# CONSECO INC

## FORM 8-K
(Current report filing)

Filed 06/03/98 for the Period Ending 06/03/98

| | |
|---|---|
| Address | 11825 N PENNSYLVANIA ST<br>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 8-K
(Unscheduled Material Events)

### Filed 6/3/1998 For Period Ending 6/3/1998

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

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

# FORM 8-K

**CURRENT REPORT**

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

Date of Report (Date of earliest event reported): June 3, 1998

# CONSECO, INC.
(Exact name of registrant as specified in its charter)

| Indiana | 1-9250 | 35-1468632 |
|---|---|---|
| (State or other jurisdiction of organization) | (Commission File Number) | (I.R.S. Employer Identification No.) |

| 11825 North Pennsylvania Street Carmel, Indiana | 46032 |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

(317) 817-6100
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address,
if changed since last report.)

**ITEM 5. OTHER EVENTS.**

On April 6, 1998, Green Tree Financial Corporation, a Delaware corporation ("Green Tree"), agreed to merge (the "Merger") with a subsidiary of Conseco, Inc., an Indiana corporation ("Conseco"). The terms of the Merger are set forth in an Agreement and Plan of Merger (the "Merger Agreement") dated as of April 6, 1998, as amended, among Conseco, Marble Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of Conseco, and Green Tree. In the Merger, each share of Green Tree's common stock, par value $.01 per share ("Green Tree Common Stock"), will be converted into 0.9165 of a share of Conseco's common stock, no par value ("Conseco Common Stock"). As a result of the Merger, Green Tree will become a wholly owned subsidiary of Conseco. The Boards of Directors of Conseco and Green Tree approved the Merger at their respective meetings held on April 6, 1998.

The Merger is intended to constitute a tax-free reorganization under the Internal Revenue Code of 1986, as amended, and to be accounted for as a pooling of interest.

Green Tree is a diversified financial services company that provides financing for manufactured homes, home equity, home improvements, consumer products and equipment and provides consumer and commercial revolving credit. Green Tree's insurance agencies market physical damage and term mortgage life insurance and other credit protection relating to the customers' contracts Green Tree services. Green Tree is the largest servicer of manufactured housing contracts in the United States. Through its principal offices in Saint Paul, Minnesota and service centers throughout the United States, Green Tree serves all 50 states.

Green Tree pools and securitizes substantially all of the contracts it originates, retaining the servicing on the contracts. Such pools are structured into asset-backed securities which are sold in the public securities markets. In servicing the contracts, Green Tree collects payments from the borrower and remits principal and interest payments to the holder of the contract or investor certificate backed by the contracts.

Green Tree was originally incorporated under the laws of the State of Minnesota in 1975. In 1995, Green Tree reincorporated under the laws of the State of Delaware. Green Tree's principal executive offices are located at 1100 Landmark Towers, 345 Saint Peter Street, Saint Paul, Minnesota 55102-1639, and its telephone number is (612) 293-3400.

Pro forma combined financial statements of Conseco as if the Merger had already occurred as of March 31, 1998, for the three months ended March 31, 1998 and 1997, and for each of the three years ended December 31, 1997, are attached as Exhibit 99.1.

The audited consolidated financial statements of Green Tree as of December 31, 1997 and 1996 and for each of the three years ended December 31, 1997, are attached as Exhibit 99.2.

The unaudited consolidated financial statements of Green Tree as of March 31, 1998 and for each of the three month periods ended March 31, 1998 and 1997, are attached as Exhibit 99.3.

**ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.**

(a) -- (b) Not applicable.

(c) Exhibits.

23 Consent of KPMG Peat Marwick LLP

99.1 Pro Forma Combined Financial Statements of Conseco, Inc. and Subsidiaries

99.2 Audited Consolidated Financial Statements of Green Tree Financial Corporation as of December 31, 1997 and 1996, and for each of the three years ended December 31, 1997

99.3 Unaudited Consolidated Financial Statements of Green Tree Financial Corporation as of March 31, 1998, and for each of the three month periods ended March 31, 1998 and 1997

## SIGNATURE

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

**CONSECO, INC.**

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DATE:  June 3, 1998                   By:  /s/ ROLLIN M. DICK
                                           ----------------------------------
                                           Name:  Rollin M. Dick
                                           Title: Executive Vice President
                                                  and Chief Financial Officer
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**CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

The Board of Directors
Green Tree Financial Corporation:

We consent to the incorporation by reference in the Registration Statement (No. 333-27803) on Form S-3 of Conseco, Inc. of our report dated January 27, 1998, except as to Note O which is as of February 13, 1998, with respect to the consolidated balance sheets of Green Tree Financial Corporation and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1997, which report appears in the Form 8-K of Conseco, Inc. dated June 3, 1998 and to the reference to our firm under the heading "EXPERTS" in the Registration Statement. Our report refers to the Company's adoption of the Financial Accounting Standards Board's Statement No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," in 1997.

*/S/ KPMG Peat Marwick LLP*

*KPMG Peat Marwick LLP*

*Minneapolis, Minnesota*
*June 3, 1998*

## 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 "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 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 1997, and for each of the three years ended December 31, 1997, present the combined results of operations of Conseco and Green Tree as if the Merger had been effective at the earliest period presented.

The unaudited pro forma combined financial information and accompanying notes reflect the application of the pooling of interests method of accounting for the 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 based on the historical financial statements of Conseco and Green Tree and are qualified in their entirety by, and should be read in conjunction with, these financial statements and the notes thereto. 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 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 three months ended March 31, 1997
(Dollars in millions, except per share data)

| | CONSECO | GREEN TREE | ADJUSTMENTS | PRO FORMA COMBINED |
|---|---|---|---|---|
| Revenues: | | | | |
| Insurance policy income: | | | | |
| Traditional products | $ 566.2 | $ - | | $ 566.2 |
| Interest sensitive products | 103.9 | - | | 103.9 |
| Net investment income | 409.2 | 75.4 | | 484.6 |
| Gain on sale of receivables | - | 153.4 | | 153.4 |
| Net investment gains | 5.1 | - | | 5.1 |
| Fee revenue and other income | 14.6 | 38.4 | | 53.0 |
| Total revenues | 1,099.0 | 267.2 | | 1,366.2 |
| Benefits and expenses: | | | | |
| Insurance policy benefits | 455.3 | - | | 455.3 |
| Amounts added to annuity and financial product policyholder account balances: | | | | |
| Interest | 173.7 | - | | 173.7 |
| Other amounts added to variable and equity-indexed annuity products | 16.2 | - | | 16.2 |
| Interest expense on notes payable | 25.8 | 29.8 | | 55.6 |
| Interest expense on short-term investment borrowings | 2.8 | - | | 2.8 |
| Amortization related to operations | 103.6 | - | | 103.6 |
| Amortization related to investment gains | 11.8 | - | | 11.8 |
| Other operating costs and expenses | 114.4 | 89.3 | | 203.7 |
| Total benefits and expenses | 903.6 | 119.1 | | 1,022.7 |
| Income before income taxes, minority interest and extraordinary charge | 195.4 | 148.1 | | 343.5 |
| Income tax expense | 70.6 | 56.3 | | 126.9 |
| Income before minority interest and extraordinary charge | 124.8 | 91.8 | | 216.6 |
| Minority interest: | | | | |
| Distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts, net of income taxes | 8.7 | - | | 8.7 |
| Dividends on preferred stock of subsidiaries | 1.3 | - | | 1.3 |
| Income before extraordinary charge | 114.8 | 91.8 | | 206.6 |
| Extraordinary charge on extinguishment of debt, net of taxes and minority interest | 3.3 | - | | 3.3 |
| Net income | 111.5 | 91.8 | | 203.3 |
| Less amounts applicable to preferred stock: | | | | |
| Charge related to induced conversions | 12.3 | - | | 12.3 |
| Preferred stock dividends | 2.3 | - | | 2.3 |
| Net income applicable to common stock | $ 96.9 | $ 91.8 | | $ 188.7 |

(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 STATEMENT OF OPERATIONS (Continued)
for the three months ended March 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 | 177,670,000 | 138,511,000 | (11,566,000) (4) | 304,615,000 |
| Net income before extraordinary charge | $.57 | $.66 | | $.63 |
| Extraordinary charge | .02 | - | | .01 |
| Net income | $.55 | $.66 | | $.62 |
| Diluted: | | | | |
| Weighted average shares outstanding | 203,620,000 | 142,220,000 | (11,875,000) (4) | 333,965,000 |
| Net income before extraordinary charge | $.51 | $.65 | | $.58 |
| Extraordinary charge | .02 | - | | .01 |
| Net income | $.49 | $.65 | | $.57 |

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 |

(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 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.

CONSECO, INC. AND SUBSIDIARIES

PRO FORMA COMBINED STATEMENT OF OPERATIONS
for the year ended December 31, 1996
(Dollars in millions, except per share data)

| | CONSECO | GREEN TREE | ADJUSTMENTS | PRO FORMA COMBINED |
|---|---|---|---|---|
| Revenues: | | | | |
| Insurance policy income: | | | | |
| Traditional products | $1,384.3 | $ - | | $1,384.3 |
| Interest sensitive products | 269.9 | - | | 269.9 |
| Net investment income | 1,302.5 | 215.3 | | 1,517.8 |
| Gain on sale of receivables | - | 389.7 | | 389.7 |
| Net investment gains | 60.8 | - | | 60.8 |
| Fee revenue and other income | 49.8 | 119.1 | | 168.9 |
| Total revenues | 3,067.3 | 724.1 | | 3,791.4 |
| Benefits and expenses: | | | | |
| Insurance policy benefits | 1,195.0 | - | | 1,195.0 |
| Amounts added to annuity and financial product policyholder account balances: | | | | |
| Interest | 620.2 | - | | 620.2 |
| Other amounts added to variable and equity-indexed annuity products | 48.4 | - | | 48.4 |
| Interest expense on notes payable | 108.1 | 70.1 | | 178.2 |
| Interest expense on short-term investment borrowings | 22.0 | - | | 22.0 |
| Amortization related to operations | 240.0 | - | | 240.0 |
| Amortization related to investment gains | 36.0 | - | | 36.0 |
| Other operating costs and expenses | 304.0 | 330.2 | | 634.2 |
| Total benefits and expenses | 2,573.7 | 400.3 | | 2,974.0 |
| Income before income taxes, minority interest and extraordinary charge | 493.6 | 323.8 | | 817.4 |
| Income tax expense | 179.8 | 123.0 | | 302.8 |
| Income before minority interest and extraordinary charge | 313.8 | 200.8 | | 514.6 |
| Minority interest: | | | | |
| Distributions on Company-obligated mandatorily redeemable preferred securities of subsidiary trusts, net of income taxes | 3.6 | - | | 3.6 |
| Dividends on preferred stock of subsidiaries | 8.9 | - | | 8.9 |
| Equity in earnings of subsidiaries | 22.4 | - | | 22.4 |
| Income before extraordinary charge | 278.9 | 200.8 | | 479.7 |
| Extraordinary charge on extinguishment of debt, net of taxes and minority interest | 26.5 | - | | 26.5 |
| Net income | 252.4 | 200.8 | | 453.2 |
| Less preferred stock dividends | 27.4 | - | | 27.4 |
| Net income applicable to common stock | $ 225.0 | $ 200.8 | | $ 425.8 |

(continued on next page)

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

CONSECO, INC. AND SUBSIDIARIES

PRO FORMA COMBINED STATEMENT OF OPERATIONS (Continued)
for the year ended December 31, 1996
(Dollars in millions, except per share data)

| | CONSECO | GREEN TREE | ADJUSTMENTS | PRO FORMA COMBINED |
|---|---|---|---|---|
| Earnings per common share: | | | | |
| Basic: | | | | |
| Weighted average shares outstanding | 104,584,000 | 136,996,000 | (11,439,000)(4) | 230,141,000 |
| Net income before extraordinary charge | $2.40 | $1.47 | | $1.96 |
| Extraordinary charge | .25 | - | | .11 |
| Net income | $2.15 | $1.47 | | $1.85 |
| Diluted: | | | | |
| Weighted average shares outstanding | 138,860,000 | 140,562,000 | (11,737,000)(4) | 267,685,000 |
| Net income before extraordinary charge | $2.01 | $1.43 | | $1.79 |
| Extraordinary charge | .19 | - | | .10 |
| Net income | $1.82 | $1.43 | | $1.69 |

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

CONSECO, INC. AND SUBSIDIARIES

PRO FORMA COMBINED STATEMENT OF OPERATIONS
for the year ended December 31, 1995
(Dollars in millions, except per share data)

| | CONSECO | GREEN TREE | ADJUSTMENTS | PRO FORMA COMBINED |
|---|---|---|---|---|
| Revenues: | | | | |
| Insurance policy income: | | | | |
| Traditional products | $1,355.6 | $ - | | $1,355.6 |
| Interest sensitive products | 109.4 | - | | 109.4 |
| Net investment income | 1,142.6 | 176.0 | | 1,318.6 |
| Gain on sale of receivables | - | 448.7 | | 448.7 |
| Net investment gains | 204.1 | - | | 204.1 |
| Fee revenue and other income | 43.6 | 86.6 | | 130.2 |
| Total revenues | 2,855.3 | 711.3 | | 3,566.6 |
| Benefits and expenses: | | | | |
| Insurance policy benefits | 1,107.5 | - | | 1,107.5 |
| Amounts added to annuity and financial product policyholder account balances: | | | | |
| Interest | 556.6 | - | | 556.6 |
| Other amounts added to variable and equity-indexed annuity products | 28.8 | - | | 28.8 |
| Interest expense on notes payable | 119.4 | 57.3 | | 176.7 |
| Interest expense on short-term investment borrowings | 22.2 | - | | 22.2 |
| Amortization related to operations | 203.6 | - | | 203.6 |
| Amortization related to investment gains | 126.6 | - | | 126.6 |
| Other operating costs and expenses | 272.1 | 244.4 | | 516.5 |
| Total benefits and expenses | 2,436.8 | 301.7 | | 2,738.5 |
| Income before income taxes, minority interest and extraordinary charge | 418.5 | 409.6 | | 828.1 |
| Income tax expense | 87.0 | 155.6 | | 242.6 |
| Income before minority interest and extraordinary charge | 331.5 | 254.0 | | 585.5 |
| Minority interest: | | | | |
| Dividends on preferred stock of subsidiaries | 11.9 | - | | 11.9 |
| Equity in earnings of subsidiaries | 97.1 | - | | 97.1 |
| Income before extraordinary charge | 222.5 | 254.0 | | 476.5 |
| Extraordinary charge on extinguishment of debt, net of taxes and minority interest | 2.1 | - | | 2.1 |
| Net income | 220.4 | 254.0 | | 474.4 |
| Less preferred stock dividends | 18.4 | - | | 18.4 |
| Net income applicable to common stock | $ 202.0 | $ 254.0 | | $ 456.0 |

(continued on next page)

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

CONSECO, INC. AND SUBSIDIARIES

PRO FORMA COMBINED STATEMENT OF OPERATIONS (Continued)
for the year ended December 31, 1995
(Dollars in millions, except per share data)

| | CONSECO | GREEN TREE | ADJUSTMENTS | PRO FORMA COMBINED |
|---|---|---|---|---|
| Earnings per common share: | | | | |
| Basic: | | | | |
| Weighted average shares outstanding | 81,405,000 | 136,644,000 | (11,410,000)(4) | 206,639,000 |
| Net income before extraordinary charge | $2.51 | $1.86 | | $2.22 |
| Extraordinary charge | .03 | - | | .01 |
| Net income | $2.48 | $1.86 | | $2.21 |
| Diluted: | | | | |
| Weighted average shares outstanding | 103,881,000 | 140,090,000 | (11,698,000)(4) | 232,273,000 |
| Net income before extraordinary charge | $2.14 | $1.81 | | $2.05 |
| Extraordinary charge | .02 | - | | .01 |
| Net income | $2.12 | $1.81 | | $2.04 |

The accompanying notes are an integral part of the 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 Merger will be accounted for under the pooling of interests method and are based on the historical consolidated financial statements of Conseco and Green Tree. Certain amounts in the historical financial statements of Green Tree have been reclassified to conform with Conseco's historical financial statement presentation.

Conseco 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 Conseco'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, servicing cost and discount rate assumptions. Impairment in the value of interest-only securities considered other than temporary is recognized as a reduction to earnings, while impairment that is temporary is recognized as a reduction to shareholders' equity. Impairment in the value of servicing rights is recognized as a reduction in earnings. 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 in future periods. Assumptions with respect to future prepayments, defaults, losses, servicing costs and discount rates are reviewed periodically. As disclosed in its Quarterly Report on Form 10-Q for the quarter ended March 31, 1998, Green Tree realized a material writedown of its interest- only securities due to higher than expected prepayments. Prepayments have continued to exceed expectations in April 1998. If prepayments continue above expectations, or upon review certain other assumptions are revised, it is likely that there will be a further material writedown in the value of the interest-only securities and servicing rights and this reduction in value could materially affect operating results. Any adjustments to be made in future periods will depend on circumstances existing at that time.

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

2. INCOME TAX LIABILITIES

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

3. MERGER AND INTEGRATION COSTS

In connection with the Merger, Conseco 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 Merger. These expenses (including the related tax effect) have been reflected in the unaudited pro forma combined balance sheet financial information, 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 Conseco common stock for each share of Green Tree common stock or equivalent. 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 Conseco common stock, based on the last reported sale price of a share of Conseco 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 710,568 shares of Conseco common stock, based on the last reported sale price of a share of Conseco 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 Merger has been reclassified to common stock and additional paid-in capital to conform to Conseco'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.

EXHIBIT 99.2 - Audited consolidated financial statements of Green Tree Financial Corporation as of December 31, 1997 and 1996, and for each of the three years ended December 31, 1997

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders
Green Tree Financial Corporation
Saint Paul, Minnesota:

We have audited the accompanying consolidated balance sheets of Green Tree Financial Corporation and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Green Tree Financial Corporation and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997 in conformity with generally accepted accounting principles.

As discussed in Note A to the consolidated financial statements, the Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," in 1997.

*/s/ KPMG PEAT MARWICK LLP*

*Minneapolis, Minnesota*
*January 27, 1998, except as to Note O which is as of February 13, 1998*

# GREEN TREE FINANCIAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

| | December 31 | |
|---|---|---|
| | 1997 | 1996 |
| ASSETS: | | |
| Cash and cash equivalents | $ 741,398,000 | $ 442,071,000 |
| Cash deposits, restricted | 247,237,000 | 171,484,000 |
| Other investments | 25,294,000 | 11,925,000 |
| Interest only securities | 1,363,200,000 | 1,014,340,000 |
| Finance receivables | 1,971,024,000 | 1,219,983,000 |
| Other receivables | 235,705,000 | 85,503,000 |
| Servicing rights | 96,311,000 | -- |
| Property, furniture and fixtures | 112,404,000 | 77,859,000 |
| Goodwill | 56,095,000 | 58,950,000 |
| Other assets | 18,124,000 | 15,929,000 |
| Total assets | $4,866,792,000 | $3,098,044,000 |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | |
| Notes payable | $1,355,995,000 | $ 472,181,000 |
| Senior/Senior subordinated notes | 510,316,000 | 290,348,000 |
| Accounts payable and accrued liabilities | 492,789,000 | 378,559,000 |
| Investors payable | 552,781,000 | 346,272,000 |
| Deferred income taxes | 622,771,000 | 473,192,000 |
| Total liabilities | 3,534,652,000 | 1,960,552,000 |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Common stock, $.01 par; authorized 400,000,000 shares; issued 141,595,984 and 139,782,706 shares, respectively | 1,416,000 | 1,398,000 |
| Additional paid-in capital | 435,570,000 | 373,573,000 |
| Retained earnings | 1,075,670,000 | 818,733,000 |
| Minimum pension liability adjustments | (3,142,000) | (2,299,000) |
| Unrealized gain on securities available for sale, net | 21,824,000 | -- |
| | 1,531,338,000 | 1,191,405,000 |
| Less treasury stock, 7,012,156 and 2,051,000 shares at cost | (199,198,000) | (53,913,000) |
| Total stockholders' equity | 1,332,140,000 | 1,137,492,000 |
| Total liabilities and stockholders' equity | $4,866,792,000 | $3,098,044,000 |

See notes to consolidated financial statements.

## GREEN TREE FINANCIAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year ended December 31 | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| REVENUES: | | | |
| Gain on sale of receivables | $ 546,828,000 | $389,743,000 | $448,702,000 |
| Interest | 370,569,000 | 215,315,000 | 175,990,000 |
| Service | 109,253,000 | 73,263,000 | 53,572,000 |
| Commissions and other | 64,810,000 | 45,790,000 | 33,056,000 |
| | 1,091,460,000 | 724,111,000 | 711,320,000 |
| EXPENSES: | | | |
| Interest | 160,882,000 | 70,050,000 | 57,313,000 |
| Cost of servicing | 88,740,000 | 53,022,000 | 39,168,000 |
| General and administrative | 355,715,000 | 277,210,000 | 205,211,000 |
| | 605,337,000 | 400,282,000 | 301,692,000 |
| EARNINGS BEFORE INCOME TAXES | 486,123,000 | 323,829,000 | 409,628,000 |
| INCOME TAXES | 184,727,000 | 123,055,000 | 155,659,000 |
| NET EARNINGS | $ 301,396,000 | $200,774,000 | $253,969,000 |
| EARNINGS PER COMMON SHARE: | | | |
| BASIC | $2.20 | $1.47 | $1.86 |
| DILUTED | $2.15 | $1.43 | $1.81 |

See notes to consolidated financial statements.

## GREEN TREE FINANCIAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(dollars in thousands)

| | Common stock | Additional paid-in capital | Treasury stock | Unrealized gain on securities, net |
|---|---|---|---|---|
| BALANCES, December 31, 1994 | $1,352 | $296,732 | $ -- | $ -- |
| Common stock issuance of 2,300,000 shares | 23 | 26,832 | -- | -- |
| Cost of 2,051,000 shares of treasury stock acquired | -- | -- | (53,913) | -- |
| Dividends on common stock | -- | -- | -- | -- |
| Net earnings | -- | -- | -- | -- |
| BALANCES, December 31, 1995 | 1,375 | 323,564 | (53,913) | -- |
| Common stock issuance of 2,300,000 shares | 23 | 50,009 | -- | -- |
| Minimum pension liability adjustments | -- | -- | -- | -- |
| Dividends on common stock | -- | -- | -- | -- |
| Net earnings | -- | -- | -- | -- |
| BALANCES, December 31, 1996 | 1,398 | 373,573 | (53,913) | -- |
| Common stock issuance of 1,800,000 shares | 18 | 61,997 | -- | -- |
| Cost of 4,961,156 shares of treasury stock acquired | -- | -- | (145,285) | -- |
| Minimum pension liability adjustments | -- | -- | -- | -- |
| Unrealized gain on securities, net | -- | -- | -- | 21,824 |
| Dividends on common stock | -- | -- | -- | -- |
| Net earnings | -- | -- | -- | -- |
| BALANCES, December 31, 1997 | $1,416 | $435,570 | $(199,198) | $21,824 |

(dollars in thousands)

| | Minimum pension liability | Retained earnings | Total stockholders' equity |
|---|---|---|---|
| BALANCES, December 31, 1994 | $ -- | $ 427,807 | $ 725,891 |
| Common stock issuance of 2,300,000 shares | -- | -- | 26,855 |
| Cost of 2,051,000 shares of treasury stock acquired | -- | -- | (53,913) |
| Dividends on common stock | -- | (27,780) | (27,780) |
| Net earnings | -- | 253,969 | 253,969 |
| BALANCES, December 31, 1995 | -- | 653,996 | 925,022 |
| Common stock issuance of 2,300,000 shares | -- | -- | 50,032 |
| Minimum pension liability adjustments | (2,299) | -- | (2,299) |
| Dividends on common stock | -- | (36,037) | (36,037) |
| Net earnings | -- | 200,774 | 200,774 |
| BALANCES, December 31, 1996 | (2,299) | 818,733 | 1,137,492 |
| Common stock issuance of 1,800,000 shares | -- | -- | 62,015 |
| Cost of 4,961,156 shares of treasury stock acquired | -- | -- | (145,285) |
| Minimum pension liability adjustments | (843) | -- | (843) |
| Unrealized gain on securities, net | -- | -- | 21,824 |
| Dividends on common stock | -- | (44,459) | (44,459) |
| Net earnings | -- | 301,396 | 301,396 |
| BALANCES, December 31, 1997 | $(3,142) | $1,075,670 | $1,332,140 |

See notes to consolidated financial statements.

## GREEN TREE FINANCIAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended December 31 | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Servicing fees and net interest payments collected on sold loans | $ 419,537,000 | $ 217,922,000 | $ 159,535,000 |
| Net proceeds from sale of net interest margin certificates | -- | -- | 302,312,000 |
| Net principal payments collected on sold loans | 152,302,000 | 77,810,000 | 40,571,000 |
| Interest on unsold loans | 196,103,000 | 99,046,000 | 102,785,000 |
| Interest on cash and investments | 37,314,000 | 27,496,000 | 22,712,000 |
| Commissions | 32,461,000 | 26,340,000 | 18,616,000 |
| Other | (916,000) | 3,784,000 | 484,000 |
| | 836,801,000 | 452,398,000 | 647,015,000 |
| Cash paid to employees and suppliers | (398,022,000) | (252,625,000) | (171,935,000) |
| Interest paid on debt | (156,487,000) | (66,381,000) | (55,214,000) |
| Income taxes paid | (31,822,000) | (44,182,000) | (37,496,000) |
| | (586,331,000) | (363,188,000) | (264,645,000) |
| NET CASH PROVIDED BY OPERATIONS | 250,470,000 | 89,210,000 | 382,370,000 |
| Purchase of loans and leases | (10,916,782,000) | (7,564,745,000) | (5,210,560,000) |
| Proceeds from sale of loans and leases | 10,378,121,000 | 7,864,008,000 | 4,562,468,000 |
| Principal collections on unsold loans and leases | 390,397,000 | 144,716,000 | 120,989,000 |
| Commercial and revolving credit loans disbursed | (4,778,837,000) | (2,868,508,000) | (1,579,568,000) |
| Principal collections on commercial and revolving credit loans | 3,982,865,000 | 2,289,916,000 | 1,187,431,000 |
| Proceeds from sale of commercial and revolving credit loans | 224,400,000 | 499,115,000 | 426,304,000 |
| Net cash deposits provided as credit enhancements | (75,753,000) | (19,673,000) | (13,254,000) |
| NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES | (545,119,000) | 434,039,000 | (123,820,000) |

(continued)

## GREEN TREE FINANCIAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended December 31 | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| NET CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of subsidiary | -- | (620,566,000) | -- |
| Purchase of property, furniture and fixtures | (61,381,000) | (31,231,000) | (31,478,000) |
| Net (purchases) sales of investment securities | (13,369,000) | 7,955,000 | 1,040,000 |
| NET CASH USED FOR INVESTING ACTIVITIES | (74,750,000) | (643,842,000) | (30,438,000) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Borrowings on credit facilities | 10,357,770,000 | 7,514,398,000 | 4,633,237,000 |
| Repayments on credit facilities | (9,473,955,000) | (7,128,379,000) | (4,539,575,000) |
| Issuance of long-term debt | 220,000,000 | -- | -- |
| Common stock issued | 5,125,000 | 6,125,000 | 2,346,000 |
| Common stock repurchased | (145,285,000) | -- | (53,913,000) |
| Dividends paid | (44,459,000) | (36,037,000) | (27,780,000) |
| Payments of debt | -- | -- | (20,246,000) |
| NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES | 919,196,000 | 356,107,000 | (5,931,000) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 299,327,000 | 146,304,000 | (160,189,000) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 442,071,000 | 295,767,000 | 455,956,000 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 741,398,000 | $ 442,071,000 | $ 295,767,000 |

(continued)

**GREEN TREE FINANCIAL CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Year ended December 31 | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| RECONCILIATION OF NET EARNINGS TO NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES: | | | |
| Net earnings | $ 301,396,000 | $ 200,774,000 | $ 253,969,000 |
| Deferred income taxes | 149,579,000 | 67,460,000 | 109,686,000 |
| Valuation adjustment of interest only securities | 190,000,000 | 200,000,000 | -- |
| Depreciation and amortization | 32,125,000 | 22,427,000 | 13,518,000 |
| Net proceeds from sale of net interest margin certificates | -- | -- | 302,312,000 |
| Net loan payments collected, less interest only securities and servicing rights recorded | (309,026,000) | (394,021,000) | (331,882,000) |
| Amortization of servicing rights | 15,372,000 | -- | -- |
| Amortization of deferred service income | -- | (30,594,000) | (14,689,000) |
| Accretion of yield on interest only securities | (125,831,000) | (77,223,000) | (51,267,000) |
| Net increase in cash deposits | (75,753,000) | (19,673,000) | (13,254,000) |
| Purchase of loans and leases, net of sales and principal collections | (134,597,000) | 443,978,000 | (527,103,000) |
| Commercial and revolving loans disbursed, net of sales and principal collections | (571,572,000) | (79,477,000) | 34,167,000 |
| Net selling expenses on sale of loans | 61,513,000 | 50,900,000 | 38,852,000 |
| Increase in current income tax accruals | 3,326,000 | 11,413,000 | 8,477,000 |
| Increase in amounts payable to employees and suppliers | 16,183,000 | 9,041,000 | 54,951,000 |
| Increase in other receivables | (77,508,000) | (178,000) | -- |
| Other | (20,326,000) | 29,212,000 | (1,557,000) |
| NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES | $(545,119,000) | $ 434,039,000 | $(123,820,000) |

See notes to consolidated financial statements.

GREEN TREE FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF PRESENTATION**

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All material intercompany profits, transactions and balances have been eliminated. In certain cases, prior year amounts have been reclassified to conform to the current year's presentation.

(b) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the valuation of the interest only securities.

(c) Restatement of 1996 Financial Statements

During the fourth quarter of 1997, the Company determined that its processes for assessing the valuation of its excess servicing rights had not fully considered the effects of partial prepayments on projected future interest collections and the impact of changes in projected future interest due to investors on a weighted average basis on bonds outstanding. In consideration of these items, the Company has restated its previously reported financial statements for 1996 as follows:

| | |
|---|---|
| Decrease net gains on contract sales and excess servicing rights | $200,000,000 |
| Decrease in general and administrative expense and accrued liabilities | $ 25,868,000 |
| Decrease in earnings before income taxes | $174,132,000 |
| Decrease in provision for income taxes and deferred tax liability | $ 66,170,000 |
| Decrease in net earnings for 1996 and decrease in retained earnings as of December 31, 1996 | $107,962,000 |
| Decrease in net earnings per common share | $ 0.77 |

**ADOPTION OF NEW ACCOUNTING STANDARDS**

(a) Accounting for Stock Based Compensation

On January 1, 1996, the Company adopted the pro forma disclosure provisions of Statement of Financial Accounting Standards No. 123 (SFAS No. 123), "Accounting for Stock-Based Compensation". The Company continues to apply the accounting provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations.

(b) Accounting for Transfers and Servicing of Financial Assets and

**Extinguishments of Liabilities**

On January 1, 1997, the Company adopted Statement of Financial Accounting Standards No. 125 (SFAS No. 125), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS No. 125 requires prospective implementation only; however, certain reclassifications have been made to prior year's financial statements to conform to the current year's presentation.

Among other provisions, SFAS No. 125 uses a "financial components" approach relative to the recognition of financial assets and liabilities resulting from the transfer of financial assets. SFAS No. 125 also provides guidance relative to the classification and ongoing measurement of the financial components retained in connection with financial asset sales. Such components are recorded at allocated cost. The Company retains interest only securities and servicing rights upon the sale of its financial assets or receivables.

(c) Earnings Per Share

On December 31, 1997 the Company adopted Statement of Financial Accounting Standards No. 128 (SFAS No. 128), "Earnings Per Share", which establishes new standards for calculating and disclosing earnings per share. All prior period earnings per share data has been restated to conform with the provisions of SFAS No. 128, as shown in Note G, "Earnings Per Share".

(d) Disclosure of Information about Capital Structure

On December 31, 1997 the Company adopted Statement of Financial Accounting Standards No. 129 (SFAS No. 129), "Disclosure of Information about Capital Structure", which establishes standards for disclosing information about an entity's capital structure. The statement has no effect on the Company's current capital structure disclosures.

**REVENUE RECOGNITION**

(a) Gain on Sale of Receivables

Effective January 1, 1997 the Company accounts for the sale of receivables in accordance with SFAS No. 125. Gain on sale of receivables represents the difference between the proceeds from the sale, net of related transaction costs, and the allocated carrying amount of the receivables sold. The allocated carrying amount is determined by allocating the original amount of the receivables between the portion sold and any retained interests (interest only securities and servicing rights), based on their relative fair values at the date of sale. The initial unrealized gain on the valuation of interest only securities which represents the difference between the allocated carrying amount of the receivables and their fair market value at time of sale is recorded in stockholders' equity. In addition, gain on sale of receivables includes pointsreceived and premiums paid.

The fair value of interest only securities and servicing rights as of the sale date are determined by discounting the cash flows over the expected life of the financial contracts using prepayment, default, loss and interest rate assumptions that the Company believes market participants would use for similar financial instruments.

(b) Interest

Interest revenue generally represents interest earned on unsold finance receivables, custodial trust cash and other investments. In addition, the Company recognizes interest yield on its interest only securities.

(c) Service

Service income represents the contractual servicing fees received less the amortization of servicing rights. Servicing rights are amortized in proportion to and over the period of estimated net future servicing fee income.

(d) Commission and Other

Commission and other income generally represents insurance commissions and late fees.

**CASH AND CASH EQUIVALENTS**

For purposes of the statements of cash flows, the Company considers all highly liquid temporary investments purchased with a maturity of three months or less to be cash equivalents. At December 31, 1997 and 1996, cash of approximately $528,644,000 and $341,936,000, respectively, was held in trust for subsequent payment to investors. In addition, cash of $247,237,000 and $171,484,000 is restricted by the pooling and servicing agreements and approximately $3,261,000 and $3,101,000 is restricted and held by the Company's subsidiaries pursuant to various government requirements at December 31, 1997 and 1996, respectively.

**OTHER INVESTMENTS**

Other investments consist of liquid investments with original maturities of no more than three months. Investments are held in trust for FDIC requirements and policy and claim reserves and a master repurchase agreement for the Company's bank and insurance subsidiaries.

**INTEREST ONLY SECURITIES**

Effective January 1, 1997, the Company accounts for interest only securities in accordance with SFAS No. 125 and SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Interest only securities represent the right to receive certain cash flows which exceed the amount of cash flows sold in the Company's securitized receivable sales. Interest only securities generally represent the value of interest to be collected on the underlying financial contracts of each securitization over the sum of the interest to be paid to security classes sold, contractual servicing fees and credit losses.

The Company classifies its interest only securities as available for sale and carries these securities at fair market value. Accordingly, unrealized gains and losses are reported net of deferred income taxes, as a separate component of stockholders' equity.

The Company monitors its interest only securities for other than temporary impairment. Generally, other than temporary impairment is deemed to occur when the present value of estimated future cash flows discounted at a risk free rate using appropriate prepayment and default assumptions is less than the carrying value of the interest only securities. If other than temporary impairment occurs, the carrying value is reduced to fair value and a loss is recognized in the statements of operations.

**FINANCE RECEIVABLES**

Finance receivables consist of lease, commercial finance and revolving credit receivables and loans held for sale. Generally all lease receivables are direct financing leases as defined in SFAS No. 13 "Accounting for Leases". The carrying value of lease receivables represents the present value of both the future minimum lease payments and related residual values. The Company's commercial finance receivables generally represent dealer floorplan, asset-based financing arrangements with dealers, manufacturers and other commercial entities and commercial real estate loans. Revolving credit receivables consist of retail credit card arrangements with merchants and dealers and their customers. Loans held for sale generally consist of recent originations of manufactured housing, home equity, home improvement and consumer and equipment contracts which will be sold during the following quarter. Finance receivables are net of allowance for expected losses.

**OTHER RECEIVABLES**

Other receivables consist of the Company's miscellaneous accounts receivable, insurance related, interest and other production and servicing related receivables.

**SERVICING RIGHTS**

Servicing rights are carried at allocated cost and amortized in proportion to and over the estimated period of net servicing income.

**GOODWILL**

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over the expected periods to be benefited, generally 20 years.

**DEPRECIATION**

Property, furniture and fixtures are carried at cost and are depreciated over their estimated useful lives on a straight-line basis.

B. INTEREST ONLY SECURITIES

Effective January 1, 1997 the Company began accounting for its sales of receivables, interest only securities and servicing rights in accordance with SFAS No. 125 and SFAS No. 115.

The activity in interest only securities for 1997 is summarized as follows:

| | |
|---|---|
| Balance at beginning of year | $1,014,340,000 |
| Transfer to servicing rights | (30,755,000) |
| Additions | 674,660,000 |
| Yield on interest only securities | 125,831,000 |
| Net cash collected | (266,077,000) |
| Realized loss on valuation of interest only securities | (190,000,000) |
| Unrealized gain on valuation of interest only securities | 35,201,000 |
| Balance at end of year | $1,363,200,000 |

In 1995 and previous years, the Company sold a substantial portion of its interest only securities related to manufactured housing securitization transactions between 1978 and 1995 in the form of securitized Net Interest Margin Certificates. The Company retained a subordinated interest in the cash flow of the interest only securities sold. These interests are included in interest only securities and total $77,030,000 at December 31, 1997.

Generally interest only securities relate to the sale of closed end manufactured housing, home equity, home improvement, consumer and equipment finance receivables. The Company's interest only securities are subject to a substantial amount of credit loss and prepayment risk related to the receivables sold. In connection with the valuation of interest only securities the Company has provided for approximately $899,981,000 of credit losses as of December 31, 1997. On a nondiscounted basis the amount of credit losses provided for in connection with the valuation of the interest only securities is approximately $1,321,260,000. These estimated losses if realized, would reduce the amount of cash flows available to the interest only securities and are considered in the company's valuation processes.

The table below details information pertinent to the valuation of the interest only securities as of December 31, 1997.

| | Manufactured Housing | Home Equity / Home Improvement | Consumer / Equipment | Total |
|---|---|---|---|---|
| Interest only securities carrying amount | $ 857,352,000 | 335,089,000 | 170,759,000 | $ 1,363,200,000 |
| Unpaid principal balance of sold receivables | $17,558,224,000 | 4,251,590,000 | 2,467,478,000 | $24,277,292,000 |
| Weighted average customer interest rate on sold receivables | 10.49% | 11.82% | 11.33% | |
| Approximate expected weighted average constant prepayment rate as a percentage of unpaid principal balance of sold receivables (1) | 9.5% | 24.0% | 22.0% | |
| Approximate remaining expected non discounted credit losses as a percentage of unpaid principal balance of sold receivables (1) | 6.2% | 4.3% | 2.1% | |

(1) Valuation of the Company's interest only securities is impacted not only by the projected level of prepayments of principal and net credit losses, as shown above, but also by the projected timing of such prepayments and net credit losses. Should the timing of projected prepayments of principal or net credit losses differ materially from the timing projected by the Company, such timing could have a material effect on the valuation of the interest only securities.

The weighted average interest rate used to discount expected future cash flows of the interest only securities is 11.47% as of December 31, 1997.

Prior to the implementation of SFAS 125, the Company recorded "excess servicing rights receivable" and "allowance for losses on loans sold" on its balance sheet. Excess servicing rights receivable consisted of net excess cash expected to be collected over the life of the loans sold. In initially valuing its excess servicing rights receivable at the time of securitization, the Company established an allowance for expected losses on loans sold. This allowance represents the Company's best estimate of future credit losses likely to be incurred over the entire life of the loans. As of December 31, 1996, excess servicing rights receivable consisted of:

| | |
|---|---|
| Gross cash flows receivable on loans sold | $ 4,379,336,000 |
| Less: | |
| Prepayment reserve | (2,221,016,000) |
| Deferred service income | (281,301,000) |
| Discount to present value | (505,297,000) |
| FHA insurance and other fees | (8,813,000) |
| Subordinated interest in NIM certificates | 145,307,000 |
| | 1,508,216,000 |
| Allowance for losses | (493,876,000) |
| Net excess servicing rights receivable | $ 1,014,340,000 |

During the years ended December 31, 1997, 1996 and 1995, the Company sold $10,524,758,000, $7,913,357,000 and $4,599,087,000, respectively, of closed end receivables in various securitized transactions.

The Company recorded a writedown of interest only securities carrying value of $190 million in 1997 due to adverse prepayment experience. Additionally, the Company recorded a $35 million unrealized gain at December 31, 1997. As further discussed in Note A the Company recorded a $200 million writedown in 1996. Writedowns are recorded as a reduction of "gain on sale of receivables" in the consolidated statements of operations. Unrealized gains are recorded as a component of stockholders' equity.

## C. FINANCE RECEIVABLES

Finance receivables consisted of the following at December 31:

| | 1997 | 1996 |
|---|---|---|
| Lease | $ 191,572,000 | $ 570,407,000 |
| Commercial Finance | 683,691,000 | 212,920,000 |
| Revolving Credit Card | 165,151,000 | 40,803,000 |
| Loans Held For Sale | 930,610,000 | 395,853,000 |
| Total | $1,971,024,000 | $1,219,983,000 |

The allowance for doubtful accounts included in finance receivables at December 31 is as follows:

| | 1997 | 1996 |
|---|---|---|
| Lease | $17,776,000 | $13,334,000 |
| Commercial Finance | 875,000 | 687,000 |
| Revolving Credit Card | 1,149,000 | 239,000 |
| Total | $19,800,000 | $14,260,000 |

D. SERVICING RIGHTS

The activity in servicing rights for 1997 is summarized as follows:

| | |
|---|---|
| Balance at beginning of year | $ -- |
| Transfer from interest only securities | 30,755,000 |
| Additions | 80,928,000 |
| Amortization | (15,372,000) |
| Balance at end of year | $ 96,311,000 |

Servicing rights are evaluated for impairment on an ongoing basis, stratified by product type and origination period. To the extent the recorded amount exceeds the fair value of those servicing rights, a valuation allowance is established through a charge to earnings. Upon subsequent measurement of the fair value of these servicing rights in future periods, if the fair value equals or exceeds the carrying amount, any previously recorded valuation allowance would be deemed unnecessary and, therefore, represent current period earnings only to the extent of such previously recorded allowance. Fair value of servicing rights approximated the carrying amount and no valuation allowance with respect to the servicing rights was necessary at December 31, 1997.

E. PROPERTY, FURNITURE AND FIXTURES

Property, furniture and fixtures consist of:

| | Estimated useful life | December 31 1997 | December 31 1996 |
|---|---|---|---|
| Cost: | | | |
| Building | 35 years | $ 20,024,000 | $ 20,648,000 |
| Furniture and equipment | 3-7 years | 137,451,000 | 87,686,000 |
| Leasehold improvements | 3-10 years | 17,829,000 | 11,779,000 |
| Land and improvements | | 7,159,000 | 1,724,000 |
| | | 182,463,000 | 121,837,000 |
| Less accumulated depreciation | | (70,059,000) | (43,978,000) |
| | | $112,404,000 | $ 77,859,000 |

Depreciation expense for 1997, 1996 and 1995 was $26,851,000, $17,932,000 and $10,956,000, respectively.

## F. DEBT

In 1997 the Company had a $2,000,000,000 commercial paper program which was used primarily for purposes of financing its loan production inventory prior to sale of those receivables in the form of securitization. This program was backed by both committed bank facilities and master repurchase agreements with various investment banking firms. During the first quarter of 1998, the Company substantially curtailed its issuance of commercial paper, as discussed in Note O, "Subsequent Events".

As of December 31, 1997, the Company had both a one-year and three-year unsecured revolving line of credit totaling $1,500,000,000 which were scheduled to expire April 28, 1998 and April 28, 2000, respectively. The credit agreement contained certain restrictive covenants which included maintenance of a minimum net worth of $750 million and a debt to net worth ratio not to exceed 5 to 1. In addition, the Company utilized master repurchase agreements that were in place with a variety of investment banking firms totaling $2,800,000,000 at December 31, 1997 which were subject to the availability of eligible collateral. There were no outstanding balances under these facilities as of December 31, 1997 and 1996. See Note O, "Subsequent Events", for new revolving line of credit agreement information.

The Company has a $2,000,000 promissory note which contains a balloon payment due on April 9, 2001, bearing interest at an annual rate of 2%.

The Company also has a $250,000,000 medium term note program under which it may issue senior notes bearing either fixed or floating rates of interest with maturities in excess of nine months. As of December 31, 1997, $246,650,000 of notes were outstanding under this program. Interest on these notes is payable semi-annually.

The Senior Subordinated Notes due June 1, 2002 were issued in connection with a debt exchange completed in April 1992. The effective interest rate on these notes is 10.8%. There is unamortized original issue discount of $3,588,000 and $3,556,000 at December 31, 1997 and 1996, respectively. The Company must maintain net worth of $80,000,000 or will be required, through the use of a sinking fund, to redeem $25,000,000 on such contingent sinking fund payment date. Interest on these notes is payable semi-annually.

Debt outstanding and its weighted average interest rates are as follows:

| | December 31 | | | |
|---|---|---|---|---|
| | 1997 | | 1996 | |
| | Amount | Rate | Amount | Rate |
| Commercial paper | $1,319,140,000 | 6.08% | $431,242,000 | 5.68% |
| Revolving line of credit | 35,000,000 | 5.80 | 39,000,000 | 5.63 |
| Promissory note | 1,855,000 | 2.00 | 1,939,000 | 2.00 |
| Notes payable | 1,355,995,000 | | 472,181,000 | |
| Medium term notes | 246,650,000 | 6.62 | 26,650,000 | 7.27 |
| Senior subordinated notes | 263,666,000 | 10.80 | 263,698,000 | 10.80 |
| Senior/Senior subordinated notes | 510,316,000 | | 290,348,000 | |
| Total | $1,866,311,000 | | $762,529,000 | |

At December 31, 1997, aggregate maturities of debt, excluding commercial paper and the revolving line of credit, for the following five years are $512,109,000, payable as follows: $3,085,000 in 1998, $5,087,000 in 1999, $12,088,000 in 2000, $4,595,000 in 2001, and $487,254,000 in 2002.

G. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net earnings by the weighted average number of shares of Common Stock outstanding during each year. Diluted earnings per share is computed by dividing net earnings by the weighted average number of shares of Common Stock and potential Common Stock outstanding during each year. All share and per-share amounts have been restated to reflect the two-for-one stock split the Company effected in October 1995. The following table presents the earnings per share data as required by SFAS No. 128. Options to purchase 628,548, 33,063 and 1,124,776 shares are excluded from the computation of diluted earnings per common share because of their anti-dilutive effect, as the exercise price of the option exceeds the average market price of the Common Stock for the years ended December 31, 1997, 1996 and 1995, respectively.

| | Year ended December 31 | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| Net Earnings | $301,396,000 | $200,774,000 | $253,969,000 |
| Weighted average Common Stock outstanding | 136,714,884 | 136,995,701 | 136,644,397 |
| Effect of dilutive securities: | | | |
| Options | 3,539,558 | 3,566,129 | 3,445,259 |
| Diluted Common Stock | 140,254,442 | 140,561,830 | 140,089,656 |
| Earnings per common share: | | | |
| Basic | $ 2.20 | $ 1.47 | $ 1.86 |
| Diluted | $ 2.15 | $ 1.43 | $ 1.81 |

H. STOCKHOLDERS' EQUITY

**COMMON STOCK**

In May 1996, the Board of Directors and shareholders approved the authorization of 250,000,000 additional shares of Common Stock for general corporate purposes, including stock dividends, raising additional capital and issuances pursuant to employee stock option plans and possible future acquisitions.

In September 1995, the Board of Directors declared a two-for-one stock split, in the form of stock dividends, payable on October 15, 1995 to stockholders of record as of September 30, 1995. All references in the consolidated financial statements and notes with regard to number of shares, stock options and related prices and per-share amounts have been restated to give retroactive effect to the stock split.

In February 1995, the Company's Board of Directors approved and authorized the repurchase of up to 7,000,000 shares of the Company's Common Stock. As of December 31, 1997, the Company had repurchased the entire 7,000,000 shares.

**STOCK BONUS PLAN**

The Company had a key executive compensation stock bonus plan. Shares issued under this plan are pursuant to an employment agreement and the stock is valued at $2.96875 per share which represents the closing market price of the stock on the date of the employment agreement. Total shares issued under this plan during 1997, 1996 and 1995 were 2,400,000, 1,998,745 and 1,349,216, respectively. On January 27, 1998, 761,210 shares issued in 1997 were returned to the Company in connection with the Company's recomputation of the bonus amount for fiscal year 1996.

**STOCK OPTION PLANS**

The Company has two stock option plans: an employee stock option plan and an outside director plan. In 1992, the Board of Directors approved a supplemental stock option plan for its outside directors and in 1995, the Company's stockholders approved an Employee Stock Incentive Plan.

In 1996, the Company's stockholders approved a chief executive plan. Two million options were granted under this plan at an exercise price equal to the fair market value of the Company's stock on February 9, 1996, of $30.875. The term of the option, which commences in 1997, is for ten years, with a five-year vesting schedule providing vesting of 20% per year for each full year of service.

Options for 742,120 shares were available for future grant under these plans. The Company's Board of Directors has reserved 13,833,752 shares for future issuance under all plans as of December 31, 1997.

A summary of the stock option plan activity is as follows:

| | Number of Shares | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at December 31, 1994 | 5,146,468 | $ 4.45 |
| Granted | 3,015,000 | 24.00 |
| Exercised | (1,794,936) | 4.39 |
| Expired | (110,000) | 24.00 |
| Outstanding at December 31, 1995 | 6,256,532 | 13.60 |
| Granted | 5,632,500 | 32.02 |
| Exercised | (1,196,500) | 4.69 |
| Expired | (620,500) | 26.49 |
| Outstanding at December 31, 1996 | 10,072,032 | 23.91 |
| Granted | 1,289,500 | 37.32 |
| Exercised | (528,500) | 9.69 |
| Expired | (922,567) | 28.13 |
| Outstanding at December 31, 1997 | 9,910,465 | 25.98 |

Of the 9,910,465 options outstanding at December 31, 1997, 9,778,465 options relate to the employee and chief executive stock option plans and 132,000 options relate to the outside director plan. The exercise price per share represents the market value of the Company's stock on the date of grant except for certain options granted in 1996 and 1995. The option price per share on 850,000 options granted in 1996 represents approximately 77% of the market value of the Company's stock on the date of grant and 370,000 options granted in 1995 represents approximately 79% of the market value of the Company's stock on the date of grant.

A summary of stock options outstanding and exercisable at December 31, 1997 is as follows:

**Options Outstanding:**

| Range of Exercise Prices | Number Outstanding | Remaining Contractual Life | Weighted Average Exercise Price |
|---|---|---|---|
| $ 2.97-24.00 | 3,621,665 | 5.97 | $14.77 |
| 25.00-30.62 | 1,602,300 | 8.58 | 29.23 |
| 30.87-30.87 | 2,020,000 | 8.11 | 30.87 |
| 31.25-38.37 | 2,558,500 | 8.89 | 35.40 |
| 38.62-47.00 | 108,000 | 9.12 | 39.49 |
| $ 2.97-47.00 | 9,910,465 | 7.62 | $25.98 |

Options Exercisable:

| Range of Exercise Prices | Number Exercisable | Weighted Average Exercise Price |
|---|---|---|
| $ 2.97-24.00 | 2,496,398 | $11.03 |
| 25.00-30.62 | 351,100 | 28.82 |
| 30.87-30.87 | 404,000 | 30.87 |
| 31.25-38.37 | 348,000 | 34.07 |
| 38.62-47.00 | 16,000 | 38.94 |
| $ 2.97-47.00 | 3,615,498 | $17.32 |

The Company applies Accounting Principles Board Opinion No. 25, and related interpretations in accounting for its stock incentive plans. Proceeds from stock options exercised are credited to common stock and paid-in capital. There are no charges or credits to expense with respect to the granting or exercise of options that were issued at fair market value on their respective dates of grant. Had compensation costs for the Company's stock-based compensation plans been determined consistent with Statement of Financial Accounting Standards No. 123, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below.

| | | 1997 | 1996 | 1995 |
|---|---|---|---|---|
| Net Earnings | As Reported | $301,396,000 | $200,774,000 | $253,969,000 |
| | Pro Forma | 281,645,000 | 190,185,000 | 250,805,000 |
| Diluted Earnings Per Share | As Reported | $2.15 | $1.43 | $1.81 |
| | Pro Forma | 2.01 | 1.35 | 1.79 |

The fair value for each option granted in 1997, 1996 and 1995 utilized in the foregoing pro forma amounts is estimated on the date of grant using an option pricing model. The model incorporates the following assumptions in 1997, 1996 and 1995: .8% dividend yield; 41.9%, 38.5% and 39.7% expected volatility, respectively; risk-free interest rates ranging from 5.2% to 7.7%; and expected option term beyond vesting of 2 years.

**DIVIDENDS**

During 1997, 1996 and 1995 the Company declared and paid dividends of $.33, $.26 and $.20 per share, respectively, on its Common Stock. Under a letter of credit agreement, the Company is subject to restrictions limiting the payment of dividends and common stock repurchases. At December 31, 1997, such payments were limited to $106,239,000 which represents 50% of consolidated net earnings for the most recently concluded four fiscal quarter periods less dividends paid.

I. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

Fair value estimates as of December 31, 1997 and 1996 are based on pertinent information available to management as of the respective dates. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been revalued for purposes of these financial statements subsequent to December 31, 1997 and 1996. Therefore, current estimates of fair value may differ significantly from the amounts presented herein. Fair value estimates, methods and assumptions are set forth below for the Company's financial instruments.

**CASH AND CASH EQUIVALENTS, CASH DEPOSITS AND OTHER INVESTMENTS**

The carrying amount of cash and cash equivalents, cash deposits and other investments approximates fair value because they generally mature in 90 days or less and do not present unanticipated credit concerns.

**INTEREST ONLY SECURITIES**

Fair value on interest only securities is calculated using prepayment, default and interest rate assumptions on expected future cash flows that the Company believes market participants would use for similar instruments, as shown in Note B, "Interest Only Securities".

**FINANCE RECEIVABLES**

(a) Lease

Lease receivables generally consist of a large number of individually small finance leases with average remaining terms of less than 36 months. Fair value approximates carrying value.

(b) Commercial Finance

Commercial finance receivables consist primarily of loans which reprice monthly, typically in accordance with the prime lending rate offered by banks. Given this repricing structure, the Company estimates the fair value of these receivables to approximate their carrying value.

(c) Revolving Credit Card

Revolving credit card receivables consist of retail credit and the applicable interest from credit card agreements applied to revolving credit. The Company estimates the fair value of these receivables to approximate their carrying value.

(d) Loans Held for Sale

Loans held for sale are generally recent originations which will be sold during the following quarter. Generally, the loans have origination rates in excess of rates on the securities into which they will be pooled. Since these loans have not been converted into securitized pools, the Company estimates the fair value to be the carrying amount plus the cost of origination.

**NOTES PAYABLE**

Notes payable consist of short-term amounts payable under the Company's commercial paper program, line of credit or repurchase agreements and are at a rate which approximates market. As such, fair value approximates the carrying amount.

**SENIOR NOTES AND SENIOR SUBORDINATED NOTES**

The fair value of the Company's senior notes is estimated based on their quoted market price or on the current rates offered to the Company for debt of a similar maturity. The Company's senior subordinated notes are valued at quoted market prices.

The carrying amounts and estimated fair values of the Company's financial assets and liabilities are as follows:

| | December 31, 1997 | | December 31, 1996 | |
|---|---|---|---|---|
| | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| | (dollars in thousands) | | | |
| Financial assets: | | | | |
| Cash and cash equivalents, cash deposits and other investments | $1,013,929 | $1,013,929 | $ 625,480 | $ 625,480 |
| Interest only securities | 1,363,200 | 1,363,200 | 1,014,340 | 1,006,480 |
| Finance receivables: | | | | |
| Lease | 191,572 | 191,572 | 570,407 | 570,407 |
| Commercial finance | 683,691 | 683,691 | 212,920 | 212,920 |
| Revolving credit | 165,151 | 165,151 | 40,803 | 40,803 |
| Loans held for sale | 930,610 | 945,965 | 395,853 | 404,738 |
| Financial liabilities: | | | | |
| Notes payable | 1,355,995 | 1,355,995 | 472,181 | 472,181 |
| Senior notes/senior subordinated notes | 510,316 | 520,018 | 290,348 | 331,580 |

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. The estimates do not reflect any premium or discount that could result from offering for sale at one time, the Company's entire holdings of a particular financial instrument. Fair value estimates are based on judgments regarding future loss and prepayment experience, current economic conditions, specific risk characteristics and other factors. Changes in market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

**J. COMMITMENTS AND CONTINGENCIES**

**LEASE COMMITMENTS**

At December 31, 1997, aggregate minimum rental commitments under noncancelable leases having terms of more than one year were $32,984,000, payable $10,425,000 (1998), $9,485,000 (1999), $7,116,000 (2000), $4,400,000 (2001) and $1,558,000 (2002). Total rental expense for the years ended December 31, 1997, 1996 and 1995 was $13,055,000, $8,664,000 and $6,101,000, respectively. These leases are for office facilities and equipment and many contain either clauses for cost of living increases and/or options to renew or terminate the lease.

**CONTINGENT LIABILITY**

The Company services all receivables securitized. In connection with certain securitization transactions, the Company has provided guarantees in the amount of $1.7 billion and $1.5 billion as of December 31, 1997 and 1996, respectively. The Company believes it has adequately considered this guarantee in connection with its presentation of its financial condition and no liability is necessary to provide for exposure related to this guarantee.

**LITIGATION**

The Company has been served with various lawsuits in United States District Court. These lawsuits were filed by certain stockholders of the Company as purported class actions on behalf of persons or entities who purchased common stock of the Company during the alleged class periods. In addition to the Company, certain current and former officers and directors of the Company are named as defendants in one or more of the lawsuits. The Company and the other defendants intend to seek consolidation of each of the lawsuits in the United States District Court for the District of Minnesota. Plaintiffs in the lawsuits assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. In each case, plaintiffs allege that the Company and the other defendants violated federal securities laws by, among other things, making false and misleading statements about the current state and future prospects of the Company (particularly with respect to prepayment assumptions and performance of certain of the Company's loan portfolios) which allegedly rendered the Company's financial statements false and misleading. The Company believes that the lawsuits are without merit and intends to defend such lawsuits vigorously.

In addition, the nature of the Company's business is such that it is routinely a party or subject to items of pending or threatened litigation. Although the ultimate outcome of certain of these matters cannot be predicted, management believes, based upon information currently available that the resolution of these legal matters will not result in any material adverse effect on its consolidated financial condition.

K. BENEFIT PLANS

The Company has a qualified noncontributory defined benefit pension plan covering substantially all of its employees over 21 years of age. The plan's benefits are based on years of service and the employee's compensation. The plan is funded annually based on the maximum amount that can be deducted for federal income tax purposes. The assets of the plan are primarily invested in common stock, corporate bonds and cash equivalents. In addition, the Company maintains a nonqualified pension plan for certain key employees as designated by the Board of Directors. The following table sets forth the plans' funded status and amounts recognized in the Company's statement of financial position at December 31.

| | 1997 | | 1996 | |
|---|---|---|---|---|
| Actuarial Present Value of Benefit Obligations | Qualified Plan | Supplemental Plan | Qualified Plan | Supplemental Plan |
| Vested benefit obligation | $ (7,800,861) | $(17,066,920) | $ (6,851,740) | $(13,029,105) |
| Accumulated benefit obligation | (11,112,689) | (17,066,920) | (8,340,969) | (13,167,331) |
| Projected benefit obligation | (21,780,333) | (51,101,268) | (17,033,929) | (22,840,557) |
| Plan assets at fair value | 9,071,280 | -- | 7,074,888 | -- |
| Excess of projected benefit obligation over plan assets | (12,709,053) | (51,101,268) | (9,959,041) | (22,840,557) |
| Unrecognized net loss | 7,753,539 | 35,395,087 | 7,089,685 | 13,381,065 |
| Prior service cost | (339,491) | -- | (375,599) | -- |
| Unrecognized net (asset) obligation | (44,600) | 212,600 | (59,140) | 359,000 |
| Net pension liability recognized in the consolidated balance sheet | $ (5,339,605) | $(15,493,581) | $ (3,304,095) | $ (9,100,492) |

| Net Periodic Pension Cost - Qualified and Supplemental | 1997 | 1996 | 1995 |
|---|---|---|---|
| Service cost | $ 4,854,946 | $3,074,664 | $1,105,952 |
| Interest cost on projected benefit obligation | 3,949,924 | 1,944,237 | 622,688 |
| Actual return on plan assets | (1,304,116) | (776,764) | (816,479) |
| Net amortization and deferral | 2,493,995 | 1,104,904 | 391,726 |
| Net periodic pension cost | $ 9,994,749 | $5,347,041 | $1,303,887 |

The preretirement discount rate, postretirement discount rate and rate of increase in future compensation levels used for determining obligations as of December 31, 1997 were 6.75%, 6.5% and 5.5% respectively, and for determining expense at December 31, 1996 were 7.25%, 6.5% and 5.5% respectively. Preretirement mortality table and postretirement mortality tables were used for determining expense and obligations at December 31, 1997. The wage base under Social Security was assumed to increase at 4.5% per year starting in 1997. The maximum benefit and compensation contained in Sections 415(b) and 401(a)(17) of the IRS Code are assumed to increase by 4.0% per year in the future. Total pension expense for the plans in 1997, 1996 and 1995 was $14,064,000, $5,347,000 and $3,091,000, respectively.

The Company also has a 401(k) Retirement Savings Plan available to all eligible employees. To be eligible for the plan, the employee must be at least 21 years of age and have completed six months of employment at Green Tree during which the employee worked at least 1,000 hours. Eligible employees may contribute to the plan up to 15% of their earnings with a maximum of $9,500 for 1997 based on the Internal Revenue Service annual contribution limit. The Company will match 50% of the employee contributions for an amount up to 6% of each employee's earnings. Contributions are invested at the direction of the employee to one or more funds. Company contributions vest after three years. Company contributions to the plan were $2,498,000, $1,316,000 and $859,000 in 1997, 1996 and 1995, respectively.

L. INCOME TAXES

Income taxes consist of the following:

| | Year ended December 31 | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| Current: | | | |
| Federal | $ 32,574,000 | $ 51,908,000 | $ 43,883,000 |
| State | 2,574,000 | 3,687,000 | 2,090,000 |
| | 35,148,000 | 55,595,000 | 45,973,000 |
| Deferred: | | | |
| Federal | 129,717,000 | 56,201,000 | 92,870,000 |
| State | 19,862,000 | 11,259,000 | 16,816,000 |
| | 149,579,000 | 67,460,000 | 109,686,000 |
| | $184,727,000 | $123,055,000 | $155,659,000 |

Deferred income taxes are provided for temporary differences between financial statement carrying amounts and their respective tax basis. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1997 and 1996 are presented below.

| | December 31 | |
|---|---|---|
| | 1997 | 1996 |
| Deferred tax liabilities: | | |
| Interest only securities | $737,238,000 | $451,051,000 |
| Other | 45,282,000 | 50,602,000 |
| Gross deferred tax liabilities | 782,520,000 | 501,653,000 |
| Deferred tax assets: | | |
| Net operating loss carryforward | 135,180,000 | 20,347,000 |
| Other | 24,569,000 | 8,114,000 |
| Gross deferred tax assets | 159,749,000 | 28,461,000 |
| Net deferred tax liability | $622,771,000 | $473,192,000 |

At December 31, 1997, the Company has net operating loss carryforwards for federal income tax purposes of approximately $386,000,000 which are available to offset future federal taxable income and expire no earlier than 2003. No valuation allowance was required as of December 31, 1997 or 1996 since it is likely that the deferred tax asset will be realized against future income and the reversal of deferred tax liabilities.

The effective tax rate for December 31, 1997, 1996 and 1995 is 38.0%. It is comprised of the statutory federal income tax rate of 35.0% and a state tax rate, net of federal benefit of 3.0%.

M. RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board issued Statement No. 130, "Reporting Comprehensive Income", which the Company is required to adopt effective January 1, 1998. This adoption requires information to be reported in interim periods in the initial year and will have no financial impact to the Company, but will require new disclosure information.

In June, 1997, the Financial Accounting Standards Board issued Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information", which the Company is required to adopt for the 1998 fiscal period. This adoption does not require that segment information be reported in interim periods in the initial year, but that segment information is disclosed in the following year for comparability purposes. The segmentation disclosure requirements are under review by the Company's management.

N. BUSINESS ACQUISITION

On December 1, 1996, the Company purchased the net assets of FINOVA Acquisition I, Inc. for approximately $620,000,000. The business acquired under a stock purchase agreement provides equipment leases, loans and related services to manufacturers and dealers and their customers. Goodwill totaling $59,201,000, was recorded as part of this acquisition. The December 1996 financial operations of this leasing/loan business is included in the Company's December 31, 1996 financial statements.

O. SUBSEQUENT EVENTS

During the fourth quarter of 1997 and in early 1998 the Company's senior unsecured debt ratings and short-term debt ratings were lowered by each of the credit rating agencies which provide ratings on the Company's debt. As a result of these ratings actions the Company has, in 1998, substantially curtailed its issuance of commercial paper in favor of its master repurchase agreements.

In addition, effective February 10, 1998, the Company has substantially restructured its unsecured bank credit agreements reducing the aggregate commitment to $750,000,000 and renegotiating significant terms and covenants in lieu of a waiver of certain representations required of the Company for purposes of utilizing the credit line. This waiver/amendment expires on April 28, 1998.

Certain of the Company's master repurchase agreements have been amended in 1998 primarily to include financing for a broader range of receivables originated by the Company. Additionally, aggregate master repurchase lines have been increased to $3.8 billion.

In addition, on February 13, 1998 the Company closed on a $500 million line of credit secured by its interest only securities. This line of credit matures on February 12, 2000, with an option to extend for an additional one year term.

## QUARTERLY RESULTS OF OPERATIONS (unaudited)

| | First quarter | Second quarter | Third quarter | Fourth quarter |
|---|---|---|---|---|
| | (dollars in thousands except per-share amounts) | | | |
| 1997: | | | | |
| Income | $267,155 | $317,145 | $348,260 | $158,900 |
| Net earnings (loss) | 91,803 | 108,093 | 118,822 | (17,322) |
| Diluted earnings (loss) per share | .65 | .78 | .85 | (.12) |
| 1996: | | | | |
| Income | $168,118 | $196,102 | $219,665 | $140,226 |
| Net earnings (loss) | 66,362 | 75,422 | 85,518 | (26,528) |
| Diluted earnings (loss) per share | .48 | .54 | .61 | (.19) |
| 1995: | | | | |
| Income | $128,199 | $153,274 | $174,374 | $255,473 |
| Net earnings | 50,729 | 61,712 | 72,037 | 69,491 |
| Diluted earnings per share | .36 | .44 | .51 | .50 |

Exhibit 99.3 Unaudited Consolidated Financial Statements of Green Tree Financial Corporation for the quarter ended March 31, 1998

## CONSOLIDATED BALANCE SHEETS

| | March 31, 1998 (unaudited) | December 31, 1997 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 888,743,000 | $ 741,398,000 |
| Cash deposits, restricted | 234,194,000 | 247,237,000 |
| Other investments | 19,096,000 | 25,294,000 |
| Interest only securities | 1,412,280,000 | 1,363,200,000 |
| Finance receivables | 2,154,646,000 | 1,971,024,000 |
| Other receivables | 228,525,000 | 235,705,000 |
| Servicing rights | 111,823,000 | 96,311,000 |
| Property, furniture and fixtures | 121,164,000 | 112,404,000 |
| Goodwill | 55,399,000 | 56,095,000 |
| Other assets | 29,372,000 | 18,124,000 |
| Total assets | $ 5,255,242,000 | $ 4,866,792,000 |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | |
| Notes payable | $ 1,548,618,000 | $ 1,355,995,000 |
| Senior/Senior subordinated notes | 510,484,000 | 510,316,000 |
| Accounts payable and accrued liabilities | 556,194,000 | 492,789,000 |
| Investors payable | 653,297,000 | 552,781,000 |
| Deferred income taxes | 637,430,000 | 622,771,000 |
| Total liabilities | 3,906,023,000 | 3,534,652,000 |
| Common stock, $.01 par; authorized 400,000,000 shares; issued 141,899,317 and and 141,595,984 shares, respectively | 1,419,000 | 1,416,000 |
| Additional paid-in capital | 445,190,000 | 435,570,000 |
| Retained earnings | 1,127,417,000 | 1,075,670,000 |
| Accumulated other comprehensive income (loss): | | |
| Minimum pension liability adjustments | (3,142,000) | (3,142,000) |
| Unrealized gain on securities available for sale, net | 902,000 | 21,824,000 |
| | 1,571,786,000 | 1,531,338,000 |
| Less treasury stock, 7,773,366 and 7,012,156 shares at cost | (222,567,000) | (199,198,000) |
| Total stockholders' equity | 1,349,219,000 | 1,332,140,000 |
| Total liabilities and stockholders' equity | $ 5,255,242,000 | $ 4,866,792,000 |

See notes to unaudited financial statements.

**GREEN TREE FINANCIAL CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**
(unaudited)

| | Three months ended March 31, | |
|---|---|---|
| | 1998 | 1997 |
| REVENUES: | | |
| Gain on sale of receivables | $129,116,000 | $153,367,000 |
| Interest | 100,991,000 | 75,429,000 |
| Service | 30,216,000 | 24,681,000 |
| Commissions and other | 25,431,000 | 13,678,000 |
| | 285,754,000 | 267,155,000 |
| EXPENSES: | | |
| Interest | 48,492,000 | 29,818,000 |
| Cost of servicing | 26,974,000 | 19,379,000 |
| General and administrative | 107,912,000 | 69,889,000 |
| | 183,378,000 | 119,086,000 |
| EARNINGS BEFORE INCOME TAXES | 102,376,000 | 148,069,000 |
| INCOME TAXES | 38,903,000 | 56,266,000 |
| NET EARNINGS | $ 63,473,000 | $ 91,803,000 |

**EARNINGS PER COMMON SHARE:**
BASIC $ .47 $ .66 DILUTED $ .47 $ .65

See notes to unaudited financial statements.

## GREEN TREE FINANCIAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited, dollars in thousands)

| | Common stock | Additional paid-in capital | Treasury stock | Accumulated other comprehensive income (loss) | Retained earnings | Total stockholders' equity |
|---|---|---|---|---|---|---|
| BALANCES, December 31, 1996 | $ 1,398 | $ 373,573 | $ (53,913) | $ (2,299) | $ 818,733 | $ 1,137,492 |
| Comprehensive income, net of tax: | | | | | | |
| Net earnings | -- | -- | -- | -- | 91,803 | 91,803 |
| Unrealized loss on securities, net of applicable income taxes ($17,080) | -- | -- | -- | (27,867) | -- | (27,867) |
| Total comprehensive income | | | | | | 63,936 |
| Common stock issuance of 1,300,000 shares | 13 | 51,761 | -- | -- | -- | 51,774 |
| Cost of 1,017,000 shares of treasury stock acquired | -- | -- | (36,688) | -- | -- | (36,688) |
| Dividends on common stock | -- | -- | -- | -- | (10,430) | (10,430) |
| BALANCES, March 31, 1997 | $ 1,411 | $ 425,334 | $ (90,601) | $ (30,166) | $ 900,106 | $ 1,206,084 |
| BALANCES, December 31, 1997 | $ 1,416 | $ 435,570 | $ (199,198) | $ 18,682 | $ 1,075,670 | $ 1,332,140 |
| Comprehensive income, net of tax: | | | | | | |
| Net earnings | -- | -- | -- | -- | 63,473 | 63,473 |
| Unrealized loss on securities, net of applicable income taxes ($12,823) | -- | -- | -- | (20,922) | -- | (20,922) |
| Total comprehensive income | | | | | | 42,551 |
| Stock warrants issuance | -- | 7,687 | -- | -- | -- | 7,687 |
| Common stock issuance of 303,000 shares | 3 | 1,933 | -- | -- | -- | 1,936 |
| Cost of 761,210 shares of treasury stock acquired | -- | -- | (23,369) | -- | -- | (23,369) |
| Dividends on common stock | -- | -- | -- | -- | (11,726) | (11,726) |
| BALANCES, March 31, 1998 | $ 1,419 | $ 445,190 | $ (222,567) | $ (2,240) | $ 1,127,417 | $ 1,349,219 |

See notes to unaudited financial statements.

## GREEN TREE FINANCIAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

| | Three months ended March 31, 1998 | Three months ended March 31, 1997 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Servicing fees and net interest payments collected on sold loans | $ 84,070,000 | $ 78,009,000 |
| Net principal payments collected on sold loans | 128,678,000 | 64,067,000 |
| Interest on unsold loans | 50,972,000 | 46,166,000 |
| Interest on cash and investments | 14,540,000 | 8,539,000 |
| Commissions | 19,160,000 | 11,501,000 |
| Other | 13,322,000 | (2,523,000) |
| | 310,742,000 | 205,759,000 |
| Cash paid to employees and suppliers | (132,988,000) | (126,443,000) |
| Interest paid on debt | (40,571,000) | (20,251,000) |
| Income taxes paid | (10,114,000) | (7,430,000) |
| | (183,673,000) | (154,124,000) |
| NET CASH PROVIDED BY OPERATIONS | 127,069,000 | 51,635,000 |
| Purchase of loans and leases | (2,766,690,000) | (2,087,204,000) |
| Proceeds from sale of loans and leases | 2,607,081,000 | 1,809,087,000 |
| Principal collections on unsold loans and leases | 102,141,000 | 178,880,000 |
| Commercial and revolving credit loans disbursed | (1,692,443,000) | (839,249,000) |
| Principal collections on commercial and revolving credit loans | 1,262,226,000 | 757,492,000 |
| Proceeds from sale of commercial and revolving credit loans | 317,840,000 | -- |
| Net cash deposits provided as credit enhancements | 13,043,000 | (4,249,000) |
| NET CASH USED FOR OPERATING ACTIVITIES | (29,733,000) | (133,608,000) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property, furniture and fixtures | (17,846,000) | (10,084,000) |
| Net sales (purchases) of investment securities | 6,198,000 | (3,839,000) |
| NET CASH USED FOR INVESTING ACTIVITIES | (11,648,000) | (13,923,000) |

GREEN TREE FINANCIAL CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(continued, unaudited)

| | Three months ended March 31, 1998 | 1997 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Borrowings on credit facilities | 2,553,788,000 | 1,921,498,000 |
| Repayments on credit facilities | (2,353,963,000) | (1,659,804,000) |
| Common stock issued | 627,000 | 475,000 |
| Common stock repurchased | -- | (36,688,000) |
| Dividends paid | (11,726,000) | (10,430,000) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 188,726,000 | 215,051,000 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 147,345,000 | 67,520,000 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 741,398,000 | 442,071,000 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 888,743,000 | $ 509,591,000 |
| RECONCILIATION OF NET EARNINGS TO NET CASH USED FOR OPERATING ACTIVITIES: | | |
| Net earnings | $ 63,473,000 | $ 91,803,000 |
| Deferred income taxes | 38,903,000 | 56,266,000 |
| Valuation adjustments of interest only securities | 47,000,000 | -- |
| Depreciation and amortization | 10,669,000 | 7,556,000 |
| Net loan payments collected, less interest only securities and servicing rights recorded | (11,746,000) | (50,189,000) |
| Amortization of servicing rights | 4,947,000 | 2,569,000 |
| Accretion of yield on interest only securities | (33,384,000) | (25,257,000) |
| Net decrease (increase) in cash deposits | 13,043,000 | (4,249,000) |
| Purchase of loans and leases, net of sales and principal collections | (72,367,000) | (99,237,000) |
| Commercial and revolving loans disbursed, net of sales and principal collections | (109,816,000) | (81,757,000) |
| Net selling expenses on sale of loans | 30,786,000 | 10,897,000 |
| Interest payable increase | 7,128,000 | 8,434,000 |
| Income taxes paid | (10,114,000) | (7,430,000) |
| Decrease in amounts payable to employees and suppliers | (7,977,000) | (43,598,000) |
| Decrease (increase) in other receivables | 2,570,000 | (5,033,000) |
| Other | (2,848,000) | 5,617,000 |
| NET CASH USED FOR OPERATING ACTIVITIES | ($ 29,733,000) | ($ 133,608,000) |

See notes to unaudited financial statements.

GREEN TREE FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED FINANCIAL STATEMENTS

**A. BASIS OF PRESENTATION**

The interim financial statements have been prepared by Green Tree Financial Corporation (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission applicable to quarterly reports on Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments which are of a normal recurring nature and are necessary for a fair presentation have been included. However, results for interim periods are not necessarily indicative of the results that may be expected for a full year. It is suggested that these financial statements be read in conjunction with the consolidated financial statements and related notes and schedules included in the Company's Annual Report on Form 10-K for the year ended December 31, 1997.

As of January 1, 1998, the Company 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 stockholders' equity except those arising from transactions with shareholders. The new standard requires only additional disclosures in the consolidated financial statements; it does not affect the Company's financial position or results of operations.

**B. INTEREST ONLY SECURITIES**

The activity in interest only securities for the three months ended March 31, 1998 is summarized as follows:

| | |
|---|---|
| Balance at beginning of period | $1,363,200,000 |
| Additions | 164,349,000 |
| Yield on interest only securities | 33,384,000 |
| Net cash collected | (67,908,000) |
| Realized writedown of interest only securities | (47,000,000) |
| Unrealized writedown of interest only securities | (33,745,000) |
| Balance at end of period | $1,412,280,000 |

In 1995 and previous years, the Company sold a substantial portion of its interest only securities related to manufactured housing securitization transactions between 1978 and 1995 in the form of securitized Net Interest Margin Certificates. The Company retained a subordinated interest in the cash flow of the interest only securities sold. These interests are included in interest only securities and total $79,357,000 at March 31, 1998.

Generally, interest only securities relate to the sale of closed end manufactured housing, home equity, home improvement, consumer and equipment finance receivables. The Company's interest only securities are subject to a substantial amount of credit loss and prepayment risk related to the receivables sold. In connection with the valuation of interest only securities, the Company has provided for approximately $946,060,000 of credit losses as of March 31, 1998. On a nondiscounted basis the amount of credit losses provided for in connection with the valuation of the interest only securities is approximately $1,399,149,000. These estimated losses if realized, would reduce the amount of cash flows available to the interest only securities and are considered in the Company's valuation processes.

The weighted average interest rate used to discount expected future cash flows of the interest only securities is 11.60% as of March 31, 1998.

The table below details information pertinent to the valuation of the interest only securities as of March 31, 1998.

| | Manufactured Housing | Home Equity/ Home Improvement | Consumer/ Equipment | Total |
|---|---|---|---|---|
| Interest only securities carrying amount | $ 872,578,000 | 396,498,000 | 143,204,000 | $ 1,412,280,000 |
| Unpaid principal balance of sold receivables | $18,186,731,000 | 5,004,964,000 | 2,655,252,000 | $25,846,947,000 |
| Weighted average customer interest rate on sold receivables | 10.46% | 11.85% | 11.12% | |
| Approximate expected weighted average constant prepayment rate as a percentage of unpaid principal balance of sold receivables (1) | 9.75% | 25.0% | 22.0% | |
| Approximate remaining expected non discounted credit losses as a percentage of unpaid principal balance of sold receivables (1) | 6.2% | 4.4% | 2.0% | |

(1) Valuation of the Company's interest only securities is impacted not only by the projected level of prepayments of principal and net credit losses, as shown above, but also by the projected timing of such prepayments and net credit losses. Should the timing of projected prepayments of principal or net credit losses differ materially from the timing projected by the Company, such timing could have a material effect on the valuation of the interest only securities.

**C. FINANCE RECEIVABLES**

Finance receivables consisted of the following:

| | March 31, 1998 | December 31,1997 |
|---|---|---|
| Lease | $ 267,987,000 | $ 191,572,000 |
| Commercial Finance | 632,172,000 | 683,691,000 |
| Revolving Credit Card | 324,795,000 | 165,151,000 |
| Loans Held For Sale | 929,692,000 | 930,610,000 |
| Total | $2,154,646,000 | $1,971,024,000 |

**D. SERVICING RIGHTS**

The activity in servicing rights for the period ended March 31, 1998 is summarized as follows:

| | |
|---|---|
| Balance at beginning of period | $ 96,311,000 |
| Additions | 20,459,000 |
| Amortization | ( 4,947,000) |
| Balance at end of period | $ 111,823,000 |

**E. EARNINGS PER SHARE**

Basic earnings per share is computed by dividing net earnings by the weighted average number of shares of Common Stock outstanding during each period. Diluted earnings per share is computed by dividing net earnings by the weighted average number of shares of Common Stock and potential Common Stock outstanding during each period. The following table presents the earnings per share data. Options to purchase 5,529,469 and 298,544 shares are excluded from the computation of diluted earnings per common share because of their anti-dilutive effect, as the exercise price of the option exceeds the average market price of the Common Stock for the three months ended March 31, 1998 and 1997, respectively.

| | Three months ended March 31, | |
|---|---|---|
| | 1998 | 1997 |
| Net Earnings | $ 63,473,000 | $ 91,803,000 |
| Weighted average Common Stock outstanding | 134,236,605 | 138,511,310 |
| Effect of dilutive securities: | | |
| Options | 1,463,317 | 3,708,253 |
| Warrants | 119,981 | -- |
| Diluted Common Stock | 135,819,903 | 142,219,563 |
| Earnings per common share: | | |
| Basic | $ .47 | $ .66 |
| Diluted | $ .47 | $ .65 |

**F. STOCKHOLDERS' EQUITY**

**STOCK OPTION PLANS**

The Company has three stock option plans: two employee stock option plans and an outside director plan. In 1992, the Board of Directors approved a supplemental stock option plan for its outside directors. In 1995, the Company's stockholders approved an Employee Stock Incentive Plan. In 1998 the Board of Directors approved a Company Stock Option Plan for issuances of stock options to non- officer employees.

Options for 864,520 shares were available for future grant under these plans. The Company's Board of Directors has reserved 11,149,252 shares for future issuance under all plans as of March 31, 1998.

A summary of the stock option plan activity is as follows:

| | Number of Shares | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at December 31, 1997 | 9,910,465 | $25.98 |
| Granted | 835,500 | 23.00 |
| Exercised | (303,333) | 12.87 |
| Expired | (156,900) | 30.92 |
| Outstanding at March 31, 1998 | 10,285,732 | $23.04 |

Of the 10,285,732 options outstanding at March 31, 1998, 10,145,732 options relate to the employee and chief executive stock option plans and 140,000 options relate to the outside director plan.

On March 1, 1998, the Company offered to reprice certain employee stock options to the current market price on March 1, 1998. The offer was not extended to the six most senior executive officers. Employees accepting this offer agreed to a revised vesting schedule and an exercise price of $23.00, representing the market price at March 1, 1998. Approximately 2.8 million options were repriced.

A summary of stock options outstanding and exercisable at March 31, 1998 is as follows:

Options Outstanding:

| Range of Exercise Prices | Number Outstanding | Remaining Contractual Life | Weighted Average Exercise Price |
|---|---|---|---|
| $ 2.97-22.50 | 1,714,332 | 4.17 | $ 6.46 |
| 23.00-23.00 | 3,639,500 | 9.92 | 23.00 |
| 23.38-30.50 | 2,350,300 | 7.68 | 25.52 |
| 30.88-33.38 | 2,323,000 | 7.90 | 31.21 |
| 33.50-47.00 | 258,600 | 9.17 | 37.61 |
| $ 2.97-47.00 | 10,285,732 | 7.97 | $ 23.04 |

Options Exercisable:

| Range of Exercise Prices | Number Exercisable | Weighted Average Exercise Price |
|---|---|---|
| $ 2.97-22.50 | 1,563,665 | $ 5.45 |
| 23.00-23.00 | 0 | 0.00 |
| 23.38-30.50 | 824,300 | 25.01 |
| 30.88-33.38 | 493,000 | 31.31 |
| 33.50-47.00 | 57,600 | 38.10 |
| $ 2.97-47.00 | 2,938,565 | $ 15.92 |

**WARRANTS**

On February 13, 1998, the Company issued warrants to purchase 2.7 million common shares at $22.75 per share to the provider of a credit facility secured by the Company's interest only securities. The warrant expires on the later of February 13, 2000 or 90 days after the credit facility has been paid in full. The Company has the option to call and repurchase the warrant for $15.00 per warrant share regardless of the closing price of the common shares at the call date.