

AMERICAN EQUITY INVESTMENT LIFE HOLDING CO
Form 10-Q
May 09, 2006

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 March 31, 2006

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 : 001-31911

American Equity Investment Life Holding Company

(Exact name of registrant as specified in its charter)

Iowa
(State of Incorporation)

42-1447959
(I.R.S. Employer Identification No.)

5000 Westown Parkway, Suite 440

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West Des Moines, Iowa
(Address of principal executive offices)

50266
(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerate filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.)

Yes No

APPLICABLE TO CORPORATE ISSUERS:

Shares of common stock outstanding at April 30, 2006: 55,630,173

PART I FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY****CONSOLIDATED BALANCE SHEETS****(Dollars in thousands, except per share data)**

	March 31, 2006 (Unaudited)	December 31, 2005
Assets		
Investments:		
Fixed maturity securities:		
Available for sale, at fair value (amortized cost: 2006 - \$4,542,043; 2005 - \$4,274,159)	\$ 4,349,103	\$ 4,188,683
Held for investment, at amortized cost (fair value: 2006 - \$4,602,877; 2005 - \$4,598,615)	4,946,296	4,711,427
Equity securities, available for sale, at fair value (cost: 2006 - \$75,537; 2005 - \$88,060)	72,643	84,846
Mortgage loans on real estate	1,419,291	1,321,637
Derivative instruments	248,689	185,391
Policy loans	379	362
Total investments	11,036,401	10,492,346
Cash and cash equivalents	43,274	112,395
Coinsurance deposits - related party	1,934,051	1,959,663
Accrued investment income	78,651	59,584
Deferred policy acquisition costs	1,047,327	977,015
Deferred sales inducements	358,815	315,848
Deferred income tax asset	122,325	92,459
Other assets	34,474	33,484
Total assets	\$ 14,655,318	\$ 14,042,794

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	March 31, 2006 (Unaudited)	December 31, 2005
Liabilities and Stockholders Equity		
Liabilities:		
Policy benefit reserves:		
Traditional life and accident and health insurance products	\$ 80,786	\$ 75,807
Annuity and single premium universal life products	12,587,268	12,162,181
Other policy funds and contract claims	127,708	126,387
Other amounts due to related parties	26,480	27,677
Notes payable	308,644	281,043
Subordinated debentures	261,506	230,658
Amounts due under repurchase agreements	614,046	396,697
Other liabilities	159,696	222,986
Total liabilities	14,166,134	13,523,436
Stockholders equity:		
Common Stock, par value \$1 per share, 75,000,000 shares authorized; issued and outstanding: 2006 - 55,608,655 shares; 2005 - 55,527,180 shares	55,609	55,527
Additional paid-in capital	379,778	379,107
Accumulated other comprehensive loss	(62,206)	(27,306)
Retained earnings	116,003	112,030
Total stockholders equity	489,184	519,358
Total liabilities and stockholders equity	\$ 14,655,318	\$ 14,042,794

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2006	2005
Revenues:		
Traditional life and accident and health insurance premiums	\$ 3,524	\$ 3,756
Annuity and single premium universal life product charges	7,600	6,262
Net investment income	162,385	124,834
Realized gains (losses) on investments	(42)	232
Change in fair value of derivatives	49,328	(35,990)
Total revenues	222,795	99,094
Benefits and expenses:		
Insurance policy benefits and change in future policy benefits	2,398	2,571
Interest credited to account balances	92,546	62,543
Change in fair value of embedded derivatives	62,764	(18,591)
Interest expense on notes payable	7,286	4,139
Interest expense on subordinated debentures	4,918	3,046
Interest expense on amounts due under repurchase agreements	5,799	1,428
Amortization of deferred policy acquisition costs	30,755	16,666
Other operating costs and expenses	10,180	8,145
Total benefits and expenses	216,646	79,947
Income before income taxes	6,149	19,147
Income tax expense	2,176	6,619
Net income	\$ 3,973	\$ 12,528
Earnings per common share	\$ 0.07	\$ 0.33
Earnings per common share - assuming dilution	\$ 0.07	\$ 0.29

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	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders Equity
Balance at January 1, 2005	\$ 38,360	\$ 215,793	\$ (19,269)	\$ 70,659	\$ 305,543
Comprehensive income:					
Net income for period				12,528	12,528
Change in net unrealized investment gains/losses			(900)		(900)
Total comprehensive income					11,628
Conversion of \$120 of subordinated debentures	15	98			113
Balance at March 31, 2005	\$ 38,375	\$ 215,891	\$ (20,169)	\$ 83,187	\$ 317,284
Balance at January 1, 2006	\$ 55,527	\$ 379,107	\$ (27,306)	\$ 112,030	\$ 519,358
Comprehensive loss:					
Net income for period				3,973	3,973
Change in net unrealized investment gains/losses			(34,900)		(34,900)
Total comprehensive loss					(30,927)
Stock-based compensation, including the issuance of 55,550 common shares under compensation plans, including related income tax benefit	56	487			543
Conversion of \$210 of subordinated debentures	26	184			210
Balance at March 31, 2006	\$ 55,609	\$ 379,778	\$ (62,206)	\$ 116,003	\$ 489,184

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2006	2005
Operating activities		
Net income	\$ 3,973	\$ 12,528
Adjustments to reconcile net income to net cash used in operating activities:		
Adjustments related to interest sensitive products:		
Interest credited to account balances	92,546	62,543
Annuity and single premium universal life product charges	(7,600)	(6,262)
Change in fair value of embedded derivatives	62,764	(18,591)
Increase in traditional life and accident and health insurance reserves	2,824	2,196
Policy acquisition costs deferred	(61,631)	(78,635)
Amortization of discount on contingent convertible notes	3,351	
Amortization of deferred policy acquisition costs	30,755	16,666
Provision for depreciation and other amortization	537	449
Amortization of discount and premiums on fixed maturity securities	(58,955)	(48,159)
Realized losses (gains) on investments	42	(232)
Change in fair value of derivatives	(49,328)	35,990
Deferred income taxes	(11,074)	(7,965)
Changes in other operating assets and liabilities:		
Accrued investment income	(19,067)	(9,735)
Federal income taxes recoverable/payable	12,186	5,834
Other policy funds and contract claims	1,321	7,068
Other amounts due to related parties	(7,152)	5,300
Other liabilities	(21,993)	19,699
Other	(2,258)	(258)
Net cash used in operating activities	(28,759)	(1,564)
Investing Activities		
Sales, maturities, or repayments of investments:		
Fixed maturity securities - available for sale	52,528	118,249
Fixed maturity securities - held for investment		723,072
Equity securities, available for sale	17,878	7,166
Mortgage loans on real estate	32,156	22,870
Derivative instruments	37,735	13,276
	140,297	884,633
Acquisition of investments:		
Fixed maturity securities - available for sale	(372,391)	(430,822)
Fixed maturity securities - held for investment	(176,169)	(786,971)
Equity securities, available for sale	(3,980)	(5,025)
Mortgage loans on real estate	(129,810)	(133,623)
Derivative instruments	(45,528)	(32,096)
Policy loans		