

# CONSECO INC

## FORM 10-Q (Quarterly Report)

Filed 05/15/98 for the Period Ending 03/31/98

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

# CONSECO INC

## FORM 10-Q (Quarterly Report)

Filed 5/15/1998 For Period Ending 3/31/1998

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

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

**Form 10-Q**

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

For the quarterly period ended March 31, 1998

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

*Commission File Number 1-9250*

Conseco, Inc.

Indiana  
-----  
State of Incorporation

No. 35-1468632  
-----  
IRS Employer Identification No.

11825 N. Pennsylvania Street  
Carmel, Indiana 46032  
-----  
Address of principal executive offices

(317) 817-6100  
-----  
Telephone

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

Shares of common stock outstanding as of May 1, 1998: 186,944,529

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CONSECO, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET  
(Dollars in millions)

ASSETS

	March 31, 1998 ----	December 31, 1997 ----
	(unaudited)	
Investments:		
Actively managed fixed maturities at fair value (amortized cost: 1998 - \$22,616.3; 1997 - \$22,289.3).....	\$22,968.9	\$22,773.7
Equity securities at fair value (cost: 1998 - \$254.6; 1997 - \$227.6).....	263.4	228.9
Mortgage loans.....	474.2	516.2
Credit-tenant loans.....	596.6	558.6
Policy loans.....	691.7	692.4
Other invested assets .....	534.8	518.1
Short-term investments.....	837.7	990.5
Assets held in separate accounts.....	675.2	682.8
	-----	-----
Total investments.....	27,042.5	26,961.2
Accrued investment income.....	399.9	379.3
Cost of policies purchased.....	2,442.6	2,466.4
Cost of policies produced.....	1,022.5	915.2
Reinsurance receivables.....	761.8	795.8
Income tax assets.....	42.4	85.6
Goodwill (net of accumulated amortization: 1998 - \$192.2; 1997 - \$167.7).....	3,604.9	3,637.3
Property and equipment (net of accumulated depreciation: 1998 - \$88.4; 1997 - \$83.8) .....	176.0	171.6
Other assets.....	431.3	449.1
	-----	-----
Total assets.....	\$35,923.9	\$35,861.5
	=====	=====

(continued on next page)

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

CONSECO, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET, continued  
(Dollars in millions)

LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31, 1998 ----- (unaudited)	December 31, 1997 -----
Liabilities:		
Insurance liabilities:		
Interest sensitive products.....	\$17,320.6	\$17,357.6
Traditional products.....	5,758.0	5,784.8
Claims payable and other policyholder funds.....	1,617.3	1,615.5
Unearned premiums.....	409.1	406.1
Liabilities related to separate accounts.....	675.2	682.8
Investment borrowings.....	1,196.1	1,389.5
Other liabilities.....	1,223.4	995.6
Commercial paper.....	741.0	448.2
Notes payable.....	1,694.1	1,906.7
	-----	-----
Total liabilities.....	30,634.8	30,586.8
	-----	-----
Minority interest:		
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts.....	1,388.1	1,383.9
Common stock of subsidiary.....	.7	.7
Shareholders' equity:		
Preferred stock.....	115.8	115.8
Common stock and additional paid-in capital (no par value, 1,000,000,000 shares authorized, shares issued and outstanding: 1998 - 186,791,453; 1997 - 186,665,591).....	2,397.0	2,382.0
Accumulated other comprehensive income:		
Unrealized appreciation of fixed maturity securities (net of applicable deferred income taxes: 1998 - \$85.7; 1997 - \$95.5).....	159.0	177.2
Unrealized appreciation of other investments (net of applicable deferred income taxes: 1998 - \$5.9; 1997 - \$2.6).....	10.9	4.8
Retained earnings.....	1,217.6	1,210.3
	-----	-----
Total shareholders' equity.....	3,900.3	3,890.1
	-----	-----
Total liabilities and shareholders' equity.....	\$35,923.9	\$35,861.5
	=====	=====

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

CONSECO, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF OPERATIONS  
(Dollars in millions)  
(unaudited)

	Three months ended March 31,	
	1998	1997
Revenues:		
Insurance policy income:		
Traditional products.....	\$ 859.4	\$ 566.2
Interest sensitive products.....	130.7	103.9
Net investment income.....	583.3	409.2
Net investment gains.....	104.8	5.1
Fee revenue and other income.....	20.8	14.6
	-----	-----
Total revenues.....	1,699.0	1,099.0
	-----	-----
Benefits and expenses:		
Insurance policy benefits.....	680.4	455.3
Amounts added to annuity and financial product policyholder account balances:		
Interest.....	188.4	173.7
Other amounts added to variable and equity-indexed annuity products.....	85.6	16.2
Interest expense on notes payable.....	39.0	25.8
Interest expense on short-term investment borrowings.....	18.9	2.8
Amortization related to operations.....	117.1	103.6
Amortization related to investment gains.....	86.4	11.8
Other operating costs and expenses.....	165.0	114.4
	-----	-----
Total benefits and expenses.....	1,380.8	903.6
	-----	-----
Income before income taxes, minority interest and extraordinary charge .....	318.2	195.4
Income tax expense.....	131.3	70.6
	-----	-----
Income before minority interest and extraordinary charge .....	186.9	124.8
Minority interest:		
Distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts.....	19.4	8.7
Dividends on preferred stock of subsidiaries.....	-	1.3
	-----	-----
Income before extraordinary charge .....	167.5	114.8
Extraordinary charge on extinguishment of debt, net of taxes and minority interest.....	16.4	3.3
	-----	-----
Net income.....	151.1	111.5
Less amounts applicable to preferred stock:		
Charge related to induced conversions.....	-	12.3
Preferred stock dividends.....	2.0	2.3
	-----	-----
Net income applicable to common stock.....	\$ 149.1	\$ 96.9
	=====	=====

(continued on next page)

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

CONSECO, INC. AND SUBSIDIARIES

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

	Three months ended March 31,	
	----- 1998	----- 1997
	-----	-----
Earnings per common share:		
Basic:		
Weighted average shares outstanding.....	185,941,000	177,670,000
Net income before extraordinary charge.....	\$.89	\$.57
Extraordinary charge.....	.09	.02
	----	----
Net income.....	\$.80	\$.55
	====	====
Diluted:		
Weighted average shares outstanding.....	207,930,000	203,620,000
Net income before extraordinary charge.....	\$.81	\$.51
Extraordinary charge.....	.08	.02
	----	----
Net income.....	\$.73	\$.49
	====	====

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

CONSECO, INC. AND SUBSIDIARIES

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

	Total	Preferred stock	Common stock and additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings
	-----	-----	-----	-----	-----
Balance, December 31, 1997.....	\$3,890.1	\$115.8	\$2,382.0	\$ 182.0	\$1,210.3
Comprehensive income, net of tax:					
Net income.....	151.1	-	-	-	151.1
Change in unrealized appreciation of securities (net of applicable income tax benefit of \$6.5).....	(12.1)	-	-	(12.1)	-
-----	-----				
Total comprehensive income.....	139.0				
Issuance of shares for stock options and for agent and employee benefit plans.....	93.5	-	93.5	-	-
Tax benefit related to issuance of shares under stock options plans.....	36.8	-	36.8	-	-
Cost of shares acquired.....	(233.8)	-	(115.3)	-	(118.5)
Dividends on preferred stock.....	(2.0)	-	-	-	(2.0)
Dividends on common stock.....	(23.3)	-	-	-	(23.3)
-----	-----	-----	-----	-----	-----
Balance, March 31, 1998.....	\$3,900.3	\$115.8	\$2,397.0	\$169.9	\$1,217.6
=====	=====	=====	=====	=====	=====
Balance, December 31, 1996.....	\$3,085.3	\$267.1	\$2,029.6	\$ 38.9	\$ 749.7
Comprehensive income (loss), net of tax:					
Net income.....	111.5	-	-	-	111.5
Change in unrealized appreciation of securities (net of applicable income tax benefit of \$89.2).....	(165.6)	-	-	(165.6)	-
-----	-----				
Total comprehensive loss.....	(54.1)				
Conversion of preferred stock into common shares..	-	(134.0)	134.0	-	-
Issuance of shares in merger transactions.....	115.7	-	115.7	-	-
Issuance of shares for stock options and for agent and employee benefit plans.....	11.2	-	11.2	-	-
Tax benefit related to issuance of shares under stock option plans.....	.5	-	.5	-	-
Conversion of convertible debentures into common shares.....	142.1	-	142.1	-	-
Other .....	(5.2)	-	(5.2)	-	-
Amounts applicable to preferred stock:					
Charge related to induced conversion of convertible preferred stock.....	(12.3)	-	-	-	(12.3)
Dividends on preferred stock.....	(2.3)	-	-	-	(2.3)
Dividends on common stock.....	(5.8)	-	-	-	(5.8)
-----	-----	-----	-----	-----	-----
Balance, March 31, 1997.....	\$3,275.1	\$133.1	\$2,427.9	\$(126.7)	\$ 840.8
=====	=====	=====	=====	=====	=====

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



CONSECO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS  
(Dollars in millions)  
(unaudited)

	Three months ended March 31,	
	1998	1997
	-----	-----
Cash flows from operating activities:		
Net income.....	\$ 151.1	\$ 111.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and depreciation.....	208.1	118.6
Income taxes.....	100.5	58.3
Insurance liabilities.....	(128.2)	(7.4)
Amounts added to annuity and financial product policyholder account balances.....	274.0	189.9
Fees charged to insurance liabilities.....	(116.3)	(103.7)
Accrual and amortization of investment income.....	2.3	(4.2)
Deferral of cost of policies produced.....	(169.6)	(109.6)
Minority interest.....	29.5	13.4
Extraordinary charge on extinguishment of debt.....	25.2	5.1
Net investment gains.....	(104.8)	(5.1)
Other.....	(16.1)	(46.8)
	-----	-----
Net cash provided by operating activities.....	255.7	220.0
	-----	-----
Cash flows from investing activities:		
Sales of investments.....	8,240.1	3,487.7
Maturities and redemptions.....	321.3	127.8
Purchases of investments.....	(8,543.6)	(3,592.0)
Purchase of mandatorily redeemable preferred stock of subsidiary.....	-	(27.6)
Acquisition of Capitol American Financial Corporation, net of cash held at date of merger.....	-	(522.1)
Other.....	(17.3)	(27.6)
	-----	-----
Net cash provided (used) by investing activities .....	.5	(553.8)
	-----	-----
Cash flows from financing activities:		
Issuance of Company-obligated mandatorily redeemable preferred stock of subsidiary trusts.....	3.6	296.7
Issuance of shares related to stock options and employee benefit plans .....	57.1	9.8
Issuance of commercial paper, net.....	292.8	-
Issuance of notes payable.....	798.0	745.8
Payments on notes payable.....	(1,035.9)	(548.7)
Payments to repurchase equity securities of Conseco.....	(199.6)	-
Investment borrowings.....	(193.4)	(65.1)
Deposits to insurance liabilities.....	533.1	456.8
Withdrawals from insurance liabilities.....	(626.4)	(504.9)
Charge related to induced conversion of convertible preferred stock.....	-	(12.3)
Distributions on Company-obligated mandatorily redeemable preferred stock of subsidiary trusts.....	(12.8)	(6.3)
Dividends paid .....	(25.5)	(8.7)
	-----	-----
Net cash provided (used) by financing activities.....	(409.0)	363.1
	-----	-----
Net increase (decrease) in short-term investments.....	(152.8)	29.3
Short-term investments, beginning of period.....	990.5	281.6
	-----	-----
Short-term investments, end of period.....	\$ 837.7	\$ 310.9
	=====	=====

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

**CONSECO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following notes should be read in conjunction with the notes to consolidated financial statements included in the 1997 Form 10-K of Conseco, Inc. ("We", "Conseco" or the "Company").

**BASIS OF PRESENTATION**

The unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring items, which are necessary to present fairly Conseco's financial position and results of operations on a basis consistent with that of our prior audited consolidated financial statements. We have reclassified certain amounts from the prior periods to conform to the 1998 presentation.

In preparing financial statements in conformity with generally accepted accounting principles ("GAAP"), we are required to make estimates and assumptions that significantly affect various reported amounts. For example, we use significant estimates and assumptions in calculating the cost of policies produced, the cost of policies purchased, goodwill, insurance liabilities, liabilities related to litigation, guaranty fund assessment accruals and deferred income taxes. If our future experience differs materially from these estimates and assumptions, our financial statements could be affected.

Consolidation issues. On May 30, 1997, we completed the acquisition (the "PFS Merger") of Pioneer Financial Services, Inc. ("PFS") and PFS became a wholly owned subsidiary of Conseco. On September 30, 1997, we completed the acquisition (the "Colonial Penn Purchase") of Colonial Penn Life Insurance Company and Providential Life Insurance Company and certain other assets (collectively referred to as "Colonial Penn"). Colonial Penn became a wholly owned subsidiary of Conseco. On December 5, 1997, we completed the acquisition (the "WNIC Merger") of Washington National Corporation ("WNIC") and WNIC became a wholly owned subsidiary of Conseco. The accounts of PFS, Colonial Penn and WNIC are consolidated effective April 1, 1997, September 30, 1997 and December 1, 1997, respectively.

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

**ADJUSTMENT TO ACTIVELY MANAGED FIXED MATURITY SECURITIES**

We classify fixed maturity securities into three categories: "actively managed" (which are carried at estimated fair value), "trading" (which are carried at estimated fair value) and "held to maturity" (which are carried at amortized cost). We held \$38.7 million of trading securities at March 31, 1998, which are included in other invested assets. We did not classify any fixed maturity securities in the held to maturity category at March 31, 1998.

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

	March 31, 1998			December 31, 1997		
	Cost basis	Effect of fair value adjustments	Carrying value	Cost basis	Effect of fair value adjustments	Carrying value
			(Dollars in millions)			
Actively managed fixed maturity securities.....	\$22,616.3	\$352.6	\$22,968.9	\$22,289.3	\$484.4	\$22,773.7
Other balance sheet items:						
Cost of policies purchased.....	2,508.7	(66.1)	2,442.6	2,639.0	(172.6)	2,466.4
Cost of policies produced.....	1,062.4	(39.9)	1,022.5	949.9	(34.7)	915.2
Other.....	-	(1.9)	(1.9)	-	(4.4)	(4.4)
Income tax assets.....	128.1	(85.7)	42.4	181.1	(95.5)	85.6
		-----			-----	
Unrealized appreciation of fixed maturity securities, net.....		\$159.0			\$177.2	
		=====			=====	

**CONSECO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**EARNINGS PER SHARE**

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

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

	Three months ended March 31,	
	1998	1997
	-----	
	(Dollars in millions and shares in thousands)	
Income:		
Net income before extraordinary charge.....	\$167.5	\$114.8
Preferred stock dividends.....	2.0	14.6
	-----	-----
Income before extraordinary charge applicable to common ownership for basic earnings per share.....	165.5	100.2
Effect of dilutive securities:		
Preferred stock dividends.....	2.0	2.3
	-----	-----
Income before extraordinary charge applicable to common ownership and assumed conversions for diluted earnings per share.....	\$167.5	\$102.5
	=====	=====
Shares:		
Weighted average shares outstanding for basic earnings per share.....	185,941	177,670
Effect of dilutive securities on weighted average shares:		
Stock options.....	8,250	11,464
Employee stock plans.....	1,970	2,078
PRIDES.....	6,482	7,447
Convertible debentures.....	5,287	4,961
	-----	-----
Dilutive potential common shares.....	21,989	25,950
	-----	-----
Weighted average shares outstanding for diluted earnings per share.....	207,930	203,620
	=====	=====

**COMPREHENSIVE INCOME**

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

CONSECO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The change in unrealized gains included in comprehensive income in the first quarter of 1997 was net of \$4.3 million (after an income tax benefit of \$2.2 million) of net investment losses included in net income.

BUSINESS SEGMENTS

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

The following table summarizes financial data by segment:

	Three months ended March 31,	
	----- 1998	1997 -----
	(Dollars in millions)	
Total revenues:		
Supplemental health.....	\$ 585.4	\$ 466.1
Annuities.....	437.5	274.5
Life insurance.....	370.5	226.5
Individual and group major medical.....	238.3	98.7
Other.....	67.3	33.2
	-----	-----
	\$1,699.0	\$1,099.0
	=====	=====
Income before income taxes, minority interest and extraordinary charge:		
Supplemental health.....	\$ 138.7	\$ 82.1
Annuities.....	82.0	64.6
Life insurance.....	101.0	54.3
Individual and group major medical.....	19.3	10.2
Other.....	20.0	14.0
Corporate.....	(42.8)	(29.8)
	-----	-----
	\$ 318.2	\$ 195.4
	=====	=====

FINANCIAL INSTRUMENTS

We periodically use options and interest rate swaps to hedge interest rate risk associated with our investments and borrowed capital. At March 31, 1998, we held agreements to create a hedge that effectively converts a portion of our fixed-rate borrowed capital into floating-rate instruments for the period during which the agreements are outstanding. The difference between the interest rates is accrued as interest rates change and recorded as an adjustment to interest expense. During the first quarter of 1998, interest expense was reduced by \$.7 million as a result of our interest rate swap agreements. Such interest rate swap agreements have an aggregate notional principal amount of \$1.0 billion, mature in various years through 2008 and have an average remaining life of 7 years.

In 1996, we introduced equity-indexed annuity products, which provide a guaranteed base rate of return with a higher potential return linked to the performance of a broad-based equity index. We buy Standard & Poor's 500 Index Call Options (the "S&P 500 Call Options") in an effort to hedge potential increases to policyholder benefits resulting from increases in the S&P 500 Index to which the product's return is linked. We include the cost of the S&P 500 Call Options in the pricing of the equity-indexed annuity products. We reflect changes in the values of the S&P 500 Call Options, which fluctuate in relation to changes in policyholder account balances for these annuities, in net investment income. Premiums paid to purchase these instruments are deferred and amortized over their term.

**CONSECO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

During the three months ended March 31, 1998, net investment income included \$59.7 million related to changes in the value of the S&P 500 Call Options. Such investment income was substantially offset by amounts added to policyholder account balances for annuities and financial products. The value of the S&P 500 Call Options was \$71.8 million at March 31, 1998. We classify such instruments as other invested assets.

If the counterparties of the aforementioned financial instruments do not meet their obligations, Consecos may have to recognize a loss. Consecos limits its exposure to such a loss by diversifying among several counterparties believed to be strong and creditworthy. At March 31, 1998, all of the counterparties were rated "A" or higher by Standard & Poor's Corporation.

**REINSURANCE**

Cost of reinsurance ceded where the reinsured policy contains mortality risks totaled \$133.9 million and \$92.3 million in the first quarters of 1998 and 1997, respectively. This cost was deducted from insurance premium revenue. Consecos is contingently liable for claims reinsured if the assuming company is unable to pay. Reinsurance recoveries netted against insurance policy benefits totaled \$135.5 million and \$70.8 million in the first quarters of 1998 and 1997, respectively.

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

**COMMERCIAL PAPER PROGRAM**

We instituted a commercial paper program in April 1997 to lower our borrowing costs and improve our liquidity. Borrowings under our commercial paper program averaged approximately \$639.8 million during the first quarter of 1998. The weighted average interest rate on such borrowings was 5.76 percent during the three month period ended March 31, 1998. Consecos's commercial paper has maturities ranging from 1 to 101 days. However, the Company has the ability to refinance such obligations through its bank credit facility.

**CHANGES IN NOTES PAYABLE**

Notes payable of the Company were as follows:

	Interest rate -----	March 31, 1998 ----	December 31, 1997 ----
		(Dollars in millions)	
Bank debt.....	5.99% (1)	\$ 695.0	\$1,000.0
Leucadia Notes.....	6.19% (1)	400.0	400.0
Notes due 2003.....	6.4%	250.0	-
Senior notes due 2003.....	8.125%	168.5	168.5
Senior notes due 2004.....	10.5%	41.1	184.9
Subordinated notes due 2004.....	11.25%	8.1	10.9
Convertible subordinated debentures due 2005.....	6.5%	29.1	29.1
Convertible subordinated notes due 2003.....	6.5%	86.0	86.1
Other.....	Various	20.2	21.3
		-----	-----
Total principal amount.....		1,698.0	1,900.8
Unamortized net (discount) premium.....		(3.9)	5.9
		-----	-----
Total.....		\$1,694.1	\$1,906.7
		=====	=====
Commercial paper.....	5.95% (1)	\$741.0	\$448.2
		=====	=====

(1) Current rate at March 31, 1998.

**CONSECO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

First quarter 1998 changes in notes payable

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

During the first quarter of 1998, we repurchased \$2.8 million par value of the 11.25 percent subordinated notes due 2004 for \$3.2 million. We recognized an extraordinary charge of \$.2 million (net of a \$.1 million tax benefit) as a result of such repurchases. In addition, assets with a carrying value at March 31, 1998, of \$9.6 million were segregated for the purpose of defeasing the remaining \$8.1 million par value of our 11.25 percent subordinated notes due 2004.

During the first quarter of 1998, we repurchased \$143.8 million par value of our 10.5 percent senior notes due 2004 for \$176.7 million. We recognized an extraordinary charge of \$16.2 million (net of an \$8.7 million tax benefit) as a result of such repurchases.

First quarter 1997 changes in notes payable

In the first quarter of 1997, we repurchased \$76.1 million par value of the 11.25 percent senior subordinated notes due 2004 for \$87.7 million. We recognized an extraordinary charge of \$3.3 million (net of a \$1.8 million tax benefit) as a result of such repurchases.

During the first quarter of 1997, \$61.0 million par value of convertible subordinated debentures due 2005 were converted into 4.7 million shares of Conseco common stock. Such convertible debentures were acquired in conjunction with the acquisition (the "ATC Merger") of American Travellers Corporation ("ATC") in December 1996. We paid \$4.2 million to induce the holders to convert such convertible subordinated debentures. The charge recognized as a result of the inducement payment was not significant since such amount approximated amounts reflected in the fair value of the debentures at the ATC Merger date.

**CHANGES IN PREFERRED STOCK**

During the first quarter of 1997, 2,192,000 shares of Preferred Redeemable Increased Dividend Equity Securities Convertible Preferred Stock ("PRIDES") were converted by holders of such shares into 7.5 million shares of common stock. We paid \$12.3 million to induce the holders to convert the PRIDES. Such payment is reflected in the consolidated financial statements as a dividend paid to such holders.

**CHANGES IN COMMON STOCK**

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

	Three months ended March 31,	
	1998	1997
Balance, beginning of period.....	186,666	167,128
Stock options exercised.....	4,583	891
Shares issued in conjunction with merger.....	-	2,882
Common shares converted from convertible subordinated debentures.....	-	4,728
Common shares converted from PRIDES.....	-	7,497
Common stock acquired under option exercise and repurchase programs.....	(5,114)	-
Shares issued under employee benefit and compensation plans.....	656	119
	-----	-----
Balance, end of period.....	186,791	183,245
	=====	=====

**CONSECO, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

During the first quarter of 1998, we repurchased 3.6 million Consecos common shares under our share repurchase programs for \$161.2 million. In conjunction with our announcement of the agreement to merge with Green Tree Financial Corporation ("Green Tree"), we announced the termination of our current share repurchase program to repurchase 5 million Consecos common shares (719,400 shares of Consecos common stock were repurchased under such program prior to its termination).

We allocated the \$233.8 million cost of the shares we repurchased in connection with the stock option exercise program and share repurchase program to shareholders' equity accounts as follows: (i) \$115.3 million to common stock and additional paid-in capital (such allocation was based on the value we received for shares issued in our recent acquisitions); and (ii) \$118.5 million to retained earnings.

**CHANGES IN MINORITY INTEREST**

Minority interest represents the interest of investors other than Consecos in its subsidiaries. Minority interest at March 31, 1998, included: (i) Company-obligated mandatorily redeemable preferred securities of subsidiary trusts with a carrying value of \$1,388.1 million; and (ii) \$.7 million interest in the common stock of a subsidiary.

Company-obligated mandatorily redeemable preferred securities of subsidiary trusts at March 31, 1998, were as follows:

	Amount outstanding	Carrying value	Estimated fair value
-----			
(Dollars in millions)			
9.16% Trust Originated Preferred Securities ("TOPrS").....	\$ 275.0	\$ 275.0	\$ 286.7
8.70% Capital Trust Pass-through Securities ("TruPS").....	325.0	325.0	363.1
8.796% Capital Securities.....	300.0	300.0	338.7
FELINE PRIDES.....	503.7	488.1	607.6
	-----	-----	-----
	\$1,403.7	\$1,388.1	\$1,596.1
	=====	=====	=====

In January 1998, an additional 74,900 FELINE PRIDES were issued for a total of \$3.6 million to cover the over-allotments associated with our original offering of such securities in December 1997.

**DIRECTOR, EXECUTIVE AND SENIOR OFFICER STOCK PURCHASE PLAN**

The Director, Executive and Senior Officer Stock Purchase Plan is designed to encourage direct, long-term ownership of Consecos common stock by Board members, executive officers and certain senior officers. Under the program, 8 million shares of Consecos common stock have been purchased in 1997 and 1996 in open market transactions with independent parties. Purchases were financed by personal loans to the participants from a bank. Such loans are collateralized by the Consecos common stock purchased. Consecos has guaranteed the loans, but has recourse to the participants if we incur a loss under the guarantee. In addition, we provide loans

## CONSECO, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

to the participants for interest payments under the bank loans. A total of 39 directors and officers of Consecoco participated in the plan. At March 31, 1998, the bank loans guaranteed by us totaled \$247.4 million, and the loans provided by us for interest totaled \$11.5 million. The common stock that collateralizes the loans had a fair value of \$428.1 million.

#### CONSOLIDATED STATEMENT OF CASH FLOWS

The following non-cash items were not reflected in the consolidated statement of cash flows in 1998: (i) the acquisition of Consecoco common stock of \$34.2 million pursuant to the tender of shares under the option exercise program; (ii) the issuance of Consecoco common stock under stock option and employee benefit plans of \$36.4 million; and (iii) the tax benefit of \$36.8 million related to the issuance of Consecoco common stock under employee benefit plans. The following non-cash items were not reflected in the consolidated statement of cash flows in 1997: (i) the issuance of Consecoco common stock valued at \$115.7 million in the CAF Merger; (ii) the issuance of \$1.4 million of Consecoco common stock to employee benefit plans; (iii) the tax benefit of \$.5 million related to the issuance of Consecoco common stock under employee benefit plans; (iv) the conversion of \$134.0 million of PRIDES into 2.2 million shares of Consecoco common stock; and (v) the conversion of \$61.0 million par value of convertible debentures into 4.7 million shares of Consecoco common stock.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" ("SFAS 125") was issued in June 1996 and provides accounting and reporting standards for transfers of financial assets and extinguishments of liabilities. We adopted all provisions of SFAS 125 as of January 1, 1998. The adoption of SFAS 125 did not have any effect on our financial position or results of operations.

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

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

#### YEAR 2000 CONVERSION COSTS

We have initiated a corporate-wide program designed to ensure that all of our computer systems will function properly in the year 2000. For some of our operations, the most effective solution will be to ensure timely completion of the previously planned conversions of their older systems to more modern, year 2000 - compliant systems used in other areas of the Company. In some cases, our most effective solution will be to purchase new, more modern systems; these costs will be capitalized as assets and amortized over their expected useful lives. In other cases, we will modify existing systems, thereby incurring costs that will be charged to operating expense. In the first quarter of 1998, we incurred \$5.5 million in costs related to year 2000 projects. We expect to spend approximately an additional \$20 million on these projects over the next two years. We began to incur expenses related to this program several years ago. We expect our year 2000 program to be completed on a timely basis.

#### SUBSEQUENT EVENTS

On April 6, 1998, Consecoco and Green Tree entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which Green Tree would become a wholly owned subsidiary of Consecoco (the "Green Tree Merger"). Under the Merger Agreement, each share of Green Tree common stock would be converted into .9165 of a share of Consecoco common stock. Based on Consecoco's closing price on April 6, 1998, the total merger consideration, including shares issued for outstanding stock options, would be approximately \$7.6 billion. Green Tree stockholders will own approximately 38 percent of the combined company.



## CONSECO, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

We plan to account for the Green Tree Merger as a pooling of interests. The Green Tree Merger is expected to be completed late in the second quarter or in the third quarter of 1998, subject to approval by shareholders of both Conseco and Green Tree; regulatory approvals; and other conditions of closing. After the Green Tree Merger, the combined companies are expected to have total assets of approximately \$40.7 billion and total shareholders' equity of approximately \$5.0 billion.

Green Tree is a diversified financial services company with nationwide operations serving customers in the consumer and commercial finance markets. Green Tree has 6,000 employees at 200 company locations that work with over 20,000 independent retail dealers across the country as well as directly with consumers and businesses.

On April 1, 1998, we announced a fixed spread tender offer for our 8.125% Senior Notes due 2003 (the "8.125% Senior Notes"). The purchase price paid for each 8.125% Senior Note tendered was the price per \$1,000 principal amount equal to a spread of 42 basis points over the yield to maturity of the 5.5 percent U.S. Treasury Note due February 28, 2003, at the time the holder tendered its 8.125% Senior Note plus accrued and unpaid interest, up to but excluding the settlement date. The tender offer expired on April 21, 1998. As a result of the tender offer, we repurchased \$104.7 million principal of the 8.125% Senior Notes for \$113.8 million. Such repurchases were funded with available cash, bank credit facilities and the issuance of commercial paper. We will recognize an extraordinary charge of \$6.8 million (net of income taxes of \$3.7 million) related to such repurchases in the second quarter of 1998.

**CONSECO, INC. AND SUBSIDIARIES**

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

The following discussion highlights material factors affecting our results of operations and significant changes in our balance sheet. Many of the changes in 1998 and 1997 affecting our results of operations were caused by the PFS Merger, the Colonial Penn Purchase, the WNIC Merger and various financings described in the notes to the consolidated financial statements included herein and the notes to the consolidated financial statements included in our 1997 Form 10-K. These transactions also caused significant changes in our balance sheet during these periods. This discussion should be read in conjunction with the consolidated financial statements and notes included herein and in our 1997 Form 10-K.

**RESULTS OF OPERATIONS**

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

**Consolidated Results and Analysis**

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

	Three months ended March 31,	
	1998	1997
	(Dollars in millions, except per share data)	
Operating earnings.....	\$167.5	\$119.1
Net investment losses, net of related costs, amortization and taxes.....	-	(4.3)
Income before extraordinary charge.....	167.5	114.8
Extraordinary charge.....	16.4	3.3
Net income.....	151.1	111.5
Less amounts applicable to preferred stock:		
Charge related to induced conversions.....	-	12.3
Preferred stock dividends.....	2.0	2.3
Net income applicable to common stock.....	\$149.1 =====	\$ 96.9 =====
Per diluted common share:		
Weighted average shares outstanding (in millions).....	207.9 =====	203.6 =====
Operating earnings.....	\$.81	\$ .59
Net investment losses, net of related costs, amortization and taxes.....	-	(.02)
Charge related to induced conversion of preferred stock.....	-	(.06)
Income before extraordinary charge.....	.81	.51
Extraordinary charge.....	.08	.02
Net income.....	\$.73 =====	\$ .49 =====

## CONSECO, INC. AND SUBSIDIARIES

Our first quarter 1998 operating earnings were \$167.5 million, or 81 cents per diluted share, up 41 percent and 37 percent, respectively, over the first quarter of 1997. Operating earnings increased as a result of the PFS Merger (April 1, 1997); the Colonial Penn Purchase (September 30, 1997); the WNIC Merger (December 1, 1997); and changes in the business in force. The percentage increase in operating earnings was greater than the percentage increase in operating earnings per diluted share primarily because of the 2.1 percent increase in weighted average diluted common shares outstanding in the first quarter of 1998 compared with the first quarter of 1997. The increase in weighted average diluted shares resulted principally from shares issued in the PFS Merger, partially offset by the repurchases of Consecos common stock.

Net income of \$151.1 million in the first quarter of 1998, or 73 cents per diluted share, included an extraordinary charge of \$16.4 million, or 8 cents per share, related to the early retirement of debt. Net income of \$111.5 million for the first quarter of 1997, or 49 cents per diluted share, included: (i) net investment losses (net of related costs, amortization and taxes) of \$4.3 million, or 2 cents per share; (ii) an extraordinary charge of \$3.3 million, or 2 cents per share, related to early retirement of debt; and (iii) a charge of 6 cents per share related to the induced conversion of preferred stock (treated as a preferred stock dividend).

Total revenues include net investment gains of \$104.8 million and \$5.1 million in the first quarters of 1998 and 1997, respectively. Excluding net investment gains, total revenues were \$1,594.2 million in the first quarter of 1998, up 46 percent from \$1,093.9 million in the first quarter of 1997. Total revenues in the 1998 period include revenues of PFS, Colonial Penn and WNIC (such companies were acquired in periods subsequent to the first quarter of 1997).

**CONSECO, INC. AND SUBSIDIARIES**

**First Quarter of 1998 Compared with the First Quarter of 1997:**

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

	Three months ended March 31,	
	1998	1997
	(Dollars in millions)	
Income before income taxes, minority interest and extraordinary charge:		
Supplemental health:		
Operating income .....	\$117.7	\$ 84.3
Net investment gains (losses), net of related costs.....	21.0	(2.2)
	-----	-----
Income before income taxes, minority interest and extraordinary charge.....	138.7	82.1
	-----	-----
Annuities:		
Operating income .....	89.7	65.4
Net investment losses, net of related costs and amortization .....	(7.7)	(.8)
	-----	-----
Income before income taxes, minority interest and extraordinary charge.....	82.0	64.6
	-----	-----
Life insurance:		
Operating income.....	99.7	57.7
Net investment gains (losses), net of related costs and amortization.....	1.3	(3.4)
	-----	-----
Income before income taxes, minority interest and extraordinary charge.....	101.0	54.3
	-----	-----
Individual and group major medical:		
Operating income.....	19.1	10.2
Net investment gains, net of related costs.....	.2	-
	-----	-----
Income before income taxes, minority interest and extraordinary charge.....	19.3	10.2
	-----	-----
Other:		
Operating income.....	16.4	14.3
Net investment gains (losses), net of related costs.....	3.6	(.3)
	-----	-----
Income before income taxes, minority interest and extraordinary charge.....	20.0	14.0
	-----	-----
Interest and other corporate expenses.....	(42.8)	(29.8)
	-----	-----
Consolidated earnings:		
Operating income.....	299.8	202.1
Net investment gains (losses), net of related costs and amortization .....	18.4	(6.7)
	-----	-----
Income before income taxes, minority interest and extraordinary charge.....	318.2	195.4
	-----	-----
Income tax expense.....	131.3	70.6
	-----	-----
Income before minority interest and extraordinary charge.....	186.9	124.8
	-----	-----
Minority interest in consolidated subsidiaries:		
Distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts.....	19.4	8.7
Dividends on preferred stock of subsidiaries.....	-	1.3
	-----	-----
Income before extraordinary charge.....	167.5	114.8
	-----	-----
Extraordinary charge on extinguishment of debt, net of taxes and minority interest.....	16.4	3.3
	-----	-----
Net income.....	\$151.1	\$111.5
	=====	=====

**CONSECO, INC. AND SUBSIDIARIES**

Supplemental health:

	Three months ended March 31,	
	1998	1997
	(Dollars in millions)	
Premiums collected:		
Medicare supplement (first-year).....	\$ 27.6	\$ 20.2
Medicare supplement (renewal).....	196.2	147.2
	-----	-----
Subtotal - Medicare supplement.....	223.8	167.4
	-----	-----
Long-term care (first-year).....	31.8	35.0
Long-term care (renewal).....	146.3	119.1
	-----	-----
Subtotal - long-term care.....	178.1	154.1
	-----	-----
Specified disease (first-year).....	10.9	11.6
Specified disease (renewal).....	89.7	87.3
	-----	-----
Subtotal - specified disease.....	100.6	98.9
	-----	-----
Total supplemental health premiums collected.....	\$502.5	\$420.4
	=====	=====
Insurance policy income.....	\$492.5	\$411.4
Net investment income.....	71.9	56.9
	-----	-----
Total revenues (a).....	564.4	468.3
	-----	-----
Insurance policy benefits.....	313.4	265.9
Amortization related to operations.....	57.8	48.4
Interest expense on investment borrowings.....	2.9	.4
Other operating costs and expenses.....	72.6	69.3
	-----	-----
Total benefits and expenses.....	446.7	384.0
	-----	-----
Operating income before income taxes, minority interest and extraordinary charge.....	117.7	84.3
Net investment gains (losses), net of related costs.....	21.0	(2.2)
	-----	-----
Income before income taxes, minority interest and extraordinary charge.....	\$138.7	\$ 82.1
	=====	=====
Benefit ratios:		
Medicare supplement products.....	69.8%	69.7%
Long-term care products.....	60.9	63.6
Specified disease products.....	54.9	58.5
	-----	-----
(a) Revenues exclude net investment gains (losses).		

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

Premiums collected by this segment in the first quarter of 1998 were \$502.5 million, up 20 percent over 1997. The increase is primarily due to the recent acquisitions.

## CONSECO, INC. AND SUBSIDIARIES

Medicare supplement policies accounted for 45 percent of this segment's collected premiums in the first quarter of 1998 compared with 40 percent in 1997. The change in mix of premiums collected reflects a greater concentration in this product by the recently acquired companies. Collected premiums on Medicare supplement policies increased 34 percent in the first quarter of 1998, to \$223.8 million. Such increases primarily reflect the recent acquisitions and a larger base of premiums due to rate increases. The sales of Medicare supplement policies have been affected by: (i) steps taken to improve profitability by increasing premium rates and changing the commission structure and underwriting criteria for these policies; (ii) increased competition from alternative providers, including HMOs; and (iii) reduced production in Massachusetts as a result of steps announced in the third quarter of 1997.

Premiums collected on long-term care policies increased 16 percent, to \$178.1 million, in the first quarter of 1998. The increase in long-term care premiums collected in 1998 reflects the recently acquired companies and increased premium collections from previously owned companies.

Premiums collected on specified disease policies increased 1.7 percent, to \$100.6 million in the first quarter of 1998.

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

Net investment income increased 26 percent, to \$71.9 million, in the first quarter of 1998. Such investment income fluctuates when changes occur in: (i) the amount of average invested assets supporting insurance liabilities and capital allocated to the segment; and (ii) the yield earned on invested assets. During the first quarter of 1998, the segment's average invested assets increased to \$3.8 billion from approximately \$3.0 billion in 1997, primarily as a result of the recent acquisitions. The annualized net yield on invested assets was 7.6 percent in the first quarter of 1998 and 7.5 percent in the first quarter of 1997.

Insurance policy benefits increased in the first quarter of 1998 primarily as a result of the amount of business in force on which benefits are incurred. The Medicare supplement loss ratio (the ratio of policy benefits to insurance policy income for Medicare supplement policies) was 69.8 percent and 69.7 percent in the first quarters of 1998 and 1997, respectively.

In the first quarter of 1998, the long-term care loss ratio (the ratio of policy benefits to insurance policy income for long-term care policies) fell by 2.7 percentage points, to 60.9 percent. This decrease reflects our withdrawal of unprofitable home healthcare products in certain South Florida markets as well as fluctuations in claim experience and reserve developments.

In the first quarter of 1998, the ratio of policy benefits to insurance policy income for specified-disease policies fell by 3.6 percentage points, to 54.9 percent. This decrease reflects fluctuations in claim experience.

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

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

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

Other operating costs and expenses increased in the 1998 period from the increased business of the recently acquired companies.

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

**CONSECO, INC. AND SUBSIDIARIES**

**Annuities:**

	Three months ended March 31,	
	1998	1997
	(Dollars in millions)	
Premiums collected:		
Traditional fixed (first-year).....	\$194.9	\$212.4
Traditional fixed (renewal).....	15.8	21.2
	210.7	233.6
Market value-adjusted (first-year).....	37.8	49.8
Market value-adjusted (renewal).....	3.4	4.1
	41.2	53.9
Equity-indexed (first-year).....	152.0	60.9
Equity-indexed (renewal).....	5.3	-
	157.3	60.9
Variable annuities (first-year).....	44.9	16.5
Variable annuities (renewal).....	14.5	12.8
	59.4	29.3
Total annuity premiums collected.....	\$468.6	\$377.7
	=====	=====
Insurance policy income.....	\$ 28.3	\$ 18.7
Net investment income:		
General account invested assets.....	270.1	233.0
Equity-indexed products based on S&P 500 Index.....	59.7	2.1
Separate account assets.....	25.9	14.1
	384.0	267.9
Total revenues (a).....	384.0	267.9
Insurance policy benefits.....	19.5	13.8
Amounts added to policyholder account balances:		
Annuity products other than those listed below.....	141.0	136.7
Equity-indexed products based on S&P 500 Index.....	59.7	2.1
Variable annuity products.....	25.9	14.1
Amortization related to operations.....	24.4	26.8
Interest expense on investment borrowings.....	10.3	1.7
Other operating costs and expenses.....	13.5	7.3
	294.3	202.5
Total benefits and expenses (a).....	294.3	202.5
Operating income before income taxes, minority interest and extraordinary charge.....	89.7	65.4
Net investment losses, net of related costs and amortization.....	(7.7)	(.8)
	82.0	64.6
Income before income taxes, minority interest and extraordinary charge.....	\$ 82.0	\$ 64.6
	=====	=====
Weighted average gross interest spread on annuity products (b).....	3.1%	2.9%
	===	===

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

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

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

Premiums collected by this segment in the first quarter of 1998 were \$468.6 million, up 24 percent over the first quarter of 1997.

Traditional fixed rate annuity products include SPDAs, FPDAs and SPIAs, which are credited with a guaranteed rate. SPDA and FPDA policies (which make up 76 percent and 80 percent of traditional fixed rate annuity premiums collected in the first quarter of 1998 and 1997, respectively) typically have an interest rate that is guaranteed for the first policy year, after which we have the discretionary ability to change the crediting rate to any rate not below a guaranteed minimum rate. The interest rate credited on SPIAs is based on market conditions existing when a policy is issued and remains unchanged over the life of the SPIA. The demand for traditional fixed rate annuity contracts has decreased in recent years, as relatively low interest rates have made other investment products more attractive. Annuity premiums on these products decreased 9.8 percent in the first quarter of 1998, to \$210.7 million.

We offer deferred annuity products with a "market value adjustment" feature designed to provide additional protection from early terminations during a period of rising interest rates by reducing the surrender value payable upon a full surrender of the policy in excess of the allowable penalty-free withdrawal amount. Conversely, during a period of declining interest rates, the market value adjustment feature would increase the surrender value payable to the policyholder. Annuity premiums collected with this feature represent 8.8 percent and 14 percent of total annuity premiums collected during the first quarters of 1998 and 1997, respectively.

In response to consumers' desire for alternative investment products with returns linked to equities, we introduced an equity-indexed annuity product in 1996. The accumulation value of these annuities is credited with interest at an annual minimum guaranteed rate of 3 percent, but the annuities provide for higher returns based on a percentage of the change in the S&P 500 Index during each year of their term. We purchase S&P 500 Call Options in an effort to hedge potential increases to policyholder benefits resulting from increases in the S&P 500 Index to which the product's return is linked. Total collected premiums for this product were \$157.3 million in the first quarter of 1998 compared with \$60.9 million in the first quarter of 1997.

Variable annuities offer contract holders a rate of return based on the specific investment portfolios into which premiums may be directed. The popularity of such annuities has increased recently as a result of the desire of investors to invest in common stocks. In addition, in 1996, we began to offer more investment options for variable annuity deposits, and we expanded our marketing efforts, which resulted in increased collected premiums. Profits on variable annuities are derived from the fees charged to contract holders rather than from the investment spread. Variable annuity collected premiums increased 103 percent in the first quarter of 1998, to \$59.4 million.

Insurance policy income includes: (i) premiums received on SPIA policies that incorporate significant mortality features; (ii) cost of insurance and expenses charged to annuity policies; and (iii) surrender charges earned on annuity policy withdrawals. In accordance with GAAP, premiums on annuity contracts without mortality features are not reported as revenues; but rather are reported as deposits to insurance liabilities. Insurance policy income increased primarily because of increased surrender charges collected and an increase in premiums received on policies with mortality features (changes in the cost of insurance and expenses charged to annuity policies were not significant). Surrender charges were \$17.3 million in the first quarter of 1998 and \$13.0 million in the first quarter of 1997. Annuity policy withdrawals were \$508.5 million in the first quarter of 1998 and \$381.6 million in the first quarter of 1997. The increase in policy withdrawals and surrender charges generally corresponds to the aging and the growth of our annuity business in force. In addition, policyholders are using the systematic withdrawal features available in several of our annuity policies, and policyholders are surrendering in order to invest in alternative investments.

Net investment income on general account invested assets (excluding income on separate account assets related to variable annuities and excluding the income and change in the fair value of S&P 500 Call Options related to equity-indexed products) increased 16 percent, to \$270.1 million, in the first quarter of 1998. This increase primarily reflects the increase in general account invested assets acquired in conjunction with the recent acquisitions. The segment's average invested assets increased 15 percent, to



## CONSECO, INC. AND SUBSIDIARIES

approximately \$13.9 billion, in the first quarter of 1998 compared to 1997 and the annualized yield earned on average invested assets was approximately 7.8 percent in the first quarters of 1998 and 1997.

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

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

Insurance policy benefits relate solely to annuity policies that incorporate significant mortality features. The increase corresponds to the increase in the in-force block of such policies.

Amounts added to policyholder account balances for interest expense on annuity products increased 3.1 percent, to \$141.0 million, in the first quarter of 1998 primarily due to a larger block of annuity business in force in the first quarter of 1998, partially offset by a reduction in crediting rates. The weighted average crediting rates for these annuity liabilities decreased .2 percentage points to 4.7 percent in the first quarter of 1998.

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

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

Other operating costs and expenses increased in the first quarter of 1998 from the increased business of recently acquired companies.

Net investment losses, net of related costs and amortization often fluctuate from period to period. Selling securities at a gain and reinvesting the proceeds at lower yields may, absent other management action, tend to decrease future investment yields. We believe, however, that the following factors mitigate the adverse effect of such decreases on net income: (i) we recognized additional amortization of cost of policies purchased and cost of policies produced in order to reflect reduced future yields (thereby reducing such amortization in future periods); (ii) we can reduce interest rates credited to some products, thereby diminishing the effect of the yield decrease on the investment spread; and (iii) the investment portfolio grows as a result of reinvesting the investment gains. As a result of the sales of fixed maturity investments, the amortization of the cost of policies purchased and the cost of policies produced increased \$61.2 million and \$7.4 million in the first quarters of 1998 and 1997, respectively.

**CONSECO, INC. AND SUBSIDIARIES**

Life insurance:

	Three months ended March 31,	
	1998	1997
	(Dollars in millions)	
Premiums collected:		
Universal life (first-year).....	\$ 26.1	\$ 24.7
Universal life (renewal).....	116.4	87.9
	142.5	112.6
Subtotal - universal life.....		
Traditional life (first-year).....	15.8	3.8
Traditional life (renewal).....	81.4	35.3
	97.2	39.1
Subtotal - traditional life.....		
Total life premiums collected.....	\$239.7	\$151.7
	=====	=====
Insurance policy income:		
Premiums earned on traditional life products.....	\$ 92.1	\$ 37.8
Mortality charges and administrative fees.....	104.7	86.1
Surrender charges.....	5.5	4.2
	202.3	128.1
Total insurance policy income.....		
Net investment income.....	141.7	97.4
	344.0	225.5
Total revenues (a).....		
Insurance policy benefits.....	148.0	86.1
Interest added to financial product policyholder account balances.....	47.4	37.0
Amortization related to operations.....	20.5	23.7
Interest expense on investment borrowings.....	5.2	.7
Other operating costs and expenses.....	23.2	20.3
	244.3	167.8
Total benefits and expenses (a).....		
Operating income before income taxes, minority interest and extraordinary charge.....	99.7	57.7
Net investment gains (losses), net of related costs and amortization.....	1.3	(3.4)
	\$101.0	\$ 54.3
Income before income taxes, minority interest and extraordinary charge.....	=====	=====
-----		
(a) Revenues exclude net investment gains (losses); benefits and expenses exclude amortization related to net investment gains (losses).		

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

## CONSECO, INC. AND SUBSIDIARIES

Premiums collected by this segment in the first quarter of 1998 were \$239.7 million, up 58 percent over 1997. Such increase relates primarily to premiums collected by recently acquired companies in periods after their acquisition.

Universal life product collected premiums increased 27 percent, to \$142.5 million, in the first quarter of 1998. Traditional life product collected premiums increased 149 percent, to \$97.2 million, in the first quarter of 1998.

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

Net investment income increased 45 percent, to \$141.7 million, in the first quarter of 1998. Investment income fluctuates with changes in: (i) the amount of average invested assets supporting insurance liabilities and capital allocated to the segment; and (ii) the yield earned on invested assets. The segment's average invested assets increased 43 percent, to approximately \$7.1 billion, in the first quarter of 1998; and the net yield on invested assets increased by .1 percentage point, to 8.0 percent. Invested assets increased primarily as a result of the recent acquisitions.

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

Interest added to financial product policyholder account balances increased 28 percent, to \$47.4 million, in the first quarter of 1998. Such expense fluctuates with changes in: (i) the amount of insurance liabilities for universal life products; and (ii) the interest rate credited to such products. Such average liabilities increased 39 percent, to \$6.8 billion, in the first quarter of 1998 and the interest rate credited decreased by .5 percentage points, to 4.6 percent, in the first quarter of 1998. Universal life product liabilities increased primarily as a result of the recent acquisitions.

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

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

Other operating costs and expenses have increased 14 percent, to \$23.2 million, in the first quarter of 1998 as a result of the increased block of business related to this segment.

Net investment gains (losses), net of related costs and amortization often fluctuate from period to period. Net investment gains (losses) affect the timing of the amortization of cost of policies purchased and the cost of policies produced. As a result of net investment gains (losses) from the sales of fixed maturity investments, related amortization of cost of policies purchased and cost of policies produced totaled \$25.2 million and \$4.4 million in the first quarters of 1998 and 1997, respectively.

**CONSECO, INC. AND SUBSIDIARIES**

Individual and group major medical:

	Three months ended March 31,	
	1998	1997
	----- (Dollars in millions)	
Premiums collected:		
Individual (first-year).....	\$ 28.0	\$ .9
Individual (renewal).....	56.6	9.5
	-----	-----
Subtotal - individual.....	84.6	10.4
	-----	-----
Group (first-year).....	17.2	-
Group (renewal).....	124.8	80.4
	-----	-----
Subtotal - group.....	142.0	80.4
	-----	-----
Total individual and group major medical premiums collected.....	\$226.6	\$90.8
	=====	=====
Insurance policy income.....	\$231.8	\$96.4
Net investment income.....	6.3	2.3
	-----	-----
Total revenues (a).....	238.1	98.7
	-----	-----
Insurance policy benefits.....	175.3	79.5
Amortization related to operations.....	9.0	3.0
Interest expense on investment borrowings.....	.3	-
Other operating costs and expenses.....	34.4	6.0
	-----	-----
Total benefits and expenses.....	219.0	88.5
	-----	-----
Operating income before income taxes, minority interest and extraordinary charge.....	19.1	10.2
Net investment gains, net of related costs.....	.2	-
	-----	-----
Income before income taxes, minority interest and extraordinary charge.....	\$ 19.3	\$10.2
	=====	=====
Benefit ratio.....	77.0%	85.9%
	====	====

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

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

Premiums collected by this segment in the first quarter of 1998 were \$226.6 million, up 150 percent over the first quarter of 1997. Over the last several years, a number of steps were taken to improve the profitability of such business, including changes in product, price, underwriting and agent compensation. Group premiums increased 77 percent, to \$142.0 million, in the first quarter of 1998. Individual health premiums increased to \$84.6 million, in the first quarter of 1998 compared to \$10.4 million in the first quarter of 1997. The increase in this segment's premiums is principally a result of the PFS Merger.

Insurance policy income comprises premiums earned on the segment's policies and fee income earned for group medical risk management services. Fluctuations in premiums earned have been consistent with the fluctuations in premiums collected described above. Fee income was \$4.3 million in the first quarter of 1998 and \$4.1 million in the first quarter of 1997.

## CONSECO, INC. AND SUBSIDIARIES

Net investment income increased 174 percent, to \$6.3 million, in the first quarter of 1998. Investment income fluctuates when changes occur in: (i) the amount of average invested assets supporting insurance liabilities and capital allocated to this segment; and (ii) the yield earned on invested assets. During the first quarter of 1998, the segment's average invested assets increased 193 percent, to \$350 million, and the yield earned on invested assets decreased from 7.7 percent to 7.2 percent.

Insurance policy benefits fluctuate in relationship to the amount of segment business in force and the incidence of claims. The ratio of policy benefits to insurance policy income was 77.0 percent in the first quarter of 1998. The ratio was approximately 85.9 percent in the first quarter of 1997. The lower benefit ratio reflects (i) the lower incidence of claims experienced on business written by the acquired companies; (ii) favorable claim developments; and (iii) rate increases on certain business.

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

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

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

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

CONSECO, INC. AND SUBSIDIARIES

Other:

	Three months ended March 31,	
	1998	1997
	-----	-----
	(Dollars in millions)	
Premiums collected:		
Other (first-year).....	\$ 1.5	\$ .6
Other (renewal).....	30.9	15.8
	-----	-----
Total other premiums collected.....	\$32.4	\$16.4
	=====	=====
Insurance policy income.....	\$35.2	\$15.5
Net investment income.....	7.7	3.4
Fee revenue and other income.....	20.8	14.6
	-----	-----
Total revenues (a).....	63.7	33.5
	-----	-----
Insurance policy benefits.....	24.2	10.0
Amortization related to operations.....	5.4	1.7
Interest expense on investment borrowings.....	.2	-
Other operating costs and expenses.....	17.5	7.5
	-----	-----
Total benefits and expenses.....	47.3	19.2
	-----	-----
Operating income before income taxes, minority interest and extraordinary charge.....	16.4	14.3
Net investment gains (losses), net of related costs.....	3.6	(.3)
	-----	-----
Income before income taxes, minority interest and extraordinary charge.....	\$20.0	\$14.0
	=====	=====

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

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

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

Premiums collected by this segment in the first quarter of 1998 were \$32.4 million, up 98 percent over the first quarter of 1997. The increase in premiums collected in the first quarter of 1998 primarily relates to the WNIC Merger.

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

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

Net investment income increased 126 percent, to \$7.7 million, in the first quarter of 1998. Such investment income fluctuated primarily in relationship to the amount of average invested assets supporting this segment's insurance liabilities and allocated capital. During the first quarter of 1998, the segment's average invested assets increased 118 percent, to \$390 million, and the net yield on invested assets increased .3 percentage points, to 7.9 percent.

## CONSECO, INC. AND SUBSIDIARIES

Fee revenue and other income includes: (i) fees for investment management and for mortgage origination and servicing; and (ii) commissions earned for insurance and investment product marketing and distribution. Such amounts exclude the fees and commissions we charge to our consolidated subsidiaries. Fee revenue and other income increased 42 percent, to \$20.8 million, in the first quarter of 1998, primarily due to other income of recently acquired companies.

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

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

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

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

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

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

In addition to the income of the five operating segments, income before income taxes, minority interest and extraordinary charge is affected by interest and other corporate expenses not attributable to the operating segments.

Interest and other corporate expenses were \$42.8 million in the first quarter of 1998 and \$29.8 million in the first quarter of 1997. Interest expense included therein was \$39.0 million in the first quarter of 1998 and \$25.8 million in the first quarter of 1997. Such expense fluctuates in relationship to the average debt outstanding during each period and the interest rate thereon.

### SALES

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

**CONSECO, INC. AND SUBSIDIARIES**

Total premiums collected by our business segments were as follows:

	Three months ended March 31,	
	1998	1997
(Dollars in millions)		
Supplemental health:		
First-year.....	\$ 70.3	\$ 66.8
Renewal.....	432.2	353.6
	-----	-----
Total supplemental health.....	502.5	420.4
	-----	-----
Annuities:		
First-year .....	429.6	339.6
Renewal.....	39.0	38.1
	-----	-----
Total annuities.....	468.6	377.7
	-----	-----
Life insurance:		
First-year.....	41.9	28.5
Renewal.....	197.8	123.2
	-----	-----
Total life insurance.....	239.7	151.7
	-----	-----
Individual and group major medical:		
First-year.....	45.2	.9
Renewal.....	181.4	89.9
	-----	-----
Total individual and group major medical.....	226.6	90.8
	-----	-----
Other:		
First-year.....	1.5	.6
Renewal.....	30.9	15.8
	-----	-----
Total other.....	32.4	16.4
	-----	-----
Total:		
First-year.....	588.5	436.4
Renewal.....	881.3	620.6
	-----	-----
Total collected premiums.....	\$1,469.8	\$1,057.0
	=====	=====

Fluctuations in premiums collected are discussed above under "Results of Operations - First Quarter of 1998 Compared with the First Quarter of 1997."



## CONSECO, INC. AND SUBSIDIARIES

Our recent acquisitions have a significant effect on premiums collected. Total premiums collected for all currently consolidated companies for the three months ended March 31, 1998 and 1997 (including periods prior to ownership by Consec) are provided below:

	Three months ended March 31,	
	1998	1997
	(Dollars in millions)	
Supplemental health:		
First-year.....	\$ 70.3	\$ 79.5
Renewal.....	432.2	416.4
	502.5	495.9
Annuities:		
First-year.....	429.6	351.0
Renewal.....	39.0	43.7
	468.6	394.7
Life insurance:		
First-year.....	41.9	53.1
Renewal.....	197.8	183.7
	239.7	236.8
Individual and group major medical:		
First-year.....	45.2	39.3
Renewal.....	181.4	171.1
	226.6	210.4
Other:		
First-year.....	1.5	2.8
Renewal.....	30.9	44.2
	32.4	47.0
Total:		
First-year.....	588.5	525.7
Renewal.....	881.3	859.1
	\$1,469.8	\$1,384.8
	=====	=====

## LIQUIDITY AND CAPITAL RESOURCES

Changes in the consolidated balance sheet between December 31, 1997, and March 31, 1998, reflect growth through operations, changes in the fair value of actively managed fixed maturity securities and the following capital and financing transactions described in the notes to the consolidated financial statements: (i) the repurchase of senior subordinated notes and senior notes with a par value of \$146.6 million; (ii) common stock repurchases; and (iii) the issuance of commercial paper and notes payable.

In accordance with Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities ("SFAS 115"), we record our actively managed fixed maturity investments at estimated fair value. At March 31, 1998, the carrying value of such investments was increased by \$352.6 million as a result of the SFAS 115 adjustment, compared with an increase of \$484.4 million at December 31, 1997.

## CONSECO, INC. AND SUBSIDIARIES

Minority interest at March 31, 1998, includes: (i) Company-obligated mandatorily redeemable preferred securities of subsidiary trusts with a carrying value of \$1,388.1 million; and (ii) \$.7 million interest in the common stock of a subsidiary.

The increase in shareholders' equity in the first quarter of 1998 resulted from: (i) net income of \$151.1 million; and (ii) the issuance of common stock related to stock options and employee benefit plans (including the tax benefit thereon) of \$130.3 million. These increases were partially offset by: (i) repurchases of common stock for \$233.8 million; (ii) the decrease in net unrealized appreciation of \$12.1 million; and (iii) common and preferred stock dividends of \$25.3 million.

Dividends declared on common stock for the quarter ended March 31, 1998, were 12.5 cents per share.

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

	March 31, 1998 ----	December 31, 1997 ----
	(Dollars in millions)	
Book value per common share:		
As reported.....	\$20.26	\$20.22
Excluding unrealized appreciation (b).....	19.41	19.27
Ratio of earnings to fixed charges:		
As reported.....	2.28X	2.04X
Excluding interest on annuities and financial product policyholder account balances (a).....	6.26X	7.21X
Ratio of earnings to fixed charges and preferred dividends:		
As reported.....	2.25X	1.95X
Excluding interest on annuities and financial products (a).....	5.93X	5.77X
Ratio of earnings to fixed charges, preferred dividends and distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts:		
As reported.....	2.01X	1.82X
Excluding interest added to annuity and financial product policyholder balances (a).....	4.05X	4.20X
Ratio of total debt to total capital:		
As reported.....	.32X	.31X
Excluding unrealized appreciation (b).....	.32X	.32X
Ratio of debt and Company-obligated mandatorily redeemable preferred securities of subsidiary trusts to total capital (c):		
As reported.....	.50X	.49X
Excluding unrealized appreciation (b).....	.51X	.50X
Rating agency ratios: (b) (d) (e) (f)		
Debt to total capital.....	.28X	.28X
Debt and preferred stock to total capital.....	.47X	.47X

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

(b) Excludes the effect of reporting fixed maturity securities at fair value.

- (c) Represents the ratio of debt and the Company-obligated mandatorily redeemable preferred securities of subsidiary trusts to the sum of shareholders' equity, debt, minority interest and the Company-obligated mandatorily redeemable preferred securities of subsidiary trusts.
- (d) Consistent with our discussions with rating agencies, the Company has targeted: (i) the ratio of debt to total capital to be at or below 35 percent; and (ii) the ratio of debt and preferred stock to total capital to be at or below 49 percent. These ratios are calculated in a manner discussed with rating agencies.
- (e) Debt is reduced by cash and investments held by non-life companies.
- (f) Assumes conversion of all convertible debentures.

### INVESTMENTS

At March 31, 1998, the amortized cost and estimated fair value of fixed maturity securities (all of which were actively managed) were as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	----	-----	-----	-----
	(Dollars in millions)			
United States Treasury securities and obligations of United States government corporations and agencies.....	\$ 562.6	\$ 20.6	\$ .2	\$ 583.0
Obligations of states and political subdivisions and foreign government obligations.....	424.3	11.9	4.2	432.0
Public utility securities.....	2,041.5	52.3	24.2	2,069.6
Other corporate securities.....	13,434.3	290.6	97.1	13,627.8
Mortgage-backed securities.....	6,153.6	110.9	8.0	6,256.5
	-----	-----	-----	-----
Total fixed maturity securities .....	\$22,616.3	\$486.3	\$133.7	\$22,968.9
	=====	=====	=====	=====

The following table sets forth the investment ratings of fixed maturity securities at March 31, 1998 (designated categories include securities with "+" or "-" rating modifiers). The category assigned is the highest rating by a nationally recognized statistical rating organization, or as to \$863.7 million fair value of fixed maturities not rated by such firms, the rating assigned by the National Association of Insurance Commissioners ("NAIC"). For purposes of the table, NAIC Class 1 securities are included in the "A" rating; Class 2, "BBB"; Class 3, "BB" and Classes 4 to 6, "B and below."

Investment rating	Percent of	
	Fixed maturities	Total investments
-----	-----	-----
AAA.....	32%	27%
AA.....	7	6
A.....	24	20
BBB.....	29	25
	---	---
Investment grade.....	92	78
	---	---
BB.....	5	4
B and below.....	3	3
	---	---
Below investment grade.....	8	7
	---	---
Total fixed maturities.....	100%	85%
	===	==

At March 31, 1998, our below investment grade fixed maturity securities had an amortized cost of \$1,910.8 million and an estimated fair value of \$1,895.2 million.

## CONSECO, INC. AND SUBSIDIARIES

During the first quarters of 1998 and 1997, we recorded \$1.5 million and \$1.2 million, respectively, in writedowns of fixed maturity securities as a result of changes in conditions which caused us to conclude that a decline in fair value of the investments was other than temporary. At March 31, 1998, fixed maturity securities in default as to the payment of principal or interest had an aggregate amortized cost of \$31.1 million and a carrying value of \$30.4 million.

Sales of invested assets (primarily fixed maturity securities) during the first quarter of 1998 generated proceeds of \$8.2 billion, and net investment gains of \$106.3 million. Sales of invested assets during the first quarter of 1997 generated proceeds of \$3.5 billion, and net investment gains of \$6.4 million. Net investment gains in the first quarter of 1997 also included \$.1 million of writedowns related to mortgage loans.

At March 31, 1998, fixed maturity investments included \$6.3 billion of mortgage-backed securities (or 27 percent of all fixed maturity securities). The yield characteristics of mortgage-backed securities differ from those of traditional fixed-income securities. Interest and principal payments occur more frequently, often monthly. Mortgage-backed securities are subject to risks associated with variable prepayments. Prepayment rates are influenced by a number of factors that cannot be predicted with certainty, including: the relative sensitivity of the underlying mortgages backing the assets to changes in interest rates; a variety of economic, geographic and other factors; and the repayment priority of the securities in the overall securitization structures.

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

The following table sets forth the par value, amortized cost and estimated fair value of mortgage-backed securities, summarized by interest rates on the underlying collateral at March 31, 1998:

	Par value -----	Amortized cost -----	Estimated fair value -----
	(Dollars in millions)		
Below 7 percent .....	\$2,501.0	\$2,265.5	\$2,290.2
7 percent - 8 percent.....	2,958.8	2,936.6	2,991.8
8 percent - 9 percent.....	595.7	595.9	609.5
9 percent and above.....	350.3	355.6	365.0
	-----	-----	-----
Total mortgage-backed securities.....	\$6,405.8	\$6,153.6	\$6,256.5
	=====	=====	=====

The amortized cost and estimated fair value of mortgage-backed securities at March 31, 1998, summarized by type of security, were as follows (dollars in millions):

	Amortized cost -----	Estimated fair value Amount -----	Percent of fixed maturities -----
Pass-throughs and sequential and targeted amortization classes.....	\$4,046.4	\$4,106.9	18%
Planned amortization classes and accretion-directed bonds.....	1,548.9	1,569.5	7
Support classes.....	23.6	24.5	-
Accrual (Z tranche) bonds.....	12.3	13.1	-
Subordinated classes .....	522.4	542.5	2
	-----	-----	--
	\$6,153.6	\$6,256.5	27%
	=====	=====	==

Pass-throughs and sequential and targeted amortization classes have similar prepayment variability. Pass-throughs historically provide the best liquidity in the mortgage-backed securities market and provide the best price/performance ratio in a highly volatile

## CONSECO, INC. AND SUBSIDIARIES

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

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

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

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

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

At March 31, 1998, the balance of mortgage loans was comprised of 96 percent commercial loans, 2 percent residual interests in collateralized mortgage obligations and 2 percent residential loans. Less than 2.5 percent of mortgage loans were noncurrent (loans which are two or more scheduled payments past due) at March 31, 1998.

At March 31, 1998, we held \$38.7 million of trading securities that are included in other invested assets.

Investment borrowings averaged approximately \$1,280.3 million during the first quarter of 1998, compared with approximately \$244.8 million during the same period of 1997 and were collateralized by investment securities with fair values approximately equal to the loan value. The weighted average interest rate on such borrowings was 5.4 percent and 4.6 percent during the first quarters of 1998 and 1997, respectively.

## STATUTORY INFORMATION

Statutory accounting practices prescribed or permitted for the Company's insurance subsidiaries by regulatory authorities differ from generally accepted accounting principles. The Company's life insurance subsidiaries reported the following amounts to regulatory agencies at March 31, 1998, after appropriate eliminations of intercompany accounts among such subsidiaries (dollars in millions):

Statutory capital and surplus .....	\$1,673.1
Asset valuation reserve ("AVR").....	411.3
Interest maintenance reserve ("IMR").....	482.7
Portion of surplus debenture carried as a liability .....	65.5
	-----
Total.....	\$2,632.6
	=====

## CONSECO, INC. AND SUBSIDIARIES

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

Combined statutory net income of the Company's life insurance subsidiaries for the periods during which such subsidiaries were included in our consolidated financial statements was \$87.3 million and \$59.5 million in the first quarter of 1998 and 1997, respectively, after appropriate eliminations of intercompany amounts among such subsidiaries, but before elimination of intercompany amounts between such subsidiaries and non-life subsidiaries and the parent company.

The statutory capital and surplus of the insurance subsidiaries include surplus debentures issued to the parent holding companies totaling \$793.4 million. Payments of interest and principal on such debentures are generally subject to the approval of the insurance department of the subsidiary's state of domicile. During the first quarter of 1998, our life insurance subsidiaries made scheduled principal payments on surplus debentures of \$33.7 million.

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

### FORWARD-LOOKING STATEMENTS

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

### ITEM 3. MARKET-SENSITIVE INSTRUMENTS AND RISK MANAGEMENT

We seek to invest our available funds in a manner that will maximize shareholder value and fund future obligations to policyholders and debtors, subject to appropriate risk considerations. There have been no material changes during the first quarter of 1998 in the market risks the Company is exposed to and our management of such risks, which are summarized in our 1997 Form 10-K.

# CONSECO, INC. AND SUBSIDIARIES

## PART II - OTHER INFORMATION

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

- a) Exhibits.
- |            |  |
|------------|--|
| 10.1.2     | Employment Agreement dated March 31, 1998, between the Registrant and Stephen C. Hilbert   |
| 10.1.3(c)  | Amendment No. 3 to Employment Agreement between the Registrant and Rollin M. Dick  |
| 10.1.10(c) | Amendment No. 3 to Employment Agreement between the Registrant and Ngairé E. Cuneo   |
| 10.1.11(a) | Amendment No. 1 to Employment Agreement between the Registrant and John J. Sabl  |
| 10.1.12    | Employment Agreement dated March 31, 1998, between the Registrant and Thomas J. Kilian   |
| 10.8.15    | Conseco Performance-Based Compensation Plan for Executive Officers   |
| 12.1       | Computation of Ratio of Earnings to Fixed Charges, Preferred Dividends and Distributions on Company-obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts |
| 27.0       | Financial Data Schedule  |
| 99.1       | Pro Forma Combined Financial Statements of Conseco, Inc. and Subsidiaries  |

b) Reports on Form 8-K.

A report on Form 8-K dated February 4, 1998, was filed with the Commission to report under Item 5, the announcement of the offering by Conseco of \$250.0 million of 6.4 percent Notes due February 10, 2003.

**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 thereunto duly authorized.

**CONSECO, INC.**

*Dated: May 14, 1998*

*By: /s/ ROLLIN M. DICK*

-----  
*Rollin M. Dick*

*Executive Vice President and*

*Chief Financial Officer*

*(authorized officer and principal  
financial officer)*



## EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of January 1, 1998, between CONSECO, INC. (hereinafter called the "Company"), and STEPHEN C. HILBERT (hereinafter called "Executive").

### RECITALS

WHEREAS, the Company and Executive are parties to an Employment Agreement dated January 1, 1987, as amended by Amendment No. 1 dated February 28, 1988 (as amended, the "Existing Employment Agreement"); and

WHEREAS, the Company and Executive desire to replace the Existing Employment Agreement with this Agreement;

NOW THEREFORE, in consideration of the foregoing and the mutual covenants contained herein, the parties agree as follows:

1. Employment. The Company hereby employs Executive, and Executive hereby accepts employment upon the terms and conditions hereinafter set forth.
2. Term. This Agreement shall be deemed to have become effective as of January 1, 1998; provided that the performance-based compensation provisions hereof (i.e., Section 5(b)) have been approved by the shareholders of the Company at Consecos 1998 Annual Meeting of Shareholders (the date of such shareholder approval being referred to herein as the "Approval Date"). On the Approval Date the Existing Employment Agreement shall be terminated, with such termination being deemed to have become effective on January 1, 1998. Subject to provisions for termination as provided in Section 9 hereof, the term of this Agreement shall be five (5) years from and after January 1, 1998, and it shall be automatically renewed for successive five (5) year periods on January 1 of each year thereafter, unless either party elects not to renew this Agreement by serving written notice of such intention not to renew on the other party at least one hundred eighty (180) days prior

to January 1 of each year. If such an election is made, this Agreement shall be in full force and effect for the remaining portion of the then current five (5) year period, subject to the provisions for termination as provided in Section 9 hereof. The term Basic Employment Period as used in this Agreement shall mean the five (5) year period commencing with the most recent annual renewal pursuant to this section.

3. Duties. Executive is engaged by the Company in an executive capacity as its chief executive officer. Executive's position with the Company shall be Chairman of the Board of Directors, President and Chief Executive Officer, and such other positions (not inconsistent with the aforementioned responsibilities) as may be determined from time to time by the Board of Directors of the Company.

4. Extent of Services. Executive, subject to the direction and control of the Board of Directors of the Company, shall have the power and authority commensurate with his executive status and necessary to perform his duties hereunder. The Company agrees to provide to Executive such assistance and work accommodations as are suitable to the character of his positions with the Company and adequate for the performance of his duties. Executive shall devote [substantially all of] his entire employable time, attention and best efforts to the business of the Company, and shall not, without the consent of the Company, during the term of this Agreement be actively engaged in any other business activity, whether or not such business activity is pursued for gain, profit or other pecuniary advantage; but this shall not be construed as preventing Executive from investing his assets in such form or manner as will not require any [material] services on the part of Executive in the operation of the affairs of the companies in which such investments are made. For purposes of this Agreement, full-time employment shall be the normal work week for individuals in senior executive positions with the Company.

## 5. Compensation.

(a) As compensation for services hereunder rendered during the term hereof, Executive shall receive a base salary of One Million Dollars (\$1,000,000) per year payable in equal installments in accordance with the Company's payroll procedure for its salaried employees (but in no event less than twice a month), it being understood that for 1998 a lump sum payment shall be made promptly after the approval of this Agreement by the shareholders of the Company to cause the salary payments to Executive in 1998 to such date in 1998 to at least equal the pro rata portion (based on the number of days in 1998 then elapsed through the end of the most recent pay period then ended) of One Million Dollars (\$1,000,000). Salary payments shall be subject to withholding of taxes and other appropriate and customary amounts. In addition to the base salary above, Executive may receive additional annual salary increases based upon his performance in his executive and management capacity. The amounts of such salary increases shall be determined by the Board of Directors of the Company or the Compensation Committee thereof (the "Compensation Committee").

(b) In addition to base salary, Executive shall be entitled to receive annually a bonus to be calculated and paid for each fiscal year as follows:

(i) First, the maximum potential bonus to Executive for such year (the "Maximum Bonus") shall be computed. The Maximum Bonus for a fiscal year shall be equal to three percent (3%) of the annual Net Profits (as defined below) for such fiscal year of the Company. The bonus shall be calculated from the books and records of the Company which shall be kept in accordance with generally accepted accounting principles applied by the Company in the preparation of its financial statements. The Maximum Bonus for a fiscal year shall be payable, without reference to any other tests, to the extent it does not exceed the Non-Discretionary Amount (as determined

pursuant to clause (v) below, the "Non-Discretionary Amount") applicable to such year. "Net Profits" shall mean the Company's Income from Continuing Operations (as defined below), as adjusted to add back, in each case to the extent such items were deducted in the computation of Income from Continuing Operations, (x) income taxes and (y) bonuses to Executive and the Company's Executive Vice Presidents. "Income from Continuing Operations" shall mean the Company's income from continuing operations, which shall exclude for this computation the effect

(in each case net of applicable tax) of (i) extraordinary items, (ii) discontinued operations and (iii) the cumulative effects of changes in accounting principles.

(ii) If the Maximum Bonus exceeds the Non-Discretionary Amount for such fiscal year a separate calculation shall be made to determine what portion, if any, of the Maximum Bonus in excess of the Non-Discretionary Amount could be paid and still permit the Company's ROE (as determined pursuant to clause (iii) below, the "ROE") for such fiscal year to be at least 15% for such fiscal year (such amount exceeding the Maximum Bonus and meeting such 15% ROE test for such fiscal year being referred to as the "Additional Potential Bonus"). The Additional Potential Bonus for a fiscal year would then be payable to Executive for such fiscal year subject to the discretion of the Compensation Committee to reduce or eliminate (in whole or in part) the payment of the Additional Potential Bonus for such year in its discretion.

(iii) The ROE for a fiscal year shall be determined by dividing

(x) the Company's Income from Continuing Operations for such fiscal year, reduced by any dividends paid with respect to such fiscal year on the Company's preferred stock (it being understood that any amounts paid to induce the conversion of preferred stock are not to be considered dividends on preferred stock) by (y) the arithmetic average of the Company's Average Common Equity (as defined below) for the four quarters of such fiscal year. The "Average Common Equity" of the Company for a quarter shall

mean the arithmetic average of the common shareholders equity of the Company shown on its financial statements (adjusted to exclude unrealized appreciation or depreciation of fixed maturity securities net of any applicable deferred income taxes, as so adjusted "Common Shareholders Equity") as of the end of such fiscal quarter (as adjusted as provided below, the "Quarter End Equity") and the end of the preceding quarter (the "Quarter Start Equity"); provided, that if one or more Significant Transactions (as defined below) has occurred during the fiscal quarter as to which Average Common Equity is being determined, then the impact of each such Significant Transaction on the Quarter End Equity shall be reduced by a fraction, the numerator of which shall be the number of days in such quarter elapsed before said Significant Transaction occurred (it being understood that with respect to a Significant Transaction which includes a series of transactions which closed or were otherwise consummated over a period of time the Company shall select a reasonable midpoint for purposes of this calculation) and the denominator of which shall be the total number of days in such quarter, and the Quarter End Equity shall be computed taking into account such reductions. "Significant Transaction" with respect to a quarter shall mean any event (such as a share issuance, share repurchase, conversion, acquisition, disposition, merger, consolidation or change in accounting principles) the effect of which event, or series of related events, is to cause the Quarter End Equity to change by at least 10% of the Quarter Start Equity from what it would otherwise have been absent such event or series of related events.

(iv) The Company agrees to give notice to the Compensation Committee as promptly as practicable after the end of each fiscal year of the respective amounts of Maximum Bonus, Additional Potential Bonus and, if it has been adjusted with respect to such fiscal year, Non-Discretionary Amount for such fiscal year. The Compensation Committee shall then have fifteen (15) days from the date such notice is sent by the Company to determine the extent, if any, to which

the Additional Potential Bonus with respect to such fiscal year shall have been reduced or eliminated. The Company shall give notice to Executive not later than five (5) days after the expiration of such 15-day period of the Incremental Bonus to be paid for such fiscal year.

(v) The Non-Discretionary Amount for each of 1998 and 1999 shall be \$13.5 million. The Non-Discretionary Amount shall be adjusted for 2000 and the last year of each consecutive three-year period that follows (each an "Adjustment Year"), as described in the following sentence. For an Adjustment Year the Non-Discretionary Amount shall be adjusted to be the lesser of (i) one-half of the average of the Maximum Bonus for the two fiscal years immediately preceding such Adjustment year and (ii) the arithmetic average of the Non-Discretionary Amount and the Additional Potential Bonus, in each case regardless of the amount of bonus actually paid, for such two fiscal years. The Non-Discretionary Amount as so adjusted shall remain the same with respect to the two fiscal years following such Adjustment Year.

(vi) The cumulative accrued amount of the bonus shall be calculated as of the end of each of the first three quarters of the Company's fiscal year based on the year-to-date Net Profits, and such accrued bonus, minus accrued bonus payments made for previous quarters of the same fiscal year, shall be paid to Executive as soon as practicable, but in no event more than forty-five (45) days after the end of the quarter; provided, that the cumulative maximum bonus payable with respect to the (i) first quarter may not exceed 25% of the Non-Discretionary Amount, (ii) first two quarters shall not exceed 50% of the Non-Discretionary Amount and (iii) first three quarters shall not exceed 75% of the Non-Discretionary Amount for such fiscal year. The aggregate bonus for the fiscal year, minus the quarterly accrued payments made for the year, shall be paid to Executive soon as practicable, but in no event more than ninety (90) days, after the fiscal year end. If the quarterly

payments for the first three quarters of any fiscal year exceed the aggregate bonus payable for the entire year, the amount of such excess shall be repaid to the Company by Executive.

#### 6. Fringe Benefits.

(a) Executive shall be entitled to participate in such existing employee benefit plans and insurance programs offered by the Company, or which it may adopt from time to time for its executive management or supervisory personnel generally, at such time as Executive shall have fulfilled the eligibility requirements for participation therein. Nothing herein shall be construed so as to prevent the Company from modifying or terminating any employee benefit plans or programs, or employee fringe benefits, it may adopt from time to time.

(b) During the term of this Agreement, the Company shall pay Executive a monthly automobile allowance in the amount of Six Hundred Dollars (\$600.00) and shall pay directly or shall reimburse Executive for the cost of fuel he incurs in using his automobile.

(c) Executive shall be entitled to four (4) weeks vacation with pay, for each year during the term hereof.

(d) Executive may incur reasonable expenses for promoting the Company's business, including expenses for entertainment, travel, and similar items. The Company shall reimburse Executive for all such reasonable expenses upon Executive's periodic presentation of an itemized account of such expenditures.

(e) The Company shall, upon periodic presentation of satisfactory evidence and to a maximum of Ten Thousand Dollars (\$10,000) per year of this Agreement, reimburse Executive for reasonable medical expenses incurred by Executive and his dependents which are not otherwise covered by health insurance provided to Executive under paragraph 6(a).

(f) During the term of this Agreement, the Company shall at its expense maintain a term life insurance policy or policies on the life of Executive in the face amount of One Million Dollars (\$1,000,000), payable to such beneficiaries as Executive may designate.

7. Disability. If Executive shall become physically or mentally disabled during the term of this Agreement to the extent that his ability to perform his duties and services hereunder is materially and adversely impaired, his salary, bonus and other compensation provided herein shall continue while he remains employed by the Company; provided, that if such disability (as confirmed by competent medical evidence) continues for at least twelve (12) consecutive calendar months, the Company may terminate Executive's employment hereunder in which case the Company shall immediately pay Executive a lump sum payment equal to the sum of his salary and bonus as provided herein with respect to the most recent fiscal year then ended and, provided, further that no such lump sum payment shall be required if such disability arises primarily from: (a) chronic depressive use of intoxicants, drugs or narcotics, or (b) intentional self-inflicting injury or intentionally self-induced sickness; or (c) a proven unlawful act or enterprise on the part of Executive.

8. Disclosure of Information. Executive acknowledges that in and as a result of his employment hereunder, he will be making use of, acquiring and/or adding to confidential information of the Company of a special and unique nature and value. As a material inducement to the Company to enter into this Agreement and to pay to Executive the compensation stated in Section 5, as well as any additional benefits stated herein, Executive covenants and agrees that he shall not, at any time during or following the term of his employment, directly or indirectly, divulge or disclose for any purpose whatsoever, any confidential information that has been obtained by or disclosed to him as a result of his employment by the Company. Upon the termination of this



Agreement, Executive shall return all materials obtained from or belonging to the Company which Executive may have in his possession or control. In the event of a breach or threatened breach by Executive of the provisions of this paragraph, the Company shall be entitled to an injunction restraining Executive from utilizing or disclosing, in whole or in part, such material, or from rendering any service to any person, firm, corporation, association, or other entity to which such material might be useful, and/or any and all persons directly or indirectly acting for or with Executive. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to the Company for such breach or threatened breach, including the recovery of damages from Executive.

#### 9. Termination.

(a) Either the Company or Executive may terminate this Agreement at any time for any reason upon written notice to the other. This Agreement shall also terminate upon (i) the death of Executive and (ii) termination by the Company pursuant to Section 7.

(b) In the event this Agreement is terminated by the Company pursuant to the first sentence of Section 9(a) and such termination does not constitute a Control Termination as defined in (d) below, Executive shall be entitled to receive (i) a severance payment equal to five (5) times the sum of Executive's base salary, as determined pursuant to Section 5(a) hereof for the fiscal year in which such termination occurs, and the Non-Discretionary Amount as defined in Section 5(a)(iv) applicable for such fiscal year (regardless of whether the Company's results for such fiscal year would have resulted in a bonus being paid to Executive) and (ii) all other unpaid amounts previously accrued or awarded pursuant to any other provision of this Agreement.

(c) In the event this Agreement is terminated upon the death of Executive, or is terminated by Executive and such termination does not constitute a Control Termination as defined in (d) below,

Executive shall be entitled to receive his base salary as provided in Section 5(a) accrued but unpaid (i) as of the date of termination, (ii) a pro rata share of the bonus provided for in Section 5(b) based on the number of months during which he performed duties hereunder in the calendar year of his death, and (iii) all other unpaid amounts previously accrued or awarded pursuant to any other provision of this Agreement.

(d) The term "Control Termination" as used herein shall mean (1) termination of this Agreement by the Company in anticipation of or following a "change in control" of the Company (as defined below), or (2) termination of this Agreement by Executive following a "change in control" of the Company (as defined below) upon the occurrence of any of the following events:

(i) a significant change in the nature or scope of Executive's authorities or duties from those described in Section 3, a reduction in total compensation from that provided in Section 5, or a breach by the Company of any other provision of this Agreement; or

(ii) reasonable determination by Executive that, as a result of a change in circumstances significantly affecting his position, he is unable to exercise the authorities, powers, functions or duties attached to his position and contemplated by Section 3 of this Agreement; or

(iii) the Company's principal executive offices are moved outside the geographic area comprised of Marion County, Indiana, and the seven contiguous counties; or

(iv) the giving of notice of termination by Executive to the Company during the 6- month period commencing six (6) months after the change in control.

The term "change in control" shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934 (the "1934 Act") as revised effective January 20, 1987, or if Item 6(e) is no longer in effect, any regulations issued by the Securities and Exchange

Commission pursuant to the 1934 Act which serve similar purposes; provided that, without limitation, such a change in control shall be deemed to have occurred if and when (A) any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the 1934 Act) is or becomes a beneficial owner, directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities or (B) in connection with or as a result of a tender offer, merger, consolidation, sale of assets or contest for election of directors, or any combination of the foregoing transactions or events, individuals who were members of the Board of Directors of the Company immediately prior to any such transaction or event shall not constitute a majority of the Board of Directors following such election.

10. Payments for Control Termination. In the event of a Control Termination of this Agreement, the Company shall pay Executive and provide him with the following:

(a) During the remainder of the Basic Employment Period, the Company shall continue to pay Executive his salary on a monthly basis at the same rate as payable immediately prior to the date of termination plus the estimated amount of any bonuses to which he would have been entitled had he remained in the employ of the Company and a change in control of the Company had not occurred.

(b) During the remainder of the Basic Employment Period, Executive shall continue to be treated as an employee under the provisions of all incentive compensation arrangements applicable to the Company's executive employees. In addition, Executive shall continue to be entitled to all benefits and service credit for benefits under medical, insurance and other employee benefit plans, programs and arrangements of the Company as if he were still employed under this Agreement and a change in control of the Company had not occurred.

(c) If, despite the provisions of paragraph (b) above, benefits under any employee benefit plan shall not be payable or provided under any such plan to Executive, or his dependents, beneficiaries and estate, because he is no longer an employee of the Company, the Company itself shall, to the extent necessary, pay or provide for payment of such benefits and service credit for such benefits to Executive, his dependents, beneficiaries and estate.

(d) If, despite the provisions of paragraph (b) above, benefits or the right to accrue further benefits under any stock option or other long-term incentive compensation arrangement shall not be provided under any such arrangement to Executive, or his dependents, beneficiaries and estate, because he is no longer an employee of the Company, the Company shall, to the extent necessary, pay or provide for payment of such benefits to Executive, his dependents, beneficiaries and estate.

11. Severance Allowance. In the event of a Control Termination of this Agreement, Executive may elect, within 60 days after such Control Termination, to be paid a lump sum severance allowance, in lieu of the termination payments provided for in Section 10 above, in an amount which is equal to the sum of the amounts determined in accordance with the following paragraphs (a) and (b):

(a) an amount equivalent to salary payments for 60 calendar months at the rate which he would have been entitled to receive in accordance with Section 5(a) plus a pro rata share of the estimated amount of any bonus which would have been payable for the bonus period which includes the termination date; and

(b) an amount equivalent to five times the greater of (i) the highest annual bonus payable under section 5(b) hereof for the last three (3) fiscal years of the company ended prior to such Control Termination, or (ii) the estimated amount of the annual bonus payable under Section 5(b) hereof for the fiscal year of the Company which includes the date of such Control Termination.

In the event that Executive makes an election pursuant to this Section to receive a lump sum severance allowance of the amount described in clauses (a) and (b), then, in addition to such amount, he shall receive (i) in addition to the benefits provided under any retirement or pension benefit plan maintained by the Company, the benefits he would have accrued under such benefit plan if he had remained in the employ of the Company and such plan had remained in effect for 60 calendar months after his termination, which benefits will be paid concurrently with, and in addition to, the benefits provided under such benefit plan, and (ii) the employee benefits (including, but not limited to, coverage under any medical insurance and split-dollar life insurance arrangements or programs) to which he would have been entitled under all employee benefit plans, programs or arrangements maintained by the Company if he had remained in the employ of the Company and such plan, programs or arrangements had remained in effect for 60 calendar months after his termination; or the value of the amounts described in clauses (i) and (ii) next preceding. The amount of the payments described in the preceding sentence shall be determined and such payments shall be distributed as soon as it is reasonably possible.

12. Tax Indemnity Payments. (a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company or its affiliated companies to or for the benefit of Executive paid or payable or distributed or distributable pursuant to the terms of the Agreement (but determined without regard to any additional payments required under this Section 12, a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986 (as amended the "Code"), or any successor provision (collectively, "Section 4999"), or any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive

an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any Federal, state or local income and employment taxes and Excise Tax (and any interest and penalties imposed with respect to any such taxes) imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 12(c), all determinations required to be made under this Section 12, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by the Company's public accounting firm (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and Executive within fifteen (15) business days of the receipt of notice from Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, Executive shall appoint another nationally recognized public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 12, shall be paid by the Company to Executive within five (5) days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Executive, it shall furnish Executive with a written opinion that failure to report the Excise Tax on Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of

Section 4999 at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 12(c) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Executive.

(c) Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable after Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid; provided that the failure to give any notice pursuant to this Section 12(c) shall not impair Executive's rights under this Section 12 except to the extent the Company is materially prejudiced thereby. Executive shall not pay such claim prior to the expiration of the 30- day period following the date on which Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(1) give the Company any information reasonably requested by the Company relating to such claim,

(2) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(3) cooperate with the Company in good faith in order effectively to contest such claim, and

(4) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income, employment or other tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 12(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided further, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income, employment or other tax (including interest or penalties with respect to any such taxes) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and provided further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable



hereunder and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 12(c), Executive becomes entitled to receive, and receives, any refund with respect to such claim, Executive shall (subject to the Company's complying with the requirements of Section 12 (c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 12(c), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

13. Payment for Options and Stock. In the event of a Control Termination of this Agreement, Executive may elect, within sixty (60) days after such Control Termination, to receive a lump-sum payment from the Company in return for surrender by the Executive of all or any portion of the options then outstanding held by the Executive to purchase shares of common stock of the Company ("Unexercised Options") and all or any portion of the common stock of the Company then owned by Executive (the "Owned Stock"). For purposes of this provision, Unexercised Options shall include all outstanding options whether or not they are exercisable at the time of the election by Executive hereunder. For each Unexercised Option to purchase one share of common stock, the Company shall pay to Executive an amount equal to the highest per share fair market value of the common stock on any day during the period beginning six (6) months prior to the date of Executive's

election pursuant to this Section. To compensate Executive for his loss of the potential future speculative value of the Unexercised Options, there shall be no deduction of Executive's exercise price per share for each Unexercised Option from the amount to be received by Executive pursuant to the foregoing sentence. For each share of Owned Stock, the Company also shall pay to Executive the highest fair market value per share of the common stock on any date during the period beginning six (6) months prior to the date of Executive's election pursuant to this Section. The payment due from the Company pursuant to this Section shall be made to Executive within ten (10) days after the date of his election hereunder, against execution and delivery by Executive to the Company of an appropriate agreement confirming his surrender of the Unexercised Options and the certificates duly endorsed by Executive for the Owned Stock.

15. Character of Termination Payments. The amounts payable to Executive upon any termination of this Agreement shall be considered severance pay in consideration of past services rendered on behalf of the Company and his continued service from the date hereof to the date he becomes entitled to such payments. Executive shall have no duty to mitigate his damages by seeking other employment and, should Executive actually receive compensation from any such other employment, the payments required hereunder shall not be reduced or offset by any such other compensation.

16. Grant of Stock Option. On the Approval Date, the Company shall grant to Executive, a nonqualified stock option under the Code to purchase One Million Five Hundred Thousand (1,500,000) shares of common stock at the fair market value per share of common stock on the Effective Date. Such stock option shall expire ten (10) years after the Approval Date of grant and shall become exercisable with respect to one-half of the shares covered on the third anniversary of the Approval Date, with respect to one-quarter of such shares on the fourth anniversary of the

Approval Date and with respect to the remaining one-quarter of such shares on the fifth anniversary of the Approval Date. If the Approval Date is subsequent to any stock dividend, stock split, recapitalization, merger, consolidation, stock combination or exchange of shares affecting the common stock, appropriate adjustment shall be made in the nature and number of shares or other securities of the Company (or securities issued by a corporation into which the Company has merged or with which the Company has consolidated) subject to the options provided for in this Section by the good faith determination of the Compensation Committee.

17. Arbitration of All Disputes. Any controversy or claim arising out of or relating to this Agreement or the breach thereof, shall be settled by arbitration in the City of Indianapolis, Indiana, in accordance with the laws of the State of Indiana by three arbitrators, one of whom shall be appointed by the Company, one by Executive and the third of whom shall be appointed by the first two arbitrators. If the first two arbitrators cannot agree on the appointment of a third arbitrator, then the third arbitrator shall be appointed by the Chief Judge of the United States District Court for the Southern District of Indiana. The arbitration shall be conducted in accordance with the rules of the American Arbitration Association, except with respect to the selection of arbitrators which shall be as provided in this Section. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that it shall be necessary or desirable for Executive to retain legal counsel and/or incur other costs and expenses in connection with the enforcement of any and all of his rights under this Agreement, the Company shall pay (or Executive shall be entitled to recover from the Company, as the case may be) his reasonable attorneys' fees and costs and expenses in connection with such rights, regardless of the final outcome, unless the arbitrators shall determine that under the circumstances recovery by Executive of all or a part of any such fees and costs and expenses would be unjust.

18. Notices. Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and if sent by certified registered mail to his residence, in the case of Executive, or to its principal offices in the case of the Company.

19. Waiver of Breach and Severability. The waiver by either party of a breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach by either party. In the event any provision of this Agreement is found to be invalid or unenforceable, it may be severed from the Agreement and the remaining provisions of the Agreement shall continue to be binding and effective.

20. Entire Agreement. This instrument contains the entire agreement of the parties. It may not be changed orally, but only by an agreement in writing signed by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought. This Agreement supersedes and replaces all prior employment and compensatory agreements, understandings and arrangements between Executive and the Company or any subsidiary of the Company.

21. Binding Agreement and Governing Law. This Agreement shall be binding upon and shall insure to the benefit of the parties and their successors in interest and shall be construed in accordance with and governed by the laws of the State of Indiana. This Agreement is personal to each of the parties hereto, and neither party may assign nor delegate any of its rights or obligations hereunder without the prior written consent of the other.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

**CONSECO, INC.**

By: */s/ ROLLIN M. DICK*  
-----  
*Rollin M. Dick*

*/s/ STEPHEN C. HILBERT*  
-----  
*Stephen C. Hilbert*

"Company" "Executive"

## EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of July 1, 1991, as amended and restated as of May 14, 1998, between CONSECO, INC., an Indiana corporation (hereinafter called the "Company"), and Rollin M. Dick (hereinafter called "Executive").

### RECITALS

WHEREAS, Executive has been employed by the Company for a number of years and the services of Executive, his managerial and professional experience, and his knowledge of the affairs of the Company are of great value to the Company;

WHEREAS, the Company deems it to be essential for it to have the benefit and advantage of the services of the Executive for an extended period; and

WHEREAS, the Company and Executive are parties to an employment agreement dated July 1, 1991, as amended on March 12, 1996 and October 29, 1997 (as so amended the "Existing Employment Agreement"), and the Company and Executive desire to make certain modifications to the Existing Employment Agreement;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants contained herein, the parties agree the Existing Employment Agreement be amended and restated in its entirety to be as follows:

1. Employment. The Company hereby employs Executive and Executive hereby accepts employment upon the terms and conditions hereinafter set forth.
2. Term. The effective date of this Agreement shall be July 1, 1991. Subject to the provisions for termination as provided in Section 10 hereof, the term of this Agreement shall be the period beginning July 1, 1991 and ending December 31, 2001 (hereinafter called the "Basic Employment Period").
3. Duties. Executive is engaged by the Company in an executive capacity as its chief financial officer. Executive shall report to the Chief Executive Officer regarding the performance of his duties and shall be subject to the direction and control of the Board of Directors of the Company (sometimes referred to herein as the "Board") and the Chief Executive Officer. Executive's position with the Company shall initially be Executive Vice President, and such other positions as may be determined from time to time by the Board.
4. Extent of Services. Executive, subject to the direction and control of the Chief Executive Officer and the Board, shall have the power and authority commensurate with his executive status and necessary to perform his duties hereunder. The Company agrees to provide to Executive such assistance and work accommodations as are suitable to the character of his positions with the Company and adequate for the performance of his duties. Executive shall devote his entire employable time, attention and best efforts to the business of the Company, and shall not, without the consent of the Company, during

the term of this Agreement be actively engaged in any other business activity, whether or not such business activity is pursued for gain, profit or other pecuniary advantage; but this shall not be construed as preventing Executive from investing his assets in such form or manner as will not require any services on the part of Executive in the operation of the companies in which such investments are made. For purposes of this Agreement, full-time employment shall be the normal work week for individuals in comparable executive positions with the Company.

#### 5. Compensation.

(a) As compensation for services hereunder rendered during the term hereof, Executive shall receive a base salary ("Base Salary") of Two Hundred Fifty Thousand Dollars (\$250,000) per year payable in equal installments in accordance with the Company's payroll procedure for its salaried employees. Salary payments shall be subject to withholding of taxes and other appropriate and customary amounts. Executive may receive increases in his Base Salary from time to time, based upon his performance in his executive and management capacity. The amounts of any such salary increases shall be approved by the Board or the Compensation Committee of the Board upon the recommendation of the Chief Executive Officer.

(b) In addition to Base Salary, Executive may receive such other bonuses or incentive compensation as the Compensation Committee or the Board may approve from time to time, upon the recommendation of the Chief Executive Officer.

#### 6. Fringe Benefits.

(a) Executive shall be entitled to participate in such existing employee benefit plans and insurance programs offered by the Company, or which it may adopt from time to time, for its executive management or supervisory personnel generally, in accordance with the eligibility requirements for participation therein. Nothing herein shall be construed so as to prevent the Company from modifying or terminating any employee benefit plans or programs, or employee fringe benefits, it may adopt from time to time.

(b) During the term of this Agreement, the Company shall pay Executive a monthly automobile allowance in the amount of Six Hundred Dollars (\$600), and the Company shall pay directly or shall reimburse Executive for the cost of fuel that he incurs in using his automobile.

(c) Executive shall be entitled to four (4) weeks vacation with pay for each year during the term hereof.

(d) Executive may incur reasonable expenses for promoting the Company's business, including expenses for entertainment, travel, and similar items. The Company shall reimburse Executive for all such reasonable expenses upon Executive's periodic presentation of an itemized account of such expenditures.

(e) The Company shall, upon periodic presentation of satisfactory evidence and to a maximum of Ten Thousand Dollars (\$10,000) per each year of this Agreement, reimburse Executive for reasonable medical expenses incurred by Executive and his dependents which are not otherwise covered by health insurance provided to Executive under Section 6(a).

(f) During the term of this Agreement, the Company shall at its expense maintain a term life insurance policy or policies on the life of Executive in the face amount of Five Hundred Thousand Dollars (\$500,000), payable to such beneficiaries as Executive may designate.

7. Disability. If Executive shall become physically or mentally disabled during the term of this Agreement to the extent that his ability to perform his duties and services hereunder is materially and adversely impaired, his salary, bonus and other compensation provided herein shall continue while he remains employed by the Company; provided, that if such disability (as confirmed by competent medical evidence) continues for at least nine (9) consecutive months, the Company may terminate Executive's employment hereunder in which case the Company shall immediately pay Executive a lump sum payment equal to one-quarter of the sum of his annual salary and bonus with respect to the most recent fiscal year then ended and, provided further, that no such lump sum payment shall be required if such disability arises primarily from: (a) chronic depressive use of intoxicants, drugs or narcotics, or (b) intentionally self-inflicted injury or intentionally self-induced sickness; or (c) a proven unlawful act or enterprise on the part of Executive.

8. Disclosure of Information. Executive acknowledges that in and as a result of his employment with the Company, he has been and will be making use of, acquiring and/or adding to confidential information of the Company of a special and unique nature and value. As a material inducement to the Company to enter into this Agreement and to pay to Executive the compensation stated in Section 5, as well as any additional benefits stated herein, Executive covenants and agrees that he shall not, at any time during or following the term of his employment, directly or indirectly, divulge or disclose for any purpose whatsoever, any confidential information that has been obtained by or disclosed to him as a result of his employment with the Company. Upon the termination of this Agreement, Executive shall return all materials obtained from or belonging to the Company which he may have in his possession or control. In the event of a breach or threatened breach by Executive of the provisions of this Section, the Company shall be entitled to an injunction restraining Executive from utilizing or disclosing, in whole or in part, such material, or from rendering any service to any person, firm, corporation, association, or other entity to which such material might be useful, and/or any and all persons directly or indirectly acting for or with Executive. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to the Company for such breach or threatened breach, including the recovery of damages from Executive.

9. Covenants Against Competition and Solicitation. Executive acknowledges that the services he is to render to the Company are of a special and unusual character, with a unique value to the Company, the loss of which cannot adequately be compensated by damages or an action at law. In view of the unique value to the Company of the

services of Executive for which the Company has contracted hereunder, because of the confidential information to be obtained by, or disclosed to, Executive as hereinabove set forth, and as a material inducement to the Company to enter into this Agreement and to pay to Executive the compensation stated in Section 5, as well as any additional benefits stated herein, and other good and valuable consideration, Executive covenants and agrees that throughout the Basic Employment Period, Executive shall not, directly or indirectly, anywhere in the United States of America (i) render any services, as an agent, independent contractor, consultant or otherwise, or become employed or compensated by, any other corporation, person or entity engaged in the business of selling or providing life or accident and health insurance products or services; (ii) in any manner compete with the Company or any of its subsidiaries; (iii) solicit or attempt to convert to other insurance carriers providing these same or similar products or services provided by the Company and its subsidiaries, any customers or policyholders of the Company, or any of its subsidiaries; or (iv) solicit for employment or employ any employee of the Company or any of its subsidiaries. The covenants of Executive in this Section 9 shall be void and unenforceable in the event of a Control Termination of this Agreement as defined in Section 10 below.

#### 10. Termination.

(a) Either the Company or Executive may terminate this Agreement at any time for any reason upon written notice to the other. This Agreement shall also terminate upon (i) the death of Executive or (ii) termination by the Company pursuant to Section 7.

(b) In the event this Agreement is terminated by the Company and such termination is not pursuant to the last sentence of (a) above or for "just cause" as defined in (e) below and does not constitute a Control Termination as defined in (d) below, Executive shall be entitled to receive his Base Salary, as determined pursuant to Section 5(a) hereof, for the remainder of the Basic Employment Period and all other unpaid amounts previously accrued or awarded pursuant to any other provision of this Agreement.

(c) In the event this Agreement is terminated by the death of Executive, is terminated by the Company for "just cause" as defined in (e) below, or is terminated by Executive and such termination does not constitute a Control Termination as defined in (d) below, Executive shall be entitled to receive his Base Salary as provided in Section 5(a) accrued but unpaid as of the date of termination, and all other unpaid amounts previously accrued or awarded pursuant to any other provision of this Agreement.

(d) The term "Control Termination" as used herein shall mean (a) termination of this Agreement by the Company in anticipation of or following a "change in control" of the Company (as defined below), or  
(b) termination of this Agreement by Executive following "change in control" of the Company (as defined below) upon the occurrence of any of the following events:



(i) significant change in the nature or scope of Executive's authorities or duties from those described in Section 3, a reduction in his total compensation from that provided in Section 5, or a breach by the Company of any other provision of this Agreement; or

(ii) reasonable determination by Executive that, as a result of a change in circumstances significantly affecting his position, he is unable to exercise the authorities, powers, functions or duties attached to his position and contemplated by Section 3 of this Agreement, or

(iii) the Company's principal executive offices are moved outside the geographic area comprised of Marion County, Indiana, and the seven contiguous counties or Executive is required to work at a location other than the Company's principal executive offices; or

(iv) the giving of notice of termination by Executive during the 6-month period commencing six (6) months after the change in control.

The term "change in control" shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934 (the "Act") as revised effective January 20, 1987; provided that, without limitation, such a change in control shall be deemed to have occurred if and when either (A) except as provided in (y) below, any "person" (as such term is used in Sections 13(d) and 14(d) of the Act) is or becomes a "beneficial owner" (as such term is defined in Rule 13d-3 promulgated under the Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities entitled to vote with respect to the election of its Board of Directors or (B) as the result of a tender offer, merger, consolidation, sale of assets, or contest for election of directors, or any combination of the foregoing transactions or events, individuals who were members of the Board of Directors of the Company immediately prior to any such transaction or event shall not constitute a majority of the Board of Directors following such transaction or event.

(e) For purposes of this Agreement "just cause" shall mean and include:

(i) Executive's breach of any provisions of this Agreement, or his use of alcohol or drugs which interferes with the performance of his duties hereunder or which compromises the integrity and reputation of the Company, its employees, and products;

(ii) Executive's conviction by a court of law, or admission that he is guilty, or a felony or other crime involving moral turpitude;

(iii) Executive's absence from his employment other than as a result of Section 7 hereof, for whatever cause, for a period of more than one (1) month, without prior written consent from the Company;

(iv) Executive becomes incompetent or is reasonably unable to undertake and discharge the duties and responsibilities of his position; or

(v) Executive's gross negligence, willful malfeasance or fraud or dishonesty in performing his services on behalf of the Company pursuant to this Agreement.

11. Payments for Control Termination. In the event of a Control Termination of this Agreement, the Company shall pay Executive and provide him with the following:

(a) During the remainder of the Basic Employment Period, the Company shall continue to pay Executive his Base Salary at the same rate as payable immediately prior to the date of termination plus the estimated amount of any bonuses to which he would have been entitled had he remained in the employ of the Company and a change in control of the Company had not occurred.

(b) During the remainder of the Basic Employment Period, Executive shall continue to be treated as an employee under the provisions of all incentive compensation arrangements applicable to the Company's executive employees. In addition, Executive shall continue to be entitled to all benefits and service credits for benefits under medical, insurance and other employee benefit plans, programs and arrangements of the Company as if he were still employed under this Agreement and a change in control of the Company had not occurred.

(c) If, despite the provisions of paragraph (b) above, benefits under any employee benefit plan shall not be payable or provided under any such plan to Executive, or his dependents, beneficiaries and estate, because he is no longer an employee of the Company, the Company itself shall, to the extent necessary, pay or provide for payment of such benefits and service credits for such benefits to Executive, his dependents, beneficiaries and estate.

(d) If, despite the provisions of paragraph (b) above, benefits or the right to accrue further benefits under any stock option or other incentive compensation arrangement shall not be provided under any such arrangement to Executive, or his dependents, beneficiaries and estate, because he is no longer an employee of the Company, the Company shall, to the extent necessary, pay or provide for payment of such benefits to Executive, his dependents, beneficiaries and estate.

12. Severance Allowance. In the event of a Control Termination of this Agreement, Executive may elect, within 60 days after such Control Termination, to be paid a lump sum severance allowance, in lieu of the termination payments provided for in Section 11 above, in an amount which is equal to the sum of the amounts determined in accordance with the following clauses (a) and (b):

(a) an amount equivalent to salary payments for 60 calendar months at the rate of Base Salary which he would have been entitled to receive in accordance with Section 5(a); and

(b) an amount equivalent to 60 calendar months of bonus at the greater of (i) the monthly rate of the bonus payment for the annual bonus period immediately prior to this termination date, or (ii) the monthly rate of the estimated amount of the bonus for the annual bonus period which includes his termination date.

In the event that Executive makes an election pursuant to this Section to receive a lump sum severance allowance of the amount described in clauses (a) and (b), then, in addition to such amount, he shall receive (i) in addition to the benefits provided under any deferred compensation, retirement or pension benefit plan maintained by the Company, the benefits he would have accrued under such benefit plan if he had remained in the employ of the Company and such plan had remained in effect for 60 calendar months after his termination, which benefits will be paid concurrently with, and in addition to, the benefits provided under such benefit plan, and (ii) the employee benefits (including, but not limited to, coverage under any medical insurance and life insurance arrangements or programs) to which he would have been entitled under all employee benefit plans, programs or arrangements maintained by the Company if he had remained in the employ of the Company and such plans, programs or arrangements had remained in effect for 60 calendar months after his termination; or the value of the amounts described in clauses (i) and (ii) next preceding. The amount of the payments described in the preceding sentence shall be determined and such payments shall be distributed as soon as it is reasonably possible.

13. Tax Indemnity Payments. (a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company or its affiliated companies to or for the benefit of Executive paid or payable or distributed or distributable pursuant to the terms of the Agreement (but determined without regard to any additional payments required under this Section 13, a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986 (as amended the "Code"), or any successor provision (collectively, "Section 4999"), or any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any Federal, state or local income and employment taxes and Excise Tax (and any interest and penalties imposed with respect to any such taxes) imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 13(c), all determinations required to be made under this Section 13, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by the Company's public accounting firm (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and Executive within fifteen (15) business days of the receipt of notice from Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the

individual, entity or group effecting the Change in Control, Executive may appoint another nationally recognized public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 13, shall be paid by the Company to Executive within five (5) days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Executive, it shall furnish Executive with a written opinion that failure to report the Excise Tax on Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 at the time of the initial determination by the Accounting Firm hereunder, it is possible that adjustments may be determined at any time of Gross-Up Payments which should have been made by the Company ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 13(c) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Executive.

(c) Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require a change in the amount of the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable after Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid; provided that the failure to give any notice pursuant to this Section 13(c) shall not impair Executive's rights under this Section 13 except to the extent the Company is materially prejudiced thereby. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

- (1) give the Company any information reasonably requested by the Company relating to such claim,
- (2) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,
- (3) cooperate with the Company in good faith in order effectively to contest such claim, and
- (4) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for any

Excise Tax or income, employment or other tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 13(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided further, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income, employment or other tax (including interest or penalties with respect to any such taxes) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and provided further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 13(c), Executive becomes entitled to receive, and receives, any refund with respect to such claim, Executive shall (subject to the Company's complying with the requirements of Section 12 (c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 13(c), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

14. **Payment for Options and Stock.** In the event of a Control Termination of this Agreement, Executive may also elect, within sixty (60) days after such Control Termination, to receive a lump sum payment from the Company in return for surrender by the Executive of all or any portion of the options then outstanding held by the Executive to purchase shares of common stock of the Company ("Unexercised Options"), all or any portion of the units or rights credited to Executive in any deferred compensation plan payable in common stock ("Deferred Compensation Units") and all or any portion of the common stock of the Company then owned by Executive (the "Owned Stock"). For purposes of this provision, Unexercised Options shall include all outstanding options whether or not they are exercisable at the time of the election by Executive hereunder. For each Unexercised Option to purchase one share of common stock, the Company shall pay to Executive an amount equal to the highest per share fair market value of the common stock on any day

during the period beginning six (6) months prior to the date of Executive's election pursuant to this Section. To compensate Executive for his loss of the potential future speculative value of the Unexercised Options, there shall be no deduction of Executive's exercise price per share for each Unexercised Option from the amount to be received by him pursuant to the foregoing sentence. For each share of Owned Stock or Deferred Compensation Unit, the Company shall pay to Executive the highest fair market value per share of the common stock on any date during the period beginning six (6) months prior to the date of Executive's election pursuant to this Section. The payment due from the Company pursuant to this Section shall be made to Executive within ten (10) days after the date of his election hereunder, against execution and delivery by Executive to the Company of an appropriate agreement confirming his surrender of the Unexercised Options and Deferred Compensation Units and the certificates duly endorsed by Executive for the Owned Stock.

15. Character of Termination Payments. The amounts payable to Executive upon any termination of this Agreement shall be considered severance pay in consideration of past services rendered on behalf of the Company and his continued service from the date hereof to the date he becomes entitled to such payments. Executive shall have no duty to mitigate his damages by seeking other employment and, should Executive actually receive compensation from any such other employment, the payments required hereunder shall not be reduced or offset by any such other compensation.

16. Right of First Refusal to Purchase Stock. Executive agrees that the Company shall have throughout the Basic Employment Period the right of first refusal to purchase all or any portion of the shares of the Company's common stock owned by him (the "Shares") at the following price:

(a) in the event of a bona fide offer for the Shares, or any part thereof, received by Executive from any other person (a "Third Party Offer"), the price to be paid by the Company shall be the price set forth in such Third Party Offer; and

(b) in the event Executive desires to sell the Shares, or any part thereof, in the public securities market, the price to be paid by the Company shall be the last sale price quoted on the New York Stock Exchange (or any other exchange or national market system upon which price quotations for the Company's common stock are regularly available) for the Company's common stock on the last business day preceding the date on which Executive notifies the Company of such desire.

In the event Executive shall receive a Third Party Offer which he desires to accept, he shall deliver to the Company a written notification of the terms thereof and the Company shall have a period of 48 hours after such delivery in which to notify Executive of its desire to exercise its right of first refusal hereunder.

In the event Executive desires to sell any portion of the Shares in the public market he shall deliver to the Company a written notification of the amount of Shares he desires to sell, and the Company shall have a period of 24 hours after such delivery to notify Executive of its desire to exercise its right of first refusal hereunder with respect to such amount of Shares.

Upon each exercise by the Company of its right of first refusal hereunder, it shall make payment to Executive for the Shares in accordance with standard practice in the securities brokerage industry. After each failure by the Company to exercise its right of first refusal hereunder, Executive may proceed to complete the sale of Shares pursuant to the Third Party Offer or in the open market in accordance with his notification to the Company, but his failure to complete such sale within two weeks after his notification to the Company shall reinstate the Company's right of first refusal with respect thereto and require a new notification to the Company.

17. **Arbitration of All Disputes.** Any controversy or claim arising out of or relating to this Agreement or the breach thereof, shall be settled by arbitration in the City of Indianapolis, Indiana, in accordance with the laws of the State of Indiana by three arbitrators, one of whom shall be appointed by the Company, one by Executive and the third of whom shall be appointed by the first two arbitrators. If the first two arbitrators cannot agree on the appointment of a third arbitrator, then the third arbitrator shall be appointed by the Chief Judge of the United States District Court for the Southern District of Indiana. The arbitration shall be conducted in accordance with the rules of the American Arbitration Association, except with respect to the selection of arbitrators which shall be as provided in this Section. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that it shall be necessary or desirable for Executive to retain legal counsel and/or incur other costs and expenses in connection with the enforcement of any and all of his rights under this Agreement, the Company shall pay (or Executive shall be entitled to recover from the Company, as the case may be) his reasonable attorneys' fees and costs and expenses in connection with the enforcement of any arbitration award in court, regardless of the final outcome, unless the arbitrators shall determine that under the circumstances recovery by Executive of all or a part of any such fees and costs and expenses would be unjust.

18. **Notices.** Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and if sent by registered mail to his residence, in the case of Executive, or to the business office of its Chief Executive Officer, in the case of the Company.

19. **Waiver of Breach and Severability.** The waiver by either party of a breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach by either party. In the event any provision of this Agreement is found to be invalid or unenforceable, it may be severed from the Agreement and the remaining provisions of the Agreement shall continue to be binding and effective.

20. **Entire Agreement.** This instrument contains the entire agreement of the parties and supersedes all prior agreements between them. This agreement may not be changed orally, but only by an instrument in writing signed by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought.

21. **Binding Agreement and Governing Law; Assignment Limited.** This Agreement shall be binding upon and shall inure to the benefit of the parties and their lawful successors in interest and shall be construed in accordance with and governed by the laws of the State of Indiana. This Agreement is personal to each of the parties hereto, and neither party may assign nor delegate any of its rights or obligations hereunder without the prior written consent of the other.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

**CONSECO, INC.**

*/s/ STEPHEN C. HILBERT*  
By: -----  
*Stephen C. Hilbert*  
*Chairman of the Board*

"Company"

*/s/ ROLLIN M. DICK*  
-----  
*Rollin M. Dick*

"Executive"



## EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of the 17th day of August, 1992, as amended and restated as of May 14, 1998, between CONSECO, INC., an Indiana corporation (hereinafter called the "Company"), and Ngaire E. Cuneo (hereinafter called "Executive").

### RECITALS

WHEREAS, the services of Executive, her managerial and professional experience, and her knowledge of the affairs of the Company are of great value to the Company;

WHEREAS, the Company deems it to be essential for it to have the benefit and advantage of the services of the Executive for an extended period; and

WHEREAS, the Company and Executive are parties to an employment agreement dated August 17, 1992, as amended on March 12, 1996 (as so amended the "Existing Employment Agreement"), and the Company and Executive desire to make certain modifications to the Existing Employment Agreement;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants contained herein, the parties agree the Existing Employment Agreement be amended and restated in its entirety to be as follows:

1. Employment. The Company hereby employs Executive and Executive hereby accepts employment upon the terms and conditions hereinafter set forth.
2. Term. The effective date of this Agreement shall be August 17, 1992. Subject to the provisions for termination as provided in Section 10 hereof, the term of this Agreement shall be the period beginning September 1, 1992 and ending December 31, 2001 (hereinafter called the "Basic Employment Period").
3. Duties. Executive is engaged by the Company in an executive capacity as its executive vice president of corporate development. Executive shall report to the Chief Executive Officer regarding the performance of her duties and shall be subject to the direction and control of the Board of Directors of the Company (sometimes referred to herein as the "Board") and the Chief Executive Officer. Executive's position with the Company shall initially be Executive Vice President, and such other positions as may be determined from time to time by the Board.
4. Extent of Services. Executive, subject to the direction and control of the Chief Executive Officer and the Board, shall have the power and authority commensurate with her executive status and necessary to perform her duties hereunder. The Company agrees to provide to Executive such assistance and work accommodations as are suitable to the character of her positions with the Company and adequate for the performance of her duties. Executive shall devote her entire employable time, attention and best efforts

to the business of the Company, and shall not, without the consent of the Company, during the term of this Agreement be actively engaged in any other business activity, whether or not such business activity is pursued for gain, profit or other pecuniary advantage; but this shall not be construed as preventing Executive from investing her assets in such form or manner as will not require any services on the part of Executive in the operation of the affairs of the companies in which such investments are made. For purposes of this Agreement, full-time employment shall be the normal work week for individuals in comparable executive positions with the Company.

#### 5. Compensation.

(a) As compensation for services hereunder rendered during the term hereof, Executive shall receive a base salary ("Base Salary") of Two Hundred Fifty Thousand Dollars (\$250,000) per year payable in equal installments in accordance with the Company's payroll procedure for its salaried employees. Salary payments shall be subject to withholding of taxes and other appropriate and customary amounts. Executive may receive increases in her Base Salary from time to time, based upon her performance in her executive and management capacity. The amounts of any such salary increases shall be approved by the Board or the Compensation Committee of the Board upon the recommendation of the Chief Executive Officer.

(b) In addition to Base Salary, Executive may receive such other bonuses or incentive compensation as the Compensation Committee or the Board may approve from time to time, upon the recommendation of the Chief Executive Officer.

#### 6. Fringe Benefits.

(a) Executive shall be entitled to participate in such existing employee benefit plans and insurance programs offered by the Company, or which it may adopt from time to time, for its executive management or supervisory personnel generally, in accordance with the eligibility requirements for participation therein. Nothing herein shall be construed so as to prevent the Company from modifying or terminating any employee benefit plans or programs, or employee fringe benefits, it may adopt from time to time.

(b) During the term of this Agreement, the Company shall pay Executive a monthly automobile allowance in the amount of Six Hundred Dollars (\$600), and the Company shall pay directly or shall reimburse Executive for the cost of fuel that she incurs in using her automobile.

(c) Executive shall be entitled to four (4) weeks vacation with pay for each year during the term hereof.

(d) Executive may incur reasonable expenses for promoting the Company's business, including expenses for entertainment, travel, and similar items. The Company shall reimburse Executive for all such reasonable expenses upon Executive's periodic presentation of an itemized account of such expenditures.

(e) The Company shall, upon periodic presentation of satisfactory evidence and to a maximum of Ten Thousand Dollars (\$10,000) per each year of this Agreement, reimburse Executive for reasonable medical expenses incurred by Executive and her dependents which are not otherwise covered by health insurance provided to Executive under Section 6(a).

(f) During the term of this Agreement, the Company shall at its expense maintain a term life insurance policy or policies on the life of Executive in the face amount of Five Hundred Thousand Dollars (\$500,000), payable to such beneficiaries as Executive may designate.

7. Disability. If Executive shall become physically or mentally disabled during the term of this Agreement to the extent that her ability to perform her duties and services hereunder is materially and adversely impaired, her salary, bonus and other compensation provided herein shall continue while she remains employed by the Company; provided, that if such disability (as confirmed by competent medical evidence) continues for at least nine (9) consecutive months, the Company may terminate Executive's employment hereunder in which case the Company shall immediately pay Executive a lump sum payment equal to one-quarter of the sum of her annual salary and bonus with respect to the most recent fiscal year then ended and, provided further, that no such lump sum payment shall be required if such disability arises primarily from: (a) chronic depressive use of intoxicants, drugs or narcotics, or (b) intentionally self-inflicted injury or intentionally self-induced sickness; or (c) a proven unlawful act or enterprise on the part of Executive.

8. Disclosure of Information. Executive acknowledges that in and as a result of her employment with the Company, she has been and will be making use of, acquiring and/or adding to confidential information of the Company of a special and unique nature and value. As a material inducement to the Company to enter into this Agreement and to pay to Executive the compensation stated in Section 5, as well as any additional benefits stated herein, Executive covenants and agrees that she shall not, at any time during or following the term of her employment, directly or indirectly, divulge or disclose for any purpose whatsoever, any confidential information that has been obtained by or disclosed to her as a result of her employment with the Company. Upon the termination of this Agreement, Executive shall return all materials obtained from or belonging to the Company which she may have in her possession or control. In the event of a breach or threatened breach by Executive of the provisions of this Section, the Company shall be entitled to an injunction restraining Executive from utilizing or disclosing, in whole or in part, such material, or from rendering any service to any person, firm, corporation, association, or other entity to which such material might be useful, and/or any and all persons directly or indirectly acting for or with Executive. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to the Company for such breach or threatened breach, including the recovery of damages from Executive.

9. Covenants Against Competition and Solicitation. Executive acknowledges that the services she is to render to the Company are of a special and unusual character, with a unique value to the Company, the loss of which cannot adequately be compensated by damages or an action at law. In view of the unique value to the Company of the services of Executive for which the Company has contracted hereunder, because of the confidential information to be obtained by, or disclosed to, Executive as hereinabove set

forth, and as a material inducement to the Company to enter into this Agreement and to pay to Executive the compensation stated in Section 5, as well as any additional benefits stated herein, and other good and valuable consideration, Executive covenants and agrees that throughout the Basic Employment Period, Executive shall not, directly or indirectly, anywhere in the United States of America (i) render any services, as an agent, independent contractor, consultant or otherwise, or become employed or compensated by, any other corporation, person or entity engaged in the business of selling or providing life or accident and health insurance products or services; (ii) in any manner compete with the Company or any of its subsidiaries; (iii) solicit or attempt to convert to other insurance carriers providing these same or similar products or services provided by the Company and its subsidiaries, any customers or policyholders of the Company, or any of its subsidiaries; or (iv) solicit for employment or employ any employee of the Company or any of its subsidiaries. The covenants of Executive in this Section 9 shall be void and unenforceable in the event of a Control Termination of this Agreement as defined in Section 10 below.

#### 10. Termination.

(a) Either the Company or Executive may terminate this Agreement at any time for any reason upon written notice to the other. This Agreement shall also terminate upon (i) the death of Executive or (ii) termination by the Company pursuant to Section 7.

(b) In the event this Agreement is terminated by the Company and such termination is not pursuant to the last sentence of (a) above or for "just cause" as defined in (e) below and does not constitute a Control Termination as defined in (d) below, Executive shall be entitled to receive her Base Salary, as determined pursuant to Section 5(a) hereof, for the remainder of the Basic Employment Period and all other unpaid amounts previously accrued or awarded pursuant to any other provision of this Agreement.

(c) In the event this Agreement is terminated by the death of Executive, is terminated by the Company for "just cause" as defined in (e) below, or is terminated by Executive and such termination does not constitute a Control Termination as defined in (d) below, Executive shall be entitled to receive her Base Salary as provided in Section 5(a) accrued but unpaid as of the date of termination, and all other unpaid amounts previously accrued or awarded pursuant to any other provision of this Agreement.

(d) The term "Control Termination" as used herein shall mean (a) termination of this Agreement by the Company in anticipation of or following a "change in control" of the Company (as defined below), or  
(b) termination of this Agreement by Executive following "change in control" of the Company (as defined below) upon the occurrence of any of the following events:

(i) significant change in the nature or scope of Executive's authorities or duties from those described in Section 3, a reduction in her total compensation from that provided in Section 5, or a breach by the Company of any other provision of this Agreement; or

(ii) reasonable determination by Executive that, as a result of a change in circumstances significantly affecting her position, she is unable to exercise the authorities, powers, functions or duties attached to her position and contemplated by Section 3 of this Agreement, or

(iii) the Company's principal executive offices are moved outside the geographic area comprised of Marion County, Indiana, and the seven contiguous counties or Executive is required to work at a location other than the Company's principal executive offices; or

(iv) the giving of notice of termination by Executive during the 6-month period commencing six (6) months after the change in control.

The term "change in control" shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934 (the "Act") as revised effective January 20, 1987; provided that, without limitation, such a change in control shall be deemed to have occurred if and when either (A) except as provided in (y) below, any "person" (as such term is used in Sections 13(d) and 14(d) of the Act) is or becomes a "beneficial owner" (as such term is defined in Rule 13d-3 promulgated under the Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities entitled to vote with respect to the election of its Board of Directors or (B) as the result of a tender offer, merger, consolidation, sale of assets, or contest for election of directors, or any combination of the foregoing transactions or events, individuals who were members of the Board of Directors of the Company immediately prior to any such transaction or event shall not constitute a majority of the Board of Directors following such transaction or event.

(e) For purposes of this Agreement "just cause" shall mean and include:

(i) Executive's breach of any provisions of this Agreement, or her use of alcohol or drugs which interferes with the performance of her duties hereunder or which compromises the integrity and reputation of the Company, its employees, and products;

(ii) Executive's conviction by a court of law, or admission that she is guilty, or a felony or other crime involving moral turpitude;

(iii) Executive's absence from her employment other than as a result of Section 7 hereof, for whatever cause, for a period of more than one (1) month, without prior written consent from the Company;

(iv) Executive becomes incompetent or is reasonably unable to undertake and discharge the duties and responsibilities of her position; or

(v) Executive's gross negligence, willful malfeasance or fraud or dishonesty in performing her services on behalf of the Company pursuant to this Agreement.

11. Payments for Control Termination. In the event of a Control Termination of this Agreement, the Company shall pay Executive and provide her with the following:

(a) During the remainder of the Basic Employment Period, the Company shall continue to pay Executive her Base Salary at the same rate as payable immediately prior to the date of termination plus the estimated amount of any bonuses to which she would have been entitled had she remained in the employ of the Company and a change in control of the Company had not occurred.

(b) During the remainder of the Basic Employment Period, Executive shall continue to be treated as an employee under the provisions of all incentive compensation arrangements applicable to the Company's executive employees. In addition, Executive shall continue to be entitled to all benefits and service credits for benefits under medical, insurance and other employee benefit plans, programs and arrangements of the Company as if she were still employed under this Agreement and a change in control of the Company had not occurred.

(c) If, despite the provisions of paragraph (b) above, benefits under any employee benefit plan shall not be payable or provided under any such plan to Executive, or her dependents, beneficiaries and estate, because she is no longer an employee of the Company, the Company itself shall, to the extent necessary, pay or provide for payment of such benefits and service credits for such benefits to Executive, her dependents, beneficiaries and estate.

(d) If, despite the provisions of paragraph (b) above, benefits or the right to accrue further benefits under any stock option or other incentive compensation arrangement shall not be provided under any such arrangement to Executive, or her dependents, beneficiaries and estate, because she is no longer an employee of the Company, the Company shall, to the extent necessary, pay or provide for payment of such benefits to Executive, her dependents, beneficiaries and estate.

12. Severance Allowance. In the event of a Control Termination of this Agreement, Executive may elect, within 60 days after such Control Termination, to be paid a lump sum severance allowance, in lieu of the termination payments provided for in Section 11 above, in an amount which is equal to the sum of the amounts determined in accordance with the following clauses (a) and (b):

(a) an amount equivalent to salary payments for 60 calendar months at the rate of Base Salary which she would have been entitled to receive in accordance with Section 5(a); and

(b) an amount equivalent to 60 calendar months of bonus at the greater of (i) the monthly rate of the bonus payment for the annual bonus period

immediately prior to this termination date, or (ii) the monthly rate of the estimated amount of the bonus for the annual bonus period which includes her termination date.

In the event that Executive makes an election pursuant to this Section to receive a lump sum severance allowance of the amount described in clauses (a) and (b), then, in addition to such amount, she shall receive (i) in addition to the benefits provided under any deferred compensation, retirement or pension benefit plan maintained by the Company, the benefits she would have accrued under such benefit plan if she had remained in the employ of the Company and such plan had remained in effect for 60 calendar months after her termination, which benefits will be paid concurrently with, and in addition to, the benefits provided under such benefit plan, and (ii) the employee benefits (including, but not limited to, coverage under any medical insurance and life insurance arrangements or programs) to which she would have been entitled under all employee benefit plans, programs or arrangements maintained by the Company if she had remained in the employ of the Company and such plans, programs or arrangements had remained in effect for 60 calendar months after her termination; or the value of the amounts described in clauses (i) and (ii) next preceding. The amount of the payments described in the preceding sentence shall be determined and such payments shall be distributed as soon as it is reasonably possible.

13. Tax Indemnity Payments. (a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company or its affiliated companies to or for the benefit of Executive paid or payable or distributed or distributable pursuant to the terms of the Agreement (but determined without regard to any additional payments required under this Section 13, a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986 (as amended the "Code"), or any successor provision (collectively, "Section 4999"), or any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any Federal, state or local income and employment taxes and Excise Tax (and any interest and penalties imposed with respect to any such taxes) imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 13(c), all determinations required to be made under this Section 13, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by the Company's public accounting firm (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and Executive within fifteen (15) business days of the receipt of notice from Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, Executive may appoint another

nationally recognized public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this

Section 13, shall be paid by the Company to Executive within five (5) days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Executive, it shall furnish Executive with a written opinion that failure to report the Excise Tax on Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 at the time of the initial determination by the Accounting Firm hereunder, it is possible that adjustments may be determined at any time of Gross-Up Payments which should have been made by the Company ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to

Section 13(c) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Executive.

(c) Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require a change in the amount of the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable after Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid; provided that the failure to give any notice pursuant to this Section 13(c) shall not impair Executive's rights under this Section 13 except to the extent the Company is materially prejudiced thereby. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(1) give the Company any information reasonably requested by the Company relating to such claim,

(2) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(3) cooperate with the Company in good faith in order effectively to contest such claim, and

(4) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for any



Excise Tax or income, employment or other tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 13(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided further, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income, employment or other tax (including interest or penalties with respect to any such taxes) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and provided further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 13(c), Executive becomes entitled to receive, and receives, any refund with respect to such claim, Executive shall (subject to the Company's complying with the requirements of Section 12 (c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 13(c), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

14. Payment for Options and Stock. In the event of a Control Termination of this Agreement, Executive may also elect, within sixty (60) days after such Control Termination, to receive a lump sum payment from the Company in return for surrender by the Executive of all or any portion of the options then outstanding held by the Executive to purchase shares of common stock of the Company ("Unexercised Options"), all or any portion of the units or rights credited to Executive in any deferred compensation plan payable in common stock ("Deferred Compensation Units") and all or any portion of the common stock of the Company then owned by Executive (the "Owned Stock"). For purposes of this provision, Unexercised Options shall include all outstanding options whether or not they are exercisable at the time of the election by Executive hereunder. For each Unexercised Option to purchase one share of common stock, the Company shall pay to Executive an amount equal to the highest per share fair market value of the common stock on any day

during the period beginning six (6) months prior to the date of Executive's election pursuant to this Section. To compensate Executive for her loss of the potential future speculative value of the Unexercised Options, there shall be no deduction of Executive's exercise price per share for each Unexercised Option from the amount to be received by her pursuant to the foregoing sentence. For each share of Owned Stock or Deferred Compensation Unit, the Company shall pay to Executive the highest fair market value per share of the common stock on any date during the period beginning six (6) months prior to the date of Executive's election pursuant to this Section. The payment due from the Company pursuant to this Section shall be made to Executive within ten (10) days after the date of her election hereunder, against execution and delivery by Executive to the Company of an appropriate agreement confirming her surrender of the Unexercised Options and Deferred Compensation Units and the certificates duly endorsed by Executive for the Owned Stock.

15. Character of Termination Payments. The amounts payable to Executive upon any termination of this Agreement shall be considered severance pay in consideration of past services rendered on behalf of the Company and her continued service from the date hereof to the date she becomes entitled to such payments. Executive shall have no duty to mitigate her damages by seeking other employment and, should Executive actually receive compensation from any such other employment, the payments required hereunder shall not be reduced or offset by any such other compensation.

16. Right of First Refusal to Purchase Stock. Executive agrees that the Company shall have throughout the Basic Employment Period the right of first refusal to purchase all or any portion of the shares of the Company's common stock owned by her (the "Shares") at the following price:

(a) in the event of a bona fide offer for the Shares, or any part thereof, received by Executive from any other person (a "Third Party Offer"), the price to be paid by the Company shall be the price set forth in such Third Party Offer; and

(b) in the event Executive desires to sell the Shares, or any part thereof, in the public securities market, the price to be paid by the Company shall be the last sale price quoted on the New York Stock Exchange (or any other exchange or national market system upon which price quotations for the Company's common stock are regularly available) for the Company's common stock on the last business day preceding the date on which Executive notifies the Company of such desire.

In the event Executive shall receive a Third Party Offer which she desires to accept, she shall deliver to the Company a written notification of the terms thereof and the Company shall have a period of 48 hours after such delivery in which to notify Executive of its desire to exercise its right of first refusal hereunder.

In the event Executive desires to sell any portion of the Shares in the public market she shall deliver to the Company a written notification of the amount of Shares she desires to sell, and the Company shall have a period of 24 hours after such delivery to notify Executive of its desire to exercise its right of first refusal hereunder with respect to such amount of Shares.

Upon each exercise by the Company of its right of first refusal hereunder, it shall make payment to Executive for the Shares in accordance with standard practice in the securities brokerage industry. After each failure by the Company to exercise its right of first refusal hereunder, Executive may proceed to complete the sale of Shares pursuant to the Third Party Offer or in the open market in accordance with her notification to the Company, but her failure to complete such sale within two weeks after her notification to the Company shall reinstate the Company's right of first refusal with respect thereto and require a new notification to the Company.

17. **Arbitration of All Disputes.** Any controversy or claim arising out of or relating to this Agreement or the breach thereof, shall be settled by arbitration in the City of Indianapolis, Indiana, in accordance with the laws of the State of Indiana by three arbitrators, one of whom shall be appointed by the Company, one by Executive and the third of whom shall be appointed by the first two arbitrators. If the first two arbitrators cannot agree on the appointment of a third arbitrator, then the third arbitrator shall be appointed by the Chief Judge of the United States District Court for the Southern District of Indiana. The arbitration shall be conducted in accordance with the rules of the American Arbitration Association, except with respect to the selection of arbitrators which shall be as provided in this Section. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that it shall be necessary or desirable for Executive to retain legal counsel and/or incur other costs and expenses in connection with the enforcement of any and all of her rights under this Agreement, the Company shall pay (or Executive shall be entitled to recover from the Company, as the case may be) her reasonable attorneys' fees and costs and expenses in connection with the enforcement of any arbitration award in court, regardless of the final outcome, unless the arbitrators shall determine that under the circumstances recovery by Executive of all or a part of any such fees and costs and expenses would be unjust.

18. **Notices.** Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and if sent by registered mail to her residence, in the case of Executive, or to the business office of its Chief Executive Officer, in the case of the Company.

19. **Waiver of Breach and Severability.** The waiver by either party of a breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach by either party. In the event any provision of this Agreement is found to be invalid or unenforceable, it may be severed from the Agreement and the remaining provisions of the Agreement shall continue to be binding and effective.

20. **Entire Agreement.** This instrument contains the entire agreement of the parties and supersedes all prior agreements between them. This agreement may not be changed orally, but only by an instrument in writing signed by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought.

21. **Binding Agreement and Governing Law; Assignment Limited.** This Agreement shall be binding upon and shall inure to the benefit of the parties and their lawful successors in interest and shall be construed in accordance with and governed by the laws of the State of Indiana. This Agreement is personal to each of the parties hereto, and neither party may assign nor delegate any of its rights or obligations hereunder without the prior written consent of the other.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

**CONSECO, INC.**

*/s/ STEPHEN C. HILBERT*  
By: -----  
*Stephen C. Hilbert*  
*Chairman of the Board*

"Company"

*/s/ NGAIRE E. CUNEO*  
-----  
*Ngaire E. Cuneo*

"Executive"

## EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of the 8th day of September, 1997, as amended and restated as of May 14, 1998, between CONSECO, INC., an Indiana corporation (hereinafter called the "Company"), and John J. Sabl (hereinafter called "Executive").

### RECITALS

WHEREAS, the services of Executive, his managerial and professional experience, and his knowledge of the affairs of the Company are of great value to the Company;

WHEREAS, the Company deems it to be essential for it to have the benefit and advantage of the services of the Executive for an extended period; and

WHEREAS, the Company and Executive are parties to an employment agreement dated as of September 8, 1997 (the "Existing Employment Agreement") and the Company and Executive desire to make certain modifications to the Existing Employment Agreement;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants contained herein, the parties agree the Existing Employment Agreement be amended and restated in its entirety to be as follows:

1. Employment. The Company hereby employs Executive and Executive hereby accepts employment upon the terms and conditions hereinafter set forth.
2. Term. The effective date of this Agreement shall be September 8, 1997. Subject to the provisions for termination as provided in Section 10 hereof, the term of this Agreement shall be the period beginning September 8, 1997, and ending December 31, 2002 (hereinafter called the "Basic Employment Period").
3. Duties. Executive is engaged by the Company in an executive capacity as its chief legal officer. Executive shall report to the Chief Executive Officer regarding the performance of his duties and shall be subject to the direction and control of the Board of Directors of the Company (sometimes referred to herein as the "Board") and the Chief Executive Officer. Executive's position with the Company shall be Executive Vice President, General Counsel and Secretary, and such other positions as may be determined from time to time by the Board.
4. Extent of Services. Executive, subject to the direction and control of the Chief Executive Officer and the Board, shall have the power and authority commensurate with his executive status and necessary to perform his duties hereunder. The Company agrees to provide to Executive such assistance and work accommodations as are suitable to the character of his positions with the Company and adequate for the performance of his duties. Executive shall devote his entire employable time, attention and best efforts to the business of the Company, and shall not, without the consent of the Company, during

the term of this Agreement be actively engaged in any other business activity, whether or not such business activity is pursued for gain, profit or other pecuniary advantage; but this shall not be construed as preventing Executive from investing his assets in such form or manner as will not require any services on the part of Executive in the operation of the affairs of the companies in which such investments are made. For purposes of this Agreement, full-time employment shall be the normal work week for individuals in comparable executive positions with the Company.

#### 5. Compensation.

(a) As compensation for services hereunder rendered during the term hereof, Executive shall receive a base salary ("Base Salary") of One Million Dollars (\$1,000,000) per year payable in equal installments in accordance with the Company's payroll procedure for its salaried employees. Salary payments shall be subject to withholding of taxes and other appropriate and customary amounts. Executive may receive increases in his Base Salary from time to time, based upon his performance in his executive and management capacity. The amounts of any such salary increases shall be approved by the Board or the Compensation Committee of the Board upon the recommendation of the Chief Executive Officer.

(b) In addition to Base Salary, Executive may receive such other bonuses or incentive compensation as the Compensation Committee or the Board may approve from time to time, upon the recommendation of the Chief Executive Officer; provided, that Executive shall receive a cash bonus of at least Seven Hundred Fifty Thousand Dollars (\$750,000) for each calendar year (or a pro rata portion thereof, based on the portion of the year worked, for any part of a calendar year worked).

#### 6. Fringe Benefits.

(a) Executive shall be entitled to participate in such existing employee benefit plans and insurance programs offered by the Company, or which it may adopt from time to time, for its executive management or supervisory personnel generally, in accordance with the eligibility requirements for participation therein. Nothing herein shall be construed so as to prevent the Company from modifying or terminating any employee benefit plans or programs, or employee fringe benefits, it may adopt from time to time.

(b) During the term of this Agreement, the Company shall pay Executive a monthly automobile allowance in the amount of Six Hundred Dollars (\$600), and the Company shall pay directly or shall reimburse Executive for the cost of fuel that he incurs in using his automobile.

(c) Executive shall be entitled to four (4) weeks vacation with pay for each year during the term hereof.

(d) Executive may incur reasonable expenses for promoting the Company's business, including expenses for entertainment, travel, and similar items. The Company shall reimburse Executive for all such reasonable expenses upon Executive's periodic presentation of an itemized account of such expenditures.

(e) The Company shall, upon periodic presentation of satisfactory evidence and to a maximum of Ten Thousand Dollars (\$10,000) per each year of this Agreement, reimburse Executive for reasonable medical expenses incurred by Executive and his dependents which are not otherwise covered by health insurance provided to Executive under Section 6(a).

(f) During the term of this Agreement, the Company shall at its expense maintain a term life insurance policy or policies on the life of Executive in the face amount of Five Hundred Thousand Dollars (\$500,000), payable to such beneficiaries as Executive may designate.

7. Disability. If Executive shall become physically or mentally disabled during the term of this Agreement to the extent that his ability to perform his duties and services hereunder is materially and adversely impaired, his salary, bonus and other compensation provided herein shall continue while he remains employed by the Company; provided, that if such disability (as confirmed by competent medical evidence) continues for at least nine (9) consecutive months, the Company may terminate Executive's employment hereunder in which case the Company shall immediately pay Executive a lump sum payment equal to one-quarter of the sum of his annual salary and bonus with respect to the most recent fiscal year then ended and, provided further, that no such lump sum payment shall be required if such disability arises primarily from: (a) chronic depressive use of intoxicants, drugs or narcotics, or (b) intentionally self-inflicted injury or intentionally self-induced sickness; or (c) a proven unlawful act or enterprise on the part of Executive.

8. Disclosure of Information. Executive acknowledges that in and as a result of his employment with the Company, he has been and will be making use of, acquiring and/or adding to confidential information of the Company of a special and unique nature and value. As a material inducement to the Company to enter into this Agreement and to pay to Executive the compensation stated in Section 5, as well as any additional benefits stated herein, Executive covenants and agrees that he shall not, at any time during or following the term of his employment, directly or indirectly, divulge or disclose for any purpose whatsoever, any confidential information that has been obtained by or disclosed to him as a result of his employment with the Company. Upon the termination of this Agreement, Executive shall return all materials obtained from or belonging to the Company which he may have in his possession or control. In the event of a breach or threatened breach by Executive of the provisions of this Section, the Company shall be entitled to an injunction restraining Executive from utilizing or disclosing, in whole or in part, such material, or from rendering any service to any person, firm, corporation, association, or other entity to which such material might be useful, and/or any and all persons directly or indirectly acting for or with Executive. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to the Company for such breach or threatened breach, including the recovery of damages from Executive.

9. Covenants Against Competition and Solicitation. Executive acknowledges that the services he is to render to the Company are of a special and unusual character, with a unique value to the Company, the loss of which cannot adequately be compensated by damages or an action at law. In view of the unique value to the Company of the

services of Executive for which the Company has contracted hereunder, because of the confidential information to be obtained by, or disclosed to, Executive as hereinabove set forth, and as a material inducement to the Company to enter into this Agreement and to pay to Executive the compensation stated in Section 5, as well as any additional benefits stated herein, and other good and valuable consideration, Executive covenants and agrees that throughout the Basic Employment Period, Executive shall not, directly or indirectly, anywhere in the United States of America (i) render any services, as an agent, independent contractor, consultant or otherwise, or become employed or compensated by, any other corporation, person or entity engaged in the business of selling or providing life or accident and health insurance products or services; (ii) in any manner compete with the Company or any of its subsidiaries; (iii) solicit or attempt to convert to other insurance carriers providing these same or similar products or services provided by the Company and its subsidiaries, any customers or policyholders of the Company, or any of its subsidiaries; or (iv) solicit for employment or employ any employee of the Company or any of its subsidiaries. The covenants of Executive in this Section 9 shall be void and unenforceable in the event of a Control Termination of this Agreement as defined in Section 10 below.

#### 10. Termination.

(a) Either the Company or Executive may terminate this Agreement at any time for any reason upon written notice to the other. This Agreement shall also terminate upon (i) the death of Executive or (ii) termination by the Company pursuant to Section 7.

(b) In the event this Agreement is terminated by the Company and such termination is not pursuant to the last sentence of (a) above or for "just cause" as defined in (e) below and does not constitute a Control Termination as defined in (d) below, Executive shall be entitled to receive his Base Salary, as determined pursuant to Section 5(a) hereof, for the remainder of the Basic Employment Period and all other unpaid amounts previously accrued or awarded pursuant to any other provision of this Agreement.

(c) In the event this Agreement is terminated by the death of Executive, is terminated by the Company for "just cause" as defined in (e) below, or is terminated by Executive and such termination does not constitute a Control Termination as defined in (d) below, Executive shall be entitled to receive his Base Salary as provided in Section 5(a) accrued but unpaid as of the date of termination, and all other unpaid amounts previously accrued or awarded pursuant to any other provision of this Agreement.

(d) The term "Control Termination" as used herein shall mean (a) termination of this Agreement by the Company in anticipation of or following a "change in control" of the Company (as defined below), or  
(b) termination of this Agreement by Executive following "change in control" of the Company (as defined below) upon the occurrence of any of the following events:



(i) significant change in the nature or scope of Executive's authorities or duties from those described in Section 3, a reduction in his total compensation from that provided in Section 5, or a breach by the Company of any other provision of this Agreement; or

(ii) reasonable determination by Executive that, as a result of a change in circumstances significantly affecting his position, he is unable to exercise the authorities, powers, functions or duties attached to his position and contemplated by Section 3 of this Agreement, or

(iii) the Company's principal executive offices are moved outside the geographic area comprised of Marion County, Indiana, and the seven contiguous counties or Executive is required to work at a location other than the Company's principal executive offices; or

(iv) the giving of notice of termination by Executive during the 6-month period commencing six (6) months after the change in control.

The term "change in control" shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934 (the "Act") as revised effective January 20, 1987; provided that, without limitation,

(x) such a change in control shall be deemed to have occurred if and when either (A) except as provided in (y) below, any "person" (as such term is used in Sections 13(d) and 14(d) of the Act) is or becomes a "beneficial owner" (as such term is defined in Rule 13d-3 promulgated under the Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities entitled to vote with respect to the election of its Board of Directors or (B) as the result of a tender offer, merger, consolidation, sale of assets, or contest for election of directors, or any combination of the foregoing transactions or events, individuals who were members of the Board of Directors of the Company immediately prior to any such transaction or event shall not constitute a majority of the Board of Directors following such transaction or event, and

(y) no change of control shall be deemed to have occurred if and when any such person becomes, with the approval of the Board of Directors of the Company, the beneficial owner of securities of the Company representing 25% or more but less than 50% of the combined voting power of the Company's then outstanding securities entitled to vote with respect to the election of its Board of Directors and in connection therewith represents, and at all times continues to represent, in a filing, as amended, with the Securities and Exchange Commission on Schedule 13D or Schedule 13G (or any successor Schedule thereto) that "such person has acquired such securities for investment and not with the purpose nor with the effect of changing or influencing the control of the Company, nor in connection with or as a participant in any transaction having such purpose or effect", or words of

comparable meaning and import. The designation by any such person, with the approval of the Board of Directors of the Company, of a single individual to serve as a member of, or observer at meetings of, the Company's Board of Directors, shall not be considered "changing or influencing the control of the Company" within the meaning of the immediately preceding clause (B), so long as such individual does not constitute at any time more than one-third of the total number of directors serving on such Board.

(e) For purposes of this Agreement "just cause" shall mean and include:

(i) Executive's breach of any provisions of this Agreement, or his use of alcohol or drugs which interferes with the performance of his duties hereunder or which compromises the integrity and reputation of the Company, its employees, and products;

(ii) Executive's conviction by a court of law, or admission that he is guilty, or a felony or other crime involving moral turpitude;

(iii) Executive's absence from his employment other than as a result of Section 7 hereof, for whatever cause, for a period of more than one (1) month, without prior written consent from the Company;

(iv) Executive becomes incompetent or is reasonably unable to undertake and discharge the duties and responsibilities of his position; or

(v) Executive's gross negligence, willful malfeasance or fraud or dishonesty in performing his services on behalf of the Company pursuant to this Agreement.

11. Payments for Control Termination. In the event of a Control Termination of this Agreement, the Company shall pay Executive and provide him with the following:

(a) During the remainder of the Basic Employment Period, the Company shall continue to pay Executive his Base Salary at the same rate as payable immediately prior to the date of termination plus the estimated amount of any bonuses to which he would have been entitled had he remained in the employ of the Company and a change in control of the Company had not occurred.

(b) During the remainder of the Basic Employment Period, Executive shall continue to be treated as an employee under the provisions of all incentive compensation arrangements applicable to the Company's executive employees. In addition, Executive shall continue to be entitled to all benefits and service credits for benefits under medical, insurance and other employee benefit plans, programs and arrangements of the Company as if he were still employed under this Agreement and a change in control of the Company had not occurred.

(c) If, despite the provisions of paragraph (b) above, benefits under any employee benefit plan shall not be payable or provided under any such plan to Executive, or his dependents, beneficiaries and estate, because he is no longer an employee of the Company, the Company itself shall, to the extent necessary, pay or provide for payment of such benefits and service credits for such benefits to Executive, his dependents, beneficiaries and estate.

(d) If, despite the provisions of paragraph (b) above, benefits or the right to accrue further benefits under any stock option or other incentive compensation arrangement shall not be provided under any such arrangement to Executive, or his dependents, beneficiaries and estate, because he is no longer an employee of the Company, the Company shall, to the extent necessary, pay or provide for payment of such benefits to Executive, his dependents, beneficiaries and estate.

12. Severance Allowance. In the event of a Control Termination of this Agreement, Executive may elect, within 60 days after such Control Termination, to be paid a lump sum severance allowance, in lieu of the termination payments provided for in Section 11 above, in an amount which is equal to the sum of the amounts determined in accordance with the following clauses (a) and (b):

(a) an amount equivalent to salary payments for 60 calendar months at the rate of Base Salary which he would have been entitled to receive in accordance with Section 5(a); and

(b) an amount equivalent to 60 calendar months of bonus at the greater of (i) the monthly rate of the bonus payment for the annual bonus period immediately prior to this termination date, or (ii) the monthly rate of the estimated amount of the bonus for the annual bonus period which includes his termination date.

In the event that Executive makes an election pursuant to this Section to receive a lump sum severance allowance of the amount described in clauses (a) and (b), then, in addition to such amount, he shall receive (i) in addition to the benefits provided under any deferred compensation, retirement or pension benefit plan maintained by the Company, the benefits he would have accrued under such benefit plan if he had remained in the employ of the Company and such plan had remained in effect for 60 calendar months after his termination, which benefits will be paid concurrently with, and in addition to, the benefits provided under such benefit plan, and (ii) the employee benefits (including, but not limited to, coverage under any medical insurance and life insurance arrangements or programs) to which he would have been entitled under all employee benefit plans, programs or arrangements maintained by the Company if he had remained in the employ of the Company and such plans, programs or arrangements had remained in effect for 60 calendar months after his termination; or the value of the amounts described in clauses (i) and (ii) next preceding. The amount of the payments described in the preceding sentence shall be determined and such payments shall be distributed as soon as it is reasonably possible.

13. Tax Indemnity Payments. (a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company or its affiliated companies to or for the benefit of Executive paid or payable or distributed or distributable pursuant to the terms of the Agreement (but determined without regard to any additional payments required under this Section 13, a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986 (as amended the "Code"), or any successor provision (collectively, "Section 4999"), or any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any Federal, state or local income and employment taxes and Excise Tax (and any interest and penalties imposed with respect to any such taxes) imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 13(c), all determinations required to be made under this Section 13, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by the Company's public accounting firm (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and Executive within fifteen (15) business days of the receipt of notice from Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, Executive may appoint another nationally recognized public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 13, shall be paid by the Company to Executive within five (5) days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Executive, it shall furnish Executive with a written opinion that failure to report the Excise Tax on Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 at the time of the initial determination by the Accounting Firm hereunder, it is possible that adjustments may be determined at any time of Gross-Up Payments which should have been made by the Company ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 13(c) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Executive.

(c) Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require a change in the amount of the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as

practicable after Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid; provided that the failure to give any notice pursuant to this Section 13(c) shall not impair Executive's rights under this Section 13 except to the extent the Company is materially prejudiced thereby. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

- (1) give the Company any information reasonably requested by the Company relating to such claim,
- (2) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,
- (3) cooperate with the Company in good faith in order effectively to contest such claim, and
- (4) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income, employment or other tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 13(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided further, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income, employment or other tax (including interest or penalties with respect to any such taxes) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and provided further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 13(c), Executive becomes entitled to receive, and receives, any refund with respect to such claim, Executive shall (subject to the Company's complying with the requirements of Section 12 (c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 13(c), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

14. **Payment for Options and Stock.** In the event of a Control Termination of this Agreement, Executive may also elect, within sixty (60) days after such Control Termination, to receive a lump sum payment from the Company in return for surrender by the Executive of all or any portion of the options then outstanding held by the Executive to purchase shares of common stock of the Company ("Unexercised Options"), all or any portion of the units or rights credited to Executive in any deferred compensation plan payable in common stock ("Deferred Compensation Units") and all or any portion of the common stock of the Company then owned by Executive (the "Owned Stock"). For purposes of this provision, Unexercised Options shall include all outstanding options whether or not they are exercisable at the time of the election by Executive hereunder. For each Unexercised Option to purchase one share of common stock, the Company shall pay to Executive an amount equal to the highest per share fair market value of the common stock on any day during the period beginning six (6) months prior to the date of Executive's election pursuant to this Section. To compensate Executive for his loss of the potential future speculative value of the Unexercised Options, there shall be no deduction of Executive's exercise price per share for each Unexercised Option from the amount to be received by him pursuant to the foregoing sentence. For each share of Owned Stock or Deferred Compensation Unit, the Company shall pay to Executive the highest fair market value per share of the common stock on any date during the period beginning six (6) months prior to the date of Executive's election pursuant to this Section. The payment due from the Company pursuant to this Section shall be made to Executive within ten (10) days after the date of his election hereunder, against execution and delivery by Executive to the Company of an appropriate agreement confirming his surrender of the Unexercised Options and Deferred Compensation Units and the certificates duly endorsed by Executive for the Owned Stock.

15. **Character of Termination Payments.** The amounts payable to Executive upon any termination of this Agreement shall be considered severance pay in consideration of past services rendered on behalf of the Company and his continued service from the date hereof to the date he becomes entitled to such payments. Executive shall have no duty to mitigate his damages by seeking other employment and, should Executive actually receive compensation from any such other employment, the payments required hereunder shall not be reduced or offset by any such other compensation.

16. Right of First Refusal to Purchase Stock. Executive agrees that the Company shall have throughout the Basic Employment Period the right of first refusal to purchase all or any portion of the shares of the Company's common stock owned by him (the "Shares") at the following price:

(a) in the event of a bona fide offer for the Shares, or any part thereof, received by Executive from any other person (a "Third Party Offer"), the price to be paid by the Company shall be the price set forth in such Third Party Offer; and

(b) in the event Executive desires to sell the Shares, or any part thereof, in the public securities market, the price to be paid by the Company shall be the last sale price quoted on the New York Stock Exchange (or any other exchange or national market system upon which price quotations for the Company's common stock are regularly available) for the Company's common stock on the last business day preceding the date on which Executive notifies the Company of such desire.

In the event Executive shall receive a Third Party Offer which he desires to accept, he shall deliver to the Company a written notification of the terms thereof and the Company shall have a period of 48 hours after such delivery in which to notify Executive of its desire to exercise its right of first refusal hereunder.

In the event Executive desires to sell any portion of the Shares in the public market he shall deliver to the Company a written notification of the amount of Shares he desires to sell, and the Company shall have a period of 24 hours after such delivery to notify Executive of its desire to exercise its right of first refusal hereunder with respect to such amount of Shares.

Upon each exercise by the Company of its right of first refusal hereunder, it shall make payment to Executive for the Shares in accordance with standard practice in the securities brokerage industry. After each failure by the Company to exercise its right of first refusal hereunder, Executive may proceed to complete the sale of Shares pursuant to the Third Party Offer or in the open market in accordance with his notification to the Company, but his failure to complete such sale within two weeks after his notification to the Company shall reinstate the Company's right of first refusal with respect thereto and require a new notification to the Company.

17. Arbitration of All Disputes. Any controversy or claim arising out of or relating to this Agreement or the breach thereof, shall be settled by arbitration in the City of Indianapolis, Indiana, in accordance with the laws of the State of Indiana by three arbitrators, one of whom shall be appointed by the Company, one by Executive and the third of whom shall be appointed by the first two arbitrators. If the first two arbitrators cannot agree on the appointment of a third arbitrator, then the third arbitrator shall be appointed by the Chief Judge of the United States District Court for the Southern District of Indiana. The arbitration shall be conducted in accordance with the rules of the American Arbitration Association, except with respect to the selection of arbitrators which shall be as provided in this Section. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that it shall be necessary or

desirable for Executive to retain legal counsel and/or incur other costs and expenses in connection with the enforcement of any and all of his rights under this Agreement, the Company shall pay (or Executive shall be entitled to recover from the Company, as the case may be) his reasonable attorneys' fees and costs and expenses in connection with the enforcement of any arbitration award in court, regardless of the final outcome, unless the arbitrators shall determine that under the circumstances recovery by Executive of all or a part of any such fees and costs and expenses would be unjust.

18. Notices. Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and if sent by registered mail to his residence, in the case of Executive, or to the business office of its Chief Executive Officer, in the case of the Company.

19. Waiver of Breach and Severability. The waiver by either party of a breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach by either party. In the event any provision of this Agreement is found to be invalid or unenforceable, it may be severed from the Agreement and the remaining provisions of the Agreement shall continue to be binding and effective.

20. Entire Agreement. This instrument contains the entire agreement of the parties and supersedes all prior agreements between them. This agreement may not be changed orally, but only by an instrument in writing signed by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought.

21. Binding Agreement and Governing Law; Assignment Limited. This Agreement shall be binding upon and shall inure to the benefit of the parties and their lawful successors in interest and shall be construed in accordance with and governed by the laws of the State of Indiana. This Agreement is personal to each of the parties hereto, and neither party may assign nor delegate any of its rights or obligations hereunder without the prior written consent of the other.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

**CONSECO, INC.**

By: */s/ STEPHEN C. HILBERT*  
-----  
*Stephen C. Hilbert*  
*Chairman of the Board*

"Company"

*/s/ JOHN J. SABL*  
-----  
*John J. Sabl*

"Executive"



## EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of the 31st day of March, 1998, between CONSECO, INC., an Indiana corporation (hereinafter called the "Company"), and Thomas J. Kilian (hereinafter called "Executive").

### RECITALS

WHEREAS, Executive has been employed by the Company for a number of years, and the services of Executive, his managerial and professional experience, and his knowledge of the affairs of the Company are of great value to the Company; and

WHEREAS, the Company deems it to be essential for it to have the benefit and advantage of the services of the Executive for an extended period;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants contained herein, the parties agree as follows:

1. Employment. The Company hereby employs Executive and Executive hereby accepts employment upon the terms and conditions hereinafter set forth.
2. Term. The effective date of this Agreement shall be March 31, 1998. Subject to the provisions for termination as provided in Section 10 hereof, the term of this Agreement shall be the period beginning March 31, 1998, and ending December 31, 2002, (hereinafter called the "Basic Employment Period").
3. Duties. Executive is engaged by the Company in an executive capacity as its chief operations officer. Executive shall report to the Chief Executive Officer regarding the performance of his duties and shall be subject to the direction and control of the Board of Directors of the Company (sometimes referred to herein as the "Board") and the Chief Executive Officer. Executive's position with the Company shall initially be Executive Vice President and Chief Operations Officer and such other positions as may be determined from time to time by the Board.
4. Extent of Services. Executive, subject to the direction and control of the Chief Executive Officer and the Board, shall have the power and authority commensurate with his executive status and necessary to perform his duties hereunder. The Company agrees to provide to Executive such assistance and work accommodations as are suitable to the character of his positions with the Company and adequate for the performance of his duties. Executive shall devote his entire employable time, attention and best efforts to the business of the Company, and shall not, without the consent of the Company, during the term of this Agreement be actively engaged in any other business activity, whether or not such business activity is pursued for gain, profit or other pecuniary advantage; but this shall not be construed as preventing Executive from investing his assets in such form or manner as will not require any services on the part of Executive in the operation of the affairs of the companies in which such investments are made. For purposes of this Agreement, full-time employment shall be the normal work week for individuals in comparable executive positions with the Company.

## 5. Compensation.

(a) As compensation for services hereunder rendered during the term hereof, Executive shall receive a base salary ("Base Salary") of Two Hundred Fifty Thousand Dollars (\$250,000) per year payable in equal installments in accordance with the Company's payroll procedure for its salaried employees. Salary and all other payments made pursuant to this Agreement shall be subject to withholding of taxes. Executive may receive increases in his Base Salary from time to time, based upon his performance in his executive and management capacity. The amounts of any such salary increases shall be approved by the Board or the Compensation Committee of the Board upon the recommendation of the Chief Executive Officer.

(b) In addition to Base Salary, Executive may receive such other bonuses or incentive compensation as the Compensation Committee or the Board may approve from time to time, upon the recommendation of the Chief Executive Officer; provided, that Executive shall receive a cash bonus of at least Seven Hundred Fifty Thousand Dollars (\$750,000) for each of the first two calendar years (i.e., 1998 and 1999) completed under this Agreement.

## 6. Fringe Benefits.

(a) Executive shall be entitled to participate in such existing employee benefit plans and insurance programs offered by the Company, or which it may adopt from time to time, for its executive management or supervisory personnel generally, in accordance with the eligibility requirements for participation therein. Nothing herein shall be construed so as to prevent the Company from modifying or terminating any employee benefit plans or programs, or employee fringe benefits, it may adopt from time to time.

(b) During the term of this Agreement, the Company shall pay Executive a monthly automobile allowance in the amount of Six Hundred Dollars (\$600), and the Company shall pay directly or shall reimburse Executive for the cost of fuel that he incurs in using his automobile.

(c) Executive shall be entitled to four (4) weeks vacation with pay each year during the term hereof.

(d) Executive may incur reasonable expenses for promoting the Company's business, including expenses for entertainment, travel, and similar items. The Company shall reimburse Executive for all such reasonable expenses upon Executive's periodic presentation of an itemized account of such expenditures.

(e) The Company shall, upon periodic presentation of satisfactory evidence and to a maximum of Ten Thousand Dollars (\$10,000) per each year of this Agreement, reimburse Executive for reasonable medical expenses incurred by Executive and his dependents which are not otherwise covered by health insurance provided to Executive under Section 6(a).

(f) During the term of this Agreement, the Company shall at its expense maintain a term life insurance policy or policies on the life of Executive in the face amount of Five Hundred Thousand Dollars (\$500,000), payable to such beneficiaries as Executive may designate.

7. Disability. If Executive shall become physically or mentally disabled during the term of this Agreement to the extent that his ability to perform his duties and services hereunder is materially and adversely impaired, his salary, bonus and other compensation provided herein shall continue while he remains employed by the Company; provided, that if such disability (as confirmed by competent medical evidence) continues for at least nine (9) consecutive months, the Company may terminate Executive's employment hereunder in which case the Company shall immediately pay Executive a lump sum payment equal to one-quarter of the sum of his annual salary and bonus with respect to the most recent fiscal year then ended and, provided further, that no such lump sum payment shall be required if such disability arises primarily from: (a) chronic depressive use of intoxicants, drugs or narcotics, or (b) intentionally self-inflicted injury or intentionally self-induced sickness; or (c) a proven unlawful act or enterprise on the part of Executive.

8. Disclosure of Information. Executive acknowledges that in and as a result of his employment with the Company, he has been and will be making use of, acquiring and/or adding to confidential information of the Company of a special and unique nature and value. As a material inducement to the Company to enter into this Agreement and to pay to Executive the compensation stated in Section 5, as well as any additional benefits stated herein, Executive covenants and agrees that he shall not, at any time during or following the term of his employment, directly or indirectly, divulge or disclose for any purpose whatsoever, any confidential information that has been obtained by or disclosed to him as a result of his employment with the Company. Upon the termination of this Agreement, Executive shall return all materials obtained from or belonging to the Company which he may have in his possession or control. In the event of a breach or threatened breach by Executive of the provisions of this Section, the Company shall be entitled to an injunction restraining Executive from utilizing or disclosing, in whole or in part, such material, or from rendering any service to any person, firm, corporation, association, or other entity to which such material might be useful, and/or any and all persons directly or indirectly acting for or with Executive. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to the Company for such breach or threatened breach, including the recovery of damages from Executive.

9. Covenants Against Competition and Solicitation. Executive acknowledges that the services he is to render to the Company are of a special and unusual character, with a unique value to the Company, the loss of which cannot adequately be compensated by damages or an action at law. In view of the unique value to the Company of the services of Executive for which the Company has contracted hereunder, because of the confidential information to be obtained by, or disclosed to, Executive as hereinabove set forth, and as a material inducement to the Company to enter into this Agreement and to pay to Executive the compensation stated in Section 5, as well as any additional benefits stated herein, and other good and valuable consideration, Executive covenants and agrees that throughout the Basic Employment Period, Executive shall not, directly or indirectly, anywhere in the United States of America (i) render any services, as an agent, independent contractor, consultant or otherwise, or become employed or compensated by, any other corporation,

person or entity engaged in the business of selling or providing life or accident and health insurance products or services; (ii) in any manner compete with the Company or any of its subsidiaries; (iii) solicit or attempt to convert to other insurance carriers providing these same or similar products or services provided by the Company and its subsidiaries, any customers or policyholders of the Company, or any of its subsidiaries; or (iv) solicit for employment or employ any employee of the Company or any of its subsidiaries. The covenants of Executive in this Section 9 shall be void and unenforceable in the event of a Control Termination of this Agreement as defined in Section 10 below.

#### 10. Termination.

(a) Either the Company or Executive may terminate this Agreement at any time for any reason upon written notice to the other. This Agreement shall also terminate upon (i) the death of Executive or (ii) termination by the Company pursuant to Section 7.

(b) In the event this Agreement is terminated by the Company and such termination is not pursuant to the last sentence of (a) above or for "just cause" as defined in (e) below and does not constitute a Control Termination as defined in (d) below, Executive shall be entitled to receive his Base Salary, as determined pursuant to Section 5(a) hereof, for the remainder of the Basic Employment Period and all other unpaid amounts previously accrued or awarded pursuant to any other provision of this Agreement.

(c) In the event this Agreement is terminated by the death of Executive, is terminated by the Company for "just cause" as defined in (e) below, or is terminated by Executive and such termination does not constitute a Control Termination as defined in (d) below, Executive shall be entitled to receive his Base Salary as provided in Section 5(a) accrued but unpaid as of the date of termination, and all other unpaid amounts previously accrued or awarded pursuant to any other provision of this Agreement.

(d) The term "Control Termination" as used herein shall mean (a) termination of this Agreement by the Company in anticipation of or following a "change in control" of the Company (as defined below), or (b) termination of this Agreement by Executive following "change in control" of the Company (as defined below) upon the occurrence of any of the following events:

(i) significant change in the nature or scope of Executive's authorities or duties from those described in Section 3, a reduction in his total compensation from that provided in Section 5, or a breach by the Company of any other provision of this Agreement; or

(ii) reasonable determination by Executive that, as a result of a change in circumstances significantly affecting his position, he is unable to exercise the authorities, powers, functions or duties attached to his position and contemplated by Section 3 of this Agreement, or

(iii) the Company's principal executive offices are moved outside the geographic area comprised of Marion County, Indiana, and the seven contiguous counties or Executive is required to work at a location other than the Company's principal executive offices; or

(iv) the giving of notice of termination by Executive during the 6-month period commencing six (6) months after the change in control.

The term "change in control" shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934 (the "Act") as revised effective January 20, 1987; provided that, without limitation,

(x) such a change in control shall be deemed to have occurred if and when either (A) except as provided in (y) below, any "person" (as such term is used in Sections 13(d) and 14(d) of the Act) is or becomes a "beneficial owner" (as such term is defined in Rule 13d-3 promulgated under the Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities entitled to vote with respect to the election of its Board of Directors or (B) as the result of a tender offer, merger, consolidation, sale of assets, or contest for election of directors, or any combination of the foregoing transactions or events, individuals who were members of the Board of Directors of the Company immediately prior to any such transaction or event shall not constitute a majority of the Board of Directors following such transaction or event, and

(y) no change of control shall be deemed to have occurred if and when any such person becomes, with the approval of the Board of Directors of the Company, the beneficial owner of securities of the Company representing 25% or more but less than 50% of the combined voting power of the Company's then outstanding securities entitled to vote with respect to the election of its Board of Directors and in connection therewith represents, and at all times continues to represent, in a filing, as amended, with the Securities and Exchange Commission on Schedule 13D or Schedule 13G (or any successor Schedule thereto) that "such person has acquired such securities for investment and not with the purpose nor with the effect of changing or influencing the control of the Company, nor in connection with or as a participant in any transaction having such purpose or effect", or words of comparable meaning and import. The designation by any such person, with the approval of the Board of Directors of the Company, of a single individual to serve as a member of, or observer at meetings of, the Company's Board of Directors, shall not be considered "changing or influencing the control of the Company" within the meaning of the immediately preceding clause (B), so long as such individual does not constitute at any time more than one-third of the total number of directors serving on such Board.

(e) For purposes of this Agreement "just cause" shall mean and include:

(i) Executive's breach of any provisions of this Agreement, or his use of alcohol or drugs which interferes with the performance of his duties hereunder or which compromises the integrity and reputation of the Company, its employees, and products;

(ii) Executive's conviction by a court of law, or admission that he is guilty, or a felony or other crime involving moral turpitude;

(iii) Executive's absence from his employment other than as a result of Section 7 hereof, for whatever cause, for a period of more than one (1) month, without prior written consent from the Company;

(iv) Executive becomes incompetent or is reasonably unable to undertake and discharge the duties and responsibilities of his position; or

(v) Executive's gross negligence, willful malfeasance or fraud or dishonesty in performing his services on behalf of the Company pursuant to this Agreement.

11. Payments for Control Termination. In the event of a Control Termination of this Agreement, the Company shall pay Executive and provide him with the following:

(a) During the remainder of the Basic Employment Period, the Company shall continue to pay Executive his Base Salary at the same rate as payable immediately prior to the date of termination plus the estimated amount of any bonuses to which he would have been entitled had he remained in the employ of the Company and a change in control of the Company had not occurred.

(b) During the remainder of the Basic Employment Period, Executive shall continue to be treated as an employee under the provisions of all incentive compensation arrangements applicable to the Company's executive employees. In addition, Executive shall continue to be entitled to all benefits and service credits for benefits under medical, insurance and other employee benefit plans, programs and arrangements of the Company as if he were still employed under this Agreement and a change in control of the Company had not occurred.

(c) If, despite the provisions of paragraph (b) above, benefits under any employee benefit plan shall not be payable or provided under any such plan to Executive, or his dependents, beneficiaries and estate, because he is no longer an employee of the Company, the Company itself shall, to the extent necessary, pay or provide for payment of such benefits and service credits for such benefits to Executive, his dependents, beneficiaries and estate.

(d) If, despite the provisions of paragraph (b) above, benefits or the right to accrue further benefits under any stock option or other incentive compensation arrangement

shall not be provided under any such arrangement to Executive, or his dependents, beneficiaries and estate, because he is no longer an employee of the Company, the Company shall, to the extent necessary, pay or provide for payment of such benefits to Executive, his dependents, beneficiaries and estate.

12. Severance Allowance. In the event of a Control Termination of this Agreement, Executive may elect, within 60 days after such Control Termination, to be paid a lump sum severance allowance, in lieu of the termination payments provided for in Section 11 above, in an amount which is equal to the sum of the amounts determined in accordance with the following clauses (a) and (b):

(a) an amount equivalent to salary payments for 60 calendar months at the rate of Base Salary which he would have been entitled to receive in accordance with Section 5(a); and

(b) an amount equivalent to 60 calendar months of bonus at the greater of (i) the monthly rate of the bonus payment for the annual bonus period immediately prior to this termination date, or (ii) the monthly rate of the estimated amount of the bonus for the annual bonus period which includes his termination date.

In the event that Executive makes an election pursuant to this Section to receive a lump sum severance allowance of the amount described in clauses (a) and (b), then, in addition to such amount, he shall receive (i) in addition to the benefits provided under any deferred compensation, retirement or pension benefit plan maintained by the Company, the benefits he would have accrued under such benefit plan if he had remained in the employ of the Company and such plan had remained in effect for 60 calendar months after his termination, which benefits will be paid concurrently with, and in addition to, the benefits provided under such benefit plan, and (ii) the employee benefits (including, but not limited to, coverage under any medical insurance and life insurance arrangements or programs) to which he would have been entitled under all employee benefit plans, programs or arrangements maintained by the Company if he had remained in the employ of the Company and such plans, programs or arrangements had remained in effect for 60 calendar months after his termination; or the value of the amounts described in clauses (i) and (ii) next preceding. The amount of the payments described in the preceding sentence shall be determined and such payments shall be distributed as soon as it is reasonably possible.

13. Tax Indemnity Payments. (a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company or its affiliated companies to or for the benefit of Executive paid or payable or distributed or distributable pursuant to the terms of the Agreement (but determined without regard to any additional payments required under this Section 13, a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986 (as amended the "Code"), or any successor provision (collectively, "Section 4999"), or any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including,

without limitation, any Federal, state or local income and employment taxes and Excise Tax (and any interest and penalties imposed with respect to any such taxes) imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 13(c), all determinations required to be made under this Section 13, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by the Company's public accounting firm (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and Executive within fifteen (15) business days of the receipt of notice from Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, Executive may appoint another nationally recognized public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 13, shall be paid by the Company to Executive within five (5) days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Executive, it shall furnish Executive with a written opinion that failure to report the Excise Tax on Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 at the time of the initial determination by the Accounting Firm hereunder, it is possible that adjustments may be determined at any time of Gross-Up Payments which should have been made by the Company ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 13(c) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Executive.

(c) Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require a change in the amount of the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable after Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid; provided that the failure to give any notice pursuant to this Section 13(c) shall not impair Executive's rights under this Section 13 except to the extent the Company is materially prejudiced thereby. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(1) give the Company any information reasonably requested by the Company relating to such claim,



(2) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(3) cooperate with the Company in good faith in order effectively to contest such claim, and

(4) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income, employment or other tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 13(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided further, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income, employment or other tax (including interest or penalties with respect to any such taxes) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and provided further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 13(c), Executive becomes entitled to receive, and receives, any refund with respect to such claim, Executive shall (subject to the Company's complying with the requirements of Section 12 (c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 13(c), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

14. Payment for Options and Stock. In the event of a Control Termination of this Agreement, Executive may also elect, within sixty (60) days after such Control Termination, to receive a lump sum payment from the Company in return for surrender by the Executive of all or any

portion of the options then outstanding held by the Executive to purchase shares of common stock of the Company ("Unexercised Options"), all or any portion of the units or rights credited to Executive in any deferred compensation plan payable in Common Stock ("Deferred Compensation Units") and all or any portion of the common stock of the Company then owned by Executive (the "Owned Stock"). For purposes of this provision, Unexercised Options shall include all outstanding options whether or not they are exercisable at the time of the election by Executive hereunder. For each Unexercised Option to purchase one share of common stock, the Company shall pay to Executive an amount equal to the highest per share fair market value of the common stock on any day during the period beginning six (6) months prior to the date of Executive's election pursuant to this Section, less the applicable exercise price per share with respect to such Unexercised Option. For each share of Owned Stock or Deferred Compensation Unit, the Company shall pay to Executive the highest fair market value per share of the common stock on any date during the period beginning six

(6) months prior to the date of Executive's election pursuant to this Section. The payment due from the Company pursuant to this Section shall be made to Executive within ten (10) days after the date of his election hereunder, against execution and delivery by Executive to the Company of an appropriate agreement confirming his surrender of the Unexercised Options and Deferred Compensation Units and the certificates duly endorsed by Executive for the Owned Stock.

15. Character of Termination Payments. The amounts payable to Executive upon any termination of this Agreement shall be considered severance pay in consideration of past services rendered on behalf of the Company and his continued service from the date hereof to the date he becomes entitled to such payments. Executive shall have no duty to mitigate his damages by seeking other employment and, should Executive actually receive compensation from any such other employment, the payments required hereunder shall not be reduced or offset by any such other compensation.

16. Right of First Refusal to Purchase Stock. Executive agrees that the Company shall have throughout the Basic Employment Period the right of first refusal to purchase all or any portion of the shares of the Company's common stock owned by him (the "Shares") at the following price:

(a) in the event of a bona fide offer for the Shares, or any part thereof, received by Executive from any other person (a "Third Party Offer"), the price to be paid by the Company shall be the price set forth in such Third Party Offer; and

(b) in the event Executive desires to sell the Shares, or any part thereof, in the public securities market, the price to be paid by the Company shall be the last sale price quoted on the New York Stock Exchange (or any other exchange or national market system upon which price quotations for the Company's common stock are regularly available) for the Company's common stock on the last business day preceding the date on which Executive notifies the Company of such desire.

In the event Executive shall receive a Third Party Offer which he desires to accept, he shall deliver to the Company a written notification of the terms thereof and the Company shall have a period of 48 hours after such delivery in which to notify Executive of its desire to exercise its right of first refusal hereunder.

In the event Executive desires to sell any portion of the Shares in the public market he shall deliver to the Company a written notification of the amount of Shares he desires to sell, and the Company shall have a period of 24 hours after such delivery to notify Executive of its desire to exercise its right of first refusal hereunder with respect to such amount of Shares.

Upon each exercise by the Company of its right of first refusal hereunder, it shall make payment to Executive for the Shares in accordance with standard practice in the securities brokerage industry. After each failure by the Company to exercise its right of first refusal hereunder, Executive may proceed to complete the sale of Shares pursuant to the Third Party Offer or in the open market in accordance with his notification to the Company, but his failure to complete such sale within two weeks after his notification to the Company shall reinstate the Company's right of first refusal with respect thereto and require a new notification to the Company.

17. Arbitration of All Disputes. Any controversy or claim arising out of or relating to this Agreement or the breach thereof, shall be settled by arbitration in the City of Indianapolis, Indiana, in accordance with the laws of the State of Indiana by three arbitrators, one of whom shall be appointed by the Company, one by Executive and the third of whom shall be appointed by the first two arbitrators. If the first two arbitrators cannot agree on the appointment of a third arbitrator, then the third arbitrator shall be appointed by the Chief Judge of the United States District Court for the Southern District of Indiana. The arbitration shall be conducted in accordance with the rules of the American Arbitration Association, except with respect to the selection of arbitrators which shall be as provided in this Section. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that it shall be necessary or desirable for Executive to retain legal counsel and/or incur other costs and expenses in connection with the enforcement of any and all of his rights under this Agreement, the Company shall pay (or Executive shall be entitled to recover from the Company, as the case may be) his reasonable attorneys' fees and costs and expenses in connection with the enforcement of any arbitration award in court, regardless of the final outcome, unless the arbitrators shall determine that under the circumstances recovery by Executive of all or a part of any such fees and costs and expenses would be unjust.

18. Notices. Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and if sent by registered mail to his residence, in the case of Executive, or to the business office of its Chief Executive Officer, in the case of the Company.

19. Waiver of Breach and Severability. The waiver by either party of a breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach by either party. In the event any provision of this Agreement is found to be invalid or unenforceable, it may be severed from the Agreement and the remaining provisions of the Agreement shall continue to be binding and effective.

20. Entire Agreement. This instrument contains the entire agreement of the parties and supersedes all prior agreements between them. This agreement may not be changed orally, but only by an instrument in writing signed by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought.

21. Binding Agreement and Governing Law; Assignment Limited. This Agreement shall be binding upon and shall inure to the benefit of the parties and their lawful successors in interest and shall be construed in accordance with and governed by the laws of the State of Indiana. This Agreement is personal to each of the parties hereto, and neither party may assign nor delegate any of its rights or obligations hereunder without the prior written consent of the other.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

**CONSECO, INC.**

By: /s/ STEPHEN C. HILBERT  
-----  
Stephen C. Hilbert  
Chairman of the Board

"Company"

/s/ THOMAS J. KILIAN  
-----  
Thomas J. Kilian

"Executive"

**CONSECO PERFORMANCE-BASED  
COMPENSATION PLAN  
FOR EXECUTIVE OFFICERS**

Conseco, Inc. ("Conseco" or the "Company") hereby establishes this Performance-Based Compensation Plan for Executive Officers (the "Plan"). This Plan shall become effective upon the approval hereof by the shareholders of Conseco and shall thereupon replace the Company's existing Performance-Based Compensation Plan for Executive Vice Presidents.

Each of Conseco's Executive Officers ("Executive Officers" being its Executive Vice Presidents and its other officers, other than its Chief Executive Officer (the "CEO"), designated as "executive officers" by Conseco's Board of Directors) shall receive a bonus with respect to each fiscal year determined as set forth below.

1. First, the maximum potential bonus per Executive Officer for such year (the "Maximum Bonus") shall be computed. The Maximum Bonus for a fiscal year shall be equal to one percent (1%) of the annual Net Profits (as defined below) for such fiscal year of the Company. The bonus shall be calculated from the books and records of the Company which shall be kept in accordance with generally accepted accounting principles applied by the Company in the preparation of its financial statements. "Net Profits" shall mean the Company's Income from Continuing Operations (as defined below), as adjusted to add back or deduct, in each case to the extent such items were deducted in the computation of Income from Continuing Operations, (x) income taxes and (y) bonuses to the CEO and the Executive Officers. "Income from Continuing Operations" shall mean the Company's income from continuing operations, which shall exclude for this computation the effect (in each case net of applicable tax) of (i) extraordinary items, (ii) discontinued operations and (iii) the cumulative effects of changes in accounting principles.

2. A separate calculation shall be made to determine what portion, if any, of the Maximum Bonus in excess of the Base Amount (as defined below) could be paid per Executive Officer and still permit the Company's ROE (as determined pursuant to clause (iii) below, the "ROE") for such fiscal year to be at least 15% (such amount exceeding the Base Amount and meeting such 15% ROE test for such fiscal year being referred to as the "Additional Potential Bonus"). The bonus payable to each Executive Officer for such fiscal year shall be 1% of the Net Profits for such fiscal year, but only to the extent such bonus does not exceed the sum of the Base Amount and the Additional Potential Bonus for such fiscal year; provided, that (i) no Executive Officer shall receive a bonus pursuant to this Plan for a fiscal year in excess of the Base Amount to the extent such total bonus would exceed one-third of the total bonus paid to the CEO for such fiscal year and (ii) such bonus may be reduced as provided in Item 5 below.

3. The ROE for a fiscal year shall be determined by dividing (x) the Company's Income from Continuing Operations for such fiscal year, reduced by any dividends accrued with respect to such fiscal year on the Company's preferred stock, to the extent that such dividends were not deducted in the computation of Income from Continuing Operations (it being understood that any amounts paid to induce the conversion of preferred stock are not to be considered dividends on preferred stock), by (y) the arithmetic average of the Company's Average Common Equity (as

defined below) for the four quarters of such fiscal year. The "Average Common Equity" of the Company for a quarter shall mean the arithmetic average of the common shareholders equity of the Company shown on its financial statements (adjusted to exclude unrealized appreciation or depreciation of fixed maturity securities net of any applicable expenses and deferred income taxes, as so adjusted "Common Shareholders Equity") as of the end of such fiscal quarter (as adjusted as provided below, the "Quarter End Equity") and the end of the preceding quarter (the "Quarter Start Equity"); provided, that if one or more Significant Events (as defined below) has occurred during the fiscal quarter as to which Average Common Equity is being determined, then the impact of each such Significant Events on the Quarter End Equity shall be reduced by a fraction, the numerator of which shall be the number of days in such quarter elapsed before said Significant Event occurred (it being understood that with respect to a Significant Event which includes a series of transactions which closed or were otherwise consummated over a period of time, the Company shall select a reasonable midpoint for purposes of this calculation) and the denominator of which shall be the total number of days in such quarter, and the Quarter End Equity shall be computed taking into account such reductions. "Significant Event" with respect to a quarter shall mean any event (such as a share issuance, share repurchase, conversion, acquisition, disposition, merger, consolidation or change in accounting principles) the effect of which event, or series of related events, is to cause the Quarter End Equity to change by at least 10% of the Quarter Start Equity from what it would otherwise have been absent such event or series of related events.

4. The Base Amount for each of 1998 and 1999 shall be \$4.5 million. The Base Amount shall be adjusted for 2000 and the last year of each consecutive three-year period that follows (each an "Adjustment Year"), to be the arithmetic average of the sum of the Base Amount and the Additional Potential Bonus, in each case regardless of the amount of bonus actually paid, for the two fiscal years immediately preceding such Adjustment Year. The Base Amount as so adjusted shall remain the same with respect to the two fiscal years following such Adjustment Year.

5. Upon the recommendation of Conseco's CEO, the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") may reduce the amount of the bonus that would have been payable under the Plan to any of the affected executives. Such reduction shall be at the sole discretion of the Compensation Committee after taking into account such subjective factors or other matters as it believes are appropriate in the best interests of Conseco and its shareholders. The respective bonus to each Executive Officer for the fiscal year, minus the quarterly payments to such Executive Officer described below shall be paid as soon as practicable after the Compensation Committee has certified that the payment meets the Net Profits test specified in the Plan.

6. The cumulative accrued amount of each bonus shall be calculated as of the end of each fiscal quarter of the Company's fiscal year based on the year-to-date financial results. An amount not in excess of such accrued bonus, minus accrued bonus payments made for previous quarters of the same fiscal year, shall be paid to the respective Executive Officer as soon as practicable after the Compensation Committee has certified that the payment to be made meets the Net Profits test specified in the Plan, provided that (i) the cumulative maximum bonus payable with respect to the first quarter shall not exceed 25% of the Base Amount, first two quarters shall not exceed 50% of the Base Amount and first three quarters shall not exceed 75% of the Base Amount

for such fiscal year, and (ii) upon the recommendation of Conseco's CEO, the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") may reduce the amount of the bonus that would have been payable for any quarter to any of the affected Executive Officers (such reduction being at the sole discretion of the Compensation Committee after taking into account such subjective factors or other matters as it believes are appropriate in the best interests of Conseco and its shareholders). If the quarterly payments for any fiscal year exceed the bonus payable for the entire year, the amount of such excess shall be repaid to the Company by the Executive Officer.

7. The Compensation Committee shall have the sole authority to administer the Plan and make all decisions to interpret and apply its provisions. Written interpretations not inconsistent with the terms hereof may be issued from time to time by the Compensation Committee as guidance for interpreting and applying the Plan's provisions.

CONSECO, INC. AND SUBSIDIARIES

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

	Three months ended March 31, 1998 ----	Year ended December 31, 1997 ----
Pretax income from operations:		
Net income	\$151.1	\$ 567.3
Add income tax expense	131.3	376.6
Add extraordinary charge on extinguishment of debt	16.4	6.9
Add minority interest	19.4	52.3
	-----	-----
Pretax income from operations	318.2	1,003.1
	-----	-----
Add fixed charges:		
Interest expense on annuities and financial products	188.4	806.7
Interest expense on long-term debt, including amortization	39.0	109.4
Interest expense on investment borrowings	18.9	42.0
Other	.1	.7
Portion of rental(1)	2.5	9.3
	-----	-----
Fixed charges	248.9	968.1
	-----	-----
Adjusted earnings	\$567.1	\$1,971.2
	=====	=====
Ratio of earnings to fixed charges	2.28X	2.04X
Ratio of earnings to fixed charges, excluding interest on annuities and financial products	===== 6.26X ===== ===== =====	===== 7.21X ===== ===== =====
Fixed charges	\$248.9	\$ 968.1
Add dividends on preferred stock, including dividends on preferred stock of subsidiaries (divided by the rate of income before minority interest and extraordinary charge to pretax income)	3.4	40.5
	-----	-----
Adjusted fixed charges	\$252.3	\$1,008.6
	=====	=====
Adjusted earnings	\$567.1	\$1,971.2
	=====	=====
Ratio of earnings to fixed charges and preferred dividends	2.25X	1.95X
Ratio of earnings to fixed charges and preferred dividends, excluding interest on annuities and financial products	===== 5.93X ===== =====	===== 5.77X ===== =====
Adjusted fixed charges	\$252.3	\$1,008.6
Add distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts	29.5	75.4
	=====	-----
Fixed charges	\$281.8	\$1,084.0
	=====	=====
Adjusted earnings	\$567.1	\$1,971.2
	=====	=====
Ratio of earnings to fixed charges, preferred dividends and distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts	2.01X	1.82X
Ratio of earnings to fixed charges, preferred dividends and distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts, excluding interest on annuities and financial products	===== 4.05X ===== =====	===== 4.20X ===== =====

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



**ARTICLE 7**

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FORM 10-Q FOR CONSECO, INC. DATED MARCH 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS	
FISCAL YEAR END	DEC 31 1998	
PERIOD END	MAR 31 1998	
DEBT HELD FOR SALE	22,968,900	
DEBT CARRYING VALUE	0	
DEBT MARKET VALUE	0	
EQUITIES	263,400	
MORTGAGE	1,070,800	1
REAL ESTATE	0	
TOTAL INVEST	27,042,500	
CASH	0	
RECOVER REINSURE	761,800	
DEFERRED ACQUISITION	3,465,100	2
TOTAL ASSETS	35,923,900	
POLICY LOSSES	23,078,600	
UNEARNED PREMIUMS	409,100	
POLICY OTHER	1,280,700	
POLICY HOLDER FUNDS	336,600	
NOTES PAYABLE	2,435,100	3
PREFERRED MANDATORY	1,388,100	
PREFERRED	115,800	
COMMON	2,397,000	
OTHER SE	1,387,500	4
TOTAL LIABILITY AND EQUITY	35,923,900	
PREMIUMS	990,100	
INVESTMENT INCOME	583,300	
INVESTMENT GAINS	104,800	
OTHER INCOME	20,800	
BENEFITS	954,400	5
UNDERWRITING AMORTIZATION	170,600	6
UNDERWRITING OTHER	165,000	
INCOME PRETAX	318,200	
INCOME TAX	131,300	
INCOME CONTINUING	186,900	
DISCONTINUED	0	
EXTRAORDINARY	(16,400)	
CHANGES	0	
NET INCOME	151,100	
EPS PRIMARY	.80	
EPS DILUTED	.73	
RESERVE OPEN	0	
PROVISION CURRENT	0	
PROVISION PRIOR	0	
PAYMENTS CURRENT	0	
PAYMENTS PRIOR	0	
RESERVE CLOSE	0	
CUMULATIVE DEFICIENCY	0	

1 Includes \$596,600 of credit tenant loans.

2 Includes \$2,442,600 of cost of policies purchased.

3 Includes commercial paper of \$741,000.

4 Includes retained earnings of \$1,217,600, and other comprehensive income of \$169,900.

5 Includes insurance policy benefits of \$680,400 and amounts added to annuity and financial product policyholder account balances of \$274,000.

6 Includes amortization of cost of policies purchased of \$51,000, amortization of cost of policies produced of \$33,200 and amortization related to investment gains of \$86,400.

## UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS OF CONSECO, INC.

On April 6, 1998, Conseco, Inc. ("Conseco") and Green Tree Financial Corporation ("Green Tree") entered into an Agreement and Plan of Merger pursuant to which Green Tree would become a wholly owned subsidiary of Conseco (the "Green Tree Merger"). The following unaudited pro forma combined balance sheet as of March 31, 1998, combines the historical combined balance sheets of Conseco and Green Tree as if the Green Tree Merger had been effective on March 31, 1998, after giving effect to certain adjustments described in the accompanying notes to the unaudited pro forma combined financial information.

The unaudited pro forma combined statements of operations for the three months ended March 31, 1998, and for the year ended December 31, 1997, present the combined results of operations of Conseco and Green Tree as if the Green Tree Merger had been effective on January 1, 1997.

The unaudited pro forma combined financial information and accompanying notes reflect the application of the pooling of interests method of accounting for the Green Tree Merger. Under this method of accounting, the recorded assets, liabilities, shareholders' equity, income and expense of Conseco and Green Tree are combined and reflected at their historical amounts.

The unaudited pro forma combined financial statements are not necessarily indicative of the results of operations or the combined financial position that would have resulted had the Green Tree Merger been consummated at the beginning of the period indicated, nor are they necessarily indicative of future results of operations or financial position.

CONSECO, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA COMBINED BALANCE SHEET  
 March 31, 1998  
 (Dollars in millions)

ASSETS

	CONSECO	GREEN TREE	ADJUSTMENTS	PRO FORMA COMBINED
	-----	-----	-----	-----
Investments:				
Actively managed fixed maturities at fair value.....	\$22,968.9	\$ -	\$ -	\$22,968.9
Equity securities at fair value.....	263.4	-	-	263.4
Interest only securities.....	-	1,412.3	-	1,412.3
Finance receivables.....	-	2,154.6	-	2,154.6
Mortgage loans.....	474.2	-	-	474.2
Credit-tenant loans.....	596.6	-	-	596.6
Policy loans.....	691.7	-	-	691.7
Other invested assets .....	534.8	19.1	-	553.9
Short-term investments.....	837.7	888.7	-	1,726.4
Assets held in separate accounts.....	675.2	-	-	675.2
	-----	-----	-----	-----
Total investments.....	27,042.5	4,474.7	-	31,517.2
Accrued investment income.....	399.9	-	-	399.9
Other receivables.....	-	228.5	-	228.5
Servicing rights.....	-	111.8	-	111.8
Cost of policies purchased.....	2,442.6	-	-	2,442.6
Cost of policies produced.....	1,022.5	-	-	1,022.5
Reinsurance receivables.....	761.8	-	-	761.8
Income tax assets.....	42.4	-	(42.4) (2)	-
Goodwill.....	3,604.9	55.4	-	3,660.3
Property and equipment.....	176.0	121.2	-	297.2
Cash deposits, restricted.....	-	234.2	-	234.2
Other assets.....	431.3	29.4	-	460.7
	-----	-----	-----	-----
Total assets.....	\$35,923.9	\$5,255.2	\$(42.4)	\$41,136.7
	=====	=====	=====	=====

(continued on next page)

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

CONSECO, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA COMBINED BALANCE SHEET (Continued)  
 March 31, 1998  
 (Dollars in millions)

LIABILITIES AND SHAREHOLDERS' EQUITY

	CONSECO	GREEN TREE	ADJUSTMENTS	PRO FORMA COMBINED
	-----	-----	-----	-----
Liabilities:				
Insurance liabilities:				
Interest sensitive products.....	\$17,320.6	\$ -	\$ -	\$17,320.6
Traditional products.....	5,758.0	-	-	5,758.0
Claims payable and other policyholder funds.....	1,617.3	-	-	1,617.3
Unearned premiums.....	409.1	-	-	409.1
Liabilities related to separate accounts.....	675.2	-	-	675.2
Investment borrowings.....	1,196.1	-	-	1,196.1
Investor payables.....	-	653.3	-	653.3
Other liabilities.....	1,223.4	556.2	240.0 (3)	2,019.6
Income tax liabilities.....	-	637.4	(42.4) (2)	595.0
Notes payable and commercial paper:				
Corporate.....	2,435.1	-	-	2,435.1
Related to finance receivables.....	-	2,059.1	-	2,059.1
	-----	-----	-----	-----
Total liabilities.....	30,634.8	3,906.0	197.6	34,738.4
	-----	-----	-----	-----
Minority interest:				
Company-obligated mandatorily redeemable preferred securities of subsidiary trust.....	1,388.1	-	-	1,388.1
Common stock of subsidiary.....	.7	-	-	.7
Shareholders' equity:				
Preferred stock.....	115.8	-	-	115.8
Common stock and additional paid-in capital.....	2,397.0	446.6	(222.6) (4)	2,621.0
Accumulated other comprehensive income:				
Unrealized appreciation of fixed maturity investments.....	159.0	-	-	159.0
Unrealized appreciation of other investments.....	10.9	.9	-	11.8
Minimum pension liability adjustment.....	-	(3.1)	-	(3.1)
Less treasury shares at cost.....	-	(222.6)	222.6 (4)	-
Retained earnings.....	1,217.6	1,127.4	(240.0) (3)	2,105.0
	-----	-----	-----	-----
Total shareholders' equity.....	3,900.3	1,349.2	(240.0)	5,009.5
	-----	-----	-----	-----
Total liabilities and shareholders' equity.....	\$35,923.9	\$5,255.2	\$ (42.4)	\$41,136.7
	=====	=====	=====	=====

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

CONSECO, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS  
for the three months ended March 31, 1998  
(Dollars in millions, except per share data)

	CONSECO	GREEN TREE	ADJUSTMENTS	PRO FORMA COMBINED
	-----	-----	-----	-----
Revenues:				
Insurance policy income:				
Traditional products.....	\$ 859.4	\$ -		\$ 859.4
Interest sensitive products.....	130.7	-		130.7
Net investment income.....	583.3	101.0		684.3
Gain on sale of receivables.....	-	129.1		129.1
Net investment gains.....	104.8	-		104.8
Fee revenue and other income.....	20.8	55.7		76.5
	-----	-----		-----
Total revenues.....	1,699.0	285.8		1,984.8
	-----	-----		-----
Benefits and expenses:				
Insurance policy benefits.....	680.4	-		680.4
Amounts added to annuity and financial product policyholder account balances:				
Interest.....	188.4	-		188.4
Other amounts added to variable and equity-indexed annuity products.....	85.6	-		85.6
Interest expense on notes payable.....	39.0	48.5		87.5
Interest expense on short-term investment borrowings.....	18.9	-		18.9
Amortization related to operations.....	117.1	-		117.1
Amortization related to investment gains.....	86.4	-		86.4
Other operating costs and expenses.....	165.0	134.9		299.9
	-----	-----		-----
Total benefits and expenses.....	1,380.8	183.4		1,564.2
	-----	-----		-----
Income before income taxes, minority interest and extraordinary charge .....	318.2	102.4		420.6
Income tax expense.....	131.3	38.9		170.2
	-----	-----		-----
Income before minority interest and extraordinary charge .....	186.9	63.5		250.4
Minority interest - distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts, net of income taxes.....	19.4	-		19.4
	-----	-----		-----
Income before extraordinary charge .....	167.5	63.5		231.0
Extraordinary charge on extinguishment of debt, net of taxes and minority interest.....	16.4	-		16.4
	-----	-----		-----
Net income.....	151.1	63.5		214.6
Less preferred stock dividends.....	2.0	-		2.0
	-----	-----		-----
Net income applicable to common stock.....	\$ 149.1	\$ 63.5		\$ 212.6
	=====	=====		=====

(continued on next page)

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

CONSECO, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS (Continued)  
 for the three months ended March 31, 1998  
 (Dollars in millions, except per share data)

	CONSECO -----	GREEN TREE -----	ADJUSTMENTS -----	PRO FORMA COMBINED -----
Earnings per common share:				
Basic:				
Weighted average shares outstanding.....	185,941,000	134,237,000	(11,209,000) (4)	308,969,000
Net income before extraordinary charge .....	\$.89	\$.47		\$.74
Extraordinary charge .....	.09	-		.05
	----	----		----
Net income.....	\$.80	\$.47		\$.69
	====	====		====
Diluted:				
Weighted average shares outstanding.....	207,930,000	135,820,000	(11,341,000) (4)	332,409,000
Net income before extraordinary charge .....	\$.81	\$.47		\$.70
Extraordinary charge.....	.08	-		.05
	----	----		----
Net income.....	\$.73	\$.47		\$.65
	====	====		====

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

CONSECO, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS  
for the year ended December 31, 1997  
(Dollars in millions, except per share data)

	CONSECO	GREEN TREE	ADJUSTMENTS	PRO FORMA COMBINED
	-----	-----	-----	-----
Revenues:				
Insurance policy income:				
Traditional products.....	\$2,954.1	\$ -		\$2,954.1
Interest sensitive products.....	456.7	-		456.7
Net investment income.....	1,825.3	370.6		2,195.9
Gain on sale of receivables.....	-	546.8		546.8
Net investment gains.....	266.5	-		266.5
Fee revenue and other income.....	65.8	174.1		239.9
	-----	-----		-----
Total revenues.....	5,568.4	1,091.5		6,659.9
	-----	-----		-----
Benefits and expenses:				
Insurance policy benefits.....	2,368.3	-		2,368.3
Amounts added to annuity and financial product policyholder account balances:				
Interest.....	697.1	-		697.1
Other amounts added to variable and equity-indexed annuity products.....	109.6			109.6
Interest expense on notes payable.....	109.4	160.9		270.3
Interest expense on short-term investment borrowings.....	42.0	-		42.0
Amortization related to operations.....	408.8	-		408.8
Amortization related to investment gains.....	181.2	-		181.2
Nonrecurring charges.....	71.7	-		71.7
Other operating costs and expenses.....	577.2	444.5		1,021.7
	-----	-----		-----
Total benefits and expenses.....	4,565.3	605.4		5,170.7
	-----	-----		-----
Income before income taxes, minority interest and extraordinary charge .....	1,003.1	486.1		1,489.2
Income tax expense.....	376.6	184.7		561.3
	-----	-----		-----
Income before minority interest and extraordinary charge .....	626.5	301.4		927.9
Minority interest:				
Distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts, net of income taxes...	49.0	-		49.0
Dividends on preferred stock of subsidiaries.....	3.3	-		3.3
	-----	-----		-----
Income before extraordinary charge .....	574.2	301.4		875.6
Extraordinary charge on extinguishment of debt, net of taxes and minority interest.....	6.9	-		6.9
	-----	-----		-----
Net income.....	567.3	301.4		868.7
Less amounts applicable to preferred stock:				
Charge related to induced conversions.....	13.2	-		13.2
Preferred stock dividends.....	8.7	-		8.7
	-----	-----		-----
Net income applicable to common stock.....	\$ 545.4	\$ 301.4		\$ 846.8
	=====	=====		=====

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

CONSECO, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS (Continued)  
 for the year ended December 31, 1997  
 (Dollars in millions, except per share data)

	CONSECO	GREEN TREE	ADJUSTMENTS	PRO FORMA COMBINED
	-----	-----	-----	-----
Earnings per common share:				
Basic:				
Weighted average shares outstanding.....	185,751,000	136,715,000	(11,416,000) (4)	311,050,000
Net income before extraordinary charge .....	\$2.98	\$2.20		\$2.74
Extraordinary charge .....	.04	-		.02
	-----	-----		-----
Net income.....	\$2.94	\$2.20		\$2.72
	=====	=====		=====
Diluted:				
Weighted average shares outstanding.....	210,179,000	140,254,000	(11,711,000) (4)	338,722,000
Net income before extraordinary charge .....	\$2.67	\$2.15		\$2.55
Extraordinary charge.....	.03	-		.02
	-----	-----		-----
Net income.....	\$2.64	\$2.15		\$2.53
	=====	=====		=====

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



## NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION

The unaudited pro forma combined financial statements have been prepared assuming that the Green Tree Merger will be accounted for under the pooling of interests method and is based on the historical consolidated financial statements of Consecoco and Green Tree. Certain amounts in the historical financial statements of Green Tree have been reclassified to conform with Consecoco's historical financial statement presentation.

Consecoco and Green Tree are still in the process of reviewing their respective accounting policies relative to those followed by the other entity. As a result of this review, it might be necessary to restate certain amounts in Consecoco's or Green Tree's financial statements to conform to those accounting policies that are most appropriate. In management's opinion, any such restatements will not be material.

Green Tree pools and securitizes substantially all of the loan contracts it originates, retaining: (i) investments in interest-only securities that are subordinated to the rights of other investors; and (ii) the servicing on the contracts. The valuation of interest-only securities and servicing rights is determined by discounting the projected cash flows over the expected life of the finance receivables sold using prepayment, default, loss, interest rate and servicing cost assumptions. The assumptions used in calculating the value of interest only securities and servicing rights are subject to volatility. Prepayments resulting from competition, obligor mobility, general and regional economic conditions, and prevailing interest rates, as well as actual losses incurred, may vary from the performance projected. Expectations of future default, loss and prepayment experience are reviewed periodically. Valuation reductions considered permanent are recognized as a reduction to earnings. The conclusions reached in such reviews could result in material reductions in the value of the interest-only securities and servicing rights that could materially affect operating results.

The unaudited pro forma consolidated financial information should be read in conjunction with the historical consolidated financial statements of Consecoco and Green Tree and the notes thereto.

### 2. INCOME TAX LIABILITIES

The income tax assets of Consecoco are netted against the income tax liabilities of Green Tree.

### 3. MERGER AND INTEGRATION COSTS

In connection with the Green Tree Merger, Consecoco expects to incur merger-related costs of approximately \$240 million, net of income taxes. Such costs include investment banking, accounting, legal and regulatory fees, severance and retention costs and other costs associated with the Green Tree Merger. These expenses (including the related tax effect) have been reflected in the unaudited pro forma combined balance sheet financial information as of March 31, 1998, but are not reflected in the unaudited pro forma statement of operations financial information since such expenses are not expected to have a continuing impact on the combined company.

### 4. SHAREHOLDERS' EQUITY AND WEIGHTED AVERAGE SHARES OUTSTANDING

Weighted average shares outstanding have been adjusted to reflect the issuance of .9165 shares of Consecoco common stock for each share of Green Tree common stock or equivalents. The following shares of Green Tree common stock or equivalents were outstanding at April 6, 1998: (i) 134,012,054 shares of Green Tree common stock; (ii) 10,297,132 options outstanding to purchase Green Tree common stock at an average price of \$23.12 per share (such options are equivalent to 6,174,713 shares of Consecoco common stock, based on the last reported sale price of a share of Consecoco common stock on April 6, 1998); and (iii) warrants to purchase 2,735,688 shares of Green Tree common stock at \$22.75 per share (such warrants are equivalent to 736,060 shares of Consecoco common stock, based on the last reported sale price of a share of Consecoco common stock on April 6, 1998 based on Green Tree's right to call the warrant by issuing stock equivalents at \$15 per warrant). The treasury stock held by Green Tree prior to the Green Tree Merger has been reclassified to common stock and additional paid-in capital to conform to Consecoco's presentation.

### 5. OPERATING COST SAVINGS

No adjustment has been included in the unaudited pro forma consolidated financial information for the anticipated operating cost savings. The combined company expects to achieve operating cost savings through the reduction of certain borrowing costs as well as potentially through the elimination of redundant staff functions, data processing, marketing synergies and certain back office operations and the reduction of corporate overhead. There can be no assurance that anticipated operating cost savings will be achieved.