

TRINITY INDUSTRIES INC

Form 10-Q

July 27, 2011

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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, 2011**

OR

**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 1-6903
Trinity Industries, Inc.
(Exact name of registrant as specified in its charter)**

Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

75-0225040
(I.R.S. Employer Identification
No.)

2525 Stemmons Freeway
Dallas, Texas
(Address of principal executive offices)

75207-2401
(Zip Code)

Registrant's telephone number, including area code **(214) 631-4420**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for 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 the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller
reporting company)

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 .

At July 15, 2011 the number of shares of common stock outstanding was 80,163,728.

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Table of Contents**PART I****Item 1. Financial Statements****Trinity Industries, Inc. and Subsidiaries
Consolidated Statements of Operations
(unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in millions, except per share amounts)			
Revenues:				
Manufacturing	\$ 580.1	\$ 423.5	\$ 1,094.5	\$ 756.3
Leasing	130.4	119.6	260.2	240.8
	710.5	543.1	1,354.7	997.1
Operating costs:				
Cost of revenues:				
Manufacturing	495.1	350.7	926.0	631.6
Leasing	65.1	65.9	134.5	134.5
Other	7.4	2.1	15.5	6.2
	567.6	418.7	1,076.0	772.3
Selling, engineering, and administrative expenses:				
Manufacturing	33.4	34.4	67.4	65.9
Leasing	5.6	4.5	11.3	8.9
Other	8.5	6.6	19.1	19.1
	47.5	45.5	97.8	93.9
Total operating profit	95.4	78.9	180.9	130.9
Other (income) expense:				
Interest income	(0.4)	(0.3)	(0.7)	(0.7)
Interest expense	43.8	45.3	88.3	91.0
Other, net	(0.6)	(0.9)	(1.1)	0.9
	42.8	44.1	86.5	91.2
Income before income taxes	52.6	34.8	94.4	39.7
Provision for income taxes	21.0	13.7	37.2	14.3
Net income	31.6	21.1	57.2	25.4
Net income attributable to noncontrolling interest	1.6	2.7	3.0	5.0
Net income attributable to Trinity Industries, Inc.	\$ 30.0	\$ 18.4	\$ 54.2	\$ 20.4

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Net income attributable to Trinity Industries, Inc. per common share:

Basic	\$ 0.37	\$ 0.23	\$ 0.68	\$ 0.26
Diluted	\$ 0.37	\$ 0.23	\$ 0.67	\$ 0.26

Weighted average number of shares outstanding:

Basic	77.4	76.7	77.2	76.6
Diluted	77.7	76.9	77.5	76.7

Dividends declared per common share	\$ 0.09	\$ 0.08	\$ 0.17	\$ 0.16
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See accompanying notes to consolidated financial statements.

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Consolidated Balance Sheets**

	June 30, 2011 (unaudited)	December 31, 2010
	(in millions)	
Assets		
Cash and cash equivalents	\$ 257.1	\$ 354.0
Short-term marketable securities	42.0	158.0
Receivables, net of allowance	333.7	232.0
Income tax receivable	4.4	7.4
Inventories:		
Raw materials and supplies	272.1	169.4
Work in process	109.1	83.3
Finished goods	92.5	78.6
	473.7	331.3
Property, plant, and equipment, at cost, including TRIP Holdings of \$1,273.8 and \$1,282.1	5,338.7	5,202.2
Less accumulated depreciation, including TRIP Holdings of \$107.2 and \$90.3	(1,152.3)	(1,090.2)
	4,186.4	4,112.0
Goodwill	203.6	197.6
Restricted cash, including TRIP Holdings of \$44.7 and \$46.0	205.3	207.1
Other assets	170.5	160.6
	\$ 5,876.7	\$ 5,760.0
Liabilities and Stockholders Equity		
Accounts payable	\$ 190.0	\$ 132.8
Accrued liabilities	370.5	375.6
Debt:		
Recourse, net of unamortized discount of \$105.6 and \$111.1	455.3	450.3
Non-recourse:		
Parent and wholly-owned subsidiaries	1,468.0	1,453.5
TRIP Holdings	963.3	1,003.9

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	2,886.6	2,907.7
Deferred income	32.4	33.6
Deferred income taxes	409.0	391.0
Other liabilities	93.2	73.6
	3,981.7	3,914.3
Stockholders' equity:		
Preferred stock 1.5 shares authorized and unissued		
Common stock 200.0 shares authorized	81.7	81.7
Capital in excess of par value	620.9	606.1
Retained earnings	1,241.2	1,200.5
Accumulated other comprehensive loss	(109.1)	(95.5)
Treasury stock	(24.0)	(28.0)
	1,810.7	1,764.8
Noncontrolling interest	84.3	80.9
	1,895.0	1,845.7
	\$ 5,876.7	\$ 5,760.0

See accompanying notes to consolidated financial statements.

Table of Contents**Trinity Industries, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(unaudited)**

	Six Months Ended June 30,	
	2011	2010
	(in millions)	
Operating activities:		
Net income	\$ 57.2	\$ 25.4
Adjustments to reconcile net income to net cash (required) provided by operating activities:		
Depreciation and amortization	95.4	96.0
Stock-based compensation expense	9.4	7.0
Excess tax benefits from stock-based compensation	(0.3)	0.1
Provision for deferred income taxes	16.6	15.6
Gain on disposition of railcars from our lease fleet	(4.5)	(2.2)
Gain on disposition of property, plant, equipment, and other assets	(3.8)	(3.3)
Other	4.5	1.6
Changes in assets and liabilities:		
(Increase) decrease in receivables	(99.2)	(75.7)
(Increase) decrease in income tax receivable	3.0	(1.2)
(Increase) decrease in inventories	(138.4)	(53.9)
(Increase) decrease in other assets	(16.9)	17.5
Increase (decrease) in accounts payable	57.2	39.5
Increase (decrease) in accrued liabilities	(3.4)	(48.2)
Increase (decrease) in other liabilities	17.0	(12.4)
Net cash (required) provided by operating activities	(6.2)	5.8
Investing activities:		
Investment in short-term marketable securities	116.0	(155.0)
Proceeds from sales of railcars from our lease fleet	18.8	12.5
Proceeds from disposition of property, plant, equipment, and other assets	5.3	4.0
Capital expenditures - leasing	(155.5)	(103.0)
Capital expenditures - manufacturing and other	(24.6)	(15.3)
Acquisitions, net of cash acquired	(15.3)	(46.9)
Net cash required by investing activities	(55.3)	(303.7)
Financing activities:		
Proceeds from issuance of common stock, net	1.6	1.1
Excess tax benefits from stock-based compensation	0.3	(0.1)
Payments to retire debt - assumed debt of Quixote		(40.0)
Payments to retire debt - other	(79.1)	(44.2)
Proceeds from issuance of long-term debt	52.7	
(Increase) decrease in restricted cash	1.8	(7.7)

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Dividends paid to common shareholders	(12.7)	(12.7)
Net cash required by financing activities	(35.4)	(103.6)
Net decrease in cash and cash equivalents	(96.9)	(401.5)
Cash and cash equivalents at beginning of period	354.0	611.8
Cash and cash equivalents at end of period	\$ 257.1	\$ 210.3

See accompanying notes to consolidated financial statements.

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Trinity Industries, Inc. and Subsidiaries
Consolidated Statement of Stockholders' Equity
(unaudited)

	Common Stock		Capital in Excess of Par Value	Accumulated		Treasury Stock		Trinity Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount		Retained Earnings	Other Comprehensive Loss	Shares	Amount			
Balances at December 31, 2010	81.7	\$ 81.7	\$ 606.1	\$ 1,200.5	\$ (95.5)	(1.9)	\$ (28.0)	\$ 1,764.8	\$ 80.9	\$ 1,845.7
Net income				54.2				54.2	3.0	57.2
Other comprehensive income, net of tax:										
Currency translation adjustments					(0.1)			(0.1)		(0.1)
Change in unrealized loss on derivative financial instruments					2.0			2.0	0.4	2.4
Comprehensive net income								56.1	3.4	59.5
Cash dividends on common stock				(13.5)				(13.5)		(13.5)
Restricted shares issued, net			0.0			0.2	1.7	1.7		1.7
Stock options exercised			(0.7)			0.1	2.3	1.6		1.6
Reclassification of purchase of additional interest in TRIP Holdings			15.5		(15.5)					
Balances at June 30, 2011	81.7	\$ 81.7	\$ 620.9	\$ 1,241.2	\$ (109.1)	(1.6)	\$ (24.0)	\$ 1,810.7	\$ 84.3	\$ 1,895.0

See accompanying notes to consolidated financial statements.

Table of Contents**Trinity Industries, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)****Note 1. Summary of Significant Accounting Policies****Basis of Presentation**

The foregoing consolidated financial statements are unaudited and have been prepared from the books and records of Trinity Industries, Inc. and its subsidiaries (Trinity , Company , we , or our) including its majority-owned subsidiary TRIP Rail Holdings LLC (TRIP Holdings). In our opinion, all normal and recurring adjustments necessary for a fair presentation of the financial position of the Company as of June 30, 2011, and the results of operations for the three and six month periods ended June 30, 2011 and 2010, and cash flows for the six month periods ended June 30, 2011 and 2010, have been made in conformity with generally accepted accounting principles. Because of seasonal and other factors, the results of operations for the six month period ended June 30, 2011 may not be indicative of expected results of operations for the year ending December 31, 2011. These interim financial statements and notes are condensed as permitted by the instructions to Form 10-Q and should be read in conjunction with the audited consolidated financial statements of the Company included in its Form 10-K for the year ended December 31, 2010.

Stockholders Equity

On December 9, 2010, the Company s Board of Directors authorized a new \$200 million share repurchase program, effective January 1, 2011. This program replaced the Company s previous share repurchase program and expires December 31, 2012. No shares were repurchased under this program for the three and six months ended June 30, 2011.

For the quarter ended June 30, 2011, an amount of \$15.5 million was reclassified between capital in excess of par value and accumulated other comprehensive loss to properly reflect the additional amount of accumulated unrealized loss on derivative financial instruments attributable to the Company after the purchase of additional interests in TRIP Holdings.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-05, Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income, (ASU 2011-05) which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after Dec. 15, 2011 with early adoption permitted. The adoption of ASU 2011-05 will not have an impact on the Company s consolidated financial position, results of operations or cash flows as it only requires a change in the format of the current presentation.

Note 2. Acquisitions and Divestitures

Acquisition and divestiture activity, all in the Construction Products Group, for the three and six months ended June 30, 2011 is summarized as follows:

	Three and six months ended June 30, 2011 (in millions)	
Acquisitions:		
Purchase price	\$	23.6
Net cash paid	\$	15.3
Goodwill recorded	\$	7.0
Divestitures:		

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Proceeds	\$	8.3
Gain recognized	\$	0.7
Goodwill charged off	\$	1.0

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Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurement as of June 30, 2011			
	(in millions)			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 155.4	\$	\$	\$ 155.4
Short-term marketable securities	42.0			42.0
Restricted cash	205.3			205.3
Fuel derivative instruments ⁽¹⁾		0.4		0.4
Total assets	\$ 402.7	\$ 0.4	\$	\$ 403.1
Liabilities:				
Interest rate hedges ⁽²⁾				
Wholly-owned subsidiary	\$	\$ 45.7	\$	\$ 45.7
TRIP Holdings		47.0		47.0
Total liabilities	\$	\$ 92.7	\$	\$ 92.7

	Fair Value Measurement as of December 31, 2010			
	(in millions)			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 286.0	\$	\$	\$ 286.0
Short-term marketable securities	158.0			158.0
Restricted cash	207.1			207.1
Fuel derivative instruments ⁽¹⁾		0.1		0.1
Total assets	\$ 651.1	\$ 0.1	\$	\$ 651.2
Liabilities:				
Interest rate hedges ⁽²⁾				
Wholly-owned subsidiary	\$	\$ 45.7	\$	\$ 45.7
TRIP Holdings		48.3		48.3
Total liabilities	\$	\$ 94.0	\$	\$ 94.0

⁽¹⁾ Included in other assets on the consolidated balance sheet.

⁽²⁾ Included in accrued liabilities on the consolidated balance sheet.

The carrying amounts and estimated fair values of our long-term debt were as follows:

June 30, 2011

December 31, 2010

	Carrying Value	Estimated Fair Value (in millions)	Carrying Value	Estimated Fair Value
Recourse:				
Convertible subordinated notes	\$ 450.0	\$ 471.4	\$ 450.0	\$ 448.3
Less: unamortized discount	(105.6)		(111.1)	
	344.4		338.9	
Capital lease obligations	49.9	49.9	51.2	51.2
Term loan	56.1	57.4	57.4	54.2
Other	4.9	4.9	2.8	2.8
	455.3	583.6	450.3	556.5
Non-recourse:				
2006 secured railcar equipment notes	275.5	290.3	283.2	302.8
Promissory notes	478.2	462.1	493.8	482.2
2009 secured railcar equipment notes	223.6	236.2	229.2	256.1
2010 secured railcar equipment notes	360.7	342.1	367.1	345.5
TILC warehouse facility	130.0	130.0	80.2	80.2
TRIP warehouse loan	963.3	956.4	1,003.9	994.0
	2,431.3	2,417.1	2,457.4	2,460.8
Total	\$ 2,886.6	\$ 3,000.7	\$ 2,907.7	\$ 3,017.3

The estimated fair value of our convertible subordinated notes was based on a quoted market price as of June 30, 2011 and December 31, 2010, respectively. The estimated fair values of our 2006, 2009, and 2010 secured railcar equipment notes, promissory notes, TRIP warehouse loan, and term loan are based on our estimate of their fair value as of June 30, 2011 and December 31, 2010, respectively, determined by discounting their future cash flows at the current market

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interest rate. The carrying value of our Trinity Industries Leasing Company (TILC) warehouse facility approximates fair value because the interest rate adjusts to the market interest rate and there has been no change in the Company's credit rating since the loan agreement was renewed in February 2011. The fair values of all other financial instruments are estimated to approximate carrying value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market to that asset or liability in an orderly transaction between market participants on the measurement date. An entity is required to establish a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair values are listed below:

Level 1 This level is defined as quoted prices in active markets for identical assets or liabilities. The Company's cash equivalents, short-term marketable securities, and restricted cash are instruments of the United States Treasury, fully-insured certificates of deposit or highly-rated money market mutual funds.

Level 2 This level is defined as observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's fuel derivative instruments, which are commodity options, are valued using energy and commodity market data. Interest rate hedges are valued at exit prices obtained from each counterparty. On July 6, 2011, interest rate hedges related to TRIP Holdings were terminated in connection with our refinancing of the TRIP Holdings-related debt. See Note 7 Derivative Instruments and Note 11 Debt.

Level 3 This level is defined as unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Note 4. Segment Information

The Company reports operating results in five principal business segments: (1) the Rail Group, which manufactures and sells railcars and related parts and components; (2) the Construction Products Group, which manufactures and sells highway products and concrete and aggregates; (3) the Inland Barge Group, which manufactures and sells barges and related products for inland waterway services; (4) the Energy Equipment Group, which manufactures and sells products for energy related businesses, including structural wind towers, tank containers and tank heads for pressure and non-pressure vessels, propane tanks and utility, traffic, and lighting structures, along with transmission poles; and (5) the Railcar Leasing and Management Services Group (Leasing Group), which provides fleet management, maintenance, and leasing services. The segment All Other includes our captive insurance and transportation companies; legal, environmental, and upkeep costs associated with non-operating facilities; other peripheral businesses; and the change in market valuation related to ineffective commodity hedges. Gains and losses from the sale of property, plant, and equipment which are related to manufacturing and dedicated to the specific manufacturing operations of a particular segment are recorded in the cost of revenues of that respective segment. Gains and losses from the sale of property, plant, and equipment which can be utilized by multiple segments are recorded in the cost of revenues of the All Other segment.

Sales and related net profits from the Rail Group to the Leasing Group are recorded in the Rail Group and eliminated in consolidation. Sales between these groups are recorded at prices comparable to those charged to external customers taking into consideration quantity, features, and production demand. Amortization of deferred profit on railcars sold to the Leasing Group is included in the operating profits of the Leasing Group. Sales of railcars from the lease fleet are included in the Leasing Group.

The financial information for these segments is shown in the tables below. We operate principally in North America.

Three Months Ended June 30, 2011

	Revenues	Operating Profit
	External Intersegment	(Loss)
	Total	
	(in millions)	

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Rail Group	\$ 197.3	\$ 83.4	\$ 280.7	\$ 15.4
Construction Products Group	148.0	1.3	149.3	16.1
Inland Barge Group	117.8		117.8	19.1
Energy Equipment Group	115.1	2.4	117.5	1.2
Railcar Leasing and Management Services Group	130.4		130.4	59.7
All Other	1.9	12.4	14.3	(0.2)
Corporate				(8.4)
Eliminations Lease subsidiary		(79.5)	(79.5)	(7.1)
Eliminations Other		(20.0)	(20.0)	(0.4)
Consolidated Total	\$ 710.5	\$	\$ 710.5	\$ 95.4

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	Revenues			Operating Profit (Loss)
	External	Intersegment	Total	
	(in millions)			
Rail Group	\$ 42.1	\$ 70.8	\$ 112.9	\$ (2.7)
Construction Products Group	165.7	5.2	170.9	17.7
Inland Barge Group	99.5		99.5	12.0
Energy Equipment Group	112.7	2.6	115.3	13.5
Railcar Leasing and Management Services Group	119.6		119.6	49.2
All Other	3.5	8.9	12.4	(2.1)
Corporate				(6.5)
Eliminations Lease subsidiary		(65.9)	(65.9)	(1.9)
Eliminations Other		(21.6)	(21.6)	(0.3)
Consolidated Total	\$ 543.1	\$	\$ 543.1	\$ 78.9

Six Months Ended June 30, 2011

	Revenues			Operating Profit (Loss)
	External	Intersegment	Total	
	(in millions)			
Rail Group	\$ 328.3	\$ 172.2	\$ 500.5	\$ 24.7
Construction Products Group	278.1	4.8	282.9	24.4
Inland Barge Group	255.7		255.7	40.8
Energy Equipment Group	228.3	7.9	236.2	11.7
Railcar Leasing and Management Services Group	260.2		260.2	114.4
All Other	4.1	23.3	27.4	(0.5)
Corporate				(19.1)
Eliminations Lease subsidiary		(164.9)	(164.9)	(15.2)
Eliminations Other		(43.3)	(43.3)	(0.3)
Consolidated Total	\$ 1,354.7	\$	\$ 1,354.7	\$ 180.9

Six Months Ended June 30, 2010

	Revenues			Operating Profit (Loss)
	External	Intersegment	Total	
	(in millions)			
Rail Group	\$ 74.3	\$ 112.2	\$ 186.5	\$ (10.6)
Construction Products Group	277.3	12.0	289.3	20.4
Inland Barge Group	196.9		196.9	29.8
Energy Equipment Group	201.8	3.6	205.4	23.9
	240.8		240.8	97.4

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Railcar Leasing and Management Services Group					
All Other		6.0	16.1	22.1	(4.7)
Corporate					(19.0)
Eliminations	Lease subsidiary		(103.9)	(103.9)	(5.5)
Eliminations	Other		(40.0)	(40.0)	(0.8)
Consolidated Total		\$ 997.1	\$	\$ 997.1	\$ 130.9

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The Railcar Leasing and Management Services Group provides fleet management, maintenance, and leasing services. Selected consolidating financial information for the Leasing Group is as follows:

	June 30, 2011			
	Leasing Group			
	Wholly- Owned Subsidiaries	TRIP Holdings	Manufacturing/ Corporate	Total
	(in millions, unaudited)			
Cash, cash equivalents, and short-term marketable securities	\$ 2.6	\$	\$ 296.5	\$ 299.1
Property, plant, and equipment, net	\$ 3,078.9	\$ 1,166.6	\$ 482.2	\$ 4,727.7
Net deferred profit on railcars sold to the Leasing Group	(348.9)	(192.4)		(541.3)
	\$ 2,730.0	\$ 974.2	\$ 482.2	\$ 4,186.4
Restricted cash	\$ 160.6	\$ 44.7	\$	\$ 205.3
Debt:				
Recourse	\$ 106.0	\$	\$ 454.9	\$ 560.9
Less: unamortized discount			(105.6)	(105.6)
	106.0		349.3	455.3
Non-recourse	1,468.0	963.3		2,431.3
Total debt	\$ 1,574.0	\$ 963.3	\$ 349.3	\$ 2,886.6

	December 31, 2010			
	Leasing Group			
	Wholly- Owned Subsidiaries	TRIP Holdings	Manufacturing/ Corporate	Total
	(in millions)			
Cash, cash equivalents, and short-term marketable securities	\$ 3.8	\$	\$ 508.2	\$ 512.0
Property, plant, and equipment, net	\$ 2,965.4	\$ 1,191.8	\$ 491.4	\$ 4,648.6
Net deferred profit on railcars sold to the Leasing Group	(340.4)	(196.2)		(536.6)
	\$ 2,625.0	\$ 995.6	\$ 491.4	\$ 4,112.0
Restricted cash	\$ 161.1	\$ 46.0	\$	\$ 207.1
Debt:				
Recourse	\$ 108.6	\$	\$ 452.8	\$ 561.4
Less: unamortized discount			(111.1)	(111.1)
	108.6		341.7	450.3
Non-recourse	1,453.5	1,003.9		2,457.4
Total debt	\$ 1,562.1	\$ 1,003.9	\$ 341.7	\$ 2,907.7

See Note 6 Investment in TRIP Holdings and Note 11 Debt for a further discussion regarding the Company's investment in TRIP Holdings and TRIP Holdings' debt.

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	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	2010	Percent	2011	2010	Percent
	(\$ in millions)			(\$ in millions)		
			Change			Change
Revenues:						
Wholly owned subsidiaries:						
Leasing and management	\$ 92.9	\$ 86.0	8.0%	\$ 183.2	\$ 170.1	7.7%
Sales of cars from the lease fleet	8.8	3.7	137.8	10.7	11.6	(7.8)
	101.7	89.7	13.4	193.9	181.7	6.7
TRIP Holdings:						
Leasing and management	28.7	29.2	(1.7)	58.2	58.2	
Sales of cars from the lease fleet		0.7	*	8.1	0.9	*
	28.7	29.9	(4.0)	66.3	59.1	12.2
Total revenues	\$ 130.4	\$ 119.6	9.0	\$ 260.2	\$ 240.8	8.1
Operating Profit:						
Wholly owned subsidiaries:						
Leasing and management	\$ 39.5	\$ 31.4		\$ 76.0	\$ 60.6	
Sales of cars from the lease fleet	3.4	0.3		4.4	2.2	
	42.9	31.7		80.4	62.8	
TRIP Holdings:						
Leasing and management	16.8	17.5		33.9	34.6	
Sales of cars from the lease fleet				0.1		
	16.8	17.5		34.0	34.6	
Total operating profit	\$ 59.7	\$ 49.2		\$ 114.4	\$ 97.4	
Operating profit margin:						
Leasing and management	46.3%	42.4%		45.5%	41.7%	
Sales of cars from the lease fleet	38.6	6.8		23.9	17.6	
Total operating profit margin	45.8	41.1		44.0	40.4	

*not meaningful

The Leasing Group's interest expense is not a component of operating profit and includes the effects of hedges related to the Leasing Group's debt. For the three and six months ended June 30, 2011, Leasing Group interest expense was \$36.2 million and \$72.9 million, including \$10.8 million and \$22.3 million of TRIP Holdings interest expense, respectively. Interest expense including the effects of hedges was \$34.4 million and \$69.2 million, including \$11.8 million and \$23.6 million of TRIP Holdings interest expense, respectively, for the same periods last year. Rent expense, which is a component of operating profit, was \$12.2 million and \$24.3 million for each of the three and six month periods ended June 30, 2011, and June 30, 2010, respectively.

Equipment consists primarily of railcars leased by third parties. The Leasing Group purchases equipment manufactured predominantly by the Rail Group and enters into lease contracts with third parties with terms generally ranging between one and twenty years. The Leasing Group primarily enters into operating leases. Future contractual minimum rental revenues on leases are as follows:

	Remaining six months of 2011	2012	2013	2014 (in millions)	2015	Thereafter	Total
Wholly-owned subsidiaries	\$ 126.3	\$ 215.0	\$ 168.3	\$ 121.3	\$ 90.5	\$ 197.6	\$ 919.0
TRIP Holdings	51.9	86.3	55.5	35.6	29.7	70.8	329.8
	\$ 178.2	\$ 301.3	\$ 223.8	\$ 156.9	\$ 120.2	\$ 268.4	\$ 1,248.8

Debt. The Leasing Group's debt at June 30, 2011 consists of both recourse and non-recourse debt. As of June 30, 2011, Trinity's wholly-owned subsidiaries included in the Leasing Group held equipment with a net book value of approximately \$2,243.7 million that is pledged as collateral for Leasing Group debt held by those subsidiaries, including equipment with a net book value of \$51.7 million securing capital lease obligations. On July 6, 2011, TRIP Holdings and its newly-formed subsidiary, TRIP Rail Master Funding LLC (TRIP Master Funding), issued \$1,032.0 million in new debt and repaid all of the outstanding borrowings of the TRIP Warehouse Loan. See Note 6 Investment in TRIP Holdings for a description of TRIP Holdings and Note 11 Debt for the form, maturities, and descriptions of Leasing Group debt.

Off Balance Sheet Arrangements. In prior years, the Leasing Group completed a series of financing transactions whereby railcars were sold to one or more separate independent owner trusts (Trusts). Each of the Trusts financed the purchase of the railcars with a combination of debt and equity. In each transaction, the equity participant in the Trust is considered to be the primary beneficiary of the Trust and therefore, the debt related to the Trust is not included as part of the consolidated financial statements. The Leasing Group, through newly formed, wholly-owned, qualified subsidiaries, leased railcars from the Trusts under operating leases with terms of 22 years, and subleased the railcars to independent third party customers under shorter term operating rental agreements.

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These Leasing Group subsidiaries had total assets as of June 30, 2011 of \$224.0 million, including cash of \$91.3 million and railcars of \$99.5 million. The right, title, and interest in each sublease, cash, and railcars are pledged to collateralize the lease obligations to the Trusts and are included in the consolidated financial statements of the Company. Trinity does not guarantee the performance of the subsidiaries' lease obligations. Certain ratios and cash deposits must be maintained by the Leasing Group's subsidiaries in order for excess cash flow, as defined in the agreements, from the lease to third parties to be available to Trinity. Future operating lease obligations of the Leasing Group's subsidiaries as well as future contractual minimum rental revenues related to these leases due to the Leasing Group are as follows:

	Remaining six months of 2011 2012 2013 2014 2015						Thereafter Total	
	(in millions)							
Future operating lease obligations of Trusts' railcars	\$ 21.2	\$ 44.5	\$ 45.7	\$ 44.9	\$ 43.2	\$ 382.0	\$ 581.5	
Future contractual minimum rental revenues of Trusts' railcars	\$ 29.0	\$ 47.3	\$ 32.2	\$ 18.6	\$ 13.8	\$ 28.5	\$ 169.4	

Operating Lease Obligations. Future amounts due as well as future contractual minimum rental revenues related to operating leases other than leases with the Trusts are as follows:

	Remaining six months of 2011 2012 2013 2014 2015						Thereafter Total	
	(in millions)							
Future operating lease obligations	\$ 2.7	\$ 4.8	\$ 4.5	\$ 4.4	\$ 4.4	\$ 13.9	\$ 34.7	
Future contractual minimum rental revenues	\$ 2.4	\$ 4.3	\$ 3.9	\$ 3.4	\$ 2.7	\$ 7.0	\$ 23.7	

Operating lease obligations totaling \$32.2 million are guaranteed by Trinity Industries, Inc. and certain subsidiaries. See Note 5 of the December 31, 2010 Consolidated Financial Statements filed on Form 10-K for a detailed explanation of these financing transactions.

Note 6. Investment in TRIP Holdings

In 2007, the Company and other equity investors unrelated to the Company or its subsidiaries formed TRIP Holdings for the purpose of providing railcar leasing and management services in North America. The Company currently owns 57% of TRIP Holdings and there are three other unrelated equity investors. TRIP Holdings, through its wholly-owned subsidiary, TRIP Rail Leasing LLC (TRIP Leasing), purchased railcars from the Company's Rail and Leasing Groups funded by capital contributions from TRIP Holdings' equity investors and borrowings under the TRIP Warehouse Loan, defined as such in Note 11 Debt. The Company receives distributions from TRIP Holdings as an equity investor, when allowed, in proportion to its 57% equity interest and has an interest in the net assets of TRIP Holdings upon a liquidation event in the same proportion. The terms of the Company's equity investment are identical to the terms of each of the other equity investors. Railcars purchased from the Company by TRIP Leasing were required to be purchased at prices comparable with the prices of all similar, new railcars sold contemporaneously by the Company and at prices based on third-party appraised values for used railcars. As of June 30, 2011, TRIP Leasing had purchased \$1,284.7 million of railcars from the Company. Trinity has no remaining equity commitment to TRIP Holdings as of June 30, 2011 and has no obligation to guarantee performance under any TRIP-related debt agreements, guarantee any railcar residual values, shield any parties from losses, or guarantee minimum yields, other than as described further below in Note 6. The manager of TRIP Holdings, Trinity Industries Leasing Company, may be removed without cause as a result of a majority vote of the non-Company equity investors. On July 6, 2011, TRIP Holdings and its newly-formed subsidiary, TRIP Master Funding, issued \$1,032.0 million in new debt which was used by TRIP Master Funding to purchase all of the railcar equipment owned by TRIP Leasing who, in turn, repaid all

outstanding borrowings under the TRIP Warehouse Loan. See Note 11 Debt for a description of TRIP Holdings and its related debt.

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The Company's carrying value of its investment in TRIP Holdings is as follows:

	June 30, 2011	December 31, 2010
	(in millions)	
Capital contributions	\$ 47.3	\$ 47.3
Equity purchased from investors	44.8	44.8
	92.1	92.1
Equity in earnings	11.5	7.5
Equity in unrealized gains (losses) on derivative financial instruments	(0.8)	(1.4)
Distributions	(7.0)	(7.0)
Deferred broker fees	(0.7)	(0.8)
	\$ 95.1	\$ 90.4

Administrative fees paid to TILC by TRIP Holdings and TRIP Leasing for the three and six month periods ended June 30, 2011, and June 30, 2010, were \$1.0 million and \$1.9 million, respectively, for both years.

In July 2011, Trinity entered into agreements with an equity investor of TRIP Holdings potentially requiring Trinity, under certain limited circumstances, to acquire from the equity investor an additional 16.3% equity ownership in TRIP Holdings if the option was exercised to its fullest extent. Under the agreement, if exercised, Trinity would be required to pay the equity investor an amount equal to 90% of the equity investor's net investment in TRIP Holdings. Similarly, at its option, Trinity, under certain limited circumstances, may acquire all of the equity investor's equity ownership in TRIP Holdings at an amount equal to 100% of the equity investor's net investment in TRIP Holdings. The agreements expire in July 2014.

See Note 6 of the December 31, 2010 Consolidated Financial Statements filed on Form 10-K for additional information.

Note 7. Derivative Instruments

We use derivative instruments to mitigate the impact of changes in interest rates and pricing for zinc, natural gas, and diesel fuel, as well as to convert a portion of our variable-rate debt to fixed-rate debt. Additionally, we use derivative instruments to mitigate the impact of unfavorable fluctuations in foreign currency exchange rates. We also use derivatives to lock in fixed interest rates in anticipation of future debt issuances. Derivative instruments that are designated and qualify as cash flow hedges are accounted for in accordance with applicable accounting standards. See Note 3 Fair Value Accounting to the consolidated financial statements for discussion of how the Company valued its commodity hedges and interest rate swaps and options at June 30, 2011.

Interest rate hedges

**Included in
accompanying
balance sheet
at June 30, 2011
AOCL**

Interest Notional Amount Rate ¹	loss Noncontrolling Liability (income) Interest
--	--

(in millions, except
%)

Interest rate locks:

2005-2006	\$ 200.0	4.87%	\$ (2.4)
2006-2007	\$ 370.0	5.34%	\$ 12.3

Interest rate swaps/options:

TRIP warehouse	\$ 788.5	3.60%	\$ 47.0	\$ 25.3	\$ 18.9
2008 debt issuance	\$ 489.4	4.13%	\$ 45.7	\$ 43.9	

¹Weighted average fixed interest rate

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	Effect on interest expense increase/(decrease)				
	Three Months Ended		Six Months Ended		Expected effect during next twelve months²
	June 30,		June 30,		
	2011	2010	2011	2010	
	(in millions)				
Interest rate locks:					
2005-2006	\$ (0.1)	\$ (0.1)	\$ (0.2)	\$ (0.2)	\$ (0.3)
2006-2007	\$ 0.9	\$ 0.9	\$ 1.8	\$ 1.9	\$ 3.4
Interest rate swaps/options:					
TILC warehouse		\$ 0.0		\$ 0.4	
TRIP warehouse	\$ 6.8	\$ 7.3	\$ 14.1	\$ 14.8	\$ 6.3
2008 debt issuance	\$ 5.2	\$ 5.5	\$ 9.7	\$ 10.7	\$ 18.2

²Based on fair value as of June 30, 2011

During 2005 and 2006, we entered into interest rate swap transactions in anticipation of a future debt issuance. These instruments, with a notional amount of \$200 million, fixed the interest rate on a portion of a future debt issuance associated with a railcar leasing transaction in 2006 and settled at maturity in the first quarter of 2006. These interest rate swaps were being accounted for as cash flow hedges with changes in the fair value of the instruments of \$4.5 million in income recorded in accumulated other comprehensive loss (AOCL) through the date the related debt issuance closed in May 2006. The balance is being amortized over the term of the related debt. The effect on interest expense is due to amortization of the AOCL balance.

In anticipation of a future debt issuance, we entered into interest rate swap transactions during the fourth quarter of 2006 and during 2007. These instruments, with a notional amount of \$370 million, hedged the interest rate on a portion of a future debt issuance associated with an anticipated railcar leasing transaction, which closed in May 2008. These instruments settled during the second quarter of 2008 and were accounted for as cash flow hedges with changes in the fair value of the instruments of \$24.5 million recorded as a loss in AOCL through the date the related debt issuance closed in May 2008. The balance is being amortized over the term of the related debt. The effect on interest expense is due to amortization of the AOCL balance.

During 2008, we entered into interest rate swap transactions, with a notional amount of \$200 million, which were being used to counter our exposure to changes in the variable interest rate associated with our TILC warehouse facility. The effect on interest expense included the mark to market valuation on the interest rate swap transactions and monthly interest settlements. These interest rate hedges expired during the fourth quarter of 2010.

In May 2008, we entered into an interest rate swap transaction that is being used to fix the Libor component of the debt issuance which closed in May 2008. The effect on interest expense results primarily from monthly interest settlements.

Between 2007 and 2009, TRIP Holdings, as required by its warehouse loan agreement, entered into interest rate swap and option transactions, all of which qualify as cash flow hedges. The purpose of these transactions was to reduce the effect of changes in interest rates. On July 6, 2011, interest rate hedges related to TRIP Holdings were terminated in connection with our refinancing of the TRIP Holdings-related debt. Balances included in AOCL at the date the hedges were terminated will be amortized over the expected life of the new debt with \$6.3 million of additional interest expense expected to be recognized during the next twelve months following June 30, 2011.

See Note 11 Debt for a discussion of the related debt instruments.

Other Derivatives

	Effect on operating income increase/(decrease)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in millions)			
Fuel hedges ¹				
Effect of mark to market valuation	\$ (0.3)	\$ (0.0)	\$ 0.2	\$ (0.1)
Settlements	0.1	(0.0)	0.1	(0.0)
	\$ (0.2)	\$ (0.0)	\$ 0.3	\$ (0.1)
Foreign exchange hedges ²	\$	\$ 0.3	\$ (0.6)	\$ (0.3)

¹Included in cost of revenues in the accompanying consolidated statement of operations

²Included in other, net in the accompanying consolidated statement of operations

Table of Contents*Natural gas and diesel fuel*

We maintain a program to mitigate the impact of fluctuations in the price of natural gas and diesel fuel purchases. The intent of the program is to protect our operating profit from adverse price changes by entering into derivative instruments. For those instruments that do not qualify for hedge accounting treatment, any changes in their valuation are recorded directly to the consolidated statement of operations. The amount recorded in the consolidated balance sheet as of June 30, 2011 for these instruments was an asset of \$0.4 million and \$0.3 million of income in AOCL.

Foreign exchange hedge

During the six month period ended June 30, 2011 and the three and six month periods ended June 30, 2010, we entered into foreign exchange hedges to mitigate the impact on operating profit of unfavorable fluctuations in foreign currency exchange rates. These instruments are short term with quarterly maturities and no remaining balance in AOCL as of June 30, 2011.

Zinc

We maintain a program to mitigate the impact of fluctuations in the price of zinc purchases. The intent of this program is to protect our operating profit from adverse price changes by entering into derivative instruments. The effect of these derivative instruments on the consolidated financial statements for the three and six months ended June 30, 2011 and 2010 were not significant.

Note 8. Property, Plant, and Equipment

The following table summarizes the components of property, plant, and equipment as of June 30, 2011 and December 31, 2010.

	June 30, 2011	December 31, 2010 (as reported) (in millions)
Manufacturing/Corporate:		
Land	\$ 40.2	\$ 40.9
Buildings and improvements	411.3	418.4
Machinery and other	716.1	699.7
Construction in progress	17.0	9.7
	1,184.6	1,168.7
Less accumulated depreciation	(702.4)	(677.3)
	482.2	491.4
Leasing:		
Wholly-owned subsidiaries:		
Machinery and other	9.0	38.2
Equipment on lease	3,412.6	3,249.8
	3,421.6	3,288.0
Less accumulated depreciation	(342.7)	(322.6)
	3,078.9	2,965.4
TRIP Holdings:		
Equipment on lease	1,273.8	1,282.1

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Less accumulated depreciation	(107.2)	(90.3)
	1,166.6	1,191.8
Net deferred profit on railcars sold to the Leasing Group		
Sold to wholly-owned subsidiaries	(348.9)	(340.4)
Sold to TRIP Holdings	(192.4)	(196.2)
	\$ 4,186.4	\$ 4,112.0

Table of Contents**Note 9. Goodwill**

Goodwill by segment is as follows:

	June 30, 2011	December 31, 2010 (as reported)
	(in millions)	
Rail Group	\$ 122.5	\$ 122.5
Construction Products Group	68.4	62.4
Energy Equipment Group	10.9	10.9
Railcar Leasing and Management Services Group	1.8	1.8
	\$ 203.6	\$ 197.6

The net increase in the Construction Products Group goodwill as of June 30, 2011 is due to 2011 acquisitions and divestitures.

Note 10. Warranties

Depending on the product, the Company provides warranties against materials and manufacturing defects generally ranging from one to five years. The warranty costs are estimated using a two-step approach. First, an engineering estimate is made for the cost of all claims that have been filed by customers. Second, based on historical claims experience, a cost is accrued for all products still within a warranty period for which no claims have been filed. The Company provides for the estimated cost of product warranties at the time revenue is recognized related to products covered by warranties and assesses the adequacy of the resulting reserves on a quarterly basis. The changes in the accruals for warranties for the three and six month periods ended June 30, 2011 and 2010 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in millions)			
Beginning balance	\$ 12.7	\$ 19.6	\$ 13.2	\$ 19.6
Warranty costs incurred	(1.4)	(1.3)	(2.7)	(2.2)
Warranty originations and revisions	0.9	1.3	2.5	2.9
Warranty expirations	(0.2)	(1.0)	(1.0)	(1.7)
Ending balance	\$ 12.0	\$ 18.6	\$ 12.0	\$ 18.6

Note 11. Debt

The following table summarizes the components of debt as of June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010 (as reported)
	(in millions)	

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Manufacturing/Corporate Recourse:		
Revolving credit facility	\$	\$
Convertible subordinated notes	450.0	450.0
Less: unamortized discount	(105.6)	(111.1)
	344.4	338.9
Other	4.9	2.8
	349.3	341.7
Leasing Recourse:		
Capital lease obligations	49.9	51.2
Term loan	56.1	57.4
	455.3	450.3
Leasing Non-recourse:		
2006 secured railcar equipment notes	275.5	283.2
Promissory notes	478.2	493.8
2009 secured railcar equipment notes	223.6	229.2
2010 secured railcar equipment notes	360.7	367.1
TILC warehouse facility	130.0	80.2
TRIP warehouse loan	963.3	1,003.9
	2,431.3	2,457.4
Total debt	\$ 2,886.6	\$ 2,907.7

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We have a \$425.0 million unsecured revolving credit facility which matures on October 19, 2012. As of June 30, 2011, we had letters of credit issued under our revolving credit facility in an aggregate principal amount of \$83.6 million, leaving \$341.4 million available for borrowing. Other than with respect to such letters of credit, there were no borrowings under our revolving credit facility as of June 30, 2011 or for the six month period then ended. Of the outstanding letters of credit as of June 30, 2011, \$8.7 million are expected to expire in 2011 and the remainder in 2012. The majority of our letters of credit obligations support the Company's various insurance programs and generally renew each year. Borrowings under the credit facility bear interest at prime or Libor plus 75.0 basis points. Trinity's revolving credit facility requires maintenance of ratios related to interest coverage for the leasing and manufacturing operations, leverage, and minimum net worth. As of June 30, 2011, we were in compliance with all such covenants.

The Company's 3 7/8% convertible subordinated notes are recorded net of unamortized discount to reflect their underlying economics by capturing the value of the conversion option as borrowing costs. As of June 30, 2011 and December 31, 2010, capital in excess of par value included \$92.8 million related to the estimated value of the Convertible Subordinated Notes' conversion options. Debt discount recorded in the consolidated balance sheet is being amortized through June 1, 2018 to yield an effective annual interest rate of 8.42% based upon the estimated market interest rate for comparable non-convertible debt as of the issuance date of the Convertible Subordinated Notes. Total interest expense recognized on the Convertible Subordinated Notes for the three and six months ended June 30, 2011 and 2010 is as follows:

	Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
	2011	2010	2011	2010
	(in millions)			
Coupon rate interest	\$ 4.3	\$ 4.3	\$ 8.7	\$ 8.7
Amortized debt discount	2.8	2.6	5.5	5.1
	\$ 7.1	\$ 6.9	\$ 14.2	\$ 13.8

At June 30, 2011, the Convertible Subordinated Notes were convertible at a price of \$51.52 per share resulting in 8,734,472 issuable shares. As of June 30, 2011, if the Convertible Subordinated Notes had been converted, no shares would have been issued since the trading price of the Company's common stock was below the conversion price of the Convertible Subordinated Notes. The Company has not entered into any derivatives transactions associated with these notes.

The \$475 million TILC warehouse loan facility, established to finance railcars owned by TILC, had \$130.0 million outstanding and \$345.0 million available as of June 30, 2011. The warehouse loan is a non-recourse obligation secured by a portfolio of railcars and operating leases, certain cash reserves, and other assets acquired and owned by the warehouse loan facility. The principal and interest of this indebtedness are paid from the cash flows of the underlying leases. Advances under the facility bear interest at a defined index rate plus a margin, for an all-in interest rate of 2.20% at June 30, 2011. In February 2011, the warehouse loan facility was renewed for an additional two years and now matures in February 2013. Amounts outstanding at maturity, absent renewal, will be payable in three installments in August 2013, February 2014, and August 2014.

In June 2007, TRIP Leasing entered into a \$1.19 billion Warehouse Loan Agreement which contained a floating rate revolving facility (the TRIP Warehouse Loan) of which \$963.3 million in borrowings were outstanding as of June 30, 2011. On July 6, 2011, TRIP Holdings issued \$175.0 million in Senior Secured Notes (the TRIP Holdings Senior Secured Notes) and TRIP Master Funding, a Delaware limited liability company and limited purpose, wholly-owned subsidiary of TRIP Holdings, issued \$857.0 million in Secured Railcar Equipment Notes (the TRIP

Master Funding Secured Railcar Equipment Notes). A portion of the proceeds from the TRIP Holdings Senior Secured Notes and the TRIP Master Funding Secured Railcar Equipment Notes were used by TRIP Master Funding to purchase all of the railcar equipment owned by TRIP Leasing which, in turn, repaid the TRIP Warehouse Loan in full.

The TRIP Holdings Senior Secured Notes have a stated final maturity date of July 6, 2014, bear interest at 8.00% payable quarterly with a yield to call interest rate of 12.00% for redemptions or other prepayments on or prior to January 15, 2013 and 15.00% for redemptions or other prepayments after such date. The TRIP Holdings Senior Secured Notes are secured, among other things, by a pledge of each equity investor's ownership interest in TRIP Holdings and certain distributions made to TRIP Holdings from TRIP Master Funding and are non-recourse to Trinity, TILC, TRIP Master Funding, and the other equity investors in TRIP Holdings. Trinity purchased \$112.0 million of the TRIP Holdings Senior Secured Notes.

The TRIP Master Funding Secured Railcar Equipment Notes were issued pursuant to an Indenture, dated as of July 6, 2011 between TRIP Master Funding and Wilmington Trust Company, as indenture trustee, with a final maturity date in July 2041. The TRIP Master Funding Secured Railcar Equipment Notes consist of three classes with the Class A-1a notes bearing interest at 4.37%, the Class A-1b notes bearing interest at Libor plus 2.50%, and the Class A-2 notes bearing interest at 6.02%, all payable monthly. The TRIP Master Funding Secured Railcar Equipment Notes are non-recourse to

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Trinity, TILC, and the other equity investors in TRIP Holdings and are secured by TRIP Master Funding's portfolio of railcars and operating leases thereon, its cash reserves and all other assets owned by TRIP Master Funding.

Terms and conditions of other debt, including recourse and non-recourse provisions, are described in Note 11 of the December 31, 2010 Consolidated Financial Statements filed on Form 10-K.

The remaining principal payments under existing debt agreements as of June 30, 2011, after considering the effects of the TRIP Holdings-related debt refinancing are as follows:

	Remaining six months of 2011						
	2012	2013	2014	2015	Thereafter		
	(in millions)						
Recourse:							
Manufacturing/Corporate	\$ 0.6	\$ 1.2	\$ 1.2	\$ 1.2	\$ 0.2	\$ 450.5	
Leasing capital lease obligations (Note 5).	1.3	2.8	2.9	3.1	3.3	36.5	
Leasing term loan (Note 5)	1.3	2.8	3.1	3.3	3.5	42.1	
Non-recourse leasing (Note 5):							
2006 secured railcar equipment notes	6.5	13.5	15.1	16.9	18.6	204.9	
Promissory notes	13.1	27.3	29.3	26.2	22.5	359.8	
2009 secured railcar equipment notes	5.1	9.2	10.2	9.9	9.6	179.6	
2010 secured railcar equipment notes	6.4	12.8	14.6	14.0	15.3	297.6	
TILC warehouse facility	2.0	4.0	4.0	2.7			
TRIP Holdings senior secured notes				175.0			
TRIP Master Funding secured railcar equipment notes	17.0	41.0	41.1	40.2	35.9	681.8	
Facility termination payments:							
TILC warehouse facility			38.9	78.4			
Total principal payments	\$ 53.3	\$ 114.6	\$ 160.4	\$ 370.9	\$ 108.9	\$ 2,252.8	

Note 12. Other, Net

Other, net (income) expense consists of the following items:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in millions)			
Foreign currency exchange transactions	\$ (0.2)	\$ (0.5)	\$ 0.1	\$ (0.2)
Loss (gain) on equity investments			(0.5)	1.7
Other	(0.4)	(0.4)	(0.7)	(0.6)
Other, net	\$ (0.6)	\$ (0.9)	\$ (1.1)	\$ 0.9

Loss on equity investments for the six months ended June 30, 2010 includes a \$1.8 million loss on the write-down of the Company's pre-acquisition investment in Quixote Corporation.

Note 13. Income Taxes

The provision for income taxes results in effective tax rates different from the statutory rates. The following is a reconciliation between the statutory United States Federal income tax rate and the Company's effective income tax

rate:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Statutory rate	35.0%	35.0%	35.0%	35.0%
State taxes	2.6	3.3	2.5	3.1
Tax settlements	0.0	(5.3)	0.0	0.6
Changes in tax reserves	0.8	2.1	1.0	(7.7)
Foreign tax adjustments	(0.6)	2.1	(0.6)	2.4
Other, net	2.1	2.2	1.5	2.6
Effective rate	39.9%	39.4%	39.4%	36.0%

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During the first six months ended June 30, 2010, we closed an audit of one of our Mexican subsidiaries' 2002 tax year. The 2003 tax year of our Mexican subsidiaries is still under review and thus the statute of limitations remains open from 2003 forward.

We are currently under two separate Internal Revenue Service (IRS) examination cycles for the years ended 2004 through 2005 and 2006 through 2008. Therefore, our statute of limitations remains open from the year ended December 31, 2004 and forward. Our 2004-2005 exam cycle is currently under administrative appeal for certain unresolved issues. Due to the uncertainty of the length of the appeals process and possible post-appeals litigation on any issues, the statute of limitations related to the 2004-2005 exam cycle will remain open for an indeterminable period of time. Likewise, as the 2006-2008 cycle is still in the examination level, we are unable to determine how long these periods will remain open.

Our various other European subsidiaries, including subsidiaries that were sold in 2006, are impacted by various statutes of limitations which are generally open from 2003 forward. An exception to this is our discontinued operations in Romania, which have been audited through 2004.

Generally, states' statutes of limitations in the United States are open from 1998 forward because we filed amended tax returns to reflect previous IRS adjustments. We expect the 1998-2001 state statutes of limitations to close by the end of 2011.

The change in unrecognized tax benefits for the six months ended June 30, 2011 and 2010 was as follows:

	Six Months Ended June 30, 2011 2010 (in millions)	
Beginning balance	\$ 36.8	\$ 40.1
Additions for tax positions related to the current year	1.8	1.7
Additions for tax positions of prior years	14.5	5.8
Reductions for tax positions of prior years		(5.2)
Settlements	(0.7)	(1.1)
Expiration of statute of limitations	(0.1)	(0.4)
Ending balance	\$ 52.3	\$ 40.9

Additions for tax positions related to the current year in the amounts of \$1.8 million and \$1.7 million recorded in the six months ended June 30, 2011 and 2010, respectively, were amounts provided for tax positions previously taken in foreign jurisdictions and tax positions taken for Federal and state income tax purposes as well as deferred tax liabilities that have been reclassified to uncertain tax positions.

Additions for tax positions of prior years for the six months ended June 30, 2011 of \$14.5 million are primarily due to Federal tax positions taken on prior year returns that have been proposed by the IRS but not previously reserved. These items are primarily timing differences and thus we would be allowed a future tax deduction. We have recorded a corresponding deferred tax asset for the future reduction of taxes related to these adjustments. The \$5.8 million increase for the six months ended June 30, 2010 was due to Federal tax positions that were submitted to the IRS. We anticipate making a payment related to these positions once the proposed adjustment amounts have been finalized and the current examination cycle closes.

Reductions for tax positions of prior years were primarily related to state taxes for the six months ended June 30, 2010. There were no reductions for the six months ended June 30, 2011. During the six months ended June 30, 2010, we received additional facts on certain state tax positions that led us to revise our measurement of certain state tax benefits previously recorded. This reduction in state positions was accompanied by a reduction in related deferred tax assets. Additionally, we completed several state audits for which the Company's tax position was not challenged by the state and for which the positions are now effectively settled as well as a Federal tax position that we believed would

be sustained upon audit and therefore was no longer at risk.

Settlements during the six months ended June 30, 2011 related to an audit of a separate tax return of a subsidiary. Settlements during the six months ended June 30, 2010 related to a tax settlement of the 2002 Mexico tax return of one of our subsidiaries resulting in a payment of \$2.1 million in taxes, penalties, and interest. The excess of the amount reserved over the settlement amount was \$1.8 million, which was recorded as a benefit to income taxes during the six months ended June 30, 2010.

The total amount of unrecognized tax benefits including interest and penalties at June 30, 2011 and 2010, that would affect the Company's effective tax rate if recognized was \$20.2 million and \$17.7 million, respectively.

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Trinity accounts for interest expense and penalties related to income tax issues as income tax expense. Accordingly, interest expense and penalties associated with an uncertain tax position are included in the income tax provision. The total amount of accrued interest and penalties as of June 30, 2011 and December 31, 2010 was \$13.0 million and \$11.2 million, respectively. Income tax expense for the three and six months ended June 30, 2011, included an increase in income tax expense of \$0.9 million and \$1.8 million, respectively, in interest expense and penalties related to uncertain tax positions. Income tax expense for the three and six months ended June 30, 2010, included an increase in income tax expense of \$1.2 million and a reduction in income tax expense \$2.3 million, respectively, in interest expense and penalties related to uncertain tax positions.

Note 14. Employee Retirement Plans

The following table summarizes the components of net retirement cost for the Company.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in millions)			
Service cost	\$ 0.2	\$ 0.3	\$ 0.5	\$ 0.5
Interest	4.9	4.9	9.8	9.8
Expected return on plan assets	(5.7)	(5.0)	(11.4)	(10.0)
Actuarial loss	0.5	0.6	1.0	1.2
Profit sharing	2.2	2.2	4.5	4.3
Net expense	\$ 2.1	\$ 3.0	\$ 4.4	\$ 5.8

Trinity contributed \$3.2 million and \$8.8 million to the Company's defined benefit pension plans for the three and six month periods ended June 30, 2011, respectively. Trinity contributed \$3.4 million and \$6.8 million to the Company's defined benefit pension plans for the three and six month periods ended June 30, 2010, respectively. Total contributions to the Company's pension plans in 2011 are expected to be approximately \$14.8 million.

Note 15. Accumulated Other Comprehensive Loss

Comprehensive net income is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in millions)			
Net income attributable to Trinity Industries, Inc.	\$ 30.0	\$ 18.4	\$ 54.2	\$ 20.4
Other comprehensive income (loss):				
Change in currency translation adjustment, net of tax benefit of \$0.0	(0.1)		(0.1)	
Change in unrealized loss on derivative financial instruments, net of tax expense (benefit) of \$(3.3), \$(5.0), \$0.8, and \$(7.3)	(5.4)	(11.9)	2.0	(15.9)
Other changes, net of tax expense of \$0.7				1.1
Comprehensive net income attributable to Trinity Industries, Inc.	\$ 24.5	\$ 6.5	\$ 56.1	\$ 5.6

The components of accumulated other comprehensive loss are as follows:

June 30, 2011	December 31, 2010
------------------------------	----------------------------------

	(as reported)	
	(in millions)	
Currency translation adjustments, net of tax benefit of \$(0.2)	\$ (17.2)	\$ (17.1)
Unrealized loss on derivative financial instruments, net of tax benefit of \$(28.9) and \$(21.4)	(49.8)	(36.3)
Funded status of pension liability, net of tax benefit of \$(24.8)	(42.1)	(42.1)
	\$ (109.1)	\$ (95.5)

See Note 7 Derivative Instruments for information on the reclassification of amounts in accumulated other comprehensive loss into earnings.

Note 16. Stock-Based Compensation

Stock-based compensation totaled approximately \$4.1 million and \$9.4 million for the three and six months ended June 30, 2011, respectively. Stock-based compensation totaled approximately \$3.5 million and \$7.0 million for the three and six months ended June 30, 2010, respectively.

Table of Contents**Note 17. Net Income Attributable to Trinity Industries, Inc. Per Common Share**

Basic net income attributable to Trinity Industries, Inc. per common share is computed by dividing net income attributable to Trinity remaining after allocation to unvested restricted shares by the weighted average number of common shares outstanding for the period. Except when the effect would be antidilutive, the calculation of diluted net income attributable to Trinity per common share includes the net impact of unvested restricted shares and shares that could be issued under outstanding stock options. Total weighted average restricted shares and antidilutive stock options were 3.0 million shares for the three and six month periods ended June 30, 2011, respectively. Total weighted average restricted shares and antidilutive stock options were 2.8 million shares and 2.7 million shares for the three and six month periods ended June 30, 2010, respectively.

The computation of basic and diluted net income attributable to Trinity Industries, Inc. is as follows:

		Three Months Ended June 30, 2011			Three Months Ended June 30, 2010		
		(in millions, except per share amounts)					
		IncomeAverage (Loss) Shares EPS			IncomeAverage (Loss) Shares EPS		
Net income attributable to Trinity Industries, Inc.		\$ 30.0			\$ 18.4		
Unvested restricted share participation		(1.0)			(0.6)		
Net income attributable to Trinity Industries, Inc.	basic	29.0	77.4	\$ 0.37	17.8	76.7	\$ 0.23
Effect of dilutive securities:							
Stock options			0.3			0.2	
Net income attributable to Trinity Industries, Inc.	diluted	\$ 29.0	77.7	\$ 0.37	\$ 17.8	76.9	\$ 0.23
		Six Months Ended June 30, 2011			Six Months Ended June 30, 2010		
		(in millions, except per share amounts)					
		IncomeAverage (Loss) Shares EPS			IncomeAverage (Loss) Shares EPS		
Net income attributable to Trinity Industries, Inc.		\$ 54.2			\$ 20.4		
Unvested restricted share participation		(1.9)			(0.7)		
Net income attributable to Trinity Industries, Inc.	basic	52.3	77.2	\$ 0.68	19.7	76.6	\$ 0.26
Effect of dilutive securities:							
Stock options			0.3			0.1	
Net income attributable to Trinity Industries, Inc.	diluted	\$ 52.3	77.5	\$ 0.67	\$ 19.7	76.7	\$ 0.26

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Note 18. Contingencies

In June 2011, the Company received a letter from the Federal Railroad Administration (FRA) containing a railworthiness directive pertaining to a specific design of tank cars manufactured by the Company for use in transporting poison inhalation hazard materials. The Company has manufactured 948 railcars of this design. These tank cars are owned and managed by the Company's wholly-owned, railcar leasing subsidiary. The FRA was notified of five tank cars with potential leaks around the manway nozzles. Pursuant to the directive, 100 recently manufactured tank cars were removed from service. An additional 62 randomly selected tank cars out of 848 manufactured since 2006, which have operated without incident, are being removed from service. These railcars will be tested in accordance with FRA-approved and witnessed testing procedures currently under development. At this time the outcome of this matter cannot be predicted and the amount of any potential costs and expenses incurred for compliance with the directive cannot be reasonably estimated.

The Company is involved in claims and lawsuits incidental to our business. Based on information currently available, it is management's opinion that the ultimate outcome of all current litigation and other claims, including settlements, in the aggregate will not have a material adverse effect on the Company's overall financial condition for purposes of financial reporting. However, resolution of certain claims or lawsuits by settlement or otherwise could impact the operating results of the reporting period in which such resolution occurs.

Trinity is subject to Federal, state, local, and foreign laws and regulations relating to the environment and the workplace. The Company has reserved \$8.0 million to cover our probable and estimable liabilities with respect to the investigations, assessments, and remedial responses to such matters, taking into account currently available information and our contractual rights to indemnification and recourse to third parties. However, estimates of liability arising from future proceedings, assessments, or remediation are inherently imprecise. Accordingly, there can be no assurance that we will not become involved in future litigation or other proceedings involving the environment and the workplace or, if we are found to be responsible or liable in any such litigation or proceeding, that such costs would not be material to the Company. We believe that we are currently in substantial compliance with environmental and workplace laws and regulations.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity, and certain other factors that may affect our future results. Our MD&A is presented in the following sections:

Executive Summary

Results of Operations

Liquidity and Capital Resources

Contractual Obligations and Commercial Commitments

Forward-Looking Statements

Our MD&A should be read in conjunction with the unaudited consolidated financial statements of Trinity Industries, Inc. and subsidiaries (Trinity , Company , we , or our) and related notes in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Executive Summary

The economic and financial crisis experienced by the United States economy since 2008 has impacted our businesses. New orders for railcars and barges dropped in 2009 as the transportation industry suffered a significant decline in the shipment of freight. The transportation industry experienced weakness throughout 2009, but showed signs of recovery in late 2010. New orders for railcars improved significantly in 2011 due to demand for the shipment of commodities, replacement of older railcars, and tax benefits from taking delivery of railcars in 2011 and 2012. Orders for structural wind towers have been slow since mid-2008 when energy development companies encountered tightened credit markets coupled with lower demand and prices for electricity and natural gas sales. The slowdown in the residential and commercial construction markets impacted our Construction Products Group as well. We continually assess our manufacturing capacity and take steps to align our production capacity with demand for our products. As a result of our assessment, we adapted to the rapid decline in market conditions by reducing our production footprint and staffing levels and causing certain facilities to be on non-operating status, but to the extent that demand increases, these facilities on non-operating status would be available for future operations. Due to recent improvements in demand, certain facilities have taken on additional production staff in late 2010 and early 2011.

The Company's revenues for the three and six month periods ended June 30, 2011 were \$710.5 million and \$1,354.7 million, respectively, representing an increase of \$167.4 million and \$357.6 million, respectively, or 30.8% and 35.9%, respectively, over the same periods in 2010. Operating profit for the three and six month periods ended June 30, 2011 totaled \$95.4 million and \$180.9 million, respectively, compared with \$78.9 million and \$130.9 million, respectively, for the same periods in 2010. The increase in revenues for the three and six month periods ended June 30, 2011 was principally due to higher shipment volumes in our Rail, Inland Barge and Energy Equipment Groups while our Leasing Group experienced increased revenue primarily due to higher utilization, higher rental revenues from lease fleet additions and higher rental rates. Operating profit grew for the three and six month periods ended June 30, 2011, when compared with the prior year, primarily from the higher shipment levels in our Rail and Inland Barge groups and from Leasing Group revenue growth combined with lower maintenance expenses. See the discussion below regarding the performance of each of our segments.

Our backlog at June 30, 2011 compared with prior periods was approximately as follows:

	June 30, 2011	June 30, 2010
	(in millions)	
Rail Group		
External Customers	\$ 1,948.6	\$ 170.7

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Leasing Group	296.8	130.2
Total	\$ 2,245.4	\$ 300.9
Inland Barge	\$ 494.2	\$ 348.1
Structural wind towers	\$ 916.5	\$ 1,100.0

For the six months ended June 30, 2011, the Company received orders for approximately 26,630 railcars including a supply agreement with GATX Corporation to deliver 12,500 railcars over a five-year period, significantly increasing the Company's Rail Group backlog. Approximately 30% of our railcar backlog is expected to be delivered in 2011 with the remainder to be delivered from 2012 through 2015. Slightly more than half of our backlog for barges is expected to be delivered in 2011. For multi-year barge orders, the deliveries for 2011 are included in the backlog at this time; deliveries beyond 2011 are not included in the backlog if specific production quantities for future years have not been determined.

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Approximately 15% of our structural wind tower backlog is scheduled for delivery in 2011. The remainder of this backlog is contracted for delivery in future years.

In February 2011, the \$475 million TILC warehouse loan facility was renewed for an additional two years and now matures in February 2013. Amounts outstanding at maturity, absent renewal, will be payable in three installments in August 2013, February 2014, and August 2014.

In the second quarter of 2011, our barge manufacturing facilities in Missouri incurred approximately \$8.4 million in costs, net of estimated insurance recoveries, resulting from flood-related damages and lost productivity. Operating profit in the second quarter of 2011 also included insurance proceeds of \$4.0 million related to claims arising from a flood at our barge manufacturing facilities in Tennessee which occurred in May 2010.

On July 6, 2011, TRIP Rail Holdings LLC (TRIP Holdings) issued \$175.0 million in Senior Secured Notes (the TRIP Holdings Senior Secured Notes) and TRIP Rail Master Funding LLC (TRIP Master Funding), a Delaware limited liability company and limited purpose, wholly-owned subsidiary of TRIP Holdings, issued \$857.0 million in Secured Railcar Equipment Notes (the TRIP Master Funding Secured Railcar Equipment Notes). A portion of the proceeds from the TRIP Holdings Senior Secured Notes and the TRIP Master Funding Secured Railcar Equipment Notes were used by TRIP Master Funding to purchase all of the railcar equipment owned by TRIP Leasing which, in turn, repaid the TRIP Warehouse Loan in full.

The TRIP Holdings Senior Secured Notes have a stated final maturity date of July 6, 2014, bear interest at 8.00% payable quarterly with a yield to call interest rate of 12.00% for redemptions or other prepayments on or prior to January 15, 2013 and 15.00% for redemptions or other prepayments after such date. The TRIP Holdings Senior Secured Notes are secured, among other things, by a pledge of each equity investor's ownership interest in TRIP Holdings and certain distributions made to TRIP Holdings from TRIP Master Funding and are non-recourse to Trinity, TILC, TRIP Master Funding, and the other equity investors in TRIP Holdings. Trinity purchased \$112.0 million of the TRIP Holdings Senior Secured Notes.

The TRIP Master Funding Secured Railcar Equipment Notes were issued pursuant to an Indenture, dated as of July 6, 2011 between TRIP Master Funding and Wilmington Trust Company, as indenture trustee, with a final maturity date in July 2041. The TRIP Master Funding Secured Railcar Equipment Notes consist of three classes with the Class A-1a notes bearing interest at 4.37%, the Class A-1b notes bearing interest at Libor plus 2.50%, and the Class A-2 notes bearing interest at 6.02%, all payable monthly. The TRIP Master Funding Secured Railcar Equipment Notes are non-recourse to Trinity, TILC, and the other equity investors in TRIP Holdings and are secured by TRIP Master Funding's portfolio of railcars and operating leases thereon, its cash reserves and all other assets owned by TRIP Master Funding. Also see *Financing Activities*.

On December 9, 2010, the Company's Board of Directors authorized a new \$200 million share repurchase program, effective January 1, 2011. This program replaced the Company's previous share repurchase program and expires December 31, 2012. No shares were repurchased under this program for the three and six months ended June 30, 2011.

Table of Contents**Results of Operations***Overall Summary*Revenues

	Three Months Ended June 30, 2011			Three Months Ended June 30, 2010			Percent Change
	Revenues		Total	Revenues		Total	
	External	Intersegment			External		Intersegment
	(\$ in millions)						
Rail Group	\$ 197.3	\$ 83.4	\$ 280.7	\$ 42.1	\$ 70.8	\$ 112.9	148.6%
Construction Products Group	148.0	1.3	149.3	165.7	5.2	170.9	(12.6)
Inland Barge Group	117.8		117.8	99.5		99.5	18.4
Energy Equipment Group	115.1	2.4	117.5	112.7	2.6	115.3	1.9
Railcar Leasing and Management Services Group	130.4		130.4	119.6		119.6	9.0
All Other	1.9	12.4	14.3	3.5	8.9	12.4	15.3
Eliminations lease subsidiary		(79.5)	(79.5)		(65.9)	(65.9)	
Eliminations other		(20.0)	(20.0)		(21.6)	(21.6)	
Consolidated Total	\$ 710.5	\$	\$ 710.5	\$ 543.1	\$	\$ 543.1	30.8

	Six Months Ended June 30, 2011			Six Months Ended June 30, 2010			Percent Change
	Revenues		Total	Revenues		Total	
	External	Intersegment			External		Intersegment
	(\$ in millions)						
Rail Group	\$ 328.3	\$ 172.2	\$ 500.5	\$ 74.3	\$ 112.2	\$ 186.5	168.4%
Construction Products Group	278.1	4.8	282.9	277.3	12.0	289.3	(2.2)
Inland Barge Group	255.7		255.7	196.9		196.9	29.9
Energy Equipment Group	228.3	7.9	236.2	201.8	3.6	205.4	15.0
Railcar Leasing and Management Services Group	260.2		260.2	240.8		240.8	8.1
All Other	4.1	23.3	27.4	6.0	16.1	22.1	24.0
Eliminations lease subsidiary		(164.9)	(164.9)		(103.9)	(103.9)	
Eliminations other		(43.3)	(43.3)		(40.0)	(40.0)	
Consolidated Total	\$ 1,354.7	\$	\$ 1,354.7	\$ 997.1	\$	\$ 997.1	35.9

Operating Profit (Loss)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in millions)			
Rail Group	\$ 15.4	\$ (2.7)	\$ 24.7	\$ (10.6)
Construction Products Group	16.1	17.7	24.4	20.4
Inland Barge Group	19.1	12.0	40.8	29.8
Energy Equipment Group	1.2	13.5	11.7	23.9
Railcar Leasing and Management Services Group	59.7	49.2	114.4	97.4
All Other	(0.2)	(2.1)	(0.5)	(4.7)
Corporate	(8.4)	(6.5)	(19.1)	(19.0)
Eliminations lease subsidiary	(7.1)	(1.9)	(15.2)	(5.5)
Eliminations other	(0.4)	(0.3)	(0.3)	(0.8)
Consolidated Total	\$ 95.4	\$ 78.9	\$ 180.9	\$ 130.9

Other Income and Expense. Interest expense, net of interest income, was \$43.4 million and \$87.6 million, respectively, for the three and six month periods ended June 30, 2011 compared to \$45.0 million and \$90.3 million, respectively, for the same periods last year. Interest income increased \$0.1 million over the same three month period last year and was unchanged from the same six month period last year. The decrease in Other, net income for the three month period ended June 30, 2011 of \$0.3 million was primarily due to lower foreign currency translation gains in 2011. The increase in Other, net income for the six month period ended June 30, 2011 of \$2.0 million was primarily due to the \$1.8 million write-down of the Company's pre-acquisition investment in Quixote Corporation during the three months ended March 31, 2010 and higher gains on equity investments.

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Income Taxes. The following is a reconciliation between the statutory United States Federal income tax rate and the Company's effective income tax rate:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Statutory rate	35.0%	35.0%	35.0%	35.0%
State taxes	2.6	3.3	2.5	3.1
Tax settlements	0.0	(5.3)	0.0	0.6
Changes in tax reserves	0.8	2.1	1.0	(7.7)
Foreign tax adjustments	(0.6)	2.1	(0.6)	2.4
Other, net	2.1	2.2	1.5	2.6
Effective tax rate	39.9%	39.4%	39.4%	36.0%

Rail Group

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011 (\$ in millions)	2010	Percent Change	2011 (\$ in millions)	2010	Percent Change
Revenues:						
Rail	\$ 234.8	\$ 80.7	191.0%	\$ 412.6	\$ 126.1	227.2%
Components	45.9	32.2	42.5	87.9	60.4	45.5
Total revenues	\$ 280.7	\$ 112.9	148.6	\$ 500.5	\$ 186.5	168.4
Operating profit (loss)	\$ 15.4	\$ (2.7)		\$ 24.7	\$ (10.6)	
Operating profit (loss) margin	5.5%	(2.4)%		4.9%	(5.7)%	

Railcar shipments increased 250% to approximately 3,115 railcars and 287% to approximately 5,355 railcars during the three and six month periods ended June 30, 2011 compared to approximately 890 railcar shipments and 1,385 railcar shipments during the same periods in 2010. As of June 30, 2011 and June 30, 2010, our Rail Group backlog was approximately as follows:

	As of June 30,	
	2011	2010
	(in millions, except railcars)	
External Customers	\$ 1,948.6	\$ 170.7
Leasing Group	296.8	130.2
Total	\$ 2,245.4	\$ 300.9

Number of railcars	27,240	3,990
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During the first six months of 2011, the Rail Group received orders for approximately 26,630 railcars including a supply agreement with GATX Corporation to deliver 12,500 railcars over a five-year period. Approximately 30% of our railcar backlog is expected to be delivered in 2011 with the remainder to be delivered from 2012 through 2015.

The total amount of the backlog dedicated to the Leasing Group was supported by lease commitments with external customers.

For the three and six month periods ended June 30, 2011, the operating profit for the Rail Group increased \$18.1 million and \$35.3 million, respectively, compared to the same periods last year. This increase was primarily due to significantly higher volume of railcars delivered during the period.

In the three months ended June 30, 2011, railcar shipments included sales to the Leasing Group of \$79.5 million compared to \$65.9 million in the comparable period in 2010 with a deferred profit of \$7.1 million compared to \$1.9 million for the same period in 2010. In the six months ended June 30, 2011, railcar shipments included sales to the Leasing Group of \$164.9 million compared to \$103.9 million in the comparable period in 2010 with a deferred profit of \$15.2 million compared to \$5.5 million for the same period in 2010. Sales to the Leasing Group and related profits are included in the operating results of the Rail Group but are eliminated in consolidation.

Table of Contents**Construction Products Group**

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011 (\$ in millions)	2010	Percent Change	2011 (\$ in millions)	2010	Percent Change
Revenues:						
Concrete and Aggregates	\$ 46.0	\$ 76.3	(39.7)%	\$ 95.6	\$ 130.6	(26.8)%
Highway Products	97.5	93.2	4.6	177.2	156.2	13.4
Other	5.8	1.4	*	10.1	2.5	*
Total revenues	\$ 149.3	\$ 170.9	(12.6)	\$ 282.9	\$ 289.3	(2.2)
Operating profit	\$ 16.1	\$ 17.7		\$ 24.4	\$ 20.4	
Operating profit margin	10.8%	10.4%		8.6%	7.1%	

***not meaningful**

The decrease in revenues for the three and six month periods ended June 30, 2011 compared to the same periods in 2010 was primarily attributable to lower revenues in our Concrete and Aggregates business resulting from the divestiture of our asphalt operations in August 2010 and our Central Texas Region ready mix concrete facilities in April 2011. The revenue decline was partially offset by higher volumes in our Highway Products business. Operating profit for the three and six months ended June 30, 2011 compared to the same period in 2010 changed as a result of higher Highway Products sales volumes being offset by reduced Concrete and Aggregates sales volumes.

Inland Barge Group

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011 (\$ in millions)	2010	Percent Change	2011 (\$ in millions)	2010	Percent Change
Revenues	\$ 117.8	\$ 99.5	18.4%	\$ 255.7	\$ 196.9	29.9%
Operating profit	\$ 19.1	\$ 12.0		\$ 40.8	\$ 29.8	
Operating profit margin	16.2%	12.1%		16.0%	15.1%	

Revenues and operating profit increased for the three and six month periods ended June 30, 2011 compared to the same periods in the prior year due to higher volumes of tank barges and a change in the mix of tank barge types. These increases were partially offset by a decrease in hopper barge and hopper barge cover deliveries due to a flood at our Missouri manufacturing facilities. In the second quarter of 2011, our Missouri manufacturing facilities incurred approximately \$8.4 million in costs, net of estimated insurance recoveries, resulting from flood-related damages and lost productivity. Operating profit in the second quarter of 2011 includes insurance proceeds of \$4.0 million related to the Tennessee flood that occurred in May 2010. In the second quarter of 2010, our Tennessee manufacturing facility incurred approximately \$3.4 million in costs, net of insurance advances, resulting from flood-related damages and lost productivity. As of June 30, 2011, the backlog for the Inland Barge Group was approximately \$494.2 million compared to approximately \$348.1 million as of June 30, 2010. Slightly more than half of our backlog for barges is expected to be delivered in 2011. For multi-year barge orders, the deliveries for 2011 are included in the backlog at this time; deliveries beyond 2011 are not included in the backlog if specific production quantities for future years have not been determined.

Energy Equipment Group

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011 (\$ in millions)	2010	Percent Change	2011 (\$ in millions)	2010	Percent Change
Revenues:						

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Structural wind towers	\$ 69.3	\$ 78.0	(11.2)%	\$ 135.8	\$ 133.0	2.1%
Other	48.2	37.3	29.2	100.4	72.4	38.7
Total revenues	\$ 117.5	\$ 115.3	1.9	\$ 236.2	\$ 205.4	15.0
Operating profit	\$ 1.2	\$ 13.5		\$ 11.7	\$ 23.9	
Operating profit margin	1.0%	11.7%		5.0%	11.6%	

Revenues for the three months ended June 30, 2011 were substantially unchanged when compared to the same period in 2010 as a decrease in shipments of structural wind towers was offset by an increase in shipments of tank containers and tank heads. Revenues for the six months ended June 30, 2011 increased when compared to the same period in 2010 due to higher shipments of both structural wind towers and tank containers and tank heads. Operating profit for the three and six month periods ended June 30, 2011 decreased when compared to the same periods in 2010 due to lower structural wind tower shipments for the three months ended June 30, 2011 and production inefficiencies and a change in the product mix of structural wind tower shipments. As of June 30, 2011, the backlog for structural wind towers was approximately \$0.9 billion compared to approximately \$1.1 billion as of June 30, 2010. Approximately 15% of our structural wind tower backlog is scheduled for delivery in 2011. The remainder of this backlog is contracted for delivery in future years.

Table of Contents**Railcar Leasing and Management Services Group**

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011 (\$ in millions)	2010	Percent Change	2011 (\$ in millions)	2010	Percent Change
Revenues:						
Wholly owned subsidiaries:						
Leasing and management	\$ 92.9	\$ 86.0	8.0%	\$ 183.2	\$ 170.1	7.7%
Sales of cars from the lease fleet	8.8	3.7	137.8	10.7	11.6	(7.8)
	101.7	89.7	13.4	193.9	181.7	6.7
TRIP Holdings:						
Leasing and management	28.7	29.2	(1.7)	58.2	58.2	
Sales of cars from the lease fleet		0.7	*	8.1	0.9	*
	28.7	29.9	(4.0)	66.3	59.1	12.2
Total revenues	\$ 130.4	\$ 119.6	9.0	\$ 260.2	\$ 240.8	8.1
Operating Profit:						
Wholly owned subsidiaries:						
Leasing and management	\$ 39.5	\$ 31.4		\$ 76.0	\$ 60.6	
Sales of cars from the lease fleet	3.4	0.3		4.4	2.2	
	42.9	31.7		80.4	62.8	
TRIP Holdings:						
Leasing and management	16.8	17.5		33.9	34.6	
Sales of cars from the lease fleet				0.1		
	16.8	17.5		34.0	34.6	
Total operating profit	\$ 59.7	\$ 49.2		\$ 114.4	\$ 97.4	
Operating profit margin:						
Leasing and management	46.3%	42.4%		45.5%	41.7%	
Sales of cars from the lease fleet	38.6	6.8		23.9	17.6	
Total operating profit margin	45.8	41.1		44.0	40.4	
Fleet utilization:						
Wholly owned subsidiaries	99.3%	98.7%		99.3%	98.7%	
TRIP Holdings	99.9%	99.5%		99.9%	99.5%	

* not meaningful

Total revenues increased for the three and six month periods ended June 30, 2011 compared to the same periods last year due to increased utilization, rental revenues related to additions to the lease fleet, higher rental rates, and total sales from the lease fleet.

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Operating profit for the three and six month periods ended June 30, 2011 increased compared to the same periods in 2010 due to increased utilization, rental revenues related to lease fleet additions, higher rental rates, lower maintenance expenses, and profit from lease fleet sales.

To fund the continued expansion of its lease fleet to meet market demand, the Leasing Group generally uses its non-recourse \$475 million warehouse facility or excess cash to provide initial financing for a portion of the purchase price of the railcars. After initial financing, the Leasing Group generally obtains long-term financing for the railcars in the lease fleet through non-recourse asset-backed securities, long-term non-recourse operating leases pursuant to sales/leaseback transactions, or long-term recourse debt such as equipment trust certificates. See *Financing Activities*.

Information regarding the Leasing Group's lease fleet as of June 30, 2011 follows:

	No. of cars	Average age	Average remaining lease term
Wholly-owned subsidiaries	53,700	6.3	3.4
TRIP Holdings	14,605	3.8	3.4
All Other			

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	2010	Percent	2011	2010	Percent
	(\$ in millions)			(\$ in millions)		
			Change			Change
Revenues	\$ 14.3	\$ 12.4	15.3%	\$ 27.4	\$ 22.1	24.0%
Operating loss	\$ (0.2)	\$ (2.1)		\$ (0.5)	\$ (4.7)	

The increase in revenues for the three and six month periods ended June 30, 2011 over the same periods last year was primarily due to an increase in intersegment sales by our transportation company. Operating loss decreased for the three and

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six month periods ended June 30, 2011 over the same periods last year primarily due to higher intersegment transportation sales and higher gains on property dispositions.

Liquidity and Capital Resources***Cash Flows***

Operating Activities. Net cash required by operating activities for the six months ended June 30, 2011 was \$6.2 million compared to \$5.8 million of net cash provided by operating activities for the same period in 2010. Cash flow required by operating activities increased due to an overall increase in accounts receivable and inventories in 2011 compared with 2010 partially offset by higher operating profits in 2011.

Accounts receivables at June 30, 2011 as compared to the accounts receivables balance at December 31, 2010 increased by \$101.7 million or approximately 44% due primarily to higher receivables from the Rail, Energy Equipment and Construction Products groups. Raw materials inventory at June 30, 2011 increased by \$102.7 million or approximately 61% since December 31, 2010 primarily attributable to higher levels in our Rail and Inland Barge groups required to meet production demands. Finished goods inventory at June 30, 2011 increased by \$13.9 million or approximately 18% since December 31, 2010 primarily attributable to our Construction Products group reflecting higher levels of production. Accounts payable increased by \$57.2 million from December 31, 2010 primarily due to higher production levels in the business groups mentioned. Accrued liabilities did not change significantly from December 31, 2010. We continually review reserves related to bad debt as well as the adequacy of lower of cost or market valuations related to accounts receivable and inventory.

Investing Activities. Net cash required by investing activities for the six months ended June 30, 2011 was \$55.3 million compared to \$303.7 million of cash required by investing activities for the same period last year. Investments in short-term marketable securities decreased by \$116.0 million during the six months ended June 30, 2011 compared with an increase of \$155.0 million during the six months ended June 30, 2010. Capital expenditures for the six months ended June 30, 2011 were \$180.1 million, of which \$155.5 million were for additions to the lease fleet. This compares to \$118.3 million of capital expenditures for the same period last year, of which \$103.0 million were for additions to the lease fleet. Proceeds from the sale of property, plant, and equipment were \$24.1 million for the six months ended June 30, 2011 composed primarily of railcar sales from the lease fleet totaling \$18.8 million. This compares to \$16.5 million for the same period in 2010 composed primarily of railcar sales from the lease fleet of \$12.5 million.

Financing Activities. Net cash required by financing activities during the six months ended June 30, 2011 was \$35.4 million compared to \$103.6 million of cash required by financing activities for the same period in 2010. During the six months ended June 30, 2011 and 2010 we retired \$79.1 million and \$84.2 million, respectively, in debt. We borrowed \$52.7 million, principally from our TILC warehouse loan facility, during the six months ended June 30, 2011. We intend to use our cash and credit facilities to fund the operations, expansions, and growth initiatives of the Company.

At June 30, 2011 and for the six month period then ended, there were no borrowings under our \$425 million revolving credit facility that matures on October 19, 2012. Interest on the revolving credit facility is calculated at prime or Libor plus 75.0 basis points. After \$83.6 million was considered for letters of credit, \$341.4 million was available under the revolving credit facility as of June 30, 2011.

The \$475 million TILC warehouse loan facility, established to finance railcars owned by TILC, had \$130.0 million outstanding and \$345.0 million available as of June 30, 2011. The warehouse loan is a non-recourse obligation secured by a portfolio of railcars and operating leases, certain cash reserves, and other assets acquired and owned by the warehouse loan facility. The principal and interest of this indebtedness are paid from the cash flows of the underlying leases. Advances under the facility bear interest at a defined index rate plus a margin, for an all-in interest rate of 2.20% at June 30, 2011. In February 2011, the warehouse loan facility was renewed for an additional two years and now matures in February 2013. Amounts outstanding at maturity, absent renewal, will be payable in three installments in August 2013, February 2014, and August 2014.

On July 6, 2011, TRIP Holdings issued \$175.0 million in TRIP Holdings Senior Secured Notes and TRIP Master Funding issued \$857.0 million in TRIP Master Funding Secured Railcar Equipment Notes. A portion of the proceeds from the TRIP Holdings Senior Secured Notes and the TRIP Master Funding Secured Railcar Equipment Notes were

used by TRIP Master Funding to purchase all of the railcar equipment owned by TRIP Leasing which, in turn, repaid the TRIP Warehouse Loan in full.

The TRIP Holdings Senior Secured Notes have a stated final maturity date of July 6, 2014, bear interest at 8.00% payable quarterly with a yield to call interest rate of 12.00% for redemptions or other prepayments on or prior to January 15, 2013 and 15.00% for redemptions or other prepayments after such date. The TRIP Holdings Senior Secured Notes are secured, among other things, by a pledge of each equity investor's ownership interest in TRIP Holdings and certain

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distributions made to TRIP Holdings from TRIP Master Funding and are non-recourse to Trinity, TILC, TRIP Master Funding, and the other equity investors in TRIP Holdings. Trinity purchased \$112.0 million of the TRIP Holdings Senior Secured Notes.

The TRIP Master Funding Secured Railcar Equipment Notes were issued pursuant to an Indenture, dated as of July 6, 2011 between TRIP Master Funding and Wilmington Trust Company, as indenture trustee, with a final maturity date in July 2041. The TRIP Master Funding Secured Railcar Equipment Notes consist of three classes with the Class A-1a notes bearing interest at 4.37%, the Class A-1b notes bearing interest at Libor plus 2.50%, and the Class A-2 notes bearing interest at 6.02%, all payable monthly. The TRIP Master Funding Secured Railcar Equipment Notes are non-recourse to Trinity, TILC, and the other equity investors in TRIP Holdings and are secured by TRIP Master Funding's portfolio of railcars and operating leases thereon, its cash reserves and all other assets owned by TRIP Master Funding.

On December 9, 2010, the Company's Board of Directors authorized a new \$200 million share repurchase program, effective January 1, 2011. This program replaced the Company's previous share repurchase program and expires December 31, 2012. No shares were repurchased under this program for the three and six months ended June 30, 2011.

The economic and financial crisis experienced by the United States economy since 2008 has impacted our businesses. New orders for railcars and barges dropped in 2009 as the transportation industry suffered a significant decline in the shipment of freight. The transportation industry experienced weakness throughout 2009, but showed signs of recovery in late 2010. New orders for railcars improved significantly in 2011 due to demand for the shipment of commodities, replacement of older railcars, and tax benefits from taking delivery of railcars in 2011 and 2012. Orders for structural wind towers have been slow since mid-2008 when energy development companies encountered tightened credit markets coupled with lower demand and prices for electricity and natural gas sales. The slowdown in the residential and commercial construction markets impacted our Construction Products Group as well. We continually assess our manufacturing capacity and take steps to align our production capacity with demand for our products. As a result of our assessment, we adapted to the rapid decline in market conditions by reducing our production footprint and staffing levels and causing certain facilities to be on non-operating status, but to the extent that demand increases, these facilities on non-operating status would be available for future operations. Due to recent improvements in demand, certain facilities have taken on additional production staff in late 2010 and early 2011.

Equity Investment

See Note 6 of the Consolidated Financial Statements for information about the investment in TRIP Holdings.

Future Operating Requirements

We expect to finance future operating requirements with cash flows from operations, and depending on market conditions, short-term and long-term debt, and equity. Debt instruments that the Company has utilized include its revolving credit facility, the TILC warehouse facility, senior notes, convertible subordinated notes, asset-backed securities, and sale/leaseback transactions. The Company has also issued equity at various times. As of June 30, 2011, the Company had \$341.4 million available under its revolving credit facility and \$345.0 million available under its TILC warehouse facility. Despite the volatile conditions in both the credit and stock markets, the Company believes it has access to adequate capital resources to fund operating requirements and is active in the credit markets.

Off Balance Sheet Arrangements

See Note 5 of the Consolidated Financial Statements for information about off balance sheet arrangements.

Derivative Instruments

We use derivative instruments to mitigate the impact of changes in interest rates and pricing for zinc, natural gas, and diesel fuel, as well as to convert a portion of our variable-rate debt to fixed-rate debt. Additionally, we use derivative instruments to mitigate the impact of unfavorable fluctuations in foreign currency exchange rates. We also use derivatives to lock in fixed interest rates in anticipation of future debt issuances. Derivative instruments that are designated and qualify as cash flow hedges are accounted for in accordance with applicable accounting standards. See Note 3 of the Consolidated Financial Statements for discussion of how the Company valued its commodity hedges and interest rate swaps and options at June 30, 2011.

Table of ContentsInterest rate hedges

			Included in accompanying balance sheet at June 30, 2011 AOCL loss/ Noncontrolling		
	Notional Amount	Interest Rate¹	Liability (income) (in millions, except %)	Interest	Interest
Interest rate locks:					
2005-2006	\$ 200.0	4.87%	\$ (2.4)		
2006-2007	\$ 370.0	5.34%	\$ 12.3		
Interest rate swaps/options:					
TRIP warehouse	\$ 788.5	3.60%	\$ 47.0	\$ 25.3	\$ 18.9
2008 debt issuance	\$ 489.4	4.13%	\$ 45.7	\$ 43.9	

¹ Weighted average fixed interest rate

	Effect on interest expense increase/(decrease)				
	Three Months Ended June 30,		Six Months Ended June 30,		Expected effect during next twelve months²
	2011	2010	2011	2010	
	(in millions)				
Interest rate locks:					
2005-2006	\$ (0.1)	\$ (0.1)	\$ (0.2)	\$ (0.2)	\$ (0.3)
2006-2007	\$ 0.9	\$ 0.9	\$ 1.8	\$ 1.9	\$ 3.4
Interest rate swaps/options:					
TILC warehouse		\$ 0.0		\$ 0.4	
TRIP warehouse	\$ 6.8	\$ 7.3	\$ 14.1	\$ 14.8	\$ 6.3
2008 debt issuance	\$ 5.2	\$ 5.5	\$ 9.7	\$ 10.7	\$ 18.2

² Based on fair value as of June 30, 2011

During 2005 and 2006, we entered into interest rate swap transactions in anticipation of a future debt issuance. These instruments, with a notional amount of \$200 million, fixed the interest rate on a portion of a future debt issuance associated with a railcar leasing transaction in 2006 and settled at maturity in the first quarter of 2006. These interest rate swaps were being accounted for as cash flow hedges with changes in the fair value of the instruments of \$4.5 million in income recorded in accumulated other comprehensive loss (AOCL) through the date the related debt issuance closed in May 2006. The balance is being amortized over the term of the related debt. The effect on interest expense is due to amortization of the AOCL balance.

In anticipation of a future debt issuance, we entered into interest rate swap transactions during the fourth quarter of 2006 and during 2007. These instruments, with a notional amount of \$370 million, hedged the interest rate on a portion of a future debt issuance associated with an anticipated railcar leasing transaction, which closed in May 2008.

These instruments settled during the second quarter of 2008 and were accounted for as cash flow hedges with changes in the fair value of the instruments of \$24.5 million recorded as a loss in AOCL through the date the related debt issuance closed in May 2008. The balance is being amortized over the term of the related debt. The effect on interest expense is due to amortization of the AOCL balance.

During 2008, we entered into interest rate swap transactions, with a notional amount of \$200 million, which were being used to counter our exposure to changes in the variable interest rate associated with our TILC warehouse facility. The effect on interest expense included the mark to market valuation on the interest rate swap transactions and monthly interest settlements. These interest rate hedges expired during the fourth quarter of 2010.

In May 2008, we entered into an interest rate swap transaction that is being used to fix the Libor component of the debt issuance which closed in May 2008. The effect on interest expense results primarily from monthly interest settlements.

Between 2007 and 2009, TRIP Holdings, as required by its warehouse loan agreement, entered into interest rate swap and option transactions, all of which qualify as cash flow hedges. The purpose of these transactions was to reduce the effect of changes in interest rates. On July 6, 2011, interest rate hedges related to TRIP Holdings were terminated in connection with our refinancing of the TRIP Holdings-related debt. Balances included in AOCL at the date the hedges were terminated will be amortized over the expected life of the new debt with \$6.3 million of additional interest expense expected to be recognized during the next twelve months following June 30, 2011.

See Note 11 of the Consolidated Financial Statements for a discussion of the related debt instruments.

Table of Contents**Other Derivatives**

	Effect on operating income increase/(decrease)			
	Three Months Ended June 30, 2011		Six Months Ended June 30, 2010	
	2011	2010	2011	2010
	(in millions)			
Fuel hedges ¹				
Effect of mark to market valuation	\$ (0.3)	\$ (0.0)	\$ 0.2	\$ (0.1)
Settlements	0.1	(0.0)	0.1	(0.0)
	\$ (0.2)	\$ (0.0)	\$ 0.3	\$ (0.1)
Foreign exchange hedges ² .	\$	\$ 0.3	\$ (0.6)	\$ (0.3)

¹ Included in cost of revenues in the accompanying consolidated statement of operations

² Included in other, net in the accompanying consolidated statement of operations

Natural gas and diesel fuel

We maintain a program to mitigate the impact of fluctuations in the price of natural gas and diesel fuel purchases. The intent of the program is to protect our operating profit from adverse price changes by entering into derivative instruments. For those instruments that do not qualify for hedge accounting treatment, any changes in their valuation are recorded directly to the consolidated statement of operations. The amount recorded in the consolidated balance sheet as of June 30, 2011 for these instruments was an asset of \$0.4 million and \$0.3 million of income in AOCL.

Foreign exchange hedge

During the six month period ended June 30, 2011 and the three and six month periods ended June 30, 2010, we entered into foreign exchange hedges to mitigate the impact on operating profit of unfavorable fluctuations in foreign currency exchange rates. These instruments are short term with quarterly maturities and no remaining balance in AOCL as of June 30, 2011.

Zinc

We maintain a program to mitigate the impact of fluctuations in the price of zinc purchases. The intent of this program is to protect our operating profit from adverse price changes by entering into derivative instruments. The effect of these derivative instruments on the consolidated financial statements for the three and six months ended June 30, 2011 and 2010 were not significant.

Contractual Obligation and Commercial Commitments

As of June 30, 2011, other commercial commitments related to letters of credit increased slightly to \$83.6 million from \$79.9 million as of December 31, 2010. Refer to Note 11 of the Consolidated Financial Statements for changes to our outstanding debt and maturities. Other commercial commitments that relate to operating leases including sale/leaseback transactions were basically unchanged as of June 30, 2011.

Recent Accounting Pronouncements

See Note 1 of the Consolidated Financial Statements for information about recent accounting pronouncements.

Forward-Looking Statements

This quarterly report on Form 10-Q (or statements otherwise made by the Company or on the Company's behalf from time to time in other reports, filings with the Securities and Exchange Commission (SEC), news releases,

conferences, World Wide Web postings or otherwise) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements contained herein that are not historical facts are forward-looking statements and involve risks and uncertainties. These forward-looking statements include expectations, beliefs, plans, objectives, future financial performances, estimates, projections, goals, and forecasts. Trinity uses the words anticipates, believes, estimates, expects, intends, forecasts, may, will, expressions to identify these forward-looking statements. Potential factors, which could cause our actual results of operations to differ materially from those in the forward-looking statements include, among others:

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- market conditions and demand for our business products and services;
- the cyclical nature of industries in which we compete;
- variations in weather in areas where our construction products are sold, used, or installed;
- naturally-occurring events and disasters causing disruption to our manufacturing, product deliveries, and production capacity, thereby giving rise to an increase in expenses, loss of revenue, and property losses;
- the timing of introduction of new products;
- the timing and delivery of customer orders or a breach of customer contracts;
- the credit worthiness of customers and their access to capital;
- product price changes;
- changes in mix of products sold;
- the extent of utilization of manufacturing capacity;
- availability and costs of steel, component parts, supplies, and other raw materials;

Carrying
Amount

Percent

Carrying
Amount

Percent

(Dollars in thousands)
Fixed maturity securities:

United States Government full faith and credit

\$

4,388

—

%

\$

3,310

—

%

United States Government sponsored agencies

3,750,065

18.9

%

5,557,971

36.2

%

United States municipalities, states and territories

2,367,003

12.0

%

355,634

2.3

%

Corporate securities

7,652,850

38.6

%

3,933,198

25.6

%

Residential mortgage backed securities

2,878,557

14.5
%

2,489,101

16.2
%

Total fixed maturity securities

16,652,863

84.0
%

12,339,214

80.3
%

Equity securities

65,961

0.4
%

93,086

0.6
%

Mortgage loans on real estate

2,598,641

13.1
%

2,449,778

15.9

%
Derivative instruments

479,786

2.4
%

479,272

3.1
%
Other investments

19,680

0.1
%

12,760

0.1
%

\$
19,816,931

100.0
%

\$
15,374,110

100.0
%

During 2010 and 2009, we received \$5.2 billion and \$4.2 billion, respectively, in net redemption proceeds related to calls of our callable United States Government sponsored agency securities, of which \$1.6 billion and \$2.1 billion, respectively, were classified as held for investment. We reinvested the proceeds from these redemptions primarily in United States Government sponsored agencies, corporate securities and United States municipalities, states, and territories classified as available for sale. At December 31, 2010, 36% of our fixed income securities have call features and 1% (\$0.1 billion) of those securities were subject to call redemption. Another 21% (\$3.4 billion) of our fixed income securities will become subject to call redemption during 2011.

Fixed Maturity Securities

Our fixed maturity security portfolio is managed to minimize risks such as interest rate changes and defaults or impairments while earning a sufficient and stable return on our investments. Historically, we have had a high percentage of our fixed maturity securities in U.S. Government sponsored agency securities (for the most part Federal Home Loan Mortgage Corporation and Federal National Mortgage Association). While U.S. Government sponsored agency securities are of high credit quality, the call features have resulted in our excess cash position in 2010. These calls resulted from the low interest rate and tight agency spread environment experienced in 2010. Since 2007, when we had almost 80% of our

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fixed maturity portfolio invested in callable agencies, we have reallocated a significant portion of our fixed maturities from the callable agency securities to other highly rated, long-term securities. The largest portion of our fixed maturity securities are now in investment grade (NAIC designation 1 or 2) publicly traded or privately placed corporate securities. We have also built a portfolio of residential mortgage backed securities ("RMBS") that provide our investment portfolio a source of regular cash flow and higher yielding assets than our agency securities. Additionally, in 2009 we began building a portfolio of taxable bonds issued by municipalities, states and territories of the United States that provide us with attractive yields while consistent with our aversion to credit risk.

A summary of our fixed maturity securities by NRSRO ratings is as follows:

Rating Agency Rating	December 31, 2010		2009		
	Carrying Amount	Percent	Carrying Amount	Percent	
	(Dollars in thousands)				
Aaa/Aa/A	\$11,599,255	69.6	% \$8,666,467	70.2	%
Baa	3,725,920	22.4	% 2,442,897	19.8	%
Total investment grade	15,325,175	92.0	% 11,109,364	90.0	%
Ba	294,200	1.8	% 367,427	3.0	%
B	69,033	0.4	% 358,288	2.9	%
Caa and lower	959,437	5.8	% 481,389	3.9	%
In or near default	5,018	—	% 22,746	0.2	%
Total below investment grade	1,327,688	8.0	% 1,229,850	10.0	%
	\$16,652,863	100.0	% \$12,339,214	100.0	%

The NAIC's Securities Valuation Office ("SVO") is responsible for the day-to-day credit quality assessment and valuation of securities owned by state regulated insurance companies. Insurance companies report ownership of securities to the SVO when such securities are eligible for regulatory filings. The SVO conducts credit analysis on these securities for the purpose of assigning an NAIC designation and/or unit price. Typically, if a security has been rated by an NRSRO, the SVO utilizes that rating and assigns an NAIC designation based upon the following system:

NAIC Designation	NRSRO Equivalent Rating
1	Aaa/Aa/A
2	Baa
3	Ba
4	B
5	Caa and lower
6	In or near default

In November 2010, the NAIC membership approved continuation of a process developed in 2009 to assess non-agency RMBS for the 2010 filing year that does not rely on NRSRO ratings. The NAIC retained the services of PIMCO Advisory to model each non-agency RMBS owned by U.S. insurers at year-end 2010 and 2009. PIMCO Advisory has provided 5 prices for each security for life insurance companies to utilize in determining the NAIC designation for each RMBS based on each insurer's statutory book value price. This process is used to determine the level of RBC requirements for non-agency RMBS.

A summary of our fixed maturity securities by NAIC designation is as follows:

NAIC Designation	December 31, 2010			December 31, 2009			Percentage of Total Carrying Amount	Percentage of Total Carrying Amount
	Amortized Cost	Fair Value	Carrying Amount	Amortized Cost	Fair Value	Carrying Amount		
	(Dollars in thousands)			(Dollars in thousands)				
1	\$12,152,552	\$12,246,954	\$12,262,263	73.6 %	\$9,495,015	\$9,370,647	\$9,374,900	76.0 %
2	3,892,680	4,012,076	4,012,076	24.1 %	2,571,815	2,555,826	2,555,826	20.7 %

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3	368,680	323,113	348,256	2.1	%	409,860	315,948	344,914	2.8	%
4	19,820	19,178	19,178	0.1	%	24,375	20,799	20,799	0.2	%
5	6,089	6,262	6,262	0.1	%	21,013	20,749	20,749	0.1	%
6	4,273	4,828	4,828	—	%	25,685	22,026	22,026	0.2	%
	\$16,444,094	\$16,612,411	\$16,652,863	100.0	%	\$12,547,763	\$12,305,995	\$12,339,214	100.0	%

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A summary of our RMBS by collateral type and split by NAIC designation, as well as a separate summary of securities for which we have recognized OTTI and those which we have not yet recognized any OTTI is as follows as of December 31, 2010:

Collateral Type	NAIC Designation	Principal Amount (Dollars in thousands)	Amortized Cost	Fair Value
OTTI has not been recognized				
Government agency	1	\$341,430	\$308,917	\$307,939
Prime	1	1,661,865	1,573,960	1,634,953
	2	1,500	1,480	1,363
	3	52,677	51,239	45,499
Alt-A	1	55,022	54,512	56,072
	2	5,123	5,216	4,708
		\$2,117,617	\$1,995,324	\$2,050,534
OTTI has been recognized				
Prime	1	\$135,747	\$123,053	\$115,519
	2	331,762	304,578	279,488
	3	62,145	58,765	52,738
Alt-A	1	260,021	224,492	212,030
	2	183,992	146,413	125,259
	3	49,314	43,343	40,287
	6	4,709	4,060	2,702
		\$1,027,690	\$904,704	\$828,023
Total by collateral type				
Government agency		\$341,430	\$308,917	\$307,939
Prime		2,245,696	2,113,075	2,129,560
Alt-A		558,181	478,036	441,058
		\$3,145,307	\$2,900,028	\$2,878,557
Total by NAIC designation				
	1	\$2,454,085	\$2,284,934	\$2,326,513
	2	522,377	457,687	410,818
	3	164,136	153,347	138,524
	6	4,709	4,060	2,702
		\$3,145,307	\$2,900,028	\$2,878,557

The amortized cost and fair value of fixed maturity securities at December 31, 2010, by contractual maturity are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. All of our residential mortgage backed securities provide for periodic payments throughout their lives and are shown below as a separate line.

	Available for sale		Held for investment	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Due in one year or less	\$26,033	\$26,284	\$—	\$—
Due after one year through five years	401,008	440,698	—	—
Due after five years through ten years	1,647,988	1,816,850	—	—
Due after ten years through twenty years	2,895,065	2,910,182	—	—
Due after twenty years	7,751,772	7,758,092	822,200	781,748
	12,721,866	12,952,106	822,200	781,748
Residential mortgage backed securities	2,900,028	2,878,557	—	—

\$15,621,894 \$15,830,663 \$822,200 \$781,748

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Unrealized Losses

At December 31, 2010 and 2009, the amortized cost and fair value of fixed maturity securities and equity securities that were in an unrealized loss position were as follows:

	Number of Securities (Dollars in thousands)	Amortized Cost	Unrealized Losses	Fair Value
December 31, 2010				
Fixed maturity securities, available for sale:				
United States Government full faith and credit	2	\$566	\$(18	) \$548
United States Government sponsored agencies	1	111,747	(1,646	) 110,101
United States municipalities, states and territories	289	1,571,263	(53,384	) 1,517,879
Corporate securities:				
Finance, insurance and real estate	79	784,844	(44,353	) 740,491
Manufacturing, construction and mining	111	1,102,886	(36,226	) 1,066,660
Utilities and related sectors	145	987,093	(39,209	) 947,884
Wholesale/retail trade	25	169,125	(6,251	) 162,874
Services, media and other	18	206,317	(10,801	) 195,516
Residential mortgage backed securities	98	1,470,836	(108,421	) 1,362,415
	768	\$6,404,677	\$(300,309	) \$6,104,368
Fixed maturity securities, held for investment:				
United States Government sponsored agencies	3	\$746,414	\$(15,309	) \$731,105
Corporate security:				
Finance, insurance and real estate	1	75,786	(25,143	) 50,643
	4	\$822,200	\$(40,452	) \$781,748
Equity securities, available for sale:				
Finance, insurance and real estate	8	\$32,782	\$(1,946	) \$30,836
December 31, 2009				
Fixed maturity securities, available for sale:				
United States Government full faith and credit	2	\$338	\$(6	) \$332
United States Government sponsored agencies	27	3,026,593	(118,388	) 2,908,205
United States municipalities, states and territories	32	114,232	(2,263	) 111,969
Corporate securities:				
Finance, insurance and real estate	68	443,859	(50,555	) 393,304
Manufacturing, construction and mining	28	178,642	(10,462	) 168,180
Utilities and related sectors	36	226,604	(13,156	) 213,448
Wholesale/retail trade	17	80,599	(5,423	) 75,176
Services, media and other	17	113,308	(5,324	) 107,984
Residential mortgage backed securities	109	1,719,481	(306,372	) 1,413,109
	336	\$5,903,656	\$(511,949	) \$5,391,707
Fixed maturity securities, held for investment:				
United States Government sponsored agencies	4	\$365,000	\$(5,900	) \$359,100
Corporate security:				
Finance, insurance and real estate	1	75,649	(28,966	) 46,683
	5	\$440,649	\$(34,866	) \$405,783
Equity securities, available for sale:				
Finance, insurance and real estate	14	\$41,948	\$(3,269	) 38,679

Unrealized losses decreased \$207.4 million from \$550.1 million at December 31, 2009 to \$342.7 million at December 31, 2010. We decreased unrealized losses by recognizing \$23.9 million of credit OTTI losses on debt securities for the year ended December 31, 2010. The remaining decrease in unrealized losses was due to improving market and economic conditions and tightening of credit spreads resulting in higher fair values for many of our fixed maturity securities. The increase in fair value of RMBS is also due to an increased demand in the market for these types of securities.

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The following table sets forth the composition by credit quality (NAIC designation) of fixed maturity securities with gross unrealized losses:

	Carrying Value of Securities with Gross Unrealized Losses (Dollars in thousands)	Percent of Total	Gross Unrealized Losses	Percent of Total	
December 31, 2010					
1	\$5,017,596	72.4	% \$(186,066	) 54.6	%
2	1,619,437	23.4	% (102,931	) 30.2	%
3	269,555	3.9	% (49,764	) 14.6	%
4	17,278	0.2	% (642	) 0.2	%
5	—	—	% —	—	%
6	2,702	0.1	% (1,358	) 0.4	%
	\$6,926,568	100.0	% \$(340,761	) 100.0	%
December 31, 2009					
1	\$4,577,573	78.5	% \$(295,280	) 54.0	%
2	904,027	15.5	% (147,214	) 26.9	%
3	302,630	5.2	% (94,679	) 17.3	%
4	20,799	0.4	% (3,576) 0.7	%
5	14,499	0.2	% (467) 0.1	%
6	12,828	0.2	% (5,599) 1.0	%
	\$5,832,356	100.0	% \$(546,815) 100.0	%

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The following tables show our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities (consisting of 780 and 355 securities, respectively) have been in a continuous unrealized loss position, at December 31, 2010 and 2009:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
December 31, 2010						
Fixed maturity securities:						
Available for sale:						
United States Government full faith and credit	\$548	\$(18)	\$—	\$—	\$548	\$(18)
United States Government sponsored agencies	110,101	(1,646)	—	—	110,101	(1,646)
United States municipalities, states and territories	1,510,354	(51,989)	7,525	(1,395)	1,517,879	(53,384)
Corporate securities:						
Finance, insurance and real estate	626,363	(31,352)	114,128	(13,001)	740,491	(44,353)
Manufacturing, construction and mining	1,032,170	(33,893)	34,490	(2,333)	1,066,660	(36,226)
Utilities and related sectors	933,727	(34,657)	14,157	(4,552)	947,884	(39,209)
Wholesale/retail trade	153,699	(4,947)	9,175	(1,304)	162,874	(6,251)
Services, media and other	195,516	(10,801)	—	—	195,516	(10,801)
Residential mortgage backed securities	396,083	(14,100)	966,332	(94,321)	1,362,415	(108,421)
	\$4,958,561	\$(183,403)	\$1,145,807	\$(116,906)	\$6,104,368	\$(300,309)
Held for investment:						
United States Government sponsored agencies	\$731,105	\$(15,309)	\$—	\$—	\$731,105	\$(15,309)
Corporate security:						
Finance, insurance and real estate	—	—	50,643	(25,143)	50,643	(25,143)
	\$731,105	\$(15,309)	\$50,643	\$(25,143)	\$781,748	\$(40,452)
Equity securities, available for sale:						
Finance, insurance and real estate	\$14,583	\$(1,199)	\$16,253	\$(747)	\$30,836	\$(1,946)
December 31, 2009						
Fixed maturity securities:						
Available for sale:						
United States Government full faith and credit	\$332	\$(6)	\$—	\$—	\$332	\$(6)
United States Government sponsored agencies	2,908,205	(118,388)	—	—	2,908,205	(118,388)
United States municipalities, states and territories	111,969	(2,263)	—	—	111,969	(2,263)
Corporate securities:						
Finance, insurance and real estate	154,093	(10,560)	239,211	(39,995)	393,304	(50,555)
Manufacturing, construction and mining	93,922	(2,032)	74,258	(8,430)	168,180	(10,462)
Utilities and related sectors	149,515	(5,046)	63,933	(8,110)	213,448	(13,156)
Wholesale/retail trade	35,629	(623)	39,547	(4,800)	75,176	(5,423)

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Services, media and other	46,625	(512)	61,359	(4,812)	107,984	(5,324)
Residential mortgage backed securities	226,567	(22,781)	1,186,542	(283,591)	1,413,109	(306,372)
	\$3,726,857	\$(162,211)	\$1,664,850	\$(349,738)	\$5,391,707	\$(511,949)
Held for investment:						
United States Government sponsored agencies	\$359,100	\$(5,900)	\$—	\$—	\$359,100	\$(5,900)
Corporate security:						
Finance, insurance and real estate	—	—	46,683	(28,966)	46,683	(28,966)
	\$359,100	\$(5,900)	\$46,683	\$(28,966)	\$405,783	\$(34,866)
Equity securities, available for sale:						
Finance, insurance and real estate	\$9,802	\$(147)	\$28,877	\$(3,122)	\$38,679	\$(3,269)

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The following is a description of the factors causing the unrealized losses by investment category as of December 31, 2010:

United States municipalities, states and territories: These securities are relatively long in duration, making the value of such securities sensitive to changes in market interest rates. These securities carry yields less than those available at December 31, 2010 as the result of rising interest rates in 2010.

Corporate securities: The unrealized losses in these securities are due partially to the continuation of wider than historic credit spreads in certain sectors of the corporate bond market. While credit spreads have narrowed, several sectors remain at spreads wider than levels prior to the 2008 financial crisis, such as financials and select economic sensitive issuers. As the result of wider spreads, these issues carry yields less than those available in the market as of December 31, 2010.

Residential mortgage backed securities: At December 31, 2010, we had no exposure to sub-prime residential mortgage backed securities. All of our residential mortgage backed securities are pools of first-lien residential mortgage loans. Substantially all of the securities that we own are in the most senior tranche of the securitization in which they are structured and are not subordinated to any other tranche. Our "Alt-A" residential mortgage backed securities are comprised of 36 securities with a total amortized cost basis of \$478.0 million and a fair value of \$441.1 million. Despite recent improvements in the capital markets, the fair values of RMBS continue at prices below amortized cost. RMBS prices will likely remain below our cost basis until the housing market is able to absorb current and future foreclosures.

Equity securities: The unrealized loss on equity securities, which are primarily investment grade perpetual preferred stocks with exposure to REITS, investment banks and finance companies, are due to the ongoing concerns relating to capital, asset quality and earnings stability due to the financial crisis. All of the equity securities in an unrealized loss position for 12 months or more are investment grade perpetual preferred stocks that are absent credit deterioration. A continued difficult housing market has raised concerns in regard to earnings and dividend stability in many companies which directly affect the values of these securities.

Where the decline in market value of debt securities is attributable to changes in market interest rates or to factors such as market volatility, liquidity and spread widening, and we anticipate recovery of all contractual or expected cash flows, we do not consider these investments to be other than temporarily impaired because we do not intend to sell these investments and it is not more likely than not we will be required to sell these securities before a recovery of amortized cost, which may be maturity. For equity securities, we recognize an impairment charge in the period in which we do not have the intent and ability to hold the securities until a recovery of cost or we determine that the security will not recover to book value within a reasonable period of time. We determine what constitutes a reasonable period of time on a security-by-security basis based upon consideration of all the evidence available to us, including the magnitude of an unrealized loss and its duration. In any event, this period does not exceed 18 months from the date of impairment for perpetual preferred securities for which there is evidence of deterioration in credit of the issuer and common equity securities. For perpetual preferred securities absent evidence of a deterioration in credit of the issuer we apply an impairment model, including an anticipated recovery period, similar to a debt security. For equity securities we measure other than temporary impairment charges based upon the difference between the book value of a security and its fair value.

Approximately 85% and 81% of the unrealized losses on fixed maturity securities shown in the above table for December 31, 2010 and 2009, respectively, are on securities that are rated investment grade, defined as being the highest two NAIC designations. All of the fixed maturity securities with unrealized losses are current with respect to the payment of principal and interest.

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At December 31, 2010 and 2009, the amortized cost and fair value of fixed maturity securities and equity securities in an unrealized loss position and the number of months in a continuous unrealized loss position (fixed maturity securities that carry an NRSRO rating of BBB/Baa or higher are considered investment grade) were as follows:

	Number of Securities	Amortized Cost	Fair Value	Gross Unrealized Losses
	(Dollars in thousands)			
December 31, 2010				
Fixed maturity securities:				
Investment grade:				
Less than six months	656	\$5,805,583	\$5,611,000	\$(194,583)
Six months or more and less than twelve months	1	7,874	7,848	(26)
Twelve months or greater	34	313,127	292,173	(20,954)
Total investment grade	691	6,126,584	5,911,021	(215,563)
Below investment grade:				
Less than six months	5	65,359	61,296	(4,063)
Six months or more and less than twelve months	1	9,562	9,522	(40)
Twelve months or greater	75	1,025,372	904,277	(121,095)
Total below investment grade	81	1,100,293	975,095	(125,198)
Equity securities:				
Less than six months	1	3,000	2,995	(5)
Six months or more and less than twelve months	2	12,782	11,588	(1,194)
Twelve months or greater	5	17,000	16,253	(747)
Total equity securities	8	32,782	30,836	(1,946)
	780	\$7,259,659	\$6,916,952	\$(342,707)
December 31, 2009				
Fixed maturity securities				
Investment grade:				
Less than six months	120	\$2,516,264	\$2,463,732	\$(52,532)
Six months or more and less than twelve months	26	1,591,620	1,500,847	(90,773)
Twelve months or greater	95	883,552	777,079	(106,473)
Total investment grade	241	4,991,436	4,741,658	(249,778)
Below investment grade:				
Less than six months	3	60,580	57,220	(3,360)
Six months or more and less than twelve months	12	85,605	64,159	(21,446)
Twelve months or greater	85	1,206,684	934,453	(272,231)
Total below investment grade	100	1,352,869	1,055,832	(297,037)
Equity securities:				
Less than six months	2	7,291	7,242	(49)
Six months or more and less than twelve months	1	2,658	2,561	(97)
Twelve months or greater	11	32,000	28,877	(3,123)
Total equity securities	14	41,949	38,680	(3,269)
	355	\$6,386,254	\$5,836,170	\$(550,084)

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At December 31, 2010 and 2009, the amortized cost and fair value of fixed maturity securities (excluding United States Government and United States Government sponsored agency securities) segregated by investment grade (NRSRO rating of BBB/Baa or higher) and below investment grade and equity securities that had unrealized losses greater than 20% and the number of months in a continuous unrealized loss position greater than 20% were as follows:

	Number of Securities	Amortized Cost	Carrying Value	Gross Unrealized Losses
	(Dollars in thousands)			
December 31, 2010				
Investment grade:				
Less than six months	—	\$—	\$—	\$—
Six months or more and less than twelve months	—	—	—	—
Twelve months or greater	—	—	—	—
Total investment grade	—	—	—	—
Below investment grade:				
Less than six months	2	24,645	19,648	(4,997)
Six months or more and less than twelve months	—	—	—	—
Twelve months or greater	7	104,129	71,368	(32,761)
Total below investment grade	9	128,774	91,016	(37,758)
	9	\$128,774	\$91,016	\$(37,758)
December 31, 2009				
Investment grade:				
Less than six months	2	\$34,271	\$30,198	\$(4,073)
Six months or more and less than twelve months	—	—	—	—
Twelve months or greater	2	11,940	8,601	(3,339)
Total investment grade	4	46,211	38,799	(7,412)
Below investment grade:				
Less than six months	13	118,198	101,805	(16,393)
Six months or more and less than twelve months	9	158,359	111,878	(46,481)
Twelve months or greater	27	365,706	252,062	(113,644)
Total below investment grade	49	642,263	465,745	(176,518)
	53	\$688,474	\$504,544	\$(183,930)

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The amortized cost and fair value of fixed maturity securities at December 31, 2010 and 2009, by contractual maturity, that were in an unrealized loss position are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. All of our residential mortgage backed securities provide for periodic payments throughout their lives, and are shown below as a separate line.

	Available for sale		Held for investment	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(Dollars in thousands)				
December 31, 2010				
Due in one year or less	\$—	\$—	\$—	\$—
Due after one year through five years	30,367	29,858	—	—
Due after five years through ten years	257,793	249,838	—	—
Due after ten years through twenty years	1,274,273	1,224,989	—	—
Due after twenty years	3,371,408	3,237,268	822,200	781,748
	4,933,841	4,741,953	822,200	781,748
Residential mortgage backed securities	1,470,836	1,362,415	—	—
	\$6,404,677	\$6,104,368	\$822,200	\$781,748
December 31, 2009				
Due in one year or less	\$12,000	\$11,707	\$—	\$—
Due after one year through five years	82,754	75,462	—	—
Due after five years through ten years	100,597	95,678	—	—
Due after ten years through twenty years	707,824	682,247	365,000	359,100
Due after twenty years	3,281,000	3,113,504	75,649	46,683
	4,184,175	3,978,598	440,649	405,783
Residential mortgage backed securities	1,719,481	1,413,109	—	—
	\$5,903,656	\$5,391,707	\$440,649	\$405,783

Watch List

At each balance sheet date, we identify invested assets which have characteristics (i.e. significant unrealized losses compared to amortized cost and industry trends) creating uncertainty as to our future assessment of an other than temporary impairment. As part of this assessment we review not only a change in current price relative to its amortized cost but the issuer's current credit rating and the probability of full recovery of principal based upon the issuer's financial strength. Specifically for corporate issues we evaluate the financial stability and quality of asset coverage for the securities relative to the term to maturity for the issues we own. A security which has a 25% or greater change in market price relative to its amortized cost and a possibility of a loss of principal will be included on a list which is referred to as our watch list. We exclude from this list securities with unrealized losses which are related to market movements in interest rates and which have no factors indicating that such unrealized losses may be other than temporary as we do not intend to sell these securities and it is more likely than not we will not have to sell these securities before a recovery is realized. In addition, we exclude our RMBS as we monitor all of our RMBS on a quarterly basis for changes in default rates, loss severities and expected cash flows for the purpose of assessing potential other than temporary impairments and related credit losses to be recognized in operations. At December 31, 2010, the amortized cost and fair value of securities on the watch list are as follows:

General Description	Number of Securities	Amortized Cost	Unrealized Gains/ (Losses)	Fair Value	Months in	Months
					Continuous Unrealized Loss Position	Unrealized Losses Greater Than 20%
(Dollars in thousands)						
Investment grade						

Corporate fixed maturity securities:

Finance and insurance	2	6,011	(660) 5,351	38-45	—
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Below investment grade

Corporate fixed maturity securities:

Finance	1	4,249	—	4,249	—	—
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Retail	1	10,479	(1,304) 9,175	67	—
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	4	20,739	(1,964) 18,775		
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Our analysis of these securities that we have determined are temporarily impaired and their credit performance at December 31, 2010 is as follows:

Finance and Insurance: The decline in value of these securities is due to the continued wide spreads as a result of the ongoing concerns relating to capital, asset quality and earnings stability due to the financial events of the past two years. While these issuers have had their financial position and profitability weakened by the credit and liquidity crisis, we have determined that these securities were not other than temporarily impaired due to our evaluation of the operating performance and the credit worthiness of each individual issuer.

Retail: The decline in value of this bond relates to a debt-financed share repurchase combined with a weakening economy which has led to a decrease in sales. We have determined that this security was not other than temporarily impaired due to the issuer's very strong market position and a consistent history of strong operating performance, improving economic conditions and rising security prices.

We do not intend to sell these securities and it is more likely than not we will not have to sell these securities before recovery of their amortized cost and, as such, there were no other than temporary impairments on these securities at December 31, 2010.

Other Than Temporary Impairments

We have a policy and process in place to identify securities in our investment portfolio for which we should recognize impairments. See Critical Accounting Policies—Evaluation of Other Than Temporary Impairments. We recognized other than temporary impairments and additional credit losses on a number of securities for which we have previously recognized OTTI as set forth in the following table:

General Description	Number of Securities	Other Than Temporary Impairments	Portion Recognized In Comprehensive Income	Net Impairment Losses Recognized in Operations
(Dollars in thousands)				
Year Ended December 31, 2010				
Corporate bonds:				
Finance	1	\$(822	) \$—	\$(822)
Retail	1	(1,576	) —	(1,576)
Residential mortgage backed securities	30	(17,146	) (4,323	) (21,469)
	32	\$(19,544	) \$(4,323	) \$(23,867)
Year Ended December 31, 2009				
United States Government full faith and credit				
	1	\$(245	) \$—	\$(245)
Corporate bonds:				
Finance	3	(8,388	) (1,521	) (9,909)
Insurance	2	(766	) (421	) (1,187)
Home building	3	(5,242	) (814	) (6,056)
Residential mortgage backed securities	54	(184,590	) 136,400	(48,190)
Common & preferred stocks:				
Finance	7	(18,292	) —	(18,292)
Insurance	2	(1,492	) —	(1,492)
Real estate	2	(1,400	) —	(1,400)
	74	\$(220,415	) \$133,644	\$(86,771)
Year Ended December 31, 2008				
Corporate bonds:				
Finance	3	\$(13,462)	
Insurance	2	(10,662)	
Home building	3	(7,009)	

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Media	1	(5,325)
Residential mortgage backed securities	15	(76,171)
Common & preferred stocks:			
Finance	9	(49,763)
Insurance	3	(7,093)
Real estate	14	(23,163)
	50	\$(192,648)

The presentation for the year ended December 31, 2008, is prior to the adoption of FASB guidance issued in April 2009 which separates OTTI for debt securities into credit component that is recognized in operations and a non-credit component that is recognized in other comprehensive income.

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Several factors led us to believe that full recovery of amortized cost will not be expected. These include, but are not limited to: (i) a significant change in the operating performance of a company; (ii) a material change in the expected contractual obligation of an issuer; (iii) a significant change in ratings as defined by the NRSRO; and (iv) the time frame in which a recovery to amortized cost may occur. We recognized OTTI of \$2.4 million on two corporate fixed maturity securities during the year ended December 31, 2010, because we changed from a position of holding these securities until price recovery to intending to sell them prior to price recovery.

Deterioration of the issuers' credit worthiness and liquidity profile were major factors in leading us to make the determination that other than temporary impairments were present in our corporate bonds and preferred stocks. Our analysis demonstrated that we could not expect a recovery of our cost basis within our expected holding period for debt securities or within a reasonable period of time for equity securities.

In the case of residential mortgage backed securities, we considered the ratings downgrades, increased default and loss severity projections, actual defaults, and expected cash flow projections to determine that other than temporary impairments were present. We continue to monitor the cash flows and economics surrounding these securities to determine changes in expected future cash flows.

The following table presents the range of significant assumptions used to determine the credit loss component of other than temporary impairments we have recognized on residential mortgage backed securities which are all senior level tranches within the structure of the securities:

Sector	Vintage	Discount Rate		Default Rate		Loss Severity		
		Min	Max	Min	Max	Min	Max	
December 31, 2010								
Prime	2005	7.5	% 7.5	% 11	% 11	% 45	% 45	%
	2006	6.5	% 7.6	% 7	% 11	% 45	% 60	%
	2007	5.8	% 6.7	% 11	% 28	% 40	% 60	%
	2008	6.6	% 6.6	% 5	% 5	% 50	% 50	%
Alt-A	2005	6.0	% 7.4	% 12	% 27	% 45	% 50	%
	2006	6.5	% 7.3	% 30	% 36	% 50	% 60	%
	2007	6.5	% 7.0	% 35	% 51	% 50	% 60	%
December 31, 2009								
Prime	2005	7.7	% 7.7	% 7	% 7	% 50	% 50	%
	2006	6.5	% 9.2	% 7	% 14	% 35	% 55	%
	2007	5.8	% 7.9	% 8	% 31	% 35	% 50	%
Alt-A	2004	5.8	% 5.8	% 11	% 11	% 40	% 40	%
	2005	5.6	% 8.7	% 10	% 25	% 10	% 55	%
	2006	6.0	% 7.3	% 16	% 31	% 40	% 60	%
	2007	6.2	% 7.5	% 15	% 52	% 45	% 70	%

In making the decisions to write down the securities described above, we considered whether the factors leading to those write downs impacted any other securities held in our portfolio. In cases where we determined that a decline in value was related to an industry-wide concern, we considered the impact of such concern on all securities we held within that industry classification.

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Mortgage Loans on Real Estate

Our commercial mortgage loan portfolio consists of mortgage loans collateralized by the related properties and diversified as to property type, location, and loan size. Our mortgage lending policies establish limits on the amount that can be loaned to one borrower and other criteria to attempt to reduce the risk of default. Our commercial mortgage loans on real estate are reported at cost, adjusted for amortization of premiums and accrual of discounts net of allowances for loan loss. At December 31, 2010 and 2009, the largest principal amount outstanding for any single mortgage loan was \$10.7 million and \$11.2 million, respectively, and the average loan size was \$2.4 million for both 2010 and 2009. We have the contractual ability to pursue full personal recourse on 13.3% of the loans and partial personal recourse on 32.5% of the loans, and master leases provide us recourse against the principals of the borrowing entity on 5.6% of the loans. In addition, the average loan to value ratio for the overall portfolio was 54.7% and 56.3% at December 31, 2010 and 2009, respectively, based upon the underwriting and appraisal at the time the loan was made. This loan to value is indicative of our conservative underwriting policies and practices for making commercial mortgage loans and may not be indicative of collateral values at the current reporting date. Our current practice is to only obtain market value appraisals of the underlying collateral at the inception of the loan unless we identify indicators of impairment in our ongoing analysis of the portfolio, in which case, we may obtain a current appraisal of the underlying collateral. The commercial mortgage loan portfolio is summarized by geographic region and property type as follows:

	December 31, 2010		2009		
	Carrying Amount	Percent	Carrying Amount	Percent	
	(Dollars in thousands)				
Geographic distribution					
East	\$618,250	23.6	% \$560,256	22.8	%
Middle Atlantic	172,443	6.6	% 168,246	6.9	%
Mountain	402,965	15.4	% 388,940	15.9	%
New England	42,695	1.6	% 44,541	1.8	%
Pacific	247,254	9.5	% 216,382	8.8	%
South Atlantic	496,606	19.0	% 464,077	18.9	%
West North Central	419,002	16.0	% 410,883	16.7	%
West South Central	215,650	8.3	% 201,719	8.2	%
	\$2,614,865	100.0	% \$2,455,044	100.0	%
Loan loss allowance	(16,224	)	(5,266)	
	2,598,641		2,449,778		
Property type distribution					
Office	\$683,404	26.1	% \$664,701	27.1	%
Medical Office	166,930	6.4	% 145,390	5.9	%
Retail	589,369	22.5	% 564,023	23.0	%
Industrial/Warehouse	666,908	25.5	% 610,279	24.9	%
Hotel	151,516	5.8	% 155,594	6.3	%
Apartment	131,682	5.1	% 122,854	5.0	%
Mixed use/other	225,056	8.6	% 192,203	7.8	%
	\$2,614,865	100.0	% \$2,455,044	100.0	%
Loan loss allowance	(16,224	)	(5,266)	
	2,598,641		2,449,778		

In the normal course of business, we commit to fund commercial mortgage loans up to 90 days in advance. At December 31, 2010, we had commitments to fund commercial mortgage loans totaling \$96.2 million, with fixed interest rates ranging from 5.25% to 6.00%.

During 2010, five mortgage loans were satisfied by taking ownership of the real estate serving as collateral the loans. These loans had an aggregate principal amount outstanding of \$11.7 million, for which specific loan loss allowances totaling \$4.3 million were established and recognized in 2010. Additional impairment of \$0.6 million was recognized on two properties after ownership of the real estate was taken in 2010 as the fair value of each property was revalued by a third party appraiser and the fair value less the estimated costs to sell was lower due to new facts discovered after ownership was obtained.

At December 31, 2010, we have seven mortgage loans that are in the process of being satisfied by taking ownership of the real estate serving as collateral on the loan. These seven loans have a total outstanding principal balance of \$24.1 million for which we have recorded specific loan loss allowances totaling \$11.1 million in 2010. We also have 23 commercial mortgage loans at December 31, 2010 with a total outstanding principal balance of \$68.5 million that have been given "workout" terms which generally allow for interest only payments or the capitalization of interest for a specified period of time. We have recorded a specific loan loss allowance on one of the "workout" loans (principal balance of

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\$5.7 million) of \$1.9 million (\$0.9 million in 2010 and \$1.0 million in 2009). At December 31, 2010, we have six commercial mortgage loans with a total outstanding principal balance of \$20.5 million that were delinquent (60 days or more at the reporting date) in their principal and interest payments and we recorded a specific loan loss allowance on one of these loans (principal balance of \$1.3 million) of \$0.2 million in 2010. The total outstanding principal balance of these 36 loans is \$113.0 million, which represents less than 5% of our total mortgage loan portfolio. We evaluate our mortgage loan portfolio for the establishment of a loan loss reserve by specific identification of impaired loans and the measurement of an estimated loss for each individual loan identified and an analysis of the mortgage loan portfolio for the need for a general loan allowance for probable losses on all other loans. If we determine that the value of any specific mortgage loan is impaired, the carrying amount of the mortgage loan will be reduced to its fair value, based upon the present value of expected future cash flows from the loan discounted at the loan's effective interest rate, or the fair value of the underlying collateral less estimated costs to sell that collateral. The amount of the general loan allowance is based upon management's evaluation of the collectability of the loan portfolio, historical loss experience, delinquencies, credit concentrations, underwriting standards and national and local economic conditions. Based upon this process and analysis, we established a general loan loss allowance of \$3.0 million during the year ended December 31, 2010. No general loan loss allowance was considered necessary at December 31, 2009, and the 2010 activity reflects our ongoing evaluation of historical experience and current market conditions.

Mortgage loans summarized in the following table represent all loans that we are either not currently collecting or those we feel it is probable we will not collect all amounts due according to the contractual terms of the loan agreements (all loans that we have worked with the borrower to alleviate short-term cash flow issues and loans delinquent for 60 days or more at the reporting date).

	December 31,	
	2010	2009
	(Dollars in thousands)	
Impaired mortgage loans with allowances	\$31,027	\$15,869
Impaired mortgage loans with no allowance for losses	81,994	70,214
Allowance for probable loan losses	(13,224	) (5,266
Net carrying value of impaired mortgage loans	\$99,797	\$80,817

Derivative Instruments

Our derivative instruments primarily consist of call options purchased to provide the income needed to fund the annual index credits on our fixed index annuity products. The fair value of the call options is based upon the amount of cash that would be required to settle the call options obtained from the counterparties adjusted for the nonperformance risk of the counterparty. The nonperformance risk for each counterparty is based upon its credit default swap rate. We have no performance obligations related to the call options.

We recognize all derivative instruments as assets or liabilities in the consolidated balance sheets at fair value. None of our derivatives qualify for hedge accounting, thus, any change in the fair value of the derivatives is recognized immediately in the consolidated statements of operations.

The fair value of our derivative instruments, including derivative instruments embedded in fixed index annuity contracts, presented in the consolidated balance sheets are as follows:

	December 31,	
	2010	2009
	(Dollars in thousands)	
Assets		
Derivative instruments		
Call options	\$479,786	\$479,272
Other Assets		
2015 notes hedges	66,595	—
	\$546,381	\$479,272
Liabilities		

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Policy benefit reserves—annuity products		
Fixed index annuities—embedded derivatives	\$1,971,383	\$1,375,866
Other liabilities		
2015 notes embedded conversion derivative	66,595	—
Interest rate swaps	1,976	1,891
	\$2,039,954	\$1,377,757

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The change in fair value of derivatives included in the consolidated statements of operations are as follows:

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Change in fair value of derivatives:			
Call options	\$ 141,803	\$ 219,275	\$(370,814)
2015 notes hedges	29,595	—	—
Interest rate swaps	(2,536)	(2,379)	(1,195)
	\$ 168,862	\$ 216,896	\$(372,009)
Change in fair value of embedded derivatives:			
2015 notes embedded derivatives	\$ 29,595	\$—	\$—
Fixed index annuities	101,355	529,508	(210,753)
	\$ 130,950	\$ 529,508	\$(210,753)

We have fixed index annuity products that guarantee the return of principal to the policyholder and credit interest based on a percentage of the gain in a specified market index. When fixed index annuity deposits are received, a portion of the deposit is used to purchase derivatives consisting of call options on the applicable market indices to fund the index credits due to fixed index annuity policyholders. Substantially all such call options are one year options purchased to match the funding requirements of the underlying policies. The call options are marked to fair value with the change in fair value included as a component of revenues. The change in fair value of derivatives includes the gains or losses recognized at the expiration of the option term or upon early termination and the changes in fair value for open positions. On the respective anniversary dates of the index policies, the index used to compute the annual index credit is reset and we purchase new one-year call options to fund the next annual index credit. We manage the cost of these purchases through the terms of our fixed index annuities, which permit us to change caps, participation rates, and/or asset fees, subject to guaranteed minimums on each policy's anniversary date. By adjusting caps, participation rates, or asset fees, we can generally manage option costs except in cases where the contractual features would prevent further modifications.

Our strategy attempts to mitigate any potential risk of loss under these agreements through a regular monitoring process which evaluates the program's effectiveness. We do not purchase call options that would require payment or collateral to another institution and our call options do not contain counterparty credit-risk-related contingent features. We are exposed to risk of loss in the event of nonperformance by the counterparties and, accordingly, we purchase our option contracts from multiple counterparties and evaluate the creditworthiness of all counterparties prior to purchase of the contracts. All of these options have been purchased from nationally recognized financial institutions with a Standard and Poor's credit rating of A- or higher at the time of purchase and the maximum credit exposure to any single counterparty is subject to concentration limits. We also have credit support agreements that allow us to request the counterparty to provide collateral to us when the fair value of our exposure to the counterparty exceeds specified amounts.

The notional amount and maximum amount of loss due to credit risk that we would incur if parties to the call options failed completely to perform according to the terms of the contracts are as follows:

Counterparty	Credit Rating (S&P)	Credit Rating (Moody's)	December 31,		2009	
			2010		Notional Amount	Fair Value
			Notional Amount	Fair Value	Notional Amount	Fair Value
			(Dollars in thousands)			
Bank of America	A+	Aa3	\$588,650	\$25,704	\$796	\$—
BNP Paribas	AA	Aa2	786,561	34,772	1,647,627	101,888
Lehman	NR	NR	—	—	1,437	—
Bank of New York	AA-	Aa2	18,082	111	112,193	6,153
Credit Suisse	A+	Aa1	2,462,920	95,910	2,711,027	163,321

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Barclays	AA-	Aa3	1,728,218	72,751	258,853	10,082
SunTrust	BBB+	A3	50,540	3,164	427,572	27,735
Wells Fargo (Wachovia)	NR	Aa2	1,745,775	76,250	1,189,234	70,746
J.P. Morgan	AA-	Aa1	2,858,902	133,368	1,648,394	99,347
UBS	A+	Aa3	921,596	37,756	—	—
			\$11,161,244	\$479,786	\$7,997,133	\$479,272

As of December 31, 2010 and 2009 we held \$381.2 and \$346.5 million, respectively, of cash and cash equivalents received from counterparties for derivative collateral, which is included in other liabilities on our consolidated balance sheets. This derivative collateral limits the maximum amount of economic loss due to credit risk that we would incur if parties to the call options failed completely to perform according to the terms of the contracts to \$108.1 million and \$149.6 million at December 31, 2010 and 2009, respectively.

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We had unsecured counterparty exposure in connection with options purchased from affiliates of Lehman Brothers ("Lehman") which declared bankruptcy during the third quarter of 2008. All options purchased from affiliates of Lehman had expired as of June 30, 2010. The amount of option proceeds due on expired options purchased from affiliates of Lehman that we did not receive payment on was \$12.0 million and \$2.1 million for the years ended December 31, 2009 and 2008, respectively. No amount has been recognized for any recovery of these amounts that may result from our claim in Lehman's bankruptcy proceedings.

Concurrently with the issuance of our 3.5% Convertible Senior Notes due in 2015 (the "2015 notes"), we entered into hedge transactions (the "2015 notes hedges") with various parties whereby we have the option to receive the cash equivalent of the conversion spread on approximately 16.0 million shares of our common stock based upon a strike price of \$12.50 per share, subject to certain conversion rate adjustments in the 2015 notes. These options expire on September 15, 2015 and must be settled in cash. The aggregate cost of the 2015 notes hedges was \$37.0 million. The 2015 notes hedges are accounted for as derivative assets, and are included in Other assets in our Consolidated Balance Sheets. The estimated fair value of the 2015 notes hedges was \$66.6 million as of December 31, 2010.

The conversion option of the 2015 notes (the "2015 notes embedded conversion derivative") is an embedded derivative that requires bifurcation from the 2015 notes and is accounted for as a derivative liability, which is included in Other liabilities in our Consolidated Balance Sheets. The fair value of the 2015 notes embedded conversion derivative at the time of issuance of the 2015 notes was \$37.0 million, and was recorded as the original debt discount for purposes of accounting for the debt component of the 2015 notes. This discount will be recognized as interest expense using the effective interest method over the term of the 2015 notes. The estimated fair value of the 2015 notes embedded conversion derivative was \$66.6 million as of December 31, 2010.

Liabilities

Our liability for policy benefit reserves increased to \$23.7 billion at December 31, 2010 compared to \$19.3 billion at December 31, 2009, primarily due to additional annuity sales as discussed above. Substantially all of our annuity products have a surrender charge feature designed to reduce the risk of early withdrawal or surrender of the policies and to compensate us for our costs if policies are withdrawn early. Notwithstanding these policy features, the withdrawal rates of policyholder funds may be affected by changes in interest rates and other factors.

As part of our investment strategy, we enter into securities repurchase agreements (short-term collateralized borrowings). We had no borrowings under repurchase agreements during 2010. The maximum amount borrowed during 2009 and 2008 was \$440.0 million and \$641.1 million, respectively. When we do borrow cash on these repurchase agreements, we pledge collateral in the form of debt securities with fair values approximately equal to the amount due and we use the cash to purchase debt securities ahead of the time we collect the cash from selling annuity policies to avoid a lag between the investment of funds and the obligation to credit interest to policyholders. We earn investment income on the securities purchased with these borrowings at a rate in excess of the cost of these borrowings. Such borrowings averaged \$150.7 million and \$359.9 million for the years ended December 31, 2009 and 2008, respectively. The weighted average interest rate on amounts due under repurchase agreements was 0.35% and 2.28% for the years ended December 31, 2009 and 2008, respectively.

In December 2004, we issued \$260.0 million principal amount of convertible senior notes due December 6, 2024 (the "2024 notes"). The 2024 notes are unsecured and bear interest at a fixed rate of 5.25% per annum. Interest is payable semi-annually in arrears on June 6 and December 6 of each year. In addition to regular interest on the 2024 notes, beginning with the six-month interest period ending June 6, 2012, we will also pay contingent interest under certain conditions at a rate of 0.5% per annum based on the average trading price of the 2024 notes during a specified period. We extinguished \$78.1 million principal amount of the 2024 notes during 2008 at a discount and recognized a gain of \$9.7 million. In 2009, we issued five million shares of our common stock with a fair value of \$31.3 million in exchange for \$37.2 million principal amount of the 2024 notes and recognized a gain of \$3.1 million. In 2010, we extinguished \$6.7 million principal amount of the outstanding 2024 notes for \$6.6 million in cash and recognized a loss of \$0.3 million.

In December 2009, we issued \$115.8 million principal amount of convertible senior notes due December 6, 2029 (the "2029 notes"). The 2029 notes are unsecured and bear interest at a fixed rate of 5.25% per annum. Interest is payable semi-annually in arrears on June 6 and December 6 of each year. In addition to regular interest on the 2029 notes,

beginning with the six-month interest period ending June 6, 2015, we will also pay contingent interest under certain conditions at a rate of 0.5% per annum based on the average trading price of the 2029 notes during a specified period. \$52.2 million of these notes were issued for cash. The remaining \$63.6 million were issued in exchange for the same amount of the 2024 notes, for which a loss of \$3.8 million was recognized.

In September 2010, we issued \$200.0 million principal amount of the 2015 notes. The 2015 notes have a stated interest rate of 3.5%, mature on September 15, 2015, and are intended to be settled in cash; however, in certain limited circumstances we have the discretion to settle in shares of our common stock or a combination of cash and shares of our common stock. Contractual interest payable on the 2015 notes began accruing in September 2010 and is payable semi-annually in arrears on March 15 and September 15. We used \$150 million of the proceeds to pay off our fully drawn bank line of credit.

The 2024 notes and 2029 notes are convertible at the holders' option prior to the maturity date into cash and shares of our common stock under certain conditions. The conversion price per share of the 2024 notes is \$14.03, which represents a conversion rate of 71.3 shares of our common stock per \$1,000 in principal amount of notes. The conversion price per share of the 2029 notes is \$9.69, which represents a conversion rate of 103.2 shares of our common stock per \$1,000 in principal amount of notes. Upon conversion, we will deliver to the holder cash equal to the aggregate principal amount of the notes to be converted and shares of our common stock for the amount by which the conversion value exceeds the aggregate principal amount of the notes to be converted (commonly referred to as "net share settlement"). See note 9 to the audited consolidated financial statements for additional details concerning the conversion features of the notes and the dilutive effect of the notes in our diluted

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earnings per share calculation.

The initial conversion rate for the 2015 notes is 80 shares of our common stock per \$1,000 principal amount of 2015 notes, equivalent to a conversion price of approximately \$12.50 per share of our common stock, with the amount due on conversion. Upon conversion, a holder will receive a cash payment equal to the sum of the daily settlement amounts, calculated on a proportionate basis for each day, during a specified observation period following the conversion date.

At December 31, 2010, \$74.5 million principal amount of the 2024 notes remains outstanding which we may redeem at any time on or after December 15, 2011. The holders of the 2024 notes may require us to repurchase their notes on December 15, 2011, 2014, and 2019 and for a certain period of time following a change in control. We may redeem the 2029 notes at any time on or after December 15, 2014. The holders of the 2029 notes may require us to repurchase their notes on December 15, 2014, 2019 and 2024 and for a certain period of time following a change in control.

The redemption price or the repurchase price shall be payable in cash and equal to 100% of the principal amount of the notes, plus accrued and unpaid interest (including contingent interest and liquidated damages, if any) up to but not including the date of redemption or repurchase.

Our convertible notes are senior unsecured obligations and rank equally in the right of payment with all existing and future senior indebtedness and senior to any existing and future subordinated indebtedness. Our convertible notes effectively rank junior in the right of payment to any existing and future secured indebtedness to the extent of the value of the assets securing such secured indebtedness. Our convertible notes are structurally subordinated to all liabilities of our subsidiaries.

Our subsidiary trusts have issued fixed rate and floating rate trust preferred securities and the trusts have used the proceeds from these offerings to purchase subordinated debentures from us. We also issued subordinated debentures to the trusts in exchange for all of the common securities of each trust. The sole assets of the trusts are the subordinated debentures and any interest accrued thereon. The terms of the preferred securities issued by each trust parallel the terms of the subordinated debentures. Our obligations under the subordinated debentures and related agreements provide a full and unconditional guarantee of payments due under the trust preferred securities.

Accounting standards for consolidation of variable interest entities, specifically exempts qualifying special purpose entities from consolidation; therefore, we do not consolidate our subsidiary trusts and record our subordinated debt obligations to the trusts and our equity investments in the trusts. See note 10 to our audited consolidated financial statements for additional information concerning our subordinated debentures payable to, and the preferred securities issued by, the subsidiary trusts.

Following is a summary of subordinated debt obligations to the trusts at December 31, 2010 and 2009:

	December 31,		Interest Rate	Due Date
	2010	2009		
	(Dollars in thousands)			
American Equity Capital Trust I	\$22,893	\$22,953	8%	September 30, 2029
American Equity Capital Trust II	75,932	75,784	5%	June 1, 2047
American Equity Capital Trust III	27,840	27,840	*LIBOR + 3.90%	April 29, 2034
American Equity Capital Trust IV	12,372	12,372	*LIBOR + 4.00%	January 8, 2034
American Equity Capital Trust VII	10,830	10,830	*LIBOR + 3.75%	December 14, 2034
American Equity Capital Trust VIII	20,620	20,620	*LIBOR + 3.75%	December 15, 2034
American Equity Capital Trust IX	15,470	15,470	*LIBOR + 3.65%	June 15, 2035
American Equity Capital Trust X	20,620	20,620	*LIBOR + 3.65%	September 15, 2035
American Equity Capital Trust XI	20,620	20,620	*LIBOR + 3.65%	December 15, 2035
American Equity Capital Trust XII	41,238	41,238	*LIBOR + 3.50%	April 7, 2036
	\$268,435	\$268,347		

*—three month London Interbank Offered Rate

The interest rate for Trust XI was fixed at 8.595% for 5 years until December 15, 2010.

American Equity Capital Trust I issued 865,671 shares of 8% trust preferred securities, of which 2,000 shares are held by one of our subsidiaries, and we issued \$26.8 million of our 8% subordinated debentures. During 2010 and 2008, 2,010 and 8,333 shares of these trust preferred securities converted into 7,444 and 30,862 shares of our common stock, respectively. There were no conversions during 2009. The remaining 736,328 shares of these trust preferred securities not held by a subsidiary are convertible into 2,727,084 shares of our common stock.

American Equity Capital Trust II issued 97,000 shares of 5% trust preferred securities, and we issued \$100 million of our 5% subordinated debentures. The consideration received by American Equity Capital Trust II in connection with the issue of its trust preferred securities consisted of fixed income trust preferred securities of equal value issued by FBL Financial Group, Inc.

At December 31, 2010, we had a \$150 million revolving line of credit with eight banks. The applicable interest rate is floating at LIBOR plus 0.80% or the greater of prime rate or federal funds rate plus 0.50%, as elected by us. As noted above, we used \$150 million of the 2015 notes proceeds to pay off the amount drawn on this revolving line of credit. No amount was outstanding at December 31, 2010. The amount outstanding under this revolving line of credit at December 31, 2009 was \$150.0 million. Subsequent to December 31, 2010, we terminated the \$150 million

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revolving line of credit agreement and entered into a \$160 million revolving line of credit agreement with seven banks. The revolving period of the \$160 million facility will be three years. The interest rate will be floating at a rate based on our election that will be equal to the applicable base rate (highest of the rate of interest publicly announced by JPMorgan Chase Bank as its prime rate in effect at its principal office in New York City, the federal funds effective rate from time to time plus 0.50% and the adjusted LIBOR for a one month interest period on such day plus 1.00%) plus the applicable margin or the adjusted LIBOR plus the applicable margin. The applicable margin and commitment fee rate are based on our credit rating and can change throughout the period of the credit facility. Based on our current credit rating the applicable margin is 2.00% and the commitment fee is 0.50% on the unused portion of credit available. Under this agreement, we are required to maintain a minimum risk-based capital ratio at American Equity Life, a maximum ratio of debt to total capital, a minimum cash coverage ratio, and a minimum level of statutory surplus at American Equity Life.

We entered into interest rate swaps to manage interest rate risk associated with the floating rate component on certain of our subordinated debentures and our revolving line of credit. The terms of the interest rate swaps provide that we pay a fixed rate of interest and receive a floating rate of interest. The interest rate swaps are not effective hedges under accounting guidance for derivative instruments and hedging activities. Therefore, we record the interest rate swaps at fair value with the changes in fair value and any net cash payments received or paid included in the change in fair value of derivatives in our consolidated statements of operations.

Details regarding the interest rate swaps are as follows:

Maturity Date	Notional Amount	Receive Rate	Pay Rate	Counterparty	December 31,	
					2010 Fair Value	2009 Fair Value
September 15, 2010	20,000	*LIBOR(a)	5.19	% Bank of America	—	(142)
April 7, 2011	20,000	*LIBOR(a)	5.23	% Bank of America	(99)	(290)
October 15, 2011	15,000	**LIBOR	1.54	% SunTrust	(193)	(144)
October 31, 2011	30,000	**LIBOR	1.51	% SunTrust	(374)	(241)
October 31, 2011	30,000	**LIBOR	1.61	% SunTrust	(405)	(301)
October 31, 2011	75,000	**LIBOR	1.77	% SunTrust	(905)	(773)
					\$(1,976)	\$(1,891)

*—three month London Interbank Offered Rate

**—one month London Interbank Offered Rate

(a)—subject to a floor of 4.25%

Liquidity and Capital Resources

Liquidity for Insurance Operations

Our insurance subsidiaries' primary sources of cash flow are annuity deposits, investment income, and proceeds from the sale, maturity and calls of investments. The primary uses of funds are investment purchases, payments to policyholders in connection with surrenders and withdrawals, policy acquisition costs and other operating expenses. Liquidity requirements are met primarily by funds provided from operations. Our life subsidiaries generally receive adequate cash flow from annuity deposits and investment income to meet their obligations. Annuity and life insurance liabilities are generally long-term in nature. However, a primary liquidity concern is the risk of an extraordinary level of early policyholder withdrawals. We include provisions within our annuity policies, such as surrender charges, that help limit and discourage early withdrawals. At December 31, 2010, approximately 97% of our annuity liabilities were subject to penalty upon surrender, with a weighted average remaining surrender charge period of 10.3 years and

a weighted average surrender charge rate of 15.2%.

Our insurance subsidiaries continue to have adequate cash flows from annuity deposits and investment income to meet their policyholder and other obligations. Net cash flows from annuity deposits and funds returned to policyholders as surrenders, withdrawals and death claims were \$2.8 billion for the year ended December 31, 2010 compared to \$1.7 billion for the year ended December 31, 2009 with the increase primarily attributable to a \$1.3 billion increase in net annuity deposits after coinsurance and a \$200.7 million (after coinsurance) increase in funds returned to policyholders. We continue to invest the net proceeds from policyholder transactions and investment activities in high quality fixed maturity securities and fixed rate commercial mortgage loans. As reported above under Financial Condition - Investments, during 2010 we experienced a significant amount of calls of United States Government sponsored agency securities. As a result we have had elevated levels of short-term investments and cash and cash equivalents during 2010. We have been reinvesting the proceeds from the called securities in United States Government sponsored agency securities, investment grade corporate fixed maturity securities and United States municipalities, states and territories securities with yields that meet our investment spread objectives. The accelerated pace of these calls may continue in 2011. At December 31, 2010, 36% of our fixed income securities have call features and 1% (\$0.1 billion) of those securities were subject to call redemption. Another 21% (\$3.4 billion) of our fixed income securities will become subject to call redemption during 2011. If interest rates remain unchanged from December 31, 2010 levels we expect many of the securities callable in 2011 to be called. Our ability to continue to reinvest the proceeds from called securities in assets with acceptable credit quality and yield characteristics similar to the called securities will be dependent on future

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market conditions.

Liquidity of Parent Company

We, as the parent company, are a legal entity separate and distinct from our subsidiaries, and have no business operations. We need liquidity primarily to service our debt, including the convertible senior notes and subordinated debentures issued to subsidiary trusts, pay operating expenses and pay dividends to stockholders. Our assets consist primarily of the capital stock and surplus notes of our subsidiaries. Accordingly, our future cash flows depend upon the availability of dividends, surplus note interest payments and other statutorily permissible payments from our subsidiaries, such as payments under our investment advisory agreements and tax allocation agreement with our subsidiaries. These sources provide adequate cash flow to us to meet our current and reasonably foreseeable future obligations and we expect they will be adequate to fund our parent company cash flow requirements in 2011. During 2011, we may redeem and holders may require us to repurchase the \$74.5 million principal amount outstanding of the 2024 notes. At December 31, 2010, we have cash and cash equivalents totaling \$62.3 million on hand available to extinguish this debt.

The payment of dividends or distributions, including surplus note payments, by our life subsidiaries is subject to regulation by each subsidiary's state of domicile's insurance department. Currently, American Equity Life may pay dividends or make other distributions without the prior approval of the Iowa Insurance Commissioner, unless such payments, together with all other such payments within the preceding twelve months, exceed the greater of (1) American Equity Life's net gain from operations for the preceding calendar year, or (2) 10% of American Equity Life's statutory capital and surplus at the preceding December 31. For 2011, up to \$187.5 million can be distributed as dividends by American Equity Life without prior approval of the Iowa Insurance Commissioner. In addition, dividends and surplus note payments may be made only out of statutory earned surplus, and all surplus note payments are subject to prior approval by regulatory authorities in the life subsidiary's state of domicile. American Equity Life had \$493.6 million of statutory earned surplus at December 31, 2010.

The maximum distribution permitted by law or contract is not necessarily indicative of an insurer's actual ability to pay such distributions, which may be constrained by business and regulatory considerations, such as the impact of such distributions on surplus, which could affect the insurer's ratings or competitive position, the amount of premiums that can be written and the ability to pay future dividends or make other distributions. Further, state insurance laws and regulations require that the statutory surplus of our life subsidiaries following any dividend or distribution must be reasonable in relation to their outstanding liabilities and adequate for their financial needs. In addition, we manage the statutory capital and surplus in American Equity Life to maintain American Equity Life's current A.M. Best rating. As of December 31, 2010, we estimate American Equity Life has sufficient statutory capital and surplus, combined with capital available to the holding company, to meet this rating objective. However, this capital may not be sufficient if significant future losses are incurred or A.M. Best modifies its rating criteria and, given the current market conditions, access to additional capital could be limited.

The transfer of funds by American Equity Life is also restricted by a covenant in our revolving line of credit agreement which requires American Equity Life to maintain a minimum risk-based capital ratio of 275%. American Equity Life's risk-based capital ratio was 339% at December 31, 2010.

Statutory accounting practices prescribed or permitted for our life subsidiaries differ in many respects from those governing the preparation of financial statements under GAAP. Accordingly, statutory operating results and statutory capital and surplus may differ substantially from amounts reported in the GAAP basis financial statements for comparable items. Information as to statutory capital and surplus and statutory net income for our life subsidiaries as of December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008 is included in note 12 to our audited consolidated financial statements.

During the third quarter 2010, we issued \$200.0 million principal amount of the 2015 notes. Concurrently with the issuance of the 2015 notes, we entered into hedge transactions (the "2015 notes hedges") with various parties whereby we have the option to receive the cash equivalent of approximately 16.0 million shares of our common stock based upon a strike price of \$12.50 per share, subject to certain conversion rate adjustments in the 2015 notes. In separate transactions, we also sold warrants (the "2015 warrants") to two counterparties for the purchase of up to approximately 16.0 million shares of our common stock at a price of \$16.00 per share. The 2015 notes, 2015 notes

hedges and 2015 warrants produced net cash proceeds of \$171.9 million. We used \$150.0 million of these proceeds to pay off the amount drawn on our now terminated revolving line of credit.

As discussed above, subsequent to December 31, 2010, we terminated the \$150 million line of credit and entered into a \$160 million revolving line of credit agreement (see note 9 to our audited consolidated financial statements). The new revolving line of credit terminates on January 28, 2014, and borrowings are available for general corporate purposes of the parent company and its subsidiaries. During 2009, we borrowed \$75.0 million under our now terminated revolving line of credit and used the proceeds to make \$75.0 million in capital contributions to American Equity Life.

During 2008, we purchased \$78.1 million principal amount of the 2024 notes at a discount and recognized a gain of \$9.7 million related to the retirement of these notes. The cash required to retire these notes totaled \$61.4 million. We also repurchased 3,545,744 shares of our common stock as part of our share repurchase program during 2008. We suspended the repurchase of our common stock under this program in August 2008. The cash used to purchase our common stock during 2008 was \$30.7 million. The sources of cash to fund the debt retirements and the common stock repurchases primarily came from draws on our \$150 million revolving line of credit and sales of investments including sales to American Equity Life.

On August 20, 2009, we entered into distribution agreements with Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC ("FPK") and Sandler O'Neill & Partners, L.P. ("Sandler O'Neill") to offer and sell shares of our common stock up to an aggregate offering price of \$50 million. On December 3, 2009, Macquarie Capital (USA) Inc. ("Macquarie Capital") assumed all of FPK's rights and obligations under our distribution

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agreement with FPK. On August 4, 2010, we provided notice to Macquarie Capital and Sandler O'Neill that we were terminating the distribution agreements. During 2009, we sold 132,300 shares of our common stock pursuant to these distribution agreements, resulting in gross proceeds to us of \$1.1 million, and we had no sales in 2010.

We have the ability to issue equity, debt or other types of securities through one or more methods of distribution under a currently effective shelf registration statement on Form S-3. The terms of any offering would be established at the time of the offering, subject to market conditions.

In the normal course of business, we enter into financing transactions, lease agreements, or other commitments. These commitments may obligate us to certain cash flows during future periods. The following table summarizes such obligations as of December 31, 2010.

	Payments Due by Period				
	Total	Less Than 1 year	1–3 Years	4–5 Years	After 5 Years
	(Dollars in thousands)				
Annuity and single premium universal life products (1)	\$23,918,065	\$1,685,055	\$5,329,045	\$3,388,376	\$13,515,589
Notes payable, including interest payments	446,570	91,486	26,163	328,921	—
Subordinated debentures, including interest payments (2)	680,103	14,147	28,295	28,295	609,366
Operating leases	11,942	1,274	2,285	2,093	6,290
Mortgage loan funding	96,215	96,215	—	—	—
Total	\$25,152,895	\$1,888,177	\$5,385,788	\$3,747,685	\$14,131,245

(1) Amounts shown in this table are projected payments through the year 2030 which we are contractually obligated to pay to our annuity policyholders. The payments are derived from actuarial models which assume a level interest rate scenario and incorporate assumptions regarding mortality and persistency, when applicable. These assumptions are based on our historical experience.

(2) Amount shown is net of equity investments in the capital trusts due to the contractual right of offset upon repayment of the notes.

Inflation

Inflation does not have a significant effect on our consolidated balance sheet. We have minimal investments in property, equipment or inventories. To the extent that interest rates may change to reflect inflation or inflation expectations, there would be an effect on our balance sheet and operations. Lower interest rates and tighter spreads experienced in recent periods have increased the value of our fixed maturity investments. It is likely that rising interest rates and wider spreads would have the opposite effect. It is not possible to calculate the effect such changes in interest rates, if any, have had on our operating results.

Critical Accounting Policies

The increasing complexity of the business environment and applicable authoritative accounting guidance require us to closely monitor our accounting policies. We have identified five critical accounting policies that are complex and require significant judgment. The following summary of our critical accounting policies is intended to enhance your ability to assess our financial condition and results of operations and the potential volatility due to changes in estimates.

Valuation of Investments

Our fixed maturity securities (bonds and redeemable preferred stocks maturing more than one year after issuance) and equity securities (common and perpetual preferred stocks) classified as available for sale are reported at fair value. Unrealized gains and losses, if any, on these securities are included directly in stockholders' equity as a component of Accumulated Other Comprehensive Loss, net of income taxes and certain adjustments for assumed changes in amortization of deferred policy acquisition costs and deferred sales inducements. Unrealized gains and losses represent the difference between the amortized cost or cost basis and the fair value of these investments. We use

significant judgment within the process used to determine fair value of these investments.

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GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. We categorize our investments into three levels of fair value hierarchy based on the priority for use of inputs in determining fair value. The hierarchy defines the highest priority inputs (Level 1) as quoted prices in active markets for identical assets. The lowest priority inputs (Level 3) are our own assumptions about what a market participant would use in determining fair value such as estimated future cash flows. We categorize financial assets and liabilities recorded at fair value in the consolidated balance sheets as follows:

Level 1 — Quoted prices are available in active markets for identical financial instruments as of the reporting date. We do not adjust the quoted price for these financial instruments, even in situations where we hold a large position and a sale could reasonably impact the quoted price.

Level 2 — Quoted prices in active markets for similar financial instruments, quoted prices for identical or similar financial instruments in markets that are not active; and models and other valuation methodologies using inputs other than quoted prices that are observable.

Level 3 — Models and other valuation methodologies using significant inputs that are unobservable for financial instruments and include situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in Level 3 are securities for which no market activity or data exists and for which we used discounted expected future cash flows with our own assumptions about what a market participant would use in determining fair value.

The following table presents the fair value of fixed maturity and equity securities, available for sale, by pricing source and hierarchy level as of December 31, 2010 and 2009, respectively:

	Quoted Prices in Active Markets for Identical Assets (Level 1) (Dollars in thousands)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	
December 31, 2010					
Priced via third party pricing services	\$ 122,543	\$ 13,045,622	\$—	\$ 13,168,165	
Priced via independent broker quotations	—	2,524,103	—	2,524,103	
Priced via matrices	—	—	—	—	
Priced via other methods	—	201,654	2,702	204,356	
	\$ 122,543	\$ 15,771,379	\$ 2,702	\$ 15,896,624	
% of Total	0.8	% 99.2	% 0.0	% 100.0	%
December 31, 2009					
Priced via third party pricing services	\$ 154,035	\$ 610,195	\$—	\$ 764,230	
Priced via independent broker quotations	2,545	9,945,634	—	9,948,179	
Priced via matrices	—	53,647	—	53,647	
Priced via other methods	—	13,243	17,918	31,161	
	\$ 156,580	\$ 10,622,719	\$ 17,918	\$ 10,797,217	
% of Total	1.5	% 98.4	% 0.2	% 100.0	%

Management's assessment of all available data when determining fair value of our investments is necessary to appropriately apply fair value accounting.

We utilize independent pricing services in estimating the fair values of investment securities. The independent pricing services incorporate a variety of observable market data in their valuation techniques, including:

- reported trading prices,
- benchmark yields
- broker-dealer quotes,

- benchmark securities,
- bids and offers,
- credit ratings,
- relative credit information, and
- other reference data.

The independent pricing services also take into account perceived market movements and sector news, as well as a security's terms and conditions, including any features specific to that issue that may influence risk and marketability. Depending on the security, the priority of the use of observable market inputs may change as some observable market inputs may not be relevant or additional inputs may be necessary. We generally

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obtain one value from our primary external pricing service. In situations where a price is not available from this service, we may obtain further quotes or prices from additional parties as needed.

The independent pricing services provide quoted market prices when available. Quoted prices are not always available due to market inactivity. Valuations and quotes obtained from third party commercial pricing services are non-binding and do not represent quotes on which one may execute the disposition of the assets.

In addition, we obtain prices from a broker for our callable United States Government sponsored agencies. Market indices of similar rated asset class spreads are considered for valuations and broker indications of similar securities are compared. Inputs used by the broker include market information, such as yield data and other factors relating to instruments or securities with similar characteristics.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

We validate external valuations at least quarterly through a combination of procedures that include the evaluation of methodologies used by the pricing services, analytical reviews and performance analysis of the prices against trends, and maintenance of a securities watch list. Additionally, as needed we utilize discounted cash flow models or perform independent valuations on a case-by-case basis of inputs and assumptions similar to those used by the pricing services. Although we do identify differences from time to time as a result of these validation procedures, we did not make any significant adjustments during the years ended December 31, 2010 and 2009.

Evaluation of Other Than Temporary Impairments

The evaluation of investments for other than temporary impairments involves significant judgment and estimates by management. We review and analyze all investments on an ongoing basis for changes in market interest rates and credit deterioration. This review process includes analyzing our ability to recover the amortized cost or cost basis of each investment that has a fair value that is lower than its amortized cost or cost and requires a high degree of management judgment and involves uncertainty. The evaluation of securities for other than temporary impairments is a quantitative and qualitative process, which is subject to risks and uncertainties.

We have a policy and process in place to identify securities that could potentially have an impairment that is other than temporary. This process involves monitoring market events and other items that could impact issuers. The evaluation includes but is not limited to such factors as:

- the length of time and the extent to which the fair value has been less than amortized cost or cost;
- whether the issuer is current on all payments and all contractual payments have been made as agreed;
- the remaining payment terms and the financial condition and near-term prospects of the issuer;
- the lack of ability to refinance due to liquidity problems in the credit market;
- the fair value of any underlying collateral;
- the existence of any credit protection available;
- our intent to sell and whether it is more likely than not we would be required to sell prior to recovery for debt securities;
- our assessment in the case of equity securities including perpetual preferred stocks with credit deterioration that the security cannot recover to cost in a reasonable period of time;
- our intent and ability to retain equity securities for a period of time sufficient to allow for recovery;
- consideration of rating agency actions; and
- changes in estimated cash flows of residential mortgage and asset backed securities.

We determine whether other than temporary impairment losses should be recognized for debt and equity securities by assessing all facts and circumstances surrounding each security. Where the decline in market value of debt securities is

attributable to changes in market interest rates or to factors such as market volatility, liquidity and spread widening, and we anticipate recovery of all contractual or expected cash flows, we do not consider these investments to be other than temporarily impaired because we do not intend to sell these investments and it is not more likely than not we will be required to sell these investments before a recovery of amortized cost, which may be maturity. For equity securities, we recognize an impairment charge in the period in which we do not have the intent and ability to hold the securities until recovery of cost or we determine that the security will not recover to book value within a reasonable period of time. We determine what constitutes a reasonable period of time on a security-by-security basis by considering all the evidence available to us, including the magnitude of any unrealized loss and its duration. In any event, this period does not exceed 18 months from the date of impairment for perpetual preferred securities for which there is evidence of deterioration in credit of the issuer and common equity securities. For perpetual preferred securities absent evidence of a deterioration in credit of the issuer we apply an impairment model, including an anticipated recovery period, similar to a debt security.

Other than temporary impairment losses on equity securities are recognized in operations. If we intend to sell a debt security or if it is more likely than not that we will be required to sell a debt security before recovery of its amortized cost basis, other than temporary impairment has occurred and the difference between amortized cost and fair value will be recognized as a loss in operations.

If we do not intend to sell and it is not more likely than not we will be required to sell the debt security but also do not expect to recover the entire amortized cost basis of the security, an impairment loss would be recognized in operations in the amount of the expected credit loss. We determine the amount of expected credit loss by calculating the present value of the cash flows expected to be collected. The difference between the present value of expected future cash flows and the amortized cost basis of the security is the amount of credit loss recognized in operations.

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The remaining amount of the other than temporary impairment is recognized in other comprehensive income. The determination of the credit loss component of a residential mortgage backed security is based on a number of factors. The primary consideration in this evaluation process is the issuer's ability to meet current and future interest and principal payments as contractually stated at time of purchase. Our review of these securities includes an analysis of the cash flow modeling under various default scenarios considering independent third party benchmarks, the seniority of the specific tranche within the structure of the security, the composition of the collateral and the actual default, loss severity and prepayment experience exhibited. With the input of third party assumptions for default projections, loss severity and prepayment expectations, we evaluate the cash flow projections to determine whether the security is performing in accordance with its contractual obligation.

We utilize the models from a leading structured product software specialist serving institutional investors. These models incorporate each security's seniority and cash flow structure. In circumstances where the analysis implies a potential for principal loss at some point in the future, we use our "best estimate" cash flow projection discounted at the security's effective yield at acquisition to determine the amount of our potential credit loss associated with this security. The discounted expected future cash flows equates to our expected recovery value. Any shortfall of the expected recovery when compared to the amortized cost of the security will be recorded as the credit loss component of other than temporary impairment.

The cash flow modeling is performed on a security-by-security basis and incorporates actual cash flows on the residential mortgage backed securities through the current period, as well as the projection of remaining cash flows using a number of assumptions including default rates, prepayment rates and loss severity rates. The default curves we use are tailored to the Prime or Alt-A residential mortgage backed securities that we own, which assume lower default rates and loss severity for Prime securities versus Alt-A securities. These default curves are scaled higher or lower depending on factors such as current underlying mortgage loan performance, rating agency loss projections, loan to value ratios, geographic diversity, as well as other appropriate considerations. The default curves generally assume lower loss levels for older vintage securities versus more recent vintage securities, which reflects the decline in underwriting standards over the years.

The determination of the credit loss component of a corporate bond (including redeemable preferred stocks) is based on the underlying financial performance of the issuer and their ability to meet their contractual obligations.

Considerations in our evaluation include, but are not limited to, credit rating changes, financial statement and ratio analysis, changes in management, large changes in credit spreads, breaches of financial covenants and a review of the economic outlook for the industry and markets in which they trade. In circumstances where an issuer appears unlikely to meet its future obligation, or the security's price decline is deemed other than temporary, an estimate of credit loss is determined. Credit loss is calculated using default probabilities as derived from the credit default swaps markets in conjunction with recovery rates derived from independent third party analysis or a best estimate of credit loss. This credit loss rate is then incorporated into a present value calculation based on an expected principal loss in the future discounted at the yield at the date of purchase and compared to amortized cost to determine the amount of credit loss associated with the security.

In addition, for debt securities which we do not intend to sell and it is not more likely than not we will be required to sell, but our intent changes due to changes or events that could not have been reasonably anticipated, an other than temporary impairment charge is recognized. Once an impairment charge has been recorded, we then continue to review the other than temporarily impaired securities for appropriate valuation on an ongoing basis. Unrealized losses may be recognized in future periods through a charge to earnings, should we later conclude that the decline in fair value below amortized cost is other than temporary pursuant to our accounting policy described above. The use of different methodologies and assumptions to determine the fair value of investments and the timing and amount of impairments may have a material effect on the amounts presented in our consolidated financial statements.

Policy Liabilities for Fixed Index Annuities

We offer a variety of fixed index annuities with crediting strategies linked to the S&P 500 Index and other equity and bond market indices. We purchase call options on the applicable indices as an investment to provide the income needed to fund the annual index credits on the index products. See Financial Condition—Derivative Instruments. Certain derivative instruments embedded in the fixed index annuity contracts are recognized in the consolidated balance sheet

at their fair values and changes in fair value are recognized immediately in our consolidated statements of operations in accordance with accounting standards for derivative instruments and hedging activities.

Accounting for derivatives prescribes that the contractual obligations for future annual index credits are treated as a "series of embedded derivatives" over the expected life of the applicable contracts. Policy liabilities for fixed index annuities are equal to the sum of the "host" (or guaranteed) component and the embedded derivative component for each fixed index annuity policy. The host value is established at inception of the contract and accreted over the policy's life at a constant rate of interest. We estimate the fair value of the embedded derivative component at each valuation date by (i) projecting policy contract values and minimum guaranteed contract values over the expected lives of the contracts and (ii) discounting the excess of the projected contract value amounts at the applicable risk free interest rates adjusted for our nonperformance risk related to those liabilities. The projections of policy contract values are based on our best estimate assumptions for future policy growth and future policy decrements. Our best estimate assumptions for future policy growth include assumptions for the expected index credit on the next policy anniversary date which are derived from the fair values of the underlying call options purchased to fund such index credits and the expected costs of annual call options we will purchase in the future to fund index credits beyond the next policy anniversary. The projections of minimum guaranteed contract values include the same best estimate assumptions for policy decrements as were used to project policy contract values. The amounts reported in the consolidated statements of operations as "Interest sensitive and index product benefits" represent amounts credited to policy liabilities pursuant to accounting by insurance companies for certain long-duration contracts which include index credits through the most recent policy anniversary. The amounts reported in the consolidated statements of operations as "Changes in fair value of embedded derivatives" equal the change in the difference between policy benefit reserves for fixed index annuities computed under the derivative accounting standard and the long-duration contracts accounting standard at each balance sheet date.

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In general, the change in the fair value of the embedded derivatives will not correspond to the change in fair value of the purchased call options because the purchased call options are one year options while the options valued in the embedded derivatives represent the rights of the contract holder to receive index credits over the entire period the fixed index annuities are expected to be in force, which typically exceeds 10 years.

The most sensitive assumption in determining policy liabilities for fixed index annuities is the rates used to discount the excess projected contract values. As indicated above, the discount rate reflects our nonperformance risk. If the discount rates used to discount the excess projected contract values at December 31, 2010 were to increase by 100 basis points, our reserves for fixed index annuities would decrease by \$131.6 million recorded through operations as a decrease in the change in fair value of embedded derivatives and there would be a corresponding decrease of \$81.6 million to our combined balance for deferred policy acquisition costs and deferred sales inducements recorded through operations as an increase in amortization of deferred policy acquisition costs and deferred sales inducements. A decrease by 100 basis points in the discount rate used to discount the excess projected contract values would increase our reserves for fixed index annuities by \$146.2 million recorded through operations as a increase in the change in fair value of embedded derivatives and increase our combined balance for deferred policy acquisition costs and deferred sales inducements by \$91.7 million recorded through operations as a decrease in amortization of deferred policy acquisition costs and deferred sales inducements.

Deferred Policy Acquisition Costs and Deferred Sales Inducements

Costs relating to the production of new business are not expensed when incurred but instead are capitalized as deferred policy acquisition costs or deferred sales inducements. Only costs which are expected to be recovered from future policy revenues and gross profits may be deferred.

Deferred policy acquisition costs and deferred sales inducements are subject to loss recognition testing on a quarterly basis or when an event occurs that may warrant loss recognition. Deferred policy acquisition costs consist principally of commissions and certain costs of policy issuance. Deferred sales inducements consist of premium and interest bonuses credited to policyholder account balances.

For annuity products, these costs are being amortized generally in proportion to expected gross profits from interest margins and, to a lesser extent, from surrender charges. Current and future period gross profits/margins for fixed index annuities also include the impact of amounts recorded for the change in fair value of derivatives and the change in fair value of embedded derivatives. Current period amortization is adjusted retrospectively through an unlocking process when estimates of current or future gross profits/margins (including the impact of realized investment gains and losses) to be realized from a group of products are revised. Our estimates of future gross profits/margins are based on actuarial assumptions related to the underlying policies terms, lives of the policies, yield on investments supporting the liabilities and level of expenses necessary to maintain the policies over their entire lives. Revisions are made based on historical results and our best estimates of future experience.

The impact of unlocking during 2010 was a \$0.3 million increase in the amortization of deferred sales inducements and a \$1.4 million increase in amortization of deferred policy acquisition costs. The impact of unlocking during 2010 was primarily due to adjustments made to future period assumptions for interest margins, surrenders, lifetime income benefit rider utilization and reinsurance costs. The impact of unlocking during 2008 was a \$1.3 million increase in the amortization of deferred sales inducements and a \$14.6 million increase in amortization of deferred policy acquisition costs. The impact of unlocking during 2008 was primarily due to actual index credits to policies being lower than what was estimated due to the lack of performance of the indices upon which the index credits are based. There were no changes in our estimated future gross profits in 2009 that resulted in unlocking adjustments to the deferred policy acquisition costs and deferred sales inducements balances.

Estimated future gross profits vary based on a number of sources including investment spread margins, surrender charge income, policy persistency, policy administrative expenses and realized gains and losses on investments including credit related other than temporary impairment losses. Estimated future gross profits are most sensitive to changes in investment spread margins which are the most significant component of gross profits. If estimated gross profits for all future years on business in force at December 31, 2010 were to increase by 10%, our combined balance for deferred policy acquisition costs and deferred sales inducements at December 31, 2010 would increase by \$61.4 million recorded through operations as a decrease to amortization of deferred policy acquisition costs and

deferred sales inducements. Correspondingly, a 10% decrease in estimated gross profits for all future years would result in a \$69.2 million decrease in the combined December 31, 2010 balances recorded through operations as an increase to amortization of deferred policy acquisition costs and deferred sales inducements.

Deferred Income Taxes

We account for income taxes using the liability method. This method provides for the tax effects of transactions reported in the consolidated financial statements for both taxes currently due and deferred. Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. A temporary difference is a transaction, or amount of a transaction, that is recognized currently for financial reporting purposes but will not be recognized for tax purposes until a future tax period, or is recognized currently for tax purposes but will not be recognized for financial reporting purposes until a future reporting period. Deferred income taxes are measured by applying enacted tax rates for the years in which the temporary differences are expected to be recovered or settled to the amount of each temporary difference.

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The realization of deferred income tax assets is primarily based upon management's estimates of future taxable income. Valuation allowances are established when management estimates, based on available information, that it is more likely than not that deferred income tax assets will not be realized. Significant judgment is required in determining whether valuation allowances should be established, as well as the amount of such allowances. When making such determination, consideration is given to, among other things, the following:

- future taxable income of the necessary character exclusive of reversing temporary differences and carryforwards;
- future reversals of existing taxable temporary differences;
- taxable income in prior carryback years; and
- tax planning strategies.

Actual realization of deferred income tax assets and liabilities may materially differ from these estimates as a result of changes in tax laws as well as unanticipated future transactions impacting related income tax balances.

The realization of deferred income tax assets related to unrealized losses on our available for sale fixed maturity securities is also based upon our intent to hold these securities for a period of time sufficient to allow for a recovery in fair value and not realize the unrealized loss.

New Accounting Pronouncements

In January 2010, the FASB issued an accounting standards update that expands the disclosure requirements related to fair value measurements. A reporting entity is now required to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurement categories and describe the reasons for the transfers.

Additionally, a reporting entity will be required to present on a gross basis rather than as one net number information about the purchases, sales, issuances and settlements of financial instruments that are categorized as Level 3 for fair value measurements. Clarification on existing disclosure requirements is also provided in this update relating to the level of disaggregation of information as to determining appropriate classes of assets and liabilities as well as disclosure requirements regarding valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. This standard was effective for us on January 1, 2010. The disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements will become effective for fiscal years beginning after December 15, 2010.

In July 2010, the FASB issued an accounting standards update that expands disclosures and provide users more transparency about allowances for credit losses and the credit quality of the financing receivables of an entity. This guidance requires additional disclosures about an entity's financing receivables, such as credit quality indicators, aging of past due financing receivables, and significant purchases and sales of financing receivables. In addition, disclosures must be disaggregated by portfolio segment or class based on how an entity develops its allowance for credit losses and how it manages its credit exposure. Most of the disclosure requirements were effective for the fourth quarter of 2010 with certain additional disclosures required for the first quarter of 2011.

In October 2010, as a result of a consensus of the FASB Emerging Issues Task Force, the FASB issued an accounting standards update that modifies the definition of the types of costs incurred that can be capitalized in the acquisition of new and renewal insurance contracts. This guidance defines the costs that qualify for deferral as incremental direct costs that result directly from and are essential to successful contract transactions and would not have been incurred by the insurance entity had the contract transactions not occurred. In addition, it lists certain costs as deferrable as those that are directly related to underwriting, policy issuance and processing, medical and inspection, and sales force contract selling as deferrable, as well as the portion of an employee's total compensation related directly to time spent performing those activities for actual acquired contracts and other costs related directly to those activities that would not have been incurred if the contract had not been acquired. This amendment to current GAAP should be applied prospectively and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, with retrospective application permitted. We are currently evaluating the impact of the guidance on our consolidated financial statements. See note 6 to our audited consolidated financial statements for the policy issue costs that could be subject to non-deferral.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We seek to invest our available funds in a manner that will maximize shareholder value and fund future obligations to policyholders and debtors, subject to appropriate risk considerations. We seek to meet this objective through investments that: (i) consist predominately of investment grade fixed maturity securities; (ii) have projected returns which satisfy our spread targets; and (iii) have characteristics which support the underlying liabilities. Many of our products incorporate surrender charges, market interest rate adjustments or other features to encourage persistency. We seek to maximize the total return on our available for sale investments through active investment management. Accordingly, we have determined that our available for sale portfolio of fixed maturity securities is available to be sold in response to: (i) changes in market interest rates; (ii) changes in relative values of individual securities and asset sectors; (iii) changes in prepayment risks; (iv) changes in credit quality outlook for certain securities; (v) liquidity needs; and (vi) other factors. An OTTI shall be considered to have occurred when we have an intention to sell available for sale securities in an unrealized loss position. If we do not intend to sell a debt security, we consider all available evidence to make an assessment of whether it is more likely than not that we will be required to sell the security before the recovery of its amortized cost basis. If it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis, an OTTI will be considered to have occurred. We have a portfolio of held for investment securities which principally consists of long duration bonds issued by U.S. government agencies. These securities are purchased to secure long-term yields which meet our spread targets and support the underlying liabilities.

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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, the fair value of our investments, and the amount of interest we pay on our floating rate subordinated debentures. Our floating rate trust preferred securities issued by Trust III, IV, VII, VIII, IX, X, XI (beginning on December 31, 2010) and XII bear interest at the three month LIBOR plus 3.50%-4.00%. Our outstanding balance of floating rate trust preferred securities was \$164.5 million at December 31, 2010, of which \$40 million had been swapped to fixed rates (see note 10 to our audited consolidated financial statements). In 2009, we swapped the floating interest rate to fixed rates of \$150.0 million of the borrowings outstanding on our now terminated revolving line of credit (see note 9 to our audited consolidated financial statements). These swaps remain outstanding and expire in 2011. 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 (caps, participation rates or asset fee rates for fixed index annuities) on substantially all of our annuity liabilities 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.

If interest rates were to increase 10% (43 basis points) from levels at December 31, 2010, we estimate that the fair value of our fixed maturity securities would decrease by approximately \$633.6 million. The impact on stockholders' equity of such decrease (net of income taxes and certain adjustments for changes in amortization of deferred policy acquisition costs and deferred sales inducements) would be a decrease of \$162.4 million in the accumulated other comprehensive income and a decrease to stockholders' equity. 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. However, any such decreases in the fair value of our fixed maturity securities (unless related to credit concerns of the issuer requiring recognition of an other than temporary impairment) would generally be realized only if we were required to sell such securities at losses prior to their maturity to meet our liquidity needs, which we manage using the surrender and withdrawal provisions of our annuity contracts and through other means. See Financial Condition—Liquidity for Insurance Operations for a further discussion of the liquidity risk.

At December 31, 2010, 36% of our fixed income securities have call features and 1% (\$0.1 billion) were subject to call redemption. Another 21% (\$3.4 billion) will become subject to call redemption through December 31, 2011. During the years ended December 31, 2010 and 2009, we received \$5.2 billion and \$4.2 billion, respectively, in net redemption proceeds related to the exercise of such call options. We have reinvestment risk related to these redemptions to the extent we cannot reinvest the net proceeds in assets with credit quality and yield characteristics similar to the redeemed bonds. Such reinvestment risk typically occurs in a declining rate environment. Should rates decline to levels which tighten the spread between our average portfolio yield and average cost of interest credited on our annuity liabilities, we have the ability to reduce crediting rates (caps, participation rates or asset fees for fixed

index annuities) on most of our annuity liabilities to maintain the spread at our targeted level. At December 31, 2010, approximately 99% of our annuity liabilities are subject to annual adjustment of the applicable crediting rates at our discretion, limited by minimum guaranteed crediting rates specified in the policies.

With respect to our fixed index annuities, we purchase call options on the applicable indices to fund the annual index credits on such annuities. These options are primarily one-year instruments purchased to match the funding requirements of the underlying policies. Fair value changes associated with those investments are substantially offset by an increase or decrease in the amounts added to policyholder account balances for index products. For the years ended December 31, 2010, 2009 and 2008, the annual index credits to policyholders on their anniversaries were \$454.7 million, \$94.6 million and \$33.3 million, respectively. Proceeds received at expiration or gains recognized upon early termination of these options related to such credits were \$438.4 million, \$70.6 million and \$26.2 million for the years ended December 31, 2010, 2009 and 2008, respectively. The difference between proceeds received at expiration or gains recognized upon early termination of these options and index credits is primarily due to credits attributable to minimum guaranteed interest self funded by us. Proceeds for 2009 and 2008 were adversely affected by \$12.0 million and \$2.1 million, respectively, in proceeds not received from affiliates of Lehman Brothers which declared bankruptcy in the third quarter of 2008.

Within our hedging process we purchase options out of the money to the extent of anticipated minimum guaranteed interest on index policies. On the anniversary dates of the index policies, we purchase new one-year call options to fund the next annual index credits. The risk associated with these prospective purchases is the uncertainty of the cost, which will determine whether we are able to earn our spread on our index business. We manage this risk through the terms of our fixed index annuities, which permit us to change caps, participation rates and asset fees, subject to contractual features. By modifying caps, participation rates or asset fees, we can limit option costs to budgeted amounts, except in cases where the contractual features would prevent further modifications. Based upon actuarial testing which we conduct as a part of the design of our index products and on an ongoing basis, we believe the risk that contractual features would prevent us from controlling option costs is not material.

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Item 8. Consolidated Financial Statements and Supplementary Data

The consolidated financial statements are included as a part of this report on Form 10-K on pages F-1 through F-47.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

In accordance with the Securities Exchange Act Rules 13a-15 and 15d-15, our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report on Form 10-K. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as of December 31, 2010 in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act.

(b) Management's Report on Internal Control over Financial Reporting.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in the Exchange Act Rule 13a-15(f). The Company's internal control system is designed to provide reasonable assurance to the Company's management and the board of directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010 based upon criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment, management has determined that we maintained effective internal control over financial reporting as of December 31, 2010.

The Company's independent registered public accounting firm, KPMG LLP, issued an attestation report on the effectiveness of management's internal control over financial reporting. This report appears on page F-2.

(c) Changes in Internal Control over Financial Reporting.

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

There is no information required to be disclosed on Form 8-K for the quarter ended December 31, 2010 which has not been previously reported.

PART III

The information required by Part III is incorporated by reference from our definitive proxy statement for our annual meeting of shareholders to be held June 9, 2011 to be filed with the Commission pursuant to Regulation 14A within 120 days after December 31, 2010.

PART IV

Item 15. Exhibits and Financial Statement Schedules

Financial Statements and Financial Statement Schedules. See Index to Consolidated Financial Statements and Schedules on page F-1 for a list of financial statements and financial statement schedules included in this report.

All other schedules to the consolidated financial statements required by Article 7 of Regulation S-X are omitted because they are not applicable, not required, or because the information is included elsewhere in the consolidated financial statements or notes thereto.

Exhibits. See Exhibit Index immediately preceding the Exhibits for a list of Exhibits filed with this report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, this 9th day of March, 2011.

AMERICAN EQUITY INVESTMENT LIFE HOLDING
COMPANY

By: /s/ WENDY C. WAUGAMAN
Wendy C. Waugaman,
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this registration statement has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title (Capacity)	Date
/s/ WENDY C. WAUGAMAN Wendy C. Waugaman	Chief Executive Officer, President and Director (Principal Executive Officer)	March 9, 2011
/s/ JOHN M. MATOVINA John M. Matovina	Vice Chairman, Chief Financial Officer, Treasurer and Director (Principal Financial Officer)	March 9, 2011
/s/ TED M. JOHNSON Ted M. Johnson	Vice President—Controller (Principal Accounting Officer)	March 9, 2011
/s/ D.J. NOBLE D.J. Noble	Executive Chairman and Director	March 9, 2011
/s/ JOYCE A. CHAPMAN Joyce A. Chapman	Director	March 9, 2011
/s/ ALEXANDER M. CLARK Alexander M. Clark	Director	March 9, 2011
/s/ JAMES M. GERLACH James M. Gerlach	Director	March 9, 2011
/s/ ROBERT L. HILTON Robert L. Hilton	Director	March 9, 2011
/s/ ROBERT L. HOWE Robert L. Howe	Director	March 9, 2011
/s/ DAVID S. MULCAHY David S. Mulcahy	Director	March 9, 2011
/s/ GERARD D. NEUGENT Gerard D. Neugent	Director	March 9, 2011
/s/ DEBRA J. RICHARDSON Debra J. Richardson	Director	March 9, 2011
/s/ A.J. STRICKLAND, III A.J. Strickland, III	Director	March 9, 2011
/s/ HARLEY A. WHITFIELD Harley A. Whitfield	Director	March 9, 2011

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

American Equity Investment Life Holding Company

We have audited the accompanying consolidated balance sheets of American Equity Investment Life Holding Company and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedules listed in the Index on page F-1. We also have audited the Company's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these consolidated financial statements and financial statement schedules, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated

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Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2009, the Company changed its method of accounting for other-than-temporary impairments of debt securities due to the adoption of Financial Accounting Standards Board Accounting Standards Codification (ASC) 320, and the Company changed its method of accounting for convertible debt instruments due to the retrospective adoption of ASC 470.

/s/ KPMG LLP

Des Moines, Iowa

March 9, 2011

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	December 31, 2010	2009
Assets		
Investments:		
Fixed maturity securities:		
Available for sale, at fair value (amortized cost: 2010 - \$15,621,894; 2009 - \$10,912,680)	\$ 15,830,663	\$ 10,704,131
Held for investment, at amortized cost (fair value: 2010 - \$781,748; 2009 - \$1,601,864)	822,200	1,635,083
Equity securities, available for sale, at fair value (cost: 2010 - \$61,185; 2009 - \$82,930)	65,961	93,086
Mortgage loans on real estate	2,598,641	2,449,778
Derivative instruments	479,786	479,272
Other investments	19,680	12,760
Total investments	19,816,931	15,374,110
Cash and cash equivalents	597,766	528,002
Coinsurance deposits	2,613,191	2,237,740
Accrued investment income	167,645	113,658
Deferred policy acquisition costs	1,747,760	1,625,785
Deferred sales inducements	1,227,328	1,011,449
Deferred income taxes	143,253	85,661
Income taxes recoverable	6,134	103,684
Other assets	106,755	231,915
Total assets	\$26,426,763	\$21,312,004
Liabilities and Stockholders' Equity		
Liabilities:		
Policy benefit reserves:		
Traditional life and accident and health insurance products	\$ 190,997	\$ 140,351
Annuity products	23,464,810	19,195,870
Other policy funds and contract claims	222,860	119,403
Notes payable	330,835	316,468
Subordinated debentures	268,435	268,347
Other liabilities	1,010,779	516,942
Total liabilities	25,488,716	20,557,381
Stockholders' equity:		
Preferred stock, no par value, 2,000,000 shares authorized, 2010 and 2009 - no shares issued and outstanding	—	—
Common stock, par value \$1 per share, 125,000,000 shares authorized; issued and outstanding:		
2010 - 56,968,446 shares (excluding 5,874,392 treasury shares);	56,968	56,203
2009 - 56,203,159 shares (excluding 5,936,696 treasury shares)		
Additional paid-in capital	454,454	422,225

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Unallocated common stock held by ESOP; 2010 - 447,048 shares; 2009 - 527,272 shares	(4,815) (5,679)
Accumulated other comprehensive income (loss)	81,820	(30,456)
Retained earnings	349,620	312,330	
Total stockholders' equity	938,047	754,623	
Total liabilities and stockholders' equity	\$26,426,763	\$21,312,004	

See accompanying notes to consolidated financial statements.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share data)

	Year Ended December 31,		
	2010	2009	2008
Revenues:			
Traditional life and accident and health insurance premiums	\$ 11,982	\$ 12,654	\$ 12,512
Annuity product charges	69,075	63,358	52,671
Net investment income	1,036,106	932,172	822,077
Change in fair value of derivatives	168,862	216,896	(372,009)
Net realized gains on investments, excluding other than temporary impairment ("OTTI") losses	23,726	51,279	5,555
OTTI losses on investments:			
Total OTTI losses	(19,544)	(220,415)	(192,648)
Portion of OTTI losses recognized in (from) other comprehensive income	(4,323)	133,644	—
Net OTTI losses recognized in operations	(23,867)	(86,771)	(192,648)
Gain (loss) on extinguishment of debt	(292)	(675)	9,746
Total revenues	1,285,592	1,188,913	337,904
Benefits and expenses:			
Insurance policy benefits and change in future policy benefits	8,251	8,889	8,972
Interest sensitive and index product benefits	733,218	347,883	205,131
Amortization of deferred sales inducements	59,873	39,999	30,705
Change in fair value of embedded derivatives	130,950	529,508	(210,753)
Interest expense on notes payable	22,125	14,853	19,773
Interest expense on subordinated debentures	14,906	15,819	19,445
Interest expense on amounts due under repurchase agreements	—	534	8,207
Amortization of deferred policy acquisition costs	136,388	88,009	126,738
Other operating costs and expenses	114,615	57,255	52,633
Total benefits and expenses	1,220,326	1,102,749	260,851
Income before income taxes	65,266	86,164	77,053
Income tax expense	22,333	17,634	61,106
Net income	\$42,933	\$68,530	\$15,947
Earnings per common share	\$0.73	\$1.22	\$0.30
Earnings per common share - assuming dilution	\$0.68	\$1.18	\$0.30
Weighted average common shares outstanding (in thousands):			
Earnings per common share	58,507	56,138	53,750
Earnings per common share - assuming dilution	64,580	58,915	56,622
See accompanying notes to consolidated financial statements.			

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands, except per share data)

	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, 2007	\$53,556	\$402,879	\$(6,781)	\$(38,929)	\$210,599	\$621,324
Other comprehensive loss:						
Net income for the year	—	—	—	—	15,947	15,947
Change in net unrealized investment gains/losses	—	—	—	(108,447)	—	(108,447)
Other comprehensive loss						(92,500)
Conversion of \$250 of subordinated debentures	31	182	—	—	—	213
Acquisition of 3,737,238 shares of common stock	(3,738)	(28,886)	—	—	—	(32,624)
Allocation of 41,253 shares of common stock by ESOP, including excess income tax benefits	—	(68)	445	—	—	377
Share-based compensation, including excess income tax benefits	—	3,471	—	—	—	3,471
Issuance of 889,728 shares of common stock under compensation plans, including excess income tax benefits	890	(574)	—	—	—	316
Acquisition of convertible debt	—	(222)	—	—	—	(222)
Dividends on common stock (\$0.07 per share)	—	—	—	—	(3,511)	(3,511)
Balance at December 31, 2008	50,739	376,782	(6,336)	(147,376)	223,035	496,844
Cumulative effect of noncredit OTTI, net	—	—	—	(20,094)	25,240	5,146
Other comprehensive income:						
Net income for the year	—	—	—	—	68,530	68,530
Change in net unrealized investment gains/losses	—	—	—	223,882	—	223,882
Noncredit component of OTTI losses, available for sale securities, net	—	—	—	(86,868)	—	(86,868)
Other comprehensive income						205,544
Issuance of treasury stock	5	50	—	—	(18)	37
Acquisition of 12,362 shares of common stock	(12)	(40)	—	—	—	(52)
Allocation of 61,040 shares of common stock by ESOP,	—	(168)	657	—	—	489

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including excess income tax benefits							
Share-based compensation, including excess income tax benefits	—	4,261	—	—	—	—	4,261
Issuance of 5,000,000 shares of common stock in exchange for notes payable	5,000	26,226	—	—	—	—	31,226
Issuance of convertible debt	—	15,162	—	—	—	—	15,162
Issuance of 132,300 shares of common stock	132	292	—	—	—	—	424
Issuance of 339,015 shares of common stock under compensation plans, including excess income tax benefits	339	(340)	)	—	—	—	(1)
Dividends on common stock (\$0.08 per share)	—	—	—	—	—	(4,457)	(4,457)
Balance at December 31, 2009	56,203	422,225	(5,679))	(30,456))	312,330
							754,623

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Continued)
(Dollars in thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Unallocated Common Stock Held by ESOP	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity	
Other comprehensive income:							
Net income for the year	—	—	—	—	42,933	42,933	
Change in net unrealized investment gains/losses	—	—	—	111,097	—	111,097	
Noncredit component of OTTI losses, available for sale securities, net	—	—	—	1,179	—	1,179	
Other comprehensive income						155,209	
Conversion of \$60 of subordinated debentures	7	49	—	—	—	56	
Acquisition of 104,661 shares of common stock	(105) (1,119) —	—	—	(1,224)
Allocation of 80,224 shares of common stock by ESOP, including excess income tax benefits	—	(23	) 864	—	—	841
Share-based compensation, including excess income tax benefits	—	12,239	—	—	—	12,239	
Issuance of 862,504 shares of common stock under compensation plans, including excess income tax benefits	863	5,483	—	—	—	6,346	
Issuance of warrants	—	15,600	—	—	—	15,600	
Dividends on common stock (\$0.10 per share)	—	—	—	—	(5,643) (5,643)
Balance at December 31, 2010	\$56,968	\$454,454	\$(4,815) \$ 81,820	\$349,620	\$ 938,047	

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2010	2009	2008
Operating activities			
Net income	\$42,933	\$68,530	\$15,947
Adjustments to reconcile net income to net cash provided by operating activities:			
Interest sensitive and index product benefits	733,218	347,883	205,131
Amortization of deferred sales inducements	59,873	39,999	30,705
Annuity product charges	(69,075)	(63,358)	(52,671)
Change in fair value of embedded derivatives	130,950	529,508	(210,753)
Increase in traditional life and accident and health insurance reserves	43,921	9,960	6,031
Policy acquisition costs deferred	(402,607)	(305,477)	(266,864)
Amortization of deferred policy acquisition costs	136,388	88,009	126,738
Provision for depreciation and other amortization	11,580	5,904	6,806
Amortization of discounts and premiums on investments	(240,532)	(212,498)	(260,412)
Loss (gain) on extinguishment of debt	292	675	(9,746)
Realized losses (gains) on investments	141	35,492	187,093
Change in fair value of derivatives	(141,719)	(219,154)	371,116
Deferred income taxes	(118,048)	(56,150)	45,075
Share-based compensation	11,993	4,630	3,291
Change in accrued investment income	(53,987)	(21,902)	(14,408)
Change in income taxes recoverable/payable	97,550	(117,817)	39,123
Change in other assets	(26,516)	(10,877)	500
Change in other policy funds and contract claims	103,457	8,198	(8,981)
Change in collateral held for derivatives	35,075	346,118	—
Change in other liabilities	64,776	40,637	9,761
Other	812	(1,759)	(242)
Net cash provided by operating activities	420,475	516,551	223,240
Investing activities			
Sales, maturities, or repayments of investments:			
Fixed maturity securities—available for sale	4,568,499	2,975,790	1,486,554
Fixed maturity securities—held for investment	1,585,267	2,057,023	1,984,167
Equity securities, available for sale	46,187	22,727	13,528
Mortgage loans on real estate	145,754	109,969	126,181
Derivative instruments	492,058	79,341	30,263
Short-term investments	600,000	—	—
Acquisitions of investments:			
Fixed maturity securities—available for sale	(8,544,788)	(6,742,292)	(3,632,326)
Fixed maturity securities—held for investment	(745,207)	—	—
Equity securities, available for sale	(10,125)	(6,674)	(102,882)
Mortgage loans on real estate	(317,250)	(249,162)	(502,111)
Derivative instruments	(331,263)	(257,435)	(292,211)
Short-term investments	(599,746)	—	—
Other investments	(456)	(46)	(19)
Purchases of property, furniture and equipment	(5,318)	(2,971)	(341)
Net cash used in investing activities	(3,116,388)	(2,013,730)	(889,197)

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

	Year Ended December 31,		
	2010	2009	2008
Financing activities			
Receipts credited to annuity and single premium universal life policyholder account balances	\$4,668,719	\$3,677,558	\$2,289,006
Coinsurance deposits	(267,638)	(555,500)	183,215
Return of annuity policyholder account balances	(1,637,062)	(1,418,797)	(1,346,473)
Financing fees incurred and deferred	(6,800)	(2,751)	—
Proceeds from notes payable	200,000	127,225	70,000
Repayments of notes payable	(156,641)	(4,110)	(65,479)
Purchase of 2015 notes hedges	(37,000)	—	—
Decrease in amounts due under repurchase agreements	—	—	(257,225)
Acquisition of common stock	(1,224)	(34)	(27,065)
Excess tax benefits realized from share-based compensation plans	480	93	313
Proceeds from issuance of common stock	6,124	1,061	219
Proceeds from issuance of warrants	15,600	—	—
Equity issue costs incurred	—	(1,364)	—
Change in checks in excess of cash balance	(13,238)	(8,605)	18,931
Dividends paid	(5,643)	(4,457)	(3,511)
Net cash provided by financing activities	2,765,677	1,810,319	861,931
Increase in cash and cash equivalents	69,764	313,140	195,974
Cash and cash equivalents at beginning of year	528,002	214,862	18,888
Cash and cash equivalents at end of year	\$597,766	\$528,002	\$214,862
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest expense	\$25,802	\$19,669	\$41,636
Income taxes	143,748	191,878	—
Income tax refunds received	101,395	—	—
Non-cash operating activity:			
Deferral of sales inducements	370,714	292,791	193,481
Non-cash investing activity:			
Real estate acquired in satisfaction of mortgage loans	7,408	12,268	—
Non-cash financing activities:			
Conversion of subordinated debentures	60	—	213
Stock acquired in satisfaction of obligations	—	—	5,559
Stock issued in retirement of debt	—	31,250	—
Retirement of debt through debt exchange	—	63,614	—
See accompanying notes to consolidated financial statements.			

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

Nature of Operations

American Equity Investment Life Holding Company ("we", "us" or "our"), through its wholly-owned subsidiaries, American Equity Investment Life Insurance Company ("American Equity Life"), American Equity Investment Life Insurance Company of New York and Eagle Life Insurance Company ("Eagle Life"), is licensed to sell insurance products in 50 states and the District of Columbia at December 31, 2010. We operate solely in the insurance business. We primarily market fixed index and fixed rate annuities and to a lesser extent, life insurance. In connection with our reinsured group life business, we also collect renewal premiums on certain accident and health insurance policies. Premiums and annuity deposits (net of coinsurance), which are not included as revenues in the accompanying consolidated statements of operations, collected in 2010, 2009 and 2008, by product type were as follows:

Product Type	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Fixed Index Annuities:			
Index Strategies	\$2,312,720	\$1,252,294	\$1,303,343
Fixed Strategy	1,472,576	1,495,017	936,847
	3,785,296	2,747,311	2,240,190
Fixed Rate Annuities	404,460	180,986	47,506
Life Insurance	11,707	12,355	12,323
Accident and Health	275	299	189
	\$4,201,738	\$2,940,951	\$2,300,208

One national marketing organization through which we market our products accounted for more than 10% of the annuity deposits and insurance premium collections during 2010, 2009 and 2008, representing 17%, 10% and 12% of the annuity deposits and insurance premiums collected, respectively.

Consolidation and Basis of Presentation

The consolidated financial statements include our accounts and our wholly-owned subsidiaries: American Equity Life, American Equity Investment Life Insurance Company of New York, Eagle Life, AERL, L.C., American Equity Capital, Inc., American Equity Investment Properties, L.C., American Equity Advisors, Inc. and American Equity Investment Service Company. All significant intercompany accounts and transactions have been eliminated.

Estimates and Assumptions

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are utilized in the calculation of deferred policy acquisition costs, deferred sales inducements, policy benefit reserves, valuation of derivatives, including embedded derivatives on index annuity reserves, contingent convertible senior notes, valuation of investments, other than temporary impairment of investments, impairments of mortgage loans and valuation allowances on deferred tax assets. A description of each critical estimate is incorporated within the discussion of the related accounting policies which follow. It is reasonably possible that actual experience could differ from the estimates and assumptions utilized.

Investments

Fixed maturity securities (bonds and redeemable preferred stocks maturing more than one year after issuance) that may be sold prior to maturity are classified as available for sale. Available for sale securities are reported at fair value and unrealized gains and losses, if any, on these securities are included directly in a separate component of stockholders' equity, net of income taxes and certain adjustments for assumed changes in amortization of deferred

policy acquisition costs and deferred sales inducements. Fair values, as reported herein, of fixed maturity and equity securities are based on quoted market prices in active markets when available, or for those fixed maturity securities not actively traded, yield data and other factors relating to instruments or securities with similar characteristics are used. See note 2 for more information on assumptions and valuation models used in the determination of fair value. Premiums and discounts are amortized/accrued using methods which result in a constant yield over the securities' expected lives. Amortization/accrual of premiums and discounts on residential mortgage backed securities incorporate prepayment assumptions to estimate the securities' expected lives. Interest income is recognized as earned. Fixed maturity securities that we have the positive intent and ability to hold to maturity are classified as held for investment. Such securities

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

may, at times, be called prior to maturity. Held for investment securities are reported at cost adjusted for amortization of premiums and discounts. Changes in the fair value of these securities, except for declines that are other than temporary, are not reflected in our consolidated financial statements. Premiums and discounts are amortized/accrued using methods which result in a constant yield over the securities' expected lives.

Equity securities, comprised of common and perpetual preferred stocks, are classified as available for sale and are reported at fair value. Unrealized gains and losses are included directly in a separate component of stockholders' equity, net of income taxes and certain adjustments for assumed changes in amortization of deferred policy acquisition costs and deferred sales inducements. Dividends are recognized when declared.

The carrying amounts of our impaired investments in fixed maturity and equity securities are adjusted for declines in value that are other than temporary. Other than temporary impairment losses are reported as a component of revenues in the consolidated statements of operations, which presents the amount of non credit impairment losses for certain fixed maturity securities that is reported in Accumulated Other Comprehensive Income (Loss). See note 3 for further discussion of other than temporary impairment losses.

Deterioration in credit quality of the companies or assets backing our investment securities, deterioration in the condition of the financial services industry, imbalances in liquidity recurring in the marketplace or declines in real estate values may further affect the fair value of these investment securities and increase the potential that certain unrealized losses be recognized as other than temporary impairments in the future.

Mortgage loans on real estate are reported at cost, adjusted for amortization of premiums and accrual of discounts. Interest income is recorded when earned; however, interest ceases to accrue for loans on which interest is more than 60 days past due and/or when the collection of interest is not considered probable. We evaluate the mortgage loan portfolio for the establishment of a loan loss reserve by specific identification of impaired loans and the measurement of an estimated loss for each impaired loan identified and an analysis of the mortgage loan portfolio for the need of a general loan allowance for probable losses on all loans. If we determine that the value of any specific mortgage loan is impaired, the carrying amount of the mortgage loan will be reduced to its fair value, based upon the present value of expected future cash flows from the loan discounted at the loan's contractual interest rate, or the fair value of the underlying collateral, less costs to sell. The amount of the general loan allowance, if any, is based upon our evaluation of the probability of collection, historical loss experience, delinquencies, credit concentrations, underwriting standards and national and local economic conditions. The carrying value of impaired loans is reduced by the establishment of a valuation allowance, changes to which are recognized as realized gains or losses on investments. Interest income on impaired loans is recorded on a cash basis.

Real estate owned is reported at cost less accumulated depreciation. Cost is determined at the time ownership is acquired in satisfaction of mortgage loans and is the lower of the carrying value of the mortgage loan or fair value of the real estate less its estimated cost to sell. Building and improvements are depreciated using the straight-line method over their estimated useful lives. Impairment losses on real estate owned are recognized when there are indicators of impairment present and the expected future undiscounted cash flows are not sufficient to recover the real estate's carrying value. Any impairment losses are reported as realized losses and are part of net income.

Policy loans and other investments are reported at cost.

Derivative Instruments

Our derivative instruments include interest rate swaps entered into to manage interest rate risk associated with the floating rate component on certain of our subordinated debentures and borrowings under our line of credit, call options used to fund fixed index annuity credits and certain other derivative instruments embedded in other contracts. All of our derivative instruments are recognized in the balance sheet at fair value and changes in fair value are recognized immediately in operations. See note 5 for more information on derivative instruments.

Cash and Cash Equivalents

We consider all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Reinsurance

Coinsurance agreements are reported on a gross basis on our consolidated balance sheets as coinsurance deposits for the amounts recoverable from reinsurers and policyholder reserves. Product charges, interest sensitive and index product benefits and deferred acquisition costs are reported net of insurance ceded.

Deferred Policy Acquisition Costs and Deferred Sales Inducements

To the extent recoverable from future policy revenues and gross profits, certain costs that vary with and are directly related to the production of new business are not expensed when incurred but instead are capitalized as deferred policy acquisition costs or deferred sales inducements. Deferred policy acquisition costs and deferred sales inducements are subject to loss recognition testing on a quarterly basis or when an event occurs that may warrant loss recognition.

Deferred policy acquisition costs consist primarily of commissions and certain costs of policy issuance. Deferred sales inducements consist of first-year premium and interest bonuses credited to policyholder account balances.

For annuity products, these capitalized costs are being amortized generally in proportion to expected gross profits from investment spreads, including the cost of hedging the fixed indexed annuity obligations, and, to a lesser extent, from surrender charges and mortality and expense margins. That amortization is adjusted retrospectively through an unlocking process when estimates of current or future gross profits/margins

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(including the impact of net realized gains on investments and net OTTI losses recognized in operations) to be realized from a group of products are revised. Deferred policy acquisition costs and deferred sales inducements are also adjusted for the change in amortization that would have occurred if available for sale fixed maturity securities and equity securities had been sold at their aggregate fair value at the end of the reporting period and the proceeds reinvested at current yields. The impact of this adjustment is included in accumulated other comprehensive loss within consolidated stockholders' equity, net of applicable taxes.

For traditional life and accident and health insurance, deferred policy acquisition costs are being amortized over the premium-paying period of the related policies in proportion to premium revenues recognized, principally using the same assumptions for interest, mortality and withdrawals that are used for computing liabilities for future policy benefits subject to traditional "lock-in" concepts.

Future Policy Benefit Reserves

Future policy benefit reserves for fixed index annuities with returns linked to the performance of a specified market index are equal to the sum of the fair value of the embedded derivatives and the host (or guaranteed) component of the contracts. The host value is established at inception of the contract and accreted over the policy's life at a constant rate of interest. Future policy benefit reserves for fixed index annuities earning a fixed rate of interest and other deferred annuity products are computed under a retrospective deposit method and represent policy account balances before applicable surrender charges. For the years ended December 31, 2010, 2009 and 2008, interest crediting rates for these products ranged from 2.50% to 5.25%. These rates include first-year interest bonuses capitalized as deferred sales inducements.

The liability for future policy benefits for traditional life insurance is based on net level premium reserves, including assumptions as to interest, mortality, and other assumptions underlying the guaranteed policy cash values. Reserve interest assumptions are level and range from 3.0% to 5.5%. The liabilities for future policy benefits for accident and health insurance are computed using a net level premium method, including assumptions as to morbidity and other assumptions based on our experience, modified as necessary to give effect to anticipated trends and to include provisions for possible unfavorable deviations. Policy benefit claims are charged to expense in the period that the claims are incurred.

Unpaid claims include amounts for losses and related adjustment expenses and are determined using individual claim evaluations and statistical analysis. Unpaid claims represent estimates of the ultimate net costs of all losses, reported and unreported, which remain unpaid at December 31 of each year. These estimates are necessarily subject to the impact of future changes in claim severity, frequency and other factors. In spite of the variability inherent in such situations, management believes that the unpaid claim amounts are adequate. The estimates are continuously reviewed and as adjustments to these amounts become necessary, such adjustments are reflected in current operations.

Certain group policies include provisions for annual experience refunds of premiums equal to net premiums received less a 16% administrative fee and less claims incurred. Such amounts (2010—\$1.1 million; 2009—\$0.6 million; and 2008—\$0.2 million) are reported as a reduction of traditional life and accident and health insurance premiums in the consolidated statements of operations.

Deferred Income Taxes

Deferred income tax assets or liabilities are computed based on the temporary differences between the financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. Deferred income tax expenses or credits are based on the changes in the asset or liability from period to period. Deferred income tax assets are subject to ongoing evaluation of whether such assets will more likely than not be realized. The realization of deferred income tax assets primarily depends on generating future taxable income during the periods in which temporary differences become deductible. Deferred income tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. In making such a determination, all available positive and negative evidence, including scheduled

reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations, is considered. The realization of deferred income tax assets related to unrealized losses on available for sale fixed maturity securities is also based upon our intent and ability to hold those securities for a period of time sufficient to allow for a recovery in fair value and not realize the unrealized loss.

Recognition of Premium Revenues and Costs

Revenues for annuity products include surrender and living income benefit rider charges assessed against policyholder account balances during the period. Interest sensitive and index product benefits related to annuity products include interest credited or index credits to policyholder account balances. In addition, the change in fair value of embedded derivatives within fixed index annuity contracts is included in benefits and expenses.

Traditional life and accident and health insurance premiums are recognized as revenues over the premium-paying period. Future policy benefits are recognized as expenses over the life of the policy by means of the provision for future policy benefits.

All insurance-related revenues, including the change in the fair value of derivatives for call options related to the business ceded under coinsurance agreements (see note 7), benefits, losses and expenses are reported net of reinsurance ceded.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes all changes in stockholders' equity during a period except those resulting from investments by and distributions to stockholders. Other comprehensive income excludes net realized investment gains (losses) included in net income which merely

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

represent transfers from unrealized to realized gains and losses. These amounts totaled \$(0.2) million, \$(35.5) million and \$(187.1) million in 2010, 2009 and 2008, respectively. Such amounts, which have been measured through the date of sale, are net of adjustments to deferred policy acquisition costs, deferred sales inducements and income taxes totaling \$0.2 million in 2010, \$(36.8) million in 2009 and \$(94.6) million in 2008.

Adopted Accounting Pronouncements

In July 2010, the Financial Accounting Standards Board ("FASB") issued an accounting standards update that expands disclosures and provide users more transparency about allowances for credit losses and the credit quality of the financing receivables of an entity. This guidance requires additional disclosures about an entity's financing receivables, such as credit quality indicators, aging of past due financing receivables, and significant purchases and sales of financing receivables. In addition, disclosures must be disaggregated by portfolio segment or class based on how an entity develops its allowance for credit losses and how it manages its credit exposure. Most of the disclosure requirements are effective for the fourth quarter of 2010 with certain additional disclosures required for the first quarter of 2011. We adopted this guidance in the preparation of our December 31, 2010 financial statements; however, adoption did not have a material effect on the results of our operations or financial position. Our expanded disclosures as a result of these requirements are included in note 4—Mortgage Loans on Real Estate.

In January 2010, the FASB issued an accounting standards update that expanded the disclosure requirements related to fair value measurements. A reporting entity is now required to disclose separately the amounts of significant transfers in to and out of Level 1 and Level 2 fair value measurement categories and describe the reasons for the transfers. Clarification on existing disclosure requirements is also provided in this update relating to the level of disaggregation of information as to determining appropriate classes of assets and liabilities as well as disclosure requirements regarding valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. This standard was effective for us on January 1, 2010, and has not had a material effect on our consolidated financial statements.

In August 2009, the FASB issued an accounting standards update that amended the fair value measurement of liabilities. The update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities when traded as assets, or another valuation technique that is consistent with the principles of fair value. This guidance was effective for the first reporting period beginning after issuance, which was our three months and year ending December 31, 2009, and did not have a material effect on our consolidated financial statements.

In June 2009, the FASB amended accounting standards for transfers and servicing of financial assets and extinguishment of liabilities. The new standard removed the concept of a qualifying special-purpose entity ("QSPE") from existing standards and removed the exception of QSPE's from consolidation requirements. Additionally, more stringent conditions for reporting a transfer of a portion of a financial asset as a sale were created, derecognition criteria was clarified, the initial measurement of retained interests was revised, the guaranteed mortgage securitization recharacterization provisions were removed and disclosure requirements were added. This standard was effective for us on January 1, 2010 and had no effect on our consolidated financial statements upon adoption.

In June 2009, the FASB issued an amendment to the accounting standards for consolidation of variable interest entities. The new standard replaced the quantitative-based risks and rewards calculation of existing standards for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with a primarily

qualitative approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity ("VIE") that most significantly impacts the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. This standard was effective for us on January 1, 2010, and had no effect on our consolidated financial statements upon adoption. Through our funds withheld coinsurance agreement with an unauthorized life reinsurer we have been named as beneficiary of the trust that holds the funds withheld. We have determined that this trust is a VIE. We also have determined that the reinsurer is the primary beneficiary of this VIE due to the fact that all earnings of the trust inure to the reinsurer, and the reinsurer directs the operations of the trust subject to an investment policy. Therefore, we have not consolidated the trust prior to or after the adoption of this amendment to the accounting standards for consolidation of VIE's.

In May 2009, the FASB issued an accounting standard that required reporting entities to recognize in their financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing those financial statements. These requirements were effective for periods ending after June 15, 2009. Accordingly, we adopted the subsequent event reporting requirements effective June 30, 2009, and it did not have a material effect on our consolidated financial statements.

In April 2009, the FASB issued further guidance on the recognition and presentation of other than temporary impairments. This guidance amended the other than temporary impairment guidance for debt securities only to make the guidance more operational and to expand the presentation and disclosure of other than temporary impairments on debt and equity securities in the financial statements. This guidance requires management to determine cash flows expected to be collected on each debt security for which an other than temporary impairment is being recognized. In accordance with this guidance, the reporting entity shall allocate its other than temporary impairments on debt securities between credit and noncredit components with the noncredit portion of the other than temporary impairments recognized as a component of other comprehensive income (loss) and the credit loss portion included in operations. Credit loss is defined as the amount that the amortized cost basis of the impaired security exceeds the present value of cash flows expected to be collected discounted at the security's yield at acquisition. This guidance also required a cumulative effect adjustment to the opening balance of retained earnings and accumulated other comprehensive

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

income (loss) in the period of adoption for other than temporary impairments on debt securities recognized in prior periods which were still held as investments at the date of adoption. This guidance was effective for interim and annual reporting periods ending after June 15, 2009; however, early application was permitted. We elected to adopt these accounting standards effective January 1, 2009. The cumulative effect adjustment as of January 1, 2009 increased retained earnings by \$25.2 million and decreased accumulated other comprehensive income by \$20.1 million.

In April 2009, the FASB issued additional guidance for estimating fair value of financial instruments including investment securities when the volume and level of activity for the asset or liability have significantly decreased, as well as guidance on identifying circumstances that indicate a transaction is not orderly. This guidance was effective for interim and annual reporting periods ending after June 15, 2009, and were to be applied prospectively, with early adoption permitted. We elected to adopt this guidance as of January 1, 2009, and it did not have a material effect on our consolidated financial statements.

In April 2009, the FASB issued disclosure guidance that requires disclosures about fair value of financial instruments within the scope of existing standards for interim reporting periods as well as in annual financial statements. This guidance also requires entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments in financial statements on an interim and annual basis and to highlight any changes from prior periods and was effective for financial statements issued for interim and annual periods ending after June 15, 2009. We adopted these disclosure requirements as of and for the periods ended June 30, 2009.

On January 1, 2009, we adopted FASB accounting standards that enhanced the required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how an entity uses derivative instruments and how derivative instruments and related hedged items are accounted for and affect an entity's financial position, financial performance and cash flows. The adoption of these disclosure requirements did not have a material effect on our consolidated financial position or results of operations as it impacts financial statement disclosure only.

On January 1, 2009, we adopted and applied retrospectively to all periods presented an accounting standard issued by the FASB for convertible debt instruments that may be settled in whole or in part with cash. This standard specifies that issuers of such instruments should separately account for the liability component and the equity component represented by the embedded conversion option in a manner that will reflect the issuer's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. Upon settlement, the issuer shall allocate consideration transferred and transaction costs incurred to the retirement of the liability component and the reacquisition of the equity component.

In December 2004, we issued \$260 million of contingent convertible senior notes with a fixed rate of 5.25% and a maturity date of December 6, 2024. On the date of issuance bifurcation of these notes into a debt component and an equity component is required. The difference between the fair value of the debt component at the date of issuance and the initial proceeds at the date of issuance is recorded as a component of stockholders' equity. The fair value of the notes without the embedded conversion option (liability component) at the date of issuance was \$221.4 million. The fair value of the embedded conversion option (equity component) at the date of issuance was \$39.1 million. The fair value of the equity component at issuance has been recorded as a debt discount to the notes, with a corresponding increase to additional paid-in capital, net of income tax. The debt discount is being amortized over the expected life of the debt.

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The following summarizes the effects of the retrospective adoption of the accounting for convertible debt on the consolidated statements of operations and earnings per share:

	Year Ended December 31, 2008		
	As		As
	Originally	Adjustments	Adjusted
	Reported		
	(Dollars in thousands, except per share data)		
Gain (loss) on retirement of debt	\$13,651	\$(3,905)	) \$9,746
Interest expense on notes payable	15,425	4,348	) 19,773
Income tax expense	64,531	(3,425)	) 61,106
Net income (loss)	20,775	(4,828)	) 15,947
Earnings per common share	\$0.39	\$(0.09)	) \$0.30
Earnings per common share—assuming dilution	\$0.39	\$(0.09)	) \$0.30

Effective January 1, 2008, we adopted FASB's authoritative guidance that permits entities to choose, at specified election dates, to measure eligible financial instruments and certain other items at fair value that are not currently required to be reported at fair value. There was no effect on the consolidated financial statements upon adoption as we did not elect to report any assets or liabilities at fair value that were eligible to be reported at fair value.

Effective January 1, 2008, we adopted FASB's standards for fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the required disclosures about fair value measurements. It also provides guidance regarding the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. For assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to initial recognition, the reporting entity shall disclose information that enables financial statement users to assess the inputs used to develop those measurements. For recurring

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

fair value measurements using significant unobservable inputs, the reporting entity shall disclose the effect of the measurements on earnings for the period. This guidance is applicable whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. Adoption primarily resulted in a change prospectively beginning on January 1, 2008, in the discount rates used in the calculation of the fair values of the embedded derivative component of our policy benefit reserves for fixed index annuities from risk-free interest rates to interest rates that include nonperformance risk related to those liabilities. These standards were adopted prospectively on January 1, 2008, and the changes in the discount rates resulted in a decrease in reserves on January 1, 2008, of \$150.6 million. The net income impact of this decrease in reserves net of the related adjustments in amortization of deferred sales inducements and deferred policy acquisition costs and income taxes was \$40.7 million.

In October 2008, the FASB issued accounting standards for determining the fair value of a financial asset in a market that is not active. These standards were effective upon issuance, and applied to periods for which financial statements have not been issued. The guidance clarifies various application issues with respect to the objective of a fair value measurement, distressed transactions, relevance of observable data, and the use of management's assumptions. We adopted this guidance in the preparation of our September 30, 2008 financial statements; however, adoption did not have a material effect on the results of our operations or financial position. Our expanded disclosures as a result of fair value measurements are included in note 2—Fair Values of Financial Instruments.

New Accounting Pronouncements

In January 2010, the FASB issued an accounting standards update that expands the disclosure requirements related to fair value measurements. A reporting entity is now required to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurement categories and describe the reasons for the transfers. Additionally, a reporting entity will be required to present on a gross basis rather than as one net number information about the purchases, sales, issuances and settlements of financial instruments that are categorized as Level 3 for fair value measurements. Clarification on existing disclosure requirements is also provided in this update relating to the level of disaggregation of information as to determining appropriate classes of assets and liabilities as well as disclosure requirements regarding valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. This standard was effective for us on January 1, 2010. The disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements will become effective for fiscal years beginning after December 15, 2010.

In July 2010, the FASB issued an accounting standards update that expands disclosures and provide users more transparency about allowances for credit losses and the credit quality of the financing receivables of an entity. This guidance requires additional disclosures about an entity's financing receivables, such as credit quality indicators, aging of past due financing receivables, and significant purchases and sales of financing receivables. In addition, disclosures must be disaggregated by portfolio segment or class based on how an entity develops its allowance for credit losses and how it manages its credit exposure. Most of the disclosure requirements were effective for the fourth quarter of 2010 and are incorporated herein with certain additional disclosures required for the first quarter of 2011.

In October 2010, as a result of a consensus of the FASB Emerging Issues Task Force, the FASB issued an accounting standards update that modifies the definition of the types of costs incurred that can be capitalized in the acquisition of new and renewal insurance contracts. This guidance defines the costs that qualify for deferral as incremental direct costs that result directly from and are essential to successful contract transactions and would not have been incurred by the insurance entity had the contract transactions not occurred. In addition, it lists certain costs as deferrable as

those that are directly related to underwriting, policy issuance and processing, medical and inspection, and sales force contract selling as deferrable, as well as the portion of an employee's total compensation related directly to time spent performing those activities for actual acquired contracts and other costs related directly to those activities that would not have been incurred if the contract had not been acquired. This amendment to current GAAP should be applied prospectively and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, with retrospective application permitted. We are currently evaluating the impact of the guidance on our consolidated financial statements. See note 6 for the policy issue costs that could be subject to non-deferral.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Fair Values of Financial Instruments

The following sets forth a comparison of the carrying amounts and fair values of our financial instruments:

	December 31,		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in thousands)			
Assets				
Fixed maturity securities:				
Available for sale	\$15,830,663	\$15,830,663	\$10,704,131	\$10,704,131
Held for investment	822,200	781,748	1,635,083	1,601,864
Equity securities, available for sale	65,961	65,961	93,086	93,086
Mortgage loans on real estate	2,598,641	2,670,009	2,449,778	2,409,197
Derivative instruments	479,786	479,786	479,272	479,272
Other investments	19,680	19,680	12,760	12,760
Cash and cash equivalents	597,766	597,766	528,002	528,002
Coinsurance deposits	2,613,191	2,282,998	2,237,740	1,934,996
2015 notes hedges	66,595	66,595	—	—
Liabilities				
Policy benefit reserves	23,464,810	19,594,396	19,195,870	16,152,088
Notes payable	330,835	489,097	316,468	340,673
Subordinated debentures	268,435	213,369	268,347	186,215
2015 notes embedded derivatives	66,595	66,595	—	—
Interest rate swaps	1,976	1,976	1,891	1,891

Fair value is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. The objective of a fair value measurement is to determine that price for each financial instrument at each measurement date. We meet this objective using various methods of valuation that include market, income and cost approaches.

We categorize our financial instruments into three levels of fair value hierarchy based on the priority of inputs used in determining fair value. The hierarchy defines the highest priority inputs (Level 1) as quoted prices in active markets for identical assets or liabilities. The lowest priority inputs (Level 3) are our own assumptions about what a market participant would use in determining fair value such as estimated future cash flows. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument. We categorize financial assets and liabilities recorded at fair value in the consolidated balance sheets as follows:

Level 1— Quoted prices are available in active markets for identical financial instruments as of the reporting date. We do not adjust the quoted price for these financial instruments, even in situations where we hold a large position and a sale could reasonably impact the quoted price.

Level 2— Quoted prices in active markets for similar financial instruments, quoted prices for identical or similar financial instruments in markets that are not active; and models and other valuation methodologies using inputs other than quoted prices that are observable.

Level 3— Models and other valuation methodologies using significant inputs that are unobservable for financial instruments and include situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in Level 3 are securities for which no market activity or data exists and for which we used discounted expected future cash flows with our own assumptions about what a market participant would use in determining fair value.

Transfers of securities among the levels occur at times and depend on the type of inputs used to determine fair value of each security.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our assets and liabilities which are measured at fair value on a recurring basis as of December 31, 2010 and 2009 are presented below based on the fair value hierarchy levels:

	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
December 31, 2010				
Assets				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	4,388	4,388	—	—
United States Government sponsored agencies	3,003,651	—	3,003,651	—
United States municipalities, states and territories	2,367,003	—	2,367,003	—
Corporate securities	7,577,064	71,230	7,505,834	—
Residential mortgage backed securities	2,878,557	—	2,875,855	2,702
Equity securities, available for sale: finance, insurance and real estate	65,961	46,925	19,036	—
Derivative instruments	479,786	—	479,786	—
Cash and cash equivalents	597,766	597,766	—	—
2015 notes hedges	66,595	—	66,595	—
	17,040,771	720,309	16,317,760	2,702
Liabilities				
Interest rate swaps	1,976	—	1,976	—
2015 notes embedded derivatives	66,595	—	66,595	—
Fixed index annuities—embedded derivatives	1,971,383	—	—	1,971,383
	2,039,954	—	68,571	1,971,383
December 31, 2009				
Assets				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	3,310	2,545	765	—
United States Government sponsored agencies	3,998,537	—	3,998,537	—
United States municipalities, states and territories	355,634	—	355,634	—
Corporate securities	3,857,549	70,363	3,773,078	14,108
Residential mortgage backed securities	2,489,101	—	2,486,290	2,811
Equity securities, available for sale: finance, insurance and real estate	93,086	83,672	8,415	999
Derivative instruments	479,272	—	479,272	—
Cash and cash equivalents	528,002	528,002	—	—
	11,804,491	684,582	11,101,991	17,918
Liabilities				
Interest rate swaps	1,891	—	1,891	—
Fixed index annuities—embedded derivatives	1,375,866	—	—	1,375,866

1,377,757 — 1,891 1,375,866

During the third quarter of 2010, we transferred four corporate securities with a fair value of \$12.5 million from Level 2 to Level 1 as quoted prices in active markets as evidenced by actual trades of these securities occurred at the end of this period. Identical security trading had not been observable prior to this period for these four securities.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following methods and assumptions were used in estimating the fair values of financial instruments during the periods presented in these consolidated financial statements.

Fixed maturity securities, equity securities, and short-term investments

The fair values of fixed maturity securities, equity securities, and short-term investments in an active and orderly market are determined by utilizing independent pricing services. The independent pricing services incorporate a variety of observable market data in their valuation techniques, including:

- reported trading prices,
- benchmark yields
- broker-dealer quotes,
- benchmark securities,
- bids and offers,
- credit ratings,
- relative credit information, and
- other reference data.

The independent pricing services also take into account perceived market movements and sector news, as well as a security's terms and conditions, including any features specific to that issue that may influence risk and marketability. Depending on the security, the priority of the use of observable market inputs may change as some observable market inputs may not be relevant or additional inputs may be necessary.

The independent pricing services provide quoted market prices when available. Quoted prices are not always available due to market inactivity. When quoted market prices are not available, the third parties use yield data and other factors relating to instruments or securities with similar characteristics to determine fair value for securities that are not actively traded. We generally obtain one value from our primary external pricing service. In situations where a price is not available from this service, we may obtain further quotes or prices from additional parties as needed. In addition, for our callable United States Government sponsored agencies we obtain two broker quotes and take the average of two broker prices received. Market indices of similar rated asset class spreads are considered for valuations and broker indications of similar securities are compared. Inputs used by the broker include market information, such as yield data and other factors relating to instruments or securities with similar characteristics. Valuations and quotes obtained from third party commercial pricing services are non-binding and do not represent quotes on which one may execute the disposition of the assets.

We validate external valuations at least quarterly through a combination of procedures that include the evaluation of methodologies used by the pricing services, analytical reviews and performance analysis of the prices against trends, and maintenance of a securities watch list. Additionally, as needed we utilize discounted cash flow models or perform independent valuations on a case-by-case basis of inputs and assumptions similar to those used by the pricing services. Although we do identify differences from time to time as a result of these validation procedures, we did not make any significant adjustments as of December 31, 2010 and 2009.

The fixed income securities markets in early 2009 experienced a period of extreme volatility and limited market liquidity conditions, which affected a broad range of asset classes and sectors. In addition, there were credit downgrade events and an increased probability of default for many fixed income instruments. These volatile market conditions increased the difficulty of valuing certain instruments as trading was less frequent and/or market data was less observable. There were certain instruments that were in active markets with significant observable data that became illiquid due to financial environment or market conditions. As a result, certain valuations required greater estimation and judgment as well as valuation methods which were more complex.

Mortgage loans on real estate

The fair values of mortgage loans on real estate are calculated using discounted expected cash flows using current competitive market interest rates currently being offered for similar loans which are not fair value exit prices.

Derivative instruments

The fair values of derivative instruments are based upon the amount of cash that we will receive to settle each derivative instrument on the reporting date. These amounts are obtained from each of the counterparties using industry accepted valuation models and are adjusted for the nonperformance risk of each counterparty net of any collateral held. Inputs include market volatility and risk free interest rates and are used in income valuation techniques in arriving at a fair value for each option contract. The nonperformance risk for each counterparty is based upon its credit default swap rate. We have no performance obligations related to the call options purchased to fund our fixed index annuity policy liabilities.

Other investments

Other investments is comprised of policy loans, rental real estate and real estate held for sale. We have not attempted to determine the fair values associated with our policy loans, as we believe any differences between carrying value and the fair values afforded these instruments are immaterial to our consolidated financial position and, accordingly, the cost to provide such disclosure does not justify the benefit to be derived. The fair value of our real estate owned was determined either by obtaining a third party appraisal of the property or by estimating the potential annual

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

net operating income from each commercial rental property, which we discount by a current market capitalization rate. We consider the fair value of our real estate owned to be level 3 fair value measurements due to the significant unobservable data used by third party appraisers and by us.

Cash and cash equivalents

Amounts reported in the consolidated balance sheets for these instruments are reported at their historical cost which approximates fair value due to the nature of the assets assigned to this category.

2015 notes hedges

The fair value of these call options is determined by applying market observable data such as our common stock price, its dividend yield and its volatility, as well as the time to expiration of the call options to determine a fair value of the buy side of these options.

Policy benefit reserves and coinsurance deposits

The fair values of the liabilities under contracts not involving significant mortality or morbidity risks (principally deferred annuities), are stated at the cost we would incur to extinguish the liability (i.e., the cash surrender value) as these contracts are generally issued without an annuitization date. The coinsurance deposits related to the annuity benefit reserves have fair values determined in a similar fashion. We are not required to and have not estimated the fair value of the liabilities under contracts that involve significant mortality or morbidity risks, as these liabilities fall within the definition of insurance contracts that are exceptions from financial instruments that require disclosures of fair value.

Notes payable

The fair value of the convertible senior notes is based upon quoted market prices. Fair values of other notes payable are estimated using discounted cash flow calculations based principally on observable inputs including our incremental borrowing rates, which reflect our credit rating, for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

Subordinated debentures

Fair values for subordinated debentures are estimated using discounted cash flow calculations based principally on observable inputs including our incremental borrowing rates, which reflect our credit rating, for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

Interest rate swaps

The fair values of our pay fixed/receive variable interest rate swaps are obtained from third parties and are determined by discounting expected future cash flows using projected LIBOR rates for the term of the swaps.

2015 notes embedded derivatives

The fair value of this embedded derivative is determined by pricing the call options that hedge this potential liability. The terms of the conversion premium are identical to the 2015 notes hedges and the method of determining fair value of the call options is based upon observable market data.

Fixed index annuities - embedded derivatives

We estimate the fair value of the embedded derivative component of our fixed index annuity policy liabilities at each valuation date by (i) projecting policy contract values and minimum guaranteed contract values over the expected lives of the contracts and (ii) discounting the excess of the projected contract value amounts at the applicable risk free interest rates adjusted for our nonperformance risk related to those liabilities. The projections of policy contract values are based on our best estimate assumptions for future policy growth and future policy decrements. Our best estimate assumptions for future policy growth include assumptions for the expected index credit on the next policy anniversary date which are derived from the fair values of the underlying call options purchased to fund such index credits and the expected costs of annual call options we will purchase in the future to fund index credits beyond the next policy anniversary. The projections of minimum guaranteed contract values include the same best estimate assumptions for

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policy decrements as were used to project policy contract values.

The following tables provide a reconciliation of the beginning and ending balances for our Level 3 assets and liabilities, which are measured at fair value on a recurring basis using significant unobservable inputs for the years ended December 31, 2010 and 2009:

	Year Ended December 31,	
	2010	2009
	(Dollars in thousands)	
Available for sale securities		
Beginning balance	\$ 17,918	\$ 20,082
Transfers in to or out of Level 3, net	(3,899) —
Purchases, issuances and settlements	(15,470	) (224
Total gains (losses) (unrealized/realized):		
Included in other comprehensive income	6,383	3,784
Net OTTI losses recognized in operations	(2,230) (5,724
	\$ 2,702	\$ 17,918

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The transfers out of Level 3 were corporate debt and equity securities in the home building sector that were issued as a result of a bankruptcy reorganization in late 2009. The operation that has resulted from this emergence from bankruptcy has become a stable business to which a third party broker has applied observable market data such as similar securities and credit spreads in determining fair value of these securities. Other-than-temporary-impairment losses of \$2.2 million and \$5.7 million for year ended December 31, 2010 and 2009, respectively, are included in net OTTI losses recognized in operations in the consolidated statements of operations.

	Year Ended December 31,	
	2010	2009
	(Dollars in thousands)	
Fixed index annuities—embedded derivatives		
Beginning balance	\$1,375,866	\$998,015
Reinsurance adjustment	—	(18,262)
Premiums less benefits	808,545	62,070
Change in unrealized losses (gains), net	(213,028)	334,043
	\$1,971,383	\$1,375,866

Change in unrealized losses (gains), net for each period in our embedded derivatives are included in change in fair value of embedded derivatives in the consolidated statements of operations.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Investments

At December 31, 2010 and 2009, the amortized cost and fair value of fixed maturity securities and equity securities were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
December 31, 2010				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	\$4,082	\$324	\$(18)	) \$4,388
United States Government sponsored agencies	2,994,174	11,123	(1,646)	) 3,003,651
United States municipalities, states and territories	2,397,622	22,765	(53,384)	) 2,367,003
Corporate securities	7,325,988	387,916	(136,840)	) 7,577,064
Residential mortgage backed securities	2,900,028	86,950	(108,421)	) 2,878,557
	\$15,621,894	\$509,078	\$(300,309)	) \$15,830,663
Held for investment:				
United States Government sponsored agencies	\$746,414	\$—	\$(15,309)	) \$731,105
Corporate security	75,786	—	(25,143)	) 50,643
	\$822,200	\$—	\$(40,452)	) \$781,748
Equity securities, available for sale:				
Finance, insurance and real estate	\$61,185	\$6,722	\$(1,946)	) \$65,961
December 31, 2009				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	\$3,101	\$215	\$(6)	) \$3,310
United States Government sponsored agencies	4,113,457	3,468	(118,388)	) 3,998,537
United States municipalities, states and territories	350,787	7,110	(2,263)	) 355,634
Corporate securities	3,709,446	233,023	(84,920)	) 3,857,549
Residential mortgage backed securities	2,735,889	59,584	(306,372)	) 2,489,101
	\$10,912,680	\$303,400	\$(511,949)	) \$10,704,131
Held for investment:				
United States Government sponsored agencies	\$1,559,434	\$1,647	\$(5,900)	) \$1,555,181
Corporate security	75,649	—	(28,966)	) 46,683
	\$1,635,083	\$1,647	\$(34,866)	) \$1,601,864
Equity securities, available for sale:				
Finance, insurance and real estate	\$82,930	\$13,425	\$(3,269)	) \$93,086

During 2010 and 2009, we received \$5.2 billion and \$4.2 billion, respectively, in net redemption proceeds related to calls of our callable United States Government sponsored agency securities, of which \$1.6 billion and \$2.1 billion, respectively, were classified as held for investment. We reinvested the proceeds from these redemptions primarily in United States Government sponsored agencies, corporate securities and United States municipalities, states, and territories classified as available for sale. At December 31, 2010, 36% of our fixed income securities have call features and 1% (\$0.1 billion) were subject to call redemption. Another 21% (\$3.4 billion) will become subject to call redemption during 2011.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The amortized cost and fair value of fixed maturity securities at December 31, 2010, by contractual maturity are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. All of our residential mortgage and asset backed securities provide for periodic payments throughout their lives and are shown below as a separate line.

	Available for sale		Held for investment	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Due in one year or less	\$26,033	\$26,284	\$—	\$—
Due after one year through five years	401,008	440,698	—	—
Due after five years through ten years	1,647,988	1,816,850	—	—
Due after ten years through twenty years	2,895,065	2,910,182	—	—
Due after twenty years	7,751,772	7,758,092	822,200	781,748
	12,721,866	12,952,106	822,200	781,748
Residential mortgage backed securities	2,900,028	2,878,557	—	—
	\$15,621,894	\$15,830,663	\$822,200	\$781,748

Net unrealized gains (losses) on available for sale fixed maturity securities and equity securities reported as a separate component of stockholders' equity were comprised of the following:

	December 31,	
	2010	2009
	(Dollars in thousands)	
Net unrealized gains (losses) on available for sale fixed maturity securities and equity securities	\$213,545	\$(198,393)
Adjustments for assumed changes in amortization of deferred policy acquisition costs and deferred sales inducements	(122,336)	) 116,870
Deferred tax valuation allowance reversal	22,534	22,534
Deferred income tax benefit	(31,923)	) 28,533
Net unrealized gains (losses) reported as accumulated other comprehensive income (loss)	\$81,820	\$(30,456)

The National Association of Insurance Commissioners ("NAIC") assigns designations to fixed maturity securities. These designations range from Class 1 (highest quality) to Class 6 (lowest quality). In general, securities are assigned a designation based upon the ratings they are given by the Nationally Recognized Statistical Rating Organizations ("NRSRO's"). The NAIC designations are utilized by insurers in preparing their annual statutory statements. NAIC Class 1 and 2 designations are considered "investment grade" while NAIC Class 3 through 6 designations are considered "non-investment grade." Based on the NAIC designations and fair values, 98% and 97% of our fixed maturity portfolio rated investment grade at December 31, 2010 and 2009, respectively.

The following table summarizes the credit quality, as determined by NAIC designation, of our fixed maturity portfolio as of the dates indicated:

NAIC Designation	December 31, 2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
1	\$12,152,552	\$12,246,954	\$9,495,015	\$9,370,647
2	3,892,680	4,012,076	2,571,815	2,555,826

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3	368,680	323,113	409,860	315,948
4	19,820	19,178	24,375	20,799
5	6,089	6,262	21,013	20,749
6	4,273	4,828	25,685	22,026
	\$16,444,094	\$16,612,411	\$12,547,763	\$12,305,995

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables show our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities (consisting of 780 and 355 securities, respectively) have been in a continuous unrealized loss position, at December 31, 2010 and 2009:

	Less than 12 months		12 months or more		Total	Unrealized
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Losses
	(Dollars in thousands)					
December 31, 2010						
Fixed maturity securities:						
Available for sale:						
United States Government full faith and credit	\$548	\$(18)	\$—	\$—	\$548	\$(18)
United States Government sponsored agencies	110,101	(1,646)	—	—	110,101	(1,646)
United States municipalities, states and territories	1,510,354	(51,989)	7,525	(1,395)	1,517,879	(53,384)
Corporate securities:						
Finance, insurance and real estate	626,363	(31,352)	114,128	(13,001)	740,491	(44,353)
Manufacturing, construction and mining	1,032,170	(33,893)	34,490	(2,333)	1,066,660	(36,226)
Utilities and related sectors	933,727	(34,657)	14,157	(4,552)	947,884	(39,209)
Wholesale/retail trade	153,699	(4,947)	9,175	(1,304)	162,874	(6,251)
Services, media and other	195,516	(10,801)	—	—	195,516	(10,801)
Residential mortgage backed securities	396,083	(14,100)	966,332	(94,321)	1,362,415	(108,421)
	\$4,958,561	\$(183,403)	\$1,145,807	\$(116,906)	\$6,104,368	\$(300,309)
Held for investment:						
United States Government sponsored agencies	\$731,105	\$(15,309)	\$—	\$—	\$731,105	\$(15,309)
Corporate security:						
Finance, insurance and real estate	—	—	50,643	(25,143)	50,643	(25,143)
	\$731,105	\$(15,309)	\$50,643	\$(25,143)	\$781,748	\$(40,452)
Equity securities, available for sale:						
Finance, insurance and real estate	\$14,583	\$(1,199)	\$16,253	\$(747)	\$30,836	\$(1,946)
December 31, 2009						
Fixed maturity securities:						
Available for sale:						
United States Government full faith and credit	\$332	\$(6)	\$—	\$—	\$332	\$(6)
United States Government sponsored agencies	2,908,205	(118,388)	—	—	2,908,205	(118,388)
United States municipalities, states and territories	111,969	(2,263)	—	—	111,969	(2,263)
Corporate securities:						

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Finance, insurance and real estate	154,093	(10,560)	239,211	(39,995)	393,304	(50,555)
Manufacturing, construction and mining	93,922	(2,032)	74,258	(8,430)	168,180	(10,462)
Utilities and related sectors	149,515	(5,046)	63,933	(8,110)	213,448	(13,156)
Wholesale/retail trade	35,629	(623)	39,547	(4,800)	75,176	(5,423)
Services, media and other	46,625	(512)	61,359	(4,812)	107,984	(5,324)
Residential mortgage backed securities	226,567	(22,781)	1,186,542	(283,591)	1,413,109	(306,372)
	\$3,726,857	\$(162,211)	\$1,664,850	\$(349,738)	\$5,391,707	\$(511,949)
Held for investment:						
United States Government sponsored agencies	\$359,100	\$(5,900)	\$—	\$—	\$359,100	\$(5,900)
Corporate security:						
Finance, insurance and real estate	—	—	46,683	(28,966)	46,683	(28,966)
	\$359,100	\$(5,900)	\$46,683	\$(28,966)	\$405,783	\$(34,866)
Equity securities, available for sale:						
Finance, insurance and real estate	\$9,802	\$(147)	\$28,877	\$(3,122)	\$38,679	\$(3,269)

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a description of the factors causing the unrealized losses by investment category as of December 31, 2010:

United States municipalities, states and territories: These securities are relatively long in duration, making the value of such securities sensitive to changes in market interest rates. These securities carry yields less than those available at December 31, 2010 as the result of rising interest rates in 2010.

Corporate securities: The unrealized losses in these securities are due partially to the continuation of wider than historic credit spreads in certain sectors of the corporate bond market. While credit spreads have stabilized, several sectors remain at spreads wider than levels prior to the 2008 financial crisis, such as financial and select economic sensitive issuers. As the result of wider spreads, these issues carry yields less than those available in the market as of December 31, 2010.

Residential mortgage backed securities: At December 31, 2010, we had no exposure to sub-prime residential mortgage backed securities. All of our residential mortgage backed securities are pools of first-lien residential mortgage loans. Substantially all of the securities that we own are in the most senior tranche of the securitization in which they are structured and are not subordinated to any other tranche. Our "Alt-A" residential mortgage backed securities are comprised of 36 securities with a total amortized cost basis of \$478.0 million and a fair value of \$441.1 million. Despite recent improvements in the capital markets, the fair values of RMBS continue at prices below amortized cost. RMBS prices will likely remain below our cost basis until the housing market is able to absorb current and future foreclosures.

Equity securities: The unrealized loss on equity securities, which are primarily investment grade perpetual preferred stocks with exposure to REITS, investment banks and finance companies, are due to the ongoing concerns relating to capital, asset quality and earnings stability due to the financial crisis. All of the equity securities in an unrealized loss position for 12 months or more are investment grade perpetual preferred stocks that are absent credit deterioration. A continued difficult housing market has raised concerns in regard to earnings and dividend stability in many companies which directly affect the values of these securities.

Where the decline in market value of debt securities is attributable to changes in market interest rates or to factors such as market volatility, liquidity and spread widening, and we anticipate recovery of all contractual or expected cash flows, we do not consider these investments to be other than temporarily impaired because we do not intend to sell these investments and it is not more likely than not we will be required to sell these securities before a recovery of amortized cost, which may be maturity. For equity securities, we recognize an impairment charge in the period in which we do not have the intent and ability to hold the securities until a recovery of cost or we determine that the security will not recover to book value within a reasonable period of time. We determine what constitutes a reasonable period of time on a security-by-security basis based upon consideration of all the evidence available to us, including the magnitude of an unrealized loss and its duration. In any event, this period does not exceed 18 months from the date of impairment for perpetual preferred securities for which there is evidence of deterioration in credit of the issuer and common equity securities. For perpetual preferred securities absent evidence of a deterioration in credit of the issuer we apply an impairment model, including an anticipated recovery period, similar to a debt security. For equity securities we measure other than temporary impairment charges based upon the difference between the book value of a security and its fair value.

Approximately 85% and 81% of the unrealized losses on fixed maturity securities shown in the above table for December 31, 2010 and 2009, respectively, are on securities that are rated investment grade, defined as being the highest two NAIC designations. All of the fixed maturity securities with unrealized losses are current with respect to

the payment of principal and interest.

Changes in net unrealized gains/losses on investments for the years ended December 31, 2010, 2009 and 2008 are as follows:

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Fixed maturity securities held for investment carried at amortized cost	\$(7,233	) \$(17,184	) \$(126,883)
Investments carried at fair value:			
Fixed maturity securities, available for sale	\$417,318	\$321,691	\$(418,744)
Equity securities, available for sale	(5,380	) 35,761	(7,862)
	411,938	357,452	(426,606)
Adjustment for effect on other balance sheet accounts:			
Deferred policy acquisition costs and deferred sales inducements	(239,206	) (212,243	) 259,765
Change in deferred tax valuation allowance	—	22,534	—
Deferred income tax asset	(60,456	) (50,823	) 58,394
	(299,662	) (240,532	) 318,159
Decrease (increase) in net unrealized losses on investments carried at fair value	\$112,276	\$116,920	\$(108,447)

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Components of net investment income are as follows:

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Fixed maturity securities	\$870,945	\$780,729	\$674,674
Equity securities	5,299	7,930	11,512
Mortgage loans on real estate	159,193	147,657	137,588
Cash and cash equivalents	621	736	1,192
Other	6,585	1,692	418
	1,042,643	938,744	825,384
Less investment expenses	(6,537	) (6,572	) (3,307
Net investment income	\$1,036,106	\$932,172	\$822,077

Proceeds from sales of available for sale fixed maturity securities for the years ended December 31, 2010, 2009 and 2008 were \$340.6 million, \$659.1 million and \$580.9 million, respectively. Scheduled principal repayments, calls and tenders for available for sale fixed maturity securities for the years ended December 31, 2010, 2009 and 2008 were \$4.1 billion, \$2.5 billion and \$905.7 million, respectively. Calls of held for investment fixed maturity securities for the years ended December 31, 2010, 2009 and 2008 were \$1.6 billion, \$2.1 billion and \$2.0 billion, respectively.

Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date. Net realized gains on investments, excluding other than temporary impairment losses for the years ended December 31, 2010, 2009 and 2008 are as follows:

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Available for sale fixed maturity securities:			
Gross realized gains	\$27,755	\$54,401	\$5,852
Gross realized losses	(2,575	) (2,162	) (589
	25,180	52,239	5,263
Equity securities:			
Gross realized gains	14,384	5,620	292
Gross realized losses	(71	) (96) —
	14,313	5,524	292
Other investments:			
Impairment losses	(542) —	—
Mortgage loans on real estate:			
Impairment losses	(15,225	) (6,484) —
	\$23,726	\$51,279	\$5,555

We had investments in fixed maturity, available for sale securities with carrying values totaling \$2.1 million and \$1.6 million as of December 31, 2010 and 2009, that had not produced income for the preceding 12 months.

Reductions in interest income associated with nonperforming investments in fixed maturity securities totaled \$0.4 and \$1.1 million in 2010 and 2009, respectively.

We review and analyze all investments on an ongoing basis for changes in market interest rates and credit deterioration. This review process includes analyzing our ability to recover the amortized cost or cost basis of each investment that has a fair value that is lower than its amortized cost or cost and requires a high degree of management judgment and involves uncertainty. The evaluation of securities for other than temporary impairments is a quantitative and qualitative process, which is subject to risks and uncertainties.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We have a policy and process in place to identify securities that could potentially have an impairment that is other than temporary. This process involves monitoring market events and other items that could impact issuers. The evaluation includes but is not limited to such factors as:

- the length of time and the extent to which the fair value has been less than amortized cost or cost;
- whether the issuer is current on all payments and all contractual payments have been made as agreed;
- the remaining payment terms and the financial condition and near-term prospects of the issuer;
- the lack of ability to refinance due to liquidity problems in the credit market;
- the fair value of any underlying collateral;
- the existence of any credit protection available;
- our intent to sell and whether it is more likely than not we would be required to sell prior to recovery for debt securities;
- our assessment in the case of equity securities including perpetual preferred stocks with credit deterioration that the security cannot recover to cost in a reasonable period of time;
- our intent and ability to retain equity securities for a period of time sufficient to allow for recovery;
- consideration of rating agency actions; and
- changes in estimated cash flows of residential mortgage and asset backed securities.

We determine whether other than temporary impairment losses should be recognized for debt and equity securities by assessing all facts and circumstances surrounding each security. Where the decline in market value of debt securities is attributable to changes in market interest rates or to factors such as market volatility, liquidity and spread widening, and we anticipate recovery of all contractual or expected cash flows, we do not consider these investments to be other than temporarily impaired because we do not intend to sell these investments and it is not more likely than not we will be required to sell these investments before a recovery of amortized cost, which may be maturity. For equity securities, we recognize an impairment charge in the period in which we do not have the intent and ability to hold the securities until recovery of cost or we determine that the security will not recover to book value within a reasonable period of time. We determine what constitutes a reasonable period of time on a security-by-security basis by considering all the evidence available to us, including the magnitude of any unrealized loss and its duration. In any event, this period does not exceed 18 months from the date of impairment for perpetual preferred securities for which there is evidence of deterioration in credit of the issuer and common equity securities. For perpetual preferred securities absent evidence of a deterioration in credit of the issuer we apply an impairment model, including an anticipated recovery period, similar to a debt security.

Other than temporary impairment losses on equity securities are recognized in operations. If we intend to sell a debt security or if it is more likely than not that we will be required to sell a debt security before recovery of its amortized cost basis, other than temporary impairment has occurred and the difference between amortized cost and fair value will be recognized as a loss in operations.

If we do not intend to sell and it is not more likely than not we will be required to sell the debt security but also do not expect to recover the entire amortized cost basis of the security, an impairment loss would be recognized in operations in the amount of the expected credit loss. We calculate the present value of the cash flows expected to be collected discounted at each security's acquisition yield based on our consideration of whether the security was of high credit quality at the time of acquisition. The difference between the present value of expected future cash flows and the amortized cost basis of the security is the amount of credit loss recognized in operations. The remaining amount of the other than temporary impairment is recognized in other comprehensive income.

The determination of the credit loss component of a residential mortgage backed security is based on a number of factors. The primary consideration in this evaluation process is the issuer's ability to meet current and future interest and principal payments as contractually stated at time of purchase. Our review of these securities includes an analysis of the cash flow modeling under various default scenarios considering independent third party benchmarks, the seniority of the specific tranche within the structure of the security, the composition of the collateral and the actual default, loss severity and prepayment experience exhibited. With the input of third party assumptions for default projections, loss severity and prepayment expectations, we evaluate the cash flow projections to determine whether the security is performing in accordance with its contractual obligation.

We utilize the models from a leading structured product software specialist serving institutional investors. These models incorporate each security's seniority and cash flow structure. In circumstances where the analysis implies a potential for principal loss at some point in the future, we use the "best estimate" cash flow projection discounted at the security's effective yield at acquisition to determine the amount of our potential credit loss associated with this security. The discounted expected future cash flows equates to our expected recovery value. Any shortfall of the expected recovery when compared to the amortized cost of the security will be recorded as the credit loss component of other than temporary impairment.

The cash flow modeling is performed on a security-by-security basis and incorporates actual cash flows on the residential mortgage backed securities through the current period, as well as the projection of remaining cash flows using a number of assumptions including default rates, prepayment rates and loss severity rates. The default curves we use are tailored to the Prime or Alt-A residential mortgage backed securities that we own, which assume lower default rates and loss severity for Prime securities versus Alt-A securities. These default curves are scaled higher or lower depending on factors such as current underlying mortgage loan performance, rating agency loss projections, loan to value ratios, geographic diversity, as well as other appropriate considerations. The default curves generally assume lower loss levels for older vintage securities versus more recent vintage securities, which reflects the decline in underwriting standards over the years.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the range of significant assumptions used to determine the credit loss component of other than temporary impairments we have recognized on residential mortgage backed securities at December 31, 2010 and 2009, which are all senior level tranches within the structure of the securities:

Sector	Vintage	Discount Rate		Default Rate		Loss Severity		
		Min	Max	Min	Max	Min	Max	
Year ended December 31, 2010								
Prime	2005	7.5	% 7.5	% 11	% 11	% 45	% 45	%
	2006	6.5	% 7.6	% 7	% 11	% 45	% 60	%
	2007	5.8	% 6.7	% 11	% 28	% 40	% 60	%
	2008	6.6	% 6.6	% 5	% 5	% 50	% 50	%
Alt-A	2005	6.0	% 7.4	% 12	% 27	% 45	% 50	%
	2006	6.5	% 7.3	% 30	% 36	% 50	% 60	%
	2007	6.5	% 7.0	% 35	% 51	% 50	% 60	%
Year ended December 31, 2009								
Prime	2005	7.7	% 7.7	% 7	% 7	% 50	% 50	%
	2006	6.5	% 9.2	% 7	% 14	% 35	% 55	%
	2007	5.8	% 7.9	% 8	% 31	% 35	% 50	%
Alt-A	2004	5.8	% 5.8	% 11	% 11	% 40	% 40	%
	2005	5.6	% 8.7	% 10	% 25	% 10	% 55	%
	2006	6.0	% 7.3	% 16	% 31	% 40	% 60	%
	2007	6.2	% 7.5	% 15	% 52	% 45	% 70	%

The determination of the credit loss component of a corporate bond (including redeemable preferred stocks) is based on the underlying financial performance of the issuer and their ability to meet their contractual obligations.

Considerations in our evaluation include, but are not limited to, credit rating changes, financial statement and ratio analysis, changes in management, significant changes in credit spreads, breaches of financial covenants and a review of the economic outlook for the industry and markets in which they trade. In circumstances where an issuer appears unlikely to meet its future obligation, or the security's price decline is deemed other than temporary, an estimate of credit loss is determined. Credit loss is calculated using default probabilities as derived from the credit default swaps markets in conjunction with recovery rates derived from independent third party analysis or a best estimate of credit loss. This credit loss rate is then incorporated into a present value calculation based on an expected principal loss in the future discounted at the yield at the date of purchase and compared to amortized cost to determine the amount of credit loss associated with the security.

In addition, for debt securities which we do not intend to sell and it is not more likely than not we will be required to sell, but our intent changes due to changes or events that could not have been reasonably anticipated, an other than temporary impairment charge is recognized. Once an impairment charge has been recorded, we then continue to review the other than temporarily impaired securities for appropriate valuation on an ongoing basis. Unrealized losses may be recognized in future periods through a charge to earnings, should we later conclude that the decline in fair value below amortized cost is other than temporary pursuant to our accounting policy described above. The use of different methodologies and assumptions to determine the fair value of investments and the timing and amount of impairments may have a material effect on the amounts presented in our consolidated financial statements.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes other than temporary impairments by asset type:

General Description	Number of Securities	Other Than Temporary Impairments	Portion Recognized In Comprehensive Income	Net Impairment Losses Recognized in Operations
(Dollars in thousands)				
Year ended December 31, 2010				
Corporate bonds:				
Finance	1	\$(822	) \$—	\$(822)
Retail	1	(1,576	) —	(1,576)
Residential mortgage backed securities	30	(17,146	) (4,323	) (21,469)
	32	\$(19,544	) \$(4,323	) \$(23,867)
Year ended December 31, 2009				
United States Government full faith and credit	1	\$(245	) \$—	\$(245)
Corporate bonds:				
Finance	3	(8,388	) (1,521	) (9,909)
Insurance	2	(766	) (421	) (1,187)
Home building	3	(5,242	) (814	) (6,056)
Residential mortgage backed securities	54	(184,590	) 136,400	(48,190)
Common & preferred stocks:				
Finance	7	(18,292	) —	(18,292)
Insurance	2	(1,492	) —	(1,492)
Real estate	2	(1,400	) —	(1,400)
	74	\$(220,415	) \$133,644	\$(86,771)
Year ended December 31, 2008				
Corporate bonds:				
Finance	3	\$(13,462)	
Insurance	2	(10,662)	
Home building	3	(7,009)	
Media	1	(5,325)	
Residential mortgage backed securities	15	(76,171)	
Common & preferred stocks:				
Finance	9	(49,763)	
Insurance	3	(7,093)	
Real estate	14	(23,163)	
	50	\$(192,648)	

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The cumulative portion of other than temporary impairments determined to be credit losses which have been recognized in operations for debt securities are summarized as follows:

	Year Ended December 31,		
	2010	2009	
	(Dollars in thousands)		
Cumulative credit loss at beginning of period	\$ (82,930	) \$ (34,229)
Credit losses on securities not previously impaired	(4,553	) (27,655)
Additional credit losses on securities previously impaired	(19,314	) (37,932)
Accumulated losses on securities that were disposed of during the period	9,904	16,886	
	\$ (96,893	) \$ (82,930)

The following table summarizes the cumulative noncredit portion of OTTI and the change in fair value since recognition of OTTI, both of which were recognized in other comprehensive income, by major type of security for securities that are part of our investment portfolio at December 31, 2010 and 2009:

	Amortized Cost	OTTI Recognized in Other Comprehensive Income	Change in Fair Value Since OTTI was Recognized	Fair Value
	(Dollars in thousands)			
December 31, 2010				
Corporate fixed maturity securities	\$5,055	\$ (2,151	) \$ 5,437	\$ 8,341
Residential backed securities	904,704	(200,921	) 124,240	828,023
Equity securities:				
Finance, insurance and real estate	14,771	—	5,783	20,554
	\$924,530	\$ (203,072	) \$ 135,460	\$ 856,918
December 31, 2009				
Corporate fixed maturity securities	\$25,603	\$ (9,488	) \$ 7,763	\$ 23,878
Residential backed securities	809,632	(205,245	) 11,809	616,196
Equity securities:				
Finance, insurance and real estate	34,645	—	13,045	47,690
	\$ 869,880	\$ (214,733	) \$ 32,617	\$ 687,764

At December 31, 2010 and 2009, fixed maturity securities and short-term investments with an amortized cost of \$20.5 billion and \$16.0 billion, respectively, were on deposit with state agencies to meet regulatory requirements. There are no restrictions on these assets.

At December 31, 2009, the following investment in any person or its affiliates (other than bonds issued by agencies of the United States Government) exceeded 10% of stockholders' equity:

Issuer	Fair Value	Amortized Cost
	(Dollars in thousands)	
December 31, 2009:		
FBL Capital Trust I	46,683	75,649

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Mortgage Loans on Real Estate

Our mortgage loan portfolio totaled \$2.6 billion and \$2.5 billion at December 31, 2010 and 2009, respectively, with commitments outstanding of \$96.2 million at December 31, 2010. The portfolio consists of commercial mortgage loans collateralized by the related properties and diversified as to property type, location and loan size. Our mortgage lending policies establish limits on the amount that can be loaned to one borrower and other criteria to reduce the risk of default. The mortgage loan portfolio is summarized by geographic region and property type as follows:

	December 31,				
	2010		2009		
	Carrying	Percent	Carrying	Percent	
	Amount		Amount		
	(Dollars in thousands)				
Geographic distribution					
East	\$618,250	23.6	% \$560,256	22.8	%
Middle Atlantic	172,443	6.6	% 168,246	6.9	%
Mountain	402,965	15.4	% 388,940	15.9	%
New England	42,695	1.6	% 44,541	1.8	%
Pacific	247,254	9.5	% 216,382	8.8	%
South Atlantic	496,606	19.0	% 464,077	18.9	%
West North Central	419,002	16.0	% 410,883	16.7	%
West South Central	215,650	8.3	% 201,719	8.2	%
	\$2,614,865	100.0	% \$2,455,044	100.0	%
Loan loss allowance	(16,224	)	(5,266)	
	2,598,641		2,449,778		
Property type distribution					
Office	\$683,404	26.1	% \$664,701	27.1	%
Medical Office	166,930	6.4	% 145,390	5.9	%
Retail	589,369	22.5	% 564,023	23.0	%
Industrial/Warehouse	666,908	25.5	% 610,279	24.9	%
Hotel	151,516	5.8	% 155,594	6.3	%
Apartment	131,682	5.1	% 122,854	5.0	%
Mixed use/other	225,056	8.6	% 192,203	7.8	%
	\$2,614,865	100.0	% \$2,455,044	100.0	%
Loan loss allowance	(16,224	)	(5,266)	
	2,598,641		2,449,778		

We evaluate our mortgage loan portfolio for the establishment of a loan loss reserve by specific identification of impaired loans and the measurement of an estimated loss for each individual loan identified. A mortgage loan is impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. In addition, we analyze the mortgage loan portfolio for the need of a general loan allowance for probable losses on all other loans. If we determine that the value of any specific mortgage loan is impaired, the carrying amount of the mortgage loan will be reduced to its fair value, based upon the present value of expected future cash flows from the loan discounted at the loan's effective interest rate, or the fair value of the underlying collateral less estimated costs to sell. The amount of the general loan allowance is based upon management's evaluation of the collectability of the loan portfolio, historical loss experience, delinquencies, credit concentrations, underwriting standards and national and local economic conditions. Based upon this process and analysis, we established a general loan loss allowance of \$3.0 million during the year ended December 31, 2010. No general loan loss allowance was

necessary at December 31, 2009.

Our specific allowance for credit losses on mortgage loans totaled \$13.2 million and \$5.3 million at December 31, 2010 and 2009, respectively, on mortgage loans with total outstanding balances of \$31.0 million and \$20.2 million as of December 31, 2010 and 2009, respectively. During 2010 and 2009, five and four mortgage loans, respectively, were satisfied by taking ownership of the real estate serving as collateral on each loan. These loans had an aggregate principal amount outstanding of \$11.7 million and \$12.6 million, for which specific loan loss allowances totaling \$4.3 million and \$1.2 million were established and recognized in 2010 and 2009, respectively. Additional impairment of \$0.6 million was recognized on two properties after ownership of the real estate was taken in 2010 as the fair value of each property was revalued by a third party appraiser and the fair value less the estimated costs to sell was lower due to new facts discovered after ownership was obtained.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Mortgage loans summarized in the following table represent all loans that we are either not currently collecting or those we feel it is probable we will not collect all amounts due according to the contractual terms of the loan agreements (all loans that we have worked with the borrower to alleviate short-term cash flow issues and loans delinquent for more than 60 days at the reporting date).

	December 31,	
	2010	2009
	(Dollars in thousands)	
Impaired mortgage loans with allowances	\$31,027	\$15,869
Impaired mortgage loans with no allowance for losses	81,994	70,214
Allowance for probable loan losses	(13,224	) (5,266
Net carrying value of impaired mortgage loans	\$99,797	\$80,817

Our financing receivables currently consist of one portfolio segment which is our commercial mortgage loan portfolio. These are mortgage loans with collateral consisting of commercial real estate and borrowers consisting mostly of limited liability partnerships or limited liability corporations with some personal guarantors. We added mortgage loans on commercial real estate to our investment mix in 2001. Credit loss experience in our mortgage loan portfolio has been limited to the most recent fiscal years. In 2009, we experienced our first credit loss from our mortgage loan portfolio.

Since 2008, we have consistently had a population of mortgage loans that we have been carrying with workout terms (e.g. short-term interest only periods, short-term suspended payments, etc.) and a population of mortgage loans that have been in a delinquent status (i.e. more than 60 days past due). It is from this population that we have been recognizing some impairment loss due to nonpayment and eventual satisfaction of the loan by taking ownership of the collateral real estate, which in most cases the fair value of the collateral less estimated costs to sell such collateral has been less than the outstanding principal amount of the mortgage loan.

Beginning in 2010, we have calculated a general loan loss allowance on the cumulative outstanding principal on loans making up the group of loans currently in workout terms and loans currently more than 60 days past due. We apply a factor to the total outstanding principal of these loans that is calculated as the average specific impairment loss for the most recent 4 quarters divided by the sum of the average of the total outstanding principal of delinquent loans for the previous 4 quarters and the average of the total outstanding principal of loans in workout for the previous 4 quarters.

The following table presents a rollforward of our valuation allowance for Commercial Mortgage Loans for the year ended December 31, 2010, ending balances of the allowance by basis of impairment and the totals of the loans that were evaluated for impairment at December 31, 2010 (dollars in thousands):

	Year Ended December 31, 2010	
Allowance for Credit Losses:		
Beginning allowance balance	\$(5,266)
Charge-offs	4,267	
Recoveries	—	
Provision for credit losses	(15,225)
Ending allowance balance	\$(16,224)
	December 31, 2010	

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Ending allowance balance by type of impairment		
Individually evaluated for impairment	\$(13,224)
Collectively evaluated for impairment	(3,000)
Ending allowance balance	\$(16,224)
Financing Receivables:		
Individually evaluated for impairment	31,027	
Collectively evaluated for impairment	81,994	

The amount of charge-offs include the amount of allowance that has been established for loans that we were in the process of satisfying the outstanding principal of certain loans by taking ownership of the collateral. When the property is taken it is recorded at its fair value and the mortgage loan is recorded as fully paid, with any allowance for credit loss that has been established charged off. There could be other situations that develop where we have established a larger specific loan loss allowance than is needed based on increases in the fair value of collateral

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

supporting collateral dependent loans, or improvements in the financial position of a borrower so that a loan would become reliant on cash flows from debt service instead of dependent upon sale of the collateral. Charge-offs of the allowance would be recognized in those situations as well.

All of our commercial mortgage loans depend on the cash flow of each borrower to be at a sufficient level to service the principal and interest payments as they come due. In general, cash inflows of the borrowers are generated by collecting monthly rent from tenants occupying space within the borrowers' facilities. Our borrowers face collateral risks such as tenants going out of business, tenants struggling to make rent payments as they become due, and tenants canceling leases and moving to other locations. We have a number of loans where the real estate is occupied by a single tenant. The current depressed and somewhat inactive commercial real estate market has resulted in some of our borrowers experiencing both a reduction in cash flow on their mortgage property as well as a reduction in the fair value of the real estate collateral. If these borrowers are unable to replace lost rent revenue and increases in the fair value of their property do not materialize we could potentially incur more losses than what we have allowed for in our specific and general loan loss allowances.

We analyze credit risk of our mortgage loans by analyzing all available evidence on loans that are delinquent and loans that are in a workout period.

	December 31, 2010 (Dollars in thousands)
Credit Exposure--By Payment Activity	
Performing	\$2,501,843
In workout	68,477
Delinquent	20,482
Collateral dependent	24,063
	\$2,614,865

Mortgage loans are considered delinquent when they become 60 days past due. When loans become 90 days past due, become collateral dependent or enter a period with no debt service payments required we place them on non-accrual status and discontinue recognizing interest income. If payments are received on a delinquent loan, interest income is recognized to the extent it would have been recognized if normal principal and interest would have been received timely. If the payments are received to bring a delinquent loan back to current we will resume accruing interest income on that loan. Outstanding principal of loans in a non-accrual status at December 31, 2010 totals \$41.0 million.

Aging of financing receivables as of December 31, 2010:

	30 - 59 Days	60 - 89 Days	90 Days and Over	Total Past Due	Current	Collateral Dependent Receivables	Total Financing Receivables
	(Dollars in thousands)						
Commercial mortgage loans	\$3,002	\$9,169	\$11,313	\$23,484	\$2,567,318	\$24,063	\$2,614,865

Financing receivables summarized in the following table represent all loans that we are either not currently collecting or those we feel it is probable we will not collect all amounts due according to the contractual terms of the loan agreements (all loans that we have worked with the borrower to alleviate short-term cash flow issues and loans delinquent for more than 60 days at the reporting date).

Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded	Interest Income
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		Balance		Investment	Recognized
	(Dollars in thousands)				
Mortgage loans with an allowance	\$17,803	\$31,027	\$(13,224)	\$24,062	\$656
Mortgage loans with no related allowance	81,994	81,994	—	82,535	4,921
	\$99,797	\$113,021	\$(13,224)	\$106,597	\$5,577

We have not experienced any troubled debt restructures in our commercial mortgage loan portfolio.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Derivative Instruments

We recognize all derivative instruments as assets or liabilities in the consolidated balance sheets at fair value. None of our derivatives qualify for hedge accounting, thus, any change in the fair value of the derivatives is recognized immediately in the consolidated statements of operations. The fair value of our derivative instruments, including derivative instruments embedded in fixed index annuity contracts, presented in the consolidated balance sheets are as follows:

	December 31, 2010	2009
	(Dollars in thousands)	
Assets		
Derivative instruments		
Call options	\$479,786	\$479,272
Other Assets		
2015 notes hedges	66,595	—
	\$546,381	\$479,272
Liabilities		
Policy benefit reserves—annuity products		
Fixed index annuities—embedded derivatives	\$1,971,383	\$1,375,866
Other liabilities		
2015 notes embedded conversion derivative	66,595	—
Interest rate swaps	1,976	1,891
	\$2,039,954	\$1,377,757

The change in fair value of derivatives included in the consolidated statements of operations are as follows:

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Change in fair value of derivatives:			
Call options	\$141,803	\$219,275	\$(370,814)
2015 notes hedges (see note 9)	29,595	—	—
Interest rate swaps	(2,536)	(2,379)	(1,195)
	\$168,862	\$216,896	\$(372,009)
Change in fair value of embedded derivatives:			
2015 notes embedded derivatives (see note 9)	\$29,595	\$—	\$—
Fixed index annuities—embedded derivatives	101,355	529,508	(210,753)
	\$130,950	\$529,508	\$(210,753)

We have fixed index annuity products that guarantee the return of principal to the policyholder and credit interest based on a percentage of the gain in a specified market index. When fixed index annuity deposits are received, a portion of the deposit is used to purchase derivatives consisting of call options on the applicable market indices to fund the index credits due to fixed index annuity policyholders. Substantially all such call options are one year options purchased to match the funding requirements of the underlying policies. The call options are marked to fair value with the change in fair value included as a component of revenues. The change in fair value of derivatives includes the gains or losses recognized at the expiration of the option term or upon early termination and the changes in fair value for open positions. On the respective anniversary dates of the index policies, the index used to compute the annual index credit is reset and we purchase new one-year call options to fund the next annual index credit. We manage the cost of these purchases through the terms of our fixed index annuities, which permit us to change caps, participation

rates, and/or asset fees, subject to guaranteed minimums on each policy's anniversary date. By adjusting caps, participation rates, or asset fees, we can generally manage option costs except in cases where the contractual features would prevent further modifications.

Our strategy attempts to mitigate any potential risk of loss under these agreements through a regular monitoring process which evaluates the program's effectiveness. We do not purchase call options that would require payment or collateral to another institution and our call options do not contain counterparty credit-risk-related contingent features. We are exposed to risk of loss in the event of nonperformance by the counterparties and, accordingly, we purchase our option contracts from multiple counterparties and evaluate the creditworthiness of all counterparties prior to purchase of the contracts. All of these options have been purchased from nationally recognized financial institutions with a Standard and Poor's

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

credit rating of A- or higher at the time of purchase and the maximum credit exposure to any single counterparty is subject to concentration limits. We also have credit support agreements that allow us to request the counterparty to provide collateral to us when the fair value of our exposure to the counterparty exceeds specified amounts. The notional amount and fair value of our call options by counterparty and each counterparty's current credit rating are as follows:

Counterparty	Credit Rating (S&P)	Credit Rating (Moody's)	December 31, 2010		2009	
			Notional Amount	Fair Value	Notional Amount	Fair Value
(Dollars in thousands)						
Bank of America	A+	Aa3	\$588,650	\$25,704	\$796	\$—
BNP Paribas	AA	Aa2	786,561	34,772	1,647,627	101,888
Lehman	NR	NR	—	—	1,437	—
Bank of New York	AA-	Aa2	18,082	111	112,193	6,153
Credit Suisse	A+	Aa1	2,462,920	95,910	2,711,027	163,321
Barclays	AA-	Aa3	1,728,218	72,751	258,853	10,082
SunTrust	BBB+	A3	50,540	3,164	427,572	27,735
Wells Fargo (Wachovia)	NR	Aa2	1,745,775	76,250	1,189,234	70,746
J.P. Morgan	AA-	Aa1	2,858,902	133,368	1,648,394	99,347
UBS	A+	Aa3	921,596	37,756	—	—
			\$11,161,244	\$479,786	\$7,997,133	\$479,272

As of December 31, 2010 and 2009, we held \$381.2 million and \$346.1 million, respectively, of cash and cash equivalents received from counterparties for derivative collateral, which is included in other liabilities on our consolidated balance sheets. This derivative collateral limits the maximum amount of economic loss due to credit risk that we would incur if parties to the call options failed completely to perform according to the terms of the contracts to \$108.1 million and \$149.6 million at December 31, 2010 and 2009, respectively.

We had unsecured counterparty exposure in connection with options purchased from affiliates of Lehman Brothers ("Lehman") which declared bankruptcy during the third quarter of 2008. All options purchased from affiliates of Lehman had expired as of June 30, 2010. The amount of option proceeds due on expired options purchased from affiliates of Lehman that we did not receive payment on was \$12.0 million and \$2.1 million for the years ended December 31, 2009 and 2008, respectively. No amount has been recognized for any recovery of these amounts that may result from our claim in Lehman's bankruptcy proceedings.

We entered into interest rate swaps to manage interest rate risk associated with the floating rate component on certain of our subordinated debentures and our revolving line of credit. See notes 9 and 10 for more information on our revolving line of credit and subordinated debentures. The terms of the interest rate swaps provide that we pay a fixed rate of interest and receive a floating rate of interest. The interest rate swaps are not effective hedges under accounting guidance for derivative instruments and hedging activities. Therefore, we record the interest rate swaps at fair value with the changes in fair value and any net cash payments received or paid included in the change in fair value of derivatives in our consolidated statements of operations.

Details regarding the interest rate swaps are as follows:

Maturity Date	Notional Amount	Receive Rate	Pay Rate	Counterparty	December 31,	
					2010 Fair Value	2009 Fair Value
(Dollars in thousands)						

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September 15, 2010	20,000	*LIBOR(a)	5.19	%	Bank of America	—	(142)
April 7, 2011	20,000	*LIBOR(a)	5.23	%	Bank of America	(99) (290)
October 15, 2011	15,000	**LIBOR	1.54	%	SunTrust	(193	) (144)
October 31, 2011	30,000	**LIBOR	1.51	%	SunTrust	(374	) (241)
October 31, 2011	30,000	**LIBOR	1.61	%	SunTrust	(405	) (301)
October 31, 2011	75,000	**LIBOR	1.77	%	SunTrust	(905	) (773)
						\$(1,976	) \$(1,891)

*—three month London Interbank Offered Rate

**—one month London Interbank Offered Rate

(a)—subject to a floor of 4.25%

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6. Deferred Policy Acquisition Costs and Deferred Sales Inducements

Policy acquisition costs deferred and amortized are as follows:

	December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Balance at beginning of year	\$1,625,785	\$1,579,871	\$1,272,108
Cumulative effect of noncredit OTTI	—	(29,853) —
Costs deferred during the year:			
Commissions	390,631	297,733	256,862
Policy issue costs	11,976	8,130	10,002
Amortized to expense during the year	(136,388	) (88,009	) (126,738
Effect of net unrealized gains/losses	(144,244	) (142,087	) 167,637
Balance at end of year	\$1,747,760	\$1,625,785	\$1,579,871

Sales inducements deferred and amortized are as follows:

	December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Balance at beginning of year	\$1,011,449	\$843,377	\$588,473
Cumulative effect of noncredit OTTI	—	(14,940) —
Costs deferred during the year	370,714	293,167	193,482
Amortized to expense during the year	(59,873	) (39,999	) (30,705
Effect of net unrealized gains/losses	(94,962	) (70,156	) 92,127
Balance at end of year	\$1,227,328	\$1,011,449	\$843,377

The unlocking adjustments in 2010 and 2008 were increases of \$1.4 and \$14.6 million in amortization of deferred policy acquisition costs and increases of \$0.3 and \$1.3 million in amortization for deferred sales inducements, respectively. There was no unlocking adjustment necessary in 2009.

7. Reinsurance and Policy Provisions

Coinsurance

We have entered into two coinsurance agreements with EquiTrust Life Insurance Company ("EquiTrust"), covering 70% of certain of our index and fixed rate annuities issued from August 1, 2001 through December 31, 2001, 40% of those contracts issued during 2002 and 2003 and 20% of those contracts issued from January 1, 2004 to July 31, 2004, when the agreement was suspended by mutual consent of the parties. As a result of the suspension, new business is no longer ceded to EquiTrust. The business reinsured under these agreements is not eligible for recapture before the expiration of 10 years.

Coinsurance deposits (aggregate policy benefit reserves transferred to EquiTrust under these agreements) were \$1.3 billion and \$1.4 billion at December 31, 2010 and 2009, respectively. We remain liable to policyholders with respect to the policy liabilities ceded to EquiTrust should EquiTrust fail to meet the obligations it has coinsured. None of the coinsurance deposits with EquiTrust are deemed by management to be uncollectible. The balance due under these agreements to EquiTrust was \$24.3 million and \$30.8 million at December 31, 2010 and 2009, respectively, and represents the fair value of call options held by us to fund index credits related to the ceded business net of cash due to or from EquiTrust related to monthly settlements of policy activity.

Effective July 1, 2009, we entered into two funds withheld coinsurance agreements with Athene Life Re Ltd. ("Athene"), an unauthorized life reinsurer domiciled in Bermuda. One agreement cedes 20% of certain of our fixed

index annuities issued from January 1, 2009 through March 31, 2010. The business reinsured under this agreement is not eligible for recapture until the end of the month following seven years after the date of issuance of the policy. The other agreement cedes 80% of our multi-year rate guaranteed annuities issued on or after July 1, 2009. The business reinsured under this agreement may not be recaptured. Coinsurance deposits (aggregate policy benefit reserves transferred to Athene under these agreements) were \$1.3 billion and \$834.2 million at December 31, 2010 and 2009, respectively. We remain liable to policyholders with respect to the policy liabilities ceded to Athene should Athene fail to meet the obligations it has coinsured. The annuity deposits that have been ceded to Athene are being held in a trust on a funds withheld basis. American Equity Life is named as the sole beneficiary of the trust. The funds withheld are required to remain at a value that is sufficient to support the current balance of policy benefit liabilities of the ceded business on a statutory basis. If the value of the funds withheld account would ever reach a point where it is less than the amount of the ceded policy benefit liabilities on a statutory basis, Athene is required to either establish a letter of credit or deposit securities in a trust for the amount

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of any shortfall. At December 31, 2010, Athene has adequate capital reserves and a significant capital commitment from its equity investor. None of the coinsurance deposits with Athene are deemed by management to be uncollectible. The balance due under these agreements to Athene was \$19.0 million and \$16.9 million at December 31, 2010 and 2009, respectively, and represents the fair value of call options held by us to fund index credits related to the ceded business net of cash due to or from Athene related to monthly settlements of policy activity.

Amounts ceded to EquiTrust and Athene under these agreements are as follows:

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Consolidated Statements of Operations			
Annuity product charges	\$6,937	\$7,196	\$8,540
Change in fair value of derivatives	19,408	22,878	(37,436)
	\$26,345	\$30,074	\$(28,896)
Interest sensitive and index product benefits	\$96,872	\$45,734	\$33,208
Change in fair value of embedded derivatives	3,373	46,284	(10,626)
Other operating costs and expenses	8,948	9,764	1,669
	\$109,193	\$101,782	\$24,251
Consolidated Statements of Cash Flows			
Annuity deposits	\$(478,962)	\$(749,260)	\$(1,310)
Cash payments to policyholders	211,324	193,760	184,525
	\$(267,638)	\$(555,500)	\$(183,215)

Financing Arrangements

We have entered into two reinsurance transactions with Hannover Life Reassurance Company of America ("Hannover"), which are treated as reinsurance under statutory accounting practices and as financing arrangements under GAAP. The statutory surplus benefits under these agreements are eliminated under GAAP and the associated charges are recorded as risk charges and are included in other operating costs and expenses in the consolidated statements of operations. The transactions became effective October 1, 2005 (the "2005 Hannover Transaction") and December 31, 2008 (the "2008 Hannover Transaction").

The 2008 Hannover Transaction is a coinsurance and yearly renewable term reinsurance agreement for statutory purposes and provided \$29.5 million in net pretax statutory surplus benefit in 2008. Pursuant to the terms of this agreement, pretax statutory surplus was reduced by \$6.7 million in 2010 and is expected to be reduced as follows: 2011—\$6.7 million; 2012—\$6.8 million; 2013—\$6.9 million. These amounts include risk charges equal to 5.0% of the pretax statutory surplus benefit as of the end of each calendar quarter. During 2008 we recaptured business previously ceded to Hannover under another coinsurance and yearly renewable term reinsurance agreement which was similar to the 2008 Hannover Transaction. Risk charges attributable to these two agreements were \$1.1 million, \$1.3 million and \$0.6 million during 2010, 2009 and 2008, respectively.

The 2005 Hannover Transaction is a yearly renewable term reinsurance agreement for statutory purposes covering 47% of waived surrender charges related to penalty free withdrawals and deaths on certain business. The agreement was amended in 2010 and 2009 to include policy forms that were not in existence at the time this agreement became effective. We may recapture the risks reinsured under this agreement as of the end of any quarter beginning October 1, 2008. The 2009 amendment includes a provision that makes it punitive for us not to recapture the business ceded prior to January 1, 2013. The reserve credit recorded on a statutory basis by American Equity Life was \$135.2 million and \$106.8 million at December 31, 2010 and 2009, respectively. We pay quarterly reinsurance premiums under this

agreement with an experience refund calculated on a quarterly basis resulting in a risk charge equal to approximately 5.8% of the weighted average statutory reserve credit. Risk charges attributable to the 2005 Hannover Transaction were \$6.9 million, \$5.1 million and \$3.8 million during 2010, 2009 and 2008, respectively.

Indemnity Reinsurance

In the normal course of business, we seek to limit our exposure to loss on any single insured and to recover a portion of benefits paid under our annuity, life and accident and health insurance products by ceding reinsurance to other insurance enterprises or reinsurers. Reinsurance contracts do not relieve us of our obligations to its policyholders. To the extent that reinsuring companies are later unable to meet obligations under reinsurance agreements, our life insurance subsidiaries would be liable for these obligations, and payment of these obligations could result in losses to us. To limit the possibility of such losses, we evaluate the financial condition of our reinsurers, and monitor concentrations of credit risk. No allowance for uncollectible amounts has been established against our asset for amounts receivable from other insurance companies since none of the receivables are deemed by management to be uncollectible.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reinsurance coverages for life insurance vary according to the age and risk classification of the insured. Reinsurance related to life and accident and health insurance that was ceded by us primarily to two reinsurers was immaterial. During 2007, we entered into reinsurance agreements with Ace Tempest Life Reinsurance Ltd and Hannover to cede 50% to each of the risk associated with our living income benefit rider on certain fixed index annuities issued in 2007. The amounts ceded under these agreements were immaterial as of and for the years ended December 31, 2010, 2009 and 2008.

8. Income Taxes

We file consolidated federal income tax returns that include all of our wholly-owned subsidiaries except Eagle Life which must file a separate federal income tax return for 2009–2013 under applicable federal income tax guidelines. Our income tax expense as presented in the consolidated financial statements is summarized as follows:

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Consolidated statements of operations:			
Current income taxes	\$140,381	\$73,784	\$16,031
Deferred income taxes (benefits)	(118,048	) (56,150	) 45,075
Total income tax expense included in consolidated statements of operations	22,333	17,634	61,106
Stockholders' equity:			
Expense (benefit) relating to:			
Cumulative effect of noncredit OTTI	—	2,462	—
Change in net unrealized investment losses	60,456	39,680	(58,394
Share-based compensation	(480	) 277	(313
Issuance of convertible debt	—	10,756	—
Total income tax expense included in consolidated financial statements	\$82,309	\$70,809	\$2,399

Income tax expense (benefit) in the consolidated statements of operations differed from the amount computed at the applicable statutory federal income tax rate of 35% as follows:

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Income before income taxes	\$65,266	\$86,164	\$77,053
Income tax expense on income before income taxes	\$22,843	\$30,157	\$26,969
Tax effect of:			
State income taxes	(859	) (438	) (449
Deferred tax asset valuation allowance	—	(11,949	) 34,483
Other	349	(136) 103
Income tax expense	\$22,333	\$17,634	\$61,106
Effective tax rate	34.2	% 20.5	% 79.3

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred income tax assets or liabilities are established for temporary differences between the financial reporting amounts and tax bases of assets and liabilities that will result in deductible or taxable amounts, respectively, in future years. The tax effects of temporary differences that give rise to the deferred tax assets and liabilities at December 31, 2010 and 2009, are as follows:

	December 31,	
	2010	2009
	(Dollars in thousands)	
Deferred income tax assets:		
Policy benefit reserves	\$ 1,265,860	\$ 999,544
Net unrealized losses on available for sale fixed maturity and equity securities	—	28,533
Other than temporary impairments	12,920	24,883
Amounts due reinsurer	5,045	11,567
Other policyholder funds	5,448	2,510
Litigation settlement accrual	16,800	—
Deferred compensation	14,453	11,786
Net operating loss carryforwards	10,144	4,912
Other	8,518	8,896
Gross deferred tax assets	1,339,188	1,092,631
Deferred income tax liabilities:		
Deferred policy acquisition costs and deferred sales inducements	(1,043,016	) (845,411
Net unrealized gains on available for sale fixed maturity and equity securities	(31,923) —
Convertible senior notes	(17,567	) (18,363
Derivative instruments	(89,898	) (137,516
Investment income items	(8,902	) (2,314
Other	(4,629	) (3,366
Gross deferred tax liabilities	(1,195,935	) (1,006,970
Net deferred income tax asset	\$ 143,253	\$ 85,661

The total deferred income tax asset includes other than temporary impairments on investments. The other than temporary impairments will not be available for utilization for tax purposes until the securities are either sold at a loss or deemed completely worthless. The other than temporary impairments totaled \$36.9 million and \$70.8 million as of December 31, 2010 and 2009, respectively. In 2008, we recorded a valuation allowance of \$34.5 million on the deferred income tax assets related to capital loss carryforwards and other than temporary impairments on investment securities, as utilization of the income tax benefits from a portion of these items was not more likely than not due to the fact that we had insufficient future taxable income from capital gain sources. The valuation allowance was eliminated in 2009 due to taxable income from capital gain sources and an increase in anticipated future taxable income from capital gain sources. The 2009 taxable income from capital gain sources resulted from the recognition of net realized gains on sales of available for sale fixed maturity and equity securities that were sold as part of a tax planning strategy to generate taxable capital gains to offset the recognition of capital losses for income tax purposes and resulted in \$11.9 million recognized as a component of 2009 income tax expense. The remaining \$22.5 million of the valuation allowance was reversed through an adjustment to retained earnings. The increase in anticipated future taxable income from capital gain sources resulted from an increase in unrealized gains on securities in our available for sale investment portfolio which may be sold as part of a tax planning strategy to generate capital gains to offset capital losses.

Included in the deferred income taxes is the expected income tax benefit attributable to unrealized losses on available for sale fixed maturity securities. There is no valuation allowance provided for the deferred tax asset attributable to

unrealized losses on available for sale fixed maturity securities. Management expects that the passage of time will result in the reversal of these unrealized losses due to the fair value increasing as these securities near maturity. Management has the intent and ability to hold these securities to maturity because we generate adequate cash flow from new business to fund all foreseeable cash flow needs and do not believe it would ever be necessary to liquidate these securities at a loss to meet cash flow needs. For deferred income taxes related to unrealized losses on equity securities, we had sufficient future taxable income from capital gain sources to support the realizability of the deferred tax asset.

Realization of our deferred income tax assets is more likely than not based on expectations as to our future taxable income and considering all other available evidence, both positive and negative. Therefore, no valuation allowance against deferred income tax assets has been established as of December 31, 2010 and 2009.

There were no material income tax contingencies requiring recognition in our consolidated financial statements as of December 31, 2010. We are no longer subject to income tax examinations by tax authorities for years prior to 2007. At December 31, 2010, we had non-life net operating loss carryforwards for federal income tax purposes totaling \$22.0 million which expire beginning in 2018 through 2030.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Notes Payable and Amounts Due Under Repurchase Agreements

In September 2010, we issued \$200.0 million principal amount of 3.5% Convertible Senior Notes Due 2015 (the "2015 notes"). The 2015 notes have a stated interest rate of 3.5%, mature on September 15, 2015, and are intended to be settled in cash; however, in certain limited circumstances we have the discretion to settle in shares of our common stock or a combination of cash and shares of our common stock. Contractual interest payable on the 2015 notes began accruing in September 2010 and is payable semi-annually in arrears each March 15th and September 15th. The initial purchaser's transaction fees and expenses totaling \$6.8 million were capitalized as deferred financing costs and will be amortized over the term of the 2015 notes using the effective interest method.

Upon occurrence of any of the conditions described below, holders may convert their 2015 notes at the applicable conversion rate at any time prior to June 15, 2015. On or after June 15, 2015 through the maturity date of September 15, 2015, holders may convert each of their 2015 notes at the applicable conversion rate regardless of the following conditions:

- during the 5 business day period after any 10 consecutive trading day period (the "measurement period") in which the trading price per \$1,000 principal amount of notes was less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate on such trading day;
- during any calendar quarter commencing after December 31, 2010, the Notes may be converted if the last reported price of the common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day. The "last reported sale price" means the closing sale price per share (or if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) on that date as reported in composite transactions for the New York Stock Exchange; or
- upon the occurrence of specified corporate transactions.

The initial conversion rate for the 2015 notes is 80 shares of our common stock per \$1,000 principal amount of 2015 notes, equivalent to a conversion price of approximately \$12.50 per share of our common stock, with the amount due on conversion. Upon conversion, a holder will receive the sum of the daily settlement amounts, calculated on a proportionate basis for each day, during a specified observation period following the conversion date.

If a fundamental change, as defined in the indenture, occurs prior to maturity and our stock price is at least \$10.00 per share at that time, the conversion rate will increase by an additional amount of up to 20 shares of our common stock per \$1,000 principal amount of 2015 notes, which amount would be paid to each holder that elects to convert its 2015 notes at that time.

The conversion option of the 2015 notes (the "2015 notes embedded conversion derivative") is an embedded derivative that requires bifurcation from the 2015 notes and is accounted for as a derivative liability, which is included in Other liabilities in our Consolidated Balance Sheets. The fair value of the 2015 notes embedded conversion derivative at the time of issuance of the 2015 notes was \$37.0 million, and was recorded as the original debt discount for purposes of accounting for the debt component of the 2015 notes. This discount will be recognized as interest expense using the effective interest method over the term of the 2015 notes. The estimated fair value of the 2015 notes embedded conversion derivative was \$66.6 million as of December 31, 2010.

Concurrently with the issuance of the 2015 notes, we entered into hedge transactions (the "2015 notes hedges") with various parties whereby we have the option to receive the cash equivalent of the conversion spread on approximately 16.0 million shares of our common stock based upon a strike price of \$12.50 per share, subject to certain conversion rate adjustments in the 2015 notes. These options expire on September 15, 2015 and must be settled in cash. The aggregate cost of the 2015 notes hedges was \$37.0 million. The 2015 notes hedges are accounted for as derivative assets, and are included in Other assets in our Consolidated Balance Sheets. The estimated fair value of the 2015 notes hedges was \$66.6 million as of December 31, 2010.

The 2015 notes embedded conversion derivative and the 2015 notes hedges are adjusted to fair value each reporting period and unrealized gains and losses are reflected in our Consolidated Statements of Operations.

In separate transactions, we also sold warrants (the "2015 warrants") to two counterparties for the purchase of up to approximately 16.0 million shares of our common stock at a price of \$16.00 per share. The warrants expire on various dates from December 2015 through March 2016 and are intended to be settled in net shares. The total number of shares of common stock deliverable under the 2015 warrants is, however, currently limited to 11.6 million shares. We received \$15.6 million in cash proceeds from the sale of the 2015 warrants, which has been recorded as an increase in additional paid-in capital. Changes in the fair value of these warrants will not be recognized in our Consolidated Financial Statements as long as the instruments remain classified as equity. The warrants are included in diluted earnings per share to the extent the impact is dilutive.

In December 2004, we issued \$260.0 million of convertible senior notes due December 15, 2024 (the "2024 notes"), of which \$22.9 million was assigned to the equity component (net of income tax of \$16.1 million). In December 2009, we issued \$115.8 million of contingent convertible senior notes due December 15, 2029 (the "2029 notes"), of which \$15.6 million was assigned to the equity component (net of income tax of \$11.0 million). \$52.2 million of the December 2029 notes were issued for cash, and \$63.6 million were issued in exchange of \$63.6 million of the 2024 notes.

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The 2024 notes and 2029 notes bear interest at a fixed rate of 5.25% per annum. Interest is payable semi-annually in arrears on June 6 and December 6 of each year. In addition to regular interest on the notes, beginning with the six-month interest period ending June 6, 2012 for the December 2024 notes and June 6, 2015 for the 2029 notes, we will also pay contingent interest under certain conditions at a rate of 0.5% per annum based on the average trading price of the notes during a specified period.

The 2024 and 2029 notes are convertible at the holders' option prior to the maturity date into cash and shares of our common stock under the following conditions:

- during any fiscal quarter, if the closing sale price of our common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the fiscal quarter preceding the quarter in which the conversion occurs is more than 120% of the conversion price of the notes in effect on that 30th trading day;
- we have called the notes for redemption and the redemption has not yet occurred; or
- upon the occurrence of specified corporate transactions.

Holders may convert any outstanding notes into cash and shares of our common stock at a conversion price per share of \$14.03 for the 2024 notes and \$9.69 for the 2029 notes. This represents a conversion rate of approximately 71.3 shares and 103.2 shares of common stock per \$1,000 in principal amount of notes (the "conversion rate") for the 2024 notes and the 2029 notes, respectively. Subject to certain exceptions described in the indentures covering these notes, at the time the notes are tendered for conversion, the value (the "conversion value") of the cash and shares of our common stock, if any, to be received by a holder converting \$1,000 principal amount of the notes will be determined by multiplying the conversion rate by the "ten day average closing stock price", which equals the average of the closing per share prices of our common stock on the New York Stock Exchange on the ten consecutive trading days beginning on the second trading day following the day the notes are submitted for conversion. We will deliver the conversion value to holders as follows: (1) an amount in cash (the "principal return") equal to the lesser of (a) the aggregate conversion value of the notes to be converted and (b) the aggregate principal amount of the notes to be converted, and (2) if the aggregate conversion value of the notes to be converted is greater than the principal return, an amount in shares (the "net shares") equal to such aggregate conversion value less the principal return (the "net share amount") and (3) an amount in cash in lieu of fractional shares of common stock. The number of net shares to be paid will be determined by dividing the net share amount by the ten day average closing stock price.

We may redeem some or all of the 2024 notes and the 2029 notes at any time on or after December 15, 2011 and December 15, 2014, respectively. In addition, the holders may require us to repurchase all or a portion of their 2024 notes on December 15, 2011, 2014 and 2019 or their 2029 notes on December 15, 2014, 2019 and 2024 and upon a change in control, as defined in the indenture governing the notes, holders may require us to repurchase all or a portion of their notes for a period of time after the change in control. The redemption price or repurchase price shall be payable in cash and equal to 100% of the principal amount of the notes plus accrued and unpaid interest (contingent interest and liquidated damages, if any) up to but not including the date of redemption or repurchase.

Our convertible notes are senior unsecured obligations and rank equally in right of payment with all existing and future senior indebtedness and senior to any existing and future subordinated indebtedness. Our convertible notes effectively rank junior in right of payment to any existing and future secured indebtedness to the extent of the value of the assets securing such secured indebtedness. Our convertible notes are structurally subordinated to all liabilities of our subsidiaries.

We are required to include the dilutive effect of the 2024 and 2029 notes in our diluted earnings per share calculation. Because these notes include a mandatory cash settlement feature for the principal amount, incremental dilutive shares will only exist when the fair value of our common stock at the end of the reporting period exceeds the conversion price per share of \$14.03 for the 2024 notes and \$9.69 for the 2029 notes. At December 31, 2010, the conversion premium of the 2029 notes was dilutive and the effect has been included in diluted earnings per share for the year ended December 31, 2010. The 2015 notes and the 2015 notes hedges are excluded from the dilutive effect in our

diluted earnings per share calculation as they are currently to be settled only in cash. The 2015 warrants could have a dilutive effect on our earnings per share to the extent that the price of our common stock exceeds the strike price of the 2015 warrants.

We purchased \$78.1 million principal amount of the 2024 notes, carrying \$7.4 million of unamortized debt discounts and debt issue costs, in 2008 for \$61.4 million in cash, of which \$0.4 million was assigned to the reacquisition of the equity component which resulted in gains totaling \$9.7 million. In 2009, we exchanged five million shares of our common stock for \$37.2 million principal amount of the 2024 notes which resulted in a gain on exchange of debt of \$3.1 million. The fair value of our common stock issued was \$31.2 million and the 2024 notes extinguished in the common stock for debt exchange carried unamortized debt discount and debt issue costs totaling \$2.9 million. The \$63.6 million principal amount of the 2024 notes extinguished in the debt for debt exchange in 2009 carried unamortized debt discount and debt issue costs totaling \$3.8 million. In 2010, we extinguished \$6.7 million principal amount of the outstanding 2024 notes for \$6.6 million in cash. The extinguished notes carried unamortized debt issue costs and unamortized debt discounts totaling \$0.3 million. No value was assigned to reacquire of the equity component of the debt. A \$0.3 million loss on extinguishment of debt was recorded for the amount that the cash payment exceeded the carrying of value the notes extinguished.

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The liability and equity components of the 2024 notes and 2029 notes are accounted for separately in the consolidated balance sheets. The liability component of the 2015 notes and the liability and equity components of the 2024 notes and 2029 notes are as follows:

	December 31, 2010			December 31, 2009	
	September 2015 Notes	December 2029 Notes	December 2024 Notes	December 2029 Notes	December 2024 Notes
	(Dollars in thousands)			(Dollars in thousands)	
Notes payable:					
Principal amount of liability component	\$ 200,000	\$ 115,839	\$ 74,494	\$ 115,839	\$ 81,152
Unamortized discount	(35,335)	(22,306)	(1,857)	(26,542)	(3,982)
Net carrying amount of liability component	\$ 164,665	\$ 93,533	\$ 72,637	\$ 89,297	\$ 77,170
Additional paid-in capital:					
Carrying amount of equity component		\$ 15,586	\$ 22,637	\$ 15,586	\$ 22,637
Amount by which the if-converted value exceeds principal	\$ 800	\$ 34,191	\$ —	\$ —	\$ —

The discount is being amortized over the expected life of the notes, which is December 15, 2011 for the 2024 notes, December 15, 2014 for the 2029 notes and September 15, 2015 for the 2015 notes. The expected life of the notes are based on the dates at which we may redeem the notes or the holders may require us to repurchase the notes. The effective interest rates are 8.9%, 8.5% and 11.9% on the 2015 notes, 2024 notes and 2029 notes, respectively. The interest cost recognized in operations for the convertible senior notes, inclusive of the coupon and amortization of the discount and debt issue costs was \$20.9 million, \$12.8 million, and \$15.0 million for the years ended December 31, 2010, 2009 and 2008, respectively.

During 2006, we entered into a \$150 million revolving line of credit agreement with eight banks. The revolving period of the facility is five years. The applicable interest rate is floating at LIBOR plus 0.80% or the greater of prime rate or federal funds rate plus 0.50%, as elected by us. In September 2010, we used \$150 million of the 2015 notes proceeds to pay off the revolving line of credit. No amount was outstanding at December 31, 2010. The amount outstanding under the revolving line of credit was \$150.0 million at December 31, 2009. Under this agreement, we are required to maintain a minimum risk-based capital ratio at American Equity Life, a maximum ratio of debt to total capital, minimum consolidated net worth and a minimum cash coverage ratio. We are in compliance with all debt covenants at December 31, 2010.

Subsequent to December 31, 2010, we terminated the \$150 million revolving line of credit agreement and entered into a \$160 million revolving line of credit agreement with seven banks. The revolving period of the \$160 million facility will be three years. The interest rate will be floating at a rate based on our election that will be equal to the applicable base rate (highest of the rate of interest publicly announced by JPMorgan Chase Bank as its prime rate in effect at its principal office in New York City, the federal funds effective rate from time to time plus 0.50% and the adjusted LIBOR for a one month interest period on such day plus 1.00%) plus the applicable margin or the adjusted LIBOR plus the applicable margin. The applicable margin and commitment fee rate are based on our credit rating and can change throughout the period of the credit facility. Based on our current credit rating the applicable margin is 2.00% and the commitment fee is 0.50% on the unused portion of credit available. Under this agreement, we are required to maintain a minimum risk-based capital ratio at American Equity Life, a maximum ratio of debt to total capital, a

minimum cash coverage ratio, and a minimum level of statutory surplus at American Equity Life.

As part of our investment strategy, we enter into securities repurchase agreements (short-term collateralized borrowings). We had no borrowings under repurchase agreements during 2010. The maximum amount borrowed during 2009 and 2008 was \$440.0 million and \$641.1 million, respectively. When we do borrow cash on these repurchase agreements, we pledge collateral in the form of debt securities with fair values approximately equal to the amount due and we use the cash to purchase debt securities ahead of the time we collect the cash from selling annuity policies to avoid a lag between the investment of funds and the obligation to credit interest to policyholders. We earn investment income on the securities purchased with these borrowings at a rate in excess of the cost of these borrowings. Such borrowings averaged \$150.7 million and \$359.9 million for the years ended December 31, 2009 and 2008, respectively. The weighted average interest rate on amounts due under repurchase agreements was 0.35% and 2.28% for the years ended December 31, 2009 and 2008, respectively.

10. Subordinated Debentures

Our wholly-owned subsidiary trusts (which are not consolidated) have issued fixed rate and floating rate trust preferred securities and have used the proceeds from these offerings to purchase subordinated debentures from us. We also issued subordinated debentures to the trusts in exchange for all of the common securities of each trust. The sole assets of the trusts are the subordinated debentures and any interest accrued thereon. The interest payment dates on the subordinated debentures correspond to the distribution dates on the trust preferred securities issued by the trusts. The trust preferred securities mature simultaneously with the subordinated debentures. Our obligations under the subordinated debentures and related agreements provide a full and unconditional guarantee of payments due under the trust preferred securities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Following is a summary of subordinated debt obligations to the trusts at December 31, 2010 and 2009:

	December 31,		Interest Rate	Due Date
	2010	2009		
	(Dollars in thousands)			
American Equity Capital Trust I	\$22,893	\$22,953	8%	September 30, 2029
American Equity Capital Trust II	75,932	75,784	5%	June 1, 2047
American Equity Capital Trust III	27,840	27,840	*LIBOR + 3.90%	April 29, 2034
American Equity Capital Trust IV	12,372	12,372	*LIBOR + 4.00%	January 8, 2034
American Equity Capital Trust VII	10,830	10,830	*LIBOR + 3.75%	December 14, 2034
American Equity Capital Trust VIII	20,620	20,620	*LIBOR + 3.75%	December 15, 2034
American Equity Capital Trust IX	15,470	15,470	*LIBOR + 3.65%	June 15, 2035
American Equity Capital Trust X	20,620	20,620	*LIBOR + 3.65%	September 15, 2035
American Equity Capital Trust XI	20,620	20,620	*LIBOR + 3.65%	December 15, 2035
American Equity Capital Trust XII	41,238	41,238	*LIBOR + 3.50%	April 7, 2036
	\$268,435	\$268,347		

*—three month London Interbank Offered Rate

The interest rate for Trust XI was fixed at 8.595% for 5 years until December 15, 2010 and is now floating based upon the three month London Interbank Offered Rate ("LIBOR") plus 3.65%. See note 5 for discussion on interest rate swaps used to manage the interest rate risk on our subordinated debentures.

American Equity Capital Trust I issued 865,671 shares of 8% trust preferred securities, of which 2,000 shares are held by one of our subsidiaries. During 2010 and 2008, 2,010 and 8,333 shares of these trust preferred securities converted into 7,444 and 30,862 shares of our common stock, respectively. There were no conversions during 2009.

The remaining 736,328 shares of these trust preferred securities not held by a subsidiary are convertible into 2,727,084 shares of our common stock.

The principal amount of the subordinated debentures issued by us to American Equity Capital Trust II ("Trust II") is \$100.0 million. These debentures were assigned a fair value of \$74.7 million at the date of issue (based upon an effective yield-to-maturity of 6.8%). The difference between the fair value at the date of issue and the principal amount is being accreted over the life of the debentures. The trust preferred securities issued by Trust II were issued to Iowa Farm Bureau Federation, which owns more than 50% of the voting capital stock of FBL Financial Group, Inc. ("FBL"), parent company of EquiTrust. The consideration received by Trust II in connection with the issuance of its trust preferred securities consisted of fixed income securities of equal value which were issued by FBL.

11. Retirement and Share-based Compensation Plans

We have adopted a contributory defined contribution plan which is qualified under Section 401(k) of the Internal Revenue Code. The plan covers substantially all of our full-time employees subject to minimum eligibility requirements. Employees can contribute a percentage of their annual salary (up to a maximum contribution of \$16,500 in 2010 and 2009 and \$15,500 in 2008) to the plan. We contribute an additional amount, subject to limitations, based on the voluntary contribution of the employee. Further, the plan provides for additional employer contributions based on the discretion of the Board of Directors. Plan contributions charged to expense was \$0.3 million for the year ended December 31, 2010 and \$0.2 million for each of the years ended December 31, 2009 and 2008.

During 2010, we established the American Equity Investment Life Holding Company Short-Term Performance Incentive Plan. Under this plan, certain members of our senior management may receive incentive awards comprised

of a cash component and a restricted stock component. Shares of restricted stock received will be granted pursuant to the 2009 Employee Incentive Plan and will vest on the date three years following the date the Committee approves the payment of the incentive award provided that the participant remains employed by us. Shares vest immediately for participants 65 years of age with 10 years of service with us. Compensation expense under this plan is recognized upon approval of the incentive award by the compensation committee.

We have deferred compensation arrangements with certain officers, directors, and consultants, whereby these individuals agreed to take our common stock at a future date in lieu of cash payments at the time of service. The common stock is to be issued in conjunction with a "trigger event", as that term is defined in the individual agreements. At December 31, 2010 and 2009, these individuals have earned, and we have reserved for future issuance, 479,972 and 434,029 shares of common stock, respectively, pursuant to these arrangements. We have incurred share-based compensation expense of \$0.4 million for the year ended December 31, 2010, \$0.1 million for the year ended December 31, 2009 and \$0.2 million for the year ended December 31, 2008 under these arrangements.

We have deferred compensation agreements with certain officers whereby these individuals may defer certain bonus compensation which is deposited into the American Equity Officer Rabbi Trust (Officer Rabbi Trust). The amounts deferred are invested in assets at the direction of the employee. The assets of the Officer Rabbi Trust are included in our assets and a corresponding deferred compensation liability is recorded.

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The deferred compensation liability is recorded at the fair market value of the assets in the Officer Rabbi Trust with the change in fair value included as a component of compensation expense. The deferred compensation liability related to these agreements was \$2.3 million, \$1.4 million and \$1.3 million at December 31, 2010, 2009 and 2008, respectively. During 2010, 2009 and 2008, the Officer Rabbi Trust purchased 104,661 shares of our common stock at a cost of \$1.2 million, 8,100 shares of our common stock at a cost of \$0.03 million and 28,333 shares of our common stock at a cost of \$0.3 million, respectively. The Officer Rabbi Trust held 173,261 shares, 68,600 shares and 65,351 shares of our common stock at December 31, 2010, 2009 and 2008, respectively, which are treated as treasury shares. During 1997, we established the American Equity Investment NMO Deferred Compensation Plan ("NMO Deferred Compensation Plan") whereby agents can earn common stock in addition to their normal commissions. The NMO Deferred Compensation Plan was effective until December 31, 2006 at which time it was suspended. Awards were calculated using formulas determined annually by our Board of Directors and are generally based upon new annuity deposits. These shares will be distributed at the end of the vesting and deferral period of 9 years. We recognize commission expense and an increase to additional paid-in capital as share-based compensation when the awards vest. For the years ended December 31, 2010, 2009 and 2008, agents vested in 1,052 shares, 53,208 shares and 164,777 shares of common stock, respectively, and we recorded commission expense (capitalized as deferred policy acquisition costs) of \$0.01 million, \$0.4 million and \$1.2 million, respectively, under these plans. At December 31, 2010 and 2009, the total number of undistributed vested shares under the NMO Deferred Compensation Plan was 2,580,612 and 2,746,525, respectively. These shares are included in the computation of earnings per share and earnings per share—assuming dilution. There were no unvested shares that potentially may be vested in by agents in the future under the NMO Deferred Compensation Plan as of December 31, 2010.

We have a Rabbi Trust, the NMO Deferred Compensation Trust (the "NMO Trust") which has purchased shares of our common stock to fund the amount of vested shares under the NMO Deferred Compensation Plan. The common stock held in the NMO Trust is treated as treasury stock. The NMO Trust purchased 4,262 shares and 163,161 shares of our common stock during 2009 and 2008 at a cost of \$0.01 million and \$1.6 million, respectively. The NMO Trust did not purchase any shares during 2010. The NMO Trust distributed 166,965 and 334,515 shares during 2010 and 2009, respectively. The number of shares held by the NMO Trust at December 31, 2010 and 2009 was 1,855,835 and 2,022,800, respectively.

Our 1996 Stock Option Plan, 2000 Employee Stock Option Plan and 2000 Directors Stock Option Plan authorized grants of options to officers, directors and employees for an aggregate of up to 3,225,000 shares of our common stock. All options granted under these plans have 10 year terms and a six month vesting period after which they become fully exercisable immediately. At December 31, 2010, we had no shares of common stock available for future grant under these plans. In 2009, we adopted the 2009 Employee Incentive Plan which authorizes the grant of options, stock appreciation rights, restricted stock awards and restricted stock units convertible into or based upon our common stock up to 2,500,000 shares. All options granted under this plan have 10 year terms and a 3 year vesting period after which they become fully exercisable immediately. At December 31, 2010, we had 1,818,500 shares of common stock available for future grant under the 2009 Employee Incentive Plan.

The fair value for each stock option granted to officers, directors and employees during the years ended December 31, 2010, 2009 and 2008 was estimated at the date of grant using a Black-Scholes option valuation model with the following assumptions:

	Year Ended December 31,		2009	2008	
	2010	Non-Retirement			
	Directors and	Eligible			
	Retirement Eligible	Employees			
	Employees				
Average risk-free interest rate	2.17%	2.99%	3.45%	3.90	%

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Dividend yield	0.8%	0.8%	1.2%	0.6	%
Average expected life	5 years	8 years	8 years	8 years	
Volatility	75.7%	75.7%	67.0%	26.0	%

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. We use the historical realized volatility of our stock for the expected volatility assumption within the valuation model. For options granted since 2007, the weighted average expected term for the majority of our options were calculated using average historical behavior.

During 2007, we established the Independent Insurance Agent Stock Option Plan. During 2010, we established the 2010 Independent Insurance Agent Stock Option plan. Under these plans, agents of American Equity Life may receive grants of options to acquire shares of our common stock based upon their individual sales. The plan authorizes grants of options to agents for an aggregate of up to 5,000,000 shares of our common stock. We recognize commission expense and an increase to additional paid-in capital as share-based compensation equal to the fair value of the options as they are earned. The fair value of the options are estimated using a Black-Scholes option valuation model until the grant date, at which time the options are included as permanent equity. The assumptions used for estimating the fair value of the options for 2010 were an average risk free rate of 1.44%, dividend yield of 0.78%, average expected life of 3 3/4 years and volatility of 68.04%. The assumptions used for estimating the fair value of the options for 2009 were an average risk free rate of 2.22%, dividend yield of 1.05%, average expected life of 3 3/4 years and volatility of 59.8%. The assumptions used for estimating the fair value of the options for 2008 were an average risk free rate of 1.46%, dividend yield of 1%, average expected life of 3 3/4 years and volatility of 46.6%. American Equity Life's agents earned 670,850 options

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during 2008, which were granted in January 2009, and we recorded commission expense (capitalized as deferred policy acquisition costs) of \$1.6 million in 2008. American Equity Life's agents earned 1,052,000 options during 2009, which were granted in January 2010, and we recorded commission expense (capitalized as deferred policy acquisition costs) of \$3.4 million in 2009. American Equity Life's agents earned 1,361,900 options during 2010, which were granted in January 2011, and we recorded commission expense (capitalized as deferred policy acquisition costs) of \$8.2 million in 2010. All options granted have 7 year terms and a six month vesting period after which they become exercisable immediately.

Changes in the number of stock options outstanding during the years ended December 31, 2010, 2009 and 2008 are as follows:

	Number of Shares	Weighted-Average Exercise Price per Share	Total Exercise Price
	(Dollars in thousands, except per share data)		
Outstanding at January 1, 2008	1,451,017	\$9.62	\$13,962
Granted	986,550	9.11	8,990
Canceled	(17,650)	) 10.54	(186)
Exercised	(35,529)	) 6.18	(220)
Outstanding at December 31, 2008	2,384,388	9.46	22,546
Granted	1,009,250	6.86	6,926
Canceled	(251,449)	) 7.37	(1,852)
Exercised	—	—	—
Outstanding at December 31, 2009	3,142,189	8.79	27,620
Granted	1,794,200	8.76	15,726
Canceled	(120,000)	) 8.80	(1,037)
Exercised	(695,539)	) 8.64	(6,122)
Outstanding at December 31, 2010	4,120,850	8.78	\$36,187

The following table summarizes information about stock options outstanding at December 31, 2010:

Range of Exercise Prices	Stock Options Outstanding			Stock Options Vested		
	Number of Awards	Remaining Life (yrs)	Weighted-Average Exercise Price Per Share	Number of Awards	Remaining Life (yrs)	Weighted-Average Exercise Price Per Share
\$5.07 - \$5.07	12,500	5.44	\$ 5.07	—	—	\$ —
\$5.85 - \$9.16	2,422,850	5.48	7.72	2,077,850	5.02	7.87
\$9.49 - \$11.46	1,662,500	6.35	10.30	499,000	3.53	10.76
\$11.88 - \$14.34	23,000	5.39	12.54	23,000	5.39	12.54
\$5.07 - \$14.34	4,120,850	5.83	8.78	2,599,850	4.74	8.47

The aggregate intrinsic value for stock options outstanding and vested awards was \$15.5 million and \$6.5 million, respectively, at December 31, 2010. For the years ended December 31, 2010 and 2008, the total intrinsic value of options exercised by officers, directors and employees was \$0.6 million and \$0.1 million, respectively. There were no option exercises during the year ended December 31, 2009. Intrinsic value for stock options is calculated as the difference between the exercise price of the underlying awards and the quoted price of our common stock as of the reporting date. Cash received from stock options exercised for the years ended December 31, 2010 and 2008 was \$6.1 million and \$0.2 million, respectively. The tax benefit realized for the tax deduction from the exercise of stock options by officers, directors, employees and agents for the years ended December 31, 2010 and 2008 was \$0.3 million and \$0.1 million, respectively.

We established the American Equity Investment Employee Stock Ownership Plan ("ESOP") effective July 1, 2007. The principal purpose of the ESOP is to provide each eligible employee with an equity interest in us. Employees become eligible once they have completed a minimum of six months of service. Employees become 100% vested after two years of service. Our contribution to the ESOP is determined by the Board of Directors.

In August 2007, we issued a loan to the ESOP in the amount of \$7.0 million to purchase 650,000 shares of our common stock from David J. Noble, our Executive Chairman. The loan is to be repaid over a period of 20 years with annual interest payments due on December 31 of each year. Principal payments in the amount of \$1.8 million are due on December 31, 2012, 2017, and 2022 with the final principal payment due on August 31, 2027. The loan is eliminated in the consolidated financial statements. The shares purchased by the ESOP were pledged as collateral for this debt and are reported as unallocated common stock held by the ESOP, a contra-equity account in stockholders' equity. When shares are committed for release, the shares become outstanding for earnings per share computations. For each plan year in which a payment or prepayment of principal or interest is made, we will release from the pledge the number of shares determined under the principal and interest method.

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Dividends on allocated ESOP shares are recorded as a reduction in retained earnings and are credited to employee accounts. Dividends on unallocated shares held by the ESOP will be used to repay indebtedness. As of December 31, 2010, 2009 and 2008, there were 50,479 shares, 35,993 shares and 22,179 shares committed for release and compensation expense of \$0.8 million, \$0.4 million and \$0.3 million was recognized in 2010, 2009 and 2008, respectively. The fair value of 447,048 unreleased shares, 527,272 unreleased shares and 588,312 shares was \$5.6 million, \$3.9 million and \$4.1 million at December 31, 2010, 2009 and 2008, respectively.

12. Life Insurance Subsidiaries

Prior approval of regulatory authorities is required for the payment of dividends to us by our life insurance subsidiaries which exceed an annual limitation. During 2011, American Equity Life can pay dividends to us of \$187.5 million, without prior approval from regulatory authorities.

Statutory accounting practices prescribed or permitted by regulatory authorities for our life insurance subsidiaries differ from GAAP. Combined net income (loss) for our life insurance subsidiaries as determined in accordance with statutory accounting practices was \$172.9 million (unaudited), \$116.9 million and \$(7.1) million in 2010, 2009 and 2008, respectively, and total statutory capital and surplus of our life insurance subsidiaries was \$1,400.7 million and \$1,193.1 million at December 31, 2010 and 2009, respectively. Calculations using the NAIC formula at December 31, 2010, indicated that American Equity Life's ratio of total adjusted capital to the highest level of required capital at which regulatory action might be initiated was 339%.

13. Commitments and Contingencies

We lease our home office space and certain equipment under various operating leases. Rent expense for the years ended December 31, 2010, 2009 and 2008 totaled \$1.9 million, \$1.7 million and \$1.4 million, respectively. At December 31, 2010, the aggregate future minimum lease payments are \$11.9 million. The following represents payments due by period for operating lease obligations as of December 31, 2010 (dollars in thousands):

Year Ending December 31:

2011	\$1,274
2012	1,210
2013	1,075
2014	1,053
2015	1,040
2016 and thereafter	6,290

Assessments are, from time to time, levied on us by life and health guaranty associations in most states in which we are licensed to cover losses to policyholders of insolvent or rehabilitated companies. The liability established by us for future assessments related to the insolvency of London Pacific Life and Annuity Company and Lincoln Memorial Life Insurance Company was \$0.6 million as of December 31, 2010 and 2009. We believe the liability for guaranty fund assessments is sufficient to provide for future assessments based upon known insolvencies.

We are occasionally involved in litigation, both as a defendant and as a plaintiff. In addition, state regulatory bodies, such as state insurance departments, the SEC, FINRA, the Department of Labor, and other regulatory bodies regularly make inquiries and conduct examinations or investigations concerning our compliance with, among other things, insurance laws, securities laws, the Employee Retirement Income Security Act of 1974, as amended, and laws governing the activities of broker-dealers.

In recent years, companies in the life insurance and annuity business have faced litigation, including class action lawsuits, alleging improper product design, improper sales practices and similar claims. We are currently a defendant in two lawsuits, one class action and one purported class action, involving allegations of improper sales practices and

similar claims as described below. In February 2011, we entered into a settlement with the plaintiffs in the class action lawsuit, which is subject to final court approval and is more fully described below. The pending purported class action lawsuit referred to below is in the pre-litigation and discovery stages and we do not have sufficient information to make an assessment of the plaintiffs' claims for liability or damages. The plaintiffs are seeking undefined amounts of damages or other relief, including punitive damages, which are difficult to quantify and cannot be estimated based on the information currently available. While we are uncertain as to the ultimate outcome of the pending purported class action lawsuit, there can be no assurance that such litigation, or any other pending or future litigation, will not have a material adverse effect on our business, financial condition, or results of operations.

We are a defendant in two cases, including (i) *Stephens v. American Equity Investment Life Insurance Company, et al.*, in the San Luis Obispo Superior Court, San Francisco, California (complaint filed November 29, 2004) (the "SLO Case") and (ii) *McCormack, et al. v. American Equity Investment Life Insurance Company, et al.*, in the United States District Court for the Central District of California, Western Division and *Anagnostis v. American Equity, et al.*, coordinated in the Central District, entitled, *In Re: American Equity Annuity Practices and Sales Litigation*, in the United States District Court for the Central District of California, Western Division (complaint filed September 7, 2005) (the "Los Angeles Case").

The plaintiffs in the SLO Case represent a class of individuals who are California residents age 65 and older and who either purchased their annuity from us through a co-defendant marketing organization or who purchased one of a defined set of particular annuities issued by us. The

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

named plaintiffs in this case are: Chalys M. Stephens and John P. Stephens. Following a mediation conducted on January 21, 2011, we reached a settlement in principal with the plaintiffs. Preliminary approval of the settlement was issued by the court on March 1, 2011, and although we anticipate final court approval of the settlement, there can be no assurance of such final approval. The settlement, if final court approval is received, will provide a total settlement benefit of \$36 million to past and present policyholders who are members of the class and, if awarded by the court, will provide for attorneys' fees payable to the plaintiff's counsel up to \$11 million, litigation expenses in an amount up to \$950,000, and incentives of \$25,000 payable to each of the two class representatives. These amounts have been recorded as an other liability in the consolidated balance sheet at December 31, 2010. The net charge to operations of the settlement (after related reductions in amortization of deferred sales inducements and deferred policy acquisition costs and income taxes) was \$27.3 million and is included in our consolidated statement of operations for the year ended December 31, 2010.

The Los Angeles Case is a consolidated action involving several lawsuits filed by individuals, and the individuals are seeking class action status for a national class of purchasers of annuities issued by us. The named plaintiffs in this consolidated case are Bernard McCormack, Gust Anagnostis by and through Gary S. Anagnostis and Robert C. Anagnostis, Regina Bush by and through Sharon Schipiour, Lenice Mathews by and through Mary Ann Maclean and George Miller. The allegations generally attack the suitability of sales of deferred annuity products to persons over the age of 65. The plaintiffs seek recessionary and injunctive relief including restitution and disgorgement of profits on behalf of all class members under California Business & Professions Code section 17200 et seq. and Racketeer Influenced and Corrupt Organizations Act; compensatory damages for breach of fiduciary duty and aiding and abetting of breach of fiduciary duty; unjust enrichment and constructive trust; and other pecuniary damages under California Civil Code section 1750 and California Welfare & Institutions Codes section 15600 et seq. We are vigorously defending against both class action status as well as the underlying claims.

14. Sale of Our Common Stock

On August 20, 2009, we entered into distribution agreements with Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC ("FPK") and Sandler O'Neill & Partners, L.P. ("Sandler O'Neill") to offer and sell shares of our common stock up to an aggregate offering price of \$50 million. On December 3, 2009, Macquarie Capital (USA) Inc. ("Macquarie Capital") assumed all of FPK's rights and obligations under our distribution agreement with FPK. On August 4, 2010, we provided notice to Macquarie Capital and Sandler O'Neill that we were terminating the distribution agreements. During 2009, we sold 132,300 shares of our common stock pursuant to these distribution agreements, resulting in gross proceeds to us of \$1.1 million, and we had no sales in 2010.

15. Earnings Per Share

The following table sets forth the computation of earnings per common share and earnings per common share—assuming dilution:

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands, except per share data)		
Numerator:			
Net income—numerator for earnings per common share	\$42,933	\$68,530	\$15,947
Interest on convertible subordinated debentures (net of income tax benefit)	1,035	1,037	1,042
Numerator for earnings per common share—assuming dilution	\$43,968	\$69,567	\$16,989
Denominator:			

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Weighted average common shares outstanding(1)	58,506,804	56,137,776	53,749,491
Effect of dilutive securities:			
Convertible subordinated debentures	2,729,514	2,734,528	2,753,498
Convertible senior notes	2,904,571	—	—
Stock options and deferred compensation agreements	438,834	43,033	119,219
Denominator for earnings per common share—assuming dilution	64,579,723	58,915,337	56,622,208
Earnings per common share	\$0.73	\$1.22	\$0.30
Earnings per common share—assuming dilution	\$0.68	\$1.18	\$0.30

- (1) Weighted average common shares outstanding include shares vested under the NMO Deferred Compensation Plan and exclude unallocated shares held by the ESOP.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Options to purchase shares of our common stock that were outstanding during the respective periods indicated but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares are as follows:

Period	Number of Shares	Range of Exercise Prices
Year ended December 31, 2010	4,120,850	\$8.75 - \$14.34
Year ended December 31, 2009	2,383,789	\$6.96 - \$14.34
Year ended December 31, 2008	1,964,388	\$7.33 - \$14.34

In November 2007, our board of directors approved a share repurchase program authorizing us to repurchase up to 10,000,000 shares of our common stock. Prior to the suspension, we had repurchased 3,845,296 shares of our common stock at a cost of \$33.3 million. We suspended the repurchase of our common stock under this program during August of 2008.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Quarterly Financial Information (Unaudited)

Unaudited quarterly results of operations are summarized below.

	Quarter ended			
	March 31,	June 30,	September 30,	December 31,
	(Dollars in thousands, except per share data)			
2010				
Premiums and product charges	\$18,805	\$21,260	\$21,719	\$19,273
Net investment income	242,910	254,845	260,475	277,876
Change in fair value of derivatives	82,015	(208,737	) 93,980	201,604
Net realized gains on investments, excluding OTTI losses	9,903	1,063	11,298	1,462
Net OTTI losses recognized in operations	(3,223	) (818	) (3,990	) (15,836
Gain (loss) on retirement of debt	—	(292) —	—
Total revenues	350,410	67,321	383,482	484,379
Net income (loss)	14,885	(1,504	) 20,514	9,038
Earnings (loss) per common share	0.26	(0.03	) 0.35	0.15
Earnings (loss) per common share—assuming dilution	0.25	(0.03	) 0.33	0.14
2009				
Premiums and product charges	\$18,537	\$19,482	\$19,001	\$18,992
Net investment income	220,654	226,803	241,471	243,244
Change in fair value of derivatives	(43,823	) 30,494	121,507	108,718
Net realized gains on investments, excluding OTTI losses	760	4,317	5,510	40,692
Net OTTI losses recognized in operations	(13,438	) (5,643	) (44,575	) (23,115
Gain (loss) on retirement of debt	—	3,098	—	(3,773
Total revenues	182,690	278,551	342,914	384,758
Net income (loss)	26,475	9,012	(2,978	) 36,021
Earnings (loss) per common share	0.50	0.16	(0.05	) 0.62
Earnings (loss) per common share—assuming dilution	0.48	0.16	(0.05	) 0.60

Earnings per common share for each quarter is computed independently of earnings per common share for the year. As a result, the sum of the quarterly earnings per common share amounts may not equal the earnings per common share for the year.

In the quarter ended December 31, 2010, we adjusted for an overstatement of our single premium immediate annuity reserves that resulted in a cumulative overstatement of net income for the first three quarters of 2010 of \$1.2 million. The differences between the change in fair value of derivatives for each quarter primarily correspond to the performance of the indices upon which our call options are based. The comparability of net income (loss) is impacted by the application of fair value accounting to our fixed index annuity business as follows:

	Quarter ended			
	March 31,	June 30,	September 30,	December 31,
	(Dollars in thousands)			
2010	\$(12,883) \$(30,536) \$(8,996) \$(14,301
2009	3,696	(12,541) (18,162) (2,938

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Than Investments in Related Parties

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

December 31, 2010

Column A	Column B	Column C	Column D
Type of Investment	Amortized Cost(1)	Fair Value	Amount at which shown in the balance sheet
(Dollars in thousands)			
Fixed maturity securities:			
Available for sale			
United States Government full faith and credit	\$4,082	\$4,388	\$4,388
United States Government sponsored agencies	2,994,174	3,003,651	3,003,651
United States municipalities, states and territories	2,397,622	2,367,003	2,367,003
Corporate securities	7,325,988	7,577,064	7,577,064
Residential mortgage backed securities	2,900,028	2,878,557	2,878,557
	15,621,894	15,830,663	15,830,663
Held for investment			
United States Government sponsored agencies	746,414	731,105	746,414
Redeemable preferred stock	75,786	50,643	75,786
	822,200	781,748	822,200
Total fixed maturity securities	16,444,094	\$16,612,411	16,652,863
Equity securities, available for sale:			
Non-redeemable preferred stocks	41,947	\$42,081	42,081
Common stocks	19,238	23,880	23,880
Total equity securities	61,185	\$65,961	65,961
Mortgage loans on real estate	2,598,641		2,598,641
Derivative instruments	332,216		479,786
Other investments	19,680		19,680
Total investments	\$19,455,816		\$19,816,931

On the basis of cost adjusted for repayments and amortization of premiums and accrual of discounts for fixed maturity securities and short-term investments, original cost for derivative instruments and unpaid principal balance less allowance for credit losses for mortgage loans.

See accompanying Report of Independent Registered Public Accounting Firm.

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Schedule II—Condensed Financial Information of Registrant

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY (PARENT COMPANY)

Condensed Balance Sheets

(Dollars in thousands)

	December 31,	
	2010	2009
Assets		
Cash and cash equivalents	\$62,324	\$54,212
Equity securities of subsidiary trusts	8,191	8,187
Receivable from subsidiaries	1,192	401
Federal income tax recoverable (from subsidiaries)	9,010	6,714
Other assets	86,738	12,620
	167,455	82,134
Investment in and advances to subsidiaries	1,449,375	1,271,383
Total assets	\$1,616,830	\$1,353,517
Liabilities and Stockholders' Equity		
Liabilities:		
Notes payable	\$330,835	\$316,468
Subordinated debentures payable to subsidiary trusts	268,495	268,407
Deferred income tax liability	4,815	9,968
Other liabilities	74,638	4,051
Total liabilities	678,783	598,894
Stockholders' equity:		
Common stock	56,968	56,203
Additional paid-in capital	454,454	422,225
Unallocated common stock held by ESOP	(4,815	) (5,679
Accumulated other comprehensive income (loss)	81,820	(30,456
Retained earnings	349,620	312,330
Total stockholders' equity	938,047	754,623
Total liabilities and stockholders' equity	\$1,616,830	\$1,353,517
See accompanying note to condensed financial statements.		
See accompanying Report of Independent Registered Public Accounting Firm.		

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Schedule II—Condensed Financial Information of Registrant (Continued)

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY (PARENT COMPANY)

Condensed Statements of Operations

(Dollars in thousands)

	Year Ended December 31,		
	2010	2009	2008
Revenues:			
Net investment income	\$295	\$31	\$852
Dividends from subsidiary trusts	455	482	592
Dividends from subsidiary	—	10,000	—
Investment advisory fees	23,713	21,339	19,299
Surplus note interest from subsidiary	4,080	4,080	4,080
Realized gain (loss) on investments	13	—	(10)
Change in fair value of derivatives	27,059	(2,379)	(1,195)
Gain (loss) on extinguishment of debt	(292)	(675)	9,746)
Total revenues	55,323	32,878	33,364
Expenses:			
Change in fair value of embedded derivatives	29,595	—	—
Interest expense on notes payable	22,125	14,561	19,013
Interest expense on subordinated debentures issued to subsidiary trusts	14,906	15,819	19,445
Other operating costs and expenses	6,013	8,870	8,519
Total expenses	72,639	39,250	46,977
Loss before income taxes and equity in undistributed income of subsidiaries	(17,316)	(6,372)	(13,613)
Income tax benefit	(7,417)	(6,596)	(5,594)
Loss before equity in undistributed income of subsidiaries	(9,899)	224)	(8,019)
Equity in undistributed income of subsidiaries	52,832	68,306	23,966
Net income	\$42,933	\$68,530	\$15,947

See accompanying note to condensed financial statements.

See accompanying Report of Independent Registered Public Accounting Firm.

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Schedule II—Condensed Financial Information of Registrant (Continued)

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY (PARENT COMPANY)

Condensed Statements of Cash Flows

(Dollars in thousands)

	Year Ended December 31,		
	2010	2009	2008
Operating activities			
Net income	\$42,933	\$68,530	\$15,947
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Change in fair value of 2015 notes embedded conversion derivative	29,595	—	—
Provision for depreciation and amortization	1,270	838	4,673
Accrual of discount on equity security	(4	) (4	) (4
Equity in undistributed income of subsidiaries	(52,832	) (78,306	) (23,966
Equity distributions received from subsidiaries	—	10,000	—
Amortization of premium on fixed maturity security	185	—	—
Accrual of discount on contingent convertible notes	7,761	3,791	979
Change in fair value of 2015 notes hedges	(29,595) —	—
Realized (gain) loss on investments	(13	) —	10
Loss (gain) on extinguishment of debt	292	675	(9,746
Accrual of discount on debenture issued to subsidiary trust	148	138	129
Share-based compensation	1,087	320	277
ESOP compensation	82	37	27
Deferred income tax expense (benefit)	(5,153	) (3,181	) (605
Changes in operating assets and liabilities:			
Receivable from subsidiaries	(10	) 515	532
Federal income tax recoverable	(2,296	) 4,575	3,371
Other assets	(1,925	) (1,308	) 884
Other liabilities	3,708	(1,292	) 196
Net cash provided by (used in) operating activities	(4,767	) 5,328	(7,296
Investing activities			
Capital contributions to subsidiaries	(2,400	) (75,500	) (110
Purchase of fixed maturity security	(50,260) —	—
Sales, maturities or repayments of fixed maturity securities—available for sale	50,088	—	34,990
Purchases of property, plant and equipment	(33) —	—
Net cash provided by (used in) investing activities	(2,605	) (75,500	) 34,880
See accompanying note to condensed financial statements.			
See accompanying Report of Independent Registered Public Accounting Firm.			

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Schedule II—Condensed Financial Information of Registrant (Continued)

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY (PARENT COMPANY)

Condensed Statements of Cash Flows (Continued)

(Dollars in thousands)

	Year Ended December 31,		
	2010	2009	2008
Financing activities			
Financing fees incurred and deferred	\$(6,800	) \$(2,751) \$—
Proceeds from notes payable	200,000	127,225	70,000
Repayments of notes payable	(156,641	) —	(61,377
Purchase of 2015 notes hedge	(37,000) —	—
Acquisition of common stock	—	—	(30,803
Excess tax benefits realized from share-based compensation plans	31	—	53
Equity issue costs incurred	—	(1,364) —
Proceeds from issuance of common stock	6,123	1,061	219
Proceeds from issuance of warrants	15,600	—	—
Other	—	(24) —
Dividends paid	(5,829	) (4,618	) (3,675
Net cash provided by (used in) financing activities	15,484	119,529	(25,583
Increase (decrease) in cash and cash equivalents	8,112	49,357	2,001
Cash and cash equivalents at beginning of year	54,212	4,855	2,854
Cash and cash equivalents at end of year	\$62,324	\$54,212	\$4,855
Supplemental disclosures of cash flow information			
Cash paid during the year for interest:			
Notes payable	\$10,918	\$6,474	\$13,182
Subordinated debentures	14,717	12,588	19,487
Non-cash financing activity:			
Conversion of subordinated debentures	60	—	213
Stock issued in retirement of debt	—	31,250	—
Retirement of debt through debt exchange	—	63,614	—
See accompanying note to condensed financial statements.			
See accompanying Report of Independent Registered Public Accounting Firm.			

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Schedule II—Condensed Financial Information of Registrant (Continued)

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY (PARENT COMPANY)

Note to Condensed Financial Statements

December 31, 2010

1. Basis of Presentation

The accompanying condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto of American Equity Investment Life Holding Company (Parent Company).

In the Parent Company financial statements, its investment in and advances to subsidiaries are stated at cost plus equity in undistributed income (losses) of subsidiaries since the date of acquisition and net unrealized gains/losses on the subsidiaries' fixed maturity securities classified as "available for sale" and equity securities.

See notes 9 and 10 to the consolidated financial statements for a description of the Parent Company's notes payable and subordinated debentures payable to subsidiary trusts.

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Schedule III—Supplementary Insurance Information

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

Column A		Column B	Column C	Column D	Column E
		Deferred policy acquisition costs	Future policy benefits, losses, claims and loss expenses	Unearned premiums	Other policy claims and benefits payable
		(Dollars in thousands)			
As of December 31, 2010: Life insurance		\$1,747,760	\$23,655,807	\$—	\$222,860
As of December 31, 2009: Life insurance		\$1,625,785	\$19,336,221	\$—	\$119,403
As of December 31, 2008: Life insurance		\$1,579,871	\$15,809,539	\$—	\$111,205
Column A	Column F	Column G	Column H	Column I	Column J
	Premium revenue	Net investment income	Benefits, claims, losses and settlement expenses	Amortization of deferred policy acquisition costs	Other operating expenses
	(Dollars in thousands)				
As of December 31, 2010: Life insurance	\$81,057	\$1,036,106	\$932,292	\$136,388	\$151,646
As of December 31, 2009: Life insurance	\$76,012	\$932,172	\$926,279	\$88,009	\$88,461
As of December 31, 2008: Life insurance	\$65,183	\$822,077	\$34,055	\$126,738	\$95,710

See accompanying Report of Independent Registered Public Accounting Firm.

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Schedule IV—Reinsurance

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

Column A	Column B	Column C	Column D	Column E	Column F	
	Gross amount	Ceded to other companies	Assumed from other companies	Net amount	Percent of amount assumed to net	
	(Dollars in thousands)					
Year ended December 31, 2010:						
Life insurance in force, at end of year	\$2,505,280	\$3,147	\$69,734	\$2,571,867	2.71	%
Insurance premiums and other considerations:						
Annuity product charges	\$76,012	\$6,937	\$—	\$69,075	—	
Traditional life and accident and health insurance premiums	11,811	711	882	11,982	7.36	%
	\$87,823	\$7,648	\$882	\$81,057	1.09	%
Year ended December 31, 2009:						
Life insurance in force, at end of year	\$2,508,623	\$2,945	\$72,874	\$2,578,552	2.83	%
Insurance premiums and other considerations:						
Annuity product charges	\$70,554	\$7,196	\$—	\$63,358	—	
Traditional life and accident and health insurance premiums	12,014	243	883	12,654	6.98	%
	\$82,568	\$7,439	\$883	\$76,012	1.16	%
Year ended December 31, 2008:						
Life insurance in force, at end of year	\$2,518,884	\$2,275	\$80,371	\$2,596,980	3.09	%
Insurance premiums and other considerations:						
Annuity product charges	\$61,211	\$8,540	\$—	\$52,671	—	
Traditional life and accident and health insurance premiums	11,800	158	870	12,512	6.95	%
	\$73,011	\$8,698	\$870	\$65,183	1.32	%

See accompanying Report of Independent Registered Public Accounting Firm.

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Schedule V—Valuation and Qualifying Accounts

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

	Balance January 1,	Charged to Costs and Expenses	Translation Adjustment	Write-offs/Payments/Other	Balance December 31,
	(Dollars in thousands)				
Year Ended December 31, 2010					
Valuation allowance on mortgage loans	\$ (5,266)	\$ (15,225)	\$ —	\$ 4,267	\$ (16,224)
Year Ended December 31, 2009					
Valuation allowance on mortgage loans	\$ —	\$ (6,484)	\$ —	\$ 1,218	\$ (5,266)
Year Ended December 31, 2008					
Valuation allowance on mortgage loans	\$ —	\$ —	\$ —	\$ —	\$ —

See accompanying Report of Independent Registered Public Accounting Firm.

Item 15. Exhibits and Financial Statement Schedules.

(a) Exhibits:

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Exhibit No.	Description
3.1	Articles of Incorporation, including Articles of Amendment**++
3.2	Articles of Amendment to Articles of Incorporation#
3.3	Articles of Amendment to Articles of Incorporation###
3.4	Third Amended and Restated Bylaws####
4.4	Amended and Restated Declaration of Trust of American Equity Capital Trust I dated September 7, 1999+
4.5	Indenture dated September 7, 1999 between American Equity Investment Life Holding Company and Wilmington Trust Company (as successor in interest to West Des Moines State Bank), as trustee#
4.6	Trust Preferred Securities Guarantee Agreement dated September 7, 1999 between American Equity Investment Life Holding Company and Wilmington Trust Company (as successor in interest to West Des Moines State Bank), as trustee#
4.7	Trust Common Securities Guarantee Agreement dated September 7, 1999 between American Equity Investment Life Holding Company and West Des Moines State Bank, as trustee#
4.7-A	Instruments of Resignation, Appointment and Acceptance, effective September 12, 2006, among American Equity Investment Life Holding Company, Wilmington Trust Company, West Des Moines State Bank and Delaware Trust Company, National Association (formerly known as First Union Trust Company, National Association)#####
4.8	Indenture dated October 29, 1999 between American Equity Investment Life Holding Company and Wilmington Trust Company (as successor in interest to West Des Moines State Bank), as trustee#
4.9	Trust Preferred Securities Guarantee Agreement dated October 29, 1999 between American Equity Investment Life Holding Company and Wilmington Trust Company (as successor in interest to West Des Moines State Bank), as trustee#
4.10	Trust Common Securities Guarantee Agreement dated October 29, 1999 between American Equity Investment Life Holding Company and West Des Moines State Bank, as trustee#
4.10-A	Instruments of Resignation, Appointment and Acceptance, effective September 12, 2006, among American Equity Investment Life Holding Company, Wilmington Trust Company, West Des Moines State Bank and Delaware Trust Company, National Association (formerly known as First Union Trust Company, National Association)#####
4.11	Indenture dated December 16, 2003, between American Equity Investment Life Holding Company and Wilmington Trust Company, as trustee+++++++
4.12	Guarantee Agreement dated December 16, 2003, between American Equity Investment Life Holding Company and Wilmington Trust Company, as trustee+++++++
4.13	Indenture dated April 29, 2004, between American Equity Investment Life Holding Company and JP Morgan Chase Bank, National Association, as trustee+++++++
4.14	Guarantee Agreement dated April 29, 2004, between American Equity Investment Life Holding Company and JP Morgan Chase Bank, National Association, as trustee+++++++
4.15	Indenture dated September 14, 2004, between American Equity Investment Life Holding Company and JP Morgan Chase Bank, National Association, as trustee+++++++
4.16	Guarantee Agreement dated September 14, 2004, between American Equity Investment Life Holding Company and JP Morgan Chase Bank, National Association, as trustee+++++++
4.17	Indenture dated December 22, 2004, between American Equity Investment Life Holding Company and JP Morgan Chase Bank, National Association, as trustee##
4.18	Guarantee Agreement dated December 22, 2004, between American Equity Investment Life Holding Company and JP Morgan Chase Bank, National Association, as trustee##
4.19	Indenture dated December 6, 2004 between American Equity Investment Life Holding Company and US Bank National Association, as trustee##
4.20	Registration Rights Agreement dated December 6, 2004 by and among American Equity Investment Life Holding Company, Deutsche Bank Securities Inc., Raymond James & Associates, Inc., and Advest,

	Inc.##
4.21	First Supplemental Indenture dated December 30, 2004 between American Equity Investment Life Holding Company and US Bank National Association, as trustee##
4.22	Registration Rights Agreement dated December 30, 2004 between American Equity Investment Life Holding Company and Deutsche Bank Securities Inc.##
4.23	Indenture dated June 15, 2005 between American Equity Investment Life Holding Company and JP Morgan Chase Bank, National Association, as trustee+++++
4.24	Guarantee Agreement dated June 15, 2005 between American Equity Investment Life Holding Company and JP Morgan Chase Bank, National Association, as trustee+++++
4.25	Indenture dated August 4, 2005 between American Equity Investment Life Holding Company and JP Morgan Chase Bank, National Association, as trustee+++++
4.26	Guarantee Agreement dated August 4, 2005 between American Equity Investment Life Holding Company and JP Morgan Chase Bank, National Association, as trustee+++++
4.27	Indenture dated December 15, 2005 between American Equity Investment Life Holding Company and JP Morgan Chase Bank, National Association, as trustee***
4.28	Guarantee Agreement dated December 15, 2005 between American Equity Investment Life Holding Company and JP Morgan Chase Bank, National Association, as trustee***
Exhibit No.	Description
4.29	Amended and Restated Indenture dated July 7, 2006 between American Equity Investment Life Holding Company and Wells Fargo Bank, National Association, as trustee*****

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4.30	Amended and Restated Guarantee Agreement dated July 7, 2006 between American Equity Investment Life Holding Company and Wells Fargo Delaware Trust Company, as trustee*****
4.31	Indenture dated December 22, 2009 between American Equity Investment Life Holding Company and U.S. Bank National Association, as trustee#####
4.32	Indenture dated September 22, 2010 between American Equity Investment Life Holding Company and U.S. Bank National Association, as trustee#####
10.1-B	Second Restated and Amended General Agency Commission and Servicing Agreement dated October 1, 2002 between American Equity Investment Life Insurance Company and American Equity Investment Service Company+++++
10.1-D	First Amendment to Second Restated and Amended General Agency Commission and Servicing Agreement effective December 29, 2004 between American Equity Investment Life Insurance Company and American Equity Investment Service Company##
10.2	1996 Stock Option Plan, as amended#####
10.3	Deferred Compensation Agreements between American Equity Investment Life Holding Company and (a) James M. Gerlach dated June 6, 1996* (b) Terry A. Reimer dated November 11, 1996* (c) David S. Mulcahy dated December 31, 1997*
10.4	2000 Employee Stock Option Plan++
10.5	2000 Director Stock Option Plan++
10.6	Retirement Benefit Agreement, dated as of June 4, 2009, between American Equity Investment Life Holding Company and David J. Noble#####
10.7	American Equity Investment Life Holding Company 2009 Employee Incentive Plan#####
10.8	Coinsurance Agreement dated December 19, 2001, including First Amendment dated February 26, 2002 between American Equity Investment Life Insurance Company and EquiTrust Life Insurance Company+++++
10.9	Coinsurance Agreement dated December 29, 2003 between American Equity Investment Life Insurance Company and EquiTrust Life Insurance Company+++++++
10.10	First Amendment to Coinsurance Agreement dated July 30, 2004 between American Equity Investment Life Insurance Company and EquiTrust Life Insurance Company+++++++
10.11	Form of Change in Control Agreement between American Equity Investment Life Holding Company and each of John M. Matovina, Debra J. Richardson and Wendy L. Carlson#
10.12	Form of Change in Control Agreement between American Equity Investment Life Holding Company and each James M. Gerlach and Terry A. Reimer#
10.13	Stock Sale/Purchase Agreement dated September 2, 2005 between American Equity Investment Life Holding Company and D.J. Noble+++++++
10.14	2005 Coinsurance and Yearly Renewable Term Reinsurance Agreement effective October 1, 2005, between American Equity Investment Life Insurance Company and Hannover Life Reassurance Company of America****
10.15	Amendment I, effective January 1, 2006, to 2005 Coinsurance and Yearly Renewable Term Reinsurance Agreement effective October 1, 2005, between American Equity Investment Life Insurance Company and Hannover Life Reassurance Company of America****
10.16	Amendment II, effective January 1, 2006, to 2005 Coinsurance and Yearly Renewable Term Reinsurance Agreement effective October 1, 2005, between American Equity Investment Life Insurance Company and Hannover Life Reassurance Company of America****
10.17	Credit Agreement dated November 20, 2006 among American Equity Investment Life Holding Company, KeyBank National Association and LaSalle Bank National Association*****
10.18	American Equity Investment Life Holding Company Independent Insurance Agent Stock Option Plan*****
10.19	

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- Coinsurance and Yearly Renewable Term Reinsurance Agreement dated December 31, 2008 between American Equity Investment Life Insurance Company and Hannover Life Reassurance Company of America#####
- 10.20 Amendment III, effective April 1, 2009, to the 2005 Coinsurance and Yearly Renewable Term Reinsurance Agreement effective October 1, 2005, between American Equity Investment Life Insurance Company and Hannover Life Reassurance Company of America*****
- 10.21 Coinsurance Agreement effective July 1, 2009, between American Equity Investment Life Insurance Company and Athene Life Re Ltd (Treaty #070109)*****
- 10.22 Coinsurance Agreement effective July 1, 2009, between American Equity Investment Life Insurance Company and Athene Life Re Ltd (Treaty #08042009)*****
- 10.23 Separation and Release Agreement between Kevin R. Wingert and American Equity Investment Life Insurance Company, dated December 29, 2008#####
- 10.24 Distribution Agreement, dated August 20, 200, between American Equity Investment Life Holding Company and Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC#####
- 10.25 Distribution Agreement, dated August 20, 2009, between American Equity Investment Life Holding Company and Sandler O'Neill & Partners, L.P.#####
- 10.26 Purchase Agreement, dated December 17, 2009, between American Equity Investment Life Holding Company and FBR Capital Markets & Co.#####
- 10.27 Amendment IV, effective October 1, 2009, to the 2005 Coinsurance and Yearly Renewable Term Reinsurance Agreement effective October 1, 2005, between American Equity Investment Life Insurance Company and Hannover Life Reassurance Company of America
- 10.28 Amended Retirement Benefit Agreement, dated as of March 29, 2010, between American Equity Investment Life Holding Company and David J. Noble#####

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Table of Contents

Exhibit No.	Description
10.29	First Amendment to Credit Agreement dated September 15, 2010 among American Equity Investment Life Holding Company, KeyBank National Association and LaSalle Bank National Association#####
10.30	American Equity Investment Life Holding Company Short-Term Performance Incentive Plan*****
10.33	2010 Independent Insurance Agent Stock Option Plan*****
10.34	Credit Agreement dated January 28, 2011 among American Equity Investment Life Holding Company, JPMorgan Chase Bank, National Association, Suntrust Bank and Deutsche Bank Securities, Inc. Amendment V, effective November 18, 2010, to the 2005 Coinsurance and Yearly Renewable Term
10.35	Reinsurance Agreement effective October 1, 2005, between American Equity Investment Life Insurance Company and Hannover Life Reassurance Company of America
12.1	Ratio of Earnings to Fixed Charges
21.2	Subsidiaries of American Equity Investment Life Holding Company
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*	Incorporated by reference to the Registration Statement on Form 10 filed May 6, 1999, File No. 000-25985
**	Incorporated by reference to the Registration Statement on Form 10 and Post-Effective Amendment No. 1 to the Registration Statement on Form 10 filed July 22, 1999, File No. 000-25985
+	Incorporated by reference to Form 10-K for the period ended December 31, 1999, File No. 000-25985
++	Incorporated by reference to Form 10-Q for the period ended June 30, 2000, File No. 000-25985
+++++	Incorporated by reference to Form 10-K for the period ended December 31, 2001, File No. 000-25985
++++++	Incorporated by reference to Form 10-K for the period ended December 31, 2002, File No. 000-25985
+++++++	Incorporated by reference to Form 10-K for the period ended December 31, 2003, File No. 001-31911
+++++++	Incorporated by reference to Form 10-Q for the period ended June 30, 2004, File No. 001-31911
+++++++	Incorporated by reference to Form 10-Q for the period ended September 30, 2004, File No. 001-31911
+++++++	Incorporated by reference to Form 10-Q for the period ended June 30, 2005, File No. 001-31911
+++++++	Incorporated by reference to Form 10-Q for the period ended September 30, 2005, File No. 001-31911
***	Incorporated by reference to Form 10-K for the period ended December 31, 2005, File No. 001-31911
****	Incorporated by reference to Form 10-Q for the period ended March 31, 2006, File No. 001-31911
*****	Incorporated by reference to Form 10-Q for the period ended September 30, 2006, File No. 001-31911

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Incorporated by reference to Form 10-K for the period ended December 31, 2006,
File No. 001-31911

Incorporated by reference to Form 10-Q for the period ended September 30, 2007,
File No. 001-31911

Incorporated by reference to Form 10-Q for the period ended June 30, 2009, File No. 001-31911

Incorporated by reference to Form 10-Q for the period ended September 30, 2009,
File No. 001-31911

Incorporated by reference to Form 10-Q for the period ended September 30, 2010,
File No. 001-31911

Incorporated by reference to the Registration Statement on Form S-3, File No. 333-171161

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Incorporated by reference to the Registration Statement on Form S-1, File No. 333-108794,
including all pre-effective amendments thereto

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Incorporated by reference to Form 10-K for the period ended December 31, 2004, File
No. 001-31911

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Incorporated by reference to the Registration Statement on Form S-3 filed January 15, 2008, File
No. 333-148681

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Incorporated by reference to Form 8-K filed September 2, 2008, File No. 001-31911

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Incorporated by reference to Form 8-K/A filed January 2, 2009, File No. 001-31911

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Incorporated by reference to Form 8-K filed June 9, 2009, File No. 001-31911

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Incorporated by reference to Form 8-K filed December 23, 2009, File No. 001-31911

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Incorporated by reference to Form 8-K filed August 26, 2009, File No. 001-31911

#####

Incorporated by reference to Form 10-K for the period ended December 31, 2008,
File No. 001-31911

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Incorporated by reference to Form 8-K filed September 28, 2010, File No. 001-31911

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Incorporated by reference to Form 8-K filed April 2, 2010, File No. 001-31911

#####

Incorporated by reference to Form 8-K filed September 20, 2010, File No. 001-31911

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