

FORM 10-Q

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

(Mark One)

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

For the quarterly period ended June 30, 2000

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

For the transition period from _____ to _____

Commission File Number : 0-25985

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

(Exact name of registrant as specified in its charter)

IOWA

42-1447959

(State of Incorporation)

(I.R.S. Employer
Identification No.)

5000 WESTOWN PARKWAY, SUITE 440
WEST DES MOINES, IOWA 50266

(Address of principal executive offices)

(515) 221-0002

(Telephone)

(Former name, former address and former fiscal year, if changed since last
report)

Indicate by check mark whether the registrant (1) has filed all
documents and reports required to be filed by Sections 12, 13 or 15(d) of the
Securities Exchange Act of 1934 during the preceding 12 months (or such shorter
period that the registrant was required to file such reports), and (2) has been
subject to such filing requirements for the past 90 days.

Yes No
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APPLICABLE TO CORPORATE ISSUERS:

Shares of common stock outstanding at July 31, 2000: 14,501,242

PART I.
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

American Equity Investment Life Holding Company

Consolidated Balance Sheets (Unaudited)

(Dollars in thousands, except per share data)

	JUNE 30, 2000	DECEMBER 31, 1999
	-----	-----
ASSETS		
Cash and investments:		
Fixed maturity securities:		
Available-for-sale, at market (amortized cost: 2000 - \$1,411,043; 1999 - \$1,070,465)	\$1,309,351	\$ 997,020
Held for investment, at amortized cost (market: 2000 - \$316,660; 1999 - \$315,975)	417,117	398,467
Equity securities, at market (cost: 2000 - \$9,357; 1999 - \$8,020)	7,419	7,613
Derivative instruments	42,509	44,210
Policy loans	240	231
Cash and cash equivalents	22,579	5,882
	-----	-----
Total cash and investments	1,799,215	1,453,423
Receivable from other insurance companies	475	598
Premiums due and uncollected	1,232	1,097
Accrued investment income	19,536	14,183
Receivables from related parties	35,084	18,896
Property, furniture and equipment, less accumulated depreciation: 2000 - \$2,006; 1999 - \$1,632	1,093	1,346
Value of insurance in force acquired	593	752
Deferred policy acquisition costs	188,327	126,685
Intangibles, less accumulated amortization: 2000 - \$804; 1999 - \$681	2,298	2,238
Deferred income tax asset	49,741	43,037
Federal income taxes recoverable	3,815	1,663
Other assets	3,547	1,215
Assets held in separate account	704	371
	-----	-----
Total assets	\$2,105,660	\$1,665,504
	=====	=====

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SEE ACCOMPANYING NOTES.

American Equity Investment Life Holding Company

Consolidated Balance Sheets (Unaudited)

(Dollars in thousands, except per share data)

	JUNE 30, 2000	DECEMBER 31, 1999
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Policy benefit reserves:		
Traditional life insurance and accident and health products	\$ 17,742	\$ 15,060
Annuity and single premium universal life products	1,773,671	1,343,816
Other policy funds and contract claims	14,032	11,553
Provision for experience rating refunds	444	545
Amounts due to related parties	12,518	10,003
Notes payable	32,100	20,600
Amounts due under repurchase agreements	89,957	86,969
Amounts due on securities purchased	29,994	29,714
Other liabilities	12,328	13,567
Liabilities related to separate account	704	371
	-----	-----
Total liabilities	1,983,490	1,532,198
Commitments and contingencies		
Minority interest in subsidiaries: company-obligated		
mandatorily redeemable preferred securities of	99,242	98,982
subsidiary trusts		
Stockholders' equity:		
Series Preferred Stock, par value \$1 per share,		
2,000,000 shares authorized; 625,000 shares of		
1998 Series A Participating Preferred Stock issued	625	625
and outstanding		
Common Stock, par value \$1 per share - 75,000,000		
shares authorized; issued and outstanding:	14,471	4,712
2000 - 14,471,142 shares; and 1999 - 4,712,310 shares		
Additional paid-in capital	57,209	66,058
Accumulated other comprehensive loss	(48,496)	(35,235)
Retained-earnings deficit	(881)	(1,836)
	-----	-----
Total stockholders' equity	22,928	34,324
	-----	-----
Total liabilities and stockholders' equity	\$ 2,105,660	\$ 1,665,504
	=====	=====

SEE ACCOMPANYING NOTES.

American Equity Investment Life Holding Company
Consolidated Statements of Operations (Unaudited)
(Dollars in thousands, except per share data)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
REVENUES:				
Traditional life and accident and health insurance premiums	\$ 2,741	\$ 3,072	\$ 6,184	\$ 6,013
Annuity and single premium universal life product charges	1,883	629	3,288	1,046
Net investment income	24,490	12,902	33,749	22,967
Realized gains (losses) on sale of investments	(18)	(33)	6,196	(30)
Total revenues	29,096	16,570	49,417	29,996
BENEFITS AND EXPENSES:				
Insurance policy benefits and change in future policy benefits	2,148	2,381	4,103	3,930
Interest credited to account balances	12,698	6,695	24,589	12,379
Interest expense on notes payable	556	167	847	369
Interest expense on amounts due under repurchase agreements	1,050	985	1,718	1,684
Amortization of deferred policy acquisition costs and value of insurance in force acquired	5,426	2,201	5,632	3,909
Other operating costs and expenses	3,975	3,318	7,405	6,654
Total benefits and expenses	25,853	15,747	44,294	28,925
Income before income taxes	3,243	823	5,123	1,071
Income tax (expense) benefit:				
Current	(1,554)	(4,551)	53	(8,111)
Deferred	1,116	4,188	(496)	7,563
	(438)	(363)	(444)	(548)
Minority interest in subsidiaries:				
Earnings attributable to company-obligated mandatorily redeemable preferred securities of subsidiary trusts	(1,862)	-	(3,724)	-
Net income	\$ 943	\$ 460	\$ 955	\$ 523
Basic earnings per common share	\$ 0.07	\$ 0.03	\$ 0.07	\$ 0.04
Diluted earnings per common share	\$ 0.05	\$ 0.03	\$ 0.05	\$ 0.03

SEE ACCOMPANYING NOTES.

American Equity Investment Life Holding Company
Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	SIX MONTHS ENDED JUNE 30,	
	2000	1999
OPERATING ACTIVITIES		
Net income	\$ 955	\$ 523
Adjustments to reconcile net income to net cash used in operating activities:		
Adjustments related to interest sensitive products:		
Interest credited to account balances	24,589	12,379
Annuity and single premium universal life product charges	(3,288)	(1,046)
Increase in traditional life insurance and accident and health reserves	2,682	1,704
Policy acquisition costs deferred:		
Commissions paid to related party	(51,836)	(28,781)
Other	(1,584)	(1,295)
Amortization of deferred policy acquisition costs	5,473	3,716
Provision for depreciation and other amortization	655	515
Amortization of discount and premiums on fixed maturity securities and derivative instruments	4,996	(8,541)
Increase in federal income taxes recoverable	(2,152)	-
Deferred income taxes	496	(7,563)
Change in federal income taxes payable	-	1,111
Amounts due to related parties	2,515	3,563
Receivables from related parties	(16,188)	(4,692)
Other	(6,569)	3,710
Realized losses (gains) on sale of investments	(6,196)	30
	(45,452)	(24,667)
Net cash used in operating activities		

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SEE ACCOMPANYING NOTES.

American Equity Investment Life Holding Company
Consolidated Statements of Cash Flows (Unaudited)
(Dollars in thousands)

	SIX MONTHS ENDED JUNE 30,	
	2000	1999
	-----	-----
INVESTING ACTIVITIES		
Sales, maturities or repayments of investments:		
Fixed maturity securities - available-for-sale	\$ 594,481	\$ 245,008
Derivative instruments	7,177	-
	-----	-----
	601,658	245,008
Acquisition of investments:		
Fixed maturity securities - available-for-sale	(927,145)	(223,457)
Fixed maturity securities - held for investment	(7,246)	(341,708)
Equity securities	(1,337)	-
Derivative instruments	(34,949)	(15,468)
Policy loans	(9)	(33)
	-----	-----
	(970,686)	(580,666)
Purchases of property, furniture and equipment	(121)	(110)
	-----	-----
Net cash used in investing activities	(369,149)	(335,768)
FINANCING ACTIVITIES		
Receipts credited to annuity and single premium universal life policyholder account balances	471,746	361,796
Return of annuity and single premium universal life policyholder account balances	(55,663)	(22,888)
Financing fees incurred and deferred	(183)	-
Proceeds from notes payable	11,500	-
Increase in amounts due under repurchase agreements	2,988	14,963
Re-acquisition of common stock	(600)	-
Net proceeds from issuance of common stock	1,510	1,347
	-----	-----
Net cash provided by financing activities	431,298	355,218
	-----	-----
Decrease in cash and cash equivalents	16,697	(5,217)
Cash and cash equivalents at beginning of period	5,882	15,892
	-----	-----
Cash and cash equivalents at end of period	\$ 22,579	\$ 10,675
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during period for:		
Interest	\$ 2,565	\$ 2,104
Income taxes	-	7,000
Non-cash financing and investing activities:		
Bonus interest deferred as policy acquisition costs	4,378	4,034

SEE ACCOMPANYING NOTES.

American Equity Investment Life Holding Company

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

(Dollars in thousands, except per share data)

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE LOSS	RETAINED EARNINGS (DEFICIT)	TOTAL STOCKHOLDERS' EQUITY
	-----	-----	-----	-----	-----	-----
Balance at December 31, 1999	\$625	\$4,712	\$66,058	\$(35,235)	\$(1,836)	\$34,324
Comprehensive loss:						
Net income for period	-	-	-	-	955	955
Change in net unrealized investment gains/losses	-	-	-	(13,261)	-	(13,261)
Total comprehensive loss						(12,306)
Issuance of 138,575 shares of common stock	-	139	1,371	-	-	1,510
Acquisition of 81,513 shares of common stock	-	(82)	(518)	-	-	(600)
3-for-1 stock split	-	9,702	(9,702)	-	-	-
Balance at June 30, 2000	=====	=====	=====	=====	=====	=====

Total comprehensive loss for the six months ended June 30, 1999 was \$7,747, and was comprised of net income of \$523 and a decrease in net unrealized depreciation of available-for-sale fixed maturity securities of \$8,270.

Total comprehensive loss for the second quarter of 2000 was \$25,526, and was comprised of net income of \$944 and a decrease in net unrealized depreciation of available-for-sale fixed maturity securities of \$26,470.

Total comprehensive loss for the second quarter of 1999 was \$4,988, and was comprised of net income of \$460 and a decrease in net unrealized depreciation of available-for-sale fixed maturity securities of \$5,448.

American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2000

NOTE A- BASIS OF PRESENTATION

The unaudited consolidated financial statements as of June 30, 2000 and for the periods ended June 30, 2000 and 1999, as well as the audited consolidated balance sheet as of December 31, 1999, include the accounts of the Company and its wholly-owned subsidiaries: American Equity Investment Life Insurance Company, American Equity Investment Capital, Inc. (formed in 1998), American Equity Capital Trust I (formed in 1999), American Equity Capital Trust II (formed in 1999), American Equity of Hawaii, Inc. (formed in 1999), and American Equity Investment Properties, L.C. All significant intercompany accounts and transactions have been eliminated.

The unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring items, which are necessary to present fairly our financial position and results of operations on a basis consistent with the prior audited financial statements. Operating results for the six months ended June 30, 2000 are not necessarily indicative of the results that may be reflected for the year ending December 31, 2000.

The Company operates solely in the life insurance business.

NOTE B - CHANGES IN AMOUNTS DUE UNDER REPURCHASE AGREEMENTS

As part of its investment strategy, the Company enters into securities lending programs to increase its return on investments and improve its liquidity. These transactions are accounted for as amounts due under repurchase agreements (short-term collateralized borrowings). Such borrowings averaged approximately \$53,403,000 and \$64,738,000 for the six months ended June 30, 2000 and 1999, respectively, and were collateralized by investment securities with fair market values approximately equal to the amount due. The weighted average interest rate on amounts due under repurchase agreements was 6.43% and 5.27% for the six months ended June 30, 2000 and 1999, respectively.

NOTE C - INCREASE IN LINE OF CREDIT

In March, 2000, the maximum borrowing level under the Company's variable rate revolving line of credit was increased from \$25,000,000 to \$40,000,000. The Company borrowed an additional \$11,500,000 under this line during the second quarter of 2000.

American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (Unaudited)

NOTE D - EARNINGS PER SHARE

The following table sets forth the computation of basic earnings per common share and diluted earnings per common share:

	THREE MONTHS ENDED JUNE 30, 2000	1999	SIX MONTHS ENDED JUNE 30, 2000	1999
	-----	-----	-----	-----
	(Dollars in thousands, except per share data)			
NUMERATOR:				
Net income - numerator for basic and diluted earnings per share	\$ 943	\$ 460	\$ 955	\$ 523
	=====	=====	=====	=====
DENOMINATOR:				
Weighted average shares outstanding - denominator for basic earnings per common share	14,359,905	13,975,305	14,275,305	13,860,597
Effect of dilutive securities:				
Preferred stock	1,875,000	1,875,000	1,875,000	1,875,000
Warrants	20,004	223,977	20,004	223,977
Stock options and subscription rights	2,117,499	1,423,439	2,117,499	1,423,439
Deferred compensation agreements	758,268	40,599	758,268	40,599
	-----	-----	-----	-----
Adjusted weighted average shares outstanding - denominator for diluted earnings per common share	19,130,676	17,538,320	19,046,076	17,423,612
	=====	=====	=====	=====
Basic earnings per common share	\$ 0.07	\$0.03	\$0.07	\$0.04
	=====	=====	=====	=====
Diluted earnings per common share	\$ 0.05	\$0.03	\$0.05	\$0.03
	=====	=====	=====	=====

The effect of the convertible stock of the subsidiary trusts has not been included in the computation of dilutive earnings per share as the effect is antidilutive.

The Company effected a three-for-one split of common stock on June 30, 2000. Accordingly, all historical weighted average share and per share amounts have been restated to reflect the stock split. Share amounts presented in the unaudited Consolidated Balance Sheets and unaudited Consolidated Statements of Stockholders' Equity reflect the actual share amounts outstanding for each period presented.

American Equity Investment Life Holding Company

Notes to Consolidated Financial Statements (Unaudited)

NOTE E - PENDING ACCOUNTING CHANGE

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. SFAS No. 133 requires companies to record derivative instruments on the balance sheet at fair value. Accounting for gains or losses resulting from changes in the fair values of derivative instruments is dependent on the use of the derivative and whether it qualifies for hedge accounting. The Statement is effective for the Company in the year 2001, with earlier adoption encouraged. The Company has not yet determined the effect that this new Statement will have on its operations or financial position.

NOTE F - COMMITMENTS AND CONTINGENCIES

The Company has a General Agency Commission and Servicing Agreement with American Equity Investment Service Company (the Service Company), wholly-owned by the Company's chairman, whereby, the Service Company acts as a national supervisory agent with responsibility for paying commissions to agents of the Company. This Agreement is more fully described in Note 11 to the Audited Financial Statements included in the Company's Form 10-K.

During the six months ended June 30, 2000 and 1999, the Service Company paid \$15,900,000 and \$19,948,000 respectively, to agents of the Company and the Company paid renewal commissions to the Service Company of \$10,446,000 and \$5,963,000. At June 30, 2000 and December 31, 1999, accounts payable to the Service Company aggregated \$12,518,000 and \$10,003,000, respectively, and is included in amounts due to related parties.

During 1999, the Company agreed to loan to the Service Company up to \$50,000,000 pursuant to a promissory note bearing interest at the "reference rate" of the financial institution which is the Company's principal lender. Principal and interest are payable quarterly over five years from the date of the advance. At June 30, 2000 and December 31, 1999, the net amount advanced to the Service Company was \$30,426,000 and \$18,175,000, respectively.

NOTE G - WARRANT EXERCISES

In April 2000, the Company's Chief Executive Officer, D.J. Noble, exercised warrants to purchase 80,000 shares of common stock at \$10 per share. The Company loaned Mr. Noble the aggregate exercise price of \$800,000 pursuant to a forgivable loan agreement to facilitate his exercise of these warrants. This loan is repayable in five equal annual installments of principal and interest, each of which may be forgiven if Mr. Noble remains continuously employed by the Company in his present capacity, subject to specified exceptions. In addition, Sanders Morris Harris ("SMH") exercised warrants to purchase 56,875 shares of common stock at an exercise price of \$12 per share, resulting in proceeds of \$682,500.

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

Management's discussion and analysis reviews our consolidated financial position at June 30, 2000, and the consolidated results of operations for the periods ended June 30, 2000 and 1999, and where appropriate, factors that may affect future financial performance. This analysis should be read in conjunction with the unaudited consolidated financial statements and notes thereto appearing elsewhere in this Form 10-Q, and the audited consolidated financial statements, notes thereto and selected consolidated financial data appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

All statements, trend analyses and other information contained in this report and elsewhere (such as in filings by us with the Securities and Exchange Commission, press releases, presentations by us or our management or oral statements) 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. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results to be materially different from those contemplated by the forward-looking statements. Such factors include, among other things:

- general economic conditions and other factors, including prevailing interest rate levels and stock and credit market performance which may affect (among other things) our ability to sell our products, our ability to access capital resources and the costs associated therewith, the market value of our investments and the lapse rate and profitability of policies
- customer response to new products and marketing initiatives
- mortality and other factors which may affect the profitability of our products
- changes in Federal income tax laws and regulations which may affect the relative income tax advantages of our products
- increasing competition in the sale of annuities
- regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) bank sales and underwriting of insurance products and regulation of the sale, underwriting and pricing of products
- the risk factors or uncertainties listed from time to time in our private placement memorandums or filings with the Securities and Exchange Commission

RESULTS OF OPERATIONS

THREE AND SIX MONTHS ENDED JUNE 30, 2000 AND 1999

Our business has continued to grow rapidly, with reserves for annuities and single premium universal life policies increasing from \$384,079,000 at June 30, 1998 to \$893,996,000 at June 30, 1999 and \$1,773,671,000 at June 30, 2000. Deposits from sales of annuities and single premium universal life policies during the six months ended June 30, 2000 increased 30% to \$471,746,000 compared to \$361,796,000 for the same period in 1999. The increased production is a direct result of the growth in our agency force which increased from 10,500 agents at December 31, 1998 to 18,000 agents at December 31, 1999 and 19,900 agents at June 30, 2000.

Our net income increased 105% to \$943,000 for the second quarter of 2000, and 83% to \$955,000 for the six months ended June 30, 2000 compared to \$460,000 and \$523,000, respectively, for the same periods in 1999. The trend in net income is the direct result of the substantial growth in our annuity business which began to accelerate in the third quarter of 1997.

Traditional life and accident and health insurance premiums decreased 11% to \$2,741,000 for the second quarter of 2000, and increased 3% to \$6,184,000 for the six months ended June 30, 2000 compared to \$3,072,000 and \$6,013,000, respectively, for the same periods in 1999. These changes are principally attributable to corresponding changes in direct sales of life products, including new products introduced in 1999.

Annuity and single premium universal life product charges (surrender charges assessed against policy withdrawals and mortality and expense charges assessed against single premium universal life policyholder account balances) increased 199% to \$1,883,000 for the second quarter of 2000, and 214% to \$3,288,000 for the six months ended June 30, 2000 compared to \$629,000 and \$1,046,000, respectively, for the same periods in 1999. These increases are principally attributable to the growth in our annuity business and correspondingly, an increase in annuity policy withdrawals subject to surrender charges. Withdrawals from annuity and single premium universal life policies were \$55,663,000 for the six months ended June 30, 2000 compared to \$22,888,000 for the same period in 1999.

Net investment income increased 90% to \$24,490,000 in the second quarter of 2000, and 47% to \$33,749,000 for the six months ended June 30, 2000 compared to \$12,902,000 and \$22,967,000, respectively, for the same periods in 1999. Invested assets (amortized cost basis) increased 88% to \$1,870,510,000 at June 30, 2000 compared to \$992,904,000 at June 30, 1999, while the annualized effective yield earned on invested assets was 7.6% at June 30, 2000 compared to 7.5% at June 30, 1999.

Realized gains (losses) on the sale of investments consisted of an increase in realized losses to \$33,000 in the second quarter of 2000 compared to realized losses of \$18,000 for the same period in 1999. For the six months ended June 30, 2000, the Company had realized gains of \$6,196,000 compared to realized losses of \$30,000 for the same period in 1999. The increase in realized gains in the first six months of 2000 is principally attributable to an investment program involving the use of total return exchange agreements. The Company experienced net losses of \$3,406,000 on these agreements consisting of realized gains on the early termination of seven total return swap agreements of \$7,177,000 and net investment expense of \$10,582,000 related to payments made on specified settlement dates. This program was terminated in February, 2000. The Company received an adjustment of \$1,878,000 in the second quarter of 2000 which reduced the net investment expense on this program from \$12,460,000 to \$10,582,000. For the six months ended June 30, 2000, the net realized

gains on the sale of investments includes \$981,000 of losses on the sale of certain corporate fixed maturity securities.

Traditional life and accident and health insurance benefits decreased 10% to \$2,148,000 in the second quarter of 2000, and increased 4% to \$4,103,000 for the six months ended June 30, 2000 compared to \$2,381,000 and \$3,930,000, respectively, for the same periods in 1999. These changes are principally attributable to corresponding changes in reserves related to the changes in direct life insurance premiums.

Interest credited to annuity and single premium universal life policyholder account balances increased 90% to \$12,698,000 in the second quarter of 2000, and 99% to \$24,589,000 for the six months ended June 30, 2000 compared to \$6,695,000 and \$12,379,000, respectively, for the same periods in 1999. These increases are principally attributable to the increase in annuity liabilities. At June 30, 2000, the weighted average crediting rate for our fixed rate annuity liabilities, excluding interest rate and premium bonuses guaranteed for the first year of the annuity contract, was 5.12%, compared to 5.15% at June 30, 1999. The weighted average crediting rate including interest rate and premium bonuses guaranteed for the first year of the annuity contract was 6.24% at June 30, 2000 compared to 6.66% at June 30, 1999.

Interest expense on notes payable increased 233% to \$556,000 for the second quarter of 2000, and 130% to \$847,000 for the six months ended June 30, 2000 compared to \$167,000 and \$369,000, respectively, for the same periods in 1999. These increases are attributable to increases in the outstanding borrowings in the third and fourth quarters of 1999, and the second quarter of 2000.

Interest expense on amounts due under repurchase agreements increased 7% to \$1,050,000 in the second quarter of 2000, and 2% to \$1,718,000 for the six months ended June 30, 2000 compared to \$985,000 and \$1,684,000, respectively, for the same periods in 1999. This increase is principally attributable to the increase in the average cost of funds borrowed in the second quarter of 2000 compared to the same period in 1999, offset in part by a decrease in the average borrowings. See Note B of the Notes to Consolidated Financial Statements.

Amortization of deferred policy acquisition costs and value of insurance in force acquired increased 147% to \$5,426,000 in the second quarter of 2000, and 44% to \$5,632,000 for the six months ended June 30, 2000 compared to \$2,201,000 and \$3,909,000, respectively, for the same periods in 1999. These increases are primarily due to the growth in our annuity business as discussed above.

Other operating costs and expenses increased 20% to \$3,975,000 in the second quarter of 2000, and 11% to \$7,405,000 for the six months ended June 30, 2000 compared to \$3,318,000 and \$6,654,000, respectively, for the same periods in 1999. These increases are principally attributable to an increase in home office staff and related salaries and costs of employment.

Income tax expense increased 21% to \$438,000 in the second quarter of 2000 and decreased 19% to \$444,000 for the six months ended June 30, 2000 compared to \$363,000 and \$548,000, respectively, for the same periods in 1999. The increase for the second quarter is principally due to an increase in net income. The decrease for the six months ended June 30, 2000 is primarily attributable to the tax deductibility of the dividends paid on redeemable preferred securities issued by the Company's subsidiary trusts.

FINANCIAL CONDITION

Cash and investments increased 24% during the six months ended June 30, 2000 as a result of the growth in our annuity business discussed above. At June 30, 2000, the fair value of our available-for-sale fixed maturity securities and equity securities was \$103,630,000 less than the amortized cost of those investments as a result

of the increase of approximately 75 basis points in mid-term and long-term interest rates that occurred during the first half of 2000. At June 30, 2000, the amortized cost of our fixed maturity securities held for investment exceeded the market value by \$100,457,000 for the same reason.

We did not issue any debt securities during the first six months of 2000. In April 2000, stockholders exercised warrants to purchase an aggregate of 80,000 shares of common stock at \$10 per share, and 56,875 shares of common stock at \$12 per share, resulting in proceeds of \$1,482,500, which have been retained by us for general corporate purposes. For information related to borrowings under the Company's variable rate revolving line of credit, see Note C of the Notes to Consolidated Financial Statements.

The statutory capital and surplus of our life insurance subsidiary at June 30, 2000 was \$140,855,000 and its statutory net income for the six months ended June 30, 2000 was \$2,273,000. The life insurance subsidiary made surplus note interest payments to us of \$1,000,000 during the six months ended June 30, 2000. For the remainder of 2000, up to \$15,327,000 can be distributed by the life insurance subsidiary as dividends without prior regulatory approval.

Dividends and surplus note payments may be made only out of earned surplus, and all surplus note payments are subject to prior approval by regulatory authorities. Our life insurance subsidiary had \$27,498,000 of earned surplus at June 30, 2000.

The transfer of funds by our life insurance subsidiary is also restricted by certain covenants in our loan agreements, which, among other things, require the life insurance subsidiary to maintain statutory capital and surplus (including asset valuation and interest maintenance reserves) equal to a minimum of \$120,000,000 plus 25% of statutory net income for periods subsequent to December 31, 1999 plus 75% of the actual sum of contributions to the Capital and Surplus of our life insurance subsidiary. Under the most restrictive of these limitations, \$22,258,000 of the life insurance subsidiary's earned surplus at June 30, 2000 would be available for distribution by the life insurance subsidiary to us.

Our life subsidiary has entered into a general agency commission and servicing agreement with American Equity Investment Service Company, an affiliated company wholly-owned by the Company's chairman and president, whereby the affiliate acts as a national supervisory agent with responsibility for paying commissions to the Company's agents. During 1999, the parent company agreed to loan the affiliate up to \$50,000,000 as the source of funds for the affiliate portion of first year commissions and had net advances of \$30,426,000 through June 30, 2000 pursuant to the promissory note evidencing this agreement, including \$15,900,000 to the affiliate for the affiliate portion of first year commissions paid during the first six months of 2000. Principal and interest are payable quarterly over five years from the date of the advance. The principal source of funds for us to advance funds to the affiliate is our bank line of credit, which was increased by \$15,000,000 to a maximum of \$40,000,000 in March, 2000.

YEAR 2000 READINESS DISCLOSURE

Many computer programs were originally written using two digits rather than four digits to identify a particular year. Such programs may recognize a date using "00" as the year 1900 rather than the year 2000. If not corrected, these computer programs could cause system failures or miscalculations in the year 2000, with possible adverse effects on our operations.

During the first quarter of 1998, we developed a strategy to identify and then test our internal computer programs which are date sensitive. Our systems for administering our group life policies were identified as having two-digit date codes. Conversion to four-digit codes and testing of such converted systems commenced

in the second quarter of 1998 and was completed prior to December 31, 1998. These systems are now year 2000 compliant. The costs of testing and conversion charged to expense during 1998 were approximately \$25,000.

The policy issue and administration system for our individual annuity and life insurance business is a system developed from the outset using four digits for the year. This system was purchased from a third party vendor in the fourth quarter of 1996. At that time, the vendor provided us with a letter of year 2000 compliance for this system. However, we did not rely solely on the compliance letter and began a comprehensive systems test in the third quarter of 1998. Testing included processing daily, monthly, quarterly and annual business cycles through February 29, 2000. Internal testing was completed during the fourth quarter of 1998. These systems were determined to be year 2000 compliant. The costs of testing of this system charged to expense during 1998 were approximately \$10,000.

External testing with third party providers of computer dependent services was completed during the first quarter of 1999. The most critical of these providers to our ongoing business operations was the financial institution with which we electronically interface each business day for the processing of premium collections and commission payments. Integrated testing between us and this financial institution was successfully completed in February 1999. Testing included all types of ACH (Automated Clearing House) transactions. The cost of such testing charged to expense in 1999 was approximately \$5,000.

Additionally, we instituted a corporate wide disaster recovery plan for our data systems which included our Iowa and Alabama locations. Both locations were prepared to serve the other in the event of a prolonged business outage. The plan incorporated contingencies for year 2000 interruptions caused by certain third party providers and other outside elements for which adequate testing cannot be conducted. These would include, for example, utility companies that supply electricity and water.

We experienced no disruptions or other problems with our computer systems on January 1, 2000 or thereafter in connection with date-sensitive processing. We experienced no disruptions in other services such as electronic funds transfers, phone systems, or utilities. We are continuing to monitor our systems to detect any year 2000 problems.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest rate risk is our primary market risk exposure. Substantial and sustained increases and decreases in market interest rates can affect the profitability of our products and the market value of our investments.

The profitability of most of our products depends on the spreads between interest yield on investments and rates credited on insurance liabilities. We have the ability to adjust crediting rates (participation or asset fee rates for equity-index annuities) on substantially all of our annuity policies at least annually (subject to minimum guaranteed values). In addition, substantially all of our annuity products have surrender and withdrawal penalty provisions designed to encourage persistency and to help ensure targeted spreads are earned. However, competitive factors, including the impact of the level of surrenders and withdrawals, may limit our ability to adjust or maintain crediting rates at levels necessary to avoid narrowing of spreads under certain market conditions.

A major component of our interest rate risk management program is structuring the investment portfolio with cash flow characteristics consistent with the cash flow characteristics of our insurance liabilities. We use computer models to simulate cash flows expected from our existing business under various interest rate scenarios. These simulations enable us to measure the potential gain or loss in fair value of our interest rate-sensitive financial instruments, to evaluate the adequacy of expected cash flows from our assets to meet the

expected cash requirements of our liabilities and to determine if it is necessary to lengthen or shorten the average life and duration of our investment portfolio. (The "duration" of a security is the time weighted present value of the security's expected cash flows and is used to measure a security's sensitivity to changes in interest rates.) When the durations of assets and liabilities are similar, exposure to interest rate risk is minimized because a change in value of assets should be largely offset by a change in the value of liabilities. At June 30, 2000, the effective duration of our fixed maturity securities and short-term investments was approximately 7.7 years and the estimated duration of our insurance liabilities was approximately 6.7 years.

If interest rates were to increase 10% from levels at June 30, 2000, we estimate that the fair value of our fixed maturity securities, net of corresponding changes in the values of deferred policy acquisition costs and insurance in force acquired would decrease by approximately \$70,494,000. The computer models used to estimate the impact of a 10% change in market interest rates incorporate numerous assumptions, require significant estimates and assume an immediate and parallel change in interest rates without any management of the investment portfolio in reaction to such change. Consequently, potential changes in value of our financial instruments indicated by the simulations will likely be different from the actual changes experienced under given interest rate scenarios, and the differences may be material. Because we actively manage our investments and liabilities, our net exposure to interest rates can vary over time.

PART II.
OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

- (a) At the annual meeting of shareholders held June 22, 2000, the shareholders approved an amendment to the Articles of Incorporation of the Company to increase the number of authorized shares of common stock from 25,000,000 to 75,000,000. See Item 4(c)(ii) below.
- (c) In April, 2000, certain stockholders exercised warrants to purchase 80,000 shares of common stock at \$10 per share, and 56,875 shares of common stock at \$12 per share, resulting in total proceeds of approximately \$1,482,500 before the costs of issuance.
- In June, 2000, one employee exercised options to purchase 1,500 shares of common stock at \$16 per share, resulting in proceeds of approximately \$24,000.
- In June, 2000, one employee purchased 954 shares of common stock at \$20 per share, resulting in proceeds of approximately \$19,080.

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

- (a) The Company's annual shareholders meeting was held on June 22, 2000.
- (b) and (c) (i) Election of the following directors to the Company's Board of Directors:

	FOR	AGAINST OR WITHHELD
John C. Anderson	3,843,785	868,725
Robert L. Hilton	3,845,785	866,725
John M. Matovina	3,845,785	866,725
James M. Gerlach	3,845,785	866,725
Ben T. Morris	3,845,785	866,725
David S. Mulcahy	3,845,785	866,725
David J. Noble	3,845,785	866,725
A. J. Strickland III	3,845,785	866,725
Harley A. Whitfield	3,845,785	866,725

- (ii) Approval of Amendment to Articles of Incorporation - Increase in Authorized Common Shares. Shareholders approved an amendment to the Company's Articles of Incorporation to increase the number of authorized shares of its Common Stock, par value \$1 per share, from 25,000,000 to 75,000,000 shares. There were 3,762,785 votes cast for the amendment; 73,000 cast against; and 12,000 abstentions.
- (iii) Approval of Amendment to Articles of Incorporation - Create a classified Board of Directors with staggered three-year terms. Shareholders approved an amendment to the Company's Articles of Incorporation to divide the directors of the Corporation into three classes, designated Class I, Class II and Class III. Each class shall consist, as

nearly as may be possible, of one-third of the total number of directors constituting the entire board of directors. The term of the initial Class I directors shall terminate on the date of the 2001 Annual Meeting; the term of the Class II directors shall terminate on the date of the 2002 Annual Meeting; and the term of the initial Class III directors shall terminate on the date of the 2003 Annual Meeting. There were 3,832,285 votes cast for the amendment; 9,500 cast against; and 6,000 abstentions.

- (iv) Approval of the 2000 Employee Stock Option Plan. There were 3,691,785 votes cast for the plan; 100,750 cast against; and 55,250 abstentions.
- (v) Approval of the 2000 Director Stock Option Plan. There were 3,703,785 votes cast for the plan; 100,750 cast against; and 43,250 abstentions.
- (vi) Ratification of the appointment of Ernst & Young, LLP as Independent Auditors for 2000. There were 3,844,585 votes cast for the ratification; 2,000 cast against; and 1,200 abstentions.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

- 3.1 Part 6 Articles of Amendment to Articles of Incorporation
- 10.6 Forgivable Loan Agreement dated April 30, 2000 between American Equity Investment Life Holding Company and D.J. Noble
- 10.7 2000 Employee Stock Option Plan
- 10.8 2000 Director Stock Option Plan
- 27 Financial Data Schedule

- (b) No reports on Form 8-K were filed during the quarter ended June 30, 2000.

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.

Date: August 11, 2000

AMERICAN EQUITY INVESTMENT LIFE
HOLDING COMPANY

By: /s/ DAVID J. NOBLE

David J. Noble, Chief Executive Officer
(Principal Executive Officer)

By: /s/ WENDY L. CARLSON

Wendy L. Carlson, Chief Financial Officer
(Principal Financial Officer)

By: /s/ TERRY A. REIMER

Terry A. Reimer, Executive Vice President
(Principal Accounting Officer)

ARTICLES OF AMENDMENT
TO
THE ARTICLES OF INCORPORATION
OF
AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

TO THE SECRETARY OF STATE OF THE STATE OF IOWA:

Pursuant to Section 490.602 of the Iowa Business Corporation Act, the undersigned corporation adopts the following amendment to the Corporation's Articles of Incorporation.

1. The name of the corporation is AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY.
2. The Articles of Incorporation of AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY are hereby amended as follows:

- A. By deleting in its entirety the first sentence of Article IV, which now states:

-DELETION-

The number of shares that may be issued by this Corporation is 27,000,000 shares of which 2,000,000 shares of the par value of \$1 per share, shall be designated Series Preferred Stock and 25,000,000 shares of the par value of \$1 per share shall be designated Common Stock.

and inserting in lieu thereof the following:

-INSERTION-

The number of shares that may be issued by this Corporation is 77,000,000 shares of which 2,000,000 shares of the par value of \$1 per share, shall be designated Series Preferred Stock and 75,000,000 shares of the par value of \$1 per share shall be designated Common Stock.

- B. By adding new Article VI thereto, which shall state as follows:

ARTICLE VI

The directors of the Corporation shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire board of directors. The initial division of the board of directors into classes shall be made by the decision of the affirmative vote of the holders of a majority of the outstanding shares of the Corporation's capital stock entitled to vote thereon at the Annual Meeting of the stockholders in 2000. The term of the initial Class I directors shall terminate on the date of the 2001 Annual Meeting; the term of the initial Class II directors shall terminate on the date of the 2002 Annual Meeting; and the term of the initial Class III directors shall terminate on the date of the 2003 Annual Meeting. At each succeeding Annual Meeting of stockholders beginning in 2001, successors to the class of directors whose term expires at that Annual Meeting shall be elected for a three-year term. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class, but in no case will a decrease in the number of directors shorten the term of any incumbent director.

3. The date of adoption of the amendments was June 22, 2000.

4. The amendments were approved by the shareholders. The designation, number of outstanding shares, number of votes entitled to be cast by each voting group entitled to vote separately on the amendment, and the number of votes of each voting group indisputably represented at the meeting is as follows:

Designation of Group	Shares Outstanding	Votes Entitled to be Cast on Amendment	Votes Represented Represented
-----	-----	-----	-----
Common	4,712,510	4,712,510	3,847,785
Preferred (nonvoting)	625,000	-0-	-0-

A. The total number of votes cast for and against amendment A. described above (to increase the number of shares of authorized common stock) by each voting group entitled to vote separately on the amendment is as follows:

Voting Group	Votes For	Votes Against	Abstaining
Common	3,762,785	73,000	12,000
Preferred	N/A	N/A	

The number of votes cast for the amendment by each voting group was sufficient for approval by that voting group.

- B. The total number of votes cast for and against amendment B. described above (to create a staggered board of directors) by each voting group entitled to vote separately on the amendment is as follows:

Voting Group	Votes For	Votes Against	Abstaining
Common	3,832,285	9,500	6,000
Preferred	N/A	N/A	

The number of votes cast for the amendment by each voting group was sufficient for approval by that voting group.

Dated this 11th day of July, 2000.

AMERICAN EQUITY INVESTMENT LIFE HOLDING
COMPANY

By: /s/ Wendy L. Carlson
Wendy L. Carlson, Chief Financial Officer

LOAN AGREEMENT

1. PARTIES. The parties to this Agreement are David J. Noble ("NOBLE") and American Equity Investment Life Holding Company (the "COMPANY"), an Iowa corporation, headquartered in West Des Moines, Iowa.
2. PURPOSE. The Company is an insurance holding company group engaged primarily in the sale of annuities and other life insurance products. Noble is the President and Chairman of the Company. Noble and the Company believe it is mutually advantageous to provide for a loan by the Company to Noble as an inducement to him to remain employed by the Company in his present capacities. The purpose of this Agreement is to specify the terms and conditions under which the loan is to be repaid.
3. DURATION OF AGREEMENT. This Agreement shall commence on May 1, 2000 and expire on April 30, 2005, unless terminated or extended in writing by the parties.
4. LOAN. The Company shall loan to Noble Eight Hundred Thousand Dollars (\$800,000) pursuant to the attached Promissory Note. Noble is obligated to repay that Promissory Note unless he continues as President and Chairman of the Company for the entire term of the Note. If certain conditions are met, the Company shall forgive amounts due under the Promissory Note to the extent specified herein.
 - 4.1 INTEREST RATE. The principal balance of the Note will bear interest at the rate of 6.50% per annum.
 - 4.2 ANNUAL INSTALLMENT PAYMENTS. Payments shall be made in 5 equal annual installments of principal and interest, each in the amount of \$192,508, with the first such payment due April 30, 2001, and continuing thereafter on April 30 of each year through and including April 30, 2005.
 - 4.3 SCHEDULED FORGIVENESS. If Noble is continuously employed by the Company through each of the dates specified below, then the following payments on the Promissory Note shall be forgiven on the following dates:

On April 30, 2001, the Company shall forgive the amount of \$192,508.

On April 30, 2002, the Company shall forgive the amount of \$192,508.

On April 30, 2003, the Company shall forgive the amount of \$192,508.

On April 30, 2004, the Company shall forgive the amount of \$192,508.

On April 30, 2005, the Company shall forgive the amount of \$192,508.
 - 4.4 CONTINUOUS EMPLOYMENT. The forgiving of any debt described in Section 4.3 above shall occur only if Noble is continuously employed by the Company from the date hereof through and including the dates on which such forgiveness is scheduled, or in accordance with Section 4.5 or Section 4.6 below.

4.5 DEATH OR DISABILITY. In the event Noble should die or become permanently disabled (as hereinafter defined) prior to April 30, 2005, then any remaining balance of principal and interest on the Promissory Note shall be forgiven in full as of the date of death or determination of permanent disability. For purposes of this Agreement, Noble shall be deemed to be "permanently disabled" upon the written certification of his physician that he is unable to perform his essential functions as President and Chairman of the Company and that such disability will prevent him from performing such functions for an indefinite period expected to exceed at least 180 days.

4.6 CHANGE OF CONTROL. In the event of a "change of control" as hereinafter defined, then: (i) any remaining balance of principal and interest on the Promissory Note shall be forgiven in full on the effective date such change of control; and (ii) Company shall reimburse Noble for up to \$500,000 of the amount of excise taxes under Section 280G of the Internal Revenue Code (as amended) as may be payable by him, if any, in connection with the forgiveness of the balance of the Promissory Note pursuant to subclause (i) of this Section 4.6.

For purposes of this Agreement the term "change of control" shall be deemed to have occurred if: (a) any person, organization or association of persons or organizations acting in concert, excluding affiliates of the Company itself, shall acquire more than twenty percent (20%) of the outstanding voting stock of the Company in whole or in part by means of an offer made publicly to the holders of all or substantially all of the outstanding shares of any one or more classes of the voting securities of the Company to acquire such shares for cash, other property or a combination thereof; or (b) any person, organization or association of persons or organizations acting in concert shall succeed in electing two or more directors in any one election in opposition to those proposed by management; or (c) the Company transfers all or substantially all of its operating properties and assets to another person, organization or association of persons or organizations, excluding affiliates of the Company itself; or the Company shall consolidate with or merge into any person, firm or corporation unless the Company or a Subsidiary shall be the continuing corporation or the successor corporation;

4.7 WITHHOLDING. Noble hereby agrees and acknowledges that the forgiveness of any payment due under the Promissory Note will constitute compensation subject to state and federal income taxation and withholding requirements. Noble further agrees and acknowledges that such withholding could amount to 40% or more of the amounts forgiven, depending upon the amount of Noble's other compensation from the Company. On each date specified in Section 4.3 above on which the forgiveness of any payment is to occur, Noble agrees to pay to the Company the full amount of any federal, state and/or local tax which, in the opinion of counsel for the Company, must be collected, withheld, or paid over by the Company in connection with such compensation, excluding the portion of FICA withholding for which Noble is responsible. If Noble should fail to make any payment required by this Section 4.5, then the Company, at its option, may deduct the amount of such withholding from any other payments due to Noble by the Company, or may declare the Promissory Note in default.

5. ASSIGNABILITY. No right to Noble hereunder shall be assigned or assignable by voluntary or involuntary assignment.
6. APPLICABLE LAW. This Agreement shall be subject to and construed under the laws of the state of Iowa.
7. CONFIDENTIALITY. It is further understood and agreed that the parties to this Agreement shall not disclose, comment on, or publish in any manner, to any person, association, organization or entity, the substance or the terms and conditions of this Agreement, unless the nondisclosing party gives its prior written consent to any instance of such disclosure, comment or publication.

Nothing herein shall prohibit the parties from disclosing the substance or the terms and conditions of this Agreement should such disclosure be required for the preparation of their respective tax returns, to enforce its terms or to respond to inquiries from taxing or other governmental authorities, hearings, investigations, or other official proceedings.

IN WITNESS WHEREOF, the Company and Noble have caused this Agreement to be executed on the date written below.

AMERICAN EQUITY INVESTMENT
LIFE HOLDING COMPANY

DAVID J. NOBLE

By: /s/ James M. Gerlach

/s/ David J. Noble

James M. Gerlach
Executive Vice President

David J. Noble

Date: April 30, 2000

PROMISSORY NOTE

\$800,000.00

West Des Moines, Iowa: May 1, 2000

FOR VALUE RECEIVED, the undersigned, DAVID J. NOBLE, an individual residing at 5461 Gulf of Mexico Drive #204, Long Boat Key, Florida ("Borrower"), promises to pay to the order of AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY ("Lender"), an Iowa corporation with principal offices located at 5000 Westown Parkway, West Des Moines, Iowa 50266, the principal sum of Eight Hundred Thousand Dollars (\$800,000), with interest thereon at the rate of 6.50% per annum, in five (5) equal annual installments of principal and interest, beginning on the 30th day of April, 2001 and continuing on the 30th day of each April through and including April 30, 2005.

This Promissory Note is made in accordance with a Loan Agreement of even date herewith between the parties hereto. Any event of default specified in the Loan Agreement shall constitute an event of default hereunder. Except as to payments forgiven in accordance with the terms of the Loan Agreement, all payments of principal and interest under this Note shall be made in lawful money of the United States of America in immediately available funds at such place as may be designated by the Lender to the Borrower in writing.

Upon the occurrence of any default specified in the Loan Agreement, then the entire balance of unpaid principal and interest hereunder shall become immediately due and payable at the option of the Lender without further notice. The Borrower agrees to pay all costs of collection or enforcement hereof incurred by Lender including without limitation reasonable attorney fees.

All parties hereto, whether as makers, endorsers, or otherwise, severally waive presentment, demand, protest and notice of dishonor in connection with this Note.

This Note is made under and governed by the internal laws of the State of Iowa.

/s/ David J. Noble

David J. Noble

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
2000 EMPLOYEE STOCK OPTION PLAN

WHEREAS, the Board of Directors of American Equity Investment Life Holding Company (the "Company") deem it in the best interest of the Company that certain employees and officers of the Company and its affiliates be given an opportunity to acquire an interest in the operation and growth of the Company as a means of assuring their maximum effort and continued association with the Company; and

WHEREAS, the Board believes that the Company can best obtain these and other benefits by granting incentive or non-qualified stock options to employees and officers designated from time to time, pursuant to this Plan;

NOW, THEREFORE, the Board does hereby adopt this 2000 Employee Stock Option Plan, subject to approval, within twelve (12) months of the date of adoption, by at least a majority of the shares voting at a stockholder's meeting, and subject to any necessary authorizations from any governmental authority.

ARTICLE I
DEFINITIONS

Except where the context otherwise indicates, the following definitions apply:

1.1. "Affiliate" means parent or subsidiary corporations of the Company, as defined in Sections 424(e) and (f) of the Code (but substituting "the Company" for "employer corporation"), including parents or subsidiaries of the Company which become such after adoption of the Plan.

1.2. "Agreement" means a written agreement granting an Option that is executed by the Company and the Optionee.

1.3. "Board" means the Board of Directors of the Company.

1.4. "Code" means the Internal Revenue Code of 1986, as amended.

1.5. "Committee" means the committee of the Board appointed by the Board to administer the Plan. Unless otherwise determined by the Board, the Compensation Committee of the Board shall be the Committee.

1.6. "Common Stock" means the common stock, par value \$1.00 per share of the Company.

1.7. "Company" means American Equity Investment Life Holding Company, an Iowa corporation.

1.8. "Date of Exercise" means the date on which the Company receives notice of the exercise of an Option and payment of the exercise price in accordance with the terms of Article VII hereof.

1.9. "Date of Grant" means the date on which an Option is granted under the Plan.

1.10. "Director" means a member of the Board of Directors of the Company or any Affiliate.

1.11 "Disability" means permanent and total disability within the meaning of Section 22(e)(3) of the Code, as determined by the Committee.

1.12. "Eligible Individual" means any Employee or Director or who is also an Employee. Persons who are Directors of the Company who are not also Employees shall not be Eligible Individuals.

1.13. "Employee" means any employee of the Company or an Affiliate or any person who has been hired to be an employee of the Company or an Affiliate.

1.14. "Fair Market Value" means the fair market value of a Share as determined by the Committee pursuant to a reasonable method adopted in good faith for such purpose.

1.15. "Incentive Stock Option" means an Option granted under the Plan that qualifies as an incentive stock option under Section 422 of the Code and that the Company designates as such in the Agreement granting the Option.

1.16. "Non-qualified Stock Option" means an Option granted under the Plan that is not an Incentive Stock Option.

1.17. "Option" means an option to purchase Shares granted under the Plan.

1.18. "Option Period" means the period during which an Option may be exercised.

1.19. "Option Price" means the price per Share at which an Option may be exercised, provided, however, that the Option Price shall not be less than the Fair Market Value of a Share as of the Date of Grant. Notwithstanding the foregoing, in the case of an Incentive Stock Option granted to an Optionee who is a Ten-percent Stockholder, the Option Price shall not be less than one hundred and ten percent (110%) of the Fair Market Value on the Date of Grant. The Option Price of any Option shall be subject to adjustment to the extent provided in Article IX hereof, subject to Section 6.3 hereof.

1.20. "Optionee" means an Eligible Individual to whom an Option has been granted.

1.21. "Plan" means the American Equity Investment Life Holding Company 2000 Employee Stock Option Plan.

1.22. "Share" means a share of Common Stock.

1.23. "Ten-percent Stockholder" means, in accordance with the rules of Section 424(d) of the Code, a person owning stock with more than ten percent of the total combined voting power of all classes of stock of the Company or an Affiliate.

ARTICLE II PURPOSE

The Plan is intended to assist the Company and its Affiliates in attracting and retaining Eligible Individuals of outstanding ability and to promote the identification of their interests with those of the stockholders of the Company.

ARTICLE III
ADMINISTRATION

The Committee shall administer the Plan and shall have plenary authority and discretion, subject to the provisions of the Plan, to determine the terms (which terms need not be identical) of all Options including, but not limited to, which Eligible Individuals shall be granted Options, the time or times at which Options are granted, the Option Price, the number of Shares subject to an Option, whether an Option shall be an Incentive Stock Option or a Non-qualified Stock Option, any provisions relating to vesting, any circumstances in which Options terminate or Shares may be repurchased by the Company, the period during which Options may be exercised and any other restrictions on Options. In making these determinations, the Committee may take into account the nature of the services rendered by the Optionees, their present and potential contributions to the success of the Company and its Affiliates, and such other factors as the Committee in its discretion shall deem relevant. Subject to the provisions of the Plan, the Committee shall have plenary authority to construe and interpret the Plan and the Agreements, to prescribe, amend and rescind rules and regulations relating to the Plan and to make all other determinations deemed necessary or advisable for the administration of the Plan, including, but not limited to, any determination to accelerate the vesting of outstanding Options. The determinations of the Committee on the matters referred to in this Article III shall be binding and final.

ARTICLE IV
ELIGIBILITY

Options may be granted only to Eligible Individuals and only Employees shall be eligible to receive Incentive Stock Options.

ARTICLE V
STOCK SUBJECT TO THE PLAN

5.1. NUMBER OF SHARES RESERVED. Subject to adjustment as provided in Article IX hereof, the maximum number of Shares that may be issued under the Plan is 600,000 Shares (to be adjusted to 1,800,000 Shares if the Board authorizes a three-for-one stock split at its May 5, 2000 meeting).

5.2. TERMINATED OPTIONS AVAILABLE FOR GRANT. If an Option expires or terminates for any reason without having been fully exercised, the unissued Shares which had been subject to such Option shall become available for the grant of additional Options.

ARTICLE VI
OPTIONS

6.1. DESIGNATION OF OPTIONS AS INCENTIVE OR NON-QUALIFIED. Options granted under the Plan shall be either Incentive Stock Options or Non-qualified Stock Options, as designated by the Committee. Each Option granted under the Plan shall be clearly identified either as an Incentive Stock Option or a Nonqualified Stock Option and shall be evidenced by an Agreement that specifies the terms and conditions of the grant. In the event the Committee shall fail to identify any Option granted as an Incentive Stock Option or Non-qualified Stock Option, such Option shall be a Non-qualified Stock Option. Options granted to Eligible Individuals shall be subject to the terms and conditions set forth in this Article VI hereof and such other terms and conditions not inconsistent with this Plan as the Committee may specify. All Incentive Stock Options shall comply with the provisions of the Code governing incentive stock

options and with all other applicable rules and regulations.

6.2. OPTION PERIOD. The Option Period for Options granted to Eligible Individuals shall be determined by the Committee and specifically set forth in the Agreement; provided, however, that (a) an Option shall not be exercisable after ten years (five years in the case of an Incentive Stock Option granted to a Ten-Percent Stockholder) from its Date of Grant; and (b) in the case of the termination of employment of an Optionee, or the death or disability of an Optionee, the Option Period shall be as follow:

- (i) TERMINATION OF EMPLOYMENT. Upon termination of an Optionee's employment with the Company, or the relevant Affiliate, his or her Option privileges, shall be limited to the shares purchasable by him or her as of the date that his or her employment was terminated, and such Option privileges shall expire sixty (60) days from the date that his or her employment was terminated. Nothing contained herein shall be construed to extend the ultimate term of the Option beyond the period of time as set out above.
- (ii) DISABILITY OR DEATH OF OPTIONEE. If an Optionee's employment with the Company is terminated because of his death or disability, his Option privileges shall expire unless exercised within one (1) year after the date that his employment was terminated. In the event of the death of the Optionee, his Options may be exercised by the Optionee's designated beneficiary. Nothing contained herein shall be construed to extend the ultimate term of the Option beyond the period of time as set out above.

6.3. NO REISSUANCE AT REDUCED PRICE. Notwithstanding anything to the contrary in this Plan, without the approval of the stockholders of the Company, no Option shall be issued in exchange for or as a reissuance of any outstanding Option or the Option Price for any outstanding Option shall not be changed, if the effect of such exchange or change would be to reduce the Option Price for any outstanding Option, except as necessary to reflect the effect of a stock split, stock dividend or similar event as described in Article IX hereof.

6.4 MAXIMUM OPTIONS PER EMPLOYEE. The maximum number of Options which may be granted to any Eligible Individual in any one fiscal year is 75,000 (subject to adjustment for a stock split, stock dividend or similar event, as described in Article IX hereof).

ARTICLE VII EXERCISE OF OPTIONS

7.1. NOTICE OF EXERCISE. An Option may, subject to the terms of the applicable Agreement under which it is granted, be exercised in whole or in part by the delivery to the Company of written notice of the exercise, in such form as the Committee may prescribe, accompanied by full payment of the Option Price for the Shares with respect to which the Option is exercised as provided in Section 7.2 hereof.

7.2. PAYMENT OF EXERCISE PRICE. Payment of the aggregate Option Price for the Shares with respect to which an Option is being exercised shall be made in cash; provided, however, that the Committee, in its sole discretion, may provide in an Agreement that part or all of such payment may be made by the Optionee in one or more of the following manners:

- (i) By delivery (including constructive delivery) to the Company of Shares valued at Fair Market Value on Date of Exercise;

- (ii) By delivery on a form prescribed by the Committee of a properly executed exercise notice and irrevocable instructions to a registered securities broker approved by the Committee to sell Shares and promptly deliver cash to the Company; or
- (iii) By delivery of a promissory note as provided in Section 7.3 hereof.

7.3. PAYMENT BY PROMISSORY NOTE. To the extent provided in an Option Agreement and permitted by applicable law, the Committee may accept as payment of the Option Price a promissory note executed by the Optionee evidencing his or her obligation to make future cash payment thereof. Promissory notes made pursuant to this Section 7.3 shall be payable upon such terms as may be determined by the Committee, shall be secured by a pledge of the Shares received upon exercise of the Option and shall bear interest at a rate fixed by the Committee.

7.4 MINIMUM EXERCISE. No Option may be exercised for less than fifty (50) shares.

7.5 MINIMUM VESTING PERIOD. In the absence of a specified vesting schedule established by the Committee and set forth in the applicable agreement evidencing the grant of any options, all options will vest six months after the date of grant. Should the employment of any Optionee be terminated for any reason (except death or disability) with or without cause, prior to the expiration of six months or the vesting schedule established by the Committee, which ever is the later, the Optionee will forfeit all options not fully vested on the effective date of such termination.

7.6 ACCELERATION OF VESTING. If an Option contains a vesting schedule or has not become totally exercisable as of the date of any of the following events, such vesting schedule may be accelerated, and/or any other restrictions to exercise may be removed upon delivery to the Committee of a written election of such acceleration by the Optionee (or the designated beneficiary of a deceased Optionee):

- (i) The death of the Optionee;
- (ii) The Disability of the Optionee;
- (iii) A "change of control" as hereinafter defined.

7.7 CHANGE OF CONTROL. For purposes of this Plan, a "change in control" shall be deemed to have occurred on such date if:

- (i) Any person, organization or association of persons or organizations acting in concert, excluding Affiliates of the Company itself, shall acquire more than twenty percent (20%) of the outstanding voting stock of the Company in whole or in part by means of an offer made publicly to the holders of all or substantially all of the outstanding shares of any one or more classes of the voting securities of the Company to acquire such shares for cash, other property or a combination thereof; or
- (ii) Any person, organization or association of persons or organizations acting in concert shall succeed in electing two or more directors in any one election in opposition to those proposed by management; or

- (iii) The Company transfers all or substantially all of its operating properties and assets to another person, organization or association of persons or organizations, excluding Affiliates of the Company itself; or
- (iv) The Company shall consolidate with or merge into any person, firm or corporation unless the Company or an Affiliate shall be the continuing corporation or the successor corporation;

ARTICLE VIII
RESTRICTIONS ON TRANSFER

Options shall not be transferable other than by will or the laws of descent and distribution. An Option may be exercised during the Optionee's lifetime only by the Optionee or, in the event of his or her legal disability, by his or her legal representative. The Shares acquired pursuant to the Plan shall be subject to such restrictions and agreements regarding sale, assignment, encumbrances, or other transfers or dispositions thereof (i) as are in effect among the stockholders of the Company at the time such Shares are acquired or (ii) as the Committee shall deem appropriate or as are required by applicable law.

ARTICLE IX
CAPITAL ADJUSTMENTS

In the event of any change in the outstanding Common Stock by reason of any stock dividend, split-up (or reverse stock split), recapitalization, reclassification, reorganization, reincorporation, combination or exchange of shares, merger, consolidation, liquidation or similar change in corporate structure, the Committee may, in its discretion and to the extent necessary to compensate for the effect thereof, provide for a substitution for or adjustment in (i) the number and class of Shares subject to outstanding Options, (ii) the Option Price of outstanding Options, and (iii) the aggregate number and class of Shares that may be issued under the Plan.

ARTICLE X
TERMINATION OR AMENDMENT

The Board may amend, alter, suspend or terminate the Plan in any respect at any time; provided, however, that after the Plan has been approved by the stockholders of the Company, no amendment, alteration, suspension or termination of the Plan shall be made by the Board without approval of (i) the Company's stockholders to the extent stockholder approval is required by applicable law or regulations and (ii) each affected Optionee if such amendment, alteration, suspension or termination would adversely affect his or her rights or obligations under any Option granted prior to the date of such amendment, alteration, suspension or termination. No Option may be granted nor any Shares issued under the Plan during any suspension or after termination of the Plan.

ARTICLE XI
MODIFICATION, EXTENSION AND RENEWAL OF OPTIONS; SUBSTITUTED OPTIONS

Subject to the terms and conditions of the Plan, the Committee may modify, extend or renew the terms of any outstanding Options, or accept the surrender of outstanding Options granted under the Plan or options and stock appreciation rights granted under any other plan of the Company or an Affiliate (to the extent not theretofore exercised) and authorize the granting of new Options in substitution therefor (to the extent not theretofore exercised). Subject to Section 6.3 hereof, any such substituted Options may specify a longer term than the surrendered options and stock appreciation rights, or have any other provisions that are authorized by the Plan. Notwithstanding the foregoing, however, no modification of an Option shall, without the consent of the Optionee, alter or impair any of the Optionee's rights or obligations under such Option. Anything contained herein to the contrary notwithstanding, Options may, at the discretion of the Committee, be granted under the Plan in substitution for stock appreciation rights and options to purchase shares of capital stock of another corporation which is merged into, consolidated with, or all or a substantial portion of the property or stock of which is acquired by, the Company or one of its Affiliates. The terms and conditions of the substitute Options so granted may vary from the terms and conditions set forth in this Plan to such extent as the Committee may deem appropriate in order to conform, in whole or part, to the provisions of the options and stock appreciation rights in substitution for which they are granted.

ARTICLE XII
EFFECTIVENESS OF THE PLAN

The Plan and any amendment thereto shall be effective on the date on which it is adopted by the Board, provided that any such adoption requiring stockholder approval is subject to approval by vote of the stockholders of the Company within 12 months after such adoption by the Board. Options may be granted prior to stockholder approval of the Plan, and the date on which any such Option is granted shall be the Date of Grant for all purposes provided that (a) each such Option shall be subject to stockholder approval of the Plan, (b) no Option may be exercised prior to such stockholder approval, and (c) any such Option shall be void ab initio if such stockholder approval is not obtained.

ARTICLE XIII
WITHHOLDING

The Company's obligation to deliver Shares or pay any amount pursuant to the terms of any Option shall be subject to the satisfaction of applicable federal, state and local tax withholding requirements. To the extent provided in the applicable Agreement and in accordance with rules prescribed by the Committee, an Optionee may satisfy any such withholding tax obligation by any of the following means or by a combination of such means: (i) tendering a cash payment, (ii) authorizing the Company to withhold Shares otherwise issuable to the Optionee, or (iii) delivering to the Company already owned and unencumbered Shares.

ARTICLE XIV
TERM OF THE PLAN

Unless sooner terminated by the Board pursuant to Article X hereof, the Plan shall terminate on June 30, 2010, and no Options may be granted after such date. The termination of the Plan shall not affect the validity of any Option outstanding on the date of termination.

ARTICLE XV
INDEMNIFICATION OF COMMITTEE

In addition to such other rights of indemnification as they may have as Directors or as members of the Committee, the members of the Committee shall be indemnified by the Company against the reasonable expenses, including attorneys' fees, actually and reasonably incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Option granted hereunder, and against all amounts reasonably paid by them in settlement thereof or paid by them in satisfaction of a judgment in any such action, suit or proceeding, if such members acted in good faith and in a manner which they believed to be in, and not opposed to, the best interests of the Company.

ARTICLE XVI
GENERAL PROVISIONS

16.1. NO OTHER RIGHTS CONFERRED. The establishment of the Plan shall not confer upon any Eligible Individual any legal or equitable right against the Company, any Affiliate or the Committee, except as expressly provided in the Plan.

16.2. NO EMPLOYMENT CONTRACT. The Plan does not constitute inducement or consideration for the employment or service of any Eligible Individual, nor is it a contract between the Company or any Affiliate and any Eligible Individual. Participation in the Plan shall not give an Eligible Individual any right to be retained in the service of the Company or any Affiliate.

16.3. NO LIMITATION ON OTHER STOCK OPTION, ETC. Neither the adoption of this Plan nor its submission to the stockholders, shall be taken to impose any limitations on the powers of the Company or its Affiliates to issue, grant, or assume options, warrants, rights, or restricted stock, otherwise than under this Plan, or to adopt other stock option or restricted stock plans or to impose any requirement of stockholder approval upon the same.

16.4. PLAN INTEREST NOT SUBJECT TO CREDITOR CLAIMS. The interests of any Eligible Individual under the Plan are not subject to the claims of creditors and may not, in any way, be assigned, alienated or encumbered except as provided in an Agreement.

16.5. APPLICABLE LAWS. The Plan shall be governed, construed and administered in accordance with the laws of the State of Iowa and it is the intention of the Company that Incentive Stock Options granted under the Plan qualify as such under Section 422 of the Code.

16.6. REPRESENTATIONS REGARDING INVESTMENT INTENT; RESTRICTIVE LEGENDS. The Committee may require each person acquiring Shares pursuant to Options hereunder to represent to and agree with the Company in writing that such person is acquiring the Shares without a view to distribution thereof. The certificates for such Shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer. All certificates for Shares issued pursuant to the Plan shall be subject to such stock transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange or interdealer quotation system upon which the Common Stock is then listed or quoted, and any applicable federal or state securities laws. The Committee may place a legend or legends on any such certificates to

make appropriate reference to such restrictions. The certificates for Shares acquired pursuant to an Option may also include any legend which the Committee deems appropriate to reflect restrictions contained in this Plan or in the applicable Agreement or to comply with the Iowa Business Corporation Law.

16.7. REGULATORY APPROVALS. The Company shall not be required to issue any certificate or certificates for Shares upon the exercise of Options, or record any person as a holder of record of such Shares, without obtaining, to the complete satisfaction of the Committee, the approval of all regulatory bodies deemed necessary by the Committee, and without complying to the Committee's complete satisfaction, with all rules and regulations, under federal, state or local law deemed applicable by the Committee.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
2000 DIRECTOR STOCK OPTION PLAN

WHEREAS, the Board of Directors of American Equity Investment Life Holding Company (the "Company") deem it in the best interest of the Company that persons who serve on the Board of Directors of the Company but who are not employees of the Company be given an opportunity to acquire an interest in the operation and growth of the Company as a means of assuring their maximum effort and continued association with the Company; and

WHEREAS, the Board has determined to grant certain directors of the Company compensation in the form of non-qualified stock options pursuant to this Plan;

NOW, THEREFORE, the Board does hereby adopt this 2000 Director Stock Option Plan, subject to approval, within twelve (12) months of the date of adoption, by at least a majority of the shares voting at a stockholder's meeting, and subject to any necessary authorizations from any governmental authority.

ARTICLE I
DEFINITIONS

Except where the context otherwise indicates, the following definitions apply:

1.1 "Affiliate" means parent or subsidiary corporations of the Company, as defined in Sections 424(e) and (f) of the Code (but substituting the Company for employer corporation), including parents or subsidiaries of the Company which become such after adoption of the Plan.

1.2 "Agreement" means a written agreement granting an Option that is executed by the Company and the Optionee.

1.3 "Board" means the Board of Directors of the Company.

1.4 "Code" means the Internal Revenue Code of 1986, as amended.

1.5 "Committee" means the Board.

1.6 "Common Stock" means the Common Stock, par value \$1.00 per share, of the Company.

1.7 "Company" means American Equity Investment Life Holding Company, an Iowa corporation.

1.8 "Date of Exercise" means the date on which the Company receives notice of the exercise of an Option and payment of the exercise price in accordance with the terms of Article VII.

1.9 "Date of Grant" means the date on which an Option is granted under the Plan.

1.10 "Director" means a member of the Board of Directors of the Company.

1.11 "Disability" means permanent and total disability within the meaning of Section 22(e)(3) of the Code, as determined by the Committee.

1.12 "Eligible Individual means any Director of the Company who is not also an Employee and has not been an Employee at any time during the two-year period preceding the date on which an Option is granted to such Director.

1.13 "Employee" means any employee of the Company or an Affiliate or any person who has been hired to be an employee of the Company or an Affiliate.

1.14 "Fair Market Value" means the fair market value of a Share as determined by the Committee pursuant to a reasonable method adopted in good faith for such purpose.

1.15 "Non-qualified Stock Option" means an Option granted under the Plan that does not qualify as an incentive stock option under Section 422 of the Code.

1.16 "Option" means an option to purchase Shares granted under the Plan.

1.17 "Option Period" means the period during which an Option may be exercised.

1.18 "Option Price" means the price per Share at which an Option may be exercised; provided, however, the Option Price shall be not less than the Fair Market Value of a Share as of the Date of Grant. The Option Price of any Option shall be subject to adjustment to the extent provided in Article IX hereof, subject to Section 6.3 hereof.

1.19 "Optionee" means an Eligible Individual to whom an Option has been granted.

1.20 "Plan" means the American Equity Investment Life Holding Company 2000 Director Stock Option Plan.

1.21 "Share" means a share of Common Stock.

ARTICLE II PURPOSE

The Plan is intended to assist the Company in attracting and retaining Eligible Individuals of outstanding ability and to promote the identification of their interests with those of the stockholders of the Company.

ARTICLE III ADMINISTRATION

The Committee shall administer the Plan and shall have plenary authority and discretion, subject to the provisions of the Plan, to determine the terms (which terms need not be identical) of all Options including, but not limited to, which Eligible Individuals shall be granted Options, the time or times at which Options are granted, the Option Price, the number of Shares subject to an Option, any provisions relating to vesting, any circumstances in which Options terminate or Shares may be repurchased by the Company, the period during which Options may be exercised and other restrictions on Options. Subject to the provisions of the Plan, the Committee shall have plenary authority to construe and interpret the Plan and the Agreements, to prescribe, amend and rescind rules and regulations relating to the Plan and to make all other determinations deemed necessary or advisable for the administration of the Plan, including, but not limited to, any determination to accelerate the vesting of outstanding Options. The determinations of the Committee on the matters referred to in this Article III shall be binding and final.

ARTICLE IV
ELIGIBILITY

Options may be granted only to Eligible Individuals.

ARTICLE V
STOCK SUBJECT TO THE PLAN.

5.1 NUMBER OF SHARES RESERVED. Subject to adjustment provided in Article IX hereof, the maximum number of Shares that may be issued under the Plan is 75,000 Shares (to be adjusted to 225,000 shares if the Board authorizes a three-for-one stock split at its May 5, 2000 meeting).

5.2 TERMINATED OPTIONS AVAILABLE FOR GRANT. If an Option expires or terminates for any reason without having been fully exercised, the unissued Shares which had been subject to such Option shall become available for the grant of additional Options.

ARTICLE VI
OPTIONS

6.1 NON-QUALIFIED STOCK OPTIONS. All Options granted under the Plan shall be Non-qualified Stock Options. Each Option granted under the Plan shall be evidenced by an Agreement that specifies the terms and conditions of the grant. Options granted to Eligible Individuals shall be subject to the terms and conditions set forth in this Article VI hereof and such other terms and conditions not inconsistent with the Plan as the Committee may specify.

6.2 OPTION PERIOD. The Option Period for Options granted to Eligible Individuals shall be determined by the Committee and specifically set forth in the Agreement; provided, however, that (a) an Option shall not be exercisable after ten years from its Date of Grant; and (b) in the case of the termination as Director of an Optionee, or the death or disability of an Optionee, the Option Period shall be as follows:

- a. TERMINATION AS DIRECTOR. Upon termination of an Optionee's service as a Director of the Company, his or her Option privileges, shall be limited to the shares purchasable by him or her as of the date that his or her directorship was terminated, and such Option privileges shall expire sixty (60) days from the date that his or her directorship was terminated. Nothing contained herein shall be construed to extend the ultimate term of the Option beyond the period of time as set out above.
- b. DISABILITY OR DEATH OF OPTIONEE. If an Optionee's directorship is terminated because of his death or disability, his Option privileges shall expire unless exercised within one (1) year after the date that his directorship was terminated. In the event of the death of the Optionee, his Options may be exercised by the Optionee's designated beneficiary. Nothing contained herein shall be construed to extend the ultimate term of the Option beyond the period of time as set out above.

6.3 NO REISSUANCE AT REDUCED PRICE. Notwithstanding anything to the contrary in this Plan, without the approval of the stockholders of the Company, no Option shall be issued in exchange for or as a reissuance of any outstanding Option or the Option Price for any

outstanding Option shall not be changed, if the effect of such exchange or change would be to reduce the Option Price for any outstanding Option, except as necessary to reflect the effect of a stock split, stock dividend or similar event as described in Article IX hereof.

6.4 MAXIMUM OPTIONS PER DIRECTOR. The maximum number of Options which may be granted to any Eligible Individual in any one fiscal year is 3,500 (subject to adjustment to reflect the effect of a stock split, stock dividend or similar event, as described in Article IX hereof).

ARTICLE VII EXERCISE OF OPTIONS

7.1 NOTICE OF EXERCISE. An Option may, subject to the terms of the applicable Agreement under which it is granted, be exercised in whole or in part by the delivery to the Company of written notice of the exercise, in such form as the Committee may prescribe, accompanied by full payment of the Option Price for the Shares with respect to which the Option is exercised as provided in Section 7.2 hereof.

7.2 PAYMENT OF EXERCISE PRICE Payment of the aggregate Option Price for the Shares with respect to which an Option is being exercised shall be made in cash; provided however, that the Committee, in its sole discretion, may provide in an Agreement that part or all of such payment may be made by the Optionee in one or more of the following manners:

- (i) By delivery (including constructive delivery) to the Company of Shares valued at Fair Market Value on Date of Exercise; or
- (ii) By delivery on a form prescribed by the Committee of a properly executed exercise notice and irrevocable instructions to a registered securities broker approved by the Committee to sell Shares and promptly deliver cash to the Company.

7.3 MINIMUM EXERCISE. No Option may be exercised for less than fifty(50) shares.

7.4 MINIMUM VESTING PERIOD. In the absence of a specified vesting schedule established by the Committee and set forth in the applicable agreement evidencing the grant of any options, all options will vest six months after the date of grant. Should the directorship of any Optionee be terminated for any reason (except death or disability) with or without cause, prior to the expiration of six months or the vesting schedule established by the Committee, which ever is the later, the Optionee will forfeit all options not fully vested on the effective date of such termination.

7.5 MINIMUM VESTING PERIOD. In the absence of a specified vesting schedule established by the Committee and set forth in the applicable agreement evidencing the grant of any options, all options will vest one year after the date of grant. Should the Optionee cease to serve as a Director of the Company for any reason (except death or disability) with or without cause, prior to the expiration of one year or the vesting schedule established by the Committee, which ever is the later, the Optionee will forfeit all options not fully vested on the effective date of such termination.

7.5 ACCELERATION OF VESTING. If an Option contains a vesting schedule or has not become totally exercisable as of the date of any of the following events, such vesting schedule may be accelerated, and/or any other restrictions to exercise may be removed upon delivery to the Committee of a written election of such acceleration by the Optionee (or the designated beneficiary of a deceased Optionee):

- (i) The death of the Optionee;
- (ii) The Disability of the Optionee;

(iii) A "change of control" as hereinafter defined.

7.6 CHANGE OF CONTROL. For purposes of this Plan, a "change in control" shall be deemed to have occurred on such date if:

- (i) Any person, organization or association of persons or organizations acting in concert, excluding Affiliates of the Company itself, shall acquire more than twenty percent (20%) of the outstanding voting stock of the Company in whole or in part by means of an offer made publicly to the holders of all or substantially all of the outstanding shares of any one or more classes of the voting securities of the Company to acquire such shares for cash, other property or a combination thereof; or
- (ii) Any person, organization or association of persons or organizations acting in concert shall succeed in electing two or more directors in any one election in opposition to those proposed by management; or
- (iii) The Company transfers all or substantially all of its operating properties and assets to another person, organization or association of persons or organizations, excluding affiliates of the Company itself; or
- (iv) The Company shall consolidate with or merge into any person, firm or corporation unless the Company or Affiliate shall be the continuing corporation or the successor corporation;

ARTICLE VIII
RESTRICTIONS ON TRANSFER

Options shall not be transferable other than by will or the laws of descent and distribution. An Option may be exercised during the Optionee's lifetime only by the Optionee or, in the event of his or her legal disability, by his or her legal representative. The Shares acquired pursuant to the Plan shall be subject to such restrictions and agreements regarding sale, assignment, encumbrances, or other transfers or dispositions thereof (i) as are in effect among the stockholders of the Company at the time such Shares are acquired or (ii) as the Committee shall deem appropriate or as are required by applicable law.

ARTICLE IX
CAPITAL ADJUSTMENTS

In the event of any change in the outstanding Common Stock by reason of any stock dividend, split-up (or reverse stock split), recapitalization, reclassification, reorganization, reincorporation, combination or exchange of shares, merger, consolidation, liquidation or similar change in corporate structure, the Committee may, in its discretion and to the extent necessary to compensate for the effect thereof, provide for a substitution for or adjustment in (i) the number and class of Shares subject to outstanding Options, (ii) the Option Price of outstanding Options, and (iii) the aggregate number and class of Shares that may be issued under the Plan.

ARTICLE X
TERMINATION OR AMENDMENT

The Board may amend, alter, suspend or terminate the Plan in any respect at any time; provided, however, that after the Plan has been approved by the stockholders of the Company, no amendment, alteration, suspension or termination of the Plan shall be made by the Board without approval of (i) the Company's stockholders to the extent stockholder approval is required by applicable law or regulations and (ii) each affected Optionee if such amendment, alteration, suspension or termination would adversely affect his or her rights or obligations under any Option granted prior to the date of such amendment, alteration, suspension or termination. No Option may be granted nor any Shares issued under the Plan during any suspension or after termination of the Plan.

ARTICLE XI
MODIFICATION, EXTENSION AND RENEWAL OF OPTIONS; SUBSTITUTED OPTIONS

Subject to the terms and conditions of the Plan, the Committee may modify, extend or renew the terms of any outstanding Options, or accept the surrender of outstanding Options granted under the Plan or options and stock appreciation rights granted under any other plan of the Company or an Affiliate (to the extent not theretofore exercised) and authorize the granting of new Options in substitution therefor (to the extent not theretofore exercised). Subject to Section 6.3 hereof, any such substituted Options may specify a longer term than the surrendered options and stock appreciation rights, or have any other provisions that are authorized by the Plan. Notwithstanding the foregoing, however, no modification of an Option shall, without the consent of the Optionee, alter or impair any of the Optionee's rights or obligations under such Option.

ARTICLE XII
EFFECTIVENESS OF THE PLAN

The Plan and any amendment thereto shall be effective on the date on which it is adopted by the Board, provided that any such adoption requiring stockholder approval is subject to approval by vote of the stockholders of the Company within 12 months after such adoption by the Board.

ARTICLE XIII
WITHHOLDING

The Company's obligation to deliver Shares or pay any amount pursuant to the terms of any Option shall be subject to the satisfaction of applicable federal, state and local tax withholding requirements. To the extent provided in the applicable Agreement and in accordance with rules prescribed by the Committee, an Optionee may satisfy any such withholding tax obligation by any of the following means or by a combination of such means: (i) tendering a cash payment, (ii) authorizing the Company to withhold Shares otherwise issuable to the Optionee, or (iii) delivering to the Company already owned and unencumbered Shares.

ARTICLE XIV
TERM OF THE PLAN

Unless sooner terminated by the Board pursuant to Article X hereof, the Plan shall terminate on June 30, 2010, and no Options may be granted after such date. The termination of the Plan shall not affect the validity of any Option outstanding on the date of termination.

ARTICLE XV
INDEMNIFICATION OF COMMITTEE

In addition to such other rights of indemnification as they may have as Directors or as members of the Committee, the members of the Committee shall be indemnified by the Company against the reasonable expenses, including attorneys' fees, actually and reasonably incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Option granted hereunder, and against all amounts reasonably paid by them in settlement thereof or paid by them in satisfaction of a judgment in any such action, suit or proceeding, if such members acted in good faith and in a manner which they believed to be in, and not opposed to, the best interests of the Company.

ARTICLE XVI
GENERAL PROVISIONS

16.1 NO OTHER RIGHTS CONFERRED. The establishment of the Plan shall not confer upon any Eligible Individual any legal or equitable right against the Company, any Affiliate or the Committee, except as expressly provided in the Plan.

16.2 NO CONTRACT RIGHTS. The Plan does not constitute inducement or consideration for the service of any Eligible Individual, nor is it a contract between the Company or any Affiliate and any Eligible Individual. Participation in the Plan shall not give an Eligible Individual any right to be retained in the service of the Company.

16.3 NO LIMITATION ON OTHER STOCK OPTION, ETC. Neither the adoption of this Plan nor its submission to the stockholders, shall be taken to impose any limitations on the powers of the Company or its Affiliates to issue, grant or assume options, warrants, rights, or restricted stock, otherwise than under this Plan, or to adopt other stock option or restricted stock plans or to impose any requirement of stockholder approval of the same.

16.4 PLAN INTEREST NOT SUBJECT TO CREDITOR CLAIMS. The interests of any Eligible Individual under the Plan are not subject to the claims of creditors and may not, in any way, be assigned, alienated or encumbered except as provided in an Agreement.

16.5 APPLICABLE LAW. The Plan shall be governed, construed and administered in accordance with the laws of the State of Iowa.

16.6 REPRESENTATIONS REGARDING INVESTMENT INTENT; RESTRICTIVE LEGENDS. The Committee may require each person acquiring Shares pursuant to Options hereunder to represent to and agree with the Company in writing that such person is acquiring the Shares without a view to distribution thereof. The certificates for such Shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer. All certificates for Shares issued pursuant to the Plan shall be subject to such stock transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange or interdealer quotation system upon which the Common Stock is then listed or quoted, and any applicable federal or state securities laws. The Committee may place a legend or legends on any such certificates to make appropriate reference to such restrictions. The certificates for Shares acquired pursuant to an option may also include any legend which the Committee deems appropriate to reflect restrictions contained in this Plan or in the applicable Agreement or to comply with the Iowa Business Corporation Act.

16.7 REGULATORY APPROVALS. The Company shall not be required to issue any certificate or certificates for Shares upon the exercise of Options, or record any person as a holder of record of Shares, without obtaining, to the complete satisfaction of the Committee, the approval of all regulatory bodies deemed necessary by the Committee, and without complying to the Committee's complete satisfaction, with all rules and regulations, under federal, state or local law deemed applicable by the Committee.

6-MOS

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