

AMERICAN EQUITY INVESTMENT LIFE HOLDING CO
Form 10-Q
August 06, 2010

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, 2010
For the transition period from _____ to _____

Commission File Number : 001-31911
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.)
6000 Westown Parkway
West Des Moines, Iowa 50266
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (515) 221-0002
(Telephone)

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$1	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$1

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Sections 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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer

Edgar Filing: AMERICAN EQUITY INVESTMENT LIFE HOLDING CO - Form 10-Q

or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

APPLICABLE TO CORPORATE ISSUERS:

Shares of common stock outstanding at July 31, 2010: 58,538,766

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	June 30, 2010 (Unaudited)	December 31, 2009
Assets		
Investments:		
Fixed maturity securities:		
Available for sale, at fair value (amortized cost: 2010 - \$12,947,169; 2009 - \$10,912,680)	\$ 13,268,670	\$ 10,704,131
Held for investment, at amortized cost (fair value: 2010 - \$730,419; 2009 - \$1,601,864)	761,206	1,635,083
Equity securities, available for sale, at fair value (cost: 2010 - \$76,244; 2009 - \$82,930)	85,631	93,086
Mortgage loans on real estate	2,524,332	2,449,778
Derivative instruments	191,411	479,272
Short-term investments	449,797	—
Other investments	16,965	12,760
Total investments	17,298,012	15,374,110
Cash and cash equivalents	845,375	528,002
Coinsurance deposits	2,451,516	2,237,740
Accrued investment income	113,021	113,658
Deferred policy acquisition costs	1,565,899	1,625,785
Deferred sales inducements	1,026,129	1,011,449
Deferred income taxes	76,878	85,661
Income taxes recoverable	—	103,684
Other assets	44,184	231,915
Total assets	\$ 23,421,014	\$ 21,312,004
Liabilities and Stockholders' Equity		
Liabilities:		
Policy benefit reserves:		
Traditional life and accident and health insurance products	\$ 155,378	\$ 140,351
Annuity products	20,768,784	19,195,870
Other policy funds and contract claims	154,170	119,403

Edgar Filing: AMERICAN EQUITY INVESTMENT LIFE HOLDING CO - Form 10-Q

Notes payable	313,079	316,468
Subordinated debentures	268,360	268,347
Income taxes payable	14,583	—
Other liabilities	828,191	516,942
Total liabilities	22,502,545	20,557,381
Stockholders' equity:		
Common stock, par value \$1 per share, 125,000,000 shares authorized; issued and outstanding:		
2010 - 56,581,481 shares (excluding 5,776,031 treasury shares); 2009 - 56,203,159 shares (excluding 5,936,696 treasury shares)	56,581	56,203
Additional paid-in capital	427,899	422,225
Unallocated common stock held by ESOP; 2010 - 497,527 shares; 2009 - 527,272 shares	(5,358	) (5,679)
Accumulated other comprehensive income (loss)	113,649	(30,456)
Retained earnings	325,698	312,330
Total stockholders' equity	918,469	754,623
Total liabilities and stockholders' equity	\$ 23,421,014	\$ 21,312,004

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Revenues:				
Traditional life and accident and health insurance premiums	\$ 2,643	\$ 2,867	\$ 5,930	\$ 6,353
Annuity product charges	18,617	16,615	34,135	31,666
Net investment income	254,845	226,803	497,755	447,457
Change in fair value of derivatives	(208,737)	30,494	(126,722)	(13,329)
Net realized gains on investments, excluding other than temporary impairment ("OTTI") losses	1,063	4,317	10,966	5,077
OTTI losses on investments:				
Total OTTI losses	(1,603)	(22,061)	(14,187)	(77,452)
Portion of OTTI losses recognized in other comprehensive income	785	16,418	10,146	58,371
Net OTTI losses recognized in operations	(818)	(5,643)	(4,041)	(19,081)
Gain (loss) on extinguishment of debt	(292)	3,098	(292)	3,098
Total revenues	67,321	278,551	417,731	461,241
Benefits and expenses:				
Insurance policy benefits and change in future policy benefits	2,169	1,974	4,501	4,173
Interest sensitive and index product benefits	228,818	71,977	425,687	131,740
Amortization of deferred sales inducements	3,243	12,184	16,332	25,895
Change in fair value of embedded derivatives	(190,211)	140,716	(126,336)	154,899
Interest expense on notes payable	4,673	3,642	9,324	7,918
Interest expense on subordinated debentures	3,716	4,029	7,401	8,237
Interest expense on amounts due under repurchase agreements	—	2	—	244
Amortization of deferred policy acquisition costs	917	13,266	28,185	47,910
Other operating costs and expenses	16,702	16,880	32,687	31,344
Total benefits and expenses	70,027	264,670	397,781	412,360
Income (loss) before income taxes	(2,706)	13,881	19,950	48,881
Income tax expense (benefit)	(1,202)	4,869	6,569	13,394
Net income (loss)	\$ (1,504)	\$ 9,012	\$ 13,381	\$ 35,487

Edgar Filing: AMERICAN EQUITY INVESTMENT LIFE HOLDING CO - Form 10-Q

Earnings (loss) per common share	\$ (0.03	)	\$ 0.16	\$ 0.23	\$ 0.66
Earnings (loss) per common share - assuming dilution	\$ (0.03	)	\$ 0.16	\$ 0.23	\$ 0.63

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands, except per share data)

(Unaudited)

	Common Stock	Additional Paid-in Capital	Unallocated Common Stock Held by ESOP	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2009	\$ 56,203	\$ 422,225	\$ (5,679)	\$ (30,456)	\$ 312,330	\$ 754,623
Other comprehensive income:						
Net income for period	—	—	—	—	13,381	13,381
Change in net unrealized investment gains/losses	—	—	—	146,867	—	146,867
Noncredit component of OTTI losses, available for sale securities, net	—	—	—	(2,762)	—	(2,762)
Other comprehensive income	—	—	—	—	—	157,486
Conversion of \$60 of subordinated debentures	7	49	—	—	—	56
Acquisition of 6,300 shares of common stock	(6)	(44)	—	—	—	(50)
Allocation of 29,745 shares of common stock by ESOP, including excess income tax benefits	—	(27)	321	—	—	294
Share-based compensation, including excess income tax benefits	—	4,150	—	—	—	4,150
Issuance of 377,215 shares of common stock under compensation plans, including excess income tax benefits	377	1,546	—	—	—	1,923

Edgar Filing: AMERICAN EQUITY INVESTMENT LIFE HOLDING CO - Form 10-Q

Other	—	—	—	—	(13	)	(13)
Balance at June 30, 2010	\$ 56,581	\$ 427,899	\$ (5,358	)	\$ 113,649	\$ 325,698	\$ 918,469	
Balance at December 31, 2008	\$ 50,739	\$ 376,782	\$ (6,336	)	\$ (147,376	)	\$ 223,035	\$ 496,844
Cumulative effect of FSP FAS 115-2, net	—	—	—	(20,094	)	25,240	5,146	
Other comprehensive income:	—	—	—	—	—	—	—	
Net income for the period	—	—	—	—	—	35,487	35,487	
Change in net unrealized investment gains/losses	—	—	—	80,645	—	—	80,645	
Noncredit component of OTTI losses, available for sale securities, net	—	—	—	(37,941	)	—	(37,941)
Other comprehensive income	—	—	—	—	—	—	78,191	
Acquisition of 12,362 shares of common stock	(12	)	(40	)	—	—	(52)
Allocation of 25,047 shares of common stock by ESOP, including excess income tax benefits	—	(86	)	270	—	—	184	
Share-based compensation, including excess income tax benefits	—	1,163	—	—	—	—	1,163	
Issuance of 5,000,000 shares of common stock in exchange for notes payable	5,000	26,250	—	—	—	—	31,250	
Issuance of 339,015 shares of common stock under compensation plans, including excess income tax benefits	339	(339)	—	—	—	—	
Balance at June 30, 2009	\$ 56,066	\$ 403,730	\$ (6,066	)	\$ (124,766	)	\$ 283,762	\$ 612,726

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Six Months Ended	
	June 30,	
	2010	2009
Operating activities		
Net income	\$ 13,381	\$ 35,487
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest sensitive and index product benefits	425,687	131,740
Amortization of deferred sales inducements	16,332	25,895
Annuity product charges	(34,135	) (31,666
Change in fair value of embedded derivatives	(126,336	) 154,899
Increase in traditional life and accident and health insurance reserves	11,616	3,040
Policy acquisition costs deferred	(155,813	) (203,508
Amortization of deferred policy acquisition costs	28,185	47,910
Provision for depreciation and other amortization	4,744	2,967
Amortization of discounts and premiums on investments	(122,658	) (109,763
Realized gains on investments and net OTTI losses recognized	(6,925	) 14,004
Change in fair value of derivatives	125,469	12,504
Deferred income taxes	(68,812	) (52,308
Loss (gain) on extinguishment of debt	292	(3,098
Share-based compensation	3,975	1,531
Change in accrued investment income	637	(20,172
Change in income taxes recoverable/payable	118,267	24,342
Change in other assets	6,641	(1,202
Change in other policy funds and contract claims	34,767	(1,073
Change in collateral held for derivatives	(244,816) —
Change in other liabilities	(16,479	) 64,371
Other	255	111
Net cash provided by operating activities	14,274	96,011
Investing activities		
Sales, maturities, or repayments of investments:		
Fixed maturity securities - available for sale	2,038,295	1,932,460
Fixed maturity securities - held for investment	892,464	1,517,475
Equity securities - available for sale	23,020	200

Edgar Filing: AMERICAN EQUITY INVESTMENT LIFE HOLDING CO - Form 10-Q

Mortgage loans on real estate	53,277		54,325	
Derivative instruments	307,799		5,503	
Acquisition of investments:				
Fixed maturity securities - available for sale	(3,641,409	)	(4,671,914)
Equity securities - available for sale	(10,125)	—	
Mortgage loans on real estate	(137,301	)	(102,753)
Derivative instruments	(156,318	)	(120,619)
Other investments	(81	)	(30)
Purchases of property, furniture and equipment	(4,985	)	(741)
Net cash used in investing activities	(635,364	)	(1,386,094)

5

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
 CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
 (Dollars in thousands)
 (Unaudited)

	Six Months Ended June 30,	
	2010	2009
Financing activities		
Receipts credited to annuity policyholder account balances	\$ 1,893,642	\$ 1,797,631
Coinsurance deposits	(158,442)	90,178