AMERUS GROUP CO/IA
Form 10-K405
March 15, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K
Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2001 Commission File Number: 000-30898

AMERUS GROUP CO.
(Exact name of Registrant as specified in its charter)

699 WALNUT STREET
DES MOINES, IOWA 50309-3948
(Address of principal executive offices, including zip code)

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

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (515) 362-3600

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

TITLE OF CLASS	NAME OF EXCHANGE ON WHICH REGISTERED
Common Stock (no par value)................................	New York Stock Exchange

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

TITLE OF EACH CLASS

Common Stock Warrants

Indicate by check mark whether the Registrant (1) has filed all reports 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 [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (sec. 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. Yes [X]. No [ ]

Aggregate market value of voting stock held by non-affiliates of the Registrant as of March 13, 2002: $1,519,431,737

Number of shares outstanding of each of the Registrant's classes of common stock on March 13, 2002 was as follows:

Common Stock...	40,208,262 shares

DOCUMENTS INCORPORATED BY REFERENCE

Notice of 2002 Annual Meeting of Shareholders and Proxy Statement (incorporated into Part III)

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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 similar 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 our 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

ITEM 1. BUSINESS

DEFINITIONS

When used in this document, the terms "AmerUs," "we," "our" and "us" refer to AmerUs Group Co. (including American Mutual Holding Company and AmerUs Life Holdings, Inc. as predecessor entities of AmerUs Group Co.) and our consolidated subsidiaries, unless otherwise specified or indicated by the context.

GENERAL

We are a holding company whose subsidiaries are primarily engaged in the business of marketing, underwriting and distributing a broad range of individual life insurance and annuity products to individuals and businesses in all 50 states, the District of Columbia and the U.S. Virgin Islands. We have two reportable operating segments: life insurance and annuities. The life insurance segment's primary product offerings consist of whole life, interest-sensitive whole life, equity-indexed life, universal life and term life insurance policies. The primary product offerings of the annuity segment are individual fixed annuities.

We were founded in 1896 as the mutual insurer Central Life Assurance Company. In 1996, we became the first Mutual Holding Company, or MHC, a structure that allows mutuals to access the public equity markets, which AmerUs did in 1997 with its initial public offering. In 2000, AmerUs reorganized its MHC structure through a full demutualization and became a 100% public stock company.

We have had positive organic growth in our businesses. We have also successfully executed a series of strategic acquisitions that have helped generate sales growth, as well as balance our product and geographic distribution. The following is a summary of these acquisitions and the benefits created:

- In 1994, Central Life Assurance Company and American Mutual Life Insurance Co. merged providing us with significant scale in our life insurance operations. The merger resulted in our becoming one of the 25 largest mutual insurers in America at that time.

- In October 1997, the acquisition of Delta Life Corporation launched our annuity business. At the time of the acquisition, Delta Life had about $2.0 billion in assets and specialized in single-premium deferred annuity and equity-indexed annuity products.

- In December 1997, we acquired AmVestors Financial Corporation, predecessor to AmerUs Annuity Group Co., which specialized in the sale of annuity products. The acquisition further strengthened our presence in asset accumulation and retirement and savings markets.

- In 2001, we acquired Indianapolis Life Insurance Company, an Indiana life insurance company, which had $5.8 billion in consolidated assets at the time of the acquisition. The acquisition allowed us to strengthen our life insurance business and ultimately provided us with a better balance of annuities and life insurance products.

We sold certain lines of business and made the decision to exit certain other businesses in 1998. These businesses are referred to as discontinued operations and include the following activities: banking, residential real estate brokerage, residential land development and mortgage banking.

SUBSIDIARIES

We have three main wholly-owned subsidiaries: AmerUs Life Insurance Company, or ALIC, an Iowa life insurance company; AmerUs Annuity Group Co., or AAG, a Kansas corporation and AmerUs Capital Management Group, Inc., or ACM, an Iowa corporation. AmerUs Group Co. and ALIC own all of ILICO Holdings, Inc., an Indiana corporation.

AAG owns, directly or indirectly, three Kansas life insurance companies: American Investors Life Insurance Company, Inc., or American; Delta Life and Annuity Company, or Delta; and Financial Benefit Life Insurance Company, or FBL.

ILICO Holdings, Inc., has one wholly-owned subsidiary, Indianapolis Life Insurance Company or ILIC, an Indiana life insurance company. ILIC has one wholly-owned subsidiary, The Indianapolis Life Group of Companies, Inc., or IL Group. IL Group has four wholly-owned subsidiaries: Bankers Life of New York, or Bankers Life, a New York life insurance company; IL Securities, Inc., an Indiana corporation; IL Annuity and Insurance Company, or IL Annuity, a Kansas life insurance company; and Western Security Life Insurance Company, or WSLIC, an Arizona life insurance company. Effective on March 5, 2002, IL Group was dissolved and its four wholly-owned subsidiaries become direct subsidiaries of ILIC. When used in this document, the term "ILICO" refers to ILICO Holdings, Inc. and its consolidated subsidiaries.

ORGANIZATION AS OF DECEMBER 31, 2001

[ORG. CHART]

REORGANIZATION

We were formerly known as American Mutual Holding Company, or AMHC and were a mutual insurance holding company, with our principal asset being a 58% interest in AmerUs Life Holdings, Inc., or ALHI. Public stockholders owned the remaining 42% interest in ALHI, and we refer to their interest as the minority interest. ALHI was a holding company which directly or indirectly owned three principal life insurance subsidiaries: ALIC, American and Delta. On September 20, 2000, we converted to stock form, changed our name to AmerUs Group Co. and acquired the minority interest of ALHI by issuing our common stock in exchange for the outstanding shares of ALHI held by the public. The value of the stock exchange was approximately $298 million and ALHI was merged into us simultaneously with the stock exchange.

Prior to our conversion to a stock company, which is referred to as a demutualization, we were owned by individuals and entities who held insurance policies or annuity contracts issued by ALIC. Such individuals and entities were considered members. In connection with our demutualization, we distributed cash, policy credits and our newly issued common stock to those members in exchange for their membership interests. The value of the distribution totaled approximately $792 million.

The acquisition of the minority interest of ALHI by us was accounted for as a purchase and 42% of the book value of the assets and liabilities of ALHI were adjusted to market value as of the acquisition date. Approximately 42% of the ALHI earnings for our fiscal periods prior to the acquisition date are deducted from our results of operations on the line titled "minority interest" in our consolidated statements of income. From the acquisition date forward, our results of operations include 100% of such earnings.

RECENT ACQUISITION

On May 18, 2001, we completed the acquisition of ILICO for an amount of cash, policy credits and shares of our common stock equal to the value of 9.3 million shares of our common stock. The purchase price totaled approximately $326 million. The acquisition was accounted for as a purchase and the total purchase price was allocated to the assets and liabilities of ILICO based on the relative fair values as of the acquisition date. See further discussion in note 15 to the consolidated financial statements.

FINANCIAL INFORMATION

We measure our profit or loss and total assets by operating segments. We have two reportable operating segments: life insurance and annuities. See a further discussion of our operating segments in "Item 7 Management's Discussion and Analysis of Results of Operations and Financial Condition."

LIFE INSURANCE SEGMENT

PRODUCTS

Our individual life insurance premiums are from traditional life insurance products, universal life insurance products and equity-indexed life insurance products as set forth in the following table:

	SALES ACTIVITY BY PRODUCT(A) DIRECT FIRST YEAR ANNUALIZED PREMIU FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	($ IN THOUSANDS)		
Traditional life insurance:			
Whole life	$ 6,842	$14,161	$16,40
Interest-sensitive whole life	12,411	--	-
Term life	14,400	7,223	7,01
Universal life	21,794	10,992	14,31
Equity-indexed life	25,865	7,137	-
Total	$81,312	$39,513	$37,73

(A) Sales number include direct sales and the Company's share of private label sales.

Traditional Life Insurance Products. Our traditional life insurance products have a long history of being highly competitive within the industry. Traditional life insurance products include whole life, interest-sensitive whole life and term life insurance products.

Whole life insurance is designed to provide benefits for the life of the insured. This product generally provides for level premiums and a level death benefit and requires payments in excess of the mortality cost in earlier years to offset increasing mortality costs in later years. Sales of whole life insurance decreased in 2001 and 2000, as compared to each prior year due in part to our introduction of new equity-indexed life products which has resulted in a shift in focus from whole life to equity-indexed products. In addition, there has been an overall general industry decline in sales of whole life products.

Interest-sensitive whole life insurance also provides benefits for the life of the insured; however, it has flexible premium and benefit patterns not available with traditional whole life plans. Cash value accumulation is interest sensitive and responds to current interest and mortality rates. Sales of interest-sensitive whole life insurance in 2001 are all attributable to ILICO.

Term life insurance provides life insurance protection for a specific time period (which generally can be renewed at an increased premium). Such policies are mortality-based and offer no cash accumulation feature. Term life insurance is a highly competitive and quickly changing market. Term life insurance sales (excluding sales from ILICO of $8.9 million in 2001) decreased in 2001 due to the highly competitive market and

increased in 2000 as a result of product repricing completed in mid-1999 along with an increase in consumer demand for the product related to legislative changes which took effect in January, 2000.

We also distribute term products of ILICO through strategic alliances with private label partners. Under private label arrangements, ILICO designs and issues products that are distributed through the field forces of other life insurance companies, our private label partners and ILICO reinsures a portion of the risks on those products, our private label sales.

For the year ended December 31, 2001, sales of whole life, interest-sensitive whole life and term life insurance products, including our share of private label sales, represented 8%, 15% and 18%, respectively, of first year annualized premiums for all individual life insurance products sold.

Universal Life Insurance Products. We offer universal life insurance products, pursuant to which an insurance account is maintained for each insurance policy. Premiums, net of specified expenses, are credited to the account, as is interest, generally at a rate determined from time to time by us. Specific charges are made against the account for the cost of insurance and for expenses. The universal life policy provides flexibility as to the amount and timing of premium payments and the level of death benefits provided.

Our universal life insurance products provide benefits for the life of the insured. Within our limits and state regulations, policyowners may vary the premiums and the amount of the death benefit of their policies as long as there are sufficient policy funds available to cover all policy charges for the next coverage period. Sales of universal life (excluding sales from ILICO of $15.8 million in 2001) decreased in 2001 and 2000 primarily attributable to the introduction of equity-indexed life products in 2000. The weighted average crediting rate for universal life insurance liabilities was 5.63% (5.64% excluding ILICO) for the year 2001, 5.62% for the year 2000 and 5.67% for the year 1999. For the year ended December 31, 2001, sales of universal life insurance products represented 27% of first year annualized premiums for all individual life insurance products sold.

Equity-Indexed Life Products. We also offer equity-indexed life insurance products which are similar in structure to universal life products but allow the policyowner to elect an earnings strategy for a portion of the account value earnings. Earnings are credited based on increases in the Standard & Poor's 500 Composite Stock Index(R) (S&P 500 Index), excluding dividends. The earnings credit is subject to a participation rate and an annual cap. Equity-indexed life insurance sales increased in 2001 following product introduction in 2000. Sales of the equity-indexed life product as a percentage of first year individual life insurance annualized premiums was approximately 32% in 2001.

The following table sets forth our collected life insurance premiums, including collected premiums associated with the closed block, for the periods indicated:

	COLLECTED PREMIUMS BY PRODUCT FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	($ IN THOUSANDS)		
Individual life premiums collected:			
Traditional life:			
First year and single	$113,126	$ 83,849	$ 84,044
Renewal	274,784	185,078	179,780
Total	387,910	268,927	263,824
Universal life:			
First year and single	45,597	27,306	24,371
Renewal	109,485	73,737	72,192
Total	155,082	101,043	96,563
Equity-indexed life:			
First year and single	40,504	5,265	--
Renewal	4,212	--	--
Total	44,716	5,265	--
Total individual life	587,708	375,235	360,387
Reinsurance assumed	30,740	1,464	1,589
Reinsurance ceded	(74,152)	(40,740)	(17,571)
Total individual life, net of reinsurance	$544,296	$335,959	$344,405

Traditional life insurance premiums collected were $387.9 million for 2001 compared to $268.9 million for 2000 and $263.8 million for 1999. The increase in 2001 was due to the additional premiums from ILICO. Excluding the ILICO premiums, first year and single premiums decreased $6.2 million between the 2001 and 2000 periods which was consistent with the lower whole life and term sales, as previously discussed. Renewal direct collected premium, excluding ILICO premiums, was $0.6 million lower in 2001 as compared to 2000 primarily due to unfavorable persistency of the closed block as it continues to run-off, partially offset by continued favorable persistency of the open block. Renewal direct collected premium was $5.3 million higher in 2000 as compared to 1999 primarily due to continued favorable persistency of the open block and the continued growth of the open block of business.

Universal life insurance premiums collected were $155.1 million for 2001 compared to $101.0 million for 2000 and $96.6 million for 1999. Approximately $67.1 million of universal life insurance premiums for 2001 were from ILICO. The remaining decrease in 2001 compared to 2000 was primarily due to decreased sales of universal life products.

Equity-indexed life premiums collected were $44.7 million for 2001 compared to $5.3 million for 2000 and zero for 1999. The increases in 2001 and 2000 as compared to each prior year result from the product introduction in 2000.

Reinsurance assumed increased approximately $29.3 million in 2001. The entire amount of the increase is from the ILICO acquisition. ILICO private labels various term life products. The products are designed by ILICO, issued by ILICO's private label partners and then assumed in whole or in part by ILICO.

Beginning January 1, 2000, ALIC entered into a new reinsurance arrangement that reduced its retention to 10% of the net amount of risk on any one policy not to exceed company retention limits for the majority of policies issued since July 1, 1996 and for the majority of new business going forward. ALIC's retention limits on any one life vary by age and rating table and are generally between $500,000 and $1,000,000. In addition, effective July 1, 2000, ALIC entered into a reinsurance agreement covering its closed block policies. Under this agreement, ALIC has reinsured approximately 90% of the closed block net amount at risk not previously

reinsured. As a result of these new agreements, ceded reinsurance premium was $35.0 million in 2001 and $40.7 million in 2000 compared to $17.6 million in 1999. The remainder of the increase in ceded premium amounting to $39.2 million was from the ILICO acquisition. ILICO's reinsurance agreements effectively reduce ILICO's retention limit to $500,000.

The following table sets forth information regarding our life insurance in force for each date presented:

	INDIVIDUAL LIFE INSURANCE IN FORCE AS OF DECEMBER 31,		
	2001	2000	1999
	($ IN THOUSANDS)		
Traditional life			
Number of policies	403,444	245,143	249,282
GAAP life reserves	$ 3,010,057	$ 1,744,038	$ 1,645,946
Face amounts	$48,286,000	$23,466,000	$21,458,000
Universal life			
Number of policies	153,615	110,323	112,906
GAAP life reserves	$ 1,472,260	$ 943,569	$ 920,009
Face amounts	$20,161,000	$12,257,000	$12,244,000
Equity-indexed life			
Number of policies	10,591	2,930	--
GAAP life reserves	$ 51,004	$ 13,015	$ --
Face amounts	$ 2,028,000	$ 478,000	$ --
Total life insurance			
Number of policies	567,650	358,396	362,188
GAAP life reserves	$ 4,533,321	$ 2,700,622	$ 2,565,955
Face amounts	$70,475,000	$36,201,000	$33,702,000

The acquisition of ILICO in 2001 increased the number of policies in force by 213,000, GAAP life reserves by $1.7 billion and face amounts by $31.2 billion.

DISTRIBUTION SYSTEMS

Our subsidiaries sell life insurance in all 50 states, the District of Columbia and the U.S. Virgin Islands. The states with the highest geographic concentration of sales, based on statutory premiums, are California, Iowa, Minnesota, New York and Texas in 2001. These states account for approximately 40% of our statutory premiums.

Our target customers are individuals in the middle and upper income brackets and small businesses. We market our life insurance products on a national basis primarily through a Preferred Producer agency system, a Personal Producing General Agent (PPGA) distribution system and through Independent Marketing Organizations (IMOs). We currently employ 16 regional vice presidents who are responsible for supervising these distribution systems within their assigned geographic regions.

Under the Preferred Producer agency system, a contractual arrangement is entered into with the Preferred Producer general agent for the sale of insurance products by the Preferred Producer agents and brokers assigned to the Preferred Producer general agent's agency. The Preferred Producer general agents are primarily compensated by receiving a percentage of the first year commissions paid to Preferred Producer agents and brokers in the Preferred Producer general agent's agency and by renewal commissions on premiums subsequently collected on that business. In addition, the Preferred Producers receive certain fringe benefits and other allowances.

The Preferred Producer general agents are independent contractors and are generally responsible for the expenses of operating their agencies, including office and overhead expenses and the recruiting, selection, contracting, training and development of Preferred Producer agents and brokers in their agency. As of

December 31, 2001, we had 61 Preferred Producer general agents in 25 states, through which approximately 1,000 Preferred Producer agents sell our products. While Preferred Producer agents in the Preferred Producer agency system are non-exclusive, most agents use our products for a majority of their new business for the type of products offered by us. No single Preferred Producer general agency accounts for more than 2% of the total first year life commissions paid by us.

Preferred Producer agents are also independent contractors and are primarily compensated by commissions on first year and renewal premiums collected on business written by them plus certain fringe benefits and other allowances. In addition, Preferred Producer agents can earn bonus commissions, graded by production and persistency on their business.

Under the PPGA system, we contract primarily with individuals who are experienced individual agents or head a small group of experienced individual agents. These individuals are independent contractors and are responsible for all of their own expenses. These individuals often sell products for other insurance companies, and may offer selected products we offer rather than our full line of insurance products. The PPGA system is comprised of approximately 1,300 PPGAs, with approximately 3,600 agents.

PPGAs are compensated by commissions on first year and renewal premiums collected on business written by themselves and the agents in their units. In addition to a base commission, PPGAs may earn bonus commissions on their business, graded by production and persistency.

We have also developed programs to sell life insurance through select IMOs. The customers targeted and the products sold are similar to those of the Preferred Producer agency system and the PPGA system.

Under the IMO system, a contractual arrangement is entered into with an IMO to promote our insurance products to their network of agents and brokers. The IMO receives a commission and override commission on the business produced. We currently have approximately 65 IMOs under contract.

We also distribute term and second-to die products of ILICO through strategic alliances with private label partners. Under private label arrangements, ILICO designs and manufactures products that are distributed through the field forces of other life insurance companies, our private label partners. We have 33 private label partners of which two are actively writing new business.

ANNUITY SEGMENT

PRODUCTS

We offer a broad portfolio of annuity products. Annuities provide for the payment of periodic benefits over a specified time period. Benefits may commence immediately or may be deferred to a future date. Fixed annuities generally are backed by a general investment account and credited with a rate of return that is periodically reset. Variable annuities provide for the policyholder to direct all or a portion of his or her account balance into an investment that effectively passes the risks and rewards of holding that investment to the policyholders. Our collected annuity premiums consisted of approximately 67% from deferred fixed annuity products, approximately 25% from multi-choice annuity products, approximately 7% from equity-indexed

annuity products and approximately 1% from variable annuity products in 2001. The following table sets forth annuity collected premiums for the periods indicated:

	COLLECTED PREMIUMS BY PRODUCT FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	($ IN THOUSANDS)		
Fixed annuities:			
Deferred fixed annuities	$1,322,725	$1,107,147	$834,636
Multi-choice annuities	480,600	115,309	1,600
Equity-indexed annuities	131,443	259,194	102,665
Variable annuities	27,483	--	--
Total	1,962,251	1,481,650	938,901
Reinsurance assumed	194,317	--	59,561
Reinsurance ceded	(175,485)	(34,534)	(273)
Total annuities, net of reinsurance	$1,981,083	$1,447,116	$998,189

Deferred Fixed Annuity Products. We offer a variety of interest rate crediting strategies on our deferred fixed annuity products. These strategies include initial interest crediting rates with guarantees for periods of one to five years. Following the initial guarantee period, we may adjust the credited interest rate annually, subject to the minimum interest rates specified in the contracts. Such minimum guarantee rates currently range from 3% to 4.5%. We also offer an interest rate crediting strategy that credits the policy with a return generally based upon the interest rates it earns on assets supporting the respective policies less management fees. Excluding ILICO, deferred fixed annuity collected premiums increased $198.2 million in 2001 compared to 2000 and increased $272.5 million in 2000 compared to 1999. The increases were primarily attributable to product repricing and increased marketing efforts.

Effective October 1, 2000, we entered into a reinsurance agreement to cede 35% of certain fixed annuity production on a modified coinsurance basis. Fixed annuity production ceded under this agreement totaled approximately $160.3 million in 2001 and $34.2 million in 2000. In the fourth quarter of 2001, the agreement was cancelled and the previously ceded premiums were recaptured amounting to $194.3 million. In addition, ILICO reinsures approximately 75% of its fixed annuities on a modified coinsurance basis which increased reinsurance ceded by approximately $15.2 million in 2001.

Multi-choice Annuities. In December 1999, we introduced multi-choice annuity products which provide for various earnings strategies under one product, such as a long-term equity index, an annual equity index, an investment grade bond index, a convertible bond index and a guaranteed one-year rate. Earnings are credited to these products based on the increases in the applicable indexes, less applicable fees, and funds may be moved between investment alternatives. This product has continued to grow in popularity with consumers and agents since its introduction. Excluding ILICO, multi-choice annuity premiums increased $237.9 million in 2001 and $113.7 million in 2000 as compared to each prior period.

Equity-Indexed Annuities. We offer equity-indexed annuity products that are based on the S&P 500 Index. Earnings credited to these products generally are linked to increases in the anniversary date values of the applicable index, less applicable fees. Equity-indexed annuity sales declined in 2001 as compared to 2000 primarily due to the lower returns on the S&P 500 Index this past year. In addition, the ILICO acquisition did not impact equity-indexed sales as ILICO did not sell this product in 2001.

In the third quarter of 1999, we entered into a reinsurance agreement for the assumption of a block of equity-indexed annuities totaling $59.6 million from our joint venture partner, Ameritas Variable Life Insurance Company (AVLIC). In conjunction with this transaction, we now directly issue this equity-indexed product, which contributed to the increased sales in 2000.

Variable Annuities. With the acquisition of ILICO, we have variable annuity products. Sales of variable annuities were $27.5 million for the period from May 18, 2001, the acquisition date, through December 31,

2001. The assets and liabilities related to the variable annuities are shown on the consolidated balance sheets as "separate account assets" and "separate account liabilities". We anticipate that most of our future direct sales of variable annuities to be reduced significantly because we expect that our agents will in the future be making sales of variable annuities through our Ameritas Joint Venture. See "Ameritas Joint Venture" below.

The following table sets forth information regarding annuities in force for each date presented:

ANNUITIES IN FORCE AS OF DECEMBER 31,		
2001	2000	1999

	($ IN THOUSANDS)		
Deferred fixed and immediate annuities			
Number of policies	176,857	161,087	169,854
GAAP annuity reserves	$ 6,909,793	$5,956,929	$5,951,002
Multi-choice annuities			
Number of policies	56,520	2,487	22
GAAP annuity reserves	$ 3,013,825	$ 112,319	$ 1,600
Equity-indexed annuities			
Number of policies	17,401	14,939	9,807
GAAP annuity reserves	$ 736,146	$ 680,669	$ 436,262
Total fixed annuities			
Number of policies	250,778	178,513	179,683
GAAP annuity reserves	$10,659,764	$6,749,917	$6,388,864

The acquisition of ILICO in 2001 increased the total number of annuity policies by 57,000 and GAAP annuity reserves by $2.9 billion.

DISTRIBUTION SYSTEMS

We sell annuities in all 50 states, the District of Columbia and the U.S. Virgin Islands. The states with the highest geographic concentration of sales, based on statutory premiums, are California, Florida, Iowa, Pennsylvania and Texas in 2001. These states account for approximately 40% of our statutory premiums.

We direct our marketing efforts towards the asset accumulation, conservative savings and retirement markets. We market our annuity products on a national basis primarily through networks of independent agents. The independent agents are supervised by regional vice presidents and regional directors or IMOs. In addition, the Preferred Producer Agency and PPGA systems discussed previously are utilized to market certain annuity products.

The regional vice presidents and regional directors are primarily responsible for recruiting agents and servicing those agents in an effort to promote our products. The regional vice presidents' and regional directors' marketing support activities include informational mailings, seminars and case consultations, all of which are designed to educate agents about annuities in general and our company in particular. Regional vice presidents and regional directors are paid a base salary plus incentive compensation based on the business produced by agents within their territory. There are currently three regional vice presidents and regional directors covering the southeastern, western, southwestern and midwestern regions of the United States.

Our IMOs consist of approximately 57 contracted organizations and four wholly-owned organizations. The IMOs are responsible for recruiting, servicing and educating agents in an effort to promote our products. The IMOs receive an override commission based on the business produced by their agents. Our wholly-owned organizations accounted for approximately 25% of our annuity sales in 2001 and three contracted organizations accounted for approximately 29% of 2001 total annuity sales. No single agent accounted for more than 1% of total annuity sales in 2001. We do not have exclusive agency agreements with our agents and we believe most of these agents sell products similar to ours for other insurance companies.

At December 31, 2001, we had approximately 33,000 independent agents licensed to sell our annuity products. We also maintain contact with approximately 67,000 agents that are not currently licensed, but have either sold our annuities in the past or have expressed an interest in doing so. These agents continue to receive periodic mailings related to interest rate and commission changes, and new product introductions, and are reappointed as required in order to represent us in selling our products. However, in order to save costs associated with reappointing agents, we do not automatically relicense an agent that has not written business for twelve months.

We also sell annuities through a bank distribution system. The customers targeted and the products sold are similar to those sold by the independent agent networks. We have an 80% ownership interest in an independent marketing organization that is associated with over 900 community banks in the southeast region of the United States. Fixed annuity products are the primary product focus of this organization.

Under the bank distribution system, we contract with banks and marketing organizations for the sale of annuities by agents who are employees of the banks. Commissions are paid to the banks. At December 31, 2001, we had approximately 91 banks and 9 marketing organizations under contract through which approximately 478 agents sell our products. We provide training and servicing support to the banks and marketing organizations.

AMERITAS JOINT VENTURE

We participate in a joint venture, the Ameritas Joint Venture, with Ameritas Life Insurance Corp. (or Ameritas) through ALIC's 39% ownership interest in AMAL Corporation, a Nebraska corporation. AMAL Corporation's operations are conducted through Ameritas Variable Life Insurance Company, (or AVLIC), and Ameritas Investment Corp. (or AIC), a registered broker-dealer, its two wholly-owned subsidiaries, which have been in business since 1983. AVLIC is licensed to conduct business in 47 states and the District of Columbia. AIC is a registered broker-dealer which is licensed to conduct business in all states except New York. Our partner in the Ameritas Joint Venture, Ameritas, is a Nebraska mutual life insurance company which has been in existence for more than 100 years. Our and Ameritas' ownership percentages of the Ameritas Joint Venture may change if we or they contribute additional variable life or variable annuity business, production or other assets to the Ameritas Joint Venture. We and Ameritas are in discussions about contributing additional businesses to the joint venture and we currently expect Ameritas will contribute more business than we will. We anticipate the dilution to be less than 10%.

Our investment in the Ameritas Joint Venture provides access to a line of existing variable life insurance and annuity products while providing a lower-cost entry into an established business, helping to eliminate significant start-up costs and allowing for immediate potential earnings.

The Ameritas Joint Venture offers through AVLIC fixed annuity products, flexible premium and single premium variable universal life insurance products and variable annuities. Variable products provide for allocation of funds to a general account or to one or more separate accounts under which the owner bears the investment risk. Through AVLIC's fund managers, owners of variable annuities and life insurance policies are able to choose from a range of investment funds offered by each manager.

Under the current terms of the joint venture agreement, ALIC and Ameritas write their new single and flexible premium deferred fixed annuities and variable annuities and variable life insurance through the Ameritas Joint Venture. ALIC has retained the right to offer equity-indexed annuity products directly and to continue to issue replacement business to its fixed annuity customers in existence prior to the effective date of the joint venture agreement.

The variable life insurance products and the fixed and variable annuities offered by the Ameritas Joint Venture are distributed through our Preferred Producer general agency, PPGA and Bank distribution systems, as well as through the distribution systems of Ameritas and AVLIC.

Under the current terms of the joint venture agreement, we purchased an additional 5% of AMAL Corporation on March 28, 2001 for $7.2 million as certain premium growth targets were met bringing our total ownership in AMAL Corporation to 39%. We have a remaining option to purchase an additional 5% to 10% of AMAL Corporation. ALIC and Ameritas Life Insurance Company each have guaranteed the policyholder

obligations of AVLIC. The guarantee of each party is joint and several, and will remain in effect until certain conditions are met.

As of December 31, 2001, AMAL Corporation had total consolidated assets of $2,414.3 million and total consolidated shareholder's equity of $112.4 million on a GAAP basis. AVLIC had $6,627.3 million of insurance in force and $60.5 million in surplus as of December 31, 2001, on a statutory basis.

COMPETITION

We operate in a highly competitive industry. We compete with numerous life insurance companies and other entities including banks and other financial institutions, many of which have greater financial and other resources. We believe that the principal competitive factors in the sale of insurance products are product features, price, commission structure, perceived stability of the insurer, financial strength ratings, value-added service and name recognition. Many other companies are capable of competing for sales in our target markets (including companies that do not presently compete in such markets). Our ability to compete for sales is dependent upon our ability to address the competitive factors.

In addition to competing for sales, we compete for qualified agents and brokers to distribute products. Strong competition exists among insurance companies for agents and brokers with demonstrated ability. We believe that the bases of competition for the services of such agents and brokers are commission structure, support services, prior relationships and the strength of an insurer's products. Although we believe that we have good relationships with our agents and brokers, our ability to compete will depend on our continued ability to attract and retain qualified persons.

RATINGS

Ratings with respect to claims-paying ability and financial strength are an increasingly important factor in establishing the competitive position of insurance companies. The following are the ratings as of March 1, 2002 for our insurance subsidiaries:

COMPANY	RATING SERVICE	RATING TYPE	RATING
American....................	Standard & Poor's	insurer financial strength	A+ (strong)
American....................	A. M. Best	financial condition	A (excellent)
American....................	Moody's	insurance financial strength	A3 (good)
ALIC........................	Standard & Poor's	insurer financial strength	A+ (strong)
ALIC........................	A. M. Best	financial condition	A (excellent)

ALIC.......................	Moody's	insurance financial strength	A3 (good)
Bankers Life................	Standard & Poor's	insurer financial strength	A+ (strong)
Bankers Life................	A. M. Best	financial condition	A (excellent)
Bankers Life................	Fitch	claims-paying	AA- (very strong
Delta......................	Standard & Poor's	insurer financial strength	BBB+ (good)
Delta......................	A. M. Best	financial condition	A (excellent)
Delta......................	Moody's	insurance financial strength	A3 (good)
FBL........................	Standard & Poor's	insurer financial strength	BBB+ (good)
FBL........................	A. M. Best	financial condition	B+ (very good)
IL Annuity.................	Standard & Poor's	claims-paying	A (strong)
IL Annuity.................	A. M. Best	financial condition	A (excellent)
IL Annuity.................	Fitch	claims-paying	AA- (very strong
ILICO......................	Standard & Poor's	insurer financial strength	A+ (strong)
ILICO......................	A. M. Best	financial condition	A (excellent)
ILICO......................	Moody's	insurance financial strength	A3 (good)
ILICO......................	Fitch	claims-paying	AA- (very strong

COMPANY	RATING SERVICE	RATING TYPE	RATING
WSLIC......................	Standard & Poor's	insurer financial strength	A+ (strong)
WSLIC......................	A. M. Best	financial condition	A (excellent)
WSLIC......................	Fitch	claims-paying	AA- (very strong

INSURANCE UNDERWRITING

We follow detailed, uniform underwriting practices and procedures in our insurance business which are designed to assess risks before issuing coverage to qualified applicants. We have professional underwriters who evaluate policy applications on the basis of information provided by applicants and others.

REINSURANCE

In accordance with industry practices, we reinsure portions of our life insurance exposure with unaffiliated insurance companies under traditional indemnity reinsurance arrangements. Such reinsurance arrangements are in accordance with standard reinsurance practices within the industry. We enter into these arrangements to assist in diversifying risks and to limit the maximum loss on risks that exceed policy retention limits. Indemnity reinsurance does not fully discharge our obligation to pay claims on business we reinsure. As the ceding company, we remain responsible for policy claims to the extent the reinsurer fails to pay such claims. We annually monitor the creditworthiness of our primary reinsurers, and have experienced no material reinsurance recoverability problems in recent years. Due to the ILICO acquisition, reinsurance receivables increased as shown on our balance sheet to $732.0 million at December 31, 2001 compared to $318.4 million at December 31, 2000.

We reinsure mortality risk on individual life insurance policies. Our retention is between $100,000 and $1,000,000 on any single life depending on the type of policy reinsured. We also reinsure certain annuity business primarily on a modified coinsurance basis.

At December 31, 2001, we ceded life insurance with a face amount of $49.5 billion with 36 unaffiliated reinsurers. The following is a summary of our principal life reinsurers as of December 31, 2001:

REINSURER	FACE AMOUNT CEDED	A.M. BEST RATING	% OF TOTAL FACE AMOUNT REINSURED
	(IN BILLIONS)		
RGA Reinsurance Company..............................	$19.7	A+	40%
Lincoln National Life Insurance Company..............	9.2	A+	19
Life Reassurance Corporation of America..............	3.4	A++	7
Swiss Re Life & Health America Inc.	2.8	A++	6
Transamerica Occidental Life Insurance Company........	2.5	A+	5

At December 31, 2001, we ceded fixed, equity-indexed and multi-choice annuities having reserves of $1.7 billion. The following is a summary of our principal annuity reinsurers as of December 31, 2001:

REINSURER	RESERVES CEDED	A.M. BEST RATING	% OF TOTA FACE AMOU REINSURE
	(IN BILLIONS)		
Transamerica Occidental Life Insurance Company........	$1.2	A+	71%
RGA Reinsurance Company..............................	0.4	A+	24

EMPLOYEES

As of December 31, 2001, we had 1,133 full-time employees. None of these employees are covered by a collective bargaining agreement and we believe that our relations with our employees are satisfactory.

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REGULATION

We are subject to regulation by the states in which our insurance subsidiaries are domiciled and/or transact business. State insurance laws generally establish supervisory agencies with broad administrative and supervisory powers related to granting and revoking licenses, transacting business, regulating the payment of dividends to stockholders, establishing guaranty fund associations, licensing agents, approving policy forms, regulating sales practices, regulating premium rates for some lines of business, establishing reserve requirements, prescribing the form and content of required financial statements and reports, determining the reasonableness and adequacy of statutory capital and surplus, and regulating the type and amount of investments permitted.

Every state in which our insurance companies are licensed administers a guaranty fund, which provides for assessments of licensed insurers for the protection of policyowners of insolvent insurance companies. Assessments can be partially recovered through a reduction in future premium taxes in some states.

Risk-based capital, or RBC, standards for life insurance companies were adopted by the National Association of Insurance Commissioners, known as the

NAIC and require insurance companies to calculate and report for statutory basis financial statements information under a risk-based capital formula. The RBC requirements are intended to allow insurance regulators to identify at an early stage inadequately capitalized insurance companies based upon the types and mixtures of risks inherent in such companies' operations. The formula includes components for asset risk, liability risk, interest rate exposure and other factors. As of December 31, 2001, each of our life insurance companies' RBC levels were in excess of authorized control level RBC thresholds.

Although the federal government generally does not directly regulate the insurance business, federal initiatives often have an impact on the business in a variety of ways. Current and proposed federal measures that may significantly affect the insurance business include limitations on antitrust immunity, minimum solvency requirements and the recent removal of barriers restricting banks from engaging in the insurance and mutual fund business.

ITEM 2. PROPERTIES

The following table summarizes the properties we lease and own:

	SQUARE FEET OCCUPIED BY:					
PROPERTY ADDRESS	LIFE SEGMENT	ANNUITY SEGMENT	OTHER(1)	LEASED TO THIRD PARTIES	TOTAL SQUARE FEET	
Properties leased from unaffiliated parties:						
699 Walnut Street Des Moines, Iowa	--	--	53,000	16,000	69,000	Exe ope
611 Fifth Avenue Des Moines, Iowa	62,000	2,000	56,000	--	120,000	Tec ope fac
65 Froehlich Farms Boulevard Woodbury, New York	15,000	3,000	6,000	--	24,000	Tec fac
Various	--	--	49,000	--	49,000	Cor rec
Properties owned:						
555 South Kansas Avenue Topeka, Kansas	--	60,000	--	45,000	105,000	
2960 North Meridian Indianapolis, Indiana	117,000	27,000	46,000	8,000	198,000	Tec fac

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(1) Other includes shared services that are utilized by both the life and annuity segments.

ITEM 3. LEGAL PROCEEDINGS

We are involved in litigation and a party to regulatory proceedings arising in the ordinary course of our business, including class action lawsuits. At this time we do not believe that such litigation or proceedings will have a material adverse effect on our business or results of operations. In addition, we recently became aware of a dispute between the retrocessionaire and our reinsurer for a block of annuity business written by IL Annuity which we acquired as part of our acquisition of ILICO. We have been having discussions with that reinsurer and they have informed us of potential claims. Based on currently available information, we do not believe that any such claim, if made against us, will have a material adverse effect on our results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

On September 20, 2000, AMHC, our predecessor company, converted from a mutual insurance holding company owned by the policyholders of ALIC (the AmerUs Members) to a stock company 100% owned by its stockholders (the Demutualization). In connection with the Demutualization, the AmerUs Members received cash and policy credits equal to approximately $340 million and 17,390,165 shares of our common stock. The Company stock issued to AmerUs Members, in exchange for their ownership interest, was exempt from registration under Section 3(a) (10) of the Securities Act of 1933. Reliance on the exemption was based on a Request For No Action Letter filed with the Securities and Exchange Commission (the Commission) on April 7, 2000 and the Commission's response received on May 23, 2000. In addition, we issued 12,614,579 shares of common stock in exchange for the shares of ALHI held by the public. Please refer to "Item 1. Business -- Reorganization" for a complete discussion.

On May 18, 2001, ILIC converted from a mutual insurance company owned by its policyholders (ILIC Members) to a stock company indirectly wholly owned by AmerUs Group Co. (Sponsored Demutualization). In connection with the Sponsored Demutualization, we issued to the ILIC Members, in exchange for their ownership interest in ILIC, approximately 9 million shares of AmerUs Group Co.'s common stock and approximately $9 million of cash and policy credits. The per share price used to determine the amount of cash and policy credits distributed to ILIC Members was $35.63, which was the average closing price of the common stock for the 10 trading days beginning with the effective date of the Sponsored Demutualization, May 18, 2001. The common stock issued to the ILIC Members in exchange for their ownership interest in ILIC was exempt from registration under Section 3(a)(10) of the Securities Act of 1933. Reliance on the exemption was based on a Request For No Action Letter filed with the Commission on January 29, 2001 and the Commission's response received on January 30, 2001.

Our common stock is listed and traded on the New York Stock Exchange (NYSE) under the symbol "AMH." The following table sets forth, for the periods indicated, the high and low sales prices per share of AmerUs Group Co. common stock as quoted on the NYSE and the dividends per share declared during such quarter.

	AMERUS COMMON STOCK		
	HIGH	LOW	DIVIDENDS
2000			
First Quarter*...	$24.0000	$16.5625	$0.10
Second Quarter*..	$22.4375	$18.0000	$0.00

Third Quarter...	$26.2500	$21.4375	$0.00
Fourth Quarter..	$32.3750	$24.4375	$0.40
2001			
First Quarter...	$32.0000	$27.0000	$0.00
Second Quarter..	$36.5000	$28.5600	$0.00
Third Quarter...	$35.2000	$30.9000	$0.00
Fourth Quarter..	$36.4300	$30.2700	$0.40

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* Information is that of ALHI, predecessor to AmerUs Group Co.

HOLDERS

As of March 4, 2002, the number of holders of record of each class of common equity was as follows:

	NUMBER OF HOLDERS
Common stock...	164,085

DIVIDENDS

We had declared and paid a quarterly dividend of $0.10 per share of common stock, from the second quarter of 1997 through the first quarter of 2000. Beginning in 2000, our Board of Directors approved moving from a quarterly dividend of $0.10 per share of common stock to an annual dividend of $0.40 per share of common stock beginning in 2000. The declaration and payment of dividends in the future is subject to the discretion of the Board of Directors and will be dependent upon the financial condition, results of operations, cash requirements, future prospects, regulatory restrictions on the payment of dividends by the life insurance subsidiaries and other factors deemed relevant by the Board of Directors.

Under our bank credit facility, we are prohibited from paying dividends on common stock in excess of an amount equal to 3% of the consolidated net worth as of the last day of the preceding fiscal year.

In connection with the 8.85% Capital Securities, Series A (the "Capital Securities"), issued in 1997 by AmerUs Capital I, a subsidiary trust, we have agreed not to declare or pay any dividends on the Company's capital stock (including the common stock) during any period for which we elect to extend interest payments on our junior subordinated debentures, except for stock dividends where the dividend stock is the same stock as that on which the dividend is being paid. Dividends on our capital stock cannot be paid until all accrued interest on the Capital Securities has been paid.

On July 27, 2001, the forward common stock purchase contract component of the Company's adjustable conversion-rate equity security (ACES) units matured. Under the terms of the contract, ACES unit holders had an obligation to purchase Company common stock at a price of $31,5625 per share. In lieu of paying cash to satisfy their purchase obligation, the ACES unit holders could surrender the preferred security component of the ACES unit. Of the 4,080,500 ACES units outstanding, 4,075,625 were surrendered, and the remaining ACES unit holders submitted cash of approximately $0.1 million to purchase Company common stock. The number of shares of common stock to be issued by the Company was based upon the average price of the Company's common stock for the twenty consecutive trading days ending on July 26, 2001, compared to the stated ACES unit amount of $31.5625. As a result of this, the Company issued approximately 3.8 million shares of common stock and retired approximately $128 million of ACES debt. The remaining contracts are 6.86% quarterly income preferred securities (QUIPS) which mature July 27, 2003. Dividends on our capital stock cannot be paid until all accrued interest on the QUIPS have been paid.

We also have warrants outstanding to purchase shares of common stock. The warrants are exercisable at $24.42 per share and expire in April 2002.

On March 6, 2002, we issued $185 million of optionally convertible equity-linked accreting notes due in 2032. The notes will be convertible into shares of common stock if the sale price of the common stock exceeds specified levels and in certain other circumstances. The notes 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. The net proceeds of the offering will be used to repay approximately $120 million of existing debt under the Revolving Credit Agreement, repurchase approximately $59 million of common stock and other corporate purposes.

As a holding company, our principal assets consist of all of the outstanding shares of the common stock of our life insurance subsidiaries. Our ongoing ability to pay dividends to shareholders and meet other obligations, including operating expenses and any debt service, primarily depends upon the receipt of sufficient funds from our life insurance subsidiaries in the form of dividends, interest payments or loans.

Based on statutory insurance regulations and 2000 results, our insurance subsidiaries could have paid an estimated $102.9 million in dividends in 2001 without obtaining regulatory approval. Of this amount, our subsidiaries paid to us $59.4 million in dividends in 2001. Based on 2001 results, our subsidiaries can pay an estimated $80.5 million in dividends in 2002 without obtaining regulatory approval.

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ITEM 6. SELECTED FINANCIAL DATA

Effective January 2, 2001, we adopted the Accounting Standards Executive Committee's Statement of Position 00-3 "Accounting by Insurance Enterprises for Demutualizations and Formations of Mutual Holdings Companies and for Certain Long-Duration participating Contracts," or SOP 00-3. The provisions of SOP 00-3 resulted in a modification of the presentation of the closed blocks in our consolidated financial statements to no longer show the operations of the closed blocks and the assets and liabilities of the closed blocks as single line items. In addition, SOP 00-3 required the reporting of unrealized gains and losses on closed block investments as a component of the closed block policyholder dividend obligation rather than accumulated other comprehensive income in total stockholders' equity. As a result, unrealized gains (losses) amounting to $6.0 million at December 31, 2000, ($10.7 million) at December 31, 1999, $27.6 million at December 31, 1998 and $31.1 million at December 1997 were reclassified from accumulated other comprehensive income to dividends payable to policyowners.

The following table sets forth certain financial and operating data of the Company.

	AS OF OR FOR THE YEAR ENDED DECEMBER 31,				
	2001 (A)	2000	1999	1998	1997 (A)
	(DOLLARS IN MILLIONS, EXCEPT FOR PER SHARE DATA)				
CONSOLIDATED INCOME STATEMENT DATA:					
Revenues:					
Insurance premiums	$ 313.6	$ 274.2	$ 279.0	$ 279.4	$ 254.3
Product charges	146.1	99.9	90.8	87.7	60.9
Net investment income	873.2	699.5	665.4	629.9	342.5
Realized/unrealized gains (losses) on investments	(90.6)	(29.0)	(1.4)	11.0	12.6
Other income	45.2	34.6	20.3	15.5	18.3
Total revenues	1,287.5	1,079.2	1,054.1	1,023.5	688.6
Benefits and expenses:					
Policyowner benefits	760.7	632.4	640.6	632.6	402.6
Total insurance and other expenses	283.1	227.5	216.0	193.6	132.5
Dividends to policyowners	98.9	74.3	70.8	77.0	61.6
Total benefits and expenses	1,142.7	934.2	927.4	903.2	596.7
Income from continuing operations	144.8	145.0	126.7	120.3	91.9
Interest expense	26.0	29.7	29.0	27.9	16.9
Income before tax expense and minority interest	118.8	115.3	97.7	92.4	75.0
Income tax expense	39.5	42.5	33.7	29.1	19.3
Minority interest	--	21.7	28.1	26.9	16.2
Net income from continuing operations	79.3	51.1	35.9	36.4	39.5
Discontinued operations (net of tax):					
Income (loss) from discontinued operations	1.8	0.7	2.5	(7.8)	14.9
Gain on sale of discontinued operations	--	--	--	74.9	--
Net income before cumulative effect of change in accounting for derivatives	81.1	51.8	38.4	103.5	54.4
Cumulative effect of change in accounting for derivatives, net of tax	(8.2)	--	--	--	--
Net income	$ 72.9	$ 51.8	$ 38.4	$ 103.5	$ 54.4
Net income from continuing operations per share (B):					
Basic	$ 2.15	$ 2.44	$ 2.07	$ 2.10	$ 2.32
Diluted	$ 2.12	$ 2.43	$ 2.06	$ 2.07	$ 2.32
Weighted average number of shares outstanding (in millions) (B):					
Basic	36.9	20.9	17.4	17.4	17.0
Diluted	37.5	21.0	17.5	17.6	17.0
Dividends declared per common share (C)	$ 0.40	$ 0.40	$ --	$ --	$ --

	AS OF OR FOR THE YEAR ENDED DECEMBER 31,				
	2001 (A)	2000	1999	1998	1997 (A)
	(DOLLARS IN MILLIONS, EXCEPT FOR PER SHARE DATA)				
CONSOLIDATED BALANCE SHEET DATA:					
Total invested assets..............	$15,052.4	$ 9,606.8	$ 9,059.7	$ 9,166.0	$ 9,042.8
Total assets........................	$18,299.2	$11,471.5	$11,091.9	$10,786.8	$12,007.2
Total liabilities..................	$16,991.6	$10,445.8	$ 9,813.1	$ 9,433.4	$10,768.9
Minority interest..................	$ --	$ --	$ 309.1	$ 364.3	$ 460.5
Company-obligated mandatorily redeemable preferred securities......................	$ 69.1	$ 197.7	$ 197.7	$ 199.6	$ 86.0
Total stockholders' equity..........	$ 1,238.5	$ 828.0	$ 772.0	$ 789.5	$ 691.8
OTHER OPERATING DATA:					
Adjusted net operating income (D).....	$ 114.0	$ 62.3	$ 49.1	$ 39.3	$ 33.0
Adjusted net operating income per common share (E):					
Basic..............................	$ 3.09	$ 2.98	$ 2.82	$ 2.26	$ 1.94
Diluted............................	$ 3.05	$ 2.96	$ 2.81	$ 2.23	$ 1.94
Ratio of earnings to fixed charges (F)................................	5.04x	4.69x	4.28x	3.64x	4.40x

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(A) Financial Data for 1997 includes the results for Delta, subsequent to the acquisition date of October 23, 1997 and the results for AAG, subsequent to the acquisition date of December 19, 1997. Financial data for 2001 includes the results for ILICO, subsequent to the acquisition date of May 18, 2001.

(B) Our predecessor, AMHC, was originally formed in 1996 as a mutual holding company and therefore, had no shares of common stock outstanding until its demutualization on September 20, 2000. On September 20, 2000, we distributed 17.4 million shares of common stock to our former members and exchanged our common stock for the 12.9 million shares of common stock held by the public in ALHI, our former subsidiary and another of our predecessor entities, on a one-for-one basis. Our operating income for the full fiscal years presented above primarily reflects the operating income of ALHI. Therefore, adjusted net operating income and net income from continuing operations per share was calculated based on the number of shares of stock we owned of ALHI from January 1, 1996 through September 20, 2000. Since then, adjusted net operating income and net income from continuing operations per share has been calculated based on the shares of our common stock actually outstanding.

(C) We did not have common stock until our demutualization on September 20, 2000, therefore, there were no dividends to declare on common stock for the years 1997 through 1999. ALHI, our predecessor to our company did declare dividends on its common stock of $0.40 per share, $0.40 per share, and $0.30 per share for the years ended December 31, 1999, 1998 and 1997, respectively.

(D) Adjusted net operating income reflects net income adjusted to eliminate certain items (net of applicable income taxes and minority interest) which our management believes are not indicative of overall operating trends, including net realized gains or losses on investments. Different items are likely to occur in each period presented and others may have different opinions as to which items may warrant adjustment. The adjusted net operating income shown does not constitute net income computed in accordance with accounting principles generally accepted in the United States (or GAAP). See additional description of Adjusted Net Operating Income included in Item 7.

(E) Basic and diluted adjusted net operating income per common share is calculated using the weighted average number of shares as shown in the table above.

(F) For purposes of computing the ratio of earnings to fixed charges, "earnings" consist of income from operations before income taxes, fixed charges and pre-tax earnings required to cover preferred stock dividend requirements. "Fixed charges" consist of interest expense on debt, amortization of debt expense and preferred stock dividend requirements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following analysis of the consolidated results of operations and financial condition should be read in conjunction with the Selected Financial Data and Consolidated Financial Statements and related notes.

OVERVIEW

We are a holding company whose subsidiaries are primarily engaged in the business of marketing, underwriting and distributing a broad range of individual life insurance and annuity products to individuals and businesses in all 50 states, the District of Columbia and the U.S. Virgin Islands. We have two reportable operating segments: life insurance and annuities. The life insurance segment's primary product offerings consist of whole life, interest-sensitive whole life, equity-indexed life, universal life and term life insurance policies. The primary product offerings of the annuity segment are individual fixed annuities.

In accordance with accounting principles generally accepted in the United States, or GAAP, universal life insurance premiums and annuity deposits that we receive are reflected as increases in liabilities for policyowner account balances and not as revenues. Surrender benefits paid relating to universal life insurance policies and annuity products are reflected as decreases in liabilities for policyowner account balances and not as expenses. Revenues for universal life and annuity products consist of policy charges for the cost of insurance, administration charges and surrender charges assessed against policyowner account balances. Amounts for interest credited to universal life and annuity policyowner account balances and benefit claims in excess of policyowner account balances are reported as expenses in our financial statements. We receive investment income earned from the funds deposited into account balances by universal life and annuity policyowners, the majority of which is passed through to such policyowners in the form of interest credited.

Premium revenues reported for our traditional life insurance products are recognized as revenues when due. Future policy benefits and policy acquisition costs are recognized as expenses over the life of the policy by means of a provision for future policy benefits and amortization of deferred policy acquisition costs.

Policy acquisition costs consist of the costs related to acquiring new life insurance and annuity business, including costs of issuing policies and other variable selling expenses (principally commissions). The method of amortizing deferred policy acquisition costs for life insurance products varies depending upon whether the contract is participating or non-participating. Participating life insurance contracts are those which are expected to pay dividends to policyowners in proportion to their relative contribution to our statutory surplus. Deferred policy acquisition costs for participating policies are amortized as an expense primarily in proportion to expected profits or margins from such policies. The amortization period and amount are adjusted when current or estimated future gross profits or margins on the underlying policies vary from previous estimates. For example, the amortization of deferred policy acquisition costs is accelerated when policy terminations are higher than originally estimated or when investments supporting the policies are sold at a gain prior to their anticipated maturity. Non-participating life insurance deferred policy acquisition costs are amortized over the premium-paying period of the related policies in proportion to the ratio of annual premium revenues to total anticipated premium revenues using assumptions consistent with those used in computing policy benefit reserves. For universal life insurance and annuity products, deferred policy acquisition costs are generally amortized in proportion to the present value of estimated gross margins from surrender charges and investment, mortality and expense margins.

Policyowner benefits including death benefits, represent our exposure to mortality risk and fluctuate from period to period based on the level of claims made by policyowners within our insurance retention limits. Our profitability is primarily affected by expense levels, interest spread results (the excess of investment earnings over interest credited to policyowners) during any measurement period, and fluctuations in mortality, persistency and other policyowner benefits. We have the ability to mitigate adverse experience through adjustments to credited interest rates, policyowner dividends or cost of insurance charges.

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ADJUSTED NET OPERATING INCOME

The following table reflects net income adjusted to eliminate certain items (net of applicable income taxes and minority interest) which our management believes do not necessarily indicate overall operating trends. For example, net realized capital gains or losses on investments, excluding our gains or losses on convertible preferred stock and bonds which we consider to be core earnings, are eliminated. Net realized capital gains or losses on investments may be realized at the sole discretion of management and are often realized in accordance with tax planning strategies. Therefore, our management believes that our net realized capital gains or losses or investments do not properly reflect earnings capacity for the periods presented below. Different items of adjustment are likely to occur in different periods presented and others may have different opinions as to which items may warrant adjustment. Adjusted net operating income is the basis we use to assess our overall performance. Adjusted net operating income as described by us may not be comparable to similarly titled measures reported by other companies, including insurance companies. The adjusted net operating income shown below does not constitute our net income computed in accordance with GAAP.

Our adjusted net operating income is not comparable to the adjusted net operating income of ALHI, our predecessor prior to our demutualization in 2000, which was the reporting entity in prior Securities and Exchange Commission filings. The principal difference is the reduction of our adjusted net operating income due to the minority interests' equity in earnings through September 20, 2000, when ALHI was reorganized to form our company. The minority interests' equity in earnings was $21.7 million, $28.1 million, $26.9 million and $16.2 million for the years ended December 31, 2000 through December 31, 1997, respectively.

	FOR THE YEARS ENDED DECEMBER 31,				
	2001	2000	1999	1998	199
	($ IN THOUSANDS, EXCEPT PER SHARE DATA)				
Net Income..........................	$72,907	$51,840	$38,436	$103,499	$54
Net non-core realized (gains) losses (A)..............................	25,475	5,153	6,030	2,946	(6
Net amortization of deferred policy acquisition costs due to non-core realized gains or losses (B).......	(3,613)	(4,028)	805	(74)	
Net effect of accounting differences from the adoption of SFAS 133 (C)..............................	6,417	--	--	--	
Demutualization costs (D)...........	969	10,063	6,322	--	
Restructuring costs (E).............	5,476	--	--	--	
Discontinued operations (F)..........	(1,820)	(717)	(2,504)	(67,053)	(14
Cumulative effect of change in accounting for derivatives (G).....	8,236	--	--	--	
Adjusted Net Operating Income........	$114,047	$62,311	$49,089	$39,318	$33
Adjusted Net Operating Income per common share (H):					
Basic............................	$ 3.09	$ 2.98	$ 2.82	$ 2.26	$
Diluted..........................	$ 3.05	$ 2.96	$ 2.81	$ 2.23	$
Weighted average common shares outstanding (H):					
Basic............................	36,949,198	20,922,371	17,390,165	17,372,136	16,983
Diluted..........................	37,453,428	21,035,518	17,467,132	17,609,748	17,018

(A) Represents total realized gains or losses on investments less core realized gains or losses (defined as gains or losses from the closed block and gains or losses on the convertible preferred stock and bond portfolio) adjusted for income taxes and minority interest on such amounts. Non-core realized gains or losses may vary widely between periods. Such amounts are determined by management's timing of individual transactions and do not necessarily correspond to the underlying operating trends.

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(B) Represents amortization of deferred policy acquisition costs on the non-core realized gains or losses that are included in our product margins, adjusted for income taxes and minority interest on such amounts.

(C) Represents the net effect of Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging

Activities," related accounting entries, adjusted for income taxes. The accounting entries consist of market value adjustments on trading securities, derivatives, certain annuity contracts, and the associated change in amortization of deferred acquisition costs resulting from such adjustments.

(D) For 2001 represents costs directly related to ILIC's demutualization. For 2000 and 1999 represents costs directly related to our demutualization and merger with ALHI, adjusted for minority interest on such amounts. The costs consist primarily of legal, actuarial and consulting expenses.

(E) Represents costs of restructuring our life insurance and annuity operations to eliminate duplicative functions, adjusted for income taxes. The costs consist primarily of severance and termination benefits.

(F) Represents the net income (loss) from our discontinued operations.

(G) Represents the cumulative effect of change in accounting for derivatives, net of income taxes, as of January 1, 2001, resulting from our adoption of SFAS 133. This statement is effective for fiscal years beginning after June 15, 2000.

(H) Our predecessor, AMHC, was originally formed in 1996 as a mutual holding company and, therefore, had no shares of common stock outstanding until the demutualization of our group on September 20, 2000. On September 20, 2000, we distributed 17.4 million shares of our common stock to our former members and exchanged our common stock for the 12.9 million shares of common stock held by the public in ALHI, our former subsidiary and another of our predecessor entities, on a one-for-one basis. Our operating income primarily reflects the operating income of ALHI. Therefore, adjusted net operating income per share was calculated based on the number of shares of stock we owned of ALHI from January 1, 1996 through September 20, 2000. Since then, adjusted net operating income per share has been calculated based on the shares of our common shares actually outstanding.

Adjusted net operating income was $114.0 million, or $3.05 per diluted share, for 2001 compared to $62.3 million, or $2.96 per diluted share, for 2000 and $49.1 million, or $2.81 per diluted share, for 1999. The increase in adjusted net operating income in 2001 compared to 2000 was primarily attributable to the acquisition of ILICO and the reduction in income applicable to the minority interests. In addition, adjusted net operating income in 2000 was impacted by some non-recurring items as explained in the following paragraph. The increase in adjusted net operating income in 2000 compared to 1999 was primarily attributable to the reduction in income applicable to the minority interest and the growth in invested assets. Adjusted net operating income is analyzed further in the operating segment discussion.

Our adjusted net operating income for 2000 included the following items: $7.3 million of after-tax earnings on the cash balances which were distributed to our former members in connection with our demutualization in September 2000, non-recurring costs of $1.5 million, after-tax, related to AMHC, our predecessor, and a $1.6 million reduction due to our equity investment in IL Group. The loss on this equity investment in IL Group occurred in the third quarter of 2000. Adjusting for these factors would have reduced

our 2000 adjusted net operating income to $58.1 million, or $2.76 per diluted share, as shown in the following table:

	FOR THE YEAR ENDED DECEMBER 31, 2000	
	DOLLAR AMOUNTS	PER SHARE AMOUNTS
	($ IN THOUSANDS, EXCEPT PER SHARE DATA)	
Adjusted Net Operating Income	$62,311	$ 2.96
After-tax earnings on cash balances distributed in connection with the demutualization of the Company	(7,338)	(0.35)
After-tax non-recurring mutual holding company costs	1,515	0.07
Reduction due to equity investment in IL Group not performing at the Company's investment expectations, net of minority interest and taxes	1,635	0.08
	$58,123	$ 2.76
Weighted average number of diluted shares outstanding		21,035,518

THE CLOSED BLOCK

We have established two closed blocks of policies: (a) the first on June 30, 1996 in connection with the reorganization of our subsidiary, ALIC, to a stock company, and (b) the second on March 31, 2001 in connection with the reorganization of ILIC to a stock company. Each closed block consists of insurance policies issued by ALIC or ILIC which had a dividend scale in effect as of the establishment dates of the closed block. The closed blocks were designed to provide reasonable assurance to the owners of these insurance policies that, after the reorganization of ALIC and ILIC, assets would be available to maintain the dividend scales and interest credits in effect prior to each reorganization, if the experience underlying such scales and credits continues.

Effective January 1, 2001, we adopted the Accounting Standards Executive Committee's Statement of Position 00-3 "Accounting by Insurance Enterprises for Demutualizations and Formations of Mutual Holding Companies and for Certain Long-Duration Participating Contracts," (or SOP 00-3) The provisions of SOP 00-3 resulted in a modification of the presentation of the closed block in our consolidated financial statements to no longer show the operations of the closed block and the assets and liabilities of the closed block as single line items. In addition, SOP 00-3 required the reporting of unrealized gains and losses on closed block investments as a component of the closed block policyholder dividend obligation rather than accumulated other comprehensive income in total stockholders' equity. As a result, unrealized gains (losses) amounting to $6.0 million at December 31, 2000 and ($10.7) million at December 31, 1999 were reclassified from accumulated other comprehensive income to dividends payable to policyowners. There was no net income effect of adopting SOP 00-3.

OPERATING SEGMENTS

We have two reportable operating segments: life insurance and annuities. Products generally distinguish a segment. We use the same accounting policies and procedures to measure operating segment income as we use to measure our consolidated income from operations other than the elimination of certain items which management believes are not necessarily indicative of overall operating trends. These items are explained further under "Adjusted Net Operating Income." Revenues, benefits and expenses are primarily attributed directly to each operating segment. Net investment income and core realized gains and losses on investments are allocated according to the asset portfolios to which they relate. Investment realized gains and losses from the closed block and from convertible preferred stocks and bonds are considered core realized gains and losses. All other gains and losses are considered non-core. Other revenues and expenses which are deemed not to be associated with any specific reportable segment are grouped together in the all other operations category. These items primarily consist of holding company revenues and expenses and the operations of our real estate management subsidiary. We assess the performance of our operating segments before interest expense, income

taxes and minority interest. Income from operations and operating segment information do not include discontinued operations which are comprised of the former banking, residential real estate brokerage, residential land development and mortgage banking businesses.

RESULTS OF OPERATIONS

A summary of our life segment operations follows:

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	($ IN THOUSANDS)		
Revenues:			
Insurance premiums	$300,690	$252,157	$253,707
Universal life product charges	110,403	65,126	62,962
Net investment income	283,330	212,100	202,517
Core realized gains (losses) on investments	8,720	(695)	(380)
Total revenues	703,143	528,688	518,806
Benefits and expenses:			
Policyowner benefits:			
Traditional:			
Death benefits	22,080	47,953	44,470
Change in liability for future policy benefits and other policy benefits	245,263	185,433	185,797
Universal:			
Death benefits in excess of cash value	39,589	25,816	26,116
Interest credited on policyowner account balances	63,287	47,158	43,804
Other	13,940	1,817	1,107
Total policyowner benefits	384,159	308,177	301,294
Underwriting, acquisition and other expenses	69,035	51,532	57,784
Amortization of deferred policy acquisition costs and value of business acquired (VOBA), net of non-core adjustment of $2,697, $483 and $282 for the years ended December 31, 2001, 2000 and 1999, respectively	56,996	35,570	37,605
Dividends to policyowners	98,945	74,338	70,777
Total benefits and expenses	609,135	469,617	467,460
Adjusted pre-tax operating income -- Life Insurance segment	$ 94,008	$ 59,071	$ 51,346

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Traditional life insurance premiums were $300.7 million in 2001 compared to $252.2 million in 2000 and $253.7 million in 1999. The acquisition of ILICO added traditional life insurance premiums of $96.7 million in 2001. Excluding these ILICO premiums, traditional life insurance premiums declined in 2001 and 2000 primarily as a result of the new reinsurance agreements entered into in 2000 which increased ceded premium for 2001 approximately $50.7 million compared to 2000. Approximately $11.1 million of additional premiums were ceded to reinsurers in 2000 compared to 1999. In addition, premiums decreased in both years due to the shift in sales focus from traditional life products to universal life products previously discussed. Partially offsetting the decline in first year premium and the increase in ceded premium was increased renewal premium. Open block renewal premium increased approximately $12.5 million in 2001 and $19.4 million in 2000 primarily due to the maturing of this block, while closed block renewal premium declined approximately $4.1 million in 2001 and $4.0 million in 2000 due to an increase in lapses. Total life insurance lapse rates, exclusive of ILICO, were 7.3% for 2001, 6.4% for 2000 and 7.3% for 1999. This increase in lapses followed the completion of our demutualization. The total life insurance lapse rate including ILICO was 7.7% for 2001.

Universal life product charges were $110.4 million in 2001 compared to $65.1 million in 2000 and $63.0 million in 1999. Approximately $42.8 million of the universal life product charges for 2001 were

attributable to the acquisition of ILICO. The increases for 2001, excluding ILICO, and 2000 primarily reflect the increased sales of universal life products and increased cost of insurance charges corresponding with the normal aging and growth of the block of business.

Net investment income was $283.3 million in 2001 compared to $212.1 million in 2000 and $202.5 million in 1999. Approximately $71.0 million of net investment income for 2001 was attributable to the acquisition of ILICO. Excluding ILICO, net investment income increased $0.2 million primarily due to higher average invested assets (excluding market value adjustments) offset by lower effective yields as compared to the respective prior year. Average invested assets (excluding market value adjustments), exclusive of the ILICO acquisition increased approximately $94.7 million in 2001 compared to 2000 and $116.5 million in 2000 compared to 1999. The increases were primarily due to the growth of our life insurance business.

The effective yield on the investment portfolio was 7.32% in 2001 compared to 7.94% in 2000 and 7.90% in 1999. Excluding ILICO, 2001 yields decreased to 7.64%. The decrease in yields in 2001, exclusive of ILICO, primarily resulted from the lower interest rate market. The increase in 2000 yields primarily related to the purchase accounting market value adjustments made to our assets in connection with our reorganization, in the third quarter of 2000.

Core realized gains and losses on investments were a net gain of $8.7 million in 2001 compared to a net loss of $0.7 million in 2000 and a net loss of $0.4 million in 1999. Realized gains and losses from ILICO totaled a net gain of $5.4 million in 2001. These realized gains and losses are part of the closed block operation and are therefore included in the life segment operating income. The level of realized gains and losses will fluctuate from year to year depending on the prevailing interest rate and economic environment and the timing of our sales of investments.

Total policyowner benefits were $384.2 million in 2001 compared to $308.2

million in 2000 and $301.3 million in 1999. The acquisition of ILICO in 2001 increased life insurance benefits $127.4 million in 2001. Excluding the impact of the ILICO acquisition, total policyowner benefits decreased $51.4 million in 2001 as compared to 2000 and increased $6.9 million in 2000 compared to 1999. The 2001 decrease in traditional life insurance benefits, exclusive of the impact of ILICO, was primarily due to the new reinsurance agreements entered into in 2000 and favorable mortality of the closed block both of which resulted in decreased death benefits and change in liability for future policy benefits. In addition, traditional life insurance benefits decreased due to increased reinsurance recovery benefits of the closed block of $43.2 million in 2001 related to the new reinsurance agreements entered into in 2000. The 2000 increase in traditional life insurance benefits was due to higher death benefits and reserves related to increased persistency as policyholders held their policies awaiting our demutualization distribution. Universal life benefits, excluding ILICO, decreased approximately $1.8 million in 2001 compared to 2000 and $3.8 million in 2000 compared to 1999 due to favorable mortality on closed block policies partially offset by increased interest credited related to more policies in-force as sales have increased. The weighted average crediting rate on universal life policyowner account balances was 5.63% for 2001 (5.64% excluding ILICO) compared to 5.62% for 2000 and 5.67% for 1999. We estimated life insurance benefits from the terrorist attacks in the United States on September 11, 2001 to be approximately $1.2 million.

Underwriting, acquisition and other expenses were $69.0 million in 2001 compared to $51.5 million in 2000 and $57.8 million in 1999. The acquisition of ILICO in the second quarter of 2001 increased expenses approximately $19.5 million in 2001. Excluding the impact of the ILICO acquisition, underwriting, acquisition and other expenses decreased $2.0 million in 2001 as compared to 2000 and $6.3 million in 2000 as compared to 1999. The 2001 decrease in expenses, exclusive of the impact of ILICO, was primarily due to increased reinsurance commission and expense allowances in 2001 which were partially offset by general compensation increases, depreciation on the new life insurance administrative system and distribution system enhancements. Expenses declined in 2000 as compared to 1999. This was primarily due to the increased technology costs incurred in 1999 related to the Year 2000 Compliance Project and the enhancement of distribution systems.

The amortization of deferred policy acquisition costs and value of business acquired amounted to $57.0 million in 2001 compared to $35.6 million in 2000 and $37.6 million in 1999. Amortization of deferred

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policy acquisition costs and value of business acquired (VOBA), exclusive of ILICO, increased $9.7 million in 2001 as compared to 2000 and decreased $2.0 million in 2000 as compared to 1999. Deferred policy acquisition costs and VOBA are generally amortized in proportion to gross margins. The 2001 increase was primarily due to increased amortization associated with higher policy lapses which reduces future margins to amortize such costs resulting in more current year expense. The 2000 decrease was primarily due to reduced amortization consistent with the projected reduction in the gross margins of the closed block as the life insurance in force declines which was partially offset by increased amortization in the open block for higher margins experienced in 2000.

Dividends to policyowners were $98.9 million in 2001 compared to $74.3 million in 2000 and $70.8 million in 1999. Dividends to policyowners, exclusive of ILICO, decreased $0.2 million in 2001 compared to 2000 and increased $3.6 million in 2000 compared to 1999. The increased levels in 2001 and 2000 as compared to 1999 were primarily due to the maturing of the closed block.

Adjusted pre-tax operating income from our life insurance operations was $94.0 million in 2001 compared to $59.1 million in 2000 and $51.3 million in

1999. The acquisition of ILICO contributed $32.6 million of adjusted pre-tax operating income to our life insurance segment in 2001. Exclusive of the impact of the ILICO acquisition, our life insurance operating income increased $2.3 million in 2001 compared to 2000 and increased $7.8 million in 2000 compared to 1999. Gross margins in our life insurance segment remained level in 2001 with the fluctuations in insurance expenses primarily impacting the overall results. The increase in 2000 was primarily due to increased investment income combined with decreased technology expenses, favorable mortality costs and a favorable impact of approximately $1.2 million from the market value adjustment in the third quarter of 2000.

A summary of our annuity segment operations follows:

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	($ IN THOUSANDS)		
Revenues:			
Immediate annuity and supplementary contract premiums.....	$12,828	$21,820	$25,122
Annuity product charges..................................	35,652	34,814	27,835
Net investment income....................................	577,913	468,404	443,359
Core realized gains (losses) on investments..............	--	(16,597)	11,239
Other income:			
Income from IMOs.....................................	27,724	18,982	4,735
Other..	8,474	2,805	1,569
Total revenues.......................................	662,591	530,228	513,859
Benefits and expenses:			
Policyowner benefits:			
Interest credited on policyowner account balances......	329,376	263,017	282,136
Other annuity benefits................................	97,501	60,543	56,920
Total policyowner benefits..........................	426,877	323,560	339,056
Underwriting, acquisition and other expenses:			
Expenses from IMOs...................................	19,510	16,211	4,680
Other..	41,401	36,343	32,524
Amortization of deferred policy acquisition costs and value of business acquired (VOBA), net of non-core adjustment of ($5,685), ($9,205) and $1,852 for the years ended December 31, 2001, 2000 and 1999, respectively..	78,891	65,902	48,378
Total benefits and expenses..........................	566,679	442,016	424,638
Adjusted pre-tax operating income -- Annuities segment......	$95,912	$88,212	$89,221

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Immediate annuity and supplementary contract premiums were $12.8 million in 2001, including $0.5 million for ILICO, compared to $21.8 million in 2000 and $25.1 million in 1999. A decrease in immediate annuity premiums was anticipated as a result of pricing adjustments made on these products.

Annuity product charges were $35.7 million in 2001 compared to $34.8

million in 2000 and $27.8 million in 1999. Annuity product charges from the acquisition of ILICO totaled $9.1 million for 2001. Excluding these ILICO amounts, annuity product charges declined $8.2 million in 2001 as compared to 2000 and increased $7.0 million in 2000 as compared to 1999. The decrease in product charges in 2001, exclusive of ILICO, was primarily due to decreased surrenders of annuity policies with surrender charges. Surrenders totaled approximately $884.7 million for 2001 compared to $1,258.6 million for 2000 and $1,014.0 million for 1999. The increase in product charges in 2000 was primarily due to increased surrender and expense charges resulting from the larger annuity block of business in force and increased surrender charges associated with an increase in withdrawals. Annuity withdrawal rates, exclusive of ILICO, averaged 10.7% in 2001 compared to 16.7% in 2000 and 14.7% for 1999. Excluding internal replacements, withdrawal rates decreased 4.8% to 9.2% for 2001 compared to 14.0% for 2000 and 13.4% for 1999. Annuity withdrawal rates, including ILICO from the acquisition date forward, averaged 12.5% for 2001. Surrenders at ILICO from the acquisition date through December 31, 2001 were approximately $337.9 million.

Net investment income was $577.9 million for 2001 compared to $468.4 million for 2000 and $443.4 million for 1999. Approximately $64.0 million of net investment income for 2001 was attributable to the acquisition of ILICO. Excluding ILICO, net investment increased primarily due to higher average invested assets (excluding market value adjustments) and higher effective yields as compared to the respective prior year. Average invested assets (excluding market value adjustments) increased to approximately $468.0 million in 2001 compared to 2000 and $278.9 million in 2000 compared to 1999. The increase was primarily due to the growth of our annuity business.

The effective yield on the investment portfolio was 6.38% in 2001 compared to 6.85% in 2000 and 6.65% in 1999. Excluding ILICO, 2001 yields increased to 7.01%. The increase in yields, exclusive of ILICO, primarily resulted from the market value adjustments we made to our assets in connection with our reorganization in the third quarter of 2000. The overall yield is lower including ILICO primarily due to the higher percentage of convertible securities ILICO carries in its investment portfolio. The convertible securities are associated with ILICO's total return strategy fixed annuity products. The effective yield on the deferred fixed annuity portfolio was 7.07% in 2001 compared to 6.98% in 2000 and 6.68% in 1999. The deferred fixed annuity portfolio yield was also positively impacted by the market value adjustments made in the third quarter of 2000.

There were no core realized gains and losses on investments in 2001 compared to a net loss of $16.6 million in 2000 and a net gain of $11.2 million in 1999. The convertible preferred stocks and bonds were moved to trading securities in 2001. Core realized gains and losses in 2000 and 1999 were primarily related to sales of convertible preferred stocks and bonds. Prior to 2001, the level of realized gains and losses fluctuated from period to period depending on the prevailing interest rate and economic environment and the timing of our sales of investments.

Other income primarily consists of third party annuity commissions received by wholly-owned IMOs and Corporate Owned Life Insurance (or COLI) income. Other income was $36.2 million for 2001 compared to $21.8 million for 2000 and $6.3 million for 1999. The increase in other income was due to increased revenue of independent marketing organizations purchased in the first quarter of 2001 and second quarter of 2000 and income on COLI investments made in the second quarter of 2001 of $50 million and fourth quarter of 2000 of $100 million. COLI is classified as an other asset so the income from this asset appears in other income instead of net investment income.

Annuity benefits were $426.9 million in 2001 compared to $323.6 million in 2000 and $339.1 million in 1999. Approximately $61.1 of the increase in annuity benefits in 2001 was due to the acquisition of ILICO in the second quarter of

2001. Annuity benefits increased approximately $42.2 million in 2001, exclusive of the impact of the ILICO acquisition, and decreased $15.5 million in 2000. Excluding ILICO, interest credited to deferred annuity account balances increased $45.5 million in 2001 compared to 2000 and decreased

$19.1 million in 2000 compared to 1999. In 2001, average deferred fixed annuity account balances, excluding ILICO, increased approximately $304.4 million and the weighted average crediting rate on deferred fixed annuity account balances increased 12 basis points to 5.07%. The 2001 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, excluding ILICO, were reduced 1 basis point to 202 basis points in 2001 as compared 2000. In 2000 as compared to 1999, average deferred fixed annuity account balances decreased approximately $15.0 million and the weighted average crediting rate on deferred fixed annuity account balances remained constant at 4.95%. The 2000 decrease in crediting rates reflects the decrease in the investment yields of the deferred fixed annuity portfolio. Overall, spreads on deferred fixed annuities widened 30 basis points to 203 basis points in 2000 as compared 1999. Including ILICO deferred fixed annuity products, the weighted average crediting rate increased to 5.07% and spreads were 200 basis points. Other annuity benefits declined approximately $3.2 million, exclusive of ILICO, in 2001 which corresponds with the decline in immediate annuity and supplementary contract premiums and increased $3.6 million in 2000 due the issuance of two insurance contracts to two commercial paper conduits in mid-1999, one of which was terminated in the fourth quarter of 1999. ILICO added approximately $40.2 million to the 2001 other annuity benefits due to payments made under modified coinsurance agreements.

Underwriting, acquisition and other expenses were $60.9 million in 2001 compared to $52.6 million in 2000 and $37.2 million in 1999. Approximately $3.3 million of such expenses was due to the ILICO acquisition. Excluding these ILICO expenses, underwriting, acquisition and insurance expenses increased approximately $5.1 million in 2001 compared to 2000 and increased $15.4 million in 2000 compared to 1999. The increase between the reporting years primarily reflects increased employee and agent costs and expenses related to the new independent marketing organizations acquired in January 2001 and April 2000. These increases are partially offset by a reduction in expenses from the consolidation of annuity operations in Topeka. The increase in expenses due to the new independent marketing organizations was offset by the increase in other income from the independent marketing organizations previously discussed.

Amortization of deferred policy acquisition costs and value of business acquired amounted to $78.9 million in 2001 compared to $65.9 million in 2000 and $48.4 million in 1999. Exclusive of the impact of ILICO, amortization of deferred policy acquisition costs and VOBA increased $11.0 million in 2001 as compared to 2000 and increased $17.5 million in 2000 as compared to 1999. 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 and 2000 due to the additional VOBA established in connection with our market value adjustment in the third quarter of 2000.

Adjusted pre-tax operating income from our annuity operations was $95.9 million in 2001 compared to $88.2 million in 2000 and $89.2 million in 1999. The acquisition of ILICO contributed $7.2 million in 2001. Excluding this contribution from ILICO, our annuity operating income increased $0.5 million in 2001 compared to 2000 and decreased $1.0 million in 2000 compared to 1999. The slight increase in 2001 was primarily due to increased net independent marketing organizations' operating income offset by increased employee and agent costs.

A summary of our other operations follows:

	FOR THE YEARS ENDED DECEMBER 31, 2001	2000	1999
	($ IN THOUSANDS)		
Revenues:			
Insurance premiums	$ 132	$ 230	$ 136
Net investment income	11,931	19,021	19,521
Other income	9,006	12,788	13,987
Total revenues	21,069	32,039	33,644
Benefits and expenses:			
Other policyowner benefits	2,459	676	291
Underwriting, acquisition and other expenses	10,525	19,381	25,787
Total benefits and expenses	12,984	20,057	26,078
Adjusted pre-tax operating income -- Other operations	$ 8,085	$11,982	$ 7,566

Adjusted pre-tax operating income from our other operations was $8.1 million in 2001 compared to $12.0 million in 2000 and $7.6 million in 1999. Other operations primarily consist of holding company revenues and expenses and operations of our real estate management subsidiary. Revenues declined in 2001 as compared to prior years primarily from the reduction in holding company cash equivalents of approximately $340 million. The cash equivalents were generated primarily from the sale of our discontinued operations in mid-1998 and were carried as invested assets until October 2000, when we distributed the funds to our former members in connection with our demutualization. Additionally, revenues declined in 2001 from the reduction of properties under management. Accordingly, the expenses associated with these properties declined in 2001 as well. We began decreasing our properties under management in 1999 as this business was not a part of our corebottom:2px;border-top:1px solid #000000;">160,521

347,363

327,722

Cost of revenues:

Franchise and restaurant expenses 51,423

42,155

103,449

87,833

Rental expenses 23,319

23,653

46,809

47,519

Financing expenses —

240

12

825

Total cost of revenues 74,742

66,048

150,270
136,177
Gross profit 96,807
94,473
197,093
191,545
General and administrative expenses 34,577
34,816
68,807
69,001
Interest expense 15,677
24,942
31,323
49,911
Amortization of intangible assets 2,500
3,070
5,000
6,141
Closure and impairment charges, net 475
637
2,302
837
Loss on extinguishment of debt —
6
—
12
Loss (gain) on disposition of assets 66
(130) 57
797
Income before income tax provision 43,512
31,132
89,604
64,846
Income tax provision (16,615) (11,965) (34,295) (24,855)
Net income 26,897
19,167
55,309
39,991
Other comprehensive income (loss), net of tax:
Adjustment to unrealized loss on available-for-sale investments —
107
—
107
Foreign currency translation adjustment 3
7
(12) 1
Total comprehensive income $26,900
$19,281
$55,297
$40,099
Net income available to common stockholders:

Net income $26,897
$19,167
$55,309
$39,991
Less: Net income allocated to unvested participating restricted stock (359) (307) (726) (649)
Net income available to common stockholders $26,538
$18,860
$54,583

$39,342
Net income available to common stockholders per share:

Basic $1.41
$1.00
$2.90
$2.09
Diluted $1.40
$1.00
$2.88
$2.07
Weighted average shares outstanding:

Basic 18,763
18,776
18,819
18,785
Diluted 18,895
18,955
18,959
19,003

Dividends declared per common share $0.875
$0.75
$1.75
$1.50
Dividends paid per common share $0.875
$0.75
$1.75
$1.50

See the accompanying Notes to Consolidated Financial Statements.

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DineEquity, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2015	2014
Cash flows from operating activities:		
Net income	$55,309	$39,991
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	15,855	17,498
Non-cash interest expense	1,519	3,315
Deferred income taxes	(16,768)	(16,047)
Non-cash stock-based compensation expense	4,593	5,508
Tax benefit from stock-based compensation	4,688	3,578
Excess tax benefit from stock-based compensation	(4,572)	(4,455)
Closure and impairment charges	2,302	837
Loss on disposition of assets	57	797
Other	(1,534)	(1,704)
Changes in operating assets and liabilities:		
Accounts receivable, net	(11,249)	(4,949)
Current income tax receivables and payables	9,717	16,004
Gift card receivables and payables	(3,256)	(4,165)
Prepaid expenses and other current assets	(2,299)	(1,608)
Accounts payable	6,024	10,103
Accrued employee compensation and benefits	(10,790)	(10,552)
Other current liabilities	(1,473)	1,841
Cash flows provided by operating activities	48,123	55,992
Cash flows from investing activities:		
Additions to property and equipment	(4,612)	(4,086)
Proceeds from sale of property and equipment	800	681
Principal receipts from notes, equipment contracts and other long-term receivables	9,517	6,066
Other	(110)	75
Cash flows provided by investing activities	5,595	2,736
Cash flows from financing activities:		
Repayment of long-term debt	—	(2,400)
Principal payments on capital lease and financing obligations	(5,975)	(5,570)
Repurchase of DineEquity common stock	(35,007)	(30,006)
Dividends paid on common stock	(33,271)	(28,518)
Tax payments for restricted stock upon vesting	(3,010)	(1,944)
Proceeds from stock options exercised	8,374	6,658
Excess tax benefit from stock-based compensation	4,572	4,455
Change in restricted cash	11,007	(7,064)
Other	(29)	—
Cash flows used in financing activities	(53,339)	(64,389)
Net change in cash and cash equivalents	379	(5,661)
Cash and cash equivalents at beginning of period	104,004	106,011
Cash and cash equivalents at end of period	$104,383	$100,350
Supplemental disclosures:		

Interest paid in cash	$46,419	$53,767
Income taxes paid in cash	$36,968	$22,169

See the accompanying Notes to Consolidated Financial Statements.

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1. General

The accompanying unaudited consolidated financial statements of DineEquity, Inc. (the "Company") have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") for interim financial information and with 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 U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The operating results for the six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the twelve months ending December 31, 2015.

The consolidated balance sheet at December 31, 2014 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

2. Basis of Presentation

The Company's fiscal quarters end on the Sunday closest to the last day of each quarter. For convenience, the fiscal quarters of each year are referred to as ending on March 31, June 30, September 30 and December 31. The first quarter of fiscal 2015 began on December 29, 2014 and ended on March 29, 2015; the second quarter of fiscal 2015 ended on June 28, 2015. The first quarter of fiscal 2014 began on December 30, 2013 and ended on March 30, 2014; the second quarter of fiscal 2014 ended on June 29, 2014.

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries that are consolidated in accordance with U.S. GAAP. All intercompany balances and transactions have been eliminated.

The preparation of financial statements in conformity with U.S. GAAP requires the Company's management to make assumptions and estimates that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, if any, at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates in the calculation and assessment of reported or disclosed amounts include: (a) impairment of tangible and intangible assets, (b) income taxes, (c) allowance for doubtful accounts and notes receivables, (d) lease accounting estimates, (e) stock-based compensation and (f) contingencies. On an ongoing basis, the Company evaluates its estimates based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances. The Company adjusts such estimates and assumptions when facts and circumstances dictate. Actual results could differ from those estimates.

3. Accounting Policies

Accounting Standards Adopted in the Current Fiscal Year

In April 2014, the Financial Accounting Standards Board ("FASB") issued an amendment to the guidance on the reporting of discontinued operations. The amendment changed the criteria for the reporting of discontinued operations such that only disposals resulting in a strategic shift that will have a major effect on an entity's operations and financial results will be reported as discontinued operations. The amendment also removed the requirement that an entity not have any significant continuing involvement in the operations of the component after disposal to qualify for reporting of the disposal as a discontinued operation. The Company adopted the amendment as of January 1, 2015 and adoption did not have an impact on the Company's consolidated financial statements.

Newly Issued Accounting Standards Not Yet Adopted

In May 2014, the FASB issued new accounting guidance on revenue recognition, which provides for a single five-step model to be applied to all revenue contracts with customers. The new standard also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. In July 2015, the FASB deferred the effective date of the new guidance by one year such that the Company will be required to adopt the guidance beginning with its first fiscal quarter of 2018.

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

3. Accounting Policies (Continued)

This amendment supersedes nearly all of the existing general revenue recognition guidance under U.S. GAAP as well as most industry-specific revenue recognition guidance, including guidance with respect to revenue recognition by franchisors. The Company believes the recognition of the majority of its revenues, including franchise royalty revenues, sales of IHOP pancake and waffle dry mix and retail sales at company-operated restaurants will not be affected by the new guidance. Additionally, lease rental revenues are not within the scope of the new guidance. The Company is currently evaluating the impact of the new guidance on its financial statements and related disclosures and which method of adoption will be used.

In April 2015, the FASB issued an amendment that modifies the presentation of debt issuance costs. The amendment requires debt issuance costs be presented in the balance sheet as a direct reduction of the related debt liability rather than as an asset. The amendment is effective commencing with the Company's first fiscal quarter of 2016 and is required to be applied on a retrospective basis. As the amendment does not change the underlying accounting for debt issuance costs, adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

The Company reviewed all other newly issued accounting pronouncements and concluded that they either are not applicable to the Company or are not expected to have a material effect on the Company's consolidated financial statements as a result of future adoption.

4. Stockholders' Equity

Dividends

During the six months ended June 30, 2015, the Company paid dividends on common stock of $33.3 million, representing the dividends declared in the fourth quarter of 2014 and first quarter of 2015. On May 19, 2015, the Company's Board of Directors declared a second quarter 2015 cash dividend of $0.875 per share of common stock. This dividend was paid on July 10, 2015 to the Company's stockholders of record at the close of business on June 12, 2015. The Company reported a payable for this dividend of $16.5 million at June 30, 2015.

Stock Repurchase Program

In October 2014, the Company's Board of Directors approved a stock repurchase authorization of up to $100 million of DineEquity common stock. Under this program, the Company may repurchase shares on an opportunistic basis from time to time in open market transactions and in privately negotiated transactions based on business, market, applicable legal requirements and other considerations. The repurchase program does not require the repurchase of a specific number of shares and may be terminated at any time. During the six months ended June 30, 2015, the Company repurchased 344,890 shares of common stock at a cost of $35.0 million. As of June 30, 2015, the Company has repurchased a cumulative total of 365,225 shares of common stock under the current Board authorization at a total cost of $37.0 million. The Company may repurchase up to an additional $63.0 million of common stock under the current Board authorization.

Treasury Stock

Repurchases of DineEquity common stock are included in treasury stock at the cost of shares repurchased plus any transaction costs. Treasury stock may be re-issued when stock options are exercised, when restricted stock awards are granted and when restricted stock units settle in stock upon vesting. The cost of treasury stock re-issued is determined using the first-in, first-out ("FIFO") method. During the six months ended June 30, 2015, the Company re-issued 292,648 treasury shares at a total FIFO cost of $10.6 million.

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

5. Income Taxes

The Company's effective tax rate was 38.3% for the six months ended June 30, 2015 and 2014.

The total gross unrecognized tax benefit as of June 30, 2015 and December 31, 2014 was $3.3 million and $3.4 million, respectively, excluding interest, penalties and related tax benefits. The Company estimates the unrecognized tax benefit may decrease over the upcoming 12 months by an amount up to $0.7 million related to settlements with taxing authorities and the lapse of statutes of limitations. For the remaining liability, due to the uncertainties related to these tax matters, the Company is unable to make a reasonably reliable estimate when cash settlement with a taxing authority will occur.

As of June 30, 2015, accrued interest was $4.3 million and accrued penalties were less than $0.1 million, excluding any related income tax benefits. As of December 31, 2014, accrued interest was $3.9 million and accrued penalties were less than $0.1 million, excluding any related income tax benefits. The Company recognizes interest accrued related to unrecognized tax benefits and penalties as a component of its income tax provision recognized in the Consolidated Statements of Comprehensive Income.

The Company files federal income tax returns and the Company or one of its subsidiaries files income tax returns in various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to federal, state or non-United States tax examinations by tax authorities for years before 2008. In the second quarter of 2013, the Internal Revenue Service (“IRS”) issued a Revenue Agent’s Report related to its examination of the Company’s U.S federal income tax return for each of the tax years 2008 to 2010. The Company disagrees with a portion of the proposed assessments and has contested them through the IRS administrative appeals procedures. The appeal process is ongoing. The Company continues to believe that adequate reserves have been provided relating to all matters contained in the tax periods open to examination.

6. Stock-Based Compensation

The following table summarizes the components of stock-based compensation expense included in general and administrative expenses in the Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In millions)			
Total stock-based compensation expense:				
Equity classified awards expense	$2.2	$2.4	$4.6	$5.5
Liability classified awards (credit) expense	(1.1)	0.6	(0.8)	0.5
Total pre-tax stock-based compensation expense	1.1	3.0	3.8	6.0
Book income tax benefit	(0.4)	(1.1)	(1.4)	(2.3)
Total stock-based compensation expense, net of tax	$0.7	$1.9	$2.4	$3.7

As of June 30, 2015, total unrecognized compensation costs of $16.0 million related to restricted stock and restricted stock units and $5.2 million related to stock options are expected to be recognized over a weighted average period of 1.85 years for restricted stock and restricted stock units and 1.67 years for stock options.

Equity Classified Awards - Stock Options

The estimated fair value of the stock options granted during the six months ended June 30, 2015 was calculated using a Black-Scholes option pricing model. The following summarizes the assumptions used in the Black-Scholes model:

Risk-free interest rate	1.54	%
Weighted average historical volatility	36.8	%
Dividend yield	3.17	%
Expected years until exercise	4.5	
Weighted average fair value of options granted	$27.20	

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

6. Stock-Based Compensation (Continued)

Stock option balances as of June 30, 2015 and related activity for the six months ended June 30, 2015 were as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in Millions)
Outstanding at December 31, 2014	618,115	$53.10		
Granted	133,814	111.54		
Exercised	(197,591)	42.38		
Forfeited	(14,348)	96.83		
Outstanding at June 30, 2015	539,990	70.35	7.4	$17.1
Vested at June 30, 2015 and Expected to Vest	507,678	68.37	7.2	$16.9
Exercisable at June 30, 2015	324,927	$51.87	6.2	$15.3

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the closing stock price of the Company’s common stock on the last trading day of the second quarter of 2015 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2015. The aggregate intrinsic value will change based on the fair market value of the Company’s common stock and the number of in-the-money options.

Equity Classified Awards - Restricted Stock and Restricted Stock Units

Outstanding balances as of June 30, 2015 and activity related to restricted stock and restricted stock units for the six months ended June 30, 2015 were as follows:

	Restricted Stock	Weighted Average Grant Date Fair Value	Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2014	233,818	$70.14	41,622	$66.92
Granted	95,057	108.02	9,985	113.72
Released	(63,414)	52.93	(16,567)	52.19
Forfeited	(15,232)	79.83	(72)	113.72
Outstanding at June 30, 2015	250,229	$88.30	34,968	$86.49

Liability Classified Awards - Long-Term Incentive Awards
The Company has granted cash long-term incentive awards (“LTIP awards”) to certain employees. Annual LTIP awards vest over a three-year period and are determined using a multiplier from 0% to 200% of the target award based on the total shareholder return of DineEquity, Inc. common stock compared to the total stockholder returns of a peer group of companies. Although LTIP awards are both denominated and paid only in cash, because the multiplier is based on the price of the Company's common stock, the awards are considered stock-based compensation in accordance with U.S. GAAP. For the three months ended June 30, 2015 and 2014, a credit of $1.1 million and an expense of $0.6 million, respectively, were included in total stock-based compensation expense related to the LTIP awards. For the six months ended June 30, 2015 and 2014, a credit of $0.8 million and an expense of $0.5 million, respectively, were included in total stock-based compensation expense related to the LTIP awards. At June 30, 2015 and December 31, 2014, liabilities of $1.1 million and $4.0 million, respectively, related to LTIP awards were included as part of accrued employee compensation and benefits in the Consolidated Balance Sheets.

7. Segments

The Company has two reportable segments: franchise operations (an aggregation of Applebee's and IHOP franchise operations) and rental operations. The Company also has company-operated restaurant operations and financing operations, but neither of these operations exceeded 10% of consolidated revenues, income before income tax provision or total assets.

As of June 30, 2015, the franchise operations segment consisted of (i) 1,993 restaurants operated by Applebee's franchisees in the United States, two U.S. territories and 15 countries outside the United States and (ii) 1,645 restaurants operated by IHOP franchisees and area licensees in the United States, two U.S. territories and eight countries outside the United States. Franchise operations revenue consists primarily of franchise royalty revenues, sales of proprietary products to franchisees (primarily

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

7. Segments (Continued)

pancake and waffle dry mixes for the IHOP restaurants), IHOP franchise advertising fees and franchise fees. Franchise operations expenses include IHOP advertising expenses, the cost of IHOP proprietary products, IHOP and Applebee's pre-opening training expenses and other franchise-related costs.

Rental operations revenue includes revenue from operating leases and interest income from direct financing leases. Rental operations expenses are costs of operating leases and interest expense from capital leases on franchisee-operated restaurants.

At June 30, 2015, the company restaurant operations segment consisted of 23 Applebee's company-operated restaurants and 13 IHOP company-operated restaurants, all of which are located in the United States. Company restaurant sales are retail sales at company-operated restaurants. Company restaurant expenses are operating expenses at company-operated restaurants and include food, labor, utilities, rent and other restaurant operating costs.

Financing operations revenue primarily consists of interest income from the financing of franchise fees and equipment leases and sales of equipment associated with refranchised IHOP restaurants. Financing expenses are primarily the cost of restaurant equipment associated with refranchised IHOP restaurants.

Information on segments and a reconciliation to income before income tax provision for the three and six months ended June 30, 2015 and 2014 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In millions)			
Revenues from external customers:				
Franchise operations	$120.3	$110.7	$244.8	$226.3
Rental operations	31.1	30.7	62.5	61.4
Company restaurants	17.4	15.7	34.8	32.0
Financing operations	2.7	3.4	5.3	8.0
Total	$171.5	$160.5	$347.4	$327.7
Interest expense:				
Rental operations	$3.4	$3.7	$6.9	$7.6
Company restaurants	0.1	0.1	0.2	0.2
Corporate	15.7	24.9	31.3	49.9
Total	$19.2	$28.7	$38.4	$57.7
Depreciation and amortization:				
Franchise operations	$2.6	$2.6	$5.2	$5.2
Rental operations	3.2	3.3	6.4	6.7
Company restaurants	0.2	0.5	0.4	1.0
Corporate	2.1	2.3	3.9	4.6
Total	$8.1	$8.7	$15.9	$17.5

Income before income tax provision:

Franchise operations	$86.2	$84.2	$175.2	$170.3
Rental operations	7.8	7.1	15.7	13.9
Company restaurants	0.1	0.1	0.9	0.2
Financing operations	2.7	3.1	5.3	7.2
Corporate	(53.3)	(63.4)	(107.5)	(126.8)
Total	$43.5	$31.1	$89.6	$64.8

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

8. Net Income per Share

The computation of the Company's basic and diluted net income per share for the three and six months ended June 30, 2015 and 2014 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands, except per share data)			
Numerator for basic and dilutive income per common share:				
Net income	$26,897	$19,167	$55,309	$39,991
Less: Net income allocated to unvested participating restricted stock	(359)	(307)	(726)	(649)
Net income available to common stockholders - basic	26,538	18,860	54,583	39,342
Effect of unvested participating restricted stock in two-class calculation	1	1	2	2
Net income available to common stockholders - diluted	$26,539	$18,861	$54,585	$39,344
Denominator:				
Weighted average outstanding shares of common stock - basic	18,763	18,776	18,819	18,785
Dilutive effect of stock options	132	179	140	218
Weighted average outstanding shares of common stock - diluted	18,895	18,955	18,959	19,003
Net income per common share:				
Basic	$1.41	$1.00	$2.90	$2.09
Diluted	$1.40	$1.00	$2.88	$2.07

9. Fair Value Measurements
The Company does not have a material amount of financial assets or liabilities that are required under U.S. GAAP to be measured on a recurring basis at fair value. The Company is not a party to any derivative financial instruments. The Company does not have a material amount of non-financial assets or non-financial liabilities that are required under U.S. GAAP to be measured at fair value on a recurring basis. The Company has not elected to use the fair value measurement option, as permitted under U.S. GAAP, for any assets or liabilities for which fair value measurement is not presently required.

The Company believes the fair values of cash equivalents, accounts receivable and accounts payable approximate their carrying amounts due to their short duration.

The fair values of the Company's Series 2014-1 Class A Notes at June 30, 2015 and December 31, 2014 were as follows:

	June 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Long-term debt	$1,300.0	$1,317.1	$1,300.0	$1,302.0

The fair values were determined based on Level 2 inputs, including information gathered from brokers who trade in the Company’s notes and information on notes that are similar to that of the Company.

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

10. Commitments and Contingencies

Litigation, Claims and Disputes

The Company is subject to various lawsuits, administrative proceedings, audits and claims arising in the ordinary course of business. Some of these lawsuits purport to be class actions and/or seek substantial damages. The Company is required under U.S. GAAP to record an accrual for litigation loss contingencies that are both probable and reasonably estimable. Legal fees and expenses associated with the defense of all of the Company's litigation are expensed as such fees and expenses are incurred. Management regularly assesses the Company's insurance coverage, analyzes litigation information with the Company's attorneys and evaluates the Company's loss experience in connection with pending legal proceedings. While the Company does not presently believe that any of the legal proceedings to which it is currently a party will ultimately have a material adverse impact on the Company, there can be no assurance that the Company will prevail in all the proceedings the Company is party to, or that the Company will not incur material losses from them.

Lease Guarantees

In connection with the sale of Applebee’s restaurants or previous brands to franchisees and other parties, the Company has, in certain cases, guaranteed or has potential continuing liability for lease payments totaling $368.1 million as of June 30, 2015. This amount represents the maximum potential liability for future payments under these leases. These leases have been assigned to the buyers and expire at the end of the respective lease terms, which range from 2015 through 2048. In the event of default, the indemnity and default clauses in the sale or assignment agreements govern the Company's ability to pursue and recover damages incurred. No lease payment guarantee liabilities have been recorded as of June 30, 2015.

11. Subsequent Event

On July 23, 2015, the Company completed the previously announced refranchising and sale of related restaurant assets of 23 Applebee’s company-operated restaurants located in a two-state market area geographically centered around Kansas City, Missouri. The Company received proceeds of approximately $9 million and expects to recognize a gain of approximately $2 million on the transaction.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Cautionary Statement Regarding Forward-Looking Statements

Statements contained in this report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties and other factors, which may cause actual results to be materially different from those expressed or implied in such statements. You can identify these forward-looking statements by words such as "may," "will," "should," "expect," "anticipate," "believe," "estimate," "intend," "plan" and other similar expressions. You should consider our forward-looking statements in light of the risks discussed under the heading "Risk Factors" in our most recent Annual Report on Form 10-K, as well as our consolidated financial statements, related notes, and the other financial information appearing elsewhere in this report and our other filings with the United States Securities and Exchange Commission. The forward-looking statements contained in this report are made as of the date hereof and the Company assumes no obligation to update or supplement any forward-looking statements.

You should read the following Management's Discussion and Analysis of Financial Condition and Results of Operations in conjunction with the consolidated financial statements and the related notes that appear elsewhere in this report.

Overview

The following discussion and analysis provides information we believe is relevant to an assessment and understanding of our consolidated results of operations and financial condition. The discussion should be read in conjunction with the consolidated financial statements and the notes thereto included in Item 1 of Part I of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014. Except where the context indicates otherwise, the words "we," "us," "our" and the "Company" refer to DineEquity, Inc., together with its subsidiaries that are consolidated in accordance with United States generally accepted accounting principles ("U.S. GAAP").

Through various subsidiaries, we own, franchise and operate two restaurant concepts: Applebee's Neighborhood Grill & Bar® ("Applebee's®"), in the bar and grill segment within the casual dining category of the restaurant industry, and International House of Pancakes® ("IHOP®"), in the family dining category of the restaurant industry. References herein to Applebee's and IHOP restaurants are to these two restaurant concepts, whether operated by franchisees, area licensees or by us. With over 3,600 restaurants combined, 99% of which are franchised, we believe we are one of the largest full-service restaurant companies in the world. The June 15, 2015 issue of Nation's Restaurant News recently reported that IHOP and Applebee's were the largest restaurants in their respective categories in terms of United States system-wide sales during 2014. This marks the eighth consecutive year our two brands have achieved the number one ranking.

Summary Results of Operations

	Three Months Ended June 30, 2015	2014	Favorable (Unfavorable) Variance	Six Months Ended June 30, 2015	2014	Favorable (Unfavorable) Variance
	(In millions, except per share information)					
Revenue	$ 171.5	$ 160.5	$ 11.0	$ 347.4	$ 327.7	$ 19.7
Gross profit	$ 96.8	$ 94.5	$ 2.3	$ 197.1	$ 191.6	$ 5.5
General and administrative expenses	34.6	34.8	0.2	68.8	69.0	0.2
Interest expense	15.7	24.9	9.2	31.3	49.9	18.6

Other expenses, net [1]	3.0	3.6	0.6	7.4	7.8	0.4
Income tax provision	16.6	12.0	(4.6)	34.3	24.9	(9.4)
Net income	$ 26.9	$ 19.2	$ 7.7	$ 55.3	$ 40.0	$ 15.3
Net income per diluted share	$ 1.40	$ 1.00	$ 0.40	$ 2.88	$ 2.07	$ 0.81

[1] Amortization of intangible assets, closure and impairment charges, loss on extinguishment of debt and gain or loss on disposition of assets.

Net income for the three and six months ended June 30, 2015 increased 40.3% and 38.3%, respectively, compared with the same periods of the prior year. In each case, the improvement was due to (i) significantly lower interest expense resulting from the refinancing of our long-term debt in the fourth quarter of 2014 at a fixed interest rate approximately 3% lower than prior to the refinancing and (ii) revenue and gross profit growth, primarily stemming from an increase in IHOP and Applebee's domestic same-restaurant sales and IHOP restaurant development over the past twelve months.

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Key Performance Indicators

In evaluating the performance of each restaurant concept, we consider the key performance indicators to be net franchise restaurant development and the percentage change in domestic system-wide same-restaurant sales. Since we are a 99% franchised company, expanding the number of Applebee's and IHOP franchise restaurants is an important driver of revenue growth because we currently do not plan to open any new company-operated restaurants. Further, while refranchising or renewals may result in new rental and financing agreements, we currently do not plan to significantly expand our rental and financing operations, legacies from the IHOP business model we operated under prior to 2003. Growth in both the number of franchise restaurants and sales at those restaurants will drive franchise revenues in the form of higher royalty revenues, additional franchise fees and, in the case of IHOP restaurants, sales of proprietary pancake and waffle dry mix.

An overview of these key performance indicators for the three and six months ended June 30, 2015 is as follows:

	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
	Applebee's	IHOP	Applebee's	IHOP
Percentage increase in domestic system-wide same-restaurant sales	1.0%	6.2%	2.0%	5.5%
Net franchise restaurant (reduction) development [(1)]	2	8	(1)	8

(1) Franchise and area license openings, net of closings

The 6.2% increase in IHOP domestic system-wide same-restaurant sales for the three months ended June 30, 2015 was the ninth consecutive quarter of positive same-restaurant sales for IHOP and was the largest quarterly increase since the first quarter of 2004. Coupled with an increase of 4.8% in the first quarter of 2015, IHOP domestic system-wide same-restaurant sales increased 5.5% for the six months ended June 30, 2015. The increases for both the three and six months ended June 30, 2015 resulted from a higher average customer check and an increase in customer traffic. According to industry data, IHOP has outperformed the overall restaurant industry as well as the family dining segment in domestic system-wide same-restaurant sales in the first half of 2015. Based on data from Black Box Intelligence, a restaurant sales reporting firm (“Black Box”), during the six months ended June 30, 2015, both the family dining segment and the overall restaurant industry experienced an increase in average customer check that was partially offset by a decrease in customer traffic.

The 1.0% increase in Applebee's domestic system-wide same-restaurant sales for the three months ended June 30, 2015 was the fifth consecutive quarter of positive same-restaurant sales for Applebee's. This represents a decline from the 2.9% increase in the first quarter of 2015, and as a result, for the six months ended June 30, 2015, Applebee's domestic system-wide same-restaurant sales increased 2.0%. The increases for both the three and six months ended June 30, 2015 were due to a higher average customer check partially offset by a decline in customer traffic. Based on data from Black Box, Applebee's domestic system-wide same-restaurant sales performance during the six months ended June 30, 2015 was slightly lower than that of the casual dining segment, which experienced a larger increase in average customer check that was partially offset by a similar decrease in customer traffic.

During the six months ended June 30, 2015, Applebee's franchisees opened 14 new restaurants and closed 15 restaurants, resulting in a net decrease of one Applebee's franchise restaurant for the first half of 2015. IHOP franchisees opened 18 new restaurants and closed 10 restaurants, resulting in net IHOP franchise restaurant development of eight restaurants during 2015 to date. Typically, the majority of gross and net franchise restaurant development for each brand takes place in the second half of any given year.

Franchise restaurant closures take place each year for a variety of reasons. The number of Applebee's and IHOP restaurants that were closed during the first six months of 2015 is slightly less than the number that were closed during the first six months of 2014, but that is not considered to be indicative of any trend.

In 2015, we expect IHOP franchisees to open between 50 to 60 new restaurants and Applebee's franchisees to open between 30 to 40 new restaurants. The majority of openings for each brand is expected to be in domestic markets. The actual number of openings in 2015 may differ from both our expectations and development commitments. Historically, the actual number of restaurants developed in a particular year has been less than the total number committed to be developed due to various factors, including economic conditions and franchisee noncompliance with restaurant opening commitments in development agreements. The timing of new restaurant openings also may be affected by various factors including weather-related and other construction delays, difficulties in obtaining timely regulatory approvals and the impact of currency fluctuations on our international franchisees.

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Additional detail on each of these key performance indicators is presented under the captions “Restaurant Development Activity” and “Restaurant Data” that follow.
In evaluating the performance of the consolidated enterprise, we consider the key performance indicators to be cash flows from operating activities and free cash flow (cash from operations, plus net receipts from notes and equipment contract receivables, less capital expenditures).

Our cash flows from operating activities and free cash flow for the six months ended June 30, 2015 and 2014 were as follows:

	Six Months Ended June 30,		Increase
	2015	2014	(Decrease)
	(In millions)		
Cash flows from operating activities	$48.1	$56.0	$(7.9)
Free cash flow	$49.7	$54.6	$(4.9)

The decrease in cash flows from operating activities and free cash flow was primarily due to the impact on working capital of the timing of income tax and interest payments, partially offset by an increase in net income. Additional detail is presented under the caption “Liquidity and Capital Resources.”

Restaurant Development Activity

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Unaudited)			
Applebee's Restaurant Development Activity				
Summary - beginning of period:				
Franchise	1,991	1,988	1,994	1,988
Company restaurants	23	23	23	23
Total Applebee's restaurants, beginning of period	2,014	2,011	2,017	2,011
Franchise restaurants opened:				
Domestic	6	5	10	13
International	2	1	4	1
Total franchise restaurants opened	8	6	14	14
Franchise restaurants closed:				
Domestic	(4)	(5)	(8)	(10)
International	(2)	(3)	(7)	(6)
Total franchise restaurants closed	(6)	(8)	(15)	(16)
Net franchise restaurant development (reduction)	2	(2)	(1)	(2)
Summary - end of period:				
Franchise	1,993	1,986	1,993	1,986
Company restaurants [1]	23	23	23	23
Total Applebee's restaurants, end of period	2,016	2,009	2,016	2,009

[1] On July 23, 2015, we completed the previously announced refranchising and sale of related restaurant assets of the Applebee’s company-operated restaurants.

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Unaudited)			
IHOP Restaurant Development Activity				
Summary - beginning of period:				
Franchise	1,470	1,449	1,472	1,439
Area license	167	168	167	168
Company	13	10	11	13
Total IHOP restaurants, beginning of period	1,650	1,627	1,650	1,620
Franchise/area license restaurants opened:				
Domestic franchise	7	7	13	16
Domestic area license	1	1	2	2
International franchise	3	5	3	9
Total franchise/area license restaurants opened	11	13	18	27
Franchise/area license restaurants closed:				
Domestic franchise	(1)	(6)	(7)	(11)
Domestic area license	(2)	(2)	(3)	(2)
International franchise	—	—	—	(1)
International area license	—	—	—	(1)
Total franchise/area license restaurants closed	(3)	(8)	(10)	(15)
Net franchise/area license restaurant development	8	5	8	12
Refranchised from Company restaurants	—	1	1	4
Franchise restaurants reacquired by the Company	—	(1)	(3)	(1)
Net franchise/area license restaurant additions	8	5	6	15
Summary - end of period:				
Franchise	1,479	1,455	1,479	1,455
Area license	166	167	166	167
Company	13	10	13	10
Total IHOP restaurants, end of period	1,658	1,632	1,658	1,632

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Restaurant Data

The following table sets forth the number of “Effective Restaurants” in the Applebee’s and IHOP systems and information regarding the percentage change in sales at those restaurants compared to the same periods in the prior year. Sales at restaurants that are owned by franchisees and area licensees are not attributable to the Company. However, we believe that presentation of this information is useful in analyzing our revenues because franchisees and area licensees pay us royalties and advertising fees that are generally based on a percentage of their sales, and, where applicable, rental payments under leases that partially may be based on a percentage of their sales. Management also uses this information to make decisions about future plans for the development of additional restaurants as well as evaluation of current operations.

—	Three Months Ended June 30, 2015		Three Months Ended June 30, 2014		Six Months Ended June 30, 2015		Six Months Ended June 30, 2014	
	(Unaudited)							
Applebee's Restaurant Data								
Effective Restaurants[(a)]								
Franchise	1,990		1,985		1,991		1,985	
Company	23		23		23		23	
Total	2,013		2,008		2,014		2,008	
System-wide[(b)]								
Sales percentage change[(c)]	2.0	%	0.6	%	2.9	%	(0.1	)%
Domestic same-restaurant sales percentage change[(d)]	1.0	%	0.6	%	2.0	%	0.0	%
Franchise[(b)]								
Sales percentage change[(c)]	2.0	%	0.6	%	2.9	%	(0.1	)%
Domestic same-restaurant sales percentage change[(d)]	1.0	%	0.6	%	2.0	%	0.1	%
Average weekly domestic unit sales (in thousands)	$48.9		$48.2		$50.0		$48.8	
IHOP Restaurant Data								
Effective Restaurants[(a)]								
Franchise	1,471		1,448		1,471		1,444	
Area license	167		167		167		167	
Company	13		10		13		11	
Total	1,651		1,625		1,651		1,622	
System-wide[(b)]								
Sales percentage change[(c)]	7.1	%	6.0	%	6.6	%	6.2	%
Domestic same-restaurant sales percentage change[(d)]	6.2	%	3.2	%	5.5	%	3.6	%
Franchise[(b)]								
Sales percentage change[(c)]	6.8	%	6.1	%	6.4	%	6.3	%
Domestic same-restaurant sales percentage change[(d)]	6.2	%	3.2	%	5.5	%	3.6	%
Average weekly domestic unit sales (in thousands)	$37.4		$35.6		$37.6		$36.4	
Area License[(b)]								

Sales percentage change[(c)]	7.7 %	5.8 %	7.4 %	6.9 %

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(a) “Effective Restaurants” are the weighted average number of restaurants open in a given fiscal period, adjusted to account for restaurants open for only a portion of the period. Information is presented for all Effective Restaurants in the Applebee’s and IHOP systems, which includes restaurants owned by franchisees and area licensees as well as those owned by the Company.

(b) “System-wide sales” are retail sales at Applebee’s restaurants operated by franchisees and IHOP restaurants operated by franchisees and area licensees, as reported to the Company, in addition to retail sales at company-operated restaurants. Sales at restaurants that are owned by franchisees and area licensees are not attributable to the Company. Unaudited reported sales for Applebee's domestic franchise restaurants, IHOP franchise restaurants and IHOP area license restaurants were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Reported sales (unaudited)	(In millions)			
Applebee's domestic franchise restaurant sales	$1,174.6	$1,150.7	$2,400.6	$2,333.8
IHOP franchise restaurant sales	$715.1	$669.5	$1,436.4	$1,349.8
IHOP area license restaurant sales	$69.8	$64.8	$144.8	$134.9

(c) “Sales percentage change” reflects, for each category of restaurants, the percentage change in sales in any given fiscal period compared to the prior fiscal period for all restaurants in that category.

(d) “Domestic same-restaurant sales percentage change” reflects the percentage change in sales in any given fiscal period, compared to the same weeks in the prior fiscal period, for domestic restaurants that have been operated throughout both fiscal periods that are being compared and have been open for at least 18 months. Because of new unit openings and restaurant closures, the domestic restaurants open throughout both fiscal periods being compared may be different from period to period. Domestic same-restaurant sales percentage change does not include data on IHOP area license restaurants.

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Significant Known Events, Trends or Uncertainties Impacting or Expected to Impact Comparisons of Reported or Future Results

Same-restaurant Sales Trends

Applebee’s domestic system-wide same-restaurant sales increased 1.0% for the three months ended June 30, 2015 from the same period in 2014. This marks the fifth consecutive quarter of positive same-restaurant sales. The increase resulted from a higher average customer check partially offset by a decline in customer traffic. Same-restaurant sales for the second quarter of 2015 are not necessarily indicative of results expected for the full year.
IHOP’s domestic system-wide same-restaurant sales increased 6.2% for the three months ended June 30, 2015 from the same period in 2014. The increase resulted from a higher average customer check and an increase in customer traffic, which increased for the fourth consecutive quarter. The increased annual contribution percentage of restaurant gross sales to the IHOP National Advertising Fund by a large majority of IHOP franchisees continues to have a positive impact on sales and traffic. Same-restaurant sales for the second quarter of 2015 are not necessarily indicative of results expected for the full year.

Based on data from Black Box, during the six months ended June 30, 2015, customer traffic declined for the overall restaurant industry as well as for both the casual dining and family dining segments of the restaurant industry. During the second quarter of 2015, we experienced an increase in IHOP customer traffic and a decline in Applebee's customer traffic. In the short term, a decline in customer traffic may be offset by an increase in average customer check resulting from an increase in menu prices, a favorable change in product sales mix, or a combination thereof. A sustained decline in same-restaurant customer traffic that cannot be offset by an increase in average customer check could have an adverse effect on our business, results of operations and financial condition.

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We strive to identify and create opportunities for growth in customer traffic and frequency, average check and same-restaurant sales. We focus on building our brands with a long-term view through a strategic combination of menu, media, remodel and development initiatives to continually innovate and evolve both brands. To drive each brand forward, we seek to innovate and remain actively focused on driving sustainable sales and traffic.

53rd Week in Fiscal 2015

We have a 52/53 week fiscal year that ends on the Sunday nearest to December 31 of each year. In a 52-week fiscal year, each fiscal quarter contains 13 weeks, comprised of two, four-week fiscal months followed by a five-week fiscal month. In a 53-week fiscal year, the last month of the fourth fiscal quarter contains six weeks. Our fiscal 2015, which began on December 29, 2014, will end on January 3, 2016 and will contain 53 weeks.

CONSOLIDATED RESULTS OF OPERATIONS
Comparison of the Three and Six Months Ended June 30, 2015 and 2014

REVENUE	Three Months Ended June 30,		Favorable (Unfavorable)	Six Months Ended June 30,		Favorable (Unfavorable)
	2015	2014	Variance	2015	2014	Variance
	(In millions)					
Franchise operations	$ 120.3	$ 110.7	$ 9.6	$ 244.8	$ 226.3	$ 18.5
Rental operations	31.1	30.7	0.4	62.5	61.4	1.1
Company restaurant operations	17.4	15.7	1.7	34.8	32.0	2.8
Financing operations	2.7	3.4	(0.7)	5.3	8.0	(2.7)
Total revenue	$ 171.5	$ 160.5	$ 11.0	$ 347.4	$ 327.7	$ 19.7
Change vs. prior period	6.9 %			6.0 %		

The improvement in total revenue for the three months ended June 30, 2015 compared with the same period of the prior year was primarily due to (i) higher IHOP advertising revenues resulting from an agreement with a large majority of franchisees to increase the advertising contribution as a percentage of gross sales, (ii) higher franchise and rental revenues that resulted from a 6.2% increase in IHOP domestic same-restaurant sales, (iii) a 1.0% increase in Applebee's domestic same-restaurant sales and (iv) IHOP restaurant development over the past twelve months. These favorable items were partially offset by the expected progressive decline in interest revenue from rental and financing operations.

The improvement in total revenue for the six months ended June 30, 2015 compared with the same period of the prior year was primarily due to (i) higher IHOP advertising revenues resulting from an agreement with a large majority of franchisees to increase the advertising contribution as a percentage of gross sales, (ii) higher franchise and rental revenues that resulted from a 5.5% increase in IHOP domestic same-restaurant sales, (iii) a 2.0% increase in Applebee's domestic same-restaurant sales and (iv) IHOP restaurant development over the past twelve months. These favorable items were partially offset by a decline in financing revenues of $1.4 million associated with the early termination of two leases in the first quarter of 2014 that did not recur in 2015, as well as the expected progressive decline in interest revenue from rental and financing operations.

GROSS PROFIT (LOSS)	Three Months Ended June 30,	Favorable	Six Months Ended June 30,	Favorable

	2015	2014	(Unfavorable) Variance	2015	2014	(Unfavorable) Variance
	(In millions)					
Franchise operations	$86.2	$84.2	$2.0	$175.2	$170.3	$4.9
Rental operations	7.8	7.1	0.7	15.7	13.9	1.8
Company restaurant operations	0.1	0.1	0.0	0.9	0.2	0.7
Financing operations	2.7	3.1	(0.4)	5.3	7.2	(1.9)
Total gross profit	$96.8	$94.5	$2.3	$197.1	$191.6	$5.5
Change vs. prior period	2.4%			2.9%		

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The improvement in total gross profit for the three months ended June 30, 2015 compared with the same period of the prior year was primarily due to higher franchise and rental revenues that resulted from the increase in IHOP domestic same-restaurant sales, IHOP restaurant development over the past twelve months and the increase in Applebee's domestic same-restaurant sales, partially offset by the expected progressive decline in interest revenue from rental and financing operations. The improvement in total gross profit for the six months ended June 30, 2015 compared with the same period of the prior year was due to these same factors, offset in part by the decline in financing revenues of $1.4 million associated with the early termination of two leases as discussed under "Revenue" above.

FRANCHISE OPERATIONS	Three Months Ended June 30,		Favorable (Unfavorable) Variance	Six Months Ended June 30,		Favorable (Unfavorable) Variance
	2015	2014		2015	2014	
	(In millions, except number of restaurants)					
Effective Franchise Restaurants:(1)						
Applebee's	1,990	1,985	5	1,991	1,985	6
IHOP	1,638	1,615	23	1,638	1,611	27
Franchise Revenues:						
Applebee's	$49.9	$50.0	$(0.1)	$102.3	$100.8	$1.5
IHOP	44.1	40.0	4.1	89.5	83.6	5.9
IHOP advertising	26.3	20.7	5.6	53.0	41.9	11.1
Total franchise revenues	120.3	110.7	9.6	244.8	226.3	18.5
Franchise Expenses:						
Applebee's	1.7	1.2	(0.5)	3.3	2.7	(0.6)
IHOP	6.1	4.6	(1.5)	13.3	11.4	(1.9)
IHOP advertising	26.3	20.7	(5.6)	53.0	41.9	(11.1)
Total franchise expenses	34.1	26.5	(7.6)	69.6	56.0	(13.6)
Franchise Segment Profit:						
Applebee's	48.2	48.8	(0.6)	99.0	98.1	0.9
IHOP	38.0	35.4	2.6	76.2	72.2	4.0
Total franchise segment profit	$86.2	$84.2	$2.0	$175.2	$170.3	$4.9
Gross profit as % of revenue (2)	71.7%	76.0%		71.6%	75.3%	

(1) Effective Franchise Restaurants are the weighted average number of franchise and area license restaurants open in a given fiscal period, adjusted to account for restaurants open for only a portion of the period.
(2) Percentages calculated on actual amounts, not rounded amounts presented above.

Applebee's franchise revenue for the three months ended June 30, 2015 decreased slightly from the same period of the prior year, as lower franchise extension and transfer fees were partially offset by a 1.0% increase in domestic same-restaurant sales. Applebee's franchise revenue for the six months ended June 30, 2015 increased 1.5% from the same period of the prior year, primarily due to a 2.0% increase in domestic same-restaurant sales and a 0.3% increase in the number of Effective Franchise Restaurants open during the period, partially offset by lower franchise extension and transfer fees.

Applebee's franchise expenses for the three and six months ended June 30, 2015 increased primarily due to adjustments to insurance reserves.

The 10.2% increase in IHOP franchise revenue (other than advertising) for the three months ended June 30, 2015 was primarily due to higher royalty revenues resulting from a 6.2% increase in domestic same-restaurant sales, a $1.6 million increase in sales volumes of pancake and waffle dry mix and a 1.4% increase in Effective Franchise

Restaurants. The 7.1% increase in IHOP franchise revenue (other than advertising) for the six months ended June 30, 2015 was primarily due to higher royalty revenues resulting from a 5.5% increase in domestic same-restaurant sales a $1.8 million increase in sales volumes of pancake and waffle dry mix and a 1.7% increase in Effective Franchise Restaurants.

The increases in IHOP franchise expenses (other than advertising) for the three and six months ended June 30, 2015 compared with the same periods of the prior year were due to higher purchase volumes of pancake and waffle dry mix, as well as an increase in bad debt expense. The majority of the increase in bad debt expense was due to the favorable recovery of fully reserved receivables in 2014 that did not recur in 2015.

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IHOP's total franchise expenses are substantially higher than Applebee's, primarily due to advertising expenses. Advertising contributions designated for IHOP's national advertising fund and local marketing and advertising cooperatives are recognized as revenue and expense of franchise operations. However, because we have less contractual control over Applebee's advertising expenditures, that activity is considered to be an agency relationship and therefore is not recognized as franchise revenue and expense. The increases in IHOP advertising revenue and expense for the three and six months ended June 30, 2015 were due to higher contributions to marketing funds by IHOP franchisees. Franchisee contributions to marketing funds were impacted by an agreement with a large majority of franchisees to increase the advertising contribution as a percentage of gross sales effective June 30, 2014, as well as by the increases in domestic franchise same-restaurant sales and the new franchise restaurants that favorably impacted IHOP franchise revenue (other than advertising) as discussed above.

RENTAL OPERATIONS	Three Months Ended June 30,		Favorable (Unfavorable) Variance	Six Months Ended June 30,		Favorable (Unfavorable) Variance
	2015	2014		2015	2014	
	(In millions)					
Rental revenues	$31.1	$30.7	$ 0.4	$62.5	$61.4	$ 1.1
Rental expenses	23.3	23.6	0.3	46.8	47.5	0.7
Rental operations segment profit	$7.8	$7.1	$ 0.7	$15.7	$13.9	$ 1.8
Gross profit as % of revenue [(1)]	25.1 %	23.0 %		25.1 %	22.7 %	

[(1)] Percentages calculated on actual amounts, not rounded amounts presented above.

Rental operations relate primarily to IHOP franchise restaurants. Rental income includes revenue from operating leases and interest income from direct financing leases. Rental expenses are costs of prime operating leases and interest expense on prime capital leases on certain franchise restaurants.

Rental segment revenue for the three and six months ended June 30, 2015 increased compared to the same periods of the prior year primarily due to the favorable impact of the increase in IHOP same-restaurant sales on operating leases with sales-contingent rental provisions, partially offset by expected progressive declines of $0.2 million and $0.5 million, respectively, in interest income as direct financing leases are repaid. Rental segment expenses decreased for the three and six months ended June 30, 2015 compared to the same period of the prior year due to the expected progressive decline in interest expense as capital lease obligations are repaid.

FINANCING OPERATIONS	Three Months Ended June 30,		Favorable (Unfavorable) Variance	Six Months Ended June 30,		Favorable (Unfavorable) Variance
	2015	2014		2015	2014	
	(In millions)					
Financing revenues	$2.7	$3.4	$ (0.7)	$5.3	$8.0	$ (2.7)
Financing expenses	—	0.3	0.3	0.0	0.8	0.8
Financing operations segment profit	$2.7	$3.1	$ (0.4)	$5.3	$7.2	$ (1.9)
Gross profit as % of revenue [(1)]	100.0 %	92.9 %		99.8 %	89.7 %	

[(1)] Percentages calculated on actual amounts, not rounded amounts presented above.

All financing operations relate to IHOP franchise restaurants. Financing revenues primarily consist of interest income from the financing of equipment leases and franchise fees, as well as sales of equipment associated with refranchised IHOP restaurants. Financing expenses are primarily the cost of restaurant equipment associated with refranchised IHOP restaurants.

The decrease in financing revenue for the three months ended June 30, 2015 was due to a decrease in sales of equipment associated with refranchised IHOP restaurants and the expected progressive decline in interest revenue as note balances are repaid. The decrease in financing revenue for the six months ended June 30, 2015 was primarily due to fees of $1.4 million associated with the negotiated early termination of two leases in the first quarter of 2014 that did not recur in 2015, a decrease in sales of equipment associated with refranchised IHOP restaurants and the expected progressive decline in interest revenue as note balances are repaid. The decrease in financing expenses for the three and six months ended June 30, 2015 was due to a decrease in the cost of sales of restaurant equipment associated with refranchised IHOP restaurants.

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COMPANY RESTAURANT OPERATIONS

As of June 30, 2015, company restaurant operations comprised 23 Applebee's company-operated restaurants in the Kansas City market, 10 IHOP company-operated restaurants in the Cincinnati market and three IHOP restaurants reacquired from franchisees we are operating on a temporary basis until they are refranchised. For the three months ended June 30, 2015, revenue from company restaurant operations increased $1.7 million and segment profit was flat compared to the same period of the prior year. For the six months ended June 30, 2015, revenue and segment profit from company restaurant operations increased $2.8 million and $0.7 million, respectively, compared to the same period of the prior year. The higher revenue in each period was due to an increase in same-restaurant sales and an increase in the number of temporarily operated IHOP restaurants. The improvement in segment profit for the six months ended June 30, 2015 was primarily due to the increase in same-restaurant sales.

On July 23, 2015, we completed the previously announced refranchising and sale of related restaurant assets of the 23 Applebee's company-operated restaurants. We received proceeds of approximately $9 million and expect to recognize a gain of approximately $2 million on the transaction.

OTHER EXPENSE AND INCOME ITEMS

	Three Months Ended June 30,		Favorable (Unfavorable)	Six Months Ended June 30,		Favorable (Unfavorable)
	2015	2014	Variance	2015	2014	Variance
	(In millions)					
General and administrative expenses	$34.6	$34.8	$0.2	$68.8	$69.0	$0.2
Interest expense	15.7	24.9	9.2	31.3	49.9	18.6
Amortization of intangible assets	2.5	3.1	0.6	5.0	6.1	1.1
Closure and impairment charges	0.5	0.6	0.1	2.3	0.8	(1.5)
Loss (gain) on disposition of assets	0.1	(0.1)	(0.2)	0.1	0.8	0.7
Income tax provision	16.6	12.0	(4.6)	34.3	24.9	(9.4)

Interest Expense

Interest expense for the three and six months ended June 30, 2015 decreased by $9.2 million and $18.6 million, respectively, compared to the same periods of the prior year. In the fourth quarter of 2014 we refinanced $1.225 billion of long-term debt that bore interest at a weighted average rate of approximately 7.3% with $1.3 billion of new long-term debt bearing interest at a fixed rate of 4.277%. Additionally, deferred financing costs associated with the new long-term debt were smaller than those associated with the old long-term debt, resulting in lower non-cash interest expense for the amortization of the deferred financing costs. These items were partially offset by a small increase in the principal amount of long-term debt outstanding.

Amortization of Intangible Assets

Amortization of intangible assets for the three and six months ended June 30, 2015 decreased compared to the same respective periods of the prior year because certain intangible assets that arose from the November 2007 acquisition of Applebee's became fully amortized in November 2014.

Closure and Impairment Charges

Closure and impairment charges were $0.5 million for the three months ended June 30, 2015, comprised of $0.4 million in impairment charges and $0.1 million of closure charges. The impairment charges related to individually insignificant assets at eight IHOP company-operated restaurants. Closure and impairment charges were $2.3 million for the six months ended June 30, 2015, comprised of $1.6 million of closure charges and $0.7 million of impairment charges. Approximately $1.1 million of closure charges related to two IHOP franchise restaurants closed during 2015, with approximately $0.4 million related to adjustments for IHOP and Applebee's restaurants closed in prior periods. There were no individually significant closure or impairment charges for the three and six months ended June 30, 2014.

During the six months ended June 30, 2015, we performed assessments of whether events or changes in circumstances have occurred that potentially indicate the carrying value of tangible long-lived assets may not be recoverable. No significant impairments were noted in performing the assessments. We also considered whether there were any indicators of potential impairment to our goodwill and indefinite-lived intangible assets. No such indicators were noted.

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Gain/Loss on Disposition of Assets

There were no individually significant asset dispositions during the three and six months ended June 30, 2015 and 2014, respectively.

Provision for Income Taxes

Our effective tax rate of 38.2% for the three months ended June 30, 2015 was consistent with our effective rate of 38.4% for the three months ended June 30, 2014. Our effective tax rate was 38.3% for both the six months ended June 30, 2015 and 2014, respectively.

Liquidity and Capital Resources

At June 30, 2015, our outstanding long-term debt consisted of $1.3 billion of Series 2014-1 4.277% Fixed Rate Senior Notes, Class A-2 (the “Class A-2 Notes”). We also have a revolving financing facility consisting of Series 2014-1 Variable Funding Senior Notes, Class A-1 (the “Variable Funding Notes”), which allows for drawings of up to $100 million of Variable Funding Notes and the issuance of letters of credit. The Class A-2 Notes and the Variable Funding Notes are referred to collectively as the “Notes.” The Notes were issued in a private securitization transaction pursuant to which substantially all of our domestic revenue-generating assets and our domestic intellectual property are held by certain special-purpose, wholly-owned indirect subsidiaries of the Company (the “Guarantors”) that act as guarantors of the Notes and that have pledged substantially all of their assets to secure the Notes.

While the Notes are outstanding, payment of principal and interest is required to be made on the Class A-2 Notes on a quarterly basis. The payment of principal on the Class A-2 Notes may be suspended when the leverage ratio for the Company and its subsidiaries is less than or equal to 5.25x. At June 30, 2015, our leverage ratio was 4.70x (see Exhibit 12.1).

The Variable Funding Notes were not drawn upon at June 30, 2015 and we have not drawn on them since issuance. At June 30, 2015, $8.4 million was pledged against the Variable Funding Notes for outstanding letters of credit, leaving $91.6 million of Variable Funding Notes available for borrowings. The letters of credit are used primarily to satisfy insurance-related collateral requirements.

The Notes are subject to customary rapid amortization events for similar types of financing, including events tied to our failure to maintain the stated debt service coverage ratio (“DSCR”), the sum of domestic retail sales for all restaurants being below certain levels on certain measurement dates, certain manager termination events, certain events of default and the failure to repay or refinance the Notes on the Class A-2 Anticipated Repayment Date in September 2021. The Notes are also subject to certain customary events of default, including events relating to non-payment of required interest, principal or other amounts due on or with respect to the Notes, failure to maintain the stated DSCR, failure to comply with covenants within certain time frames, certain bankruptcy events, breaches of specified representations and warranties and certain judgments.

Failure to maintain a prescribed DSCR can trigger a Cash Trapping Event, A Rapid Amortization Event, a Manager Termination Event or a Default Event as described below. In a Cash Trapping Event, the Trustee is required to retain a certain percentage of cash flow in a restricted account. In a Rapid Amortization Event, all excess Cash Flow is retained and used to retire principal amounts of debt. Key DSCRs are as follows:

•DSCR less than 1.75x but equal to or greater than 1.50x - Cash Trapping Event, 50% of Net Cash Flow
•DSCR less than 1.50x - Cash Trapping Event, 100% of Net Cash Flow
•DSCR less than 1.30x - Rapid Amortization Event

- DSCR less than 1.20x - Manager Termination Event
- DSCR less than 1.10x - Default Event

Our DSCR for the reporting period ended June 30, 2015 was 5.05x (see Exhibit 12.1).

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Dividends

During the six months ended June 30, 2015, we paid dividends on common stock of $33.3 million, representing dividends declared in the fourth quarter of 2014 and first quarter of 2015 of $0.875 per share of common stock. On May 19, 2015, our Board of Directors declared a second quarter 2015 cash dividend of $0.875 per share of common stock. This dividend was paid on July 10, 2015 to our stockholders of record at the close of business on June 12, 2015. We evaluate dividend payments on common stock within the context of our overall capital allocation strategy with our Board of Directors on an ongoing basis, giving consideration to our current and forecast earnings, financial condition, cash requirements and other factors.

Share Repurchases

In October 2014, our Board of Directors approved a stock repurchase authorization of up to $100 million of DineEquity common stock. Under this program, we may repurchase shares on an opportunistic basis from time to time in open market transactions and in privately negotiated transactions based on business, market, applicable legal requirements and other considerations. The repurchase program does not require the repurchase of a specific number of shares and may be terminated at any time. During the six months ended June 30, 2015, we repurchased 344,890 shares of common stock at a cost of $35.0 million. As of June 30, 2015, we have repurchased a cumulative total of 365,225 shares of common stock under the current Board authorization at a total cost of $37.0 million. We may repurchase up to an additional $63.0 million of common stock under the current Board authorization. We evaluate repurchases of common stock within the context of our overall capital allocation strategy with our Board of Directors on an ongoing basis, giving consideration to our current and forecast earnings, financial condition, cash requirements and other factors.

Cash Flows

In summary, our cash flows for the six months ended June 30, 2015 and 2014 were as follows:

	Six Months Ended June 30,		
	2015	2014	Variance
	(In millions)		
Net cash provided by operating activities	$48.1	$56.0	$(7.9)
Net cash provided by investing activities	5.6	2.7	2.9
Net cash used in financing activities	(53.3)	(64.4)	11.1
Net increase (decrease) in cash and cash equivalents	$0.4	$(5.7)	$6.1

Operating Activities

Cash provided by operating activities for the six months ended June 30, 2015 decreased $7.9 million compared with the six months ended June 30, 2014. Net income for the six months ended June 30, 2015 increased compared to the same period of 2014, primarily due to lower interest expense resulting from the refinancing of our long-term debt in the fourth quarter of 2014 and an increase in gross profit, primarily due to increases in IHOP and Applebee's domestic same-restaurant sales and IHOP restaurant development over the past twelve months. However, net changes in working capital used cash of $13.3 million during the first six months of 2015 compared to providing cash of $6.7 million during the first six months of 2014, an unfavorable variance of $20.0 million.

The unfavorable variance in working capital changes is primarily due to the timing of interest payments on long-term debt, higher income tax payments and marketing accruals. Our Notes require quarterly interest payments, whereas interest payments on a significant portion of our old long-term debt were required semi-annually in April and October. We had approximately 25 days of interest accrued at June 30, 2015 as compared to two months of interest accrued at June 30, 2014. This timing negatively impacted the change in working capital, although total cash provided by operating activities was benefited by overall lower interest payments.

Additionally, we made higher estimated income tax payments in 2015 compared to 2014. Our estimated tax payments during the six months ended June 30, 2014 were lower relative to that period's current tax provision in anticipation that deductible expenses related to our refinancing of long-term debt would be incurred in the latter half of 2014. The higher tax payments in 2015 had an unfavorable impact on both the change in working capital and total cash from operations.

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Investing Activities

Investing activities provided net cash of $5.6 million for the six months ended June 30, 2015. Principal receipts from notes, equipment contracts and other long-term receivables of $9.5 million were partially offset by $4.6 million in capital expenditures. Capital expenditures are expected to be approximately $9 million for fiscal 2015.

Financing Activities

Financing activities used net cash of $53.3 million for the six months ended June 30, 2015. Cash used in financing activities primarily consisted of cash dividends on our common stock totaling $33.3 million, repurchases of our common stock totaling $35.0 million and repayments of capital lease and financing obligations of $6.0 million. Cash provided by financing activities primarily consisted of a decrease in restricted cash of $11.0 million and a net cash inflow of approximately $10.0 million related to equity compensation awards.

Cash and Cash Equivalents

At June 30, 2015, our cash and cash equivalents totaled $104.4 million, including $59.9 million of cash held for gift card programs and advertising funds.

Based on our current level of operations, we believe that our cash flow from operations, available cash and available borrowing capacity under our Variable Funding Notes will be adequate to meet our liquidity needs for the next twelve months.

Free Cash Flow

We define “free cash flow” for a given period as cash provided by operating activities, plus net receipts from notes and equipment contract receivables, less additions to property and equipment. We believe this information is helpful to investors to determine our cash available for general corporate purposes and for the return of cash to stockholders pursuant to our capital allocation strategy.

Free cash flow is considered to be a non-U.S. GAAP measure. Reconciliation of the cash provided by operating activities to free cash flow is as follows:

	Six Months Ended June 30,		
	2015	2014	Variance
	(In millions)		
Cash flows provided by operating activities	$48.1	$56.0	$(7.9)
Net receipts from notes and equipment contracts receivable	6.2	2.7	3.5
Additions to property and equipment	(4.6)	(4.1)	(0.5)
Free cash flow	$49.7	$54.6	$(4.9)

This non-U.S. GAAP measure is not defined in the same manner by all companies and may not be comparable to other similarly titled measures of other companies. Non-U.S. GAAP measures should be considered in addition to, and not as a substitute for, the U.S. GAAP information contained within our financial statements.

The decline in free cash flow for the six months ended June 30, 2015 compared to the same period of the prior year is primarily due to the decrease in cash from operating activities discussed above.

Off-Balance Sheet Arrangements

As of June 30, 2015, we had no off-balance sheet arrangements, as defined in Item 303(a)(4) of SEC Regulation S-K.

Contractual Obligations and Commitments

There were no material changes to the contractual obligations table as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

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Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. GAAP requires we make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenues and expenses in the reporting period. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. We continually review the estimates and underlying assumptions to ensure they are appropriate for the circumstances. Accounting assumptions and estimates are inherently uncertain and actual results may differ materially from our estimates.

A summary of our critical accounting estimates is included in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2014. During the six months ended June 30, 2015, there were no significant changes in our estimates and critical accounting policies.

See Note 3, "Accounting Policies," in the Notes to Consolidated Financial Statements for a discussion of recently adopted accounting standards and newly issued accounting standards.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There were no material changes from the information contained in the Company's Annual Report on Form 10-K as of December 31, 2014.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting.

There have been no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

We are subject to various lawsuits, administrative proceedings, audits and claims arising in the ordinary course of business. Some of these lawsuits purport to be class actions and/or seek substantial damages. We are required to record an accrual for litigation loss contingencies that are both probable and reasonably estimable. Legal fees and expenses associated with the defense of all of our litigation are expensed as such fees and expenses are incurred. Management regularly assesses our insurance deductibles, analyzes litigation information with our attorneys and evaluates our loss experience in connection with pending legal proceedings. While we do not presently believe that any of the legal proceedings to which we are currently a party will ultimately have a material adverse impact on us, there can be no assurance that we will prevail in all the proceedings we are party to, or that we will not incur material losses from them.

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Item 1A. Risk Factors.

There are no material changes from the risk factors set forth under Item 1A of Part I of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Purchases of Equity Securities by the Company

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (b)	Approximate dollar value of shares that may yet be purchased under the plans or programs (b)
March 30, 2015 – April 26, 2015	—	—	—	$83,000,000
April 27, 2015 – May 24, 2015 [a]	154,470	$97.17	154,398	$68,000,000
May 25, 2015 – June 28, 2015 [a]	50,826	$99.23	50,396	$63,000,000
Total	205,296	$97.68	204,794	$63,000,000

[a] These amounts include 72 shares owned and tendered by employees at an average price of $95.81 to satisfy tax withholding obligations arising upon vesting of restricted awards during the fiscal month ended May 24, 2015 and 430 shares tendered at an average price of $99.08 during the fiscal month ended June 28, 2015.
[b] In October 2014, our Board of Directors approved a stock repurchase authorization of up to $100 million of our common stock. Repurchases are subject to prevailing market prices and may take place in open market transactions and in privately negotiated transactions, based on business, market, applicable legal requirements and other considerations. The program does not require the repurchase of a specific number of shares and may be terminated at any time.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

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Item 6. Exhibits.

3.1	Restated Certificate of Incorporation of DineEquity, Inc. (Exhibit 99.3 to Registrant's Form 8-K filed on December 18, 2012 is incorporated herein by reference).
3.2	Amended Bylaws of DineEquity, Inc. (Exhibit 3.2 to Registrant's Form 8-K filed on June 2, 2008 is incorporated herein by reference).
*†10.1	DineEquity, Inc. 2011 Stock Incentive Plan Restricted Stock Award Agreement (1/4th Annual Vesting - Employees)
*12.1	Computation of Debt Service Coverage Ratio for the Trailing Twelve Months Ended June 30, 2015 and Leverage Ratio as of June 30, 2015.
*31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
*31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
*32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
*32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101.INS	XBRL Instance Document.***
101.SCH	XBRL Schema Document.***
101.CAL	XBRL Calculation Linkbase Document.***
101.DEF	XBRL Definition Linkbase Document.***
101.LAB	XBRL Label Linkbase Document.***
101.PRE	XBRL Presentation Linkbase Document.***

* Filed herewith.

** The certifications attached as Exhibits 32.1 and 32.2 accompany this Quarterly Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

*** Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

† A contract, compensatory plan or arrangement in which directors or executive officers are eligible to participate.

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SIGNATURES

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

DineEquity, Inc.
(Registrant)

Dated:	July 29, 2015	By:	/s/ Julia A. Stewart Julia A. Stewart Chairman and Chief Executive Officer (Principal Executive Officer)
Dated:	July 29, 2015	By:	/s/ Thomas W. Emrey Thomas W. Emrey Chief Financial Officer (Principal Financial Officer)
Dated:	July 29, 2015	By:	/s/ Greggory Kalvin Greggory Kalvin Senior Vice President, Corporate Controller (Principal Accounting Officer)