LANTRONIX INC
Form 10-K
August 22, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2014

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

For the transition period from ________ to ________

Commission File Number 1-16027

LANTRONIX, INC.

(Exact name of registrant as specified in its charter)

Delaware	**33-0362767**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

167 Technology Drive, Irvine, California 92618

(Address of principal executive offices)

(949) 453-3990

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.0001 par value	**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 2b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

The aggregate market value of the registrant's common stock held by non-affiliates based upon the closing sales price of the common stock as reported by the NASDAQ Capital Market on December 31, 2013, the last trading day of the registrant's second fiscal quarter, was approximately $9.8 million. The determination of affiliate status for this purpose shall not be a conclusive determination for any other purpose.

As of July 31, 2014, there were 14,787,158 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement on Schedule 14A relating to the registrant's 2014 annual meeting of stockholders, which will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, are incorporated by reference into Part III of this Annual Report on Form 10-K. With the exception of the portions of the Proxy Statement specifically incorporated herein by reference, the Proxy Statement and related proxy solicitation materials are not deemed to be filed as part of this Annual Report on Form 10-K.

LANTRONIX, INC.

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended June 30, 2014

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* Not required for a "smaller reporting company."

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K for the fiscal year ended June 30, 2014, or the Report, contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this Report, or incorporated by reference into this Report are forward-looking statements. These statements include, among other things, predictions of earnings, revenues, expenses or other financial matters; forecasts of our liquidity position or available cash resources; plans or expectations with respect to our product development activities or business strategy; statements concerning current or anticipated industry trends; statements regarding anticipated demand for our products or the products of our competitors; statements relating to manufacturing forecasts, and the potential impact of our relationship with contract manufacturers and original equipment manufacturers on our business; assumptions regarding the future cost and potential benefits of our research and development efforts; statements relating to the impact of pending litigation; and statements relating to the assumptions underlying any of the foregoing. Throughout this Report, we have attempted to identify forward-looking statements by using words such as "may," "believe," "will," "could," "project," "anticipate," "expect," "estimate," "should," "continue," "potential," "plan," "forecasts," "goal," "seek," "intend," other forms of these words words or expressions or the negative thereof.

We have based our forward-looking statements on our current expectations and projections about trends affecting our business and industry and other future events. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Forward-looking statements are subject to substantial risks and uncertainties that could cause our results or experiences, or future business, financial condition, results of operations or performance, to differ materially from our historical results or those expressed or implied in any forward-looking statement contained in this Report. Some of the risks and uncertainties that may cause actual results to differ from those expressed or implied in the forward-looking statements are described in "Risk Factors" in Item 1A of this Report, as well as in our other filings with the Securities and Exchange Commission, or the SEC. In addition, actual results may differ as a result of additional risks and uncertainties of which we are currently unaware or which we do not currently view as material to our business. For these reasons, investors are cautioned not to place undue reliance on any forward-looking statements.

You should read this Report in its entirety, together with the documents that we file as exhibits to this Report and the documents that we incorporate by reference into this Report, with the understanding that our future results may be materially different from what we currently expect. The forward-looking statements we make speak only as of the date on which they are made. We expressly disclaim any intent or obligation to update any forward-looking statements after the date hereof to conform such statements to actual results or to changes in our opinions or expectations, except as required by applicable law or the rules of The NASDAQ Stock Market, LLC. If we do update or correct any forward-looking statements, investors should not conclude that we will make additional updates or corrections.

PART I

ITEM 1. BUSINESS

Overview

Lantronix, Inc. (the “Company,” “Lantronix,” “we,” “our,” or “us”) designs, develops, markets and sells networking and communications products to make it easier and more cost effective for our customers to participate in the Internet of Things (“IoT”) market. We provide solutions and services that enable machines, devices and sensors to be securely accessed, managed and controlled with a focus on the convergence of mobility with machine-to-machine (“M2M”) systems.

We began as a developer of solutions that helped to access, manage and network enable IT machines and devices. In 2001, the Company positioned itself as an early innovator in the M2M market by expanding its focus to develop solutions that would allow original equipment manufacturers (“OEMs”) and end-users to web-enable their non-PC machines and devices. Today, we are known as a global provider of smart IoT solutions.

We provide a broad portfolio of products intended to enhance the value of electronic devices or machines. Our products are typically used by enterprise and commercial businesses, government institutions, telecommunication and utility companies, financial institutions, and individual consumers.

We conduct our business globally and manage our sales teams by geography, according to four regions: the Americas; Europe, Middle East, and Africa (“EMEA”); Asia Pacific; and Japan.

We were incorporated in California in 1989 and reincorporated in Delaware in 2000.

References in the Report to “fiscal 2014” refer to the fiscal year ended June 30, 2014 and references to “fiscal 2013” refer to the fiscal year ended June 30, 2013.

Our Strategy

We believe that the way companies conduct business will continue to change rapidly in response to the convergence of mobility and M2M systems enabled by the proliferation of networking technologies.

Our strategy is to leverage our networking expertise to capitalize on market transitions relating to the convergence of mobility and M2M deployments in the context of the IoT. Our strategy is primarily focused on the following market transitions:

- the increasing role of cellular and Wi-Fi networks for M2M communication;
- the desire to remotely access, monitor and manage machines and electronic devices; and
- the increasing importance of security in IoT deployment.

We plan to address these market transitions by offering products designed in close collaboration with tier 1 lead customers that provide simple customization, manageability, and high levels of security and ruggedness.

Many of our more recent products, such as PremierWave® XC HSPA+, xPico® Wi-Fi, xPrintServer®, xDirect®, SLB,™ xSenso® and PremierWave® XN product families, have been designed to fulfill the needs created by these market transitions.

Our strategy includes expanding our sales channels and marketing efforts with the goal of selling our full portfolio of products worldwide. Historically, our OEM Modules have been sold across all of our significant geographic regions, however a significant portion of our Enterprise Solutions revenue has been generated in the Americas region as our sales channel in the Americas has had the focus and expertise to sell these products. Since fiscal 2013 we have made efforts to improve our sales channels in regions outside of North America by expanding our distribution relationships. We believe as we make progress in expanding our worldwide sales channels, we can increase the worldwide sales of our Enterprise Solutions.

Products and Solutions

We organize our solutions into two product lines based on how they are marketed, sold and deployed: OEM Modules and Enterprise Solutions. We offer standard products and customized products as well as professional services to assist our customers to participate in the IoT marketplace.

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OEM Modules

OEM Modules are electronic products that serve as building blocks embedded inside modern electronic systems and equipment. Our OEM Modules product line includes wired and wireless products that are designed to enhance the value and utility of modern electronic systems and equipment by providing secure network connectivity, application hosting, protocol conversion and other functions.

The products are offered with a software suite intended to decrease our customer's time-to-market and increase their value add. Among others, the following product families are included in our OEM Module product line: MatchPort®, PremiereWave® EN, WiPort®, xPico®, xPico® Wi-Fi, and xPort®.

OEM Modules are typically sold to OEMs, original design manufacturers ("ODMs"), contract manufacturers and distributors. OEMs design and sell products under their own brand that are either manufactured by the OEM in-house or by third-party contract manufacturers. ODMs design and manufacture products for third parties, which then sell those products under their own brand. The design cycles using our OEM modules typically range from 12 to 24 months and can generate revenue for the entire life-cycle of an end-user's product.

Enterprise Solutions

Our Enterprise Solutions are electronic products that are typically connected to one or more existing pieces of electronic equipment to provide additional connectivity or functionality. Our Enterprise Solutions are designed to enhance the value and utility of machines and other devices through network connectivity, routing, switching, application hosting, remote management, telemetry, telematics, printing, protocol conversion and other functions. Our Enterprise Solutions includes products such as wired and wireless device servers, I/O servers, terminal servers, console servers, print servers, remote keyboard video mouse (KVM), management, power management and software management platforms. Among others, the following product families are included in our Enterprise Solutions product line: EDS, PremierWave® XC, PremierWave® XN, SLB™, SLC™, SLP™, Spider™, UDS, xDirect®, xPress™, xPrintServer®, and xSenso®.

Enterprise Solutions are typically sold through value added resellers ("VARs"), systems integrators, distributors, e-tailers and to a lesser extent to OEMs. Sales are often project based and may result in significant quarterly fluctuations.

Net Revenue by Product Line

We have one operating and reportable business segment. A summary of our net revenue by product line is found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Report, which is incorporated herein by reference. A discussion of factors potentially affecting our net revenue and other operating results is set forth in "Risk Factors" in Item 1A of this Report, which is incorporated herein by reference.

Sales Channels

We sell our products primarily through a global network of distributors and VARs. To a lesser extent, we sell products directly to OEMs and end users.

Distributors

Distributors resell our products to a wide variety of resellers and end customers including OEMs, ODMs, VARs, systems integrators, consumers, online retailers, IT resellers, corporate customers and government entities. We have been working to expand our distribution network by entering into new distribution relationships and extending existing relationships, with respect to both geographic scope and product line coverage.

Our larger distributors, based on sales we make to them, include Tech Data, Ingram Micro, Arrow Electronics, Acal, Nissin, and Atlantik Elektronik. We also maintain relationships with many other distributors in the Americas, EMEA, Asia Pacific, and Japan.

VARs and Other Resellers

Our Enterprise Solutions products, and, to a lesser extent our OEM products, are sold by industry-specific system integrators and other VARs, who often obtain our products from our distributors. Additionally, our products are sold by IT resellers and online retailers such as CDW, ProVantage, and Amazon.com.

Direct Sales

We sell products directly to larger OEMs and other end users. We also maintain an ecommerce site for direct sales at store.lantronix.com.

Customer and Geographic Concentrations

A discussion concerning sales to our significant customers and related parties, sales within geographic regions as a percentage of net revenue and sales to significant countries as a percentage of net revenue is set forth in Note 9 of the Notes to our Consolidated Financial Statements in Item 8 of this Report, which is incorporated herein by reference. A discussion of factors potentially affecting our customer and geographic concentrations is set forth in “Risk Factors” in Item 1A of this Report, which is incorporated herein by reference.

Sales and Marketing

We sell our products through both an internal sales force and third-party manufacturers’ representatives. Our internal sales force, which includes sales managers, inside sales personnel and field applications engineers in major regions throughout the world, manages our relationships with our sales partners, identifies and develops major new sales opportunities and increases penetration at existing high potential accounts. We implement marketing programs, tools and services to generate sales leads and increase demand for our products.

Manufacturing

Our manufacturing operations are primarily conducted through third-party contract manufacturers. We utilize the following contract manufacturers primarily located in China, Malaysia and Taiwan to manufacture most of our products: eSilicon; Universal Global Technology Co., Ltd; Hana Microelectronics; AsteelFlash Group; Venture Electronics Services; and Uni Precision Industrial. In addition, third-party foundries located in Asia manufacture substantially all of our large scale integration chips. We manufacture certain products with final assembly in the U.S. to meet trade compliance requirements.

Our contract manufacturers source raw materials, components and integrated circuits, in accordance with our pre-determined specifications and forecasts, and perform printed circuit board assembly, final assembly, functional testing and quality control. Our products are manufactured to our designs with standard and semi-custom components. Most of these components are available from multiple vendors. However, we have several single-sourced supplier relationships, either because alternative sources are not available or because the relationship is advantageous to us.

Research and Development

Our research and development efforts are focused on the development of hardware and software technology and products that will enhance our competitive position in the markets we serve. Product research and development is done both in-house and with outsourced resources. A majority of our engineering activities are focused on software development to enhance and differentiate our hardware solutions.

	Years Ended June 30,	
	2014	2013
	(In thousands)	
Research and development expenses	$6,746	$6,748

Competition

Our industry is characterized by rapid technological advances and evolving industry standards. The market can be affected significantly by new product introductions and marketing activities of industry participants. We believe that we primarily compete for customers on the basis of product features, software capabilities, company reputation, brand recognition, intellectual property, technical support, relationships with partners, quality and reliability, product development capabilities, price and availability.

The markets in which we compete are dynamic and highly competitive. As these markets grow and develop, we expect to encounter increased competition from parties who have significantly more resources than we possess. A discussion of factors potentially affecting our ability to compete in the markets in which we operate is set forth in “Risk Factors” in Item 1A of this Report, which is incorporated herein by reference.

Intellectual Property Rights

We believe that a considerable portion of the value of the Company is resident in our intellectual property. We have developed proprietary methodologies, tools, processes and software in connection with delivering our products and services. We protect our intellectual property through a combination of patents, copyrights, trademarks, trade secrets, licenses, non-disclosure agreements and contractual provisions. We enter into a non-disclosure and confidentiality agreement with each of our employees, consultants and third parties that have access to our proprietary technology. Pursuant to assignment of inventions agreements, all of our employees and consultants assign to us all intellectual property rights for the relevant inventions created in connection with such person's employment or contract with the Company. We currently hold United States and international patents covering various aspects of our products, with additional patent applications pending.

United States and Foreign Government Regulation

Many of our products are subject to certain mandatory regulatory approvals in the United States, Canada, the European Union and other regions in which we operate. In particular, wireless and cellular products must be approved under these regulations by the relevant government authority prior to these products being offered for sale. In addition, certain states and countries have regulations requiring our products to meet certain requirements to use environmentally friendly components. Some of our products employ encryption technology, which is subject to various U.S. export restrictions.

Employees

As of July 31, 2014, we had 112 full time employees, none of whom is represented by a labor union. We have not experienced any labor problems resulting in a work stoppage and believe we have good relations with our employees.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Section 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are available free of charge on our website at www.lantronix.com as soon as reasonably practicable after filing such reports with the SEC. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically. The Company's audit committee charter; corporate governance and nominating committee charter; and compensation committee charter are also posted on the Company's website at www.lantronix.com under "Investor Relations." The contents of the Company's website are not incorporated by reference into this Report.

Executive Officers of the Registrant

The following table presents the names, ages, and positions held by our executive officers. There are no family relationships between any director or executive officer and any other director or executive officer of Lantronix. Executive officers serve at the discretion of the board of directors.

Name	Age	Position
Kurt F. Busch	43	President and Chief Executive Officer
Jeremy R. Whitaker	43	Chief Financial Officer
Michael A. Fink	43	Vice President of Operations
Daryl R. Miller	53	Vice President of Engineering
Robert O. Robinson	53	Vice President of Worldwide Sales
Kurt E. Scheuerman	46	Vice President, General Counsel and Secretary

KURT F. BUSCH has served as our President and Chief Executive Officer since August 2011, and as a member of our board of directors since November 2012. Mr. Busch served from October 2006 to August 2011 in senior leadership positions at Mindspeed Technologies, a leading supplier of semiconductor solutions for network infrastructure applications. From November 2007 to August 2011, he served as Senior Vice President and General Manager for Mindspeed's high performance analog division, and from October 2006 to November 2007 he served as Mindspeed's Vice President of Marketing and Applications. Since 1990, Mr. Busch has worked in the networking communications industry. His experience also includes business development roles at Analog Devices as well as roles in engineering, sales, marketing and general management at Digital Equipment Corporation, Intel and two start-ups. He earned a Bachelor of Science degree in electrical and computer engineering and a Bachelor of Science degree in biological science from the University of California at Irvine. Mr. Busch received his Masters of Business Administration from Santa Clara University in 1998.

JEREMY R. WHITAKER has served as our Chief Financial Officer since September 2011. Mr. Whitaker returned to Lantronix after serving briefly as Vice President, Corporate Controller at Mindspeed from January 2011 to September 2011. Mr. Whitaker previously served as our Vice President of Finance and Accounting from September 2010 to January 2011, where he was responsible for managing all worldwide finance and accounting functions. Mr. Whitaker also served as our Senior Director of Finance and Accounting from February 2006 to September 2010 and our Director of Finance and Accounting from August 2005 to February 2006. Prior to August 2005, Mr. Whitaker held vice president and director level finance and accounting positions with two publicly-traded companies, and worked in the assurance practice for six years at Ernst & Young LLP. Mr. Whitaker earned a Bachelor of Arts in business administration with a concentration in accounting from the California State University at Fullerton and a Masters of Science degree in accountancy, from the University of Notre Dame's Mendoza College of Business.

MICHAEL A. FINK joined Lantronix in February of 2012 as Vice President of Operations. From April 2010 to February 2012, Mr. Fink served as Director of Operations for Networking and Communication Products for Inphi, an analog semiconductor company. From July 2008 to March 2010, Mr. Fink was Executive Director of Product and Test Engineering at Sierra Monolithics, a supplier of analog and mixed-signal semiconductors. Mr. Fink also served as Executive Director of Product and Test Engineering at Mindspeed from October 2005 to July 2008. Prior to that he held management positions at Peregrine Semiconductor and Analog Devices. Mr. Fink earned a Bachelor of Science degree in electronic engineering from the California Polytechnic State University at San Luis Obispo.

DARYL R. MILLER joined Lantronix in January 2000 and has served as our Vice President of Engineering since March 2008. Mr. Miller served as our Interim Vice President of Engineering from October 2007 to March 2008. Prior to this, Mr. Miller served as Director and a Senior Director within the Engineering Department. Before joining Lantronix, Mr. Miller spent 14 years at Tektronix and held several positions within the Microprocessor Development and Computer Graphics/Networking divisions, and as Worldwide Director of Service and Support for Network Computing Devices (NCD). Mr. Miller holds a Bachelor of Science degree with honors in business information systems and Masters in Business Administration from the University of California, Irvine, where he graduated Dean's Scholar and Beta Gamma Sigma.

ROBERT O. ROBINSON joined Lantronix in October 2011 as Vice President of Worldwide Sales. From 2009 to 2011, Mr. Robinson served as Vice President of Enterprise Sales and Marketing for GlobalTRACK, a wireless M2M provider. He was Vice President of Sales at Crossbow Technology (now a division of Moog), a supplier of low-cost smart sensor technology, from 2007 to 2009. Prior to that, he held various sales and general management positions with technology companies, including D-Link, Arrow Electronics and Ingram Micro. Mr. Robinson holds a Bachelor of Science degree in business and management from Pepperdine University.

KURT E. SCHEUERMAN has served as our Vice President and General Counsel since November 2012, and as Corporate Secretary since February 2013. Prior to joining Lantronix, Mr. Scheuerman served as Vice President, General Counsel and Corporate Secretary of DDi Corp., a publicly-held printed circuit board manufacturer, from October 2005 to July 2012. From 2000 to 2005, Mr. Scheuerman was an associate with the international law firm of Paul Hastings LLP, where his practice emphasized corporate finance, securities regulation and other transactional work. Prior to that, he practiced corporate and transactional law as an associate in two regional law firms and served a clerkship with the Oregon Supreme Court. He earned a Bachelor of Arts degree in rhetoric from the University of California at Berkeley and received his Juris Doctorate from the University of Oregon, where he graduated Order of the Coif.

ITEM 1A. RISK FACTORS

We operate in a rapidly changing environment that involves numerous risks and uncertainties. Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described in this section, as well as other information contained in this Report and in our other filings with the SEC. This section should be read in conjunction with the consolidated financial statements and accompanying notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Report. Additional risks not presently known to us or that we currently deem immaterial may also adversely affect our business. If any of these risks or uncertainties actually occurs, our business, financial condition, results of operations or prospects could be materially harmed. In that event, the market price for our common stock could decline and you could lose all or part of your investment.

Our industry is characterized by rapidly changing technologies. Our ability to sustain and grow our business depends on our ability to develop, market, and sell new products.

Certain of our products are sold into mature markets that are characterized by a trend of declining demand. As the overall market for these products decreases due to the adoption of new technologies, we expect that our revenues from these products will continue to decline. As a result, our future prospects will depend on our ability to develop and successfully market new products that address new and growing markets. Failure by us to develop new products or failure to achieve widespread customer acceptance of such new products could cause us to lose market share and cause our revenues to decline. There can be no assurance that we will not experience difficulties that could delay or prevent the successful development, introduction, marketing and sale of new products or product enhancements. Factors that could cause delays include regulatory and/or industry approvals, product design cycle and failure to identify products or features that customers demand. In addition, the introduction and sale of new products often involves a significant technical evaluation, and we often face delays because of our customers' internal procedures for evaluating and deploying new technologies. For these and other reasons, the sales cycle associated with new products, is typically lengthy, often lasting six to 24 months and sometimes longer. Therefore, there can be no assurance that the introduction or announcement of new product offerings by us will achieve any significant or sustainable degree of market acceptance or result in increased revenue in the near term.

We may experience significant fluctuation in our revenue because the timing of large orders placed by some of our customers is often project-based.

Our operating results fluctuate because we often receive large orders from customers that coincide with the timing of the customer's project. Sales of our products and services may be delayed if customers delay approval or commencement of projects due to budgetary constraints, internal acceptance review procedures, timing of budget cycles or timing of competitive evaluation processes. In addition, sometimes our customers make significant one-time hardware purchases for projects which are not repeated. We sell primarily on a purchase-order basis rather than pursuant to long-term contracts, and we expect fluctuations in our revenues as a result of one-time purchases to continue in the future. In addition, our sales may be subject to significant fluctuations based on the acceleration, delay or cancellation of customer projects, or our failure to complete one or a series of significant sales opportunities. Because a significant portion of our operating expenses are fixed, even a single order can have a disproportionate effect on our quarterly revenues and operating results. As a result of the factors discussed above, and due to the complexities of the industry in which we operate, it will be difficult for us to forecast demand for our current or future products with any degree of certainty, which means it will be difficult for us to forecast our sales. If our quarterly or annual operating results fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially.

The lengthy sales cycle for our products and services and delay in customer completion of projects, make the timing of our revenues difficult to predict.

We have a lengthy sales cycle for many of our products that generally extends between six and 24 months and sometimes longer due to a lengthy customer evaluation and approval process. The length of the sales cycle can be affected by factors over which we have little or no control, including the user’s budgetary constraints, timing of the user’s budget cycles, and concerns by the user about the introduction of new products by us or by our competitors. As a result, sales cycles for user orders vary substantially from user to user. The lengthy sales cycle is one of the factors that has caused and may continue to cause our revenues and operating results to vary significantly from quarter to quarter. In addition, we may incur substantial expenses and devote significant management effort and expense to develop potential relationships that do not result in agreements or revenues and may prevent us from pursuing other opportunities. Accordingly, excessive delays in sales could be material and adversely affect our business, financial condition or results of operations.

The nature of our products, customer base and sales channels causes us to lack visibility regarding future demand for our products, which makes it difficult for us to predict our revenues or operating results.

It is important to the success of our business that we have the ability to accurately predict the future demand for our products. We use forecasts based on anticipated product orders to manage our manufacturing and inventory levels and other aspects of our business. However, several factors contribute to a lack of visibility with respect to future orders, including:

- the lengthy and unpredictable sales cycle for our products that can extend from six to 24 months or longer;
- the project-driven nature of many of our customers' requirements;
- the fact that we primarily sell our products indirectly through distributors;
- the uncertainty of the extent and timing of market acceptance of our new products;
- the requirement to obtain industry certifications or regulatory approval for our products;
- the lack of long-term contracts with our customers;
- the diversity of our product lines and geographic scope of our product distribution;
- the fact that we have some customers who make single, non-recurring purchases; and
- the fact that we have a large number of customers, who typically purchase in small quantities.

This lack of visibility impacts our ability to forecast our requirements. If we overestimate our customers' future requirements for products, we may have excess inventory, which would increase our costs and potentially require us to write-off inventory that becomes obsolete. Additionally, if we underestimate our customers' future requirements, we may have inadequate inventory, which could interrupt and delay delivery of our products to our customers and could cause our revenues to decline. If any of these events occur, they could negatively impact our revenues, which could prevent us from achieving or sustaining profitability.

We have a history of losses.

We incurred net losses of approximately $933,000 and $2.8 million for fiscal 2014 and 2013, respectively. There can be no assurance that we will generate net profits in future periods. Further, there can be no assurance that we will be cash flow positive in future periods. In the event we fail to achieve profitability in future periods, the value of our common stock may decline. In addition, if we were unable to maintain positive cash flows, we would be required to seek additional funding, which may not be available on favorable terms, if at all.

Delays in qualifying product revisions of existing products at certain of our customers could result in the delay or loss of sales to those customers, which could negatively impact our business and financial results.

Our industry is characterized by intense competition, rapidly evolving technology and continually changing customer preferences and requirements. As a result, we frequently develop and introduce new versions of our existing products.

Prior to purchasing our products, some of our customers require that products undergo a qualification process, which may involve testing of the products in the customer's system. A subsequent revision to a product's hardware or firmware, changes in the manufacturing process or the selection of a new supplier by us may require a new qualification process, which may result in delays in sales to customers, loss of sales, or having us holding excess or obsolete inventory.

After products are qualified, it can take additional time before the customer commences volume production of components or devices that incorporate our products. If we are unsuccessful or delayed in qualifying any new or revised products with a customer, such failure or delay would preclude or delay sales of such product to the customer, and could negatively impact our financial results. In addition, new revisions to our products could cause our customers to alter the timing of their purchases, by either accelerating or delaying purchases, which could result in fluctuations of net revenue from quarter to quarter.

Our quarterly operating results may fluctuate, which could cause our stock price to decline.

We have experienced, and expect to continue to experience, significant fluctuations in net revenue, expenses and operating results from quarter to quarter. We therefore believe that quarter to quarter comparisons of our operating results are not a good indication of our future performance, and you should not rely on them to predict our future operating or financial performance or the future performance of our stock. A high percentage of our operating expenses are relatively fixed and are based on our forecast of future revenue. If we were to experience an unexpected reduction in net revenue in a quarter, we would likely be unable to adjust our short-term expenditures significantly. If this were to occur, our operating results for that fiscal quarter would be harmed. In addition, if our operating results in future fiscal quarters were to fall below the expectations of equity analysts and investors, the price of our common stock would likely fall.

The trading price of our stock price may be volatile based on a number of factors, many of which are not under our control.

The trading price of our common stock has been highly volatile. The common stock price fluctuated from a low of $1.37 to a high of $3.31 in fiscal 2014. Our stock price could be subject to wide fluctuations in response to a variety of factors, many of which are out of our control, including:

- adverse change in domestic or global economic conditions;
- new products or services offered by us or our competitors;
- actual or anticipate variations in quarterly operating results;
- changes in financial estimates by securities analysts;
- announcements of technological innovations;
- our announcement of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- conditions or trends in the industry;
- additions or departures of key personnel;
- mergers and acquisitions; and
- sales of common stock by our stockholders or us or repurchases by us.

In addition, the NASDAQ Capital Market often experiences price and volume fluctuations. These fluctuations often have been unrelated or disproportionate to the operating performance of companies listed on the NASDAQ Capital Market.

We may need additional capital and it may not be available on acceptable terms, or at all.

To remain competitive, we must continue to make significant investments to operate our business and develop our products. Our future capital requirements will depend on many factors, including the timing and amount of our net revenue, research and development expenditures, expenses associated with any strategic partnerships or acquisitions and infrastructure investments, and expenses related to litigation, each of which could negatively affect our ability to generate additional cash from operations. If cash generated from operations is insufficient to satisfy our working capital requirements, we may need to raise additional capital. Looking ahead at long-term needs, we may need to raise additional funds for a number of purposes, including:

- to fund working capital requirements;
- to update, enhance or expand the range of products we offer;
- to increase our sales and marketing activities; or
-

to respond to competitive pressures or perceived opportunities, such as investment, acquisition and international expansion activities.

We may seek additional capital from public or private offerings of our capital stock, borrowings under our existing or future credit lines or other sources. If we issue equity or debt securities to raise additional funds, our existing stockholders may experience dilution, and the new equity or debt securities may have rights, preferences and privileges senior to those of our existing stockholders. In addition, if we raise additional funds through collaborations, licensing, joint ventures, or other similar arrangements, it may be necessary to relinquish valuable rights to our potential future products or proprietary technologies, or grant licenses on terms that are not favorable to us. There can be no assurance that we will be able to raise any such capital on terms acceptable to us, if at all. If we are unable to secure such additional financing, we may not be able to develop or enhance our products, take advantage of future opportunities, respond to competition or continue to operate our business.

Changes in macroeconomic conditions can affect our business and results of operations.

Our revenues, profitability, financial position and cash flows, are highly dependent on the broader movements of the macroeconomic environment. For example, our results of operations have been and continue to be adversely affected by the difficult conditions experienced in the global economy in recent periods. Economic weakness and uncertainty, including the ongoing macroeconomic challenges in many countries, have resulted, and may result in the future, in decreased revenue, margins and earnings, and difficulty managing inventory levels and collecting customer receivables. Currently, about half of our revenue comes from outside of North America and our business and operating results will continue to be affected by worldwide economic conditions. The prolonged economic uncertainty both in the U.S. and in Europe, coupled with geopolitical situations, pose a risk as consumers and businesses postpone spending in response to diminished liquidity and tighter credit markets, continuing high unemployment rates, reduced income or asset values, concerns regarding inflation, and reduced consumer spending and confidence, which in turn could have a material adverse effect on demand for our products and services. As a result, existing or potential customers of our products may delay or cancel plans to purchase such products, which would have a material adverse effect on us. Accordingly, if the global economic slowdown continues for a significant period of time or if there is significant further uncertainty or deterioration in the global economy, our business, results of operations, financial position and cash flows could be materially adversely affected. In addition, any such further uncertainty or deterioration could negatively impact the business and financial position of our contract manufacturers or suppliers.

Delays in deliveries or quality problems with our component suppliers could damage our reputation and could cause our net revenue to decline and harm our results of operations.

We and our contract manufacturers are responsible for procuring raw materials for our products. Our products incorporate some components and technologies that are only available from single or limited sources of supply. Depending on a limited number of suppliers exposes us to risks, including limited control over pricing, availability, quality and delivery schedules. Moreover, due to the limited amount of our sales, we may not be able to convince suppliers to continue to make components available to us unless there is demand for such components from their other customers. If any one or more of our suppliers cease to provide us with sufficient quantities of components in a timely manner or on terms acceptable to us, we would have to seek alternative sources of supply and we may have difficulty identifying additional or replacement suppliers for some of our components.

In particular, some of our integrated circuits are only available from a single source and in some cases are no longer being manufactured. From time to time, integrated circuits, and potentially other components used in our products, will be phased out of production by the manufacturer. When this happens, we attempt to purchase sufficient inventory to meet our needs until a substitute component can be incorporated into our products. Nonetheless, we may be unable to purchase sufficient components to meet our demands, or we may incorrectly forecast our demands, and purchase too many or too few components. In addition, our products use components that have in the past been subject to market shortages and substantial price fluctuations. From time to time, we have been unable to meet customer orders because we were unable to purchase necessary components for our products. We do not have long-term supply arrangements with most of our vendors to obtain necessary components or technology for our products and instead purchase components on a purchase order basis. If we are unable to purchase components from these suppliers, product shipments could be prevented or delayed, which could result in a loss of sales. If we are unable to meet existing orders or to enter into new orders because of a shortage in components, we will likely lose net revenues and risk losing customers and harming our reputation in the marketplace, which could adversely affect our business, financial condition or results of operations.

If we lose the services of any of our contract manufacturers or suppliers, we may not be able to obtain alternate sources in a timely manner, which could harm our customer relations and adversely affect our net revenue and results of operations.

Generally, we do not have long-term agreements with our contract manufacturers or suppliers. If any of these subcontractors or suppliers were to cease doing business with us, we might not be able to obtain alternative sources in a timely or cost-effective manner. Due to the amount of time that it usually takes us to qualify contract manufacturers and suppliers, we could experience delays in product shipments if we are required to find alternative subcontractors and suppliers. Some of our suppliers have or provide technology or trade secrets, the loss of which could be disruptive to our procurement and supply processes. If a competitor should acquire one of our contract manufacturers or suppliers, or if a contract manufacturer or supplier were to agree to conduct business with a competitor on an exclusive basis, we could be subjected to more difficulties in maintaining or developing alternative sources of supply of some components or products. Any problems that we may encounter with the delivery, quality or cost of our products from our contract manufacturers or suppliers could cause us to lose net revenue, damage our customer relationships and harm our reputation in the marketplace, each of which could materially and adversely affect our business, financial condition or results of operations.

We outsource substantially all of our manufacturing to contract manufacturers in Asia. If our contract manufacturers are unable or unwilling to manufacture our products at the quality and quantity we request, our business could be harmed.

We use contract manufacturers based in Asia to manufacture substantially all of our products. Our reliance on third-party manufacturers exposes us to a number of significant risks, including:

- reduced control over delivery schedules, quality assurance, manufacturing yields and production costs;
- lack of guaranteed production capacity or product supply;
- reliance on these manufacturers to maintain competitive manufacturing technologies;
- unexpected changes in regulatory requirements, taxes, trade laws and tariffs;
- reduced protection for intellectual property rights in some countries;
- differing labor regulations;
- disruptions to the business, financial stability or operations, including due to strikes, labor disputes or other disruptions to the workforce, of these manufacturers;
- compliance with a wide variety of complex regulatory requirements;
- fluctuations in currency exchange rates;
- changes in a country’s or region’s political or economic conditions;
- effects of terrorist attacks abroad;
- greater difficulty in staffing and managing foreign operations; and
- increased financial accounting and reporting burdens and complexities.

From time to time, we may transition the manufacturing of certain products from one contract manufacturer to another. When we do this, we may incur substantial expenses, risk material delays or encounter other unexpected issues.

We depend on distributors to generate a majority of our sales and complete order fulfillment.

Resale of products through distributors account for a substantial majority of our worldwide net revenues. In addition, sales through our top five distributors accounted for approximately 48% of our net revenues in fiscal 2014. A significant reduction of effort by one or more distributors to sell our products or a material change in our relationship with one or more distributors may reduce our access to certain end customers and adversely affect our ability to sell our products. Furthermore, if a key distributor materially defaults on a contract or otherwise fails to perform, our business and financial results would suffer.

In addition, the financial health of our distributors and our continuing relationships with them are important to our success. Current economic conditions may adversely impact the financial health of some of these distributors. This could result in the insolvency of certain distributors, the inability of distributors to obtain credit to finance the purchase of our products, or cause distributors to delay payment of their obligations to us and increase our credit risk exposure. Our business could be harmed if the financial health of these distributors impairs their performance and we are unable to secure alternate distributors.

Our ability to sustain and grow our business depends in part on the success of our channel partner distributors and resellers.

A substantial part of our revenues is generated through sales by channel partner distributors and resellers. To the extent our channel partners are unsuccessful in selling our products or if we are unable to obtain and retain a sufficient number of high-quality channel partners, our operating results could be materially and adversely affected. In addition, our channel partners may also market, sell and support products and services that are competitive with ours, and may devote more resources to the marketing, sales and support of such products. They also may have incentives to promote our competitors' products in lieu of our products, particularly for our competitors with larger volumes of orders, more diverse product offerings and a longer relationship with our distributors and resellers. In these cases, one or more of our important channel partners may stop selling our products completely or may significantly decrease the volume of products they sell on our behalf. Our channel partner sales structure also could subject us to lawsuits, potential liability and reputational harm if, for example, any of our channel partners misrepresents the functionality of our products or services to customers, violate laws or our corporate policies. If we fail to effectively manage our existing or future sales channel partners effectively, our business and operating results could be materially and adversely affected.

We expect the average selling prices of our products to decline and raw material costs to increase, which could reduce our net revenue and gross margins and adversely affect results of operations.

In the past, we have experienced reductions in the average selling prices and gross margins of our products, and we expect that this will continue for our products as they mature. We expect competition to continue to increase, and we anticipate this could result in additional downward pressure on our pricing. Our average selling prices for our products might also decline as a result of other reasons, including promotional programs introduced by us or our competitors and customers who negotiate price concessions. We also may not be able to increase the price of our products if the prices of components or our overhead costs increase. In addition, we may be unable to adjust our prices in response to currency exchange rate fluctuations or in response to price increases by our suppliers, resulting in lower gross margins. Further, as is characteristic of our industry, the average selling prices of our products have historically decreased over the products' life cycles and we expect this pattern to continue. If any of these were to occur, our gross margins could decline and we might not be able to reduce the cost to manufacture our products to keep up with the decline in prices.

If we are unable to sell our inventory in a timely manner, it could become obsolete, which could require us to increase our reserves and harm our operating results.

At any time, competitive products may be introduced with more attractive features or at lower prices than ours. If this occurs, and for other reasons, we may not be able to accurately forecast demand for our products and our inventory levels may increase. There is a risk that we may be unable to sell our inventory in a timely manner to avoid it becoming obsolete. In the event we are required to substantially discount our inventory or are unable to sell our inventory in a timely manner, we would be required to increase our inventory reserves or write-off obsolete inventory and our operating results could be substantially harmed.

Our failure to compete successfully in our highly competitive market could result in reduced prices and loss of market share.

The market in which we operate is intensely competitive, subject to rapid technological advances and highly sensitive to evolving industry standards. The market can also be affected significantly by new product and technology introductions and marketing and pricing activities of industry participants. Our products compete directly with products produced by a number of our competitors. Many of our competitors and potential competitors have greater financial and human resources for marketing and product development, more experience conducting research and development activities, greater experience obtaining regulatory approval for new products, larger distribution and customer networks, more established relationships with contract manufacturers and suppliers, and more established reputations and name recognition. For these and other reasons, we may not be able to compete successfully against our current or potential future competitors. In addition, the amount of competition we face in the marketplace may change and grow as the market for M2M networking solutions grows and new entrants enter the marketplace. Present and future competitors may be able creased 4 basis points to 7.03% for the third quarter of 2001 as compared to 6.99% for the third quarter of 2000. Year-to-date, the yields increased 35 basis points to 7.10% as compared to 6.75% for 2000. The deferred fixed annuity portfolio yield was also positively impacted by the market value adjustments made in the third quarter of 2000. Total realized and unrealized gains and losses on investments were a net loss of $45.6 million for the third quarter of 2001 compared to a net loss of $7.3 million for the same period a year ago, and a net loss of $97.3 million for the first nine months of 2001 compared to a net loss of $11.6 million for the first nine months of 2000. The significant change between periods is primarily driven by the Company's adoption of SFAS No. 133 "Accounting for Certain Derivative Instruments and Hedging Activities." In accordance with this Statement, the

Company has adjusted its options to market value, which, due to the economic environment, resulted in an unrealized loss of $28.4 million and $62.5 million for the third quarter and first nine months of 2001, respectively. The Company uses its options to hedge its equity-indexed annuity products. In addition, the Company also has trading securities that back its total return strategy fixed annuity products. The market value adjustment on the trading securities resulted in a loss of $11.0 million and $14.5 million for the third quarter and nine months of 2001, respectively. The majority of the unrealized gains and losses on the options and trading securities are offset by similar adjustments to the option portion of the equity-indexed annuity reserves and to the total return strategy annuity reserves. The reserve adjustments are reflected in the policyowner benefits line of the Consolidated Statements of Income and are discussed in the next section of Management's Discussion and Analysis of Results of Operations and Financial Condition. The remainder of the third quarter and year-to-date 2001 realized and unrealized gains and losses on investments consisted of $6.2 million and $20.3 million, respectively, of realized losses on investments. The level of realized gains and losses will fluctuate from period to period depending on the prevailing interest rate and economic environment and the timing of the sale of investments. Other income primarily consists of real estate operating income, property management fees, structured finance fees from affordable housing programs, Corporate Owned Life Insurance (COLI) income, and third party annuity commissions received by wholly-owned IMOs. Other income increased approximately $2.7 million in the third quarter of 2001 to $11.5 million as compared to $8.8 million in the third quarter of 2000. Year-to-date, other income was $33.7 million in 2001 compared to $22.7 million in 2000. Approximately $5.6 million of the year-to-date 2001 increase in other income was due to increased operations of IMOs purchased in the second quarter of 2000 and first quarter of 2001, and the remainder reflects the income on a $100 million COLI investment the Company made in the fourth 35 quarter of 2000. COLI is classified as an other asset and accordingly the income from this asset appears in other income instead of net investment income. A summary of the Company's policyowner benefits follows: For The Three Months Ended For The Nine Months Ended September 30, September 30, 2001 2000 2001 2000 ------------------------- -------------------------- ($ in thousands) Life Insurance: Traditional Death benefits $ 18,066 $ 9,956 $ 43,140 $ 31,929 Change in liability for future policy benefits and other policy benefits 70,586 48,201 167,957 136,955 --------------------- --------------------- Total traditional 88,652 58,157 211,097 168,884 Universal Death benefits in excess of cash value 12,649 4,848 28,743 21,238 Interest credited on policyowner account balances 19,330 10,856 45,583 32,337 Other 6,126 1,724 7,721 2,777 --------------------- --------------------- Total universal 38,105 17,428 82,047 56,352 --------------------- --------------------- Total life insurance benefits 126,757 75,585 293,144 225,236 Annuities Interest credited to deferred annuity account balances 83,737 68,821 238,565 199,106 Other annuity benefits 23,050 13,189 62,456 45,380 --------------------- --------------------- Total annuity benefits 106,787 82,010 301,021 244,486 All other benefits 1,285 64 1,870 263 Change in option value of equity-indexed products and market value adjustments on total return strategy annuities (29,559) -- (62,068) -- --------------------- --------------------- Total policyowner benefits $ 205,270 $ 157,659 $ 533,967 $ 469,985 ===================== ===================== Total life insurance benefits were $126.8 million in the third quarter of 2001 compared to $75.6 million in the third quarter of 2000. For the first nine months of 2001, total life insurance benefits increased $67.9 million to $293.1 million compared to $225.2 million in the same period in 2000. The acquisition of ILICO in the second quarter of 2001 increased life insurance benefits $54.0 million and $74.6 million for the three months and nine months ended September 30, 2001, respectively. Excluding the impact of the ILICO acquisition, total life insurance benefits decreased $2.8 million and $6.7 million for the three months and nine months ended September 30, 2001, respectively as compared to the same periods in 2000. This decrease in life insurance benefits exclusive of the impact of ILICO was primarily due to favorable mortality resulting in decreased death benefits and change in liability for future policy 36 benefits on traditional insurance policies which was partially offset by unfavorable mortality on Closed Block universal life policies resulting in increased death benefits and increased interest credited on universal life policies. The weighted average crediting rate on universal life policyowner account balances for the first nine months of 2001 decreased 6 basis points to 5.56% compared to 5.62% for the first nine months of 2000. The traditional life benefits, excluding ILICO, decreased in the 2001 reporting periods as compared to 2000. The Company experienced a decrease in the change in liability for future policy benefits of $4.9 million due to the continued run-off of the Closed Block policies. The Company has estimated and recorded life insurance benefits from the terrorist attacks in the United States on September 11, 2001 to be approximately $1.2 million. Annuity benefits were $106.8 million in the third quarter of 2001 compared to $82.0 million in the same period a year ago. Year-to-date, annuity benefits increased $56.5 million to $301.0 million in 2001 compared to

$244.5 million in 2000. Approximately $22.3 million and $37.4 million of the increase in annuity benefits in the three month and nine month 2001 periods, respectively, was due to the acquisition of ILICO in the second quarter of 2001. Annuity benefits increased approximately $2.5 million and $19.1 million for the three months and nine months ending September 30, 2001 as compared to 2000, respectively, exclusive of the impact of the ILICO acquisition. Interest credited to deferred annuity account balances increased $26.3 million, exclusive of ILICO, in the first nine months of 2001 compared to the same period a year ago. Between the 2001 and 2000 nine month periods, average deferred fixed annuity account balances increased approximately $233.4 million and the weighted average crediting rate on deferred fixed annuity account balances increased 17 basis points to 5.07%. The increase in crediting rates reflects the change in product mix and the increase in the investment yields of the deferred fixed annuity portfolio. Overall, spreads on deferred fixed annuities widened 20 basis points to 205 basis points in the first nine months of 2001 as compared to the same period a year ago. Including ILICO deferred fixed annuity products, the weighted average crediting rate remained at 5.07% and spreads were 203 basis points. Other annuity benefits declined approximately $7.3 million, exclusive of ILICO, between nine month periods, which corresponds with the decline in immediate annuity and supplementary contract premiums. ILICO added approximately $23.1 million to the year-to-date 2001 other annuity benefits due to payments made under modified coinsurance agreements. Included in policyowner benefits is the fair value change in options embedded within the equity-indexed products and fair value changes on total return strategy fixed annuity contracts. These fair value changes are being recorded in accordance with SFAS No. 133, which the Company adopted January 1, 2001. Based on the economic environment for the three months ended September 30, 2001, the fair value changes resulted in a $29.6 million decrease in reserve balances while the year-to-date fair value changes in 2001 were a $62.1 million decrease in reserve balances. As discussed previously, there is an offsetting adjustment to these fair value changes in the realized/unrealized gains (losses) on investments line of the Consolidated Income Statement related to the fair value changes on the options that hedge the equity-indexed products and on the trading securities that back the total return strategy products. All of these fair value changes are excluded from adjusted net operating income, as they do not indicate overall operating trends. 37 A summary of the Company's expenses follows: For The Three Months For The Nine Months Ended September 30, Ended September 30, 2001 2000 2001 2000 ---------------------- ---------------------- ($ in thousands) Life Insurance Underwriting, acquisition and other expenses $ 21,567 $ 11,309 $ 53,618 $ 37,714 Amortization of deferred policy acquisition costs and value of business acquired (VOBA), net of non-core adjustment of $76 and $28 for the three months ended September 30, 2001 and 2000, respectively, and $661 and $111 for the nine months ended September 30, 2001 and 2000, respectively 17,289 8,829 39,022 25,893 --------------------- --------------------- Total life insurance 38,856 20,138 92,640 63,607 Annuities Underwriting, acquisition and other expenses 17,149 12,659 45,231 38,292 Amortization of deferred policy acquisition costs and value of business acquired (VOBA), net of non-core adjustment of ($7,397) and ($2,579) for the three months ended September 30, 2001 and 2000, respectively, and ($13,519) and ($6,378) for the nine months ended September 30, 2001 and 2000, respectively 21,302 14,660 60,348 47,502 --------------------- --------------------- Total annuities 38,451 27,319 105,579 85,794 Amortization of deferred policy acquisition costs due to non-core realized gains or losses (7,321) (2,551) (12,858) (6,267) All other expenses 2,084 6,606 8,406 15,814 Demutualization costs 249 3,732 451 10,437 Restructuring costs 6,527 -- 6,527 -- --------------------- --------------------- Total expenses $ 78,846 $ 55,244 $ 200,745 $ 169,385 ===================== ===================== Total life insurance expenses were $38.9 million in the third quarter of 2001 compared to $20.1 million in the same period in 2000. For the first nine months of 2001, life insurance expenses totaled $92.6 million compared to $63.6 million a year ago. The acquisition of ILICO in the second quarter of 2001 increased total life insurance expenses approximately $16.3 million and $22.8 million for the three months and nine months ended September 30, 2001, respectively. Excluding the impact of the ILICO acquisition, underwriting, acquisition and other expenses increased approximately $2.5 million in the third quarter of 2001 and increased approximately $6.2 million in the first nine months of 2001, as compared to the same periods a year ago. The increase in expenses as compared to last year was 38 primarily due to general compensation increases, depreciation on the new life insurance administrative system and distribution system enhancements. Amortization of deferred policy acquisition costs and value of business acquired (VOBA), exclusive of ILICO, increased approximately $0.6 million in the third quarter of 2001 and increased approximately $2.2 million the first nine months of 2001 compared to the comparable periods in 2000. Deferred policy acquisition costs are generally amortized in proportion to gross margins. The increase in amortization in 2001 as compared to 2000 is primarily associated with the Company's market value adjustment completed at the end of the third quarter 2000. Additional VOBA was established as a result of the market value adjustment. Total annuity expenses increased by $11.2 million to $38.5 million in the third quarter of 2001 compared to $27.3 million in the third quarter of 2000. Year-to-date, total annuity expenses were $105.6 million in 2001 compared to $85.8 million in 2000. Approximately $3.3 million and $4.7 million of the 2001 total annuity expenses in the third quarter and year-to-date periods, respectively, were due to the ILICO acquisition. Excluding these ILICO expenses, underwriting, acquisition and insurance expenses increased approximately $1.9 million in the third quarter of 2001 compared to the same period a year ago and increased approximately $3.7 million between year-to-date periods. The increase in the 2001 reporting periods as compared to 2000 primarily reflects increased employee and agent costs and expenses related to the new IMO acquired in January of 2001. These increases are partially offset by a reduction in expenses from the consolidation of annuity operations in Topeka. The increase in expense due to the new IMO was offset by the increase in other income from the IMO discussed previously. Exclusive of the impact of ILICO, amortization of deferred policy acquisition costs and VOBA increased $5.9 million in the third quarter of 2001 as compared to the same period in 2000 and $11.2 million between year-to-date periods. The increase in amortization was partially attributable to the general growth in the deferred policy acquisition cost asset associated with the continued growth in annuity sales. In addition, VOBA amortization was higher in 2001 due to the additional VOBA established in connection with the Company's third quarter market value adjustment. Other expenses decreased by $4.5 million in the third quarter of 2001 to $2.1 million compared to $6.6 million in the same period in 2000. Year-to-date, other expenses were $8.4 million in 2001 compared to $15.8 million in 2000. Other expenses primarily consist of expenses related to the real estate management company and the holding company, and tend to fluctuate from period to period depending on the properties under management each quarter. Beginning in 1999, the Company began decreasing the number of properties under management and, accordingly, other expenses are also declining. The 2000 demutualization costs consist primarily of legal, actuarial and consulting expenses associated with the demutualization of the Company that was completed in the third quarter of 2000. The 2001 demutualization costs are associated with the demutualization of ILICO, which was completed in connection with the Company's acquisition of ILICO. As these costs are not of a continuing nature, they have been excluded from the Operating Segment amounts. Restructuring costs relate to the Company's consolidation of various functions in connection with a restructuring of its life insurance and annuity operations, which began in the third quarter of 2001. The objective of the restructuring plan is to eliminate duplicative life insurance, annuity and general administrative functions for all business units. The elimination of duplicative functions will reduce on-going operating costs for the Company. General administrative functions will be transitioned so they are performed primarily in Des Moines. Life insurance processes will be transitioned so they are performed in Des Moines and Indianapolis and annuity functions will be transitioned to Topeka. The restructuring charges includes severance and termination benefits of $5.9 million related to the elimination of approximately 50 positions and other costs of $0.6 million. Actual pre-tax costs totaling $2.7 million have been expended and an accrual for severance and termination benefits not yet paid amounted to $3.8 at September 30, 2001. The Company has not finalized all restructuring activities as of September 30, 2001. Additional activities will primarily involve relocation or severance benefits for affected employees 39 and various administration, finance and actuarial system conversion costs. Expenditures for all restructuring activities are expected to be completed in the fourth quarter of 2002. A summary of the Company's income from operations by operating segment follows: For The Three Months Ended For The Nine Months Ended September 30, September 30, 2001 2000 2001 2000 -------------------------- -------------------------- ($ in thousands) Life Insurance: Revenues $ 218,045 $ 130,202 $ 519,920 $ 391,730 Benefits and expenses (165,613) (95,723) (385,784) (288,843) Dividends to policyowners (26,191) (18,732) (68,416) (56,226) ------------------------- ------------------------- Adjusted pre-tax operating income 26,241 15,747 65,720 46,661 Annuities: Revenues 170,561 132,906 477,921 398,627 Benefits and expenses (145,238) (109,329) (406,600) (330,280) ------------------------- ------------------------- Adjusted pre-tax operating income 25,323 23,577 71,321 68,347 All other adjusted pre-tax operating (loss) 2,324 2,980 4,189 7,110 ------------------------- ------------------------- Total adjusted pre-tax operating income $ 53,888 $ 42,304 $ 141,230 $ 122,118 ========================= ========================= Adjusted pre-tax operating income from Life Insurance operations was $26.2 million in the third quarter of 2001 compared to $15.7 million in the third quarter of 2000. For the first nine months of 2001, adjusted pre-tax operating income from Life Insurance operations increased $19.0 million to $65.7 million compared to $46.7 million in 2000. The acquisition of ILICO contributed $9.8 million and $20.7 million of adjusted pre-tax operating income to the Life Insurance segment in the third quarter and first nine months of 2001, respectively. Exclusive of the impact of the ILICO acquisition, Life Insurance operating income increased $0.7 million between quarterly periods and decreased $1.7 million between year-to-date periods. Gross margins in the Life Insurance segment remained level between year over year periods with the fluctuations in insurance expenses and the decline in earnings from the Company's variable products joint venture primarily impacting the overall results. Adjusted pre-tax operating income from Annuity operations was $25.3 million in the third quarter of 2001 compared to $23.6 million in the same period in 2000. Year-to-date, adjusted pre-tax operating income from Annuity operations increased $3.0 million to $71.3 million in 2001 compared to $68.3 million in 2000. The acquisition of ILICO contributed $3.7 million and $2.5 million of adjusted pre-tax operating income to the Annuity segment in the third quarter and first nine months of 2001, respectively. Excluding this contribution from ILICO, Annuity operating income decreased $2.0 million between quarterly periods and increased $0.5 million between year-to-date periods. The decrease in the third quarter of 2001 was primarily due to lower margins on equity-indexed annuity products and increased employee and agent costs. Year-to-date, the decreased margins on the equity indexed annuity products and increased employee and agent costs were offset by increased net IMO operations. All other adjusted pre-tax operating income was $4.2 million in the first nine months of 2001 compared to $7.1 million in the first nine months of 2000. The decrease in 2001 compared to 2000 was 40 primarily due to decreased investment income as the Company distributed approximately $340 million of cash equivalents in October 2000 in connection with its demutualization. Interest expense decreased $1.6 million in the third quarter of 2001 to $6.0 million compared to $7.6 million in the third quarter of 2000. Year-to-date, interest expense was $20.7 million in 2001 compared to $22.4 million in 2000. The decreased interest expense in 2001 was primarily due to lower borrowing rates in 2001 as compared to 2000 and the maturity of the ACES units in July 2001. The 2001 interest expense also included approximately $0.8 million of interest expense from ILICO. ILICO has a $25 million, 8.66% surplus note, due on April 1, 2011. Income tax expense was $28.7 million in the first nine months of 2001 compared to $36.8 million in the same period in 2000. The effective tax rate was 32.3% and 40.1% for the first nine months of 2001 and 2000, respectively. The decrease in the effective tax rate in 2001 reflected the decline in nondeductible expenses associated with the Company's demutualization and increased tax exempt income from the COLI investment. Minority interest represents the minority stockholders ownership percentage share of net income of ALHI prior to the Company's acquisition of this Minority Interest. The minority shareholder ownership percentage was 42% from January 1, 2000 through September 20, 2000, the date at which the Minority Interest was acquired. As a result of the Company's acquisition of the Minority Interest there is no net income applicable to the Minority Interest in 2001. Net income from continuing operations increased $10.7 million to $21.1 million in the third quarter of 2001 compared to $10.4 million in the third quarter of 2000. Year-to-date, net income from continuing operations was $60.2 million in 2001 and $33.1 million in 2000. Approximately $3.8 million and $7.9 million of the increase in the quarter and year-to-date periods, respectively, was from the ILICO acquisition. The remainder was primarily due to the lower effective tax rate and the reduction in net income applicable to the Minority Interest. The Company adopted SFAS No. 133 January 1, 2001. In accordance with the provisions of the Statement, the Company has recorded the differences between the previous carrying amounts of its derivative instruments and the fair value of its derivative instruments, as of this initial application date, as the effect of a change in accounting principle. The gross difference between carrying amounts and fair value amounts of the Company's derivative instruments was a reduction of approximately $11.3 million. The deferred policy acquisition cost and VOBA amortization impact from the derivative adjustments was approximately $1.1 million and the income tax benefit was $4.2 million, resulting in the net cumulative effect of change in accounting for derivatives of $8.2 million. Net income was $21.5 million in the third quarter of 2001 compared to $11.1 million in the third quarter of 2000 and $53.4 million in the first nine months of 2001 compared to $33.8 million in the first nine months of 2000. The acquisition of ILICO increased net income approximately $3.8 million and $7.9 million in the 2001 third quarter and year-to-date periods, respectively. In addition, the lower effective tax rate and reduction in net income applicable to Minority Interest also increased net income in the 2001 periods as compared to 2000. Year- to-date, the adoption of SFAS No. 133 in the first quarter of 2001 had a one-time cumulative effect of reducing net income by $8.2 million. 41 LIQUIDITY AND CAPITAL RESOURCES THE COMPANY The Company's cash flows from operations consist of dividends from subsidiaries, if declared and paid, interest from income on loans and advances to its subsidiaries (including a surplus note issued to the Company by ALIC), investment income on assets held by the Company and fees which the Company charges its subsidiaries and certain other of its affiliates for services, offset by the expenses incurred for debt service, salaries and other expenses.

The Company intends to rely primarily on dividends and interest income from its life insurance subsidiaries in order to make dividend payments to its shareholders. The payment of dividends by its life insurance subsidiaries is regulated under various state laws. Generally, under the various state statutes, the Company's life insurance subsidiaries dividends may be paid only from the earned surplus arising from their respective businesses and must receive the prior approval of the respective state regulator to pay any dividend that would exceed certain statutory limitations. The current statutes generally limit any dividend, together with dividends paid out within the preceding 12 months, to the greater of (i) 10% of the respective company's policyowners' surplus as of the preceding year end or (ii) the net gain from operations for the previous calendar year. Generally, the various state laws give the state regulators broad discretion to approve or disapprove requests for dividends in excess of these limits. Based on these limitations and 2000 results, the Company's subsidiaries could pay an estimated $102.9 million in dividends in 2001 without obtaining regulatory approval. Of this amount, the Company's subsidiaries paid the Company $30.0 million in the first nine months of 2001. The 2000 statutory results exceeded prior years' statutory results primarily due to reinsurance transactions entered into in 2000 and the acquisition of ILICO. As reinsurance activity varies from year to year, 2001 statutory results may decline as compared to 2000 and dividend capacity would change accordingly. The Company has a $150 million revolving credit facility with a syndicate of lenders (the "Bank Credit Facility"). As of September 30, 2001, there was a $96 million outstanding loan balance under the Bank Credit Facility. The Bank Credit Facility provides for typical events of default and covenants with respect to the conduct of business of the Company and its subsidiaries and requires the maintenance of various financial levels and ratios. Among other covenants, the Company (a) cannot have a leverage ratio greater than 0.35:1.0, (b) cannot have an interest coverage ratio less than 2.50:1.0, (c) is prohibited from paying cash dividends on its common stock in excess of an amount equal to 3% of its consolidated net worth as of the last day of the preceding fiscal year, and (d) must cause certain of its life insurance subsidiaries to maintain certain ratings from A.M. Best and certain levels of risk-based capital. The Company has announced that its Board of Directors approved a stock purchase program under which the Company may purchase up to three million shares of its common stock at such times and under such conditions as the Company deems advisable. The purchases may be made in the open market or by such other means as the Company determines to be appropriate, including privately negotiated purchases. The purchase program supercedes all prior purchase programs. The funds for the purchase program would come from a combination of internal sources, from its life insurance subsidiaries and utilization of its Bank Credit Facility. During the third quarter of 2001, 1.2 million shares were repurchased and were funded by additional borrowings of approximately $32 million on the Bank Credit Facility. 42 LIFE INSURANCE SUBSIDIARIES The cash flows of the Company's life insurance subsidiaries consist primarily of premium income, deposits to policyowner account balances, income from investments, sales, maturities and calls of investments and repayments of investment principal. Cash outflows are primarily related to withdrawals of policyowner account balances, investment purchases, payment of policy acquisition costs, payment of policyowner benefits, payment of debt, income taxes and current operating expenses. Life insurance companies generally produce a positive cash flow from operations, as measured by the amount by which cash flows are adequate to meet benefit obligations to policyowners and normal operating expenses as they are incurred. The remaining cash flow is generally used to increase the asset base to provide funds to meet the need for future policy benefit payments and for writing new business. Management anticipates that funds to meet its short-term and long-term capital expenditures, cash dividends to shareholders and operating cash needs will come from existing capital and internally generated funds. Management believes that the current level of cash and available-for-sale and short-term securities, combined with expected net cash inflows from operations, maturities of fixed maturity investments, principal payments on mortgage-backed securities and its insurance products, will be adequate to meet the anticipated short-term cash obligations of the Company's life insurance subsidiaries. Matching the investment portfolio maturities to the cash flow demands of the type of insurance being provided is an important consideration for each type of life insurance product and annuity. The Company continuously monitors benefits and surrenders to provide projections of future cash requirements. As part of this monitoring process, the Company performs cash flow testing of its assets and liabilities under various scenarios to evaluate the adequacy of reserves. In developing its investment strategy, the Company establishes a level of cash and securities which, combined with expected net cash inflows from operations, maturities of fixed maturity investments and principal payments on mortgage-backed securities, are believed adequate to meet anticipated short-term and long-term benefit and expense payment obligations. There can be no assurance that future experience regarding benefits and surrenders will be similar to historic experience since withdrawal and surrender levels are influenced by such factors as the interest rate environment and the claims-paying and financial strength ratings of the Company's life insurance subsidiaries. The Company takes into account asset/liability management considerations in the product development and design process. Contract terms for the Company's interest-sensitive products include surrender and withdrawal provisions which mitigate the risk of losses due to early withdrawals. These provisions generally do one or more of the following: limit the amount of penalty-free withdrawals, limit the circumstances under which withdrawals are permitted, or assess a surrender charge or market value adjustment relating to the underlying assets. The following table summarizes liabilities for interest- sensitive life products and annuities by their contractual withdrawal provisions at September 30, 2001 (including liabilities in both the Closed Block and the general account): 43 ($ in millions) -------------- Not subject to discretionary withdrawal $ 500.0 Subject to discretionary withdrawal with adjustments: Specified surrender charges (A) 6,150.9 Market value adjustments 3,490.8 ---------- Subtotal 9,641.7 ---------- Subject to discretionary withdrawal without adjustments 1,643.7 ---------- Total $ 11,785.4 ========== (A) Includes $836.2 million of statutory liabilities with a contractual surrender charge of less than five percent of the account balance. ALIC is a party to a $250 million separate account funding agreement. Under this agreement, a five-year floating rate insurance contract is issued to a commercial paper conduit. The funding agreement is secured by assets in a separate account and is further backed by the general account assets of ALIC. The separate account assets are legally segregated and are not subject to claims that arise out of any other business of ALIC. The separate account assets and liabilities are included with general account assets in the financial statements. The funding agreement may not be cancelled by the commercial paper conduit unless there is a default under the agreement, but ALIC may terminate at any time. ALIC and its joint venture partner are contingently liable in the event the joint venture, AVLIC, cannot meet its obligations. At September 30, 2001, AVLIC had statutory assets of $2,018.6 million, liabilities of $1,962.5 million and surplus of $56.1 million. Through their respective memberships in the Federal Home Loan Banks (FHLB) of Des Moines and Topeka, ALIC and American Investors Life Insurance Company, a subsidiary of AAG, are eligible to borrow under variable-rate short term fed funds arrangements to provide additional liquidity. These borrowings are secured and interest is payable at the current rate at the time of any advance. There were no borrowings under these arrangements outstanding at September 30, 2001. In addition, ALIC has long-term advances from the FHLB outstanding of $14.5 million at September 30, 2001. The Company's life insurance subsidiaries may also obtain liquidity through sales of investments. The Company's investment portfolio as of September 30, 2001 had a carrying value of $14.9 billion, including Closed Block investments. At September 30, 2001, the statutory surplus of the Company's subsidiaries was approximately $648.8 million. The Company believes that this level of statutory capital is more than adequate as each insurance subsidiary's risk based capital is significantly in excess of required levels. In the future, in addition to their cash flows from operations and borrowing capacity, the life insurance subsidiaries would anticipate obtaining their required capital from the Company as the Company has access to the public debt and equity markets. 44 ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK The main objectives in managing the investment portfolios of the Company and its insurance subsidiaries are to maximize investment income and total investment returns while minimizing credit risks in order to provide maximum support to the insurance underwriting operations. Investment strategies are developed based on many factors including asset liability management, regulatory requirements, fluctuations in interest rates and consideration of other market risks. Investment decisions are centrally managed by investment professionals based on guidelines established by management and approved by the boards of directors. Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments. The market risks related to financial instruments of the Company and its subsidiaries primarily relate to the investment portfolio, which exposes the Company to risks related to interest rates and, to a lesser extent, credit quality and prepayment variation. Analytical tools and monitoring systems are in place to assess each of these elements of market risk. Interest rate risk is the price sensitivity of a fixed income security to changes in interest rates. Management views these potential changes in price within the overall context of asset and liability management. Company actuaries estimate the payout pattern of the Company's liabilities, primarily the Company's lapsation, to determine liability duration. The asset duration is determined after consideration of the duration of these liabilities and other factors, which management believes mitigates the overall effect of interest rate risk for the Company. The table below provides information about the Company's fixed maturity investments and mortgage loans at September 30, 2001. The table presents cash flows of principal amounts and related weighted average interest rates by expected maturity dates. The cash flows are based on the earlier of the call date or the maturity date or, for mortgage-backed securities, expected payment patterns. Actual cash flows could differ from the expected amounts. EXPECTED CASH FLOWS 3 mos Amortized 2001 2002 2003 2004 2005 2006 Thereafter Cost --------- ---- ---- ---- ---- ---- ---- ---------- ---- ($ in millions) Fixed maturity securities $ 284 $ 756 $ 1,472 $ 1,352 $ 1,591 $ 1,113 $ 6,271 $ 12,839 Average interest rate 6.6% 6.3% 6.4% 6.2% 6.4% 6.7% 6.8% Mortgage loans $ 14 $ 53 $ 53 $ 68 $ 69 $ 66 $ 608 $ 931 Average interest rate 8.2% 8.3% 8.2% 8.2% 8.2% 8.1% 7.9% Total $ 298 $ 809 $ 1,525 $ 1,420 $ 1,660 $ 1,179 $ 6,879 $ 13,770 ==

The Company and its subsidiaries have consistently invested in high quality marketable securities. As a result, management believes that the Company has minimal credit quality risk. Fixed maturity securities are comprised of U.S. Treasury, government agency, mortgage-backed and corporate securities. Approximately 65% of fixed maturity securities are issued by the U.S. Treasury or U.S. government agencies or are rated A or better by Moody's, Standard and Poor's, or the NAIC. Less than 7% of the bond portfolio is below investment grade. Fixed maturity securities have a weighted average maturity of approximately 7.04 years. 45 Prepayment risk refers to the changes in prepayment patterns that can either shorten or lengthen the expected timing of the principal repayments and thus the average life and the effective yield of a security. Such risk exists primarily within the Company's portfolio of mortgage-backed securities. Management monitors such risk regularly. The Company invests primarily in those classes of mortgage-backed securities that are less subject to prepayment risk. The Company's use of derivatives is generally limited to hedging purposes and has principally consisted of using interest rate swaps, caps, swaptions and options. These instruments, viewed separately, subject the Company to varying degrees of market and credit risk. However when used for hedging, the expectation is that these instruments would reduce overall market risk. Credit risk arises from the possibility that counterparties may fail to perform under the terms of the contracts. Equity price risk is the potential loss arising from changes in the value of equity securities. In general, equities have more year-to-year price variability than intermediate term grade bonds. However, returns over longer time frames have been consistently higher. The Company's equity securities consist primarily of its investment in AMAL. The remainder of the Company's equity securities are high quality and readily marketable. All of the above risks are monitored on an ongoing basis. A combination of in-house systems and proprietary models and externally licensed software are used to analyze individual securities as well as each portfolio. These tools provide the portfolio managers with information to assist them in the evaluation of the market risks of the portfolio. PART II - OTHER INFORMATION ITEM 1. LEGAL PROCEEDINGS In the ordinary course of business, the Company and its subsidiaries are parties to certain litigation, none of which management believes is material to the Company's results of operations. ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K (a) Exhibits A list of exhibits included as part of this report is set forth in the Exhibit Index which immediately precedes such exhibits and is hereby incorporated by reference herein. (b) The following report on Form 8-K/A was filed during the quarter ended September 30, 2001: Form 8-K dated May 18, 2001 was amended by filing Form 8-K/A on July 23, 2001 which included financial statements and pro forma financial information for Indianapolis Life Insurance Company in connection with the Company's completion of the acquisition of Indianapolis Life Insurance Company. 46 SIGNATURES Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. DATED: November 13, 2001 AMERUS GROUP CO. By /s/ Thomas C. Godlasky -------------------------------- Executive Vice President and Chief Investment Officer (Principal Financial Officer) By /s/ Brenda J. Cushing ------------------------------- Senior Vice President and Controller (Principal Accounting Officer) 47 AMERUS GROUP CO. AND SUBSIDIARIES INDEX TO EXHIBITS Exhibit No. Description ------- ----------- 2.1 Plan of Reorganization dated October 27, 1995, filed as Exhibit 2.1 to the Registration Statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference. 2.2 Amended and Restated Agreement and Plan of Merger, dated as of September 19, 1997 and as amended and restated as of October 8, 1997, by and among AmerUs Life Holdings, Inc., AFC Corp. and AmVestors Financial Corporation ("AmVestors"), filed as Exhibit 2.2 to the Registration Statement of AmerUs Life Holdings, Inc. on Form S-4, Registration Number 333-40065 is hereby incorporated by reference. 2.3 Agreement and Plan of Merger, dated as of August 13, 1997 and as amended as of September 5, 1997, among AmerUs Life Holdings, Inc., a wholly owned subsidiary of AmerUs Life Holdings, Inc. and Delta Life Corporation, filed as Exhibit 2.2 to Form 8-K of AmerUs Life Holdings, Inc. dated October 8, 1997, is hereby incorporated by reference. 2.4 Combination and Investment Agreement, dated February 18, 2000, among American Mutual Holding Company, AmerUs Life Holdings, Inc., Indianapolis Life Insurance Company and The Indianapolis Life Group of Companies, Inc., filed as Exhibit 2.1 to

AmerUs Life Holdings, Inc.'s report on Form 8-K/A on March 6, 2000, is hereby incorporated by reference. 2.5 Purchase Agreement, dated as of February 18, 2000, by and between American Mutual Holding Company and AmerUs Life Holdings, Inc., filed as Exhibit 2.5 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference. 2.6 Agreement and Plan of Merger, dated December 17, 1999, by and between American Mutual Holding Company and AmerUs Life Holdings, Inc., filed as Exhibit 2.6 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference. 2.7 Amendment No. 1 to Agreement and Plan of Merger, dated February 18, 2000, by and between American Mutual Holding Company and AmerUs Life Holdings, Inc., filed as Exhibit 2.7 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference. 2.8 Letter Agreement, dated December 17, 1999, by and between American Mutual Holding Company and AmerUs Life Holdings, Inc., filed as Exhibit 2.8 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference. 2.9 Notification Agreement, dated as of February 18, 2000, by and among American Mutual Holding Company, AmerUs Life Holdings, Inc. and Bankers Trust Company, filed as Exhibit 2.9 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference. 2.10 Amendment No. 2 to Agreement and Plan of Merger, dated April 3, 2000, by and between American Mutual Holding Company and AmerUs Life Holdings, Inc., filed as Exhibit 2.10 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference. 2.11 Amendment No. 1 to the Purchase Agreement, dated April 3, 2000, by and between American Mutual Holding Company and AmerUs Life Holdings, Inc., filed as Exhibit 2.11 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference. 2.12 Amendment to Combination and Investment Agreement dated February 18, 2000 among American Mutual Holding Company, AmerUs Life Holdings, Inc., Indianapolis Life Insurance Company and The Indianapolis Life Group of Companies, Inc., dated September 18, 2000, filed as Exhibit 2.2 to Form 8-K12G3 of the Registrant dated September 21, 2000, is hereby incorporated by reference. 48 3.1 Amended and Restated Articles of Incorporation of the Registrant filed as Exhibit 3.1 on Form 10-Q, dated November 14, 2000 is hereby incorporated by reference. 3.2 Amended and Restated Bylaws of the Registrant, filed as Exhibit 3.2 on Form 10-Q, dated November 14, 2000 is hereby incorporated by reference. 4.1 Amended and Restated Trust Agreement dated as of February 3, 1997 among AmerUs Life Holdings, Inc., Wilmington Trust Company, as property trustee, and the administrative trustees named therein (AmerUs Capital I business trust), filed as Exhibit 3.6 to the registration statement of AmerUs Life Holdings, Inc. and AmerUs Capital I on Form S-1, Registration Number 333-13713, is hereby incorporated by reference. 4.2 Indenture dated as of February 3, 1997 between AmerUs Life Holdings, Inc. and Wilmington Trust Company relating to the Company's 8.85% Junior Subordinated Debentures, Series A, filed as Exhibit 4.1 to the registration statement of AmerUs Life Holdings, Inc. and AmerUs Capital I on Form S-1, Registration Number, 333-13713, is hereby incorporated by reference. 4.3 Guaranty Agreement dated as of February 3, 1997 between AmerUs Life Holdings, Inc., as guarantor, and Wilmington Trust Company, as trustee, relating to the 8.85% Capital Securities, Series A, issued by AmerUs Capital I, filed as Exhibit 4.4 to the registration statement on Form S-1, Registration Number, 333-13713, is hereby incorporated by reference. 4.4 Common Stock Purchase Warrant, filed as Exhibit (10)(v) to Form 10-Q of AmVestors Financial Corporation dated May 13, 1992, is hereby incorporated by reference. 4.5 Amended and Restated Declaration of Trust of AmerUs Capital II, dated as of July 27, 1998, among AmerUs Life Holdings, Inc., First Union Trust Company and the administrative trustees named therein, relating to AmerUs Life Holdings, Inc.'s 7.0% ACES Units, filed as Exhibit 4.5 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference. 4.6 Certificate of Trust of AmerUs Capital III filed as Exhibit 4.7 to the registration statement of AmerUs Life Holdings, Inc., AmerUs Capital II and AmerUs Capital III, on Form S-3 (No. 333-50249), is hereby incorporated by reference. 4.7 Common Trust Securities Guarantee Agreement, dated as of July 27, 1998, by AmerUs Life Holdings, Inc., relating to AmerUs Life Holdings, Inc.'s 7.0% ACES Units, filed as Exhibit 4.7 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference. 4.8 QUIPS Guarantee Agreement, dated as of July 27, 1998, by AmerUs Life Holdings, Inc., relating to AmerUs Life Holdings, Inc.'s 7.0% ACES Units, filed as Exhibit 4.8 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference. 4.9 Master Unit Agreement, dated as of July 27, 1998, between AmerUs Life Holdings, Inc. and First Union National Bank relating to AmerUs Life Holdings, Inc.'s 7.0% ACES Units, filed as Exhibit 4.9 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference. 4.10 Call Option Agreement, dated as of July 27, 1998, between Goldman, Sachs & Co. and First Union National Bank relating to AmerUs Life Holdings, Inc.'s 7.0% ACES Units, filed as Exhibit 4.10 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference. 4.11 Pledge Agreement, dated as of July 27, 1998, among AmerUs Life Holdings, Inc., Goldman, Sachs & Co. and First Union National Bank relating to AmerUs Life Holdings, Inc.'s 7.0% ACES Units, filed as Exhibit 4.11 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference. 4.12 Senior Indenture, dated as of June 16, 1998, by and between AmerUs Life Holdings, Inc. and First Union National Bank, as Indenture Trustee, relating to the AmerUs Life Holdings, Inc.'s 6.95% Senior Notes, filed as Exhibit 4.14 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference. 4.13 Subordinated Indenture, dated as of July 27, 1998, by and between AmerUs Life Holdings, Inc. and First Union National Bank, as Indenture Trustee, relating to AmerUs Life Holdings, Inc.'s 6.86% Junior Subordinated Deferrable Interest Debentures, filed as Exhibit 4.15 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference. 49 4.14 First Supplement to Indenture dated February 3, 1997 among American Mutual Holding Company, AmerUs Life Holdings, Inc. and Wilmington Trust Company as Trustee, relating to the Company's 8.85% Junior Subordinated Debentures, Series A, dated September 20, 2000, filed as Exhibit 4.14 on Form 10-Q dated November 14, 2000, is hereby incorporated by reference. 4.15 Assignment and Assumption Agreement to Amended and Restated Trust Agreement, dated February 3, 1997 between American Mutual Holding Company and AmerUs Life Holdings, Inc., dated September 20, 2000, filed as Exhibit 4.15 on Form 10-Q dated November 14, 2000, is hereby incorporated by reference. 4.16 Assignment and Assumption to Guaranty Agreement, dated February 3, 1997 between American Mutual Holding Company and AmerUs Life Holdings, Inc., dated September 20, 2000, filed as Exhibit 4.16 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference. 4.17 First Supplement to Subordinated Indenture, dated July 27, 1998, relating to AmerUs Life Holdings, Inc.'s 6.86% Junior Subordinated Deferrable Interest Debentures, among American Mutual Holding Company, AmerUs Life Holdings, Inc. and First Union National Bank, as Indenture Trustee, dated September 20, 2000, filed as Exhibit 4.17 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference. 4.18 First Supplement to Master Unit Agreement dated July 27, 1998, relating to AmerUs Life Holdings, Inc.'s 7.0% ACES units, between American Mutual Holding Company and First Union National Bank, as Unit Agent, dated September 20, 2000, filed as Exhibit 4.18 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference. 4.19 Assignment and Assumption Agreement to the QUIPS Guarantee Agreement dated July 27, 1998, relating to AmerUs Life Holdings, Inc.'s 7.0% ACES units, between American Mutual Holding Company and AmerUs Life Holdings, Inc., dated September 20, 2000, filed as Exhibit 4.19 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference. 4.20 Assignment and Assumption Agreement to the Common Trust Securities Guarantee Agreement dated July 27, 1998, relating to AmerUs Life Holdings, Inc.'s 7.0% ACES units, between American Mutual Holding Company and AmerUs Life Holdings, Inc., dated September 20, 2000, filed as Exhibit 4.20 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference. 4.21 First Supplement to Purchase Contracts between American Mutual Holding Company and Holders, as specified, dated September 20, 2000, filed as Exhibit 4.21on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference. 4.22 First Supplement to the Pledge Agreement dated July 27, 1998, relating to AmerUs Life Holdings, Inc.'s 7.0% ACES units, among American Mutual Holding Company, Goldman Sachs & Co., as Call Option Holder, the Chase Manhattan Bank, as Collateral Agent and First Union National Bank, as Unit Agent, dated September 20, 2000, filed as Exhibit 4.22 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference. 4.23 First Supplement to Senior Indenture dated June 16, 1998, relating to AmerUs Life Holdings, Inc.'s 6.95% Senior Notes, among American Mutual Holding Company, AmerUs Life Holdings, Inc. and First Union National Bank, as Trustee, dated September 20, 2000, filed as Exhibit 4.23 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference. 10.1 Joint Venture Agreement, dated as of June 30, 1996, between American Mutual Insurance Company and Ameritas Life Insurance Corp., filed as Exhibit 10.2 on Form 10-K, dated March 25, 1998, is hereby incorporated by reference. 10.2 Management and Administration Service Agreement, dated as of April 1, 1996, among American Mutual Life Insurance Company, Ameritas Variable Life Insurance Company and Ameritas Life Insurance Corp., filed as Exhibit 10.3 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference. 50 10.3 AmerUs Life Holdings, Inc. Executive Stock Purchase Plan, dated November 13, 1998, filed as Exhibit 4.11 to the registration statement of AmerUs Life Holdings, Inc. on Form S-8, Registration Number 333-72237, is hereby incorporated by reference. 10.4 AlloAmerUs Supplemental Executive Retirement Plan, effective January 1, 1996, filed as Exhibit 10.6 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference. 10.5 Management Incentive Plan, filed as Exhibit 10.9 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference. 10.6 AmerUs Life Insurance Company Performance Share Plan, filed as Exhibit 10.10 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference. 10.7 AmerUs Life Stock Incentive Plan, filed as Exhibit 10.11 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference. 10.8 AmerUs Life Non-Employee Director Stock Plan, filed as Exhibit 10.13 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference. 10.9 Form of Indemnification Agreement executed with directors and certain officers, filed as Exhibit 10.33 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference. 10.10 Tax Allocation Agreement dated as of November 4, 1996, filed as Exhibit 10.68 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference. 10.11 Credit Agreement, dated as of October 23, 1997, among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent , filed as Exhibit 10.84 to the registration statement of AmerUs Life Holdings, Inc. on Form S-4, Registration Number 333-40065, is incorporated by reference. 10.12 AmVestors Financial Corporation 1996 Incentive Stock Option Plan, filed as Exhibit (4)(a) to Registration Statement of AmVestors Financial Corporation on Form S-8, Registration Number 333-14571 dated October 21, 1996, is hereby incorporated by reference. 10.13 Consent dated as of May 20, 1998 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.72 on Form 10-Q, dated November 16, 1998, is hereby incorporated by reference. 10.14 First Amendment dated as of May 30, 1997 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.73 on Form 10-Q, dated November 16, 1998, is hereby incorporated by reference. 10.15 Second Amendment dated as of June 22, 1998 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.74 on Form 10-Q, dated November 16, 1998, is hereby incorporated by reference. 10.16 Second Consent and Amendment dated as of October 2, 1998 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.75 on Form 10-Q, dated November 16, 1998, is hereby incorporated by reference. 10.17 MIP Deferral Plan dated as of September 1, 1998, filed as Exhibit 10.76 on Form 10-Q, dated November 16, 1998, is hereby incorporated by reference. 10.18 Open Line of Credit Application and Terms Agreement, dated March 5, 1999, between Federal Home Loan Bank of Des Moines and AmerUs Life Insurance Company, filed as Exhibit 10.34 on Form 10-Q dated May 14, 1999, is hereby incorporated by reference. 51 10.19 Third Waiver to Credit Agreement dated as of November 16, 1998 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.37 on Form 10-K, dated March 30, 1999, is hereby incorporated by reference. 10.20 Fourth Consent and Amendment, dated as of December 4, 1998 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.38 on Form 10-K, dated March 30, 1999, is hereby incorporated by reference. 10.21 Facility and Guaranty Agreement, dated February 12, 1999, among The First National Bank of Chicago and AmerUs Life Holdings, Inc., filed as Exhibit 10.39 on Form 10-Q dated May 14, 1999, is hereby incorporated by reference. 10.22 Form of Reimbursement Agreement, dated February 15, 1999, among AmerUs Life Holdings, Inc. and Roger K. Brooks, Victor N. Daley, Michael G. Fraizer, Thomas C. Godlasky, Marcia S. Hanson, Mark V. Heitz and Gary R. McPhail, filed as Exhibit 10.40 on Form 10-Q dated May 14, 1999, is hereby incorporated by reference. 10.23 Amendment No. 1 to Facility Agreement, dated March 23, 1999, among The First National Bank of Chicago and AmerUs Life Holdings, Inc., filed as Exhibit 10.41 on Form 10-Q dated May 14, 1999, is hereby incorporated by reference. 10.24 1999 Non-Employee Stock Option Plan, dated April 19, 1999, filed on Form S-3, Registration Number 333-72643, is hereby incorporated by reference. 10.25 Fifth Waiver and Amendment to Credit Agreement dated as of October 1, 1998 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.43 on Form 10-Q dated August 13, 1999, is hereby incorporated by reference. 10.26 Sixth Amendment to Credit Agreement dated as of May 18, 1999 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.44 on Form 10-Q dated August 13, 1999, is hereby incorporated by reference. 10.27 Amendment No. 2 to Facility Agreement, dated January

25, 2000, among The First National Bank of Chicago and the Registrant, filed as Exhibit 10.44 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference. 10.28 Irrevocable Standby Letter of Credit Application and Terms Agreement, dated February 1, 2000, between Federal Home Loan Bank of Des Moines and AmerUs Life Insurance Company, filed as Exhibit 10.45 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference. 10.29 Seventh Amendment to Credit Agreement dated as of December 23, 1999 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., Various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.46 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference. 10.30 Investment Advisory Agreements, dated as of February 18, 2000, by and between Indianapolis Life Insurance Company, Bankers Life Insurance Company of New York, IL Annuity and Insurance Company, Western Security Life Insurance Company and AmerUs Capital Management Group, Inc. filed as Exhibits 10.1,10.3, 10.4 and 10.2, respectively, to AmerUs Life Holdings, Inc.'s report on Form 8-K/A on March 6, 2000, are hereby incorporated by reference. 10.31 Advance, Pledge and Security Agreement, dated April 12, 2000, by and between the Federal Home Loan Bank of Topeka and American Investors Life Insurance Company, Inc., filed as Exhibit 10.48 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference. 10.32 Institutional Custody Agreement, dated April 12, 2000, by and between the Federal Home Loan Bank of Topeka and American Investors Life Insurance Company, Inc., filed as Exhibit 10.49 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference. 52 10.33 Line of Credit Application, dated April 12, 2000, by and between the Federal Home Loan Bank of Topeka and American Investors Life Insurance Company, Inc., filed as Exhibit 10.50 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference. 10.34 Stock Purchase Agreement, dated February 1, 2000, by and among AmVestors Financial Corporation, Creative Marketing International Corporation and the Stockholders of Creative Marketing International Corporation, filed as Exhibit 10.51 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference. 10.35 Stock Purchase Agreement, dated February 23, 2000, by and among American Investors Sales Group, Inc., Community Bank Marketing, Inc. and Community Financial Services, Inc., filed as Exhibit 10.52 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference. 10.36 Agreement for Advances, Pledge and Security Agreement, dated March 12, 1992, by and between Central Life Assurance Company and the Federal Home Loan Bank of Des Moines, filed as Exhibit 10.53 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference. 10.37 Agreement for Advances, Pledge and Security Agreement, dated September 1, 1995, by and between American Vanguard Life Insurance Company and the Federal Home Loan Bank of Des Moines, filed as Exhibit 10.54 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference. 10.38 Agreement and Plan of Merger, dated September 30, 1998, by and among AmVestors Financial Corporation, Senior Benefit Services of Kansas, Inc., Senior Benefit Services Insurance Agency, Inc., National Senior Benefit Services, Inc. and Richard McCarter, filed as Exhibit 10.55 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference. 10.39 Eighth Amendment to Credit Agreement dated as of June 23, 2000 to the Credit Agreement dated as of October 23, 1997 among AmerUs Life Holdings, Inc., various Lender Institutions, the Co-Arrangers and The Chase Manhattan Bank, as Administrative Agent, filed as Exhibit 10.57 on Form 10-Q, dated August 14, 2000, is hereby incorporated by reference. 10.40 Affirmation Agreement to Facility and Guaranty Agreement dated February 12, 1999 by American Mutual Holding Company, survivor of a merger with AmerUs Life Holdings, Inc. in favor of the Agent and the Lenders, dated September 20, 2000, filed as Exhibit 10.58 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference. 10.41 Amendment to Facility and Guaranty Agreement dated February 12, 1999 among The First National Bank of Chicago and AmerUs Group Co., dated September 20, 2000, filed as Exhibit 10.59 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference. 10.42 Acknowledgement and Assumption Agreement to Credit Agreement dated October 23, 1997, among American Mutual Holding Company and The Chase Manhattan Bank, as Administrative Agent for Various Lender Institutions, dated September 20, 2000, filed as Exhibit 10.60 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference. 10.43 AmerUs Group Co. 2000 Stock Incentive Plan, dated November 15, 2000, filed as Exhibit 99.9 to the registration statement of AmerUs Group Co. on Form S-8, Registration Number 333-50030, is hereby incorporated by reference. 10.44* Employment Agreement between Indianapolis Life Insurance Company and Larry R. Prible dated May 11, 2000. 11* Statement Re: Computation of Earnings per share. 99.1 Retirement Agreement, dated March 14, 2000, by and between Victor N. Daley and AmerUs Life Holdings, Inc., filed as Exhibit 99.8 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference. 99.2 First Amendment to Employment Agreement, dated as of April 15, 1999, to the Employment Agreement dated as of September 19, 1997, among Mark V. Heitz, AmVestors Financial Corporation, American Investors Life Insurance Company, Inc., AmVestors Investment Group, Inc., American Investors Sales Group, Inc., and AmerUs Life Holdings, Inc., filed as Exhibit 99.4 on Form 10-Q dated August 13, 1999, is hereby incorporated by reference. 53 99.3 Supplemental Benefit Agreement, dated as of April 15, 1999, among Roger K. Brooks and AmerUs Life Holdings, Inc., filed as Exhibit 99.5 on Form 10-Q dated August 13, 1999, is hereby incorporated by reference. 99.4 Form of Supplemental Benefit Agreement, dated as of April 15, 1999, among AmerUs Life Holdings, Inc. and Victor N. Daley, Michael G. Fraizer, Thomas C. Godlasky and Gary R. McPhail, filed as Exhibit 99.6 on Form 10-Q dated August 13, 1999, is hereby incorporated by reference. 99.5 Amended and Restated Employment Agreement, dated as of April 15, 1999, among Marcia S. Hanson and AmerUs Life Holdings, Inc., filed as Exhibit 99.7 on Form 10-Q dated August 13, 1999, is hereby incorporated by reference. 99.6 Agreement and Release, dated as of December 31, 1999, by and between Marcia S. Hanson, AmerUs Life Holdings, Inc., Registrant, American Mutual Holding Company, and all of their respective subsidiaries and affiliates, filed as Exhibit 99.6 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference. 99.7 Form of Supplemental Benefit Agreement, dated as of February 7, 2000, among AmerUs Life Holdings, Inc. and Victor N. Daley, Michael G. Fraizer, Thomas C. Godlasky and Gary R. McPhail, filed as Exhibit 99.7 on Form 10-K, dated March 8, 2000 is hereby incorporated by reference. ---------------------- * included herein 54