AMERUS GROUP CO/IA
Form 10-Q
November 13, 2002

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2002

OR

/ / 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 000-30898

AMERUS GROUP CO.

(Exact name of Registrant as specified in its charter)

IOWA (State or other jurisdiction of incorporation or organization)	42-1458424 (I.R.S. Employer Identification No.)

699 Walnut Street
Des Moines, Iowa 50309-3948
(Address of principal executive offices)

Registrant s telephone number, including area code (515) 362-3600

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 / /

The number of shares outstanding of each of the Registrant s classes of common stock on November 5, 2002 was as follows:

Common Stock	39,009,078 shares

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SAFE HARBOR STATEMENT

All statements, trend analyses and other information contained in this report relative to markets for our products and trends in our operations or financial results, as well as other statements including words such as anticipate , believe , plan , estimate , expect , intend , and other simila expressions, constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. Factors that may cause our actual results to differ materially from those contemplated by these forward-looking statements include, among others, the following possibilities: (a) general economic conditions and other factors, including prevailing interest rate levels and stock market performance, which may affect our ability to sell our products, the market value of our investments and the lapse rate and profitability of policies; (b) our ability to achieve anticipated levels of operational efficiencies and cost-saving initiatives and to meet cash requirements based upon projected liquidity sources; (c) customer response to new products, distribution channels and marketing initiatives; (d) mortality, morbidity, and other factors which may affect the profitability of our insurance products; (e) our ability to develop and maintain effective risk management policies and procedures and to maintain adequate reserves for future policy benefits and claims; (f) changes in the federal income tax laws and regulations which may affect the relative tax advantages of some of our products; (g) increasing competition in the sale of insurance and annuities and the recruitment of sales representatives; (h) regulatory changes or actions, including those relating to regulation of insurance products and of insurance companies; (i) our ratings and those of our subsidiaries by independent rating organizations which we believe are particularly important to the sale of our products; (j) the performance of our investment portfolios; (k) the impact of changes in standards of accounting for derivatives and business combinations, goodwill and other intangibles and purchase accounting adjustments; (l) our ability to integrate the business and operations of acquired entities; (m) expected life and annuity product margins; (n) the impact of anticipated investment transactions; and (o) unanticipated litigation or regulatory investigations.

There can be no assurance that other factors not currently anticipated by us will not materially and adversely affect our results of operations. You are cautioned not to place undue reliance on any forward-looking statements made by us or on our behalf. Forward-looking statements speak only as of the date the statement was made. We undertake no obligation to update or revise any forward-looking statement.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

AMERUS GROUP CO.
CONSOLIDATED BALANCE SHEETS
($ in thousands)

	September 30, 2002	December 31, 2001
	(unaudited)	
Assets		
Investments:		
Securities available-for-sale at fair value:		
Fixed maturity securities	$ 12,809,328	$ 11,037,425
Equity securities	61,052	11,362
Short-term investments	23,714	14,881
Securities held for trading purposes at fair value:		
Fixed maturity securities	1,857,324	2,175,106
Equity securities		12,013
Short-term investments	8,139	4,212
Mortgage loans	920,035	944,532
Real estate	1,257	1,405
Policy loans	496,614	506,318
Other investments	246,094	345,179
Total investments	16,423,557	15,052,433
Cash and cash equivalents	98,771	179,376
Accrued investment income	189,476	174,238
Premiums, fees and other receivables	14,991	9,920
Income taxes receivable	14,728	
Reinsurance receivables	836,989	732,030
Deferred policy acquisition costs	783,404	642,680
Value of business acquired	503,237	583,829
Goodwill	223,545	195,484
Property and equipment	77,406	83,221
Deferred income taxes		12,140
Other assets	313,385	305,416
Separate account assets	233,614	328,385
Total assets	$ 19,713,103	$ 18,299,152

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.
CONSOLIDATED BALANCE SHEETS
($ in thousands)

	September 30, 2002	December 31, 2001
	(unaudited)	
Liabilities and Stockholders Equity		
Liabilities:		
Policy reserves and policyowner funds:		
Future life and annuity policy benefits	$15,844,975	$15,102,001
Policyowner funds	1,184,917	432,941
	17,029,892	15,534,942
Accrued expenses and other liabilities	273,394	512,500
Dividends payable to policyowners	303,654	221,224
Policy and contract claims	39,588	33,147
Income taxes payable		45,809
Deferred income taxes	77,330	
Notes payable	499,110	384,628
Separate account liabilities	233,614	328,385
Total liabilities	18,456,582	17,060,635
Stockholders equity:		
Preferred Stock, no par value, 20,000,000 shares authorized, none issued		
Common Stock, no par value, 230,000,000 shares authorized; 43,650,431 shares issued and 39,005,729 shares outstanding in 2002; 43,505,998 shares issued and 41,759,450 shares outstanding in 2001	43,650	43,506
Additional paid-in capital	1,179,000	1,177,688
Accumulated other comprehensive income	75,731	12,669
Unearned compensation	(476)	(727)
Unallocated ESOP shares	(2,746)	(224)
Retained earnings	117,854	62,187
Treasury stock, at cost (4,644,702 shares in 2002 and 1,746,548 shares in 2001)	(156,492)	(56,582)
Total stockholders equity	1,256,521	1,238,517
Total liabilities and stockholders equity	$19,713,103	$18,299,152

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.
CONSOLIDATED STATEMENTS OF INCOME
($ in thousands, except share data)

	For The Three Months Ended September 30, 2002	For The Three Months Ended September 30, 2001	For The Nine Months Ended September 30, 2002	For The Nine Months Ended September 30, 2001
	(unaudited)			
Revenues:				
Insurance premiums	$ 78,501	$ 92,522	$ 263,857	$ 221,401
Universal life and annuity product charges	42,207	47,407	124,392	106,520
Net investment income	252,388	231,943	744,054	620,164
Realized/unrealized gains (losses) on investments	(21,951)	(45,302)	(122,574)	(97,309)
Other income	20,634	11,541	53,568	35,118
	371,779	338,111	1,063,297	885,894
Benefits and expenses:				
Policyowner benefits	226,103	195,845	660,035	505,692
Underwriting, acquisition and other expenses	35,967	40,800	115,421	107,255
Demutualization costs	722	249	1,186	451
Restructuring costs	2,569	6,527	10,780	6,527
Amortization of deferred policy acquisition costs and value of business acquired	35,289	31,270	103,452	86,512
Dividends to policyowners	24,377	26,191	72,000	68,416
	325,027	300,882	962,874	774,853
Income from continuing operations	46,752	37,229	100,423	111,041
Interest expense	6,414	5,974	18,778	20,716
Income before income tax expense	40,338	31,255	81,645	90,325
Income tax expense	13,848	9,745	25,978	28,716
Net income from continuing operations	26,490	21,510	55,667	61,609
Cumulative effect of change in accounting for derivatives, net of tax				(8,236)
Net income	$ 26,490	$ 21,510	$ 55,667	$ 53,373
Net income from continuing operations per common share:				
Basic	$ 0.67	$ 0.52	$ 1.38	$ 1.74
Diluted	$ 0.66	$ 0.51	$ 1.36	$ 1.72
Net income per common share:				
Basic	$ 0.67	$ 0.52	$ 1.38	$ 1.51

Diluted	$ 0.66	$ 0.51	$ 1.36	$ 1.49
Weighted average common shares outstanding:				
Basic	39,497,355	41,536,389	40,327,236	35,334,160
Diluted	39,835,426	42,060,929	40,812,121	35,825,884

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
($ in thousands)

	For The Three Months Ended September 30, 2002	For The Three Months Ended September 30, 2001	For The Nine Months Ended September 30, 2002	For The Nine Months Ended September 30, 2001
	(unaudited)			
Net income	$ 26,490	$ 21,510	$ 55,667	$ 53,373
Other comprehensive income (loss), before tax:				
Unrealized gains (losses) on securities:				
Transfer related to unrealized gain (loss) on available-for-sale securities reclassified to trading				(430)
Unrealized holding gains (losses) arising during period	71,793	66,784	39,933	64,444
Less: Reclassification adjustment for gains (losses) included in net income	(15,625)	(6,103)	(57,085)	(20,326)
Other comprehensive income gain (loss), before tax	87,418	72,887	97,018	84,340
Income tax (expense) benefit related to items of other comprehensive income	(30,596)	(25,510)	(33,956)	(29,519)
	56,822	47,377	63,062	54,821
Amounts attributable to:				
Change in accounting for derivatives				2,661
Other comprehensive income (loss), net of taxes	56,822	47,377	63,062	57,482
Comprehensive income	$ 83,312	$ 68,887	$118,729	$110,855

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
September 30, 2002
($ in thousands)

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Unallocated ESOP Shares	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance at December 31, 2000	$ 30,011	$ 809,89	$ (17,188)	$ (146)	$ (683)	$ 6,067	$	$ 827,955
2001:								
Net income						72,907		72,907
Change in accounting for derivatives			2,661					2,661
Transfer related to unrealized gain (loss) on available-for-sale securities reclassified to trading			(430)					(430)
Net unrealized gain (loss) on securities			35,891					35,891
Net unrealized gain (loss) on derivatives designated as cash flow hedges			(5,933)					(5,933)
Stock issued under various incentive plans, net of forfeitures	206	5,861		(581)			108	5,594
Stock issued under exercise of warrants		(1,383)					4,468	3,085
Dividends declared on common stock						(16,787)		(16,787)
Purchase of treasury stock							(44,985)	(44,985)
Acquisition of IL Holdings	9,047	223,358						232,405
Conversion of company-obligated mandatorily redeemable preferred capital securities	4,242	139,478					(16,173)	127,547
Allocation of shares in leveraged ESOP		480			459			939
Minimum pension liability adjustment			(2,332)					(2,332)
Balance at December 31, 2001	$ 43,506	$ 1,177,688	$ 12,669	$ (727)	$ (224)	$ 62,187	$ (56,582)	$ 1,238,517
2002 (unaudited):								
Net income						55,667		55,667
Net unrealized gain (loss) on securities			60,744					60,744
Net unrealized gain (loss) on derivatives designated as cash flow hedges			2,318					2,318
Stock issued under various incentive plans, net of forfeitures	144	5,114		251			1	5,510
Stock issued under exercise of warrants		(3,802)					12,205	8,403
					(2,522)		(112,116)	(114,638)

Purchase of treasury stock and ESOP shares								
Balance at September 30, 2002	$ 43,650	$ 1,179,000	$ 75,731	$ (476)	$ (2,746)	$ 117,854	$ (156,492)	$ 1,256,521

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS
($ in thousands)

	For The Nine Months Ended September 30, 2002	2001
	(unaudited)	
Cash flows from operating activities		
Net income	$ 55,667	$ 53,373
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of change in accounting for derivatives		8,236
Policyowner assessments on universal life and annuity products	(105,970)	(87,820)
Interest credited to policyowner account balances	328,655	284,148
Change in option value of equity-indexed products and market value adjustments on total return strategy annuities	(41,110)	(62,068)
Realized/unrealized (gains) losses on investments	122,574	97,309
Goodwill amortization		6,348
DAC amortization	49,821	24,215
VOBA amortization	53,631	62,297
Change in:		
Accrued investment income	(15,238)	(10,974)
Reinsurance receivables	(104,959)	(246,854)
Securities held for trading purposes:		
Fixed maturities	299,674	20,835
Equity securities	12,013	(2,846)
Short-term investments	(3,927)	
DAC and VOBA	(289,273)	(180,370)
Liabilities for future policy benefits	489,022	133,002
Accrued expenses and other liabilities	(63,474)	(21,124)
Policy and contract claims and other policyowner funds	19,613	25,250
Income taxes:		
Current	(60,244)	(17,829)
Deferred	51,382	39,896
Other, net	(19,264)	(12,766)
Net cash provided by operating activities	778,593	112,258
Cash flows from investing activities:		
Purchase of fixed maturities available-for-sale	(5,049,012)	(3,538,411)
Proceeds from sale of fixed maturities available-for-sale	3,379,047	2,172,292
Maturities, calls and principal reductions of fixed maturities available-for-sale	531,840	690,138
Purchase of equity securities	(58,417)	(61,381)
Proceeds from sale of equity securities	769	60,032
Change in short-term investments, net	(8,768)	9,418
Purchase of mortgage loans	(53,375)	(116,390)

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AMERUS GROUP CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
($ in thousands)

	For The Nine Months Ended September 30, 2002	2001
	(unaudited)	
Proceeds from repayment and sale of mortgage loans	77,002	96,810
Purchase of real estate and other invested assets	(16,998)	(89,325)
Proceeds from sale of real estate and other invested assets	64,700	91,009
Change in policy loans, net	9,704	(915)
Other assets, net	(5,537)	(40,624)
Acquisitions, net of cash acquired		156,925
Net cash (used in) investing activities	(1,129,045)	(570,422)
Cash flows from financing activities:		
Deposits to policyowner account balances	1,563,532	1,504,357
Withdrawals from policyowner account balances	(1,292,534)	(923,596)
Change in debt, net	(50,576)	19,861
Stock issued under various incentive plans, net of forfeitures	5,510	5,868
Purchase of treasury stock	(114,638)	(38,945)
Proceeds from issuance of OCEANs	179,358	
Retirement of company-obligated mandatorily redeemable capital securities	(20,805)	
Conversion of company-obligated mandatorily redeemable capital securities		154
Net cash provided by financing activities	269,847	567,699
Net increase (decrease) in cash	(80,605)	109,535
Cash and cash equivalents at beginning of period	179,376	65,485
Cash and cash equivalents at end of period	$ 98,771	$ 175,020
Supplemental disclosure of cash activities:		
Interest paid	$ 28,815	$ 23,340
Income taxes paid	$ 22,690	$ 9,486
Details of acquisitions:		
Fair value of assets acquired		$5,676,350
Liabilities assumed		5,349,908
Carrying value of acquisitions		326,442
Common stock issued		(232,405)
Accrual of cash payout component of purchase price		(9,000)
Preliminary investment in ILGC		(77,200)
Acquisition costs previously paid		(2,857)
Cash paid		4,980

Less: Cash acquired		161,905
Net cash (received in) acquisitions	$	$ (156,925)

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) CONSOLIDATION AND BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All adjustments were of a normal recurring nature, unless otherwise noted in Management s Discussion and Analysis and the Notes to Consolidated Financial Statements. Operating results for the nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002 (see further discussion in Management s Discussion and Analysis). For further information and for capitalized terms not defined in this Form 10-Q, refer to the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2001.

The accompanying consolidated financial statements include the accounts and operations of the Company and its wholly-owned subsidiaries, principally AmerUs Life Insurance Company (ALIC), AmerUs Annuity Group Co. (AAG), AmerUs Capital Management Group, Inc. (ACM), and ILICO Holdings, Inc., the holding company of Indianapolis Life Insurance Company (ILIC) and its subsidiaries (ILICO). All significant intercompany transactions and balances have been eliminated in consolidation.

Effective on March 29, 2002, Western Security Life Insurance Company, a subsidiary of ILIC, was sold. The insurance business of Western Security Life Insurance Company was transferred to ILIC prior to the sale. The sale of the corporate organization and insurance licenses resulted in a gain of approximately $1.9 million which is included in realized gains.

The residential financing and property operations were previously for sale and were carried as discontinued operations in the consolidated financial statements. During the third quarter of 2002, it was determined the sale would not be completed. As a result, the consolidated financial statements for prior periods have been restated to reclassify the assets, liabilities, and income of the discontinued operations to the respective financial statement line items. There was no adjustment to the carrying value of the net assets of these operations, and accordingly, there was no effect on stockholders equity or net income for the restatement.

Certain amounts in the 2001 financial statements have been reclassified to conform to the 2002 financial statement presentation.

(2) EARNINGS PER SHARE

Basic earnings per share of common stock are computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share assumes the issuance of common shares applicable to stock options and warrants calculated using the treasury stock method. In addition, diluted earnings per share applicable to the Company s Optionally Convertible Equity-linked Accreting Notes (OCEANs^{SM}) are determined using the if-converted method for the number of days in the period in which the common stock price conversion condition is met. No undistributed net income has been allocated to the convertible securities holders since their participation in dividends with common stockholders is established at the amount of the annual regular dividend. See further discussion of the OCEANs in note 5.

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(3) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 133 Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS 137 and SFAS 138, which requires that all derivative instruments, including certain derivative instruments embedded in other contracts, be reported on the balance sheet at fair value. Accounting for gains and losses resulting from changes in the values of derivatives is dependent upon the use of the derivative and its qualification for special hedge accounting. In accordance with the provisions of SFAS No. 133, the Company recorded a transition adjustment as of January 1, 2001 upon adoption of the standard to recognize its derivative instruments at fair value resulting in a pre-tax reduction to income of $12.4 million ($8.2 million after-tax) and an increase to Accumulated Other Comprehensive Income (AOCI) of $2.7 million. The basic and diluted earnings per common share for the cumulative effect of change in accounting for derivatives amounts to $0.23 for the nine months ended September 30, 2001. The reduction to income which is classified as a cumulative effect of change in accounting for derivatives, net of tax in the Consolidated Statements of Income, is attributable to losses on basis swaps that were natural hedges and losses on interest rate swaps reclassified from AOCI that have been redesignated as cash flow hedges of floating rate funding agreement liability effective January 1, 2001. In addition, the reduction to income includes adjustments to fair value for options being used to hedge embedded options contained within equity-indexed products. The increase in AOCI, which is classified as change in accounting for derivatives in the Consolidated Statements of Comprehensive Income, is attributable to the reclassification of the interest rate swap s fair value adjustment from AOCI to the Consolidated Statements of Income.

During the first nine months of 2002 and 2001, realized/unrealized gains (losses) on investments included an unrealized loss of $47.8 million and $62.5 million, respectively, from the change in fair value on call options used as a natural hedge of embedded options within equity-indexed products. Additionally, the first nine months of 2002 and 2001 included an unrealized loss of $16.8 million and $14.5 million, respectively, from the change in fair value on the trading securities backing the total return strategy products. Policyowner benefits included an offsetting adjustment to reduce contract liabilities for fair value changes in options embedded within the equity-indexed products and fair value changes on total return strategy products of $41.1 million and $62.1 million for the first nine months of 2002 and 2001, respectively. In addition, basis swaps were terminated during the first quarter of 2001 and an increase in fair value of $1.8 million on those swaps was included in net investment income. AOCI included an unrealized gain of $2.3 million and loss of $2.1 million from the fair value change in interest rate swaps used to hedge the floating rate funding agreement liability during the first nine months of 2002 and 2001, respectively. The Company undesignated a cash flow hedge and is now amortizing the amount in AOCI to earnings over the remaining life of the swap, which amounted to $2.7 million expense in the first nine months of 2002. The Company estimates that $3.3 million of derivative losses, net of income taxes, included in AOCI will be reclassified into earnings within the next twelve months.

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The following table summarizes the income (loss) impact of the market value adjustments on trading securities and derivatives and the cash flow hedge amortization for the first nine months ended September 30, 2002 and 2001 (in thousands):

	For The Nine Months Ended September 30, 2002	2001
	($ in thousands) (unaudited)	
Fixed maturity securities held for trading	$ (16,792)	$ (14,497)
Options on equity-indexed products	(47,763)	(62,538)
Equity-indexed and total return strategy liabilities	41,110	62,068
Cash flow hedge amortization	(2,659)	
Deferred policy acquisition cost amortization impact of net adjustments above	(676)	4,650
Pre-tax total	(26,780)	(10,317)
Income taxes	9,373	3,611
After-tax total	$ (17,407)	$ (6,706)

(4) CLOSED BLOCK

The Company has established two closed blocks, which we refer to as the Closed Block. The first was established on June 30, 1996 in connection with the reorganization of ALIC to a stock form. The second was established as of March 31, 2000 in connection with the reorganization of ILIC to a stock form. The operations of ILIC have been included in the consolidated financial statements of the Company since May 18, 2001. Insurance policies which had a dividend scale in effect as of each Closed Block establishment date, were included in the Closed Block. The Closed Block was designed to provide reasonable assurance to owners of insurance policies included therein that, after the reorganization of ALIC and ILIC, assets would be available to maintain the dividend scales and interest credits in effect prior to the reorganization if the experience underlying such scales and credits continues.

Summarized financial information of the Closed Block as of September 30, 2002 and December 31, 2001 and for the three months and nine months ended September 30, 2002 and 2001 are as follows:

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	September 30, 2002	December 31, 2001
	($ in thousands)	
	(unaudited)	
Liabilities:		
Future life and annuity policy benefits	$2,827,520	$2,835,423
Policyowner funds	4,450	4,656
Accrued expenses and other liabilities	60,378	69,678
Dividends payable to policyowners	148,516	154,139
Policy and contract claims	12,017	8,843
Policyowner dividend obligation	118,167	61,486
Total Liabilities	3,171,048	3,134,225
Assets:		
Fixed maturity securities available-for-sale at fair value	1,949,793	1,829,060
Mortgage loans	97,935	105,901
Policy loans	355,981	363,981
Other investments	20,695	4,653
Cash and cash equivalents	14,699	18,382
Accrued investment income	31,827	32,396
Premiums and fees receivable	16,223	22,414
Other assets	21,060	41,827
Total Assets	2,508,213	2,418,614
Maximum future earnings to be recognized from assets and liabilities of the Closed Block	$ 662,835	$ 715,611

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2002	2001	2002	2001
	($ in thousands) (unaudited)			
Operations:				
Insurance premiums	$ 61,547	$ 73,634	$ 195,657	$ 178,196
Universal life and annuity product charges	3,500	3,167	6,941	9,496
Net investment income	40,315	37,641	117,292	92,450
Realized gains (losses) on investments	(1,126)	1,889	(1,880)	2,202
Policyowner benefits	(70,101)	(84,013)	(214,850)	(194,912)
Underwriting, acquisition and other expenses	(968)	(1,101)	(3,704)	(2,788)
Dividends to policyowners	(22,132)	(24,338)	(65,437)	(63,161)
Contribution from the Closed Block before income taxes	$ 11,035	$ 6,879	$ 34,019	$ 21,483

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(5) NOTES PAYABLE

Notes payable consist of the following:

	September 30, 2002	December 31, 2001
	($ in thousands)	
	(unaudited)	
Federal Home Loan Bank community investment long-term advances with a weighted average interest rate of 6.37% at September 30, 2002 (A)	$ 13,998	$ 14,369
Optionally Convertible Equity-linked Accreting Notes due on March 6, 2032 (B)	185,863	
Senior notes bearing interest at 6.95% due June, 2005	125,000	125,000
Revolving credit agreement	101,000	150,000
Surplus notes bearing interest at 8.66% due on April 11, 2011	25,000	25,000
Note payable to a bank bearing interest at 7.24% due March, 2004		1,205
AmerUs Capital I 8.85 % Capital Securities Series A due February 1, 2007 (C)	48,095	68,900
AmerUs Capital II 7.00 % Quarterly Income Preferred Securities due July 27, 2003	154	154
	$499,110	$384,628

(A) The Company has multiple credit arrangements with the Federal Home Loan Bank (FHLB). In addition to the long-term advances disclosed above, the Company is eligible to borrow under variable-rate short term fed funds arrangements of which no amount was outstanding at September 30, 2002. These borrowings are secured and interest is payable at the current rate at the time of each advance.

(B) On March 6, 2002, the Company issued $185 million aggregate original principal amount of OCEANs. The OCEANs are senior subordinated debt and were issued and sold in an original principal

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amount of $1,000 per OCEAN, with a principal amount at maturity of $1,270 per OCEAN. The maturity date of the OCEANs is March 6, 2032. The OCEANs will have aggregate principal amount at maturity of $234,950,000. The notes are convertible into shares of the Company s common stock at an initial conversion price (subject to adjustment) of $37.60 per share only if the sale price of the common stock exceeds $47.85 per share for at least 20 trading days in a 30-day trading period or in certain other limited circumstances.

Proceeds from the OCEANs were used to repay borrowings on the Company s revolving credit agreement and to purchase approximately 1.7 million shares amounting to $59 million of the Company s common stock. The OCEANs are senior subordinated debt, subordinated in right of payment to all existing and future senior debt and senior to all existing and future junior subordinated debt.

(C) On March 26, 2002, $20.8 million of the AmerUs Capital I 8.85% Capital Securities were repurchased which did not result in a material gain.

For an additional discussion of the terms of the above indebtedness refer to the Company s consolidated financial statements as of December 31, 2001.

(6) FEDERAL INCOME TAXES

The effective income tax rate for the three-months and nine months ending September 30, 2002 and 2001, respectively, varied from the prevailing corporate rate primarily as a result of non-deductible demutualization costs, low income housing and rehabilitation credits, and tax exempt income in 2002 and 2001 and goodwill amortization in 2001.

(7) ACQUISITIONS

On May 18, 2001, the Company completed the acquisition of ILICO for an amount of cash, policy credits and shares of the Company s common stock equal to the value of 9.3 million shares of the Company s common stock. The purchase price totaled approximately $326 million. The acquisition was accounted for using the purchase method of accounting and accordingly the total purchase price was allocated to the assets and liabilities of ILICO based on the relative fair values as of May 18, 2001, with the excess of the purchase price over the fair value of the assets acquired less the fair value of the liabilities assumed recorded as goodwill. Goodwill was amortized over thirty years through December 31, 2001. In accordance with SFAS 142, Goodwill and Other Intangible Assets, effective January 1, 2002, goodwill is no longer amortized but instead tested for impairment on an annual basis (see note 9). The operations of ILICO have been included in the consolidated financial statements of the Company since May 18, 2001. The allocation of the purchase price of ILICO is as follows (in millions):

	(unaudited)
Investments (including cash and short-term investments)	$ 4,674.1
Receivables and other assets	434.7
Value of business acquired	215.4
Goodwill	40.7
Separate account assets	345.6
Policyowner reserves and funds	(4,887.4)
Other liabilities	(126.1)
Debt	(25.0)
Separate account liabilities	(345.6)
Total investment in ILICO	$ 326.4

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In June 2002, the Company acquired an Independent Marketing Organization (IMO) for cash of $7.5 million. The total purchase price was allocated to the assets and liabilities based on the relative fair values with the excess of the purchase price over the fair value of the assets acquired less the fair value of the liabilities assumed recorded as goodwill. Goodwill amounting to $7.2 million was established in connection with the acquisition. If certain financial targets are met during the next six years, the purchase price can be increased by up to $3 million per year. Such purchase amounts, if any, would be recorded as additional goodwill.

(8) RESTRUCTURING CHARGES

During the third quarter of 2001, the Company began consolidating various functions in connection with a restructuring of its protection products and accumulation products operations and investment activities. The objective of the restructuring plan is to eliminate duplicative functions for all business units. The elimination of duplicative functions is intended to reduce on-going operating costs for the Company. Corporate administrative functions are being transitioned so they are performed primarily in Des Moines, Iowa. Protection products administrative processes will be transitioned so they are performed in Des Moines; Woodbury, New York; or outsourced. Accumulation products functions will be transitioned to Topeka, Kansas. Investment activities have been restructured to eliminate certain real estate management services which have been outsourced.

Restructuring charges have been included in the consolidated statement of income for the three months and nine months ended September 30, 2002. The restructuring charges for the nine months ended September 30, 2002 include pre-tax severance and termination benefits of $5.5 million related to the elimination of approximately 90 positions and other pre-tax costs of $5.3 million primarily related to systems conversion and relocation of employees. An accrual for severance and termination benefits not yet paid amounted to $2.8 million at September 30, 2002.

The Company has not finalized all restructuring activities as of September 30, 2002. Additional activities will primarily involve relocation or severance benefits for affected employees, various administrative, financial, and actuarial system conversion costs and building disposition costs. Expenditures for all restructuring activities are expected to be completed by the fourth quarter of 2003.

(9) ADOPTION OF SFAS 142

SFAS 142, Goodwill and Other Intangible Assets, changes the accounting for goodwill and other intangible assets and became effective January 1, 2002. SFAS 142 adopts a nonamortization, impairment-only model for the Company s goodwill and indefinite-lived intangible assets. This includes a more stringent impairment test methodology for measuring and recognizing impairment losses. The Company accordingly discontinued amortization of goodwill on January 1, 2002. As of September 30, 2002, goodwill of $34.2 million is in the protection products segment and $189.3 million is in the accumulation products segment. The only intangible asset other than goodwill, is value of business acquired (VOBA) which is being amortized and amounted to a gross carrying amount of $832.4 million and accumulated amortization of $329.2 million at September 30, 2002. Goodwill changed from $195.5 million at December 31, 2001 to $223.5 million at September 30, 2002 primarily due to the adjustment of the ILICO purchase price allocation which increased goodwill approximately $19.8 million and goodwill attributable to the acquisition of independent marketing organizations of approximately $8.2 million. The Company has evaluated the transitional impairment analysis for goodwill and other intangible assets and determined such assets are not impaired as of January 1, 2002.

A reconciliation of net income and basic and diluted earnings per share reported for the three months and nine months ended September 30, 2001 to exclude amortization expense of goodwill is as follows:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2002	2001	2002	2001
	($ in thousands, except per share amounts) (unaudited)			
Net income as reported	$26,490	$21,510	$55,667	$53,373
Goodwill amortization expense		2,450		6,348
Adjusted net income	$26,490	$23,960	$55,667	$59,721
Basic earnings per share as reported	$ 0.67	$ 0.52	$ 1.38	$ 1.51
Goodwill amortization expense		0.06		0.18
Adjusted basic earnings per share	$ 0.67	$ 0.58	$ 1.38	$ 1.69
Diluted earnings per share as reported	$ 0.66	$ 0.51	$ 1.36	$ 1.49
Goodwill amortization expense		0.06		0.18
Adjusted diluted earnings per share	$ 0.66	$ 0.57	$ 1.36	$ 1.67

(10) COMMITMENTS AND CONTINGENCIES

In recent years, the life insurance industry, including the Company and its subsidiaries, have been subject to an increase in litigation pursued on behalf of purported classes of insurance purchasers, questioning the conduct of insurers in the marketing of their products. The Company is involved in litigation, including class actions, reinsurance claims and regulatory proceedings, arising in the ordinary course of its business. Some of these claims and legal actions are in jurisdictions where juries are given substantial latitude in assessing damages, including punitive damages. Although no assurances can be given and no determinations can be made at this time, the Company believes that the ultimate liability, if any, with respect to these claims and legal actions, would have no material effect on its results of operations and financial position.

Previously, the Company disclosed it was aware of a dispute between the retrocessionaire and the reinsurer of a block of annuity business written by IL Annuity and Insurance Company (IL Annuity), a subsidiary of ILICo, as well as potential claims of the Reinsurer against IL Annuity. Recently, the reinsurer informally notified the Company of its intention to arbitrate a claim. Subsequent to receiving this notice, the Company was informed that the retrocessionaire s claim for breach of contract against the reinsurer was denied. While it is not feasible to predict the outcome of any claims by the reinsurer against IL Annuity, the Company believes, based upon currently available information, that the ultimate liability, if any, with respect to these claims would not have a material adverse effect on the Company s consolidated financial position or results of operations.

(11) OPERATING SEGMENTS

The Company has two operating segments: Protection Products and Accumulation Products. Products generally distinguish a segment. A brief description of each segment follows:

Protection Products. The primary product offerings consist of whole life, interest-sensitive whole life, term life, universal life and equity-indexed life insurance policies. These products are marketed on a national basis primarily through a Preferred Producer agency system, a Personal Producing General Agent (PPGA) distribution system and IMOs.

Accumulation Products. The primary product offerings consist of individual fixed annuities marketed on a national basis primarily through independent brokers and IMOs and insurance contracts issued through funding agreements.

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The Company uses the same accounting policies and procedures to measure operating segment income and assets as it uses to measure its consolidated income from operations and assets with the exception of the elimination of certain items which management believes are not necessarily indicative of overall operating trends. These items are shown between adjusted pre-tax operating income and income from continuing operations on the following operating segment tables and are as follows:

1) Realized gains and losses on open block investments.

2) Market value changes and amortization of assets and liabilities associated with the application of SFAS 133, such as:

   Unrealized gains and losses on securities held for trading.

   Change in option value of equity-indexed products and market value adjustments on total return strategy annuities.

   Cash flow hedge amortization.

3) Amortization of deferred policy acquisition costs (DAC) and VOBA related to the realized gains and losses on the open block investments and the SFAS 133 adjustments.

4) Demutualization costs.

5) Restructuring costs.

6) Other income from non-insurance operations.

These items will fluctuate from period to period depending on the prevailing interest rate and economic environment, are not continuing in nature, or are not part of the core insurance operations. As a result, management believes they do not reflect the Company s ongoing earnings capacity of its operating segments.

Premiums, product charges, policyowner benefits, insurance expenses, amortization of DAC and VOBA and dividends to policyowners are attributed directly to each operating segment. Net investment income and closed block realized gains and losses on investments are allocated based on directly-related assets required for transacting the business of that segment. Other revenues and benefits and expenses which are deemed not to be associated with any specific segment are grouped together in the All Other category. These items primarily consist of holding company revenues and expenses and the operations of the Company s real estate management subsidiary.

Assets are segmented based on policy liabilities directly attributable to each segment. There are no significant intersegment transactions. Depreciation and amortization, excluding amortization of DAC and VOBA as previously discussed, are not significant. There have been no material changes in segment assets since December 31, 2001.

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Operating Segment Income
($ in thousands)
(unaudited)

	For The Three Months Ended September 30, 2002			
	Protection Products	Accumulation Products	All Other	Total Consolidated
Revenues:				
Insurance premiums	$ 77,595	$ 674	$ 232	$ 78,501
Universal life and annuity product charges	31,662	10,545		42,207
Net investment income	84,202	167,054	1,132	252,388
Realized gains (losses) on closed block investments	(1,126)			(1,126)
Other income	1,068	16,521	773	18,362
	193,401	194,794	2,137	390,332
Benefits and expenses:				
Policyowner benefits	108,406	120,440	538	229,384
Underwriting, acquisition, and other expenses	15,204	17,422	3,341	35,967
Amortization of DAC and VOBA, net of open block loss adjustment of ($4,616)	15,287	24,618		39,905
Dividends to policyowners	24,377			24,377
	163,274	162,480	3,879	329,633
Adjusted pre-tax operating income	$ 30,127	$ 32,314	$ (1,742)	60,699
Realized gains (losses) on open block investments				(10,506)
Unrealized gains (losses) on open block options and trading investments				(10,319)
Change in option value of equity-indexed annuity products and market value adjustments on total return strategy annuities				5,242
Cash flow hedge amortization				(1,961)
Amortization of DAC and VOBA due to open block losses				4,616
Demutualization costs				(722)
Restructuring costs				(2,569)
Other income from non-insurance operations				2,272
Income from continuing operations				46,752
Interest (expense)				(6,414)
Income tax (expense)				(13,848)
Net income				$ 26,490

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Operating Segment Income
($ in thousands)
(unaudited)

	For The Three Months Ended September 30, 2001			
	Protection Products	Accumulation Products	All Other	Total Consolidated
Revenues:				
Insurance premiums	$ 89,237	$ 3,022	$ 263	$ 92,522
Universal life and annuity product charges	37,672	9,735		47,407
Net investment income	79,822	148,944	3,177	231,943
Closed block realized gains (losses) on investments	1,889			1,889
Other income	1,005	8,860	1,248	11,113
	209,625	170,561	4,688	384,874
Benefits and expenses:				