indebtedness, the distribution may be made and the notice given to their Representative (if any).

SECTION 10.10. Article 10 Not To Prevent Events of Default or Limit Right To Accelerate. The failure to make a payment pursuant to the Securities by reason of any provision in this Article 10 shall not be construed as preventing the occurrence of a Default. Nothing in this Article 10 shall have any effect on the right of the Securityholders or the Trustee to accelerate the maturity of the Securities.

SECTION 10.11. Trust Moneys Not Subordinated. Notwithstanding anything contained herein to the contrary, payments from money or the proceeds of U.S. Government Obligations held in trust under Article 8 by the Trustee for the payment of principal of and interest on the Securities shall not be subordinated to the prior payment of any Senior Indebtedness or subject to the restrictions set forth in this Article 10, and none of the Securityholders shall be obligated to pay over any such amount to the Company or any holder of Senior Indebtedness of the Company or any other creditor of the Company.

SECTION 10.12. Trustee Entitled To Rely. Upon any payment or distribution pursuant to this Article 10, the Trustee and the Securityholders shall be entitled to rely (i) upon any order or decree of a court of competent jurisdiction in which any proceedings of the nature referred to in Section 10.02 are pending, (ii) upon a certificate of the liquidating trustee or agent or other person making such payment or distribution to the Trustee or to the Securityholders or (iii) upon the Representatives for the holders of Senior Indebtedness for the purpose of ascertaining the persons entitled to participate in such payment or distribution, the holders of the Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article 10. In the event that the Trustee determines, in good faith, that evidence is required with respect to the right of any person as a holder of Senior Indebtedness to participate in any payment or distribution pursuant to this Article 10, the Trustee may request such person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Indebtedness held by such person, the extent to which such person is entitled to participate in such payment or distribution and other facts pertinent to the rights of such person under this Article 10, and, if such evidence is not furnished, the Trustee may defer any payment to such person pending judicial determination as to the right of such person to receive such payment. The provisions of Sections 7.01 and 7.02 shall be applicable to all actions or omissions of actions by the Trustee pursuant to this Article 10.

SECTION 10.13. Trustee To Effectuate Subordination. Each Securityholder by accepting a Security authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to acknowledge or effectuate the subordination between the Securityholders and the holders of Senior Indebtedness as provided in this Article 10 and appoints the Trustee as attorney-in-fact for any and all such purposes.

SECTION 10.14. Trustee Not Fiduciary for Holders of Senior Indebtedness. The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness and shall not be liable to any such holders if it shall mistakenly pay over or distribute to Securityholders or the Company or any other person, money or assets to which any holders of Senior Indebtedness shall be entitled by virtue of this Article 10 or otherwise.

SECTION 10.15. Reliance by Holders of Senior Indebtedness on Subordination Provisions. Each Securityholder by accepting a Security acknowledges and agrees that the foregoing subordination provisions are, and are intended to be, an inducement and a consideration to each holder of any Senior Indebtedness, whether such Senior Indebtedness was created or acquired before or after the issuance of the Securities, to acquire and continue to hold, or to continue to hold, such Senior Indebtedness and such holder of Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and continuing to hold, or in continuing to hold, such Senior Indebtedness.

SECTION 10.16. Proof of Claims. In the event that the Company is subject to any proceeding under any Bankruptcy Law and the Securityholders and the Trustee fail to file any proof of claim permitted to be filed in such proceeding with respect to the Securities, then any Representative of any Senior Indebtedness may file such proof of claim no earlier than the later of (i) the expiration of 15 days after such Representative notifies the Trustee of its intention to do so and (ii) 30 days preceding the last day permitted to file such claim.

ARTICLE 11.

Miscellaneous

SECTION 11.01. Trust Indenture Act Controls. If any provision of this Indenture limits, qualifies or conflicts with another provision which is required to be included in this Indenture by the TIA, the required provision shall control.

SECTION 11.02. Notices. Any notice or communication shall be in writing and delivered in person or mailed by first- class mail addressed as follows:

if to the Company:

ALHC Merger Corporation
c/o Conseco, Inc.
11815 N. Pennsylvania Street
Carmel, Indiana
Attention: General Counsel

if to the Trustee:

LTCB Trust Company
One Liberty Plaza, 47th Floor
New York, New York 10006
Attention: Corporate Trust Administration

The Company or the Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Securityholder shall be mailed to the Securityholder at the Securityholder's address as it appears on the registration books of the Registrar and shall be sufficiently given if so mailed within the time prescribed.

Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

SECTION 11.03. Communication by Holders with Other Holders. Securityholders may communicate pursuant to TIA Section 312(b) with other Securityholders with respect to their rights under this Indenture or the Securities. The Company, the Trustee, the Registrar and anyone else shall have the protection of TIA Section 312(c).

SECTION 11.04. Certificate and Opinion as to Conditions Precedent. Upon any request or application by the Company to the Trustee to take or refrain from taking any action under this Indenture, the Company shall furnish to the Trustee:

(1) an Officers' Certificate in form and substance reasonably satisfactory to the Trustee stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(2) an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

SECTION 11.05. Statements Required in Certificate or Opinion. Each certificate or opinion with respect to compliance with a covenant or condition provided for in this Indenture shall include:

(1) a statement that the person making such certificate or opinion has read such covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether or not, in the opinion of such person, such covenant or condition has been complied with.

SECTION 11.06: When Securities Disregarded. In determining whether the Holders of the required principal amount of Securities have concurred in any direction, waiver or consent, Securities owned by the Company or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company shall be disregarded and deemed not to be outstanding, except that, for the purpose of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only Securities which the Trustee knows are so owned shall be so disregarded. Also, subject to the foregoing, only Securities outstanding at the time shall be considered in any such determination.

SECTION 11.07. Rules by Trustee, Paying Agent and Registrar. The Trustee may make reasonable rules for action by or a meeting of Securityholders. The Registrar and the Paying Agent may make reasonable rules for their functions.

SECTION 11.08. Legal Holidays. A "Legal Holiday" is a Saturday, a Sunday or a day on which banking institutions are not required to be open in the State of New York. If a payment date is a Legal Holiday, payment shall be made on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period. If a regular record date is a Legal Holiday, the record date shall not be affected.

SECTION 11.09. Governing Law. This Indenture and the Securities shall be governed by, and construed in accordance with, the laws of the State of New York but without giving effect to applicable principles of conflicts of law to the extent that the application of the laws of another jurisdiction would be required thereby.

SECTION 11.10. No Recourse Against Others. A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Securities or this Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder shall waive and release all such liability. The waiver and release shall be part of the consideration for the issue of the Securities.

SECTION 11.11. Successors. All agreements of the Company in this Indenture and the Securities shall bind its successors. All agreements of the Trustee in this Indenture shall bind its successors.

SECTION 11.12. Multiple Originals. The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Indenture.

SECTION 11.13. Table of Contents; Headings. The table of contents, cross-reference sheet and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not intended to be considered a part hereof and shall not modify or restrict any of the terms or provisions hereof.

SECTION 11.14. Waiver Regarding Redemption Fund. Notwithstanding any provision to the contrary contained herein, by accepting a Security each Securityholder hereby waives and releases any and all rights, powers and interests and all manner of claims, whether now existing or arising in the future, which it may have as a creditor of the Company or any other entity with respect to the Redemption Fund. In the event of (a) any insolvency or bankruptcy case or proceeding, or any receivership, liquidation, arrangement, reorganization or other similar case or proceeding in connection therewith under Title 11 of the United States Code, as hereafter amended, or under any other applicable bankruptcy, insolvency or other similar law, now or hereafter in effect, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy, relative to the Company, or to its assets, (b) any liquidation, dissolution or other winding up of the Company, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy, or (c) any assignment for the benefit of creditors or any other marshalling of assets and liabilities of Company, then each Securityholder agrees that

it shall not be entitled to any payment or distribution of any kind or character of assets of the Redemption Fund, whether in cash, property or securities, by set-off or otherwise. The waiver and release and other agreements set forth in this Section 11.14 shall be part of the consideration for the issue of the Securities.

IN WITNESS WHEREOF, the parties have caused this Indenture to be duly executed as of the date first written above.

ALHC MERGER CORPORATION

Attest
by

/s/ Rollin M. Dick

Title Executive Vice President

/s/ Lawrence W. Inlow

Title Secretary

LTCB TRUST COMPANY

Attest
by

/s/ Helmut Langefeld

Title Executive Vice President

/s/ Barbara Bevelaqua

Title Vice President

EXHIBIT A

[FORM OF FACE OF SECURITY]

No. $

11-1/4% Senior Subordinated Note Due 2004

[Issuer], a Delaware corporation, promises to pay to , or registered assigns, the principal sum of dollars on September 15, 2004.

Interest Payment Dates: March 15 and September 15.

Record Dates: March 1 and September 1.

Additional provisions of this Security are set forth on the other side of this Security.

Dated:

[ISSUER],

by

President

Secretary

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

LTCB TRUST COMPANY [SEAL]

as trustee, certifies that this is one of the Securities referred to in the Indenture.

by

Authorized Signatory

[FORM OF REVERSE SIDE OF SECURITY]

11-1/4% Senior Subordinated Note Due 2004

1. Interest

[Issuer], a Delaware corporation (such corporation, and its successors and assigns under the Indenture hereinafter referred to, being herein called the "Company"), promises to pay interest on the principal amount of this Security at the rate per annum shown above. The Company will pay interest semiannually on March 15 and September 15 of each year. Interest on the Securities will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from September 29, 1994. Interest will be computed on the basis of a 360-day year of twelve 30-day months. The Company shall pay interest on overdue principal at the rate borne by the Securities plus 1% per annum, and it shall pay interest on overdue installments of interest at the same rate to the extent lawful.

2. Method of Payment

The Company will pay interest on the Securities (except defaulted interest) to the persons who are registered holders of Securities at the close of business on the March 1 or September 1 next preceding the interest payment date even if Securities are canceled after the record date and on or before the interest payment date. Holders must surrender Securities to a Paying Agent to collect principal payments. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. However, the Company may pay principal and interest by check payable in such money. It may mail an interest check to a Holder's registered address.

3. Paying Agent and Registrar

Initially, LTCB Trust Company, a New York corporation ("Trustee"), will act as Paying Agent and Registrar. The Company may appoint and change any Paying Agent, Registrar or co- registrar without notice. The Company or any of its domestically incorporated Wholly Owned Subsidiaries may act as Paying Agent, Registrar or co-registrar.

4. Indenture

The Company issued the Securities under an Indenture dated as of September 29, 1994 ("Indenture"), between the Company

and the Trustee. The terms of the Securities include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S.C. Section 77aaa- 77bbbb) as in effect on the date of the Indenture (the "Act"). Capitalized terms used herein and not defined herein have the meanings ascribed thereto in the Indenture. The Securities are subject to all such terms, and Securityholders are referred to the Indenture and the Act for a statement of those terms.

The Securities are general unsecured obligations of the Company limited to $150,000,000 aggregate principal amount (subject to Section 2.07 of the Indenture). The Indenture imposes certain limitations on the issuance of debt by the Company, the issuance of debt and preferred stock by the Subsidiaries, the payment of dividends and other distributions and acquisitions or retirements of the Company's Capital Stock and Subordinated Indebtedness, the sale or transfer of assets and Subsidiary stock and transactions with Affiliates. In addition, the Indenture limits the ability of the Company and the Subsidiaries to restrict distributions and dividends from Subsidiaries. Each of the foregoing limitations is subject to a number of important qualifications and exceptions.

5. Optional Redemption

The Securities may not be redeemed prior to September 15, 1999. On and after that date, the Company may redeem the Securities in whole at any time or in part from time to time at the following redemption prices (expressed in percentages of principal amount), plus accrued interest to the redemption date:

Period	Percentage
From September 15, 1999 through September 14, 2000	105.625%
From September 15, 2000 through September 14, 2001	102.813%
From September 15, 2001 and thereafter	100.000%

6. Notice of Redemption

Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each Holder of Securities to be redeemed at his registered address. Securities in denominations larger than $1,000 may be redeemed in part but only in whole multiples of $1,000. If money sufficient to pay the redemption price of and accrued interest on all Securities (or portions thereof) to be redeemed on the redemption date is deposited with the Paying Agent on or before the redemption date and certain other conditions are satisfied, on and after such date interest ceases to accrue on such Securities (or such portions thereof) called for redemption.

7. Put Provisions

Upon a Change of Control, any Holder of Securities will have the right to cause the Company to repurchase all or any part of the Securities of such Holder at a repurchase price equal to 101% of the principal amount of the Securities to be repurchased plus accrued interest to the date of repurchase as provided in, and subject to the terms of, the Indenture.

8. Subordination

The Securities are subordinated to Senior Indebtedness, as defined in the Indenture. To the extent provided in the Indenture, Senior Indebtedness must be paid before the Securities may be paid. The Company agrees, and each Securityholder by accepting a Security agrees, to the subordination provisions contained in the Indenture and authorizes the Trustee to give it effect and appoints the Trustee as attorney-in-fact for such purpose.

9. Denominations; Transfer; Exchange

The Securities are in registered form without coupons in denominations of $1,000 and whole multiples of $1,000. A Holder may transfer or exchange Securities in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements or transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need not register the transfer of or exchange any Securities selected for redemption (except, in the case of a Security to be redeemed in part, the portion of the Security not to be redeemed) or any Securities for a period of 15 days before a selection of Securities to be redeemed or 15 days before an interest payment date.

10. Persons Deemed Owners

The registered holder of this Security may be treated as the owner of it for all purposes.

11. Unclaimed Money

If money for the payment of principal or interest remains unclaimed for two years, the Trustee or Paying Agent shall pay the money back to the Company at its request unless an abandoned property law designates another person. After any such payment, Holders entitled to the money must look only to the Company and not to the Trustee for payment.

12. Defeasance

Subject to certain conditions, the Company at any time may terminate some or all of its obligations under the Securities and the Indenture if the Company deposits with the Trustee money or U.S. Government Obligations for the payment of principal and interest on the Securities to redemption or maturity, as the case may be.

13. Amendment, Waiver

Subject to certain exceptions set forth in the Indenture, (i) the Indenture or the Securities may be amended with the written consent of the Holders of at least a majority in principal amount outstanding of the Securities and (ii) any default or noncompliance with any provision may be waived with the written consent of the Holders of a majority in principal amount outstanding of the Securities. Subject to certain exceptions set forth in the Indenture, without the consent of any Securityholder, the Company and the Trustee may amend the Indenture or the Securities to cure any ambiguity, omission, defect or inconsistency, or to comply with Article 5 of the Indenture, or to provide for uncertificated Securities in addition to or in place of certificated Securities, or to comply with the Act or to add additional covenants or surrender Company rights, or to make certain changes in the subordination provisions, or to make any change that does not adversely affect the rights of any Securityholder.

14. Defaults and Remedies

Under the Indenture, Events of Default include
(i) default in payment of principal on the Securities at maturity, upon redemption pursuant to paragraph 5 of the Securities, upon declaration or otherwise, or failure by the Company to redeem or purchase Securities when required;
(ii) default for 30 days in payment of interest on the Securities; (iii) failure by the Company to comply with other agreements in the Indenture or the Securities, subject to notice and lapse of time; (iv) certain accelerations (including failure to pay within any grace period after final maturity) of other Indebtedness of the Company or any Subsidiary if the amount accelerated (or so unpaid) exceeds $10 million, and the commencement of foreclosure proceedings by certain holders of secured Indebtedness; (v) certain events of bankruptcy or insolvency with respect to the Company or any Material

Subsidiary; and (vi) certain judgments or decrees for the payment of money in excess of $10 million. If an Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the Securities may declare all the Securities to be due and payable immediately. Certain events of bankruptcy or insolvency are Events of Default which will result in the Securities being due and payable immediately upon the occurrence of such Events of Default. Securityholders may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee may refuse to enforce the Indenture or the Securities unless it receives reasonable indemnity or security. Subject to certain limitations, Holders of a majority in principal amount of the Securities may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Securityholders notice of any continuing Default (except a Default in payment of principal or interest) if it determines that withholding notice is in their interest.

15. Trustee Dealings with the Company

Subject to certain limitations imposed by the Act, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with and collect obligations owed to it by the Company or its affiliates and may otherwise deal with the Company or its affiliates with the same rights it would have if it were not Trustee.

16. No Recourse Against Others

A director, officer, employee or stockholder, as such, of the Company or the Trustee shall not have any liability for any obligations of the Company under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

17. Waiver Regarding Redemption Fund

By accepting a Security, each Securityholder waives and releases any and all rights and claims it may have as a creditor of the Company with respect to the Redemption Fund established for the benefit of the holders of certain preferred stock of the Company, and agrees that it shall not be entitled, upon any bankruptcy or similar proceeding with respect to the Company, to any distribution of assets from the Redemption Fund, all as more fully set forth in the Indenture. These provisions are part of the consideration for the issue of the Securities.

18. Authentication

This Security shall not be valid until an authorized signatory of the Trustee (or an authenticating agent) manually signs the certificate of authentication on the other side of this Security.

19. Abbreviations

Customary abbreviations may be used in the name of a Securityholder or an assignee, such as TEN COM (=tenants in common), TEN ENT (=tenants by the entireties), JT TEN (=joint tenants with rights of survivorship and not as tenants in common), CUST (=custodian), and U/G/M/A (=Uniform Gift to Minors Act).

20. CUSIP Numbers

Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures the Company has caused CUSIP numbers to be printed on the Securities and has directed the Trustee to use CUSIP numbers in notices of redemption as a convenience to Securityholders. No representation is made as to the accuracy of such numbers either as printed on the Securities or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

The Company will furnish to any Securityholder upon written request and without charge to the Securityholder a copy of the Indenture which has in it the text of this Security in larger type. Requests may be made to:

Attention of

ASSIGNMENT FORM

To assign this Security, fill in the form below:

I or we assign and transfer this Security to

(Print or type assignee's name, address and zip code)

(Insert assignee's soc. sec. or tax I.D. No.)

and irrevocably appoint agent to transfer this Security on the books of the Company. The agent may substitute another to act for him.

Date: _____

Your Signature:_____

Sign exactly as your name appears on the other side of this Security.

OPTION OF HOLDER TO ELECT PURCHASE

If you want to elect to have this Security purchased by the Company pursuant to Section 4.08 of the Indenture, check the box:

/ /

If you want to elect to have only part of this Security purchased by the Company pursuant to Section 4.08 of the Indenture, state the amount:
$ If you want to elect to have this Security purchased by the Company pursuant to Section 4.09 of the Indenture, check the box:

/ /

If you want to elect to have only part of this Security purchased by the Company pursuant to Section 4.09 of the Indenture, state the amount:
$ Date: _____
Your Signature: _____

(Sign exactly as your name appears on the other side of the Security)

Signature Guarantee:_____ (Signature must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company)

FIRST SUPPLEMENTAL INDENTURE

BETWEEN

AMERICAN LIFE HOLDING COMPANY, as Issuer

and LTCB TRUST COMPANY, as Trustee

Dated as of September 29, 1994

FIRST SUPPLEMENTAL INDENTURE, dated as of September 29, 1994 (this "Supplemental Indenture"), between AMERICAN LIFE HOLDING COMPANY, a Delaware corporation (the "Company"), and LTCB TRUST COMPANY (the "Trustee").

WHEREAS, ALHC Merger Corporation, a Delaware corporation ("Acquisition"), and the Trustee have entered into an indenture (the "Indenture") dated as of September 29, 1994, to provide for the issuance of $150 million principal amount of Acquisition's 11-1/4% Senior Subordinated Notes Due 2004 (the "Securities"); and

WHEREAS, on September 29, 1994, Acquisition merged with and into the Company (the "Merger"), with the Company succeeding to the business of Acquisition and assuming all of the obligations of Acquisition under the Securities and the Indenture; and

WHEREAS, the Company has made a request to the Trustee that the Trustee join with it, in accordance with Section 9.01 of the Indenture, in the execution of this Supplemental Indenture to permit the Company to assume all the obligations of Acquisition under the Indenture pursuant to Section 5.01 of the Indenture;

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants contained herein and in the Indenture and for other good and valuable consideration, the receipt and sufficiency of which are herein acknowledged, the Company and the Trustee hereby agree for the equal and ratable benefit of all holders of the Securities as follows:

ARTICLE 1.

Definitions

Section 1.01. Definitions. For purposes of this Supplemental Indenture, the terms defined in the recitals shall have the meanings therein specified; any terms defined in the Indenture and not defined herein shall have the meanings therein specified.

ARTICLE 2.

Assumption and Substitution

Section 2.01. Assumption of Obligations. The Company as the surviving corporation of the Merger expressly acknowledges and assumes the due and punctual payment of the principal of, premium, if any, and interest on all the Securities and the performance and observance of all other obligations under the Indenture or the Securities to be performed or observed by Acquisition.

Section 2.02. Substitution. On the date hereof, the Company (as the surviving corporation of the Merger) shall, by virtue of the assumption described in Section 2.01 and the execution and delivery of this Supplemental Indenture, succeed to and be substituted for Acquisition.

ARTICLE 3.

Miscellaneous

Section 3.01. Effect of the Supplemental Indenture. This Supplemental Indenture supplements the Indenture and shall be a part and subject to all the terms thereof. Except as supplemented hereby, the Indenture and the Securities issued thereunder shall continue in full force and effect.

Section 3.02. Counterparts. This Supplemental Indenture may be executed in counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same instrument.

Section 3.03. GOVERNING LAW. THIS SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES THEREOF).

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, all as of the date first written above.

AMERICAN LIFE HOLDING COMPANY

By: /s/ ROLLIN M. DICK
_____
Name: Rollin M. Dick
Title: Executive Vice President

LTCB TRUST COMPANY, as Trustee

By: /s/ HELMUT LANGEFELD
_____
Name: Helmut Langefeld

Title: Executive Vice President

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