

AMERICAN EQUITY INVESTMENT LIFE HOLDING CO  
Form 10-Q  
August 03, 2007

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(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, 2007

**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.)

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5000 Westown Parkway, Suite 440  
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**  
Common Stock, par value \$1

**Name of each exchange on which registered**  
New York Stock Exchange

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

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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 accelerated 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 July 31, 2007: 56,880,720

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

	<b>June 30, 2007 (Unaudited)</b>	<b>December 31, 2006</b>
<b>Assets</b>		
Investments:		
Fixed maturity securities:		
Available for sale, at fair value (amortized cost: 2007 - \$4,833,524; 2006 - \$4,297,182)	\$ 4,623,126	\$ 4,177,029
Held for investment, at amortized cost (fair value: 2007 - \$4,798,026; 2006 - \$4,871,237)	5,226,441	5,128,146
Equity securities, available for sale, at fair value (cost: 2007 - \$81,763; 2006 - \$46,000)	78,949	45,512
Mortgage loans on real estate	1,771,625	1,652,757
Derivative instruments	412,289	381,601
Policy loans	428	419
Total investments	12,112,858	11,385,464
Cash and cash equivalents	22,243	29,949
Coinsurance deposits - related party	1,772,761	1,841,720
Accrued investment income	73,384	68,323
Deferred policy acquisition costs	1,183,229	1,088,890
Deferred sales inducements	506,608	427,554
Deferred income taxes	83,630	73,831
Income taxes recoverable	3,040	4,526
Other assets	42,925	69,866
Total assets	\$ 15,800,678	\$ 14,990,123

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

	June 30, 2007 (Unaudited)	December 31, 2006
<b>Liabilities and Stockholders Equity</b>		
Liabilities:		
Policy benefit reserves:		
Traditional life and accident and health insurance products	\$ 102,489	\$ 93,632
Annuity and single premium universal life products	13,899,180	13,114,299
Other policy funds and contract claims	122,353	128,579
Other amounts due to related parties	45,077	45,504
Notes payable	264,848	266,383
Subordinated debentures	268,298	268,489
Amounts due under repurchase agreements	396,570	385,973
Other liabilities	100,160	92,198
Total liabilities	15,198,975	14,395,057
Stockholders equity:		
Common stock, par value \$1 per share, 125,000,000 shares authorized; issued and outstanding: 2007 - 53,862,051 shares (excluding 3,014,466 treasury shares); 2006 - 53,500,926 shares (excluding 2,664,448 treasury shares)	53,862	53,501
Additional paid-in capital	388,917	389,644
Accumulated other comprehensive loss	(66,282)	(38,769)
Retained earnings	225,206	190,690
Total stockholders equity	601,703	595,066
Total liabilities and stockholders equity	\$ 15,800,678	\$ 14,990,123

*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 June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
<b>Revenues:</b>				
Traditional life and accident and health insurance premiums	\$ 3,190	\$ 3,211	\$ 6,247	\$ 6,735
Annuity and single premium universal life product charges	11,453	10,740	20,447	18,340
Net investment income	175,719	169,182	345,077	331,567
Realized gains on investments	17	331	596	289
Change in fair value of derivatives	98,986	(61,582 )	90,464	(12,254 )
Total revenues	289,365	121,882	462,831	344,677
<b>Benefits and expenses:</b>				
Insurance policy benefits and change in future policy benefits	2,097	2,269	4,030	4,667
Interest credited to account balances	168,141	101,845	284,094	185,453
Amortization of deferred sales inducements	14,184	6,737	18,545	15,675
Change in fair value of embedded derivatives	405	(111,321 )	(6,226 )	(48,557 )
Interest expense on notes payable	4,057	6,528	8,139	13,814
Interest expense on subordinated debentures	5,614	5,402	11,203	10,320
Interest expense on amounts due under repurchase agreements	3,060	8,532	7,078	14,331
Amortization of deferred policy acquisition costs	40,289	25,363	57,858	56,118
Other operating costs and expenses	14,083	9,931	25,494	20,111
Total benefits and expenses	251,930	55,286	410,215	271,932
Income before income taxes	37,435	66,596	52,616	72,745
Income tax expense	12,846	23,685	18,100	25,861
Net income	\$ 24,589	\$ 42,911	\$ 34,516	\$ 46,884
Earnings per common share	\$ 0.43	\$ 0.77	\$ 0.61	\$ 0.84
Earnings per common share - assuming dilution	\$ 0.41	\$ 0.71	\$ 0.58	\$ 0.78

See accompanying notes to unaudited consolidated financial statements.

## AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Dollars in thousands)

(Unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders Equity
Balance at December 31, 2005	\$ 53,936	\$ 380,698	\$ (27,306 )	\$ 112,030	\$ 519,358
Comprehensive loss:					
Net income for period				46,884	46,884
Change in net unrealized investment gains/losses			(67,241 )		(67,241 )
Total comprehensive loss					(20,357 )
Share-based compensation		68			68
Issuance of 89,550 shares of common stock under compensation plans, including excess income tax benefits	90	682			772
Conversion of \$360 of subordinated debentures	44	316			360
Balance at June 30, 2006	\$ 54,070	\$ 381,764	\$ (94,547 )	\$ 158,914	\$ 500,201
Balance at December 31, 2006	\$ 53,501	\$ 389,644	\$ (38,769 )	\$ 190,690	\$ 595,066
Comprehensive income:					
Net income for period				34,516	34,516
Change in net unrealized investment gains/losses			(27,513 )		(27,513 )
Total comprehensive income					7,003
Acquisition of 350,000 shares of common stock	(350 )	(3,886 )			(4,236 )
Share-based compensation		3,178			3,178
Issuance of 57,500 shares of common stock under compensation plans, including excess income tax benefits	57	385			442
Net issuance of 622,779 shares of common stock under stock option and warrant agreement	623	(623 )			
Conversion of \$250 of subordinated debentures	31	219			250
Balance at June 30, 2007	\$ 53,862	\$ 388,917	\$ (66,282 )	\$ 225,206	\$ 601,703

Total comprehensive loss for the second quarter of 2007 was \$2.8 million and was comprised of net income of \$24.6 million and an increase in net unrealized depreciation of available for sale fixed maturity securities and equity securities of \$27.4 million.

Total comprehensive income for the second quarter of 2006 was \$10.6 million and was comprised of net income of \$42.9 million and an increase in net unrealized depreciation of available for sale fixed maturity securities and equity securities of \$32.3 million.

*See accompanying notes to unaudited consolidated financial statements.*

5

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**AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY**