

AMERICAN EQUITY INVESTMENT LIFE HOLDING CO
Form 10-Q
November 09, 2012

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 September 30, 2012

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

6000 Westown Parkway 50266
West Des Moines, Iowa
(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 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 October 31, 2012: 62,805,580

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Investments:		
Fixed maturity securities:		
Available for sale, at fair value (amortized cost: 2012 - \$20,136,014; 2011 - \$16,980,279)	\$22,410,492	\$18,464,109
Held for investment, at amortized cost (fair value: 2012 - \$63,759; 2011 - \$2,644,422)	76,048	2,644,206
Equity securities, available for sale, at fair value (cost: 2012 - \$50,597; 2011 - \$58,438)	61,604	62,845
Mortgage loans on real estate	2,724,321	2,823,047
Derivative instruments	577,784	273,314
Other investments	196,779	115,930
Total investments	26,047,028	24,383,451
Cash and cash equivalents	2,397,434	404,952
Coinsurance deposits	2,913,273	2,818,642
Accrued investment income	276,875	228,937
Deferred policy acquisition costs	1,639,791	1,683,857
Deferred sales inducements	1,234,471	1,242,787
Deferred income taxes	—	21,981
Income taxes recoverable	—	8,441
Other assets	88,901	81,671
Total assets	\$34,597,773	\$30,874,719
Liabilities and Stockholders' Equity		
Liabilities:		
Policy benefit reserves	\$30,980,046	\$28,118,716
Other policy funds and contract claims	457,162	400,594
Notes payable	306,696	297,608
Subordinated debentures	245,825	268,593
Deferred income taxes	73,835	—
Income taxes payable	1,415	—
Other liabilities	817,841	380,529
Total liabilities	32,882,820	29,466,040
Stockholders' equity:		
Preferred stock, par value \$1 per share, 2,000,000 shares authorized, 2012 and 2011 no shares issued and outstanding	—	—
	61,548	57,837

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Common stock, par value \$1 per share, 200,000,000 shares authorized; issued and outstanding:

2012 - 61,548,127 shares (excluding 5,089,549 treasury shares);

2011 - 57,836,540 shares (excluding 5,616,595 treasury shares)

Additional paid-in capital	493,797	468,281
Unallocated common stock held by ESOP; 2012 - 294,770 shares; 2011 - 336,093 shares	(2,931	) (3,620)
Accumulated other comprehensive income	712,186	457,229
Retained earnings	450,353	428,952
Total stockholders' equity	1,714,953	1,408,679
Total liabilities and stockholders' equity	\$34,597,773	\$30,874,719

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Traditional life insurance premiums	\$3,300	\$3,126	\$9,770	\$9,331
Annuity product charges	23,875	20,405	65,176	57,259
Net investment income	318,594	305,502	965,763	894,508
Change in fair value of derivatives	161,090	(333,621)	) 269,404	(206,997)
Net realized losses on investments, excluding other than temporary impairment ("OTTI") losses	(1,238)	) (17,292)	) (7,925)	) (19,339)
OTTI losses on investments:				
Total OTTI losses	—	(5,133)	) (2,156)	) (10,346)
Portion of OTTI losses recognized from other comprehensive income	(1,686)	) (3,758)	) (3,389)	) (7,345)
Net OTTI losses recognized in operations	(1,686)	) (8,891)	) (5,545)	) (17,691)
Total revenues	503,935	(30,771)	) 1,296,643	717,071
Benefits and expenses:				
Insurance policy benefits and change in future policy benefits	1,865	1,888	6,232	6,282
Interest sensitive and index product benefits	246,105	223,232	527,961	621,317
Amortization of deferred sales inducements	7,709	(28,065)	) 50,359	22,892
Change in fair value of embedded derivatives	188,201	(205,565)	) 466,278	(138,225)
Interest expense on notes payable	7,141	7,984	21,208	23,723
Interest expense on subordinated debentures	3,235	3,488	10,384	10,435
Interest expense on amounts due under repurchase agreements	—	—	—	5
Amortization of deferred policy acquisition costs	25,954	(28,930)	) 105,086	65,155
Other operating costs and expenses	36,170	15,903	76,785	50,011
Total benefits and expenses	516,380	(10,065)	) 1,264,293	661,595
Income (loss) before income taxes	(12,445)	) (20,706)	) 32,350	55,476
Income tax expense (benefit)	(4,616)	) (7,638)	) 10,949	18,927
Net income (loss)	\$(7,829)	) \$(13,068)	) \$21,401	\$36,549
Earnings (loss) per common share				
Earnings (loss) per common share	\$(0.13)	) \$(0.22)	) \$0.35	\$0.62
Earnings (loss) per common share - assuming dilution	\$(0.13)	) \$(0.22)	) \$0.34	\$0.59
Weighted average common shares outstanding (in thousands):				
Earnings (loss) per common share	62,504	59,596	60,723	59,429
Earnings (loss) per common share - assuming dilution	65,262	62,698	65,232	62,783

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income (loss)	\$ (7,829	) \$ (13,068	) 21,401	36,549
Other comprehensive income:				
Change in net unrealized investment gains/losses (1)	202,184	507,702	390,575	570,298
Noncredit component of OTTI losses (1)	1,377	1,880	1,667	3,379
Other comprehensive income before income tax	203,561	509,582	392,242	573,677
Income tax effect related to other comprehensive income	(71,247	) (178,354	) (137,285	) (200,787
Other comprehensive income	132,314	331,228	254,957	372,890
Comprehensive income	\$ 124,485	\$ 318,160	\$ 276,358	\$ 409,439

(1) Net of related adjustments to amortization of deferred sales inducements and deferred policy acquisition costs. See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
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	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2011	\$57,837	\$468,281	\$(3,620)	\$ 457,229	\$428,952	\$ 1,408,679
Net income for period	—	—	—	—	21,401	21,401
Other comprehensive income	—	—	—	254,957	—	254,957
Conversion of \$20,770 of subordinated debentures	2,564	17,027	—	—	—	19,591
Allocation of 63,946 shares of common stock by ESOP, including excess income tax benefits	—	32	689	—	—	721
Share-based compensation, including excess income tax benefits	—	5,495	—	—	—	5,495
Issuance of 1,147,440 shares of common stock under compensation plans, including excess income tax benefits	1,147	2,962	—	—	—	4,109
Balance at September 30, 2012	\$61,548	\$493,797	\$(2,931)	\$ 712,186	\$450,353	\$ 1,714,953
Balance at December 31, 2010	\$56,968	\$454,454	\$(4,815)	\$ 81,820	\$349,620	\$ 938,047
Net income for period	—	—	—	—	36,549	36,549
Other comprehensive income	—	—	—	372,890	—	372,890
Acquisition of 1,250 shares of common stock	(1)	(12)	—	—	—	(13)
Allocation of 78,897 shares of common stock by ESOP, including excess income tax benefits	—	65	850	—	—	915
Share-based compensation, including excess income tax benefits	—	6,575	—	—	—	6,575
Issuance of 888,179 shares of common stock under compensation plans, including excess income tax benefits	888	3,686	—	—	—	4,574
Balance at September 30, 2011	\$57,855	\$464,768	\$(3,965)	\$ 454,710	\$386,169	\$ 1,359,537

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
Operating activities		
Net income	\$21,401	\$36,549
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest sensitive and index product benefits	527,961	621,317
Amortization of deferred sales inducements	50,359	22,892
Annuity product charges	(65,176	) (57,259
Change in fair value of embedded derivatives	466,278	(138,225
Increase in traditional life and accident and health insurance reserves	27,850	70,612
Policy acquisition costs deferred	(287,285	) (342,299
Amortization of deferred policy acquisition costs	105,086	65,155
Provision for depreciation and other amortization	13,969	14,113
Amortization of discounts and premiums on investments	(75,596	) (115,340
Realized gains/losses on investments and net OTTI losses recognized in operations	13,470	37,030
Change in fair value of derivatives	(269,404	) 205,264
Deferred income taxes	(41,469	) (78,920
Share-based compensation	4,907	5,591
Change in accrued investment income	(47,938	) (45,147
Change in income taxes recoverable/payable	9,856	(11,902
Change in other assets	(5,354	) 4,375
Change in other policy funds and contract claims	56,568	152,508
Change in collateral held for derivatives	324,596	(284,870
Change in other liabilities	3,442	(61,921
Other	(3,873	) 516
Net cash provided by operating activities	829,648	100,039
Investing activities		
Sales, maturities, or repayments of investments:		
Fixed maturity securities - available for sale	1,942,533	3,433,977
Fixed maturity securities - held for investment	2,618,207	—
Equity securities - available for sale	7,604	2,958
Mortgage loans on real estate	341,771	133,560
Derivative instruments	276,227	432,411
Other investments	25,901	91
Acquisition of investments:		
Fixed maturity securities - available for sale	(4,987,848	) (3,685,523
Fixed maturity securities - held for investment	—	(1,940,163
Mortgage loans on real estate	(280,749	) (413,536
Derivative instruments	(280,407	) (295,099
Other investments	(83,779	) (77,189
Purchases of property, furniture and equipment	(378	) (4,643
Net cash used in investing activities	(420,918	) (2,413,156

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

	Nine Months Ended September 30,	
	2012	2011
Financing activities		
Receipts credited to annuity and single premium universal life policyholder account balances	\$2,878,818	\$3,718,010
Coinsurance deposits	(16,364	) (80,932
Return of annuity policyholder account balances	(1,275,208	) (1,357,892
Financing fees incurred and deferred	—	(1,566
Repayment of subordinated debentures	(270) —
Acquisition of common stock	—	(13
Excess tax benefits realized from share-based compensation plans	624	1,060
Proceeds from issuance of common stock	4,055	4,461
Change in checks in excess of cash balance	(7,903	) 4,537
Net cash provided by financing activities	1,583,752	2,287,665
Increase (decrease) in cash and cash equivalents	1,992,482	(25,452
Cash and cash equivalents at beginning of period	404,952	597,766
Cash and cash equivalents at end of period	\$2,397,434	\$572,314
Supplemental disclosures of cash flow information		
Cash paid during period for:		
Interest expense	\$20,858	\$22,129
Income taxes	41,938	108,800
Non-cash operating activity:		
Deferral of sales inducements	220,784	281,376
Non-cash investing activity:		
Real estate acquired in satisfaction of mortgage loans	14,932	17,358
Mortgage loan on real estate sold	—	1,215
Non-cash financing activities:		
Conversion of subordinated debentures	20,770	—
See accompanying notes to unaudited consolidated financial statements.		

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012
(Unaudited)