UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission File Number : 001-31911

American Equity Investment Life Holding Company
(Exact name of registrant as specified in its charter)

Iowa	**42-1447959**
(State of Incorporation)	(I.R.S. Employer Identification No.)
5000 Westown Parkway, Suite 440 **West Des Moines, Iowa**	**50266**
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code	**(515) 221-0002** (Telephone)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No x

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this From 10-K. o

Indicate by check mark whether the registrant is a large accelerated filed, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerate filer o Accelerated filer x Non-accelerated filer o

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was $534,726,579 based on the closing price of $10.66 per share, the closing price of the common stock on the New York Stock Exchange on June 30, 2006.

Shares of common stock outstanding as of February 28, 2007: 56,170,874

Documents incorporated by reference: Portions of the registrant's definitive proxy statement for the annual meeting of shareholders to be held June 7, 2007, which will be filed within 120 days after December 31, 2006, are incorporated by reference into Part III of this report.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2006
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PART I

ITEM 1. BUSINESS

Introduction

We were formed on December 15, 1995 to develop, market, issue and administer annuities and life insurance. We are a full service underwriter of a broad array of annuity and insurance products through our two life insurance subsidiaries, American Equity Investment Life Insurance Company ("American Equity Life") and American Equity Investment Life Insurance Company of New York. Our business consists primarily of the sale of fixed rate and index annuities and, accordingly, we have only one business segment. Our business strategy is to focus on our annuity business and earn predictable returns by managing investment spreads and investment risk. We are currently licensed to sell our products in 50 states and the District of Columbia.

Investor related information, including periodic reports filed on Forms 10-K, 10-Q and 8-K and all amendments to such reports may be found on our internet website at www.american-equity.com as soon as reasonably practicable after such reports are filed with the Securities and Exchange Commission ("SEC"). In addition, we have available on our website our: (i) code of business conduct and ethics; (ii) audit committee charter; (iii) compensation committee charter; (iv) nominating/corporate governance committee charter and (v) corporate governance guidelines.

Annuity Market Overview

Our target market includes the group of individuals ages 45-75 who are seeking to accumulate tax-deferred savings. We believe that significant growth opportunities exist for annuity products because of favorable demographic and economic trends. According to the U.S. Census Bureau, there were 35 million Americans age 65 and older in 2000, representing 12% of the U.S. population. By 2030, this sector of the population is expected to increase to 20% of the total population. Our fixed rate and index annuity products are particularly attractive to this group as a result of the guarantee of principal with respect to those products, competitive rates of credited interest, tax-deferred growth and alternative payout options.

According to LIMRA International, total industry sales of individual annuities were $236.2 billion in 2006 and $216.4 billion in 2005. Fixed annuity sales, which include index and fixed rate annuities were $75.6 billion in 2006 and $79.5 billion in 2005. Sales of index annuities decreased 10% to $24.5 billion in 2006 from $27.2 billion in 2005. We believe index annuities, which have a crediting rate linked to the change in various indices, appeal to policyholders interested in participating in returns linked to equity and/or bond markets without the risk of loss of principal. Our wide range of fixed rate and index annuity products has enabled us to enjoy favorable growth during volatile equity and bond markets.

Strategy

Our business strategy is to focus on our annuity business and earn predictable returns by managing investment spreads and investment risk. Key elements of this strategy include the following:

Expand our Current Independent Agency Network. We believe that our successful relationships with approximately 70 national marketing organizations and, through them, 52,000 independent agents, represent a significant competitive advantage. We intend to grow and enhance our core distribution channel by expanding our relationships with national marketing organizations and independent agents, by addressing their product needs and by providing the highest quality service possible.

Continue to Introduce Innovative and Competitive Products. We intend to be at the forefront of the fixed and index annuity industry in developing and introducing innovative and new competitive

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products. We were the first company to introduce an index annuity which allowed policyholders to earn returns linked to the Dow Jones Index[sm]. We were also one of the first companies to offer an index annuity offering a choice among interest crediting strategies which includes both equity and bond indices as well as a traditional fixed rate strategy. We believe that our continued focus on anticipating and being responsive to the product needs of our independent agents and policyholders will lead to increased customer loyalty, revenues and profitability.

Use our Expertise to Achieve Targeted Spreads on Annuity Products. We have had a successful track record in achieving the targeted spreads on our annuity products. We intend to leverage our experience and expertise in managing the investment spread during a range of interest rate environments to achieve our targeted spreads.

Maintain our Profitability Focus and Improve Operating Efficiency. We are committed to improving our profitability by advancing the scope and sophistication of our investment management and spread capabilities and continuously seeking out operating efficiencies within our company. We have made substantial investments in technology improvements to our business, including the development of a password-secure website which allows our independent agents to receive proprietary sales, marketing and product materials and the implementation of software designed to enable us to operate in a completely paperless environment with respect to policy administration. Further, we have implemented competitive incentive programs for our national marketing organizations, agents and employees to stimulate performance.

Take Advantage of the Growing Popularity of Index Products. We believe that the growing popularity of index products that allow equity and bond market participation without the risk of loss of the premium deposit presents an attractive opportunity to grow our business. We intend to capitalize on our reputation as a leading marketer of index annuities in this expanding segment of the annuity market.

Products

Our products include fixed rate annuities, index annuities, a variable annuity and life insurance.

Fixed Rate Annuities

These products, which accounted for approximately 4%, 7% and 16% of our total annuity deposits collected for the years ended December 31, 2006, 2005 and 2004, respectively, include single premium deferred annuities (“SPDAs”), flexible premium deferred annuities (“FPDAs”) and single premium immediate annuities (“SPIAs”). An SPDA generally involves the tax-deferred accumulation of interest on a single premium paid by the policyholder. The annuitant may elect to take the proceeds of the annuity either in a single payment or in a series of payments for life, for a fixed number of years, or for a combination of these payment options. We also sell SPDAs under which the annual crediting rate is guaranteed for up to a five-year period. FDPAs are similar to SPDAs in many respects, except that the FPDA allows additional deposits in varying amounts by the policyholder without a new application.

Our SPDAs and FPDAs (excluding the multi-year rate guaranteed products) generally have an interest rate (the “crediting rate”) that is guaranteed by us for the first policy year. After the first policy year, we have the discretionary ability to change the crediting rate once annually to any rate at or above a guaranteed minimum rate. The guaranteed rate on our non-multi-year rate guaranteed policies ranges from 2.20% to 4.00%. The initial guaranteed rate on our multi-year rate guaranteed policies ranges from 4.00% to 7.00%. The initial crediting rate is largely a function of the interest rate we can earn on invested assets acquired with new annuity deposits and the rates offered on similar products by our competitors. For subsequent adjustments to crediting rates, we take into account the yield on our investment portfolio,

annuity surrender assumptions, competitive industry pricing and crediting rate history for particular groups of annuity policies with similar characteristics.

Approximately 98%, 96% and 99% of our fixed rate annuity sales during the years ended December 31, 2006, 2005 and 2004, respectively, were “bonus” products. The initial crediting rate on these products specifies a bonus crediting rate ranging from 1% to 7% of the annuity deposit. After the first year, the bonus interest portion of the initial crediting rate is automatically discontinued, and the renewal crediting rate is established. Generally, there is a compensating adjustment in the commission paid to the agent or the surrender charges on the policy to offset the first year interest bonus. In all situations, we obtain an acknowledgment from the policyholder, upon policy issuance, that a specified portion of the first year interest will not be paid in renewal years. As of December 31, 2006, crediting rates on our outstanding fixed rate annuities generally ranged from 3.00% to 5.30%, excluding interest bonuses guaranteed for the first year. The average crediting rate on fixed rate annuities including interest bonuses at December 31, 2006 was 3.40%, and the average crediting rate on those products excluding bonuses was 3.34%.

Policyholders are typically permitted to withdraw all or a part of the premium paid, plus accrued interest credited to the account (the “accumulation value”), subject to the assessment of a surrender charge for withdrawals in excess of specified limits. Most of our SPDAs and FPDAs provide for penalty-free withdrawals of up to 10.00% of the accumulation value each year after the first year, subject to limitations. Withdrawals in excess of allowable penalty-free amounts are assessed a surrender charge during a penalty period which generally ranges from 3 to 15 years after the date the policy is issued. This surrender charge is initially 8.00% to 25.00% of the accumulation value and generally decreases by approximately one to two percentage points per year during the surrender charge period. Surrender charges are set at levels aimed at protecting us from loss on early terminations and reducing the likelihood of policyholders terminating their policies during periods of increasing interest rates. This practice lengthens the effective duration of the policy liabilities and enhances our ability to maintain profitability on such policies.

Our SPIAs are designed to provide a series of periodic payments for a fixed period of time or for life, according to the policyholder’s choice at the time of issue. The amounts, frequency, and length of time of the payments are fixed at the outset of the annuity contract. SPIAs are often purchased by persons at or near retirement age who desire a steady stream of payments over a future period of years. The implicit interest rate on SPIAs is based on market conditions when the policy is issued. The implicit interest rate on our outstanding SPIAs averaged 3.54% and 3.60% at December 31, 2006 and 2005, respectively.

Index Annuities

Index annuities accounted for approximately 96%, 93% and 84% of the total annuity deposits collected for the years ended December 31, 2006, 2005 and 2004, respectively. These products allow policyholders to link returns to the performance of a particular index without the risk of loss of their principal. Most of these products allow policyholders to transfer funds once a year among several different crediting strategies, including one or more index based strategies and a traditional fixed rate strategy.

The annuity contract value is equal to the premiums paid increased for returns which are based upon a percentage (the “participation rate”) of the annual appreciation (based in certain situations on monthly averages or monthly point-to-point calculations) in a recognized index or benchmark. The participation rate, which we may reset annually, generally varies among the index products from 50% to 100%. Some products apply an overall limit (or “cap”), ranging from 5% to 13%, on the amount of annual interest the policyholder may earn in any one contract year, and the applicable cap may also be adjusted annually subject to stated minimums. In addition, some of the products also have an “asset fee” ranging from 1.5% to 5%, which is deducted from annual interest to be credited. For products with asset fees, if the annual appreciation in the index does not exceed the asset fee, the policyholder’s index credit is zero. The minimum guaranteed contract values are equal to 80% to 100% of the premium collected plus interest credited at an annual rate ranging from 2.0% to 3.5%. We purchase options on the applicable indices as an investment to provide the income needed to fund the amount of the index credits on the index products. The setting of the participation rates, caps and asset fees is a function of the interest rate we can earn on the invested assets acquired with annuity fund deposits, cost of options and features offered on similar products by competitors. Approximately 76%, 66% and 57% of our index annuity sales for the years ended December 31, 2006, 2005 and 2004, respectively, were “premium bonus” products. The initial annuity deposit on these policies is increased at issuance by the specified premium bonus ranging from 1.5% to 10%. Generally, there is a compensating adjustment in the commission paid to the agent or the surrender changes on the policy to offset the premium bonus.

The index annuities provide for penalty-free withdrawals of up to 10% of premium or accumulation value (depending on the product) in each year after the first year of the annuity’s term. Other withdrawals are subject to a surrender charge ranging initially from 4.5% to 20% over a surrender period ranging from 5 to 17 years. During the applicable surrender charge period, the surrender charges on some index products remain level, while on other index products, the surrender charges decline by one to two percentage points per year. The annuitant may elect to take the proceeds of the annuity either in a single payment or in a series of payments for life, for a fixed number of years, or a combination of these payment options.

Variable Annuity

Variable annuities differ from fixed rate and index annuities in that the policyholder, rather than the insurance company, bears the investment risk and the policyholder’s return of principal and rate of return are dependent upon the performance of the particular investment option selected by the policyholder. Profits on variable annuities are derived from the fees charged to contract owners rather than from the investment spread.

Life Insurance

These products include traditional ordinary and term, universal life and other interest-sensitive life insurance products. We have approximately $2.6 billion of life insurance in force as of December 31, 2006. We intend to continue offering a complete line of life insurance products for individual and group markets. Premiums related to this business accounted for 2% of the revenues in the years ended December 31, 2006 and 2005 and 3% of the revenues in the year ended December 31, 2004.

Investments

Investment activities are an integral part of our business, and net investment income is a significant component of our total revenues. Profitability of many of our products is significantly affected by spreads between interest yields on investments and rates credited on annuity liabilities. Although substantially all credited rates on non-multi-year rate guaranteed SPDAs and FPDAs may be changed annually, subject to minimum guarantees, changes in crediting rates may not be sufficient to maintain targeted investment spreads in all economic and market environments. In addition, competition and other factors, including the potential for increases in surrenders and withdrawals, may limit our ability to adjust or to maintain crediting rates at levels necessary to avoid narrowing of spreads under certain market conditions. For the year ended December 31, 2006, the weighted average yield, computed on the average amortized cost basis of our investment portfolio, was 6.14% and the weighted average cost of our liabilities, excluding amortization of deferred sales inducements and interest bonuses guaranteed for the first year of the annuity contract was 3.41%.

We manage the indexed-based risk component of our index annuities by purchasing call options on the applicable indices to fund the annual index credits on these annuities and by adjusting the participation rates, cap rates and other product features to reflect the change in the cost of such options (which varies based on market conditions). All options are purchased to fund the index credits on our index annuities on their respective anniversary dates, and new options are purchased at each of the anniversary dates to fund the next annual index credits.

For additional information regarding the composition of our investment portfolio and our interest rate risk management, see Quantitative and Qualitative Disclosures About Market Risk and note 3 to our audited consolidated financial statements.

Marketing

We market our products through a variable cost brokerage distribution network of approximately 70 national marketing organizations and through them, 52,000 independent agents as of December 31, 2006. We emphasize high quality service to our agents and policyholders along with the prompt payment of commissions to our agents. We believe this has been significant in building excellent relationships with our existing agency force.

Our independent agents and agencies range in profile from national sales organizations to personal producing general agents. We aggressively recruit new agents and expect to continue to expand our independent agency force. In our recruitment efforts, we emphasize that agents have direct access to our executive officers, giving us an edge in recruiting over larger and foreign-owned competitors. We also have favorable relationships with our national marketing organizations, which have enabled us to efficiently sell through an expanded number of independent agents. We are currently licensed to sell our products in 50 states and the District of Columbia.

The insurance distribution system is comprised of insurance brokers and marketing organizations. We are pursuing a strategy to increase the size of our distribution network by developing additional relationships with national and regional marketing organizations. These organizations typically recruit agents for us by advertising our products and our commission structure, through direct mail advertising, or through seminars for insurance agents and brokers. These organizations bear most of the cost incurred in marketing our products. We compensate marketing organizations by paying them a percentage of the commissions earned on new annuity policy sales generated by the agents recruited in such organizations. We also conduct incentive programs for marketing organizations and agents from time to time, including equity-based programs for our leading national marketers. For additional information regarding our equity-based programs for our leading national marketers see note 10 to our audited consolidated financial statements. We generally do not enter into exclusive arrangements with these marketing organizations.

One of our national marketing organizations accounted for more than 10% of the annuity deposits collected during 2006 representing 14% of the annuity deposits and insurance premiums collected. The states with the largest share of direct premiums collected during 2006 were: Florida (13.2%), California (8.5%), Texas (7.9%), Illinois (7.7%) and Michigan (4.8%).

Competition and Ratings

We operate in a highly competitive industry. Many of our competitors are substantially larger and enjoy substantially greater financial resources, higher ratings by rating agencies, broader and more diversified product lines and more widespread agency relationships. Our annuity products compete with index, fixed rate and variable annuities sold by other insurance companies and also with mutual fund products, traditional bank investments and other investment and retirement funding alternatives offered by asset managers, banks, and broker-dealers. Our insurance products compete with products of other insurance companies, financial intermediaries and other institutions based on a number of features,

including crediting rates, policy terms and conditions, service provided to distribution channels and policyholders, ratings, reputation and broker compensation.

The sales agents for our products use the ratings assigned to an insurer by independent rating agencies as one factor in determining which insurer's annuity to market. In recent years, the market for annuities has been dominated by those insurers with the highest ratings. American Equity Life has received a financial strength rating of "A-" (Excellent) with a stable outlook from A.M. Best Company and "BBB+" with a stable outlook from Standard & Poor's. A.M. Best Company changed their rating from "B++" (Very Good) to "A-" (Excellent) in August 2006. In July, 2002, A.M. Best Company and Standard & Poor's adjusted our financial strength ratings from "A-"(Excellent) to "B++"(Very Good) and "A-" to "BBB+", respectively. The degree to which ratings adjustments have affected sales and persistency is unknown. We believe the rating upgrade from A.M. Best Company in 2006 will enhance our competitive position and improve our prospects for future sales. However, the degree to which this rating upgrade will effect future sales and persistency is unknown.

Financial strength ratings generally involve quantitative and qualitative evaluations by rating agencies of a company's financial condition and operating performance. Generally, rating agencies base their ratings upon information furnished to them by the insurer and upon their own investigations, studies and assumptions. Ratings are based upon factors of concern to policyholders, agents and intermediaries and are not directed toward the protection of investors and are not recommendations to buy, sell or hold securities.

A.M. Best Company ratings currently range from "A++" (Superior) to "F" (In Liquidation), and include 16 separate ratings categories. Within these categories, "A++" (Superior) and "A+" (Superior) are the highest, followed by "A" (Excellent) and "A-" (Excellent) then followed by "B++" (Very Good) and "B+" (Very Good). Publications of A.M. Best Company indicate that the "A-" rating is assigned to those companies that, in A.M. Best Company's opinion, have demonstrated an excellent ability to meet their ongoing obligations to policyholders.

Standard & Poor's insurer financial strength ratings currently range from "AAA" to "NR", and include 21 separate ratings categories. Within these categories, "AAA" and "AA" are the highest, followed by "A" and "BBB". Publications of Standard & Poor's indicate that an insurer rated "BBB" or higher is regarded as having strong financial security characteristics, but is somewhat more likely to be affected by adverse business conditions than are higher rated insurers.

A.M. Best Company and Standard & Poor's review their ratings of insurance companies from time to time. There can be no assurance that any particular rating will continue for any given period of time or that it will not be changed or withdrawn entirely if, in their judgment, circumstances so warrant. If our ratings were to be adjusted again for any reason, we could experience a material decline in the sales of our products and the persistency of our existing business.

Reinsurance

Coinsurance

American Equity Life has entered into two coinsurance agreements with EquiTrust Life Insurance Company ("EquiTrust"), an affiliate of Farm Bureau Life Insurance Company ("Farm Bureau"), covering 70% of certain of our fixed rate and index 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 $1.8 billion and $2.0 billion

at December 31, 2006 and 2005, 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. EquiTrust has received a financial strength rating of "A" (Excellent) from A.M. Best Company. None of the coinsurance deposits with EquiTrust are deemed by management to be uncollectible. As of December 31, 2006, Farm Bureau beneficially owned 5.4% of our common stock.

American Equity Life has also entered into a modified coinsurance agreement to cede 70% of its variable annuity business to EquiTrust. Separate account deposits ceded under this agreement during the years ended December 31, 2006, 2005 and 2004 were immaterial. The modified coinsurance agreement will continue until termination by written notice at the election of either party. Any such termination will apply to the submission or acceptance of new policies, and business reinsured under the agreement prior to any such termination is not eligible for recapture before the expiration of 10 years.

Financial Reinsurance

American Equity Life has entered into three reinsurance transactions with Hannover Life Reassurance Company of America, ("Hannover"), which are treated as reinsurance under statutory accounting practices and as financial reinsurance under U.S. generally accepted accounting principles ("GAAP"). The statutory surplus benefits under these agreements are eliminated under GAAP and the associated charges are recorded as risk charges and included in other operating costs and expenses in the consolidated statements of income. Hannover has received a financial strength rating of "A+" from A.M. Best Company. The first transaction became effective November 1, 2002 (the "2002 Hannover Transaction"), the second transaction became effective September 30, 2003 (the "2003 Hannover Transaction") and the third transaction became effective October 1, 2005 (the "2005 Hannover Transaction"). The agreements for the 2002 and 2003 Hannover Transactions include a coinsurance segment and a yearly renewable term segment reinsuring a portion of death benefits payable on certain annuities issued from January 1, 2002 to December 31, 2002 and issued from January 1, 2003 to September 30, 2003. The coinsurance segments provide reinsurance to the extent of 6.88% (2002 Hannover Transaction) and 13.41% (2003 Hannover Transaction) of all risks associated with our annuity policies covered by these reinsurance agreements. The 2002 Hannover Transaction provided $29.8 million in net statutory surplus benefit during 2002 and the 2003 Hannover Transaction provided $29.7 million in net statutory surplus benefit during 2003. The statutory surplus benefits provided by the 2002 and 2003 Hannover Transactions were reduced by $13.6 million in 2006, $13.4 million in 2005 and $13.1 million in 2004. The remaining statutory surplus benefit under the 2002 and 2003 Hannover Transactions is expected to be reduced as follows: 2007 - $13.2 million; 2008 - $6.8 million. The 2005 Hannover Transaction is a yearly renewable term reinsurance agreement on inforce business covering 40% of waived surrender charges related to penalty free withdrawals and deaths. We may recapture the risks reinsured under this agreement as of the end of any quarter beginning October 1, 2008. 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 reserve credit recorded on a statutory basis by American Equity Life. The reserve credit recorded on a statutory basis by American Equity Life at December 31, 2006 and 2005 was $69.6 million and $59.0 million, respectively. Risk charges attributable to the three reinsurance transactions with Hannover were $5.0 million, $2.5 million and $2.2 million during 2006, 2005 and 2004, respectively.

Indemnity Reinsurance

Consistent with the general practice of the life insurance industry, American Equity Life enters into agreements of indemnity reinsurance with other insurance companies in order to reinsure portions of the coverage provided by its life and accident and health insurance products. Indemnity reinsurance agreements are intended to limit a life insurer's maximum loss on a large or unusually hazardous risk or to

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diversify its risks. The maximum loss retained by us on all life insurance policies we have issued was $0.1 million or less as of December 31, 2006. Indemnity reinsurance does not discharge the original insurer's primary liability to the insured. American Equity Life's reinsured business related to these blocks of business is primarily ceded to two reinsurers. Reinsurance related to life and accident and health insurance that was ceded by us primarily to two reinsurers was immaterial. We believe the assuming companies will be able to honor all contractual commitments, based on our periodic review of their financial statements, insurance industry reports and reports filed with state insurance departments.

Regulation

Life insurance companies are subject to regulation and supervision by the states in which they transact business. State insurance laws establish supervisory agencies with broad regulatory authority, including the power to:

- grant and revoke licenses to transact business;
- regulate and supervise trade practices and market conduct;
- establish guaranty associations;
- license agents;
- approve policy forms;
- approve premium rates for some lines of business;
- establish reserve requirements;
- prescribe the form and content of required financial statements and reports;
- determine the reasonableness and adequacy of statutory capital and surplus;
- perform financial, market conduct and other examinations;
- define acceptable accounting principles;
- regulate the type and amount of permitted investments; and
- limit the amount of dividends and surplus note payments that can be paid without obtaining regulatory approval.

Our life subsidiaries are subject to periodic examinations by state regulatory authorities. In 2005, the Iowa Insurance Division completed an examination of American Equity Life as of December 31, 2003, although no adjustments to our 2003 statutory financial statements were recommended or required as a result of this examination, during 2005 we revised certain statutory reserve calculations in response to the examination report. The New York Insurance Department is currently conducting an examination of American Equity Life Insurance Company of New York as of December 31, 2004. We have not been informed of any material adjustments which will be recommended or required as a result of this examination.

The payment of dividends or the 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 its state of domicile's insurance department, unless such payments, together with all other such payments within the preceding twelve months, exceed the greater of (1) American Equity Life's statutory net gain from operations for the preceding calendar year, or (2) 10% of American Equity Life's statutory surplus at the preceding December 31. For 2007, up to approximately $99.2 million can be distributed as

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dividends by American Equity Life without prior approval of its state of domicile's insurance department. In addition, dividends and surplus note payments may be made only out of earned surplus, and all surplus note payments are subject to prior approval by regulatory authorities. American Equity Life had approximately $161.0 million of statutory earned surplus at December 31, 2006.

Most states have also enacted regulations on the activities of insurance holding company systems, including acquisitions, extraordinary dividends, the terms of surplus notes, the terms of affiliate transactions and other related matters. We are registered pursuant to such legislation in Iowa. Recently, a number of state legislatures have considered or have enacted legislative proposals that alter and, in many cases, increase the authority of state agencies to regulate insurance companies and holding company systems.

Most states, including Iowa and New York where our life subsidiaries are domiciled, have enacted legislation or adopted administrative regulations affecting the acquisition of control of insurance companies as well as transactions between insurance companies and persons controlling them. The nature and extent of such legislation and regulations currently in effect vary from state to state. However, most states require administrative approval of the direct or indirect acquisition of 10% or more of the outstanding voting securities of an insurance company incorporated in the state. The acquisition of 10% of such securities is generally deemed to be the acquisition of "control" for the purpose of the holding company statutes and requires not only the filing of detailed information concerning the acquiring parties and the plan of acquisition, but also administrative approval prior to the acquisition. In many states, the insurance authority may find that "control" in fact does not exist in circumstances in which a person owns or controls more than 10% of the voting securities.

Although the federal government does not directly regulate the business of insurance, federal legislation and administrative policies in several areas, including pension regulation, age and sex discrimination, financial services regulation, securities regulation and federal taxation can significantly affect the insurance business. In addition, legislation has been passed which could result in the federal government assuming some role in regulating insurance companies and which allows combinations between insurance companies, banks and other entities.

In 1998, the SEC requested comments as to whether index annuities, such as those sold by us, should be treated as securities under the federal securities laws rather than as insurance products. Treatment of these products as securities would likely require additional registration and licensing of these products and the agents selling them, as well as cause us to seek additional marketing relationships for these products. No action has been taken by the SEC on this issue.

State insurance regulators and the National Association of Insurance Commissioners ("NAIC"), are continually reexamining existing laws and regulations and developing new legislation for the passage by state legislatures and new regulations for adoption by insurance authorities. Proposed laws and regulations or those still under development pertain to insurer solvency and market conduct and in recent years have focused on:

- insurance company investments;
- risk-based capital ("RBC") guidelines, which consist of regulatory targeted surplus levels based on the relationship of statutory capital and surplus, with prescribed adjustments, to the sum of stated percentages of each element of a specified list of company risk exposures;
- the implementation of non-statutory guidelines and the circumstances under which dividends may be paid;
- principles-based reserving;
- product approvals;

- agent licensing;
- underwriting practices; and
- insurance and annuity sales practices.

The NAIC's RBC requirements are intended to be used by insurance regulators as an early warning tool to identify deteriorating or weakly capitalized insurance companies for the purpose of initiating regulatory action. The RBC formula defines a new minimum capital standard which supplements low, fixed minimum capital and surplus requirements previously implemented on a state-by-state basis. Such requirements are not designed as a ranking mechanism for adequately capitalized companies.

The NAIC's RBC requirements provide for four levels of regulatory attention depending on the ratio of a company's total adjusted capital to its RBC. Adjusted capital is defined as the total of statutory capital, surplus, asset valuation reserve and certain other adjustments. Calculations using the NAIC formula at December 31, 2006, indicate that the ratio of total adjusted capital to RBC for American Equity Life exceeded the highest level at which regulatory action might be initiated by approximately 3.5 times.

Our life subsidiaries also may be required, under the solvency or guaranty laws of most states in which they do business, to pay assessments up to certain prescribed limits to fund policyholder losses or liabilities of insolvent insurance companies. These assessments may be deferred or forgiven under most guaranty laws if they would threaten an insurer's financial strength and, in certain instances, may be offset against future premium taxes. Assessments related to business reinsured for periods prior to the effective date of the reinsurance are the responsibility of the ceding companies.

Federal Income Taxation

The annuity and life insurance products that we market generally provide the policyholder with a federal income tax advantage, as compared to certain other savings investments such as certificates of deposit and taxable bonds, in that federal income taxation on any increases in the contract values (i.e., the "inside build-up") of these products is deferred until it is received by the policyholder. With other savings investments, the increase in value is generally taxed each year as it is realized. Additionally, life insurance death benefits are generally exempt from income tax.

From time to time, various tax law changes have been proposed that could have an adverse effect on our business, including the elimination of all or a portion of the income tax advantage described above for annuities and life insurance. If legislation were enacted to eliminate the tax deferral for annuities, such a change would have an adverse effect on our ability to sell non-qualified annuities. Non-qualified annuities are annuities that are not sold to an individual retirement account or other qualified retirement plan.

In June 2001, the Economic Growth and Tax Relief Reconciliation Act of 2001 (the "2001 Act") was enacted. The 2001 Act implemented a staged decrease in individual tax rates that began in 2001 and was accelerated when the Jobs and Growth Tax Relief Reconciliation Act of 2003 (the "2003 Act") was enacted. While the decreases in rates are temporary (the pre-2001 rates will return in 2011), the present value of the tax deferred advantage of annuities and life insurance products is less, which might hinder our ability to sell such products and/or increase the rate at which our current policyholders surrender their policies.

Our life subsidiaries are taxed under the life insurance company provisions of the Internal Revenue Code of 1986, as amended (the "Code"). Provisions in the Code require a portion of the expenses incurred in selling insurance products to be capitalized and deducted over a period of years, as opposed to being immediately deducted in the year incurred. This provision increases the current income tax expense charged to gain from operations for statutory accounting purposes which reduces statutory net income and surplus and, accordingly, may decrease the amount of cash dividends that may be paid by our life subsidiaries.

Employees

As of December 31, 2006, we had approximately 280 full-time employees, of which approximately 270 are located in West Des Moines, Iowa, and 10 are located in the Pell City, Alabama office. We have experienced no work stoppages or strikes and consider our relations with our employees to be excellent. None of our employees are represented by a union.

ITEM 1A. RISK FACTORS

We face competition from companies that have greater financial resources, broader arrays of products, higher ratings and stronger financial performance, which may impair our ability to retain existing customers, attracts new customers and maintain our profitability and financial strength.

We operate in a highly competitive industry. Many of our competitors are substantially larger and enjoy substantially greater financial resources, higher ratings by rating agencies, broader and more diversified product lines and more widespread agency relationships. Our annuity products compete with index, fixed rate and variable annuities sold by other insurance companies and also with mutual fund products, traditional bank investments and other retirement funding alternatives offered by asset managers, banks and broker-dealers. Our insurance products compete with those of other insurance companies, financial intermediaries and other institutions based on a number of factors, including premium rates, policy terms and conditions, service provided to distribution channels and policyholders, ratings by rating agencies, reputation and commission structures. While we compete with numerous other companies, we view the following as our most significant competitors:

- Allianz Life Insurance Company of North America;
- Midland National Life Insurance Company;
- Aviva USA;
- Fidelity & Guaranty Life Insurance Company; and
- ING USA Annuity & Life Insurance Company.

Our ability to compete depends in part on rates of interest credited to policyholder account balances or the parameters governing the determination of index credits which is driven by our investment performance. We will not be able to accumulate and retain assets under management for our products if our investment results underperform the market or the competition, since such underperformance likely would result in asset withdrawals and reduced sales.

We compete for distribution sources for our products. We believe that our success in competing for distributors depends on factors such as our financial strength, the services we provide to, and the relationships we develop with, these distributors and offering competitive commission structures. Our distributors are generally free to sell products from whichever providers they wish, which makes it important for us to continually offer distributors products and services they find attractive. If our products or services fall short of distributors' needs, we may not be able to establish and maintain satisfactory relationships with distributors of our annuity and life insurance products. Our ability to compete in the past has also depended in part on our ability to develop innovative new products and bring them to market more quickly than our competitors. In order for us to compete in the future, we will need to continue to bring innovative products to market in a timely fashion. Otherwise, our revenues and profitability could suffer.

National banks, with pre-existing customer bases for financial services products, may increasingly compete with insurers, as a result of legislation removing restrictions on bank affiliations with insurers. This legislation, the Gramm-Leach-Bliley Act of 1999, permits mergers that combine commercial banks,

insurers and securities firms under one holding company. Until passage of the Gramm-Leach-Bliley Act, prior legislation had limited the ability of banks to engage in securities-related businesses and had restricted banks from being affiliated with insurance companies. The ability of banks to increase their securities-related business or to affiliate with insurance companies may materially and adversely affect sales of all of our products by substantially increasing the number and financial strength of our potential competitors.

General economic conditions, including changing interest rates and market volatility, affect both the risks and the returns on both our products and our investment portfolio.

The fair value of our investments and our investment performance, including yields and realization of gains or losses, may vary depending on economic and market conditions. Such conditions include the shape of the yield curve, the level of interest rates and recognized equity and bond indices, including, without limitation, the S&P 500 Index®, the Dow Jones Index℠ and the NASDAQ-100 Index® (the "Indices"). Interest rate risk is our primary market risk exposure. Substantial and sustained increases and decreases in market interest rates can materially and adversely affect the profitability of our products, our ability to earn predictable returns, the fair value of our investments and the reported value of stockholders' equity.

From time to time, for business or regulatory reasons, we may be required to sell certain of our investments at a time when their fair value is less than the carrying value of these securities. Rising interest rates may cause declines in the value of our fixed maturity securities. With respect to our available for sale fixed maturity securities, such declines (net of income taxes and certain adjustments for assumed changes in amortization of deferred policy acquisition costs and deferred sales inducements) reduce our reported stockholders' equity and book value per share. We have a portfolio of held for investment securities which consists principally of long duration bonds issued by U.S. government agencies, the value of which is also sensitive to interest rate changes.

We may also have difficulty selling our commercial mortgage loans because they are less liquid than our publicly traded securities. As of December 31, 2006, our commercial mortgage loans represented approximately 14.5% of the value of our invested assets. If we require significant amounts of cash on short notice, we may have difficulty selling these loans at attractive prices or in a timely manner, or both.

A key component of our net income is the investment spread. A narrowing of investment spreads may adversely affect operating results. Although we have the right to adjust interest crediting rates (referred to as "participation", "asset fee" or "cap" rates for index annuities) on most products, changes to crediting rates may not be sufficient to maintain targeted investment spreads in all economic and market environments. In general, our ability to lower crediting rates is subject to a minimum crediting rate filed with and approved by state regulators. In addition, competition and other factors, including the potential for increases in surrenders and withdrawals, may limit our ability to adjust or maintain crediting rates at levels necessary to avoid the narrowing of spreads under certain market condition. Our policy structure generally provides for resetting of policy crediting rates at least annually and imposes withdrawal penalties for withdrawals during the first 5 to 17 years a policy is in force.

Our spreads may be compressed in declining interest rate environments. A substantial portion of our fixed income securities have call features and are subject to redemption currently or in the near future. 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 or better than those of the redeemed bonds. As indicated above, we have a certain ability to mitigate this risk by lowering interest crediting rates subject to minimum crediting rates in the policy terms.

Managing the investment spread on our index annuities is more complex than it is for fixed rate annuity products. Index products are credited with a percentage (known as the "participation rate") of gains in the Indices. Some of our index products have an annual asset fee which is deducted from the

amount credited to the policy. In addition, caps are set on some products to limit the maximum amount which may be credited on a particular product. To fund the earnings to be credited to the index products, we purchase options on the Indices. The price of such options generally increases with increases in the volatility in the Indices and interest rates, which may either narrow the spread or cause us to lower participation rates or caps. Thus, the volatility of the Indices adds an additional degree of uncertainty to the profitability of the index products. We attempt to mitigate this risk by resetting participation rates, caps and asset fees annually on the policy anniversaries.

Our investment portfolio is also subject to credit quality risks which may diminish the value of our invested assets and affect our sales, profitability and reported book value per share.

We are subject to the risk that the issuers of our fixed maturity securities and other debt securities (other than our U.S. agency securities), and borrowers on our commercial mortgages, will default on principal and interest payments, particularly if a major downturn in economic activity occurs. At December 31, 2006, 82% of our invested assets consisted of fixed maturity securities, of which 1% were below investment grade. At December 31, 2006, there were no delinquencies in our commercial mortgage loan portfolio. An increase in defaults on our fixed maturity securities and commercial mortgage loan portfolios could harm our financial strength and reduce our profitability. We use derivative instruments to fund the annual credits on our index annuities. We purchase derivative instruments, consisting primarily of one-year call options, from a number of counterparties. Our policy is to acquire such options only from counterparties rated "A-" or better by a nationally recognized rating agency. If, however, our counterparties fail to honor their obligations under the derivative instruments, we will have failed to provide for crediting to policyholders related to the appreciation in the applicable indices. Any such failure could harm our financial strength and reduce our profitability.

Our reinsurance program involves risks because we remain liable with respect to the liabilities ceded to reinsurers if the reinsurers fail to meet the obligations assumed by them.

Our life insurance subsidiaries cede insurance to other insurance companies through reinsurance. In particular, American Equity Life has entered into two coinsurance agreements with EquiTrust, an affiliate of Farm Bureau covering 70% of certain of our fixed rate and index annuities issued from August 1, 2001 through December 31, 2001, 40% of those contracts for 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. At December 31, 2006, the aggregate policy benefit reserve transferred to EquiTrust was approximately $1.8 billion. EquiTrust has been assigned a financial strength rating of "A" by A.M. Best Company. We remain liable with respect to the policy liabilities ceded to EquiTrust should it fail to meet the obligations assumed by it. As of December 31, 2006, Farm Bureau beneficially owned approximately 5.4% of our common stock.

In addition, we have entered into other types of reinsurance transactions including indemnity and financial reinsurance. Should any of these reinsurers fail to meet the obligations assumed under such reinsurance, we remain liable with respect to the liabilities ceded.

We may experience volatility in net income due to accounting standards for derivatives.

Pursuant to Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"), as amended, all of our derivative instruments (including certain derivative instruments embedded in other contracts) are recognized in the balance sheet at their fair values and changes in fair value are recognized immediately in earnings. This impacts the items of revenue and expense we report for our index annuity business as follows:

- We must mark to market the purchased call options we use to fund the annual index credits on our index annuities based upon quoted market prices from related counterparties. We record the change in fair value of these options as a component of our revenues. Included within the change in fair value of the options is an element reflecting the time value of the options, which initially is their purchase cost declining to zero at the end of their one-year lives. The change in fair value of derivatives also includes proceeds received at expiration of the one-year option terms and gains or losses recognized upon early termination. For the years ended December 31, 2006, 2005 and 2004, the change in fair value of derivatives was $183.8 million, $(18.0) million and $28.7 million, respectively.
- Under SFAS 133, the future annual index credits on our index annuities are treated as a "series of embedded derivatives" over the expected life of the applicable contracts. We are required to estimate the fair value of policy liabilities for index annuities, including the embedded derivatives, by valuing the "host" (or guaranteed) component of the liabilities and projecting (i) the expected index credits on the next policy anniversary dates and (ii) the net cost of annual options we will purchase in the future to fund index credits. Our estimates of the fair value of these embedded derivatives are based on assumptions related to underlying policy terms (including annual participation rates, asset fees, cap rates and minimum guarantees), index values, notional amounts, strike prices and expected lives of the policies. The change in fair value of embedded derivatives generally increases with increases in volatility in the Indices and interest rates. The change in fair value of the embedded derivatives will not correspond to the change in fair value of the purchased options because the purchased options are one-year options while the options valued in the fair value of embedded derivatives cover the expected life of the contracts which typically exceed 10 years. The change in fair value of embedded derivatives related to our index annuities included in the consolidated statements of income was $166.3 million, $26.4 million and $(8.6) million for the years ended December 31, 2006, 2005 and 2004, respectively.
- We adjust the amortization of deferred policy acquisition costs and deferred sales inducements to reflect the impact of the items discussed above. Amortization of deferred policy acquisition costs and deferred sales inducements decreased by $9.6 million and $12.3 million for the years ended

December 31, 2006 and 2005, respectively, and increased by $6.4 million for the year ended December 31, 2004 as a result of the application of SFAS 133.

The application of SFAS 133 in future periods to our index annuity business may cause substantial volatility in our reported net income.

If we do not manage our growth effectively, our financial performance could be adversely affected; our historical growth rates may not be indicative of our future growth.

We have experienced rapid growth since our formation in December 1995. For the year ended December 31, 2006, our deposits from sales of new annuities were $1.9 billion. Our work force has grown from approximately 65 employees and 4,000 independent agents as of December 31, 1997 to approximately 280 employees and 52,000 independent agents as of December 31, 2006. We intend to continue to grow by recruiting new independent agents, increasing the productivity of our existing agents, expanding our insurance distribution network, developing new products, expanding into new product lines, and

continuing to develop new incentives for our sales agents. Future growth will impose significant added responsibilities on our management, including the need to identify, recruit, maintain and integrate additional employees, including management. There can be no assurance that we will be successful in expanding our business or that our systems, procedures and controls will be adequate to support our operations as they expand. In addition, due to our rapid growth and resulting increased size, it may be necessary to expand the scope of our investing activities to asset classes in which we historically have not invested or have not had significant exposure. If we are unable to adequately manage our investments in these classes, our financial condition or operating results in the future could be less favorable than in the past. Further, although recently deemphasized, we have utilized reinsurance in the past to support our growth. The future availability and cost of reinsurance is uncertain. Our failure to manage growth effectively, or our inability to recruit, maintain and integrate additional qualified employees and independent agents, could have a material adverse effect on our business, financial condition or results of operations. In addition, due to our rapid growth, our historical growth rates are not likely to accurately reflect our future growth rates or our growth potential. We cannot assure you that our future revenues will increase or that we will continue to be profitable.

We must retain and attract key employees or else we may not grow or be successful.

We are dependent upon our executive management for the operation and development of our business. Our executive management team includes:

- David J. Noble, Chairman, Chief Executive Officer, President and Treasurer;
- John M. Matovina, Vice Chairman;
- Kevin R. Wingert, President of American Equity Life;
- James R. Gerlach, Executive Vice President;
- Terry A. Reimer, Executive Vice President;
- Debra J. Richardson, Senior Vice President; and
- Wendy L. Carlson, General Counsel and Chief Financial Officer.

Although we have change in control agreements with members of our executive management team, we do not have employment contracts with any of the members of our executive management team. Although none of our executive management team has indicated that they intend to terminate their employment with us, there can be no assurance that these employees will remain with us for any particular period of time. Also, we do not maintain “key person” life insurance for any of our personnel.

If we are unable to attract and retain national marketing organizations and independent agents, sales of our products may be reduced.

We distribute our annuity products through a variable cost distribution network which included over 70 national marketing organizations and approximately 52,000 independent agents as of December 31, 2006. We must attract and retain such marketers and agents to sell our products. Insurance companies compete vigorously for productive agents. We compete with other life insurance companies for marketers and agents primarily on the basis of our financial position, support services, compensation and product features. Such marketers and agents may promote products offered by other life insurance companies that may offer a larger variety of products than we do. Our competitiveness for such marketers and agents also depends upon the long-term relationships we develop with them. If we are unable to attract and retain sufficient marketers and agents to sell our products, our ability to compete and our revenues would suffer.

We may require additional capital to support sustained future growth which may not be available when needed or may be available only on unfavorable terms.

Our long-term strategic capital requirements will depend on many factors including the accumulated statutory earnings of our life insurance subsidiaries and the relationship between the statutory capital and surplus of our life insurance subsidiaries and (i) the rate of growth in sales of our products; and (ii) the levels of credit risk and/or interest rate risk in our invested assets. To support long-term capital requirements, we may need to increase or maintain the statutory capital and surplus of our life insurance subsidiaries through additional financings, which could include debt, equity, financial reinsurance and/or other surplus relief transactions. Such financings, if available at all, may be available only on terms that are not favorable to us. If we cannot maintain adequate capital, we may be required to limit growth in sales of new annuity products, and such action could adversely affect our business, financial condition or results of operations.

Changes in state and federal regulation may affect our profitability.

We are subject to regulation under applicable insurance statutes, including insurance holding company statutes, in the various states in which our life insurance subsidiaries write insurance. Our life insurance subsidiaries are domiciled in New York and Iowa. We are currently licensed to sell our products in 50 states and the District of Columbia. Insurance regulation is intended to provide safeguards for policyholders rather than to protect shareholders of insurance companies or their holding companies.

Regulators oversee matters relating to trade practices, policy forms, claims practices, guaranty funds, types and amounts of investments, reserve adequacy, insurer solvency, minimum amounts of capital and surplus, transactions with related parties, changes in control and payment of dividends.

State insurance regulators and the NAIC continually reexamine existing laws and regulations, and may impose changes in the future.

Our life insurance subsidiaries are subject to the NAIC's RBC requirements which are intended to be used by insurance regulators as an early warning tool to identify deteriorating or weakly capitalized insurance companies for the purpose of initiating regulatory action. Our life insurance subsidiaries also may be required, under solvency or guaranty laws of most states in which they do business, to pay assessments up to certain prescribed limits to fund policyholder losses or liabilities or insolvent insurance companies.

Although the federal government does not directly regulate the insurance business, federal legislation and administrative policies in several areas, including pension regulation, age and sex discrimination, financial services regulation, securities regulation and federal taxation, can significantly affect the insurance business. As increased scrutiny has been placed upon the insurance regulatory framework, a number of state legislatures have considered or enacted legislative proposals that alter, and in many cases increase, state authority to regulate insurance companies and holding company systems. In addition, legislation has been introduced in Congress which could result in the federal government assuming some role in the regulation of the insurance industry. The regulatory framework at the state and federal level applicable to our insurance products is evolving. The changing regulatory framework could affect the design of such products and our ability to sell certain products. Any changes in these laws and regulations could materially and adversely affect our business, financial condition or results of operations.

Recently, suits have been brought against, and guilty pleas accepted from, participants in the insurance industry alleging certain illegal actions by these participants. Although we do not do business with the parties to the suits or those pleading guilty, are not involved in the suits at all and do not believe that our business practices are of the same nature as those the suits allege to have occurred, we cannot be

certain of what ultimate effect the suits, as well as any increased regulatory oversight that might result from the suits, might have on the insurance industry as a whole, and thus on our business.

Changes in federal income taxation laws, including recent reduction in individual income tax rates, may affect sales of our products and profitability.

The annuity and life insurance products that we market generally provide the policyholder with certain federal income tax advantages. For example, federal income taxation on any increases in the contract values (i.e. the "inside build-up") of these products is deferred until it is received by the policyholder. With other savings investments, such as certificates of deposit and taxable bonds, the increase in value is generally taxed each year as it is realized. Additionally, life insurance death benefits are generally exempt from income tax.

From time to time, various tax law changes have been proposed that could have an adverse effect on our business, including the elimination of all or a portion of the income tax advantages described above for annuities and life insurance. If legislation were enacted to eliminate the tax deferral for annuities, such a change would have an adverse effect on our ability to sell non-qualified annuities. Non-qualified annuities are annuities that are not sold to a qualified retirement plan.

The 2001 Act implemented a staged reduction in individual federal income tax rates that began in 2001. The enactment of the Jobs and Growth Tax Relief Reconciliation Act of 2003 accelerated such rate reductions. While the reduction in income tax rates is temporary (pre-2001 rates will return in 2011), the present value of the tax deferred advantage of annuities and life insurance products is less, which might hinder our ability to sell such products and/or increase the rate at which our current policyholders surrender their policies.

We face risks relating to litigation, including the costs of such litigation, management distraction and the potential for damage awards, which may adversely impact our business.

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, the National Association of Securities Dealers, Inc., 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. 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 several purported class action lawsuits filed in state and federal courts alleging, among other things, improper sales practices. In these lawsuits, the plaintiffs are seeking, among other things, returns of premiums and other compensatory and punitive damages. We have reached a final settlement in one of these cases, which was immaterial. No class has been certified in any of the other pending cases at this time. Although we have denied all allegations in the lawsuits and intend to vigorously defend them, the lawsuits are in the early stages of litigation and neither the outcomes nor a range of possible outcomes can be determined at this time. Although we do not believe that these lawsuits will have a material adverse effect on our business, financial condition or results of operations, there can be no assurance that such litigation, or any future litigation, will not have such an effect, whether financially, through distraction of our management or otherwise.

A downgrade in our credit or financial strength ratings may increase our future cost of capital and may reduce new sales, adversely affect relationships with distributors and increase policy surrenders and withdrawals.

Currently, our senior unsecured indebtedness carries a "bbb-" rating from A.M. Best Company and a "BB+" rating from Standard & Poor's. Our ability to maintain such ratings is dependent upon the results of operations of our subsidiaries and our financial strength. If we fail to preserve the strength of our balance sheet and to maintain a capital structure that rating agencies deem suitable, it could result in a downgrading of the ratings applicable to our senior unsecured indebtedness. A downgrading would likely reduce the fair value of the common stock and may increase our future cost of capital.

Financial strength ratings are important factors in establishing the competitive position of life insurance and annuity companies. In recent years, the market for annuities has been dominated by those insurers with the highest ratings. A ratings downgrade, or the potential for a ratings downgrade, could have a number of adverse effects on our business. For example, distributors and sales agents for life insurance and annuity products use the ratings as one factor in determining which insurer's annuities to market. A ratings downgrade could cause those distributors and agents to seek alternative carriers. In addition, a ratings downgrade could materially increase the number of policy or contract surrenders we experience.

Financial strength ratings generally involve quantitative and qualitative evaluations by rating agencies of a company's financial condition and operating performance. Generally, rating agencies base their ratings upon information furnished to them by the insurer and upon their own investigations, studies and assumptions. Ratings are based upon factors of concern to agents, policyholders and intermediaries and are not directed toward the protection of investors and are not recommendations to buy, sell or hold securities.

American Equity Life has received financial strength ratings of "A-" (Excellent) with a stable outlook from A.M. Best Company and "BBB+" with a stable outlook from Standard & Poor's. A.M. Best Company ratings currently range from "A++" (Superior) to "F" (In Liquidation), and include 16 separate ratings categories. Within these categories, "A++" (Superior) and "A+" (Superior) are the highest, followed by "A" (Excellent), "A-" (Excellent), "B++"(Very Good) and "B+"(Very Good). Publications of A.M. Best Company indicate that the "A-" rating is assigned to those companies that, in A.M. Best Company's opinion, have demonstrated an excellent ability to meet their ongoing obligations to policyholders. Standard & Poor's insurer financial strength ratings currently range from "AAA" to "NR", and include 21 separate ratings categories. Within these categories, "AAA" and "AA" are the highest, followed by "A" and "BBB". Publications of Standard & Poor's indicate that an insurer rated "BBB" or higher is regarded as having strong financial security characteristics, but is somewhat more likely to be affected by adverse business conditions than are higher rated insurers.

A.M. Best Company and Standard & Poor's review their ratings of insurance companies from time to time. There can be no assurance that any particular rating will continue for any given period of time or that it will not be changed or withdrawn entirely if, in their judgment, circumstances so warrant. If our ratings were to be downgraded for any reason, we could experience a material decline in the sales of our products and the persistency of our existing business.

Our system of internal control ensures the accuracy or completeness of our disclosures and a loss of public confidence in the quality of our internal controls or disclosures could have a negative impact on us.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to provide an annual report on our internal control over financial reporting, including an assessment as to whether or not our internal control over financial reporting is effective. We are also required to have our auditors attest to our assessment and to opine on the effectiveness of our internal control over financial reporting. We have in the past discovered, and may in the future discover areas of our internal control that need remediation. If we determine that our remediation has been ineffective, or we identify additional material weaknesses in our internal control over financial reporting, we could be subjected to additional regulatory scrutiny, future delays in filing our financial statements and a loss of public confidence in the reliability of our financial statements, which could have a negative impact on our liquidity, access to capital markets, and financial condition.

In addition, we do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. The design of a control system must reflect the fact

that there are resource constraints, and the benefits of controls must be considered relative to their costs. Based on the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been or will be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events. Therefore, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Also, while we document our assumptions and review financial disclosures with the audit committee of our board of directors, the regulations and literature governing our disclosures are complex and reasonable persons may disagree as to their application to a particular situation or set of circumstances.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease approximately 60,000 square feet for our principal offices in West Des Moines, Iowa, under an operating lease that expires in 2011. We also lease approximately 6,000 square feet for our office in Pell City, Alabama, pursuant to an operating lease that expires on December 31, 2007.

ITEM 3. LEGAL PROCEEDINGS

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, the NASD, 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.

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 several purported class action lawsuits alleging improper sales practices. In these lawsuits, the plaintiffs are seeking returns of premiums and other compensatory and punitive damages. We have reached a settlement in one of these cases. The impact of the settlement was immaterial. No class has been certified in any of the other pending cases at this time. Although we have denied all allegations in these lawsuits and intend to vigorously defend against them, the lawsuits are in the early stages of litigation and neither their outcomes nor a range of possible outcomes can be determined at this time. However, we do not believe that these lawsuits will have a material adverse effect on our business, financial condition or results of operations.

In addition, we are from time to time, subject to other legal proceedings and claims in the ordinary course of business, none of which we believe are likely to have a material adverse effect on our financial position, results of operations or cash flows. There can be no assurance that such litigation, or any future litigation, will not have a material adverse effect on our business, financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol AEL. The following table sets forth the high and low prices of our common stock as quoted on the NYSE.

2006	High	Low
First Quarter	$14.34	$12.76
Second Quarter	$14.60	$10.66
Third Quarter	$12.55	$10.07
Fourth Quarter	$13.44	$11.90
2005		
First Quarter	$12.92	$10.14
Second Quarter	$12.79	$10.08
Third Quarter	$11.96	$10.41
Fourth Quarter	$13.06	$10.83

As of December 31, 2006, there were approximately 13,600 holders of our common stock. In 2006 and 2005, we paid an annual cash dividend of $0.05 and $0.04, respectively, per share on our common stock. We intend to continue to pay an annual cash dividend on such shares so long as we have sufficient capital and/or future earnings to do so. However, we anticipate retaining most of our future earnings, if any, for use in our operations and the expansion of our business. Any further determination as to dividend policy will be made by our board of directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition and future prospects and such other factors as our board of directors may deem relevant.

Since we are a holding company, our ability to pay cash dividends depends in large measure on our subsidiaries' ability to make distributions of cash or property to us. Iowa insurance laws restrict the amount of distributions American Equity Life can pay to us without the approval of the Iowa Insurance Division. See Management's Discussion and Analysis of Financial Condition and Results of Operations and note 11 to our audited consolidated financial statements.

On December 20, 2005, we completed an additional offering of 13,000,000 shares of our common stock at a price of $11.60 per share. The managing underwriters for the offering were Raymond James & Associates, Inc., Friedman, Billings, Ramsey & Co., Inc., SunTrust Robinson Humphrey, Cochran, Caronia Securities, LLC and Oppenheimer & Co., Inc. Pursuant to the over-allotment option granted to the underwriters in the offering, the underwriters purchased an additional 1,950,000 shares on December 30, 2005. The aggregate gross proceeds to us from this additional offering were approximately $173.4 million. The aggregate net proceeds to us from the offering were approximately $163.5 million after deducting $9.1 million in discounts and commissions paid to the underwriters and $0.8 million in other expenses incurred in connection with the offering. The net proceeds were contributed to American Equity Life to fund future growth of its annuity business.

There were no sales of unregistered equity securities during 2006.

Issuer Purchases of Equity Securities

The following table sets forth issuer purchases of equity securities for the year ended December 31, 2006.

Period	(a) Total Number of Shares (or Units) Purchased(1)	(b) Average Price Paid per Share (or Unit)(1)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1, 2006 through January 31, 2006	20,000	$ 13.14	20,000	1,441,683
February 1, 2006 through February 28, 2006	—	—	—	1,441,683
March 1, 2006 through March 31, 2006	114,000	14.00	114,000	1,327,683
April 1, 2006 through April 30, 2006	—		—	1,327,683
May 1, 2006 through May 31, 2006	—		—	1,327,683
June 1, 2006 through June 30, 2006	—		—	1,327,683
July 1, 2006 through July 31, 2006	—		—	1,327,683
August 1, 2006 through August 31, 2006	533,125	11.46	533,125	794,558
September 1, 2006 through September 30, 2006	318,547	12.35	318,547	490,011
October 1, 2006 through October 31, 2006	—	—	—	490,011

November 1, 2006 through November 30, 2006	36,750	12.97	36,750	453,261
December 1, 2006 through December 31, 2006	39,143	12.88	39,143	639,566
Total	1,061,565	$ 12.14	1,061,565	

(1) Activity in this table represents the following items:

Our 1996 Stock Option Plan, 2000 Employee Stock Option Plan and 2000 Directors Stock Option Plan provide for the grant of stock options to officers, directors and employees. Under the plans, the purchase price for any shares purchased pursuant to the exercise of an option shall be paid in full upon such exercise in cash or by transferring common shares of the Company to the Company.

We have a Rabbi Trust, the NMO Deferred Compensation Trust, which purchases our common shares to fund the amount of shares earned by our agents under the NMO Deferred Compensation Plan.

Securities Authorized for Issuance under Equity Compensation Plans

Information regarding securities authorized for issuance under equity compensation plans is hereby incorporated by reference from our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after December 31, 2006.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The summary consolidated financial and other data should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes appearing elsewhere in this report. The results for past periods are not necessarily indicative of results that may be expected for future periods.

	Year ended December 31,				
	2006	2005	2004	2003	2002
	(Dollars in thousands, except per share data)				
Consolidated Statements of Income Data:					
Revenues					
Traditional life and accident and health insurance premiums	$ 13,622	$ 13,578	$ 15,115	$ 13,686	$ 13,664
Annuity and single premium universal life product charges	39,472	25,686	22,462	20,452	15,376
Net investment income	677,638	554,118	428,385	357,295	308,548
Realized gains (losses) on investments	1,345	(7,635)	943	6,946	(122)
Change in fair value of derivatives	183,783	(18,029)	28,696	52,525	(57,753)
Total revenues	915,860	567,718	495,601	450,904	279,713
Benefits and expenses					
Insurance policy benefits and change in future policy benefits	8,808	8,504	10,151	11,824	9,317
Interest credited to account balances	429,062	311,479	309,034	248,075	183,503
Change in fair value of embedded derivatives	151,057	31,087	(8,567)	66,801	(5,027)
Interest expense on amounts due to related party under General AgencyCommission and Servicing Agreement(a)	—	—	—	—	3,596
Interest expense on notes payable	20,382	16,324	2,358	2,713	1,901
Interest expense on subordinated debentures(a)	21,354	14,145	9,609	7,661	—
Interest expense on amounts due under repurchase agreements and otherinterest expense	32,931	11,280	3,148	1,278	1,777
Amortization of deferred policy acquisition costs	94,923	68,109	67,867	47,450	34,060
Other operating costs and expenses	40,418	35,896	32,520	25,794	21,635
Total benefits and expenses	798,935	496,824	426,120	411,596	250,762
Income before income taxes and minority interests	116,925	70,894	69,481	39,308	28,951
Income tax expense(a)	41,440	25,402	40,611	13,505	7,299
Income before minority interests	75,485	45,492	28,870	25,803	21,652
Minority interests in subsidiaries:					
Minority interest(a)	—	2,500	(453)	363	—
Earnings attributable to company-obligated mandatorilyredeemable preferred securities of subsidiary trusts(a)	—	—	—	—	7,445
Net income	$ 75,485	$ 42,992	$ 29,323	$ 25,440	$ 14,207
Per Share Data:					
Earnings per common share	$ 1.34	$ 1.09	$ 0.77	$ 1.45	$ 0.87
Earnings per common share—assuming dilution	$ 1.27	$ 0.99	$ 0.71	$ 1.21	$ 0.76
Dividends declared per common share	$ 0.05	$ 0.04	$ 0.02	$ 0.01	$ 0.01

At December 31,				
2006	2005	2004	2003	2002

	(Dollars in thousands, except per share data)				
Consolidated Balance Sheet Data:					
Total assets	$ 14,990,123	$ 14,042,794	$ 11,087,288	$ 8,962,841	$ 7,327,789
Policy benefit reserves	13,207,931	12,237,988	9,807,969	8,315,874	6,737,888
Amounts due to related party under General Agency Commissionand Servicing Agreement(a)	—	—	—	—	40,345
Notes payable(a)	266,383	281,043	283,375	46,115	43,333
Subordinated debentures(a)	268,489	230,658	173,576	116,425	—
Company-obligated mandatorily redeemable preferredsecurities issued by subsidiary trusts(a)	—	—	—	—	100,486
Total stockholders' equity	595,066	519,358	305,543	263,716	77,478

	At and for the Year Ended December 31,				
	2006	2005	2004	2003	2002
	(Dollars in thousands, except per share data)				
Other Data:					
Book value per share(b)	$ 10.60	$ 9.35	$ 7.97	$ 7.19	$ 4.67
Return on equity(c)	13.6%	12.8%	10.3%	28.3%	23.7%
Number of agents	52,001	51,744	45,940	42,239	41,396
Life subsidiaries' statutory capital and surplus	992,478	686,841	608,930	374,587	227,199
Life subsidiaries' statutory net gain from operations before incometaxes and realized capital gains (losses)	95,217	112,498	93,640	45,822	53,535
Life subsidiaries' statutory net income	89,875	40,534	47,711	25,404	26,010

(a) On December 31, 2003, retroactive to January 1, 2003, we adopted Financial Accounting Standards Board Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* ("FIN 46"). During the first quarter of 2005, retroactive to January 1, 2003, we adopted FASB Staff Position No. FIN 46(R)-5, *Implicit Variable Interests under FIN 46.* See note 1 to our audited consolidated financial statements.

(b) Book value per share is calculated as total stockholders' equity less the liquidation preference of our series preferred stock divided by the total number of shares of common stock outstanding. Shares outstanding include shares held by rabbi trusts—see note 10 to our audited consolidated financial statements.

(c) We define return on equity as net income divided by average total stockholders' equity. Average total stockholders' equity is determined based upon the total stockholders' equity at the beginning and the end of the year. The computations of average stockholders' equity for 2005 and 2003 have been calculated on a weighted average basis to recognize the significant increases in stockholders' equity that resulted from the receipt of the net proceeds from our public offerings of common stock in December 2005 and 2003.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis reviews our consolidated financial position at December 31, 2006 and 2005, and our consolidated results of operations for the three years in the period ended December 31, 2006, and where appropriate, factors that may affect future financial performance. This discussion should be read in conjunction with our audited consolidated financial statements, notes thereto and selected consolidated financial data appearing elsewhere in this report.

Cautionary Statement Regarding Forward-Looking Information

All statements, trend analyses and other information contained in this report and elsewhere (such as in filings by us with the Securities and Exchange Commission, press releases, presentations by us or our management or oral statements) relative to markets for our products and trends in our operations or financial results, as well as other statements including words such as "anticipate", "believe", "plan", "estimate", "expect", "intend", and other similar expressions, constitute forward-looking statements. We caution that these statements may and often do vary from actual results and the differences between these statements and actual results can be material. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. Factors that could contribute to these differences include, among other things:

- general economic conditions and other factors, including prevailing interest rate levels and stock and credit market performance which may affect (among other things) our ability to sell our products, our ability to access capital resources and the costs associated therewith, the fair value of our investments and the lapse rate and profitability of our policies;
- customer response to new products and marketing initiatives;
- changes in the Federal income tax laws and regulations which may affect the relative income tax advantages of our products;
- increasing competition in the sale of annuities;
- regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) bank sales and underwriting of insurance products and regulation of the sale, underwriting and pricing of products; and
- the risk factors or uncertainties listed from time to time in our private placement memorandums or filings with the SEC.

Overview

We specialize in the sale of individual annuities (primarily deferred annuities) and, to a lesser extent, we also sell life insurance policies. Under GAAP, premium collections for deferred annuities are reported as deposit liabilities instead of as revenues. Similarly, cash payments to policyholders are reported as decreases in the liabilities for policyholder account balances and not as expenses. Sources of revenues for products accounted for as deposit liabilities are net investment income, surrender charges deducted from the account balances of policyholders in connection with withdrawals, realized gains and losses on investments and changes in fair value of derivatives. Components of expenses for products accounted for as deposit liabilities are interest credited to account balances, changes in fair value of embedded derivatives, amortization of deferred policy acquisition costs and deferred sales inducements, other operating costs and expenses and income taxes.

Earnings from products accounted for as deposit liabilities are primarily generated from the excess of net investment income earned over the interest credited to the policyholder, or the "investment spread". In

the case of index annuities, the investment spread consists of net investment income in excess of the cost of the options purchased to fund the index-based component of the policyholder's return and amounts credited as a result of minimum guarantees.

Our investment spread is summarized as follows:

	Year Ended December 31,		
	2006	2005	2004
Average yield on invested assets	6.14%	6.18%	6.28%
Cost of money:			
Aggregate	3.41%	3.70%	3.90%
Average net cost of money for index annuities	3.28%	3.38%	3.37%
Average crediting rate for fixed rate annuities:			
Annually adjustable	3.25%	3.32%	3.47%
Multi-year rate guaranteed	4.81%	5.56%	5.57%
Investment spread:			
Aggregate	2.73%	2.48%	2.38%
Index annuities	2.86%	2.80%	2.91%
Fixed rate annuities:			
Annually adjustable	2.89%	2.86%	2.81%
Multi-year rate guaranteed	1.33%	0.62%	0.71%

The cost of money and average crediting rates are computed based upon policyholder account balances and do not include the impact of amortization of deferred sales inducements. See Critical Accounting Policies—Deferred Policy Acquisition Costs and Deferred Sales Inducements. With respect to our index annuities, the cost of money includes the average crediting rate on amounts allocated to the fixed rate options, expenses we incur to fund the annual index credits and where applicable, minimum guaranteed interest credited. Proceeds received upon expiration or early termination of call options purchased to fund annual index credits are recorded as part of the change in fair value of derivatives, and are largely offset by an expense for interest credited to annuity policyholder account balances. See Critical Accounting Policies—Derivative Instruments—Index Products.

Our profitability depends in large part upon the amount of assets under our management, investment spreads we earn on our policyholder account balances, our ability to manage our investment portfolio to maximize returns and minimize risks such as interest rate changes, defaults or impairment of assets, our ability to manage costs of the options purchased to fund the annual index credits on our index annuities, our ability to manage the costs of acquiring new business (principally commissions to agents and first year bonuses credited to policyholders) and our ability to manage our operating expenses.

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 four 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 non-redeemable preferred stocks) classified as available for sale are reported at estimated fair value. Unrealized gains and losses, if any, on these securities are

included directly as 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 for securities that are actively traded are determined using quoted market prices. For fixed maturity securities that are not actively traded, fair values are estimated using price matrices developed using yield data and other factors relating to instruments or securities with similar characteristics. The carrying amounts of all our investments are reviewed on an ongoing basis for changes in market interest rates and credit deterioration. If this review indicates a decline in fair value that is other than temporary, our carrying amount in the investment is reduced to its fair value and a specific write down is taken. Such reductions in carrying amount are recognized as realized losses and charged to earnings.

Our periodic assessment of our ability to recover the amortized cost basis of investments that have materially lower quoted market prices requires a high degree of management judgment and involves uncertainty. Factors considered in evaluating whether a decline in value is other than temporary include:

- the length of time and the extent to which the fair value has been less than cost;
- the financial condition and near-term prospects of the issuer;
- whether the investment is rated investment grade;
- whether the issuer is current on all payments and all contractual payments have been made as agreed;
- our intent and ability to retain the investment for a period of time sufficient to allow for recovery;
- consideration of rating agency actions; and

· changes in cash flows of asset-backed and mortgage-backed securities.

In addition, where our intent was to retain the investment to allow for recovery, but our intent changes, 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.

At December 31, 2006 and 2005, the amortized cost and estimated fair value of fixed maturity securities and equity securities that were in an unrealized loss position were as follows:

	Number of Positions	Amortized Cost	Unrealized Losses	Estimated Fair Value
		(Dollars in thousands)		
December 31, 2006				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	2	$ 939	$ (38)	$ 901
United States Government sponsored agencies	73	2,997,612	(83,986)	2,913,626
Public utilities	15	84,300	(3,486)	80,814
Corporate securities	69	465,770	(17,354)	448,416
Redeemable preferred stocks	10	48,534	(1,623)	46,911
Mortgage and asset-backed securities:				
United States Government and agencies	8	64,968	(1,317)	63,651
Non-government	23	361,324	(17,191)	344,133
	200	$ 4,023,447	$ (124,995)	$ 3,898,452
Held for investment:				
United States Government sponsored agencies	88	$ 5,025,501	$ (256,912)	$ 4,768,589
	88	$ 5,025,501	$ (256,912)	$ 4,768,589
Equity securities, available for sale:				
Non-redeemable preferred stocks	4	$ 21,316	$ (407)	$ 20,909
Common stocks	2	3,210	(219)	2,991
	6	$ 24,526	$ (626)	$ 23,900
December 31, 2005				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	2	$ 902	$ (24)	$ 878
United States Government sponsored agencies	70	2,822,317	(67,471)	2,754,846
Public utilities	15	84,690	(1,306)	83,384
Corporate securities	54	374,502	(12,596)	361,906
Redeemable preferred stocks	10	35,013	(2,076)	32,937
Mortgage and asset-backed securities:				
United States Government and agencies	7	47,053	(160)	46,893
Non-government	25	280,226	(12,933)	267,293
	183	$ 3,644,703	$ (96,566)	$ 3,548,137
Held for investment:				
United States Government sponsored agencies	81	$ 4,541,914	$ (113,290)	$ 4,428,624
	81	$ 4,541,914	$ (113,290)	$ 4,428,624
Equity securities, available for sale:				
Non-redeemable preferred stocks	12	$ 44,665	$ (2,075)	$ 42,590
Common stocks	5	8,816	(1,534)	7,282
	17	$ 53,481	$ (3,609)	$ 49,872

The amortized cost and estimated fair value of fixed maturity securities at December 31, 2006 and 2005, by contractual maturity, that were in an unrealized loss position are shown below. Actual maturities

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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 mortgage-backed 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	Estimated Fair Value	Amortized Cost	Estimated Fair Value
		(Dollars in thousands)		
December 31, 2006				
Due after one year through five years	$ 56,075	$ 55,348	$ —	$ —
Due after five years through ten years	371,683	355,800	—	—

Due after ten years through twenty years	2,048,092	1,996,703	348,413	342,104
Due after twenty years	1,121,305	1,082,817	4,677,088	4,426,485
	3,597,155	3,490,668	5,025,501	4,768,589
Mortgage-backed and asset-backed securities	426,292	407,784	—	—
	$ 4,023,447	$ 3,898,452	$ 5,025,501	$ 4,768,589
December 31, 2005				
Due after one year through five years	$ 31,264	$ 29,906	$ —	$ —
Due after five years through ten years	367,098	351,739	—	—
Due after ten years through twenty years	1,821,658	1,783,303	347,612	343,806
Due after twenty years	1,097,404	1,069,003	4,194,302	4,084,818
	3,317,424	3,233,951	4,541,914	4,428,624
Mortgage-backed and asset-backed securities	327,279	314,186	—	—
	$ 3,644,703	$ 3,548,137	$ 4,541,914	$ 4,428,624

The increase in unrealized losses at December 31, 2006 compared to December 31, 2005 is primarily due to the impact of increases in market interest rates in 2006. Because we have the ability and intent to hold these investments until a recovery of amortized cost, which may be maturity, we do not consider these investments to be other than temporarily impaired at December 31, 2006.

See Financial Condition—Investments for significant concentrations in the investment portfolio.

At December 31, 2006 and 2005, the fair value of investments we owned that were non-investment grade was $105.5 million and $115.2 million, respectively. Non-investment grade securities represented 1.0% and 0.9% at December 31, 2006 and 2005, respectively, of the fair value of our fixed maturity securities. The net unrealized losses on investments we owned that were non-investment grade at December 31, 2006 and 2005 were $5.0 million and $5.8 million, respectively. The unrealized losses on such securities at December 31, 2006 and 2005 represented 1.3% and 2.8%, respectively, of gross unrealized losses on fixed maturity securities.

At each balance sheet date, we identify invested assets which have characteristics (i.e. significant unrealized losses compared to book value and industry trends) creating uncertainty as to our future assessment of an other than temporary impairment. We include these securities 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 have the ability and intent to hold these securities to maturity or until a market recovery is realized. There were no securities on our watch list at December 31, 2006.

We took write downs on certain investments that we concluded had an other than temporary impairment during 2006, 2005 and 2004 of $1.3 million, $9.5 million and $12.8 million, respectively. We also realized losses on the sale of certain investments during 2006, 2005 and 2004 of $3.2 million, $3.6 million and $0.2 million, respectively. The following is a discussion of each security for which we have

taken write downs or sold at a material loss during the years ended December 31, 2006, 2005 and 2004. The discussion excludes securities sold at a loss which were deemed immaterial. There were no material losses on sales of securities during 2004.

During 2006, we wrote down two securities in the automotive industry by $1.3 million due to deterioration in the issuer's operations and several downgrades of the issuer's credit rating. These securities were sold in 2006 subsequent to the write down at approximately their cost basis. During 2005, we wrote down the common stock of this issuer by $0.6 million based upon our assessment that this security would remain in an unrealized loss position for a significant period of time. We sold this security in 2006 at its cost basis.

During 2006, we sold two asset-backed securities backed by leases on airplanes concurrent with our decision to write down these securities due to continuing problems in the airline industry and deterioration of the underlying collateral which resulted in decreases in the amount of expected principal and interest payments. The write down/realized loss on these securities was $2.5 million for the year ended December 31, 2006. We had previously written down these securities by $7.8 million during 2001–2003 and $2.7 million during 2005 due to deterioration in the underlying collateral.

During 2005, a security backed by the senior notes of a media company declined in value following an announcement of a change in future business strategy and the potential for share buybacks. We wrote this security down by $0.4 million during 2005 and sold it during 2006, at its cost basis.

During 2005, we wrote down an asset-backed security of a major U.S. airline by $5.8 million due to the uncertainty of recovery of all future principal and interest payments subsequent to the airline's bankruptcy filing. We sold this security in 2006 at a value in excess of its amortized cost.

During 2005, we sold two asset-backed securities backed by installment sales contracts secured by manufactured homes and liens on real estate concurrent with our decision to write down these securities due to continuing increases in the default rates and deterioration of the underlying collateral. The write down/realized loss on these securities was $2.7 million for the year ended December 31, 2005. We had previously written down these securities by $6.9 million during 2003 and $11.3 million during 2004 due to increases in default rates, deterioration of the underlying collateral and credit rating downgrades.

During 2004, we wrote down an asset-backed security backed by cash flows from a specified pool of financial assets by $1.5 million due to deterioration of the underlying collateral and a downgrade of the issuer's credit rating to below investment grade. This security was sold in 2004 subsequent to the write down.

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. For each of the securities discussed above that were sold at a loss, there was an unexpected event resulting in a decline in credit quality which occurred shortly before the sale. This led to the decision to sell the securities at a loss concurrent with the decision that an additional impairment charge was required. Accordingly, in all cases, this did not contradict our previous assertion that we had the ability and intent to hold the securities until recovery in value.

Our mortgage loans on real estate are reported at cost, adjusted for amortization of premiums and accrual of discounts. If we determine that the value of any 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. 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. There were no valuation allowances at December 31, 2006 and 2005. Interest income on impaired loans is recorded on a cash basis.

Derivative Instruments—Index Products

We offer a variety of index annuities with crediting strategies linked to several market indices, including the S&P 500, the Dow Jones Industrial Average, NASDAQ 100, the Lehman Aggregate Bond Index and the Lehman U.S. Treasury Bond Index. These products allow policyholders to earn returns linked to equity or bond index appreciation without the risk of loss of their principal. Most of these products allow policyholders to transfer funds once a year among several different crediting strategies, including one or more of the index based strategies and a traditional fixed rate strategy. Substantially all of our index products require annual crediting of interest and an annual reset of the applicable index on the contract anniversary date. The computation of the annual index credit is based upon either a one year annual point-to-point calculation (i.e., the gain in the applicable index from one anniversary date to the next anniversary date), a monthly averaging of the index during the contract year, or a one year monthly point-to-point calculation (the net gain determined by adding the twelve monthly gains and losses in the applicable index within the one year period from one anniversary date to the next anniversary date).

The annuity contract value is equal to the premiums paid plus annual index credits based upon a percentage, known as the “participation rate”, of the annual appreciation (based in some instances on monthly averages or monthly point-to-point calculations) in the recognized index or benchmark. The participation rate, which we may reset annually, generally varies among the index products from 50% to 100%. Some products apply an overall limit, or “cap”, ranging from 5% to 13%, on the amount of annual interest the policyholder may earn in any one contract year, and the applicable cap may also be adjusted annually subject to stated minimums. In addition, some of the products have an “asset fee” ranging from 1.5 to 5.0%, which is deducted from the annual interest to be credited. For products with asset fees, if the annual appreciation in the index does not exceed the asset fee, the policyholder’s index credit is zero. The minimum guaranteed contract values range from 80% to 100% of the premium collected plus interest credited on the minimum guaranteed contract value at an annual rate of 2.0% to 3.5%.

We purchase one-year call options on the applicable indices as an investment to provide the income needed to fund the annual index credits on the index products. New one-year options are purchased at the outset of each contract year. We budget an amount to purchase the specific options needed to fund the annual index credits, and the cost of the options represents our cost of providing the credits. The amount we budget for the purchase of index call options is based on our interest spread targets and is comparable to the credited rates of interest we offer on fixed rate annuities. For example, if the yield on our invested assets is 6.00% and our targeted spread is 2.50%, we allocate up to 3.50% of the premium in the first year or account balance after the first year to the purchase of one-year call options. Participation rates, which define the policyholder’s level of participation in index gains each year, are determined by option costs. For example, if, based on current market conditions, the amount allocated to the purchase of options is sufficient to purchase an option that will provide a return equal to 70% of the annual gain in the applicable index, we will set the policyholder’s participation rate at 70%. We have the ability to modify participation rates each year when a new option is purchased. In general, if option costs increase, participation rates may be decreased, and if option costs decrease, participation rates may be increased. We purchase call options weekly and daily based upon new and renewing index account values during the applicable week or day, and the purchases are made by category according to the particular products and indices applicable to the new or renewing account values. Any proceeds received on the options at the expiration of the one-year term fund the related index credits to the policyholders. If there is no gain in an index, the policyholder receives a zero index credit on the policy, and we incur no costs beyond the option cost, except in cases where the minimum guaranteed value of a contract exceeds its index value.

Fair value changes associated with the call options are reported as an increase or decrease in revenues in our consolidated statements of income in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (“SFAS 133”). The risk associated with prospective purchases of future one-year options is the uncertainty of the cost, which will determine

whether we are able to earn our spread on our index business. All our index products permit us to modify participation rates, annual income caps or asset fees at least once a year. This feature is comparable to our fixed rate annuities, which allow us to adjust crediting rates annually. By modifying our participation rates or other features, we can limit our costs of purchasing the related one-year call options, except in cases where 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.

After the purchase of the one-year call options and payment of acquisition costs, we invest the balance of index premiums as a part of our general account invested assets. With respect to the index products, our investment spread is measured as the difference between the aggregate yield on our invested assets, less the aggregate option costs and the costs associated with minimum guarantees. If the minimum guaranteed value of an index product exceeds the index value (computed on a cumulative basis over the life of the contract) then the general account earnings are available to satisfy the minimum guarantees. If there were little or no gains in the entire series of one-year options purchased over the expected life of an index annuity (typically 10 to 15 years), then we would incur expenses for credited interest over and above our option costs, causing our spread to tighten and reducing our profits or potentially resulting in losses on these products.

Under SFAS 133, all of our derivative instruments (including certain derivative instruments embedded in other contracts) associated with our index products are recognized in the balance sheet at their fair values and changes in fair value are recognized immediately in earnings. This impacts the items of revenue and expense we report on our index business as follows:

- We must mark to market the purchased call options we use to fund the annual index credits on our index annuities based upon quoted market prices from related counterparties. We record the change in fair value of these options as a component of our revenues. Included within the change in fair value of the options is an element reflecting the time value of the options, which initially is their purchase cost declining to zero at the end of their one-year lives. The change in fair value of derivatives also includes proceeds received at the expiration of the one year option terms and gains or losses recognized upon early termination.
- Under SFAS 133, the future annual index credits on our index annuities are treated as a “series of embedded derivatives” over the expected life of the applicable contracts. We are required to estimate the fair value of policy liabilities for index annuities, including the embedded derivatives, by valuing the “host” (or guaranteed) component of the liabilities and projecting (i) the expected index credits on the next policy anniversary dates and (ii) the net cost of annual options we will purchase in the future to fund index credits. Our estimates of the fair value of these embedded derivatives are based on assumptions related to underlying policy terms (including annual participation rates, cap rates, asset fees, and minimum guarantees), index values, notional amounts, strike prices and expected lives of the policies. The change in fair value of embedded derivatives increases with increases in volatility in the indices and interest rates. The change in fair value of the embedded derivatives will not correspond to the change in fair value of the

purchased options because the purchased options are one-year options while the options valued in the fair value of embedded derivatives cover the expected life of the contracts which typically exceed 10 years.

The amounts reported with respect to our index business for SFAS 133 are summarized as follows:

	Year Ended December 31, 2006	2005	2004
	(Dollars in thousands)		
Change in fair value of derivatives:			
Proceeds received at expiration or gains recognized upon early termination	$ 216,834	$ 89,942	$ 87,619
Cost of money for index annuities	(183,145)	(114,234)	(59,432)
Change in difference between fair value and remaining option cost at beginning and end of period	150,094	6,263	509
	$ 183,783	$ (18,029)	$ 28,696
Change in fair value of embedded derivatives—index annuities	$ 151,057	$ 31,087	$ (8,567)
Related increase (decrease) in amortization of deferred policy acquisition costs and deferred sales inducements	$ (9,562)	$ (12,314)	$ 6,408

Deferred Policy Acquisition Costs and Deferred Sales Inducements

Commissions and certain other 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 consist principally of commissions and certain costs of policy issuance. Deferred sales inducements consist of first-year premium and interest bonuses credited to policyholder account balances. Amortization of deferred sales inducements is reported as a component of interest credited to account balances in the consolidated statements of income.

Deferred policy acquisition costs and deferred sales inducements totaled $1.5 billion and $1.3 billion at December 31, 2006 and 2005, respectively. For annuity and single premium universal life products, these costs are being amortized generally in proportion to expected gross profits from investments and, to a lesser extent, from surrender charges and mortality and expense margins. Current and future period gross profits/margins for 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 polices over their entire lives. Revisions are made based on historical results and our best estimates of future experience.

The impact of unlocking during 2006 was a $0.6 million decrease in amortization of deferred sales inducements and a $0.3 million increase in amortization of deferred policy acquisition costs. The impact of unlocking is primarily due to the impact of actual surrender experience on certain older business and changes in the estimates of future surrender experience on such business, offset in part by a reduction in the estimate of future projected policy maintenance expenses. There were no changes in our estimated gross profits in 2005 and 2004 that resulted in significant adjustments to the combined balance of deferred policy acquisition costs and deferred sales inducements.

If estimated gross profits for all future years on business in force at December 31, 2006 were to increase by a reasonably likely amount of 10%, our combined balance for deferred policy acquisition costs and deferred sales inducements at December 31, 2006 would increase by $31.5 million. Correspondingly, a

reasonably likely 10% decrease in estimated gross profits for all future years would results in a $35.4 million decrease in the combined December 31, 2006 balances.

Deferred Income Tax Assets

As of December 31, 2006 and 2005, we had $73.8 million and $92.5 million, respectively, of net deferred income tax assets. The realization of these assets is based upon estimates of future taxable income, which requires management judgment. Based upon expectations of future taxable income, and considering all other available evidence, management believes the realization of these assets is more likely than not and we have not recorded a valuation allowance against these assets.

Results of Operations for the Three Years Ended December 31, 2006

Annuity deposits by product type collected during 2006, 2005 and 2004, were as follows:

Product Type	Year Ended December 31, 2006	2005	2004
	(Dollars in thousands)		
Index Annuities:			
Index Strategies	$ 1,160,467	$ 1,780,092	$ 1,119,398
Fixed Strategy	626,791	908,868	545,630
	1,787,258	2,688,960	1,665,028
Fixed Rate Annuities:			
Single-Year Rate Guaranteed	76,164	193,288	287,619

Multi-Year Rate Guaranteed	6,544	12,807	21,324
	82,708	206,095	308,943
Total before coinsurance ceded	1,869,966	2,895,055	1,973,971
Coinsurance ceded	2,859	4,688	202,064
Net after coinsurance ceded	$ 1,867,107	$ 2,890,367	$ 1,771,907

Net annuity deposits after coinsurance decreased 35% during 2006 compared to 2005, and increased 63% during 2005 compared to 2004. We attribute the decrease in 2006 to the flat to inverted yield curve interest rate environment that existed throughout the year which made fixed income alternatives such as certificates of deposit more attractive, the impact of the NASD's notice to members on the sale of index annuities which has created confusion and impediments to sales of index annuities by annuity sales agents who are dual licensed to sell both insurance and securities products and highly competitive pricing from certain competitors. We attribute the increase in 2005 to increased marketing efforts following the completion of our initial public offering in December 2003 and the reduction in deposits ceded to EquiTrust Life Insurance Company, following the suspension of our coinsurance agreement with EquiTrust. See note 5 to our audited consolidated financial statements.

A key element of our competitive position in the index and fixed annuity market throughout the past several years has been the financial strength rating we received from A.M. Best Company. On August 3, 2006, A.M. Best Company upgraded our financial strength rating to A- (Excellent) from B++ (Very Good). The rating outlook is stable. We believe this rating upgrade will enhance our competitive position and improve our prospects for sales increases in future periods. However, the degree to which this rating upgrade will effect future sales and persistency is unknown.

Net income increased 76% to $75.5 million in 2006, and 47% to $43.0 million in 2005, from $29.3 million in 2004. The increases in net income were principally due to growth in the volume of business in force and increases in the investment spread earned on our annuity liabilities. Our net annuity liabilities (after coinsurance ceded) increased from $6.4 billion at the beginning of 2004 to $11.3 billion at the end of 2006. As set forth in a table included earlier in this item, we increased our aggregate investment spread to 2.73% in 2006 compared to 2.48% in 2005 and 2.38% in 2004. Net income in 2006 and 2005 included $6.1 million and ($2.7) million for the change in fair value of embedded derivatives in our contingent convertible notes. Net income was also impacted by the application of SFAS 133 to our index annuity business which we estimate decreased net income in 2006 and 2005 by $4.4 million and $5.1 million, respectively, and increased net income in 2004 by $1.7 million. Net income also included amounts for realized gains (losses) on investments which we estimate increased net income in 2006 and 2004 by $0.4 million and $0.6 million, respectively, and decreased net income in 2005 by $2.7 million.

The comparisons of net income also reflect the impact of the consolidation of the Service Company. As discussed in note 1 to our audited consolidated financial statements, we acquired the Service Company on September 2, 2006, resulting in the consolidation of the Service Company as a wholly-owned subsidiary of us, rather than an "implicit variable interest" under FSP FIN 46(R)-5. Prior to the acquisition, we had an implicit variable interest in the Service Company and we consolidated the Service Company under FSP FIN 46(R)-5 upon its adoption by us in the first quarter of 2005. As permitted by the FSP, we applied FSP FIN 46(R)-5 retroactive to January 1, 2003, the date of our original adoption of FIN 46. The Service Company had net income in 2006 of $0.4 million as a wholly-owned subsidiary for the entire year. Substantially all of the Service Company's revenue is renewal commissions received from American Equity Life (see note 8 to our audited consolidated financial statements) which are eliminated in consolidation. The consolidation of the Service Company reduced net income by $3.2 million for the year ended December 31, 2005. This amount was principally due to a $2.5 million distribution to the former shareholder of the Service Company prior to the September 2, 2005 acquisition and adjustments to the Service Company's income tax liabilities as a result of a change in its effective income tax rate upon becoming a wholly-owned subsidiary of us. The adoption of FSP FIN 46(R)-5 and consolidation of the Service Company as an "implicit variable interest" resulted in an increase in income tax expense of $16.3 million during 2004 due to a change in the federal income tax status of the Service Company.

Annuity and single premium universal life product charges (surrender charges assessed against policy withdrawals and mortality and expense charges assessed against single premium universal life policyholder account balances) increased 54% to $39.5 million in 2006, and 14% to $25.7 million in 2005, from $22.5 million in 2004. These increases were principally due to increases in policy withdrawals subject to surrender charges due to growth in the volume and aging of the business in force. The increase in surrender charges and policy withdrawals for 2006 was also due in part to the flat to inverted yield curve interest rate environment that existed throughout the year. Withdrawals from annuity and single premium universal life policies subject to surrender charges were $259.2 million, $179.3 million and $147.0 million for 2006, 2005 and 2004, respectively. The average surrender charge collected on withdrawals subject to a surrender charge was 15.1%, 14.2% and 15.2% for 2006, 2005 and 2004, respectively.

Net investment income increased 22% to $677.6 million in 2006 and 29% to $554.1 million in 2005 from $428.4 million in 2004. These increases are principally attributable to the growth in our annuity business and corresponding increases in our invested assets, offset by decreases in the average yield earned on investments. Invested assets (on an amortized cost basis) increased 6% to $11.1 billion at December 31, 2006 and 31% to $10.5 billion at December 31, 2005 compared to $8.0 billion at December 31, 2004, while the average yield earned on average invested assets was 6.14%, 6.18% and 6.28% for 2006, 2005 and 2004, respectively. The declines in the yield earned on average invested assets is attributable to a general decline in interest rates and the reinvestment of net redemption proceeds from called securities at lower yields. See Quantitative and Qualitative Disclosures About Market Risk.

Realized gains (losses) on investments fluctuate from year to year due to changes in the interest rate and economic environment and the timing of the sale of investments. Realized gains and losses on investments include gains and losses on the sale of securities as well as losses recognized when the fair value of a security is written down in recognition of an "other than temporary" impairment. See note 3 to our audited consolidated financial statements for a summary of the components of realized gains (losses) on investments for the years ended December 31, 2006, 2005 and 2004. See Financial Condition—Investments for additional discussion of write downs of the fair values of securities for other than temporary impairments and securities sold at a material loss for the years ended December 31, 2006, 2005 and 2004.

Change in fair value of derivatives (call options purchased to fund annual index credits on index annuities) was an increase of $183.8 million in 2006, a decrease of $18.0 million in 2005 and an increase of $28.7 million in 2004. The difference between the change in fair value of derivatives between the periods is primarily due to the performance of the indices upon which our options are based. A substantial portion of our options are based upon the S&P 500

Index with the remainder based upon other equity and bond market indices. The range of index appreciation for options expiring during the years ended December 31, 2006, 2005 and 2004 is as follows:

	Year Ended December 31,		
	2006	2005	2004
S&P 500 Index			
Point-to-point strategy	1.4%–16.0%	1.6%–14.9%	5.4%–31.3%
Monthly average strategy	1.1%– 9.1%	0.0%– 9.9%	2.3%–29.2%
Monthly point-to-point strategy	0.0%–12.7%	0.9%–12.0%	N/A
Lehman Brothers U.S. Aggregateand U.S. Treasury indices	0.0%– 5.9%	1.2%– 7.7%	1.8%– 6.8%

Actual amounts credited to policyholder account balances may be less than the index appreciation due to contractual features in the index annuity policies (participation rates and caps) which allow us to manage the cost of the options purchased to fund the annual index credits.

The change in fair value of derivatives is also influenced by the aggregate cost of options purchased. The aggregate cost of options has increased primarily due to an increased amount of index annuities in force. The aggregate cost of options is also influenced by the amount of policyholder funds allocated to the various indices, market volatility which affects option pricing and the policy terms and historical experience which affects the strikes and caps of the options we purchase. See Critical Accounting Policies—Derivative Instruments—Index Products.

Interest credited to account balances increased 38% to $429.1 million in 2006 and 1% to $311.5 million in 2005 from $309.0 million in 2004. The components of interest credited to account balances are summarized as follows:

	Year Ended December 31,		
	2006	2005	2004
	(Dollars in thousands)		
Index credits on index policies	$ 219,586	$ 95,020	$ 122,667
Interest credited including changes in minimum guaranteed interest for index annuities	184,683	204,234	175,732
Amortization of deferred sales inducements	24,793	12,225	10,635
	$ 429,062	$ 311,479	$ 309,034

The changes in index credits were attributable to changes in the appreciation of the underlying indices (see discussion above under change in fair value of derivatives) and the amounts allocated by policyholders to the respective index options. Total proceeds received upon expiration of the call options purchased to fund the annual index credits were $216.8 million, $89.9 million and $87.6 million for the years ended December 31, 2006, 2005 and 2004, respectively. The decrease in interest credited including changes in minimum guaranteed interest for index annuities for the year ended December 31, 2006 was due to reductions in interest credited on fixed rate annuities as a result of declines in the account balances of such annuities and decreases in interest crediting rates on several products, offset in part by increases in interest credited on amounts allocated to the fixed rate option and minimum guaranteed interest for index annuities as a result of the growth in amounts allocated to the fixed rate option in the index annuity liabilities. A significant factor in the reductions in interest credited on fixed rate annuities is the reduced interest on multi-year rate guarantee annuities. A significant amount of these annuities were sold in 2001 with an initial rate guaranteed for the first five policy years. We experienced surrenders of these policies upon expiration of this initial guaranteed interest during 2006 and reduced the crediting rates on those policies that remained in force as of December 31, 2006. The increase in interest credited including changes in minimum guaranteed interest for index annuities for the year ended December 31, 2005 was due to the growth in the annuity liabilities outstanding. The average amount of annuity liabilities outstanding (net of annuity liabilities ceded under coinsurance agreements) increased 20% to $10.8 billion in 2006 and 27% to $8.9 billion in 2005 from $7.0 billion in 2004.

The increases in amortization of deferred sales inducements during 2006, 2005 and 2004 were principally attributable to growth in account balances attributable to premium and interest bonus products. Bonus products represented 77%, 68% and 64% of our total annuity deposits during 2006, 2005 and 2004, respectively. The comparisons between periods are also affected by amortization associated with net realized gains (losses) on investments and amortization associated with the application of SFAS 133 to our index annuity business. The gross profit adjustments from net realized gains (losses) on investments increased amortization by $0.2 million in 2006, decreased amortization by $0.8 million in 2005 and had no impact in 2004. As discussed above, the application of SFAS 133 to our index annuity business creates differences in the recognition of revenues and expenses from derivative instruments including the embedded derivative liabilities in our index annuity contracts. The change in fair value of the embedded derivatives will not correspond to the change in fair value of the purchased options because the purchased options are one-year options while the options valued in the fair value of embedded derivatives cover the expected life of the contracts which typically exceed 10 years. The gross profit adjustments resulting from the application of SFAS 133 to our index annuity business decreased amortization by $2.9 million in 2006 and $3.2 million in 2005 and increased amortization by $1.4 million in 2004. See Critical Accounting Policies—Deferred Policy Acquisition Costs and Deferred Sales Inducements.

Change in fair value of embedded derivatives was an increase of $151.1 million during 2006 compared to an increase of $31.1 million in 2005 and a decrease of $8.6 million in 2004. The components of change in fair value of derivatives are summarized as follows:

	Year Ended December 31,		
	2006	2005	2004
	(Dollars in thousands)		
Index annuities	$ 166,285	$ 26,461	$ (8,567)
Contingent convertible senior notes	(15,228)	4,626	—
	$ 151,057	$ 31,087	$ (8,567)

The changes related to the embedded derivatives within our index annuities resulted primarily from changes in the expected index credits on the next policy anniversary dates, which are related to the change in fair value of the options acquired to fund these index credits discussed above in “change in fair value of derivatives”. The value of the embedded derivative is also impacted by changes in discount rates used in estimating future option costs and the growth in the host component of the embedded derivative. See Critical Accounting Policies—Derivative Instruments—Index Products.

The conversion option embedded within our contingent convertible senior notes was required to be bifurcated and marked to market in accordance with SFAS 133 beginning December 15, 2005 due to an insufficient number of authorized shares. See notes 1 and 7 to our audited consolidated financial statements. Effective June 8, 2006, this conversion option is no longer required to be bifurcated and marked to market upon shareholder approval of an increase of authorized shares. The changes in the fair value of the conversion option embedded within these notes for the years ended December 31, 2006 and 2005 coincide with the changes in the per share price of our common stock during the periods of time during 2006 and 2005 that the conversion option was required to be bifurcated.

Interest expense on notes payable increased 25% to $20.4 million in 2006 compared to $16.3 million in 2005 and $2.4 million in 2004. The increase in 2006 was primarily due to $4.7 million of amortization of the discount created in the fourth quarter of 2005 when the conversion option embedded in our contingent convertible senior notes was bifurcated from the host instrument. This discount was reduced from $76.9 million to $6.5 million during the second quarter of 2006 when the conversion option embedded within our contingent convertible senior notes was no longer required to be bifurcated. The increase in 2005 was primarily due to the issuance of $260.0 million of convertible senior notes at a fixed rate of 5.25% per annum during December 2004. See note 7 to our audited consolidated financial statements.

Interest expense on subordinated debentures increased 51% to $21.4 million in 2006 and 47% to $14.1 million in 2005 from $9.6 million in 2004. These increases were primarily due to the issuance of additional subordinated debentures of $41.2 million, $56.7 million and $59.3 million during 2006, 2005 and 2004, respectively. The increases were also due to increases in the weighted average interest rates on the outstanding subordinated debentures which were 8.35%, 7.38% and 7.01% for 2006, 2005 and 2004, respectively. The weighted average interest rates have increased because substantially all of the subordinated debentures issued during 2004—2006 have a floating rate of interest based upon the three month London Interbank Offered Rate plus an applicable margin. See Financial Condition—Liabilities.

Interest expense on amounts due under repurchase agreements increased 192% to $32.9 million in 2006 and 258% to $11.3 million in 2005 from $3.1 million in 2004. The increases were principally due to increases in the borrowings outstanding which averaged $628.0 million, $318.8 million and $196.3 million during 2006, 2005 and 2004, respectively and increases in the weighted average interest rates on amounts borrowed which were 5.24%, 3.54% and 1.60% for 2006, 2005 and 2004, respectively.

Amortization of deferred policy acquisition costs increased 39% to $94.9 million in 2006 and 1% to $68.1 million in 2005 from $67.9 million in 2004. In general, amortization has been increasing each period due to the growth in our annuity business. The comparisons between periods are also affected by amortization associated with net realized gains (losses) on investments and amortization associated with the application of SFAS 133 to our index annuity business. The gross profit adjustments from realized gains (losses) on investments increased amortization by $0.5 million in 2006, decreased amortization by $2.7 million in 2005 and had no impact in 2004. As discussed above, the application of SFAS 133 to our index annuity business creates differences in the recognition of revenues and expenses from derivative instruments including the embedded derivative liabilities in our index annuity contracts. The gross profit adjustments resulting from the application of SFAS 133 to our index annuity business decreased amortization by $6.7 million in 2006 and $9.1 million in 2005 and increased amortization by $5.0 million in 2004.

Other operating costs and expenses increased 13% to $40.4 million in 2006 and 10% to $35.9 million in 2005 from $32.5 million in 2004. The increase in 2006 was principally attributable to an increase of $2.5 million in risk charges related to our reinsurance agreements with Hannover Life Reassurance

Company of America and an increase of $1.9 million in salaries and related cost of employment due to growth in our annuity business, offset by a decrease of $1.7 million in legal fees. The increase in 2005 was principally attributable to an increase of $2.9 million in salaries and related costs of employment due to the growth in our annuity business and an increase of $1.8 million in legal fees. These increases were offset in part by a decrease of $1.2 million in insurance taxes and guaranty fund assessments.

Income tax expense increased 63% to $41.4 million in 2006 and decreased 37% to $25.4 million in 2005 from $40.6 million in 2004. As discussed above and in note 1 to our audited consolidated financial statements, income tax expense for 2004 included $16.3 million for the change in the Service Company’s federal income tax status. Excluding the impact of this item, income tax expense would have increased in 2005 and the increases in income tax expense for 2006 and 2005 were principally due to increases in income before income taxes. Excluding the impact of the change in the Service Company’s federal income tax status in 2004, our effective income tax rates for 2006, 2005 and 2004 were 35.4%, 35.8% and 35.1%, respectively. See note 6 to our audited consolidated financial statements.

Financial Condition

Investments

Our investment strategy is to maintain a predominantly investment grade fixed income portfolio, provide adequate liquidity to meet our cash obligations to policyholders and others and maximize current income and total investment return through active investment management. Consistent with this strategy, our investments principally consist of fixed maturity securities and short-term investments.

Insurance statutes regulate the type of investments that our life subsidiaries are permitted to make and limit the amount of funds that may be used for any one type of investment. In light of these statutes and regulations and our business and investment strategy, we generally seek to invest in United States government agency securities and corporate securities rated investment grade by established nationally recognized rating organizations or in securities of comparable investment quality, if not rated.

We have classified a portion of our fixed maturity investments as available for sale. Available for sale securities are reported at fair value and unrealized gains and losses, if any, on these securities (net of income taxes and certain adjustments for changes in amortization of deferred policy acquisition costs and deferred sales inducements) are included directly in a separate component of stockholders’ equity, thereby exposing stockholders’ equity to volatility due to changes in market interest rates and the accompanying changes in the reported value of securities classified as available-for-sale, with stockholders’ equity increasing as interest rates decline and, conversely, decreasing as interest rates rise.

Investments increased to $11.4 billion at December 31, 2006 compared to $10.5 billion at December 31, 2005 as a result of the growth in our annuity business discussed above. At December 31, 2006, the fair value of our available for sale fixed maturity and equity securities was $120.6 million less than the amortized cost of those investments, compared to $88.7 million at December 31, 2005. At December 31, 2006, the amortized cost of our fixed maturity securities held for investment exceeded the fair value by $256.9 million, compared to $112.8 million at December 31, 2005. The increases in net unrealized investment losses at December 31, 2006 compared to December 31, 2005 was principally related to an increase in market interest rates and an increase in invested assets.

The composition of our investment portfolio is summarized in the table below (dollars in thousands):

	December 31,			
	2006		2005	
	Carrying Amount	Percent	Carrying Amount	Percent
Fixed maturity securities:				
United States Government full faith and credit	$ 2,746	—	$ 2,774	—
United States Government sponsored agencies	7,966,485	70.0%	7,445,474	71.0%
Public utilities	137,461	1.2%	133,346	1.3%
Corporate securities	643,850	5.6%	674,230	6.4%
Redeemable preferred stocks	135,933	1.2%	46,896	0.4%
Mortgage and asset-backed securities:				
Government	67,883	0.6%	220,379	2.1%
Non-Government	350,817	3.1%	377,011	3.6%
Total fixed maturity securities	9,305,175	81.7%	8,900,110	84.8%
Equity securities	45,512	0.4%	84,846	0.8%
Mortgage loans on real estate	1,652,757	14.5%	1,321,637	12.6%
Derivative instruments	381,601	3.4%	185,391	1.8%
Policy loans	419	—	362	—
	$ 11,385,464	100.0%	$ 10,492,346	100.0%

The table below presents our total fixed maturity securities by NAIC designation and the equivalent ratings of a nationally recognized securities rating organization (dollars in thousands).

		December 31,			
		2006		2005	
NAIC	Rating Agency	Carrying Amount	Percent	Carrying Amount	Percent
1	Aaa/Aa/A	$ 8,643,440	92.9%	$ 8,368,330	94.0%
2	Baa	556,218	6.0%	416,614	4.7%
3	Ba	88,896	0.9%	93,335	1.0%
4	B	12,022	0.1%	3,396	0.1%
5	Caa and lower	—	—	11,719	0.1%
6	In or near default	4,599	0.1%	6,716	0.1%
		$ 9,305,175	100.0%	$ 8,900,110	100.0%

At December 31, 2006 and 2005, we held $1.7 billion and $1.3 billion, respectively, of mortgage loans with commitments outstanding of $30.9 million at December 31, 2006. The portfolio consists of commercial mortgage loans diversified as to property type, location, and loan size. The loans are collateralized by the related properties. Our mortgage lending policies establish limits on the amount that can be loaned to one borrower and require diversification by geographic location and collateral type. As of December 31, 2006, there were no delinquencies or defaults in our mortgage loan portfolio. The commercial mortgage loan portfolio is diversified by geographic region and specific collateral property type as follows (dollars in thousands):

	December 31,			
	2006		2005	
	Carrying Amount	Percent	Carrying Amount	Percent
Geographic distribution				
East	$ 364,977	22.1%	$ 283,085	21.4%
Middle Atlantic	115,930	7.0%	93,579	7.1%
Mountain	267,808	16.2%	198,476	15.0%
New England	43,228	2.6%	47,839	3.6%
Pacific	132,085	8.0%	117,977	8.9%
South Atlantic	299,373	18.1%	213,423	16.1%
West North Central	290,592	17.6%	258,181	19.6%
West South Central	138,764	8.4%	109,077	8.3%
	$ 1,652,757	100.0%	$ 1,321,637	100.0%
Property type distribution				
Office	$ 508,093	30.7%	$ 384,606	29.1%

Medical Office	78,147	4.7%	75,716	5.7%
Retail	389,534	23.6%	285,715	21.6%
Industrial/Warehouse	381,248	23.1%	346,461	26.2%
Hotel	71,510	4.3%	52,274	4.0%
Apartments	91,190	5.5%	68,795	5.2%
Mixed use/other	133,035	8.1%	108,070	8.2%
	$ 1,652,757	100.0%	$ 1,321,637	100.0%

We have derivative instruments carried at fair market value of $381.5 million at December 31, 2006 and $185.4 million at December 31, 2005. These derivative instruments consist primarily of call options purchased to provide the income needed to fund the annual index credits on our index products. See Critical Accounting Policies—Derivative Instruments.

Liabilities

Our liability for policy benefit reserves increased to $13.2 billion at December 31, 2006 compared to $12.2 billion at December 31, 2005, 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). The amounts outstanding under repurchase agreements at December 31, 2006 and 2005 were $386.0 million and $396.7 million, respectively. These borrowings are collateralized by investment securities with fair values approximately equal to the amount due. 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 $628.0 million, $318.8 million and $196.3 million for the years ended December 31, 2006, 2005 and 2004, respectively. The weighted average interest rate on amounts due under repurchase agreements was 5.24%, 3.54% and 1.60% for the years ended December 31, 2006, 2005 and 2004, respectively.

In December 2004, we issued $260.0 million of contingent convertible senior notes due December 6, 2024. The 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, beginning June 6, 2005. In addition to regular interest on the 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 notes during a specified period.

The 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 is $14.47 which represents a conversion rate of 69.1 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 will deliver 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 7 to the consolidated financial statements for additional details concerning the conversion features of the notes and the dilutive effect of the notes in our diluted earnings per share calculation.

We may redeem the notes at any time on or after December 15, 2011. The holders of the 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. 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.

The 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. The 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. The 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. In accordance with FIN 46, 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 9 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, 2006 and 2005:

	December 31, 2006	December 31, 2005	Interest Rate	Due Date
	(Dollars in thousands)			
American Equity Capital Trust I	$ 23,483	$ 23,903	8%	September 30, 2029
American Equity Capital Trust II	75,396	78,383	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	8.595%	December 15, 2035
American Equity Capital Trust XII	41,238	—	*LIBOR + 3.50%	April 7, 2036
	$ 268,489	$ 230,658		

* three month London Interbank Offered Rate

The interest rate for Trust XI is fixed at 8.595% for 5 years and then is floating based upon the three month London Interbank Offered Rate plus 3.65%.

During the fourth quarter of 2006, we entered into four interest rate swaps to manage interest rate risk associated with the floating rate component on certain of our 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 on a notional amount totaling $80.0 million. The interest rate swaps are not effective hedges under SFAS 133. 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 income.

Details regarding the interest rate swaps at December 31, 2006 are as follows (dollars in thousands):

Maturity Date	Notional Amount	Receive Rate	Pay Rate	Carrying and Fair Value
April 29, 2009	$ 20,000	LIBOR	4.94%	$ 56
December 15, 2009	20,000	LIBOR	4.93%	41
September 15, 2010	20,000	LIBOR	5.19%	(8)
April 7, 2011	20,000	LIBOR	5.23%	(15)

American Equity Capital Trust I issued 865,671 shares of trust preferred securities, of which 2,000 shares are held by one of our subsidiaries. During 2006, 2005 and 2004, 14,000 shares, 5,667 shares and 88,000 shares of these trust preferred securities converted into 51,849 shares, 20,988 shares and 325,923 shares, respectively, of our common stock. The remaining 756,004 shares of these trust preferred securities not held by a subsidiary are convertible into 2,799,957 shares of our common stock.

American Equity Capital Trust II issued $97.0 million (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.

During the fourth quarter of 2006, we entered into a $150 million revolving line of credit with eight banks. There is no amount outstanding under this revolving line of credit at December 31, 2006. See note 7 to our audited consolidated financial statements for additional details concerning the terms of the revolving line of credit.

At December 31, 2006, one of our subsidiaries had $12.3 million outstanding under a credit agreement with a third party. Quarterly payments in amounts ranging from $1.1 million to $1.4 million are payable over the next twelve quarters with interest computed at a fixed rate of 11.2%. Cash and cash equivalents at December 31, 2006 include $2.3 million of restricted cash under the terms of the credit agreement. See note 7 to our audited consolidated financial statements for additional information concerning this credit agreement.

Stockholders' Equity

During 2006, the NMO Deferred Compensation Trust (NMO Trust) purchased 1,052,065 shares of our common stock at a total cost of $12.7 million. These shares are treated as treasury stock and are held by the NMO Trust for the benefit of agents who have earned shares of our common stock under the American Equity Investment NMO Deferred Compensation Plan. See note 10 to our audited consolidated financial statements.

During 2006 and 2005, we issued 19,500 shares of our common stock in each year to an agent's beneficiaries in settlement of the agent's deferred compensation arrangement.

On December 20, 2005, we completed an offering of 13,000,000 shares of our common stock at a price of $11.60 per share. Pursuant to the over-allotment option granted to the underwriters in this offering, the underwriters purchased an additional 1,950,000 shares on December 30, 2005. The proceeds from this offering (including proceeds from shares issued pursuant to the over-allotment option), net of the underwriting discount and expenses, were approximately $163.5 million.

During 2005 and 2004, certain officers and directors exercised subscription rights to purchase shares of our common stock with respect to 2,151,375 shares and 6,000 shares, respectively. The subscription rights had an exercise price of $5.33 per share and the tax benefit realized for the tax deduction from the exercise of the subscription rights was $4.7 million for 2005 and immaterial for 2004.

During 2004, 625,000 shares of 1998 Series A Participating Preferred Stock (aggregate liquidation preference of $10.0 million) converted into 1,875,000 shares of our common stock. Prior to conversion, these shares had participating dividend rights with the shares of our common stock, when and as such dividends were declared.

On December 9, 2003, we completed an initial public offering of 18,700,000 shares of our common stock at a price of $9.00 per share. Pursuant to the over-allotment option granted to the underwriters in this offering, the underwriters purchased an additional 2,000,000 shares on December 29, 2003 and an additional 805,000 shares on January 7, 2004, which fully exercised the over-allotment option. The proceeds from our initial public offering (including proceeds from shares issued pursuant to the over-allotment option), net of the underwriting discount and expenses, were approximately $178.0 million.

Liquidity for Insurance Operations

Our life subsidiaries generally receive adequate cash flow from premium collections and investment income to meet their obligations. Annuity and life insurance liabilities are generally long-term in nature. Policyholders may, however, withdraw funds or surrender their policies, subject to surrender and withdrawal penalty provisions. At December 31, 2006, approximately 97% of our annuity liabilities were subject to penalty upon surrender, with a weighted average remaining surrender charge period of 10 years and a weighted average surrender charge rate of 13%.

We believe that the diversity of our investment portfolio and the concentration of investments in high-quality securities provides sufficient liquidity to meet foreseeable cash requirements. The investment portfolio at December 31, 2006 included $3.9 billion (amortized cost basis) of publicly traded available for sale investment grade bonds. Although there is no present need or intent to dispose of such investments,

our life subsidiaries could readily liquidate portions of their investments, if such a need arose. See Quantitative and Qualitative Disclosures about Market Risk for further discussion of the related interest rate risk exposure. In addition, investments could be used to facilitate borrowings under repurchase agreements .. As indicated above, such borrowings have been used by American Equity Life from time to time to increase our return on investments.

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. The primary sources of funds for these payments are: (i) investment advisory fees from our life subsidiaries; (ii) dividends on capital stock and surplus note interest payments from American Equity Life; and (iii) investment income on our investments. These sources provide adequate cash flow to us to meet our current and reasonably foreseeable future obligations. We may also obtain cash by drawing down our $150 million revolving line of credit or by issuing debt or equity securities.

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 its state of domicile's insurance department, 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 surplus at the preceding December 31. For 2007, up to approximately $99.2 million can be distributed as dividends by American Equity Life without prior approval of the Iowa Insurance Division. 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 approximately $161.0 million of statutory earned surplus at December 31, 2006.

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.

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 200%. American Equity Life's risk-based capital ratio was 452% at December 31, 2006.

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, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004 is included in note 11 to our audited consolidated financial statements.

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, 2006.

	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)	$ 15,535,316	$ 1,071,812	$ 3,697,541	$ 2,300,638	$ 8,465,325
Notes payable, including interest payments	520,589	18,985	36,563	27,591	437,450
Subordinated debentures, including interest payments(2)	941,407	21,529	43,058	43,058	833,762
Operating leases	3,803	944	1,640	843	376
Mortgage loan funding	30,935	30,935	—	—	—
Total	$ 17,032,050	$ 1,144,205	$ 3,778,802	$ 2,372,130	$ 9,736,913

(1) Amounts shown in this table are projected payments through the year 2026 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.

New Accounting Pronouncements

In June 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* ("SFAS 154"), which is a replacement of Accounting Principals Board Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS 154 requires retrospective application of prior periods' financial statements for all voluntary changes in accounting principle, unless impracticable. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 31, 2005. SFAS 154 has no immediate impact on our consolidated financial statements, though it will impact the presentation of future voluntary accounting changes, if any such changes occur.

In September 2005, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts* ("SOP 05-1"). SOP 05-1 provides guidance on accounting by insurance enterprises for deferred policy acquisition costs and deferred sales inducements on internal replacements of insurance contracts other than those specifically described in SFAS 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights or coverages that occurs by exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 31, 2006. Retrospective application of SOP 05-1 to previously issued financial statements is not permitted. We have evaluated SOP 05-1 and do not believe that it will have a material impact on our consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* ("SFAS 155"), which amends SFAS 133 and SFAS No. 140, *Accounting for Transfers and Servicing of*

Financial Assets and Extinguishments of Liabilities ("SFAS 140"). SFAS 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. SFAS 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. We have evaluated SFAS 155 and do not expect that it will have a material impact on our consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Under the Interpretation, a tax position can be recognized in the financial statements if it is more likely than not that the position will be sustained upon examination by taxing authorities who have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective beginning in 2007. We are continuing to evaluate FIN 48 but do not believe it will have a material impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and expands the required disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are continuing to evaluate SFAS 157 but do not believe that it will have a material impact on our consolidated financial statements.

Inflation

Inflation does not have a significant effect on our 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. Higher interest rates experienced in recent periods have decreased the value of our fixed maturity investments. It is likely that declining interest rates 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.

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. We have a portfolio of held for investment securities which consists principally 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.

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 Trusts 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 $144.5 million at December 31, 2006, of which $80 million had been swapped to fixed rates (see note 9 to our audited consolidated financial statements). 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 (participation or asset fee rates for index annuities) on substantially all of our annuity policies 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% (48 basis points) from levels at December 31, 2006, we estimate that the fair value of our fixed maturity securities would decrease by approximately $368.8 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 an increase of $45.9 million in the accumulated other comprehensive loss. 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 the their maturity to meet our liquidity needs, which we manage using the surrender and withdrawal provisions of our annuity contracts and through other means as discussed earlier. See Financial Condition—Liquidity for Insurance Operations for a further discussion of the liquidity risk.

At December 31, 2006, 86% of our fixed income securities have call features and 17% were subject to call redemption. Another 66% will become subject to call redemption through December 31, 2007. During the years ended December 31, 2006 and 2005, we received $27.8 million and $1.5 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

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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 on most of our annuity liabilities to maintain the spread at our targeted level. At December 31, 2006, approximately 95% of our annuity liabilities are subject to annual adjustment of the applicable crediting rates at our discretion, limited by minimum guaranteed crediting rates of 2% to 4%.

With respect to our 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, 2006, 2005 and 2004, the annual index credits to policyholders on their anniversaries were $219.6 million, $95.0 million and $122.7 million, respectively. Proceeds received at expiration or gains recognized upon early termination of these options related to such credits were $216.8 million, $89.9 million and $87.6 million for the years ended December 31, 2006, 2005 and 2004, respectively. The difference between proceeds received at expiration of these options and index credits is primarily due to credits attributable to minimum guaranteed interest self funded by us.

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. This is a risk we attempt to manage through the terms of our index annuities, which permit us to change annual participation rates, asset fees, and caps, subject to contractual features. By modifying participation rates, asset fees or caps, 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.

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-41.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), as of the end of the period covered by this *Annual Report on Form 10-K*, the Company's management evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on their evaluation of these disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective 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.

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. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined effective can provide only reasonable assurance with respect to financial statement preparation and presentation. 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, 2006 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 determined that we maintained effective internal control over financial reporting as of December 31, 2006 based on those criteria.

KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006. The report, which expressed unqualified opinions on management's assessment and on the effectiveness of our internal control over financial reporting as of December 31, 2006, is included in this Item under the heading "Report of Independent Registered Public Accounting Firm".

Changes in Internal Control over Financial Reporting.

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2006 that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
American Equity Investment Life Holding Company

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that American Equity Investment Life Holding Company and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). American Equity Investment Life Holding Company and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 consolidated 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, management's assessment that American Equity Investment Life Holding Company and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, American Equity Investment Life Holding Company and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of American Equity Investment Life Holding Company and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2006 and 2005, and our report dated March 12, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Des Moines, Iowa
March 12, 2007

ITEM 9B. OTHER INFORMATION

There is no information required to be disclosed on Form 8-K for the quarter ended December 31, 2006 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 7, 2007 to be filed with the Commission pursuant to Regulation 14A within 120 days after December 31, 2006.

PART IV

ITEM 15. EXHIBITS, 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.

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 12th day of March, 2007.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

By: /s/ D.J. Noble
D.J. Noble, 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/ D.J. NOBLE D.J. Noble	Chairman of the Board and President, (Principal Executive Officer)	March 12, 2007
/s/ WENDY L. CARLSON Wendy L. Carlson	Chief Financial Officer and General Counsel (Principal Financial Officer)	March 12, 2007
/s/ TED M. JOHNSON Ted M. Johnson	Vice President—Accounting (Principal Accounting Officer)	March 12, 2007
John C. Anderson	Director	March 12, 2007
/s/ JAMES M. GERLACH James M. Gerlach	Director	March 12, 2007
Robert L. Hilton	Director	March 12, 2007
Robert L. Howe	Director	March 12, 2007
/s/ JOHN M. MATOVINA John M. Matovina	Director	March 12, 2007
A.J. Strickland, III	Director	March 12, 2007
/s/ HARLEY A. WHITFIELD Harley A. Whitfield	Director	March 12, 2007
/s/ KEVIN R. WINGERT Kevin R. Wingert	Director	March 12, 2007

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES
YEARS ENDED DECEMBER 31, 2006, 2005, AND 2004

Consolidated Financial Statements

Schedules

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, 2006 and 2005, and the related consolidated statements of income, changes in stockholders’ equity, and cash flows for the years ended December 31, 2006 and 2005. 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. These consolidated financial statements and financial statement schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Equity Investment Life Holding Company and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years ended December 31, 2006 and 2005, 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, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in 2006 the Company adopted Securities and Exchange Commission Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements.*

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of American Equity Investment Life Holding Company and subsidiaries’ internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 12, 2007 expressed an unqualified opinion on management’s assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Des Moines, Iowa
March 12, 2007

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 statements of income, changes in stockholders’ equity, and cash flows of American Equity Investment Life Holding Company for the year ended December 31, 2004. Our audit also included the financial statement schedules listed in the Index on page F-1 for the year ended December 31, 2004. These financial statements and schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of American Equity Investment Life Holding Company for the year ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, during the first quarter of 2005, the Company changed its method of accounting for a variable interest entity retroactive to January 1, 2003.

/s/ Ernst & Young LLP

Des Moines, Iowa
March 11, 2005, except for the
third and fourth paragraphs of Note 1,
as to which the date is November 11, 2005

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	December 31, 2006	December 31, 2005
Assets		
Investments:		
Fixed maturity securities:		
Available for sale, at fair value (amortized cost: 2006—$4,297,182; 2005—$4,274,159)	$ 4,177,029	$ 4,188,683
Held for investment, at amortized cost (fair value: 2006—$4,871,237; 2005—$4,598,615)	5,128,146	4,711,427
Equity securities, available for sale, at fair value (cost: 2006—$46,000; 2005—$88,060)	45,512	84,846
Mortgage loans on real estate	1,652,757	1,321,637
Derivative instruments	381,601	185,391
Policy loans	419	362
Total investments	11,385,464	10,492,346
Cash and cash equivalents	29,949	112,395
Coinsurance deposits—related party	1,841,720	1,959,663
Accrued investment income	68,323	59,584
Deferred policy acquisition costs	1,088,890	977,015
Deferred sales inducements	427,554	315,848
Deferred income tax asset	73,831	92,459
Income taxes recoverable	4,526	1,829
Other assets	69,866	31,655
Total assets	$ 14,990,123	$ 14,042,794

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

(Dollars in thousands, except per share data)

Liabilities and Stockholders' Equity		
Liabilities:		
Policy benefit reserves:		
Traditional life and accident and health insurance products	$ 93,632	$ 75,872
Annuity and single premium universal life products	13,114,299	12,162,116
Other policy funds and contract claims	128,579	126,387
Other amounts due to related parties	45,504	27,677

Notes payable	266,383	281,043
Subordinated debentures	268,489	230,658
Amounts due under repurchase agreements	385,973	396,697
Other liabilities	92,198	222,986
Total liabilities	14,395,057	13,523,436
Stockholders' equity:		
Common Stock, par value $1 per share, 125,000,000 shares authorized; issued and outstanding 2006—53,500,926 shares (excluding 2,664,448 treasury shares); 2005—53,936,097 shares (excluding 1,591,083 treasury shares)	53,501	53,936
Additional paid-in capital	389,644	380,698
Accumulated other comprehensive loss	(38,769)	(27,306)
Retained earnings	190,690	112,030
Total stockholders' equity	595,066	519,358
Total liabilities and stockholders' equity	$ 14,990,123	$ 14,042,794

See accompanying notes to consolidated financial statements

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)

	Year Ended December 31, 2006	2005	2004
Revenues:			
Traditional life and accident and health insurance premiums	$ 13,622	$ 13,578	$ 15,115
Annuity and single premium universal life product charges	39,472	25,686	22,462
Net investment income	677,638	554,118	428,385
Realized gains (losses) on investments	1,345	(7,635)	943
Change in fair value of derivatives	183,783	(18,029)	28,696
Total revenues	915,860	567,718	495,601
Benefits and expenses:			
Insurance policy benefits and change in future policy benefits	8,808	8,504	10,151
Interest credited to account balances	429,062	311,479	309,034
Change in fair value of embedded derivatives	151,057	31,087	(8,567)
Interest expense on notes payable	20,382	16,324	2,358
Interest expense on subordinated debentures	21,354	14,145	9,609
Interest expense on amounts due under repurchase agreements	32,931	11,280	3,148
Amortization of deferred policy acquisition costs	94,923	68,109	67,867
Other operating costs and expenses	40,418	35,896	32,520
Total benefits and expenses	798,935	496,824	426,120
Income before income taxes and minority interests	116,925	70,894	69,481
Income tax expense	41,440	25,402	40,611
Income before minority interests	75,485	45,492	28,870
Minority interest	—	2,500	(453)
Net income	$ 75,485	$ 42,992	$ 29,323
Earnings per common share	$ 1.34	$ 1.09	$ 0.77
Earnings per common share—assuming dilution	$ 1.27	$ 0.99	$ 0.71
Weighted average common shares outstanding (in thousands):			
Earnings per common share	56,243	39,333	38,159
Earnings per common share—assuming dilution	60,421	44,513	43,096

See accompanying notes to consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands, except per share data)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity

Balance at December 31, 2003	$ 625	$ 33,703	$ 210,027	$ (22,742)	$ 42,103	$ 263,716
Comprehensive income:						
Net income for year	—	—	—	—	29,323	29,323
Change in net unrealized investment gains/losses	—	—	—	3,473	—	3,473
Total comprehensive income:						32,796
Issuance of 805,000 shares of common stock less issuance expenses of $507	—	805	5,933	—	—	6,738
Exercise of 6,000 management subscription rights	—	6	26	—	—	32
Conversion of $2,640 of subordinated debentures	—	326	2,159	—	—	2,485
Conversion of 625,000 shares of Series Preferred Stock	(625)	1,875	(1,250)	—	—	—
Issuance of 54,385 shares of common stock	—	54	489	—	—	543
Dividends on common stock ($0.02 per share)	—	—	—	—	(767)	(767)
Balance at December 31, 2004	—	36,769	217,384	(19,269)	70,659	305,543
Comprehensive income:						
Net income for year	—	—	—	—	42,992	42,992
Change in net unrealized investment gains/losses	—	—	—	(8,037)	—	(8,037)
Total comprehensive income						34,955
Conversion of $170 of subordinated debentures	—	21	139	—	—	160
Issuance of 19,500 shares of common stock	—	20	202	—	—	222
Issuance of 14,950,000 shares of common stockless issuance expenses of $9,896	—	14,950	148,574	—	—	163,524
Exercise of 2,176,349 management subscription rights and stock options, including related income tax benefits	—	2,176	14,399	—	—	16,575
Dividends on common stock ($0.04 per share)	—	—	—	—	(1,621)	(1,621)
Balance at December 31, 2005	—	53,936	380,698	(27,306)	112,030	519,358
Cumulative adjustment—SAB 108	—	—	—	—	5,848	5,848
Reclassification of equity awards	—	—	13,830	—	—	13,830
Comprehensive income:						
Net income for year	—	—	—	—	75,485	75,485
Change in net unrealized investment gains/losses	—	—	—	(11,463)	—	(11,463)
Total comprehensive income						64,022
Conversion of $420 of subordinated debentures	—	52	346	—	—	398
Issuance of 19,500 shares of common stock	—	19	191	—	—	210
Settlement of option agreement, including related income tax benefit	—	—	(1,580)	—	—	(1,580)
Acquisition of 1,073,365 shares of common stock	—	(1,073)	(11,887)	—	—	(12,960)
Share-based compensation	—	—	4,497	—	—	4,497
Issuance of 566,845 shares of common stock under compensation plans, including related income tax benefits	—	567	3,549	—	—	4,116
Dividends on common stock ($0.05 per share)	—	—	—	—	(2,673)	(2,673)
Balance at December 31, 2006	$ —	$ 53,501	$ 389,644	$ (38,769)	$ 190,690	$ 595,066

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31, 2006	2005	2004
Operating activities			
Net income	$ 75,485	$ 42,992	$ 29,323
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Adjustments related to interest sensitive products:			
Interest credited to account balances	429,062	311,479	309,034
Annuity and single premium universal life product charges	(39,472)	(25,686)	(22,462)
Change in fair value of embedded derivatives	151,057	31,087	(8,567)
Increase in traditional life and accident and health insurance reserves	10,776	8,863	14,304
Policy acquisition costs deferred	(205,586)	(325,424)	(188,248)
Amortization of deferred policy acquisition costs	94,923	68,109	67,867
Amortization of discount on contingent convertible notes	4,841	—	—
Provision for depreciation and other amortization	1,846	2,002	1,434
Amortization of discounts and premiums on fixed maturity securities	(248,746)	(188,463)	(139,025)
Realized losses (gains) on investments	(1,345)	7,635	(943)
Change in fair value of derivatives	(183,783)	18,029	(28,696)
Deferred income taxes	21,296	(31,990)	820
Share-based compensation	4,497	—	—
Changes in other operating assets and liabilities:			
Accrued investment income	(8,739)	(14,713)	(15,485)
Federal income taxes recoverable/payable	(2,697)	(10,383)	10,291
Other assets	(3,518)	—	—
Other policy funds and contract claims	2,192	31,977	33,415
Other amounts due to related parties	(650)	2,306	12,730
Other liabilities	(44,382)	57,311	26,208
Other	—	(2,727)	(51)
Net cash provided by (used in) operating activities	57,057	(17,596)	101,949
Investing activities			

Sales, maturities, or repayments of investments:			
Fixed maturity securities—available for sale	386,896	379,015	1,399,886
Fixed maturity securities—held for investment	—	1,332,689	1,157,382
Equity securities, available for sale	58,095	12,247	23,697
Mortgage loans on real estate	132,902	136,356	61,553
Derivative instruments	246,409	118,200	109,373
Acquisitions of investments:			
Fixed maturity securities—available for sale	(547,789)	(1,851,905)	(1,381,314)
Fixed maturity securities—held for investment	(176,169)	(1,741,856)	(2,315,130)
Equity securities, available for sale	(13,879)	(60,707)	(38,645)
Mortgage loans on real estate	(464,022)	(498,214)	(412,283)
Derivative instruments	(239,719)	(180,440)	(111,689)
Policy loans	(57)	—	(38)
Purchases of property, furniture and equipment	(378)	(5,010)	(2,901)
Net cash used in investing activities	(617,711)	(2,359,625)	(1,510,109)

See accompanying notes to consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in thousands)

Financing activities			
Receipts credited to annuity and single premium universal life policyholder account balances	$ 1,869,966	$ 2,895,055	$ 1,973,971
Coinsurance deposits—related parties	190,198	163,980	(65,968)
Return of annuity and single premium universal life policyholder account balances	(1,631,241)	(992,482)	(914,846)
Financing fees incurred and deferred	(1,782)	(2,042)	(9,598)
Proceeds from notes payable	—	—	283,375
Repayments of notes payable	(4,095)	(6,958)	(46,115)
Increase (decrease) in amounts due under repurchase agreements	(10,724)	131,822	156,085
Proceeds from issuance of subordinated debentures	40,000	55,000	57,500
Acquisition of common stock	(12,960)	—	—
Settlement of option agreement	(514)	—	—
Tax benefits realized from exercise of stock options, management subscription rights and settlement of option agreement	2,812	4,781	—
Proceeds from issuance of common stock	2,424	175,539	7,313
Checks in excess of cash balance	36,797	—	—
Dividends paid	(2,673)	(1,621)	(767)
Net cash provided by financing activities	478,208	2,423,074	1,440,950
Increase (decrease) in cash and cash equivalents	(82,446)	45,853	32,790
Cash and cash equivalents at beginning of year	112,395	66,542	33,752
Cash and cash equivalents at end of year	$ 29,949	$ 112,395	$ 66,542
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest expense	$ 68,490	$ 41,119	$ 13,331
Income taxes	20,029	62,993	29,500
Non-cash operating, financing and investing activities:			
Premium and interest bonuses deferred as sales inducements	133,701	163,646	75,162
Conversion of subordinated debentures	420	160	2,485
Subordinated debentures issued to subsidiary trusts for common equity securities of the subsidiary trust	1,238	1,730	1,770

See accompanying notes to consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Significant Accounting Policies

Organization

American Equity Investment Life Holding Company (the Company), through its wholly-owned subsidiaries, American Equity Investment Life Insurance Company and American Equity Investment Life Insurance Company of New York, is licensed to sell insurance products in 50 states and the District of

Columbia at December 31, 2006. The Company offers a broad array of annuity and insurance products. The Company's business consists primarily of the sale of index and fixed rate annuities. The Company operates solely in the life insurance business.

Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: American Equity Investment Life Insurance Company ("American Equity Life"), American Equity Investment Life Insurance Company of New York, American Equity Investment Capital, Inc., American Equity Investment Properties, L.C. and American Equity Investment Service Company ("Service Company"), which was acquired on September 2, 2005, see note 8. Prior to September 2, 2005, the consolidated financial statements included the accounts of the Service Company, a variable interest entity, as discussed below. All significant intercompany accounts and transactions have been eliminated.

In the first quarter of 2005, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. FIN 46(R)-5, *Implicit Variable Interests under FIN 46* ("FSP FIN 46(R)-5"). The Company adopted FSP FIN 46(R)-5 in the first quarter of 2005 and as permitted by the FSP, applied it retroactively to January 1, 2003, the date of the Company's original adoption of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* ("FIN 46"). There was no cumulative effect on January 1, 2003 due to the adoption of FSP FIN 46(R)-5. Prior to the acquisition of the Service Company on September 2, 2005, the Company had an implicit variable interest in the Service Company and was required to consolidate the Service Company under FSP FIN 46(R)-5.

The adoption of FSP FIN 46(R)-5 and the consolidation of the Service Company decreased net income, earnings per common share and earnings per common share—assuming dilution for the year ended December 31, 2004 by $16.0 million, $0.42 and $0.37, respectively. Prior to January 1, 2004, the Service Company was taxed as a Subchapter S Corporation. Effective January 1, 2004, the Service Company revoked its Subchapter S election, which required the recognition of a deferred income tax liability on the basis of the differences that existed at that date, all of which is reflected in income tax expense for the year ended December 31, 2004. The increase in income tax expense for the year ended December 31, 2004 attributable to the change in the Service Company's federal income tax status was approximately $16.3 million, and is the principal reconciling item between the amount computed at the applicable statutory federal income tax rate (35%) and the amount reported in the consolidated statements of income. A $2.5 million dividend distribution to the Company's chairman by the Service Company preceding this acquisition is recorded in the 2005 consolidated statement of income on the minority interest line. For further information on the Service Company, see note 8.

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 and accruals, valuation of derivatives, including embedded derivatives on index reserves and contingent convertible senior notes, other than temporary impairment of investments and valuation allowances on deferred tax assets. It is reasonably possible that actual experience could differ from the estimates and assumptions utilized.

Reclassifications

Certain items appearing in the 2005 and 2004 consolidated financial statements have been reclassified to conform with the current year presentation. See note 10 for reclassifications of equity awards and its impact on the statements of changes in stockholders' equity.

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 estimated 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 the latest quoted market prices, or for those fixed maturity securities not readily marketable, price matrices developed using yield data and other factors relating to instruments or securities with similar characteristics.

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 mortgage and asset-backed securities incorporate prepayment assumptions to estimate the securities' expected lives. Interest income is recognized as earned

Fixed maturity securities that the Company has the positive intent and ability to hold to maturity are classified as held for investment. 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 the Company's 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 non-redeemable 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.

Mortgage loans on real estate are reported at cost, adjusted for amortization of premiums and accrual of discounts. If the Company determines that the value of any 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. 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. There were no valuation allowances at December 31, 2006 and 2005. Interest income on impaired loans is recorded on a cash basis.

Policy loans are reported at unpaid principal.

The carrying amounts of all the Company's investments are reviewed on an ongoing basis for credit deterioration and changes in market interest rates. If this review indicates a decline in fair value that is other than temporary, the Company's carrying amount in the investment is reduced to its estimated fair value and a specific write down is taken. Such reductions in carrying amount are recognized as realized losses and charged to income. Realized gains and losses on sales are determined on the basis of specific identification of investments. Factors considered in evaluating whether a decline in value is other than temporary include:

- the length of time and the extent to which the fair value has been less than cost;
- the financial condition and near-term prospects of the issuer;
- whether the investment is rated investment grade;
- whether the issuer is current on all payments and all contractual payments have been made as agreed;
- our intent and ability to retain the investment for a period of time sufficient to allow for recovery;
- consideration of rating agency actions; and
- changes in cash flows of asset-backed and mortgage-backed securities.

Derivative Instruments

Pursuant to Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"), the Company's derivative instruments (including certain derivative instruments embedded in other contracts) are recognized in the balance sheet at their fair values and changes in fair value are recognized immediately in earnings.

The Company has 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. A portion of the premium from each policyholder is invested in investment grade fixed income securities to cover the minimum guaranteed value due the policyholder at the end of the contract term. A portion of the premium is used to purchase derivatives consisting of call options on the applicable market indices to fund the index credits due to 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 market with the change in fair value included as a component of our revenues. On the respective anniversary dates of the index policies, the index used to compute the annual index credit is reset and the Company purchases new one-year call options to fund the next annual index credit. The Company manages the cost of these purchases through the terms of its index annuities, which permit the Company to change annual participation rates, caps, and/or asset fees, subject to guaranteed minimums. By adjusting participation rates, caps or asset fees, the Company can generally limit option costs to budgeted amounts except in cases where the contractual features would prevent further modifications.

The Company's strategy attempts to mitigate any potential risk of loss under these agreements through a regular monitoring process which evaluates the program's effectiveness. The Company is exposed to risk of loss in the event of nonperformance by the counterparties and, accordingly, the Company purchases its option contracts from multiple counterparties and evaluates the creditworthiness of all counterparties prior to purchase of the contracts. At December 31, 2006, all of these options had been

purchased from nationally recognized investment banking institutions with a Standard and Poor's credit rating of A or higher.

Under SFAS 133, the future annual index credits on the Company's index annuities are treated as a "series of embedded derivatives" over the expected life of the applicable contract. The Company does not purchase call options to fund the index liabilities which may arise after the next policy anniversary date. The Company must value both the call options and the related forward embedded options in the policies at fair value. The change in fair value for the call options is included in the change in fair value of derivatives and the change in fair value adjustment of the embedded options is included in the change in fair value of embedded derivatives in the consolidated statements of income.

On December 15, 2005, the conversion option embedded in the Company's contingent convertible senior notes was bifurcated from the host instrument and accounted for as a derivative at fair value with changes in fair value recorded in the consolidated statements of income. Effective June 8, 2006, this conversion option was no longer required to be bifurcated and accounted for as a derivative. The changes in the fair value of the conversion option embedded in these notes coincide with the changes in the Company's common stock price during the periods of time during 2006 and 2005 that the conversion option was required to be bifurcated.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Deferred Policy Acquisition Costs and Deferred Sales Inducements

To the extent recoverable from future policy revenues and gross profits, certain costs that vary directly with 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 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. Amortization of deferred sales inducements is reported as a component of interest credited to account balances in the consolidated statements of income.

For annuity and single premium universal life products, these capitalized costs are being amortized generally in proportion to expected gross profits from investments 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 (including the impact of realized gains/losses) 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 and the proceeds reinvested at current yields. The impact of this adjustment is included in other comprehensive income (loss) within consolidated stockholders' equity.

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 Benefits

Future policy benefit reserves for annuity and single premium universal life products are computed under a retrospective deposit method and represent policy account balances before applicable surrender charges. Future policy benefit reserves for index annuities are equal to the sum of the fair value of the embedded index options, accumulated index credits and the host contract reserve computed using a method similar to that used for annuity and single premium universal life products. Policy benefits and claims on universal life products that are charged to expense include benefit claims incurred in the period in excess of related policy account balances. For the years ended December 31, 2006, 2005 and 2004, interest crediting rates for these products ranged from 3.0% to 11.5%. 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 6.0%. 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 the Company's 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 (2006—$0.1 million; 2005—$0.2 million; and 2004—$0.0 million) are reported as a reduction of traditional life and accident and health insurance premiums in the consolidated statements of income.

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 ultimate realization of deferred income tax assets depends on generating future taxable income during the periods in which temporary differences become deductible. If future income is not generated as expected, deferred income tax assets may need to be written off.

Stockholders' Equity

On December 20, 2005, the Company completed an offering of 13,000,000 shares of its common stock at a price of $11.60 per share. Pursuant to the over-allotment option granted to the underwriters in this offering, the underwriters purchased an additional 1,950,000 shares on December 30, 2005. The proceeds

from this offering (including proceeds from shares issued pursuant to the over-allotment option), net of the underwriting discount and expenses, were approximately $163.5 million.

During 2005 and 2004, certain officers and directors exercised subscription rights to purchase shares of the Company's common stock with respect to 2,151,375 shares and 6,000 shares, respectively. The subscription rights had an exercise price of $5.33 per share and the tax benefit realized for the tax deduction from the exercise of the subscription rights was $4.7 million for 2005 and immaterial for 2004.

During 2004, 625,000 shares of 1998 Series A Participating Preferred Stock (aggregate liquidation preference of $10.0 million) converted into 1,875,000 shares of the Company's common stock. Prior to conversion, these preferred shares had participating dividend rights with shares of the Company's common stock, when and as such dividends were declared.

On December 9, 2003, the Company completed an initial public offering of 18,700,000 shares of its common stock at a price of $9.00 per share. Pursuant to the over-allotment option granted to the underwriters in this offering, the underwriters purchased an additional 2,000,000 shares on December 29, 2003 and an additional 805,000 shares on January 7, 2004. The proceeds from the initial public offering (including proceeds from shares issued pursuant to the over-allotment option), net of the underwriting discount and expenses, were approximately $178.0 million, of which $6.7 million was received in 2004.

Recognition of Premium Revenues and Costs

Revenues for annuity and single premium universal life products include surrender charges and mortality and expense charges (single premium universal life products only) assessed against policyholder account balances during the period. Expenses related to these products include interest credited to policyholder account balances and benefit claims incurred in excess of policyholder account balances (single premium universal life products only).

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 5), benefits, losses and expenses are reported net of reinsurance ceded.

Premiums and Deposits by Product Type

The Company markets index annuities, fixed rate annuities, a variable annuity and life insurance. In connection with its reinsured group life business, the Company also collects renewal premiums on certain accident and health insurance policies. Premiums and deposits (net of coinsurance), which are not included as revenues in the accompanying consolidated statements of income, collected in 2006, 2005 and 2004, by product category were as follows:

Product Type	Year Ended December 31, 2006	2005	2004
	(Dollars in thousands)		
Index Annuities:			
Index Strategies	$ 1,159,035	$ 1,777,825	$ 1,008,801
Fixed Strategy	626,018	907,711	491,721
	1,785,053	2,685,536	1,500,522
Fixed Rate Annuities	82,054	204,831	271,385
Life Insurance	13,318	13,077	14,566
Accident and Health	304	501	549
Variable Annuities	4	37	279
	$ 1,880,733	$ 2,903,982	$ 1,787,301

One national marketing organization through which the Company markets its products accounted for more than 10% of the annuity deposits and insurance premium collections during 2006, representing 14% of the annuity deposits and insurance premiums collected. Two national marketing organizations through which the Company markets its products each accounted for more than 10% of the annuity deposits and insurance premium collections during 2005 and 2004 representing 15% and 11%, and 18% and 11%, of the annuity deposits and insurance premiums collected, respectively.

Comprehensive Income

Comprehensive income 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 represent transfers from unrealized to realized gains and losses. These amounts totaled $1.4 million, $(7.6) million and $0.9 million in 2006, 2005 and 2004, 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 $0.9 million in 2006, $(5.0) million in 2005 and $0.3 million in 2004.

Adopted Accounting Pronouncements

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"), to address diversity in practice in quantifying financial statement misstatements. SAB 108 requires an entity to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. SAB 108 is effective for years ending after November 15, 2006. SAB 108 allows a one-time transitional cumulative effect adjustment to retained earnings as of January 1, 2006 for errors that were not previously deemed material, but are material under the guidance of SAB 108. The Company adopted the provisions of SAB No. 108 and recorded a $5.8 million cumulative adjustment to the January 1, 2006 retained earnings for items discussed below. These errors were considered immaterial under the Company's previous method of evaluating misstatements.

The Company adjusted its beginning retained earnings for 2006 by $1.8 million related to the amortization of debt issue costs, discount on debt and discount on certain investments, which were incorrectly being amortized on a straight line basis versus using the effective interest method. These differences had accumulated over a period of years beginning in 1999.

The Company also adjusted its beginning retained earnings for 2006 by $4.0 million for a correction of the calculation of its index annuity reserves in accordance with SFAS 133 net of the effects of amortization of deferred policy acquisition costs and deferred sales inducements. This difference had accumulated over a period of years beginning in 2003.

The Company corrected the portion of the errors discussed above that arose during the prior quarters of 2006 in the fourth quarter of 2006 increasing net income by $1.7 million in the fourth quarter. The effect on the first and third quarters of 2006 was to decrease net income by $1.0 million and $0.7 million, respectively and is immaterial.

As of January 1, 2006, the Company adopted SFAS No. 123R, *Share Based Payment* ("SFAS 123R") using the modified prospective method, which requires measurement of compensation cost for all share-based awards at fair value on the date of grant and recognition of such value as compensation expense over the service period, net of estimated forfeitures. The fair value of the Company's stock options are determined using the Black-Scholes valuation model, which is consistent with the Company's valuation techniques previously used for stock options in the footnote disclosures required under SFAS No. 123, *Accounting for Stock Based Compensation* as amended by SFAS No. 148, *Accounting for Stock Based Compensation—Transition and Disclosure*. There was no cumulative effect upon the adoption of SFAS 123R. The effect on consolidated net income and cash flows from operations and financing activities was immaterial for 2006.

Prior to January 1, 2006, the Company elected to follow Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees* ("APB 25") for its share-based awards. Under APB 25, because the exercise price of the Company's employee stock options equaled the fair value of the underlying stock on the date of grant, no compensation expense was recognized.

New Accounting Pronouncements

In June 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, which is a replacement of APB Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS 154 requires retrospective application of prior periods' financial statements for all voluntary changes in accounting principle, unless impracticable. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 31, 2005. SFAS 154 has no immediate impact on the Company's consolidated financial statements, though it will impact the presentation of future voluntary accounting changes, if any such changes occur.

In September 2005, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 05-1, *Accounting by Insurance Enterprises for*

Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts ("SOP 05-1"). SOP 05-1 provides guidance on accounting by insurance enterprises for deferred policy acquisition costs and deferred sales inducements on internal replacements of insurance contracts other than those specifically described in SFAS 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights or coverages that occurs by exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 31, 2006. Retrospective application of SOP 05-1 to previously issued financial statements is not permitted. The Company has evaluated SOP 05-1 and does not expect that it will have a material impact on the consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* ("SFAS 155"), which amends SFAS 133 and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("SFAS 140"). SFAS 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. SFAS 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. The Company has evaluated SFAS 155 and does not expect that it will have a material impact on the consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Under the Interpretation, a tax position can be recognized in the financial statements if it is more likely than not that the position will be sustained upon examination by taxing authorities who have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective beginning in 2007. The Company is continuing to evaluate FIN 48 but does not believe it will have a material impact on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and expands the required disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is continuing to evaluate SFAS 157 but does not believe that it will have a material impact on the consolidated financial statements.

2. Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating the fair values of financial instruments:

Fixed maturity securities: Quoted market prices, when available, or price matrices for securities which are not actively traded, developed using yield data and other factors relating to instruments or securities with similar characteristics.

Equity securities: Quoted market prices.

Mortgage loans on real estate: Discounted expected cash flows using interest rates currently being offered for similar loans.

Derivative instruments: Quoted market prices from related counterparties.

Policy loans: The Company has not attempted to determine the fair values associated with its policy loans, as management believes any differences between the Company's carrying value and the fair values afforded these instruments are immaterial to the Company's financial position and, accordingly, the cost to provide such disclosure is not worth the benefit to be derived.

Cash and cash equivalents: Amounts reported in the consolidated balance sheets for these instruments approximate their fair values.

Annuity and single premium universal life policy benefit reserves and coinsurance deposits—related party: Fair values of the Company's liabilities under contracts not involving significant mortality or morbidity risks (principally deferred annuities), are stated at the cost the Company would incur to extinguish the liability (i.e., the cash surrender value) adjusted as required under SFAS 133. The coinsurance deposits related to the annuity benefit reserves have fair values determined in a similar fashion. The Company is not required to and has not estimated the fair value of its liabilities under other contracts.

Notes payable and amounts due under repurchase agreements: The fair value of the contingent convertible senior notes is based upon quoted market prices. Fair values for other notes payable with fixed interest rates are estimated by discounting expected cash flows using interest rates currently being offered for similar securities. The amounts reported in the consolidated balance sheets for short term indebtedness under repurchase agreements with variable interest rates approximate their fair values.

Subordinated debentures: The carrying amount of subordinated debentures with variable interest rates reported in the consolidated balance sheets approximates fair value. Fair values for subordinated debentures with fixed interest rates are estimated by discounting expected cash flows using interest rates currently being offered for similar securities.

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

	December 31,			
	2006		2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in thousands)			
Assets				
Fixed maturity securities:				
Available for sale	$ 4,177,029	$ 4,177,029	$ 4,188,683	$ 4,188,683
Held for investment	5,128,146	4,871,237	4,711,427	4,598,615
Equity securities, available for sale	45,512	45,512	84,846	84,846
Mortgage loans on real estate	1,652,757	1,677,846	1,321,637	1,341,353
Derivative instruments	381,601	381,601	185,391	185,391
Policy loans	419	419	362	362
Cash and cash equivalents	29,949	29,949	112,395	112,395
Coinsurance deposits—related party	1,841,720	1,588,465	1,959,663	1,694,583
Liabilities				
Annuity and single premiumuniversal life policy benefit reserves	13,207,931	11,138,257	12,162,116	10,528,907
Notes payable	266,383	317,172	281,043	319,317
Subordinated debentures	268,489	272,491	230,658	230,658
Amounts due under repurchase agreements	385,973	385,973	396,697	396,697

3. Investments

At December 31, 2006 and 2005, the amortized cost and estimated fair value of fixed maturity securities and equity securities were as follows:

December 31, 2006	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	$ 2,770	$ 14	$ (38)	$ 2,746
United States Government sponsored agencies	2,997,612	1	(83,986)	2,913,627
Public utilities	140,463	484	(3,486)	137,461
Corporate securities	657,067	4,137	(17,354)	643,850
Redeemable preferred stocks	62,126	142	(1,623)	60,645
Mortgage and asset-backed securities:				
United States Government and agencies	69,187	13	(1,317)	67,883
Non-government	367,957	51	(17,191)	350,817
	$ 4,297,182	$ 4,842	$ (124,995)	$ 4,177,029
Held for investment:				
United States Government sponsored agencies	$ 5,052,858	$ 3	$ (256,912)	$ 4,795,949
Redeemable preferred stocks	75,288	—	—	75,288
	$ 5,128,146	$ 3	$ (256,912)	$ 4,871,237
Equity securities, available for sale:				
Non-redeemable preferred stocks	$ 31,514	$ 41	$ (407)	$ 31,148
Common stocks	14,486	97	(219)	14,364
	$ 46,000	$ 138	$ (626)	$ 45,512
December 31, 2005				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	$ 2,734	$ 64	$ (24)	$ 2,774
United States Government sponsored agencies	2,877,423	37	(67,471)	2,809,989
Public utilities	133,489	1,163	(1,306)	133,346
Corporate securities	603,746	7,138	(12,596)	598,288
Redeemable preferred stocks	48,578	394	(2,076)	46,896
Mortgage and asset-backed securities:				
United States Government and agencies	218,870	1,669	(160)	220,379
Non-government	389,319	625	(12,933)	377,011
	$ 4,274,159	$ 11,090	$ (96,566)	$ 4,188,683
Held for investment:				
United States Government sponsored agencies	$ 4,635,485	$ 478	$ (113,290)	$ 4,522,673
Corporate securities	75,942	—	—	75,942
	$ 4,711,427	$ 478	$ (113,290)	$ 4,598,615
Equity securities, available for sale:				
Non-redeemable preferred stocks	$ 71,642	$ 395	$ (2,075)	$ 69,962
Common stocks	16,418	—	(1,534)	14,884
	$ 88,060	$ 395	$ (3,609)	$ 84,846

The amortized cost and estimated fair value of fixed maturity securities at December 31, 2006, 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 the Company's mortgage-backed 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	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
Due after one year through five years	$ 98,955	$ 98,783	$ —	$ —
Due after five years through ten years	491,345	476,611	—	—
Due after ten years through twenty years	2,083,777	2,034,092	348,413	342,104
Due after twenty years	1,185,961	1,148,843	4,779,733	4,529,133
	3,860,038	3,758,329	5,128,146	4,871,237
Mortgage-backed and asset-backed securities	437,144	418,700	—	—
	$ 4,297,182	$ 4,177,029	$ 5,128,146	$ 4,871,237

Net unrealized losses on available for sale fixed maturity securities and equity securities reported as a separate component of stockholders' equity were comprised of the following at December 31, 2006 and 2005:

	December 31,	
	2006	2005

	(Dollars in thousands)	
Net unrealized losses on available for sale fixed maturity securities and equity securities	$ (120,641)	$ (88,690)
Adjustments for assumed changes in amortization of deferred policy acquisition costs and deferred sales inducements	60,997	46,680
Deferred income tax benefit	20,875	14,704
Net unrealized losses reported as accumulated other comprehensive loss	$ (38,769)	$ (27,306)

The following table shows our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2006:

	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
Fixed maturity securities:						
Available for sale:						
United States Government full faith and credit	$ —	$ —	$ 901	$ (38)	$ 901	$ (38)
United States Government sponsored agencies	302,604	(2,372)	2,611,022	(81,614)	2,913,626	(83,986)
Public utilities	38,325	(1,160)	42,489	(2,326)	80,814	(3,486)
Corporate securities	131,668	(3,980)	316,748	(13,374)	448,416	(17,354)
Redeemable preferred stocks	10,209	(171)	36,702	(1,452)	46,911	(1,623)
Mortgage and asset-backed securities	117,863	(2,285)	289,921	(16,223)	407,784	(18,508)
	$ 600,669	$ (9,968)	$ 3,297,783	$ (115,027)	$ 3,898,452	$ (124,995)
Held for investment:						
United States Government sponsored agencies	$ 273,427	$ (4,190)	$ 4,495,162	$ (252,722)	$ 4,768,589	$ (256,912)
	$ 273,427	$ (4,190)	$ 4,495,162	$ (252,722)	$ 4,768,589	$ (256,912)
Equity securities, available for sale:						
Non-redeemable preferred stocks	$ 20,909	$ (407)	$ —	$ —	$ 20,909	$ (407)
Common stocks	2,991	(219)	—	—	2,991	(219)
	$ 23,900	$ (626)	$ —	$ —	$ 23,900	$ (626)

Approximately 99% of the unrealized losses on fixed maturity securities shown in the above table are on securities that are rated investment grade. These unrealized losses are primarily from the Company's investments in United States Government agencies and United States Government agency mortgage-backed securities. These securities are relatively long in duration and are callable, making the value of such securities very sensitive to changes in market interest rates. Approximately 1% of the unrealized losses on fixed maturity securities shown in the above table are on securities rated below investment grade. The Company reviews all investments on an ongoing basis for credit deterioration as discussed in note 1.

The securities in an unrealized loss position are current in respect to payments of interest and principal and the Company has the intent and ability to hold these securities until they recover in fair value.

Components of net investment income are as follows:

	Year Ended December 31,		
	2006	2005	2004
	(Dollars in thousands)		
Fixed maturity securities	$ 575,931	$ 475,071	$ 376,319
Equity securities	2,842	3,402	1,668
Mortgage loans on real estate	100,334	77,518	52,697
Cash and cash equivalents	1,089	1,171	604
Other	1,202	559	648
	681,398	557,721	431,936
Less investment expenses	(3,760)	(3,603)	(3,551)
Net investment income	$ 677,638	$ 554,118	$ 428,385

Proceeds from sales of available for sale fixed maturity securities for the years ended December 31, 2006, 2005 and 2004 were $350.2 million, $155.4 million and $272.7 million, respectively. Scheduled principal repayments, calls and tenders for available for sale fixed maturity securities for the years ended December 31, 2006, 2005 and 2004 were $36.7 million, $279.2 million and $1.1 billion, respectively. There were no calls of held for investment fixed maturity securities for the year ended December 31, 2006. Calls of held for investment fixed maturity securities for the years ended December 31, 2005 and 2004 were $1.3 billion and $1.2 billion, respectively.

Net realized gains (losses) on investments for the years ended December 31, 2006, 2005 and 2004 are as follows:

	Year Ended December 31,		
	2006	2005	2004
	(Dollars in thousands)		
Available for sale fixed maturity securities:			
Gross realized gains	$ 4,628	$ 5,334	$ 13,720
Gross realized losses	(3,054)	(3,642)	(220)
Writedowns (other than temporary impairments)	(1,337)	(8,902)	(12,828)
	237	(7,210)	672
Equity securities:			
Gross realized gains	1,208	135	272
Gross realized losses	(100)	—	(1)
Writedowns (other than temporary impairments)	—	(560)	—
	1,108	(425)	271
	$ 1,345	$ (7,635)	$ 943

Changes in unrealized appreciation (depreciation) on investments for the years ended December 31, 2006, 2005 and 2004 are as follows:

	Year Ended December 31,		
	2006	2005	2004
	(Dollars in thousands)		
Fixed maturity securities held for investment carried at amortized cost	$ (144,097)	$ (20,094)	$ 17,347
Investments carried at estimated fair value:			
Fixed maturity securities, available for sale	$ (34,677)	$ (20,995)	$ 21,250
Equity securities, available for sale	2,726	(2,679)	(150)
	(31,951)	(23,674)	21,100
Adjustment for effect on other balance sheet accounts:			
Deferred policy acquisition costs and deferred sales inducements	14,317	11,639	(16,087)
Deferred income tax asset	6,171	4,328	(1,870)
Net unrealized gain and amortization on fixed maturity securities transferred from available to sale to held for investment	—	(330)	330
	20,488	15,637	(17,627)
Change is unrealized appreciation (depreciation) on investments carried at fair value	$ (11,463)	$ (8,037)	$ 3,473

The Company transferred fixed maturity securities at fair value of $1.2 billion during 2004 from available for sale to held for investment to match its investment objectives, which are to hold these investments to maturity. The unrealized gain on these securities on the date of transfer of $1.7 million is included as a separate component of accumulated other comprehensive loss and was being amortized over the lives of the securities. All of the securities transferred during 2004 were called for redemption subsequent to the transfer.

The Company's mortgage loan portfolio totaled $1.7 billion and $1.3 billion at December 31, 2006 and 2005, respectively, with commitments outstanding of $30.9 million at December 31, 2006. The portfolio consists of commercial mortgage loans diversified as to property type, location and loan size. The loans are collateralized by the related properties. The Company's mortgage lending policies establish limits on the amount that can be loaned to one borrower and require diversification by geographic location and collateral type. As of December 31, 2006, there were no delinquencies or defaults in the Company's mortgage loan portfolio. There was no valuation allowance at December 31, 2006 and 2005. The commercial mortgage loan portfolio is diversified by geographic region and specific collateral property type as follows (dollars in thousands):

	December 31,			
	2006		2005	
	Carrying Amount	Percent	Carrying Amount	Percent
Geographic distribution				
East	$ 364,977	22.1%	$ 283,085	21.4%

Middle Atlantic	115,930	7.0%	93,579	7.1%
Mountain	267,808	16.2%	198,476	15.0%
New England	43,228	2.6%	47,839	3.6%
Pacific	132,085	8.0%	117,977	8.9%
South Atlantic	299,373	18.1%	213,423	16.1%
West North Central	290,592	17.6%	258,181	19.6%
West South Central	138,764	8.4%	109,077	8.3%
Total	$ 1,652,757	100.0%	$ 1,321,637	100.0%
Property type distribution				
Office	$ 508,093	30.7%	$ 384,606	29.1%
Medical Office	78,147	4.7%	75,716	5.7%
Retail	389,534	23.6%	285,715	21.6%
Industrial/Warehouse	381,248	23.1%	346,461	26.2%
Hotel	71,510	4.3%	52,274	4.0%
Apartment	91,190	5.5%	68,795	5.2%
Mixed use/other	133,035	8.1%	108,070	8.2%
Total	$ 1,652,757	100.0%	$ 1,321,637	100.0%

At December 31, 2006 and 2005, fixed maturity securities and short-term investments with an amortized cost of $2.4 million and $2.2 million, respectively, were on deposit with state agencies to meet regulatory requirements. There are no restrictions on these assets.

At December 31, 2006 and 2005, the only investment in any person or its affiliates (other than bonds issued by agencies of the United States Government) that exceeded 10% of stockholders' equity was FBL Capital Trust I with an estimated fair value and amortized cost of $75.3 million and $75.9 million, respectively.

4. Deferred Policy Acquisition Costs and Deferred Sales Inducements

An analysis of deferred policy acquisition costs is presented below for the years ended December 31, 2006 and 2005:

	2006	2005
	(Dollars in thousands)	
Balance at beginning of year	$ 977,015	$ 713,021
Cumulative adjustment—SAB 108	(7,344)	—
Costs deferred during the year:		
Commissions	196,877	316,538
Policy issue costs	8,709	8,886
Amortized to expense during the year	(94,923)	(68,109)
Effect of net unrealized losses	8,556	6,679
Balance at end of year	$ 1,088,890	$ 977,015

An analysis of deferred sales inducements is presented below for the years ended December 31, 2006 and 2005:

	2006	2005
	(Dollars in thousands)	
Balance at beginning of year	$ 315,848	$ 159,467
Cumulative adjustment—SAB 108	(2,963)	—
Costs deferred during the year	133,701	163,646
Amortized to expense during the year	(24,793)	(12,225)
Effect of net unrealized losses	5,761	4,960
Balance at end of year	$ 427,554	$ 315,848

5. Reinsurance and Policy Provisions

Coinsurance

The Company has entered into two coinsurance agreements with EquiTrust Life Insurance Company ("EquiTrust"), an affiliate of Farm Bureau Life Insurance Company ("Farm Bureau") covering 70% of certain of the Company's fixed rate and index 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. As of December 31, 2006, Farm Bureau beneficially owned 5.4% of the Company's common stock.

Expense allowances received from EquiTrust under these agreements were $2.0 million for each of the years ended December 31, 2006 and 2005 and $22.6 million for the year ended December 31, 2004. Coinsurance deposits (aggregate policy benefit reserves transferred to EquiTrust under these agreements) decreased by $190.2 million and $164.0 million and increased by $66.0 million for the years ended December 31, 2006, 2005 and 2004, respectively, for the ceding of annuity deposits, surrenders, withdrawals and death benefits. Coinsurance deposits were $1.8 billion and $2.0 billion at December 31, 2006 and 2005, respectively. The Company remains 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 $45.5 million and $27.7 million at December 31, 2006 and 2005, respectively, and represents the fair value of call options held by the Company to fund index credits related to the ceded business and cash due to or from EquiTrust related to monthly settlements of policy activity.

The Company has also entered into a modified coinsurance agreement to cede 70% of its variable annuity business to EquiTrust. Under this agreement, the Company paid EquiTrust $0.3 million for the year ended December 31, 2006 and $0.2 million for each of the years ended December 31, 2005 and 2004. The modified coinsurance agreement will continue until termination by written notice at the election of either party. Any such termination will apply to the submission or acceptance of new policies, and business reinsured under the agreement prior to any such termination is not eligible for recapture before the expiration of 10 years. EquiTrust (or one of its affiliates) provides the administrative support necessary to manage this business.

Financial Reinsurance

The Company has entered into three reinsurance transactions with Hannover Life Reassurance Company of America (“Hannover”), which are treated as reinsurance under statutory accounting practices and as financial reinsurance 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 income. The first transaction became effective November 1, 2002 (the “2002 Hannover Transaction”), the second transaction became effective September 30, 2003 (the “2003 Hannover Transaction”) and the third transaction became effective October 1, 2005 (the “2005 Hannover Transaction”). The agreements for the 2002 and 2003 Hannover Transactions include a coinsurance segment and a yearly renewable term segment reinsuring a portion of death benefits payable on certain annuities issued from January 1, 2002 to December 31, 2002 and issued from January 1, 2003 to September 30, 2003. The coinsurance segments provide reinsurance to the extent of 6.88% (2002 Hannover Transaction) and 13.41% (2003 Hannover Transaction) of all risks associated with the Company’s annuity policies covered by these reinsurance agreements. The 2002 Hannover Transaction provided $29.8 million in net statutory surplus benefit during 2002 and the 2003 Hannover Transaction provided $29.7 million in net statutory surplus benefit during 2003. The statutory surplus benefits provided by the 2002 and 2003 Hannover Transactions were reduced by $13.6 million in 2006, $13.4 million in 2005 and $13.1 million in 2004. The remaining statutory surplus benefit under the 2002 and 2003 Hannover Transactions is expected to be reduced in the following years as follows: 2007—$13.2 million; 2008—$6.8 million. The 2005 Hannover Transaction is a yearly renewable term reinsurance agreement on inforce business covering 40% of waived surrender charges related to penalty free withdrawals and deaths. The risks reinsured under this agreement may be recaptured as of the end of any quarter beginning October 1, 2008. The Company pays 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 reserve credit. The reserve credit recorded on a statutory basis by American Equity Life was $69.6 million and $59.0 million at December 31, 2006 and 2005, respectively. Risk charges attributable to the three reinsurance transactions with Hannover included in other operating costs and expenses were of $5.0 million, $2.5 million and $2.2 million during 2006, 2005 and 2004, respectively.

Indemnity Reinsurance

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

6. Income Taxes

The Company files a consolidated federal income tax return with all its subsidiaries. The Company’s income tax expense (benefit) is as follows:

	Year Ended December 31,		
	2006	2005	2004
	(Dollars in thousands)		
Consolidated statements of income:			
Current income taxes	$ 20,144	$ 57,391	$ 39,791
Deferred income taxes	21,296	(31,989)	820
Total income tax expense included in consolidated statements of income	41,440	25,402	40,611
Stockholders’ equity:			
Expense (benefit) relating to:			

Change in net unrealized investment gains/losses	(6,171)	(4,328)	1,870
Share-based compensation	(2,812)	(4,781)	—
Cumulative adjustment-SAB 108	3,503	—	—
Total income tax expense included in consolidated financial statements	$ 35,960	$ 16,293	$ 42,481

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

	Year Ended December 31,		
	2006	2005	2004
	(Dollars in thousands)		
Income before income taxes and minority interests	$ 116,925	$ 70,894	$ 69,481
Income tax expense on income before income taxes and minority interests	$ 40,924	$ 24,813	$ 24,318
Tax effect of:			
Change in federal income tax status of variable interest entity (see note 1)	—	—	16,254
Other	516	589	39
Income tax expense	$ 41,440	$ 25,402	$ 40,611
Effective tax rate	35.4%	35.8%	58.4%

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, 2006 and 2005, are as follows:

	December 31,	
	2006	2005
	(Dollars in thousands)	
Deferred income tax assets:		
Policy benefit reserves	$ 538,028	$ 474,434
Unrealized depreciation on available for sale fixed maturity securities and equity securities	20,875	14,704
Fixed maturity and equity securities	1,778	9,324
Deferred compensation	10,070	4,884
Net operating loss carryforwards	10,390	8,707
Other	5,038	3,069
Gross deferred tax assets	586,179	515,122
Deferred income tax liabilities:		
Deferred policy acquisition costs	(479,252)	(407,972)
Amounts due to reinsurer	(10,030)	(7,118)
Convertible senior notes	(9,033)	(3,274)
Derivative instruments	(11,457)	(3,338)
Other	(2,576)	(961)
Gross deferred tax liabilities	(512,348)	(422,663)
Net deferred income tax asset	$ 73,831	$ 92,459

In the opinion of the Company's management, realization of its deferred income tax assets is more likely than not based on expectations as to the Company's future taxable income and considering all other available evidence, both positive and negative. Therefore, no valuation allowance against deferred tax assets has been established.

At December 31, 2006, the Company has non-life net operating loss carryforwards for federal tax purposes of $25.0 million which expire beginning in 2012 through 2026.

7. Notes Payable and Amounts Due Under Repurchase Agreements

In December 2004, the Company issued $260.0 million of contingent convertible senior notes due December 6, 2024. The 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, beginning June 6, 2005. In addition to regular interest on the notes, beginning with the six-month interest period ending June 6, 2012, the Company 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.

Effective December 15, 2005, the conversion option embedded in these notes was bifurcated from the host instrument due to an insufficient number of authorized shares of the Company and accounted for as a derivative at fair value with changes in fair value recorded in the consolidated statements of income. A debt discount of $81.6 million was created upon the bifurcation of the embedded derivative. The fair value of the conversion option was $85.6 million on December 31, 2005. Effective June 8, 2006, this conversion option was no longer required to be bifurcated and marked to market upon shareholder approval of an increase of authorized shares of the Company. The unbifurcation of the embedded derivative resulted in adjusting the debt discount to $6.5 million. The amortization of the discount was $6.4 million and $0.6 million for the years ended December 31, 2006 and 2005, respectively. The net increase (decrease) in the carrying amount of the contingent convertible notes was ($15.2) million and $4.6 million for the years ended December 31, 2006 and 2005, respectively, and is included as a component of the change in fair value of embedded derivatives. The carrying value of the contingent convertible senior notes was $254.1 million and $264.6 million (includes fair value of the conversion option) at December 31, 2006 and 2005, respectively.

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

· during any fiscal quarter, if the closing sale price of the Company's 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;

· the Company has 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 the Company's common stock at a conversion price per share of $14.47. This represents a conversion rate of approximately 69.1 shares of common stock per $1,000 in principal amount of notes (the "conversion rate"). Subject to certain exceptions described in the indenture covering these notes, at the time the notes are tendered for conversion, the value (the "conversion value") of the cash and shares of the Company's 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 the Company's 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. The Company 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.

The Company may redeem some or all of the notes at any time on or after December 15, 2011. In addition, the holders may require the Company to repurchase all or a portion of their notes on December 15, 2011, 2014, and 2019 and upon a change in control, as defined in the indenture governing the notes, holders may require the Company 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.

The 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. The 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. The notes are structurally subordinated to all liabilities of the Company's subsidiaries.

Pursuant to EITF Issue No. 04-8, *The Effect of Contingently Convertible Debt on Diluted Earnings Per Share*, the Company included the dilutive effect of the contingent convertible senior notes in its diluted earnings per share calculation, regardless of whether the market price trigger has been met. Because the notes include a mandatory cash settlement feature for the principal amount, incremental dilutive shares will only exist when the average fair value of the Company's common stock for a reporting period exceeds the conversion price per share of $14.47.

During, 2006, the Company entered into a $150 million revolving line of credit agreement with eight banks. The revolving period of the facility will be five years. The applicable interest rate will be floating at LIBOR plus 0.20% or the greater of prime rate or federal funds rate plus 0.50%, as elected by the Company. There is no amount outstanding under the revolving line of credit at December 31, 2006. Under this agreement, the Company is 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.

As part of its investment strategy, the Company enters into repurchase agreements (short-term collateralized borrowings). These borrowings are collateralized by investment securities with fair values approximately equal to the amount due. Such borrowings averaged $628.0 million, $318.8 million, $196.3 million for the years ended December 31, 2006, 2005 and 2004, respectively. The weighted average interest rate on amounts due under repurchase agreements was 5.24%, 3.54% and 1.60% for the years ended December 31, 2006, 2005 and 2004, respectively.

The Company, through the Service Company, had $12.3 million and $16.4 million outstanding at December 31, 2006 and 2005 under a credit agreement with a third party. Quarterly payments in amounts ranging from $1.1 million to $1.4 million are payable over the next twelve quarters with interest computed at a fixed rate of 11.2%. Cash and cash equivalents at December 31, 2006 and 2005 include $2.3 million and $2.6 million, respectively, of restricted cash under the terms of the credit agreement.

8. American Equity Investment Service Company

The Company acquired all of the outstanding stock of the Service Company on September 2, 2005. Prior to the acquisition, the Company had an implicit variable interest in the Service Company and was required to include the Service Company in its consolidated financial statements in accordance with FSP FIN 46(R)-5 as described in note 1.

American Equity Life has a General Agency Commission and Servicing Agreement ("Servicing Agreement") with the Service Company, whereby the Service Company acts as a national supervisory agent with responsibility for paying commissions to agents of the Company. Under the terms of the Servicing Agreement, as amended, the Service Company has paid a portion (ranging from 13.5% to 100%) of the agents' commissions for certain annuity policies issued during 1997—1999 and 2002—2004. In return, American Equity Life has paid and agreed to pay quarterly renewal commissions to the Service Company ranging from .0975% to .375% based upon the account values of the applicable annuity policies issued during those years. No renewal commission is paid unless the underlying policy is in force on the date renewal commissions are calculated pursuant to the terms of the Servicing Agreement. For all years except 2004, renewal commissions were capped and interest expense computed at a 9% imputed interest rate. The payment of a portion of agents' commissions and the payment of renewal commissions by American Equity Life to the Service Company is eliminated in consolidation.

During the year ended December 31, 2004, the Service Company paid $20.0 million to agents of the Company. Such amounts were deferred as policy acquisition costs in the consolidated balance sheets. American Equity Life paid renewal commissions to the Service Company of $6.1 million, $17.0 million and $28.1 million in 2006, 2005 and 2004, respectively, which, as indicated above, are eliminated in consolidation.

9. Subordinated Debentures

The Company's wholly-owned subsidiary trusts (not consolidated under FIN 46) have issued fixed rate and floating rate trust preferred securities and have used the proceeds from these offerings to purchase subordinated debentures from the Company. The Company 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. The Company's obligations under the subordinated debentures and related agreements provide a full and unconditional guarantee of payments due under the trust preferred securities. Following is a summary of subordinated debt obligations to the trusts at December 31, 2006 and 2005:

	December 31, 2006	December 31, 2005	Interest Rate	Due Date
	(Dollars in thousands)			
American Equity Capital Trust I	$ 23,483	$ 23,903	8%	September 30, 2029
American Equity Capital Trust II	75,396	78,383	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	8.595%	December 15, 2035
American Equity Capital Trust XII	41,238	—	*LIBOR + 3.50%	April 7, 2036
	$ 268,489	$ 230,658		

* three month London Interbank Offered Rate

The interest rate for Trust XI is fixed at 8.595% for 5 years and then is floating based upon the three month London Interbank Offered Rate plus 3.65%.

During the fourth quarter of 2006, the Company entered into four interest rate swaps to manage interest rate risk associated with the floating rate component on certain of its subordinated debentures. The terms of the interest rate swaps provide that the Company pays a fixed rate of interest and receives a floating rate of interest on a notional amount totaling $80.0 million. The interest rate swaps are not effective hedges under SFAS 133. Therefore, the Company records the interest rate swaps at fair value with the change in fair value and any net cash payments received or paid included in the change in fair value of derivatives in the consolidated statements of income.

Details regarding the interest rate swaps at December 31, 2006 are as follows (dollars in thousands):

Maturity Date	Notional Amount	Receive Rate	Pay Rate	Carrying and Fair Value
April 29, 2009	$ 20,000	LIBOR	4.94%	$ 56
December 15, 2009	20,000	LIBOR	4.93%	41
September 15, 2010	20,000	LIBOR	5.19%	(8)
April 7, 2011	20,000	LIBOR	5.23%	(15)

American Equity Capital Trust I issued 865,671 shares of trust preferred securities, of which 2,000 shares are held by one of the Company's subsidiaries. During 2006, 2005 and 2004, 14,000 shares, 5,667 shares and 88,000 shares of these trust preferred securities converted into 51,849 shares, 20,988 shares and 325,923 shares of the Company's common stock, respectively. The remaining 756,004 shares of these trust preferred securities not held by a subsidiary are convertible into 2,799,957 shares of the Company's common stock.

The principal amount of the subordinated debentures issued by the Company 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 7%). 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 Company adopted SAB 108 on January 1, 2006 (see note 1) and made a correction to amortize the discount on this debt instrument from the straight line method to the effective interest method. The cumulative adjustment to this debt instrument on January 1, 2006 was $3.1 million and is included in the SAB 108 cumulative adjustment. 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 Farm Bureau. 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.

10. Retirement and Share-based Compensation Plans

The Company has adopted a contributory defined contribution plan which is qualified under Section 401(k) of the Internal Revenue Code. The plan covers substantially all full-time employees of the Company, subject to minimum eligibility requirements. Employees can contribute a percentage of their annual salary (up to a maximum contribution of $15,000 in 2006, $14,000 in 2005 and $13,000 in 2004) to the plan. The Company contributes 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 were $0.2 million for each of the years ended December 31, 2006, 2005 and 2004.

The Company has entered into deferred compensation arrangements with certain officers, directors, and consultants, whereby these individuals agreed to take common stock of the Company 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, 2006 and 2005, these individuals have earned, and the Company has reserved for future issuance, 423,011 and 399,647 shares of common stock, respectively, pursuant to these arrangements. The Company has incurred share-based compensation expense of $0.3 million in each of the years ended December 31, 2006 and 2005 and $0.4 million for the year ended December 31, 2004 under these arrangements.

The Company has 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 the assets of the Company and a corresponding deferred compensation liability is recorded. 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 $0.2 million and $0.4 million at December 31, 2006 and 2005, respectively. During 2006, the Officer Rabbi Trust

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purchased 21,300 shares of common stock of the Company at a cost of $0.3 million. The shares of common stock of the Company held by the Officer Rabbi Trust are treated as treasury shares by the Company.

During 1997, the Company 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. Awards are calculated using formulas determined annually by the Company's Board of Directors and are generally based upon new annuity deposits. For the years ended December 31, 2006, 2005 and 2004, agents earned the right to receive 223,078 shares, 373,511 shares, and 418,612 shares, respectively. These shares will be distributed at the end of the vesting and deferral period of 9 years. The Company recognizes commission expense and an increase to additional paid-in capital as share-based compensation when the awards vest. For the years ended December 31, 2006, 2005 and 2004, agents vested in 277,368 shares, 437,098 shares and 450,993 shares of common stock, respectively, and the Company recorded commission expense (capitalized as deferred policy acquisition costs) of $4.1 million, $7.0 million and $4.9 million, respectively, under these plans. At December 31, 2006 and 2005, the total number of vested shares under the NMO Deferred Compensation Plan was 2,763,861 and 2,486,493, respectively. These shares are included in the computation of earnings per share and earnings per share—assuming dilution. The total number of unvested shares that potentially may be vested in by agents in the future under the NMO Deferred Compensation Plan was 518,853 and 578,080 at December 31, 2006 and 2005, respectively.

The Company has a Rabbi Trust, the NMO Deferred Compensation Trust (the "NMO Trust") which has purchased shares of the Company's common stock to fund the amount of vested shares under the NMO Deferred Compensation Plan. In accordance with FASB's Emerging Issues Task Force Issue No. 97-14, *"Accounting for Deferred Compensation Arrangements where Amounts Earned are Held in a Rabbi Trust and Invested"*, the common stock held in the NMO Trust is treated as treasury stock. The NMO Trust purchased 1,052,065 shares of common stock of the Company during 2006 at a cost of $12.7 million. The NMO Trust did not purchase any common stock of the Company during 2005 or 2004. The number of shares held by the NMO Trust at December 31, 2006 and 2005 was 2,643,148 and 1,591,083, respectively.

During 2006, the Company reclassified a $13.8 million obligation for equity awards from other liabilities to additional paid-in capital to properly reflect the awards as equity-classified awards. This reclassification increased stockholders' equity by $13.8 million and had no impact on net income. The Company did not consider the error material to prior periods. In addition, the Company has reclassified $1.6 million, reducing common stock and increasing additional paid-in capital, for the years ended December 31, 2003, 2004 and 2005 to properly reflect the shares owned by the NMO Trust treated as treasury shares.

The Company has a Stock Option and Warrant Agreement with Mr. Noble (owner of 5% of its outstanding common stock at December 31, 2006) which allows the purchase of 1,200,000 shares of the Company's common stock. Included in this amount were warrants to purchase 240,000 shares of common stock at $3.33 per share that were exercised in 2000 and options expiring in 2007 to purchase 600,000 shares of common stock at $3.33 per share and 360,000 shares of common stock at $7.33 per share.

During 2000, as a separate deferred compensation agreement, the Company loaned Mr. Noble $0.8 million pursuant to a forgivable loan agreement. The forgivable loan agreement is with full recourse, and although the proceeds of the loan were used for the exercise of warrants described in the preceding paragraph, the loan is not collateralized by the shares issued in connection with the exercise of these

warrants. This loan was repayable in five equal annual installments of principal and interest, each of which was forgiven pursuant to the terms of the agreement.

The Company's 1996 Stock Option Plan authorized grants of options to officers, directors and employees for up to 1,200,000 shares of the Company's common stock. In 2000, the Company adopted the 2000 Employee Stock Option Plan which authorizes grants of options to officers and employees on up to 1,800,000 shares of the Company's common stock and the Company adopted the 2000 Directors Stock Option Plan which authorizes grants of options to directors on up to 225,000 shares. All options granted under the 2000 plans have 10 year terms and a six month vesting period after which they become fully exercisable immediately. All options granted under the 1996 plan have 10 year terms and are vested and exercisable. At December 31, 2006, the Company had no shares of common stock available for future grant under the 1996 Stock Option Plan, 657,708 shares of common stock available for future grant under the 2000 Employee Stock Option Plan, and 207,000 shares of common stock available for future grant under the 2000 Directors Stock Option Plan.

Changes in the number of stock options outstanding during the years ended December 31, 2006, 2005 and 2004 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, 2004	2,907,662	$ 5.98	$ 17,383
Granted	576,000	10.79	6,213
Cancelled	(17,500)	9.71	(170)
Exercised	—	—	—
Outstanding at December 31, 2004	3,466,162	6.76	23,426
Granted	31,000	12.19	378
Cancelled	(1,000)	10.00	(10)
Exercised	(37,250)	5.75	(214)
Outstanding at December 31, 2005	3,458,912	6.82	23,580
Granted	20,500	12.20	250
Cancelled/Settled	(426,700)	5.42	(2,312)
Exercised	(580,845)	4.47	(2,599)
Outstanding at December 31, 2006	2,471,867	7.65	$ 18,919

The following table summarizes information about stock options outstanding at December 31, 2006:

	Stock Options Outstanding			Stock Options Vested		
Range of Exercise Prices	Number of Awards	Remaining Life (yrs)	Weighted-Average Exercise Price Per Share	Number of Awards	Remaining Life (yrs)	Weighted-Average Exercise Price Per Share
$ 3.33—$ 5.33	672,850	0.43	$ 3.47	672,850	0.43	$ 3.47
$ 7.33—$ 9.16	841,820	3.07	7.90	841,820	3.07	7.90
$ 9.49—$11.46	934,197	6.08	10.31	921,697	6.03	10.31
$11.88—$14.34	23,000	8.72	13.06	23,000	8.72	13.06
$ 3.33—$14.34	2,471,867	3.54	7.65	2,459,367	3.51	7.64

The aggregate intrinsic value for both stock options outstanding and vested awards at December 31, 2006 was $13.3 million. For the years ended December 31, 2006 and 2005, the total intrinsic value of options exercised was $4.8 million and $0.2 million, respectively. Intrinsic value for stock options is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock as of the reporting date. Cash received from stock options exercised for the years ended December 31, 2006 and 2005 was $2.4 million and $0.2 million, respectively. The tax benefit realized for the tax deduction from the exercise of stock options for the years ended December 31, 2006 and 2005 was $1.7 million and $0.1 million, respectively.

The fair value for each stock option granted during the years ended December 31, 2006, 2005 and 2004 was estimated at the date of grant using a Black-Scholes option valuation model with the following assumptions:

	Year Ended December 31,		
	2006	2005	2004
Average risk-free interest rate	4.86%	4.84%	3.10%
Dividend yield	0%	0%	0%
Average expected life	10 years	10 years	10 years
Volatility	27.4%	23.4%	24.5%

Share-based compensation during the years ended December 31, 2005 and 2004 was determined under APB 25. The following table provides supplemental information for the years ended December 31, 2005 and 2004 as if share-based compensation had been computed under SFAS 123R (dollars in thousands, except per share data:)

	Year Ended December 31,	
	2005	2004
Net income, as reported—numerator for earnings per common share	$42,992	$29,323
Deduct: Total share-based employee compensation expense determined underfair value based method for all awards, net of related tax effect	(888)	(1,125)
Net income, pro forma—numerator for earnings per common share, pro forma	42,104	28,198
Interest related to convertible subordinated debentures (net of income tax benefit)	1,202	1,255
Numerator for earnings per common share—assuming dilution, pro forma	$43,306	$29,453
Earnings per common share, as reported	$ 1.09	$ 0.77
Earnings per common share, pro forma	$ 1.07	$ 0.74
Earnings per common share—assuming dilution, as reported	$ 0.99	$ 0.71
Earnings per common share—assuming dilution, pro forma	$ 0.97	$ 0.68

11. Life Insurance Subsidiaries

Prior approval of regulatory authorities is required for the payment of dividends to the Company by its life insurance subsidiaries which exceed an annual limitation. During 2007, American Equity Life can pay dividends to its parent of $99.2 million, without prior approval from regulatory authorities.

Statutory accounting practices prescribed or permitted by regulatory authorities for the Company's life insurance subsidiaries differ from GAAP. Combined net income for the Company's life insurance subsidiaries as determined in accordance with statutory accounting practices was $89.9 million,

$40.5 million and $47.7 million in 2006, 2005 and 2004, respectively, and total statutory capital and surplus of the Company's life insurance subsidiaries was $992.5 million and $686.8 million at December 31, 2006 and 2005, respectively. Calculations using the National Association of Insurance Commissioners formula at December 31, 2006, indicate that the ratio of total adjusted capital to risk based capital for the Company exceeded the highest level at which regulatory action might be initiated by approximately 3.5 times.

12. Commitments and Contingencies

The Company leases its home office space and certain equipment under various operating leases. Rent expense for the years ended December 31, 2006, 2005 and 2004 totaled $1.3 million, $1.2 million and $1.0 million, respectively. At December 31, 2006, the aggregate future minimum lease payments are $3.8 million. The following represents payments due by period for operating lease obligations as of December 31, 2006 (dollars in thousands):

Year Ending December 31:	
2007	$944
2008	833
2009	806
2010	675
2011	167
2012 and thereafter	376

Assessments are, from time to time, levied on the Company by life and health guaranty associations in most states in which the Company is licensed to cover losses to policyholders of insolvent or rehabilitated companies. The liability established by the Company for future assessments related to the insolvency of London Pacific Life and Annuity Company was $1.0 million and $0.9 million at December 31, 2006 and 2005, respectively. The Company believes the liability for guaranty fund assessments is sufficient to provide for future assessments based upon known insolvencies.

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. The Company is currently a defendant in several purported class action lawsuits alleging improper sales practices. In these lawsuits, the plaintiffs are seeking returns of premiums and other compensatory and punitive damages. The Company has reached a settlement in one of these cases. The impact of the settlement was immaterial. No class has been certified in any of the other pending cases as this time. Although the Company has denied all allegations in these lawsuits and intends to vigorously defend against them, the lawsuits are in the early stages of litigation and neither their outcomes nor a range of possible outcomes can be determined at this time. However, the Company does not believe that these lawsuits will have a material adverse effect on its business, financial condition or results of operations.

In addition, the Company is from time to time subject to other legal proceedings and claims in the ordinary course of business, none of which management believe are likely to have a material adverse effect on our financial position, results of operations or cash flows. There can be no assurance that such litigation, or any future litigation, will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

13. 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,		
	2006	2005	2004
	(Dollars in thousands, except per share data)		
Numerator:			
Net income—numerator for earnings per common share	$ 75,485	$ 42,992	$ 29,323
Interest on convertible subordinated debentures (net of income tax benefit)	1,068	1,202	1,255
Numerator for earnings per common share—assuming dilution	$ 76,553	$ 44,194	$ 30,578
Denominator:			
Weighted average common shares outstanding(1)	56,242,780	39,332,980	37,518,141
Participating preferred stock	—	—	640,369
Denominator for earnings per common share	56,242,780	39,332,980	38,158,510
Effect of dilutive securities:			
Convertible subordinated debentures	2,816,374	2,854,678	3,005,902
Stock options and management subscription rights	944,322	1,480,392	1,500,158
Deferred compensation agreements	417,904	844,766	431,575
Denominator for earnings per common share—assuming dilution	60,421,380	44,512,816	43,096,145
Earnings per common share	$ 1.34	$ 1.09	$ 0.77
Earnings per common share—assuming dilution	$ 1.27	$ 0.99	$ 0.71

(1) Weighted average common shares outstanding include shares under the NMO Deferred Compensation Plan

During 2006, 2005 and 2004, 578 shares, 433 shares, and 2,957 shares of potentially dilutive common shares respectively, were not included in the computation of diluted earnings per share because exercise prices were greater than the average market price of the common shares.

14. 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)			
2006				
Premiums and product charges	$ 11,124	$ 13,951	$ 14,069	$ 13,950
Net investment income	162,385	169,182	173,272	172,799
Realized gains (losses) on investments	(42)	331	(273)	1,329
Change in fair value of derivatives	49,328	(61,582)	72,280	123,757
Total revenues	222,795	121,882	259,348	311,835
Net income	3,973	42,911	9,417	19,184
Earnings per common share	$ 0.07	$ 0.77	$ 0.17	$ 0.34
Earnings per common share—assuming dilution	$ 0.07	$ 0.71	$ 0.16	$ 0.32
2005				
Premiums and product charges	$ 10,018	$ 10,287	$ 9,644	$ 9,315
Net investment income	124,834	133,227	142,350	153,707
Realized gains (losses) on investments	232	220	(7,057)	(1,030)
Change in fair value of derivatives	(35,990)	(1,972)	16,038	3,895

Total revenues	99,094	141,762	160,975	165,887
Net income	12,528	12,232	7,163	11,068
Earnings per common share	$ 0.33	$ 0.32	$ 0.19	$ 0.26
Earnings per common share—assuming dilution	$ 0.29	$ 0.29	$ 0.17	$ 0.24

The differences between the change in fair value of derivatives for each quarter primarily correspond to the performance of the indices upon which the Company's call options are based. 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.

Changes in the fair value of the conversion option embedded within our contingent convertible senior notes reduced net income, earnings per common share and earnings per common share—assuming dilution for the quarter ended March 31, 2006 by $16.3 million, $0.29 and $0.27, respectively, and increased those amounts for the quarter ended June 30, 2006 by $26.1 million, $0.47 and $0.43, respectively. See note 1 for discussion of the impact on net income of correcting certain errors that arose during the prior quarters of 2006 in the fourth quarter of 2006.

Schedule I—Summary of Investments—Other

Than Investments in Related Parties

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

December 31, 2006

Column A	Column B	Column C	Column D
Type of Investment	Amortized Cost(1)(2)	Fair Value	Amount at which shown in the balance sheet(2)
		(Dollars in thousands)	
Fixed maturity securities:			
Available for sale			
United States Government full faith and credit	$ 2,770	$ 2,746	$ 2,746
United States Government sponsored agencies	2,997,612	2,913,627	2,913,627
Public utilities	140,463	137,461	137,461
Corporate securities	657,067	643,850	643,850
Redeemable preferred stocks	62,126	60,645	60,645
Mortgage and asset-backed securities	437,144	418,700	418,700
	4,297,182	4,177,029	4,177,029
Held for investment			
United States Government sponsored agencies	5,052,858	4,795,949	5,052,858
Corporate securities	75,288	75,288	75,288
	5,128,146	4,871,237	5,128,146
Total fixed maturity securities	9,425,328	$ 9,048,266	9,305,175
Equity securities, available for sale:			
Non-redeemable preferred stocks	31,514	$ 31,148	31,148
Common stocks	14,486	14,364	14,364
Total equity securities	46,000	$ 45,512	45,512
Mortgage loans on real estate	1,652,757		1,652,757
Derivative instruments	381,601		381,601
Policy loans	419		419
Total investments	$ 11,506,105		$ 11,385,464

(1) On the basis of cost adjusted for repayments and amortization of premiums and accrual of discounts for fixed maturity securities, derivative instruments and short-term investments, and unpaid principal balance for mortgage loans.

(2) Derivative instruments are carried at estimated fair value.

See accompanying Report of Independent Registered Public Accounting Firm.

Schedule II—Condensed Financial Information of Registrant

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY (PARENT COMPANY)

Condensed Balance Sheets

(Dollars in thousands)

	December 31, 2006	December 31, 2005
Assets		
Cash and cash equivalents	$ 8,614	$ 61,100

Fixed maturity securities, available for sale, at market (amortized cost: 2006—$50,000; 2005—$220,105)	48,664	218,374
Equity securities of subsidiary trusts	8,175	6,967
Receivable from subsidiary	976	406
Federal income tax recoverable	10,514	6,008
Deferred income tax asset	2,632	7,943
Other assets	16,362	14,101
	95,937	314,899
Investment in and advances to subsidiaries	1,025,045	714,129
Total assets	$ 1,120,982	$ 1,029,028
Liabilities and Stockholders' Equity		
Liabilities:		
Notes payable	$ 254,061	$ 264,626
Subordinated debentures payable to subsidiary trusts	268,549	230,718
Other liabilities	3,306	14,326
Total liabilities	525,916	509,670
Stockholders' equity:		
Common stock	53,501	53,936
Additional paid-in capital	389,644	380,698
Accumulated other comprehensive loss	(38,769)	(27,306)
Retained earnings	190,690	112,030
Total stockholders' equity	595,066	519,358
Total liabilities and stockholders' equity	$ 1,120,982	$ 1,029,028

See accompanying note to condensed financial statements.
See accompanying Report of Independent Registered Public Accounting Firm.

Schedule II—Condensed Financial Information of Registrant (Continued)

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY (PARENT COMPANY)

Condensed Statements of Income (Continued)

(Dollars in thousands)

	Year Ended December 31,		
	2006	2005	2004
Revenues:			
Net investment income	$ 11,313	$ 8,521	$ 2,198
Dividends from subsidiary trusts	615	429	307
Investment advisory fees	15,934	13,131	10,096
Surplus note interest from subsidiary	4,080	4,080	4,080
Interest on notes receivable from Service Company	—	839	1,597
Realized loss on transfer of bonds to subsidiary	(5,272)	—	—
Change in fair value of derivatives	104	(60)	60
Total revenues	26,774	26,940	18,338
Expenses:			
Interest expense on notes payable	18,691	14,100	1,749
Interest expense on subordinated debentures issued to subsidiary trusts	21,354	14,145	9,609
Change in fair value of embedded derivative	(15,228)	4,626	—
Other operating costs and expenses	5,873	5,038	4,504
Total expenses	30,690	37,909	15,862
Income (loss) before income taxes, equity in undistributed income of subsidiaries and minority interest	(3,916)	(10,969)	2,476
Income tax expense (benefit)	552	(5,241)	615
Income (loss) before equity in undistributed income of subsidiaries and minority interest	(4,468)	(5,728)	1,861
Equity in undistributed income of subsidiaries	79,953	51,220	27,009
Income before minority interests in subsidiaries	75,485	45,492	28,870
Minority interest	—	2,500	(453)
Net income	$ 75,485	$ 42,992	$ 29,323

See accompanying note to condensed financial statements.
See accompanying Report of Independent Registered Public Accounting Firm.

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, 2006	2005	2004
Operating activities			
Net income	$ 75,485	$ 42,992	$ 29,323
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for depreciation and amortization	581	790	247
Accrual of discount on equity security	(3)	(17)	(33)
Equity in undistributed income of subsidiaries	(79,953)	(51,220)	(27,009)
Change in fair value of embedded derivative	(15,228)	4,626	—
Accrual of discount on contingent convertible notes	4,841	—	—
Minority interest	—	2,500	(453)
Realized loss on investments	5,272	—	—
Accrual of discount on debenture issued to subsidiary trust	113	522	522
Share-based compensation	294	—	—
Deferred income tax benefit	3,851	(2,066)	912
Changes in operating assets and liabilities:			
Receivable from subsidiary	(570)	219	1,075
Receivable from Service Company	—	4,217	11,453
Federal income tax recoverable	(3,299)	(3,174)	(299)
Other assets	(452)	(104)	(28)
Amounts due to related parties	138	151	(21)
Other liabilities	1,098	381	1,240
Net cash provided by (used in) operating activities	(7,832)	(183)	16,929
Investing activities			
Capital contributions to subsidiaries	(30,050)	(89,525)	(152,125)
Acquisition of fixed maturity securities—available for sale	(50,055)	(154,923)	(100,000)
Maturities or repayments of fixed maturity securities—available for sale	—	29,873	—
Purchases of property, plant and equipment	(29)	(407)	—
Net cash used in investing activities	(80,134)	(214,982)	(252,125)

See accompanying note to condensed financial statements.
See accompanying Report of Independent Registered Public Accounting Firm.

	Year Ended December 31, 2006	2005	2004
Financing activities			
Financing fees incurred and deferred	$ (1,782)	$ (2,018)	$ (9,598)
Proceeds from notes payable	—	—	260,000
Repayments of notes payable	—	—	(31,833)
Proceeds from issuance of subordinated debentures	40,000	55,000	57,500
Payment to redeem stock options	(2,700)	—	—
Proceeds from issuance of common stock	2,635	175,539	7,313
Dividends paid	(2,673)	(1,621)	(767)
Net cash provided by financing activities	35,480	226,900	282,615
Increase in cash and cash equivalents	(52,486)	11,734	47,419
Cash and cash equivalents at beginning of year	61,100	49,366	1,947
Cash and cash equivalents at end of year	$ 8,614	$ 61,100	$ 49,366
Supplemental disclosures of cash flow information			
Cash paid during the year for interest:			
Notes payable	$ 13,650	$ 13,650	$ 6,922
Subordinated debentures	20,218	13,074	8,518
Non-cash investing and financing activities:			
Fixed maturity security contributed to subsidiary	204,833	15,000	39,562

Subordinated debentures issued to subsidiary trust for common equity securities of the subsidiary trust	1,238	1,730	1,770

See accompanying note to condensed financial statements.
See accompanying Report of Independent Registered Public Accounting Firm.

Schedule II—Condensed Financial Information of Registrant (Continued)

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY (PARENT COMPANY)

Note to Condensed Financial Statements

December 31, 2006

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 in accordance with Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

See notes 7 and 9 to the consolidated financial statements for a description of the Parent Company's notes payable and subordinated debentures payable to subsidiary trusts.

Schedule III—Supplementary Insurance Information

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

Column A	Column B Deferred policy acquisition costs	Column C Future policy benefits, losses, claims and loss expenses	Column D Unearned premiums	Column E Other policy claims and benefits payable
	(Dollars in thousands)			
As of December 31, 2006:				
Life insurance	$ 1,088,890	$ 13,207,931	$—	$ 128,579
As of December 31, 2005:				
Life insurance	$ 977,015	$ 12,237,988	$—	$ 126,387
As of December 31, 2004:				
Life insurance	$ 713,021	$ 9,807,969	$—	$ 94,410

Column A	Column F Premium revenue	Column G Net investment income	Column H Benefits, claims, losses and settlement expenses	Column I Amortization of deferred policy acquisition costs	Column J Other operating expenses
	(Dollars in thousands)				
Year ended December 31, 2006:					
Life insurance	$ 53,094	$ 677,638	$ 588,927	$ 94,923	$ 115,085
Year ended December 31, 2005:					
Life insurance	$ 39,264	$ 554,118	$ 351,070	$ 68,109	$ 77,645
Year ended December 31, 2004:					
Life insurance	$ 37,577	$ 428,385	$ 310,618	$ 67,867	$ 47,635

See accompanying Report of Independent Registered Public Accounting Firm.

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, 2006:					
Life insurance in force, at end of year	$ 2,542,997	$ 1,748	$ 96,876	$ 2,638,125	3.67%
Insurance premiums and other considerations:					
Annuity and single premium universal life product charges	$ 50,658	$ 11,186	$ —	$ 39,472	—%
Traditional life and accident and health insurance premiums	12,512	61	1,171	13,622	8.60%
	$ 63,170	$ 11,247	$ 1,171	$ 53,094	2.20%
Year ended December 31, 2005:					
Life insurance in force, at end of year	$ 2,722,017	$ 1,327	$ 109,289	$ 2,829,979	3.86%
Insurance premiums and other considerations:					
Annuity and single premium universal life product charges	$ 35,126	$ 9,440	$ —	$ 25,686	—%
Traditional life and accident and health insurance premiums	12,301	155	1,432	13,578	10.55%
	$ 47,427	$ 9,595	$ 1,432	$ 39,264	3.65%
Year ended December 31, 2004:					
Life insurance in force, at end of year	$ 2,500,878	$ 1,258	$ 125,443	$ 2,625,063	4.78%
Insurance premiums and other considerations:					
Annuity and single premium universal life product charges	$ 29,929	$ 7,467	$ —	$ 22,462	—%
Traditional life and accident and health insurance premiums	13,399	52	1,768	15,115	11.70%
	$ 43,328	$ 7,519	$ 1,768	$ 37,577	4.71%

See accompanying Report of Independent Registered Public Accounting Firm.

Item 15. Exhibits and Financial Statement Schedules.

(a) Exhibits:

Exhibit No.	Description
3.1	Articles of Incorporation, including Articles of Amendment**††
3.2	Articles of Amendment to Articles of Incorporation filed on September 23, 2003#
3.3	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 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 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#
4.8	Indenture dated October 29, 1999 between American Equity Investment Life Holding Company and 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 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#
4.11	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, as trustee††††††††††
4.14	Guarantee Agreement dated April 29, 2004, between American Equity Investment Life Holding Company and JP Morgan Chase Bank, as trustee††††††††††

4.15	Indenture dated September 14, 2004, between American Equity Investment Life Holding Company and JP Morgan Chase Bank, as trustee††††††††††
4.16	Guarantee Agreement dated September 14, 2004, between American Equity Investment Life Holding Company and JP Morgan chase Bank, as trustee††††††††††
4.17	Indenture dated December 22, 2004, between American Equity Investment Life Holding Company and JP Morgan Chase Bank, as trustee##
4.18	Guarantee Agreement dated December 22, 2004, between American Equity Investment Life Holding Company and JP Morgan Chase Bank, as trustee##
4.19	Indenture dated December 6, 2004 between American Equity Investment Life Holding Company and US Bank, as trustee##

4.20	Registration Rights Agreement dated as of 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, as trustee##
4.22	Registration Rights Agreement dated as of 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, as trustee†††††††††††
4.24	Guarantee Agreement dated June 15, 2005 between American Equity Investment Life Holding Company and JP Morgan Chase Bank, as trustee†††††††††††
4.25	Indenture dated August 4, 2005 between American Equity Investment Life Holding Company and JP Morgan Chase Bank, as trustee††††††††††††
4.26	Guarantee Agreement dated August 4, 2005 between American Equity Investment Life Holding Company and JP Morgan Chase Bank, as trustee††††††††††††
4.27	Indenture dated December 15, 2005 between American Equity Investment Life Holding Company and JP Morgan Chase Bank, as trustee***
4.28	Guarantee Agreement dated December 31, 2005 between American Equity Investment Life Holding Company and JP Morgan Chase Bank, as trustee***
4.29	Indenture dated February 15, 2006 between American Equity Investment Life Holding Company and Wells Fargo Bank, National Association, as trustee****
4.30	Guarantee Agreement dated February 15, 2006 between American Equity Investment Life Holding Company and Wells Fargo Bank, National Association, as trustee****
4.31	Amended and Restated Indenture dated July 7, 2006 between American Equity Investment Life Holding Company and Wells Fargo Bank, National Association, as trustee*****
4.32	Amended and Restated Guarantee Agreement dated July 7, 2006 between American Equity Investment Life Holding Company and Wells Fargo Bank, National Association, as trustee*****
9	Voting Trust Agreement dated December 30, 1997 among Farm Bureau Life Insurance Company, American Equity Investment Life Holding Company and David J. Noble, David S. Mulcahy and Debra J. Richardson (Voting Trustees)*
10.1	Restated and Amended General Agency Commission and Servicing Agreement dated June 30, 1997 between American Equity Investment Life Insurance Company and American Equity Investment Service Company*
10.1-A	1999 General Agency Commission and Servicing Agreement dated as of June 30, 1999 between American Equity Investment Life Insurance Company and American Equity Investment Service Company†
10.1-B	Second Restated and Amended General Agency Commission and Servicing Agreement dated as of October 1, 2002 between American Equity Investment Life Insurance Company and American Equity Investment Service Company††††††
10.1-C	First Amendment to the 1999 General Agency Commission and Servicing Agreement effective July 1, 2003 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*
10.3	Restated and Amended Stock Option and Warrant Agreement dated April 30, 1997 between American Equity Investment Life Holding Company and D.J. Noble*
10.5	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*
10.6	Forgivable Loan Agreement dated April 30, 2000 between American Equity Investment Life Holding Company and D.J Noble††
10.7	2000 Employee Stock Option Plan††
10.8	2000 Director Stock Option Plan††
10.9	Coinsurance and Yearly Renewable Term Reinsurance Agreement dated January 1, 2001 between American Equity Investment Life Holding Company and Atlantic International Reinsurance Company LTD.††††
10.10	Coinsurance Agreement dated December 19, 2001 between American Equity Investment Life Holding Company and EquiTrust Life Insurance Company†††††
10.10-A	Coinsurance Agreement dated December 29, 2003 between American Equity Investment Life Holding Company and EquiTrust Life Insurance Company††††††††
10.10-B	First Amendment to Coinsurance Agreement dated December 29, 2003 between American Equity Investment Life Holding Company and EquiTrust Life Insurance Company†††††††††
10.11	Amended and Restated Credit Agreement dated December 30, 2002 among American Equity Investment Life Holding Company, West Des Moines State Bank, as co-agent, Fleet National Bank, as documentation agent and U.S. Bank National Association, as agent††††††
10.12	2002 Coinsurance and Yearly Renewable Term Reinsurance Agreement dated November 1, 2002 between American Equity Investment Life Holding Company and Hannover Life Reassurance Company of America†††††††
10.13	2003 Coinsurance and Yearly Renewable Term Reinsurance Agreement dated September 30, 2003 between American Equity Investment Life Holding Company and Hannover Life Reassurance Company of America#
10.13-A	First Amendment to 2003 Coinsurance and Yearly Renewable Term Reinsurance Agreement dated September 30, 2003 between American Equity Investment Life Holding Company and Hannover Life Reassurance Company of America†††††††
10.14	Form of Change in Control Agreement between American Equity Investment Life Holding Company and each of John M. Matovina, Kevin R. Wingert, Debra J. Richardson and Wendy L. Carlson#
10.15	Form of Change in Control Agreement between American Equity Investment Life Holding Company and each James M. Gerlach and Terry A. Reimer#

10.16	First Amendment dated August 14, 2003 to Amended and Restated Credit Agreement dated December 30, 2002 among American Equity Investment Life Holding Company, West Des Moines State Bank, as co-agent, Fleet National Bank, documentation agent and U.S. National Association, as agent#
10.17	Second Amendment dated October 24, 2003 to Amended and Restated Credit Agreement dated December 30, 2002 among American Equity Investment Life Holding Company, West Des Moines State Bank, as co-agent, Fleet National Bank, as documentation agent and U.S. Bank National Association, as agent#
10.18	Third Amendment dated December 31, 2003, to Amended and Restated Credit Agreement dated December 30, 2002 among American Equity Investment Life Holding Company, West Des Moines State Bank, as co-agent, Fleet National Bank, as documentation agent and U.S. Bank National Association, as agent††††††††
10.19	Fourth Amendment dated June 30, 2004 to Amended and Restated Credit Agreement dated December 30, 2002 among American Equity Investment Life Holding Company, West Des Moines State Bank, as co-agent, Fleet National Bank, as documentation agent and U.S. Bank National Association, as agent†††††††††
10.20	Amended and Restated Credit Agreement dated September 22, 2004 among American Equity Investment Life Holding Company, West Des Moines State Bank, LaSalle Bank and U.S. Bank National Association††††††††††
10.21	Stock Sale/Purchase Agreement dated September 2, 2005 between American Equity Investment Life Holding Company and D.J. Noble††††††††††††
10.22	2005 Coinsurance and Yearly Renewable Term Reinsurance Agreement dated October 1, 2005, between American Equity Investment Life Insurance Company and Hannover Life Reassurance Company of America****
10.23	Amendment I to 2005 Coinsurance and Yearly Renewable Term Reinsurance Agreement dated October 1, 2005, between American Equity Investment Life Insurance Company and Hannover Life Reassurance Company of America****
10.24	Amendment II to 2005 Coinsurance and Yearly Renewable Term Reinsurance Agreement dated October 1, 2005, between American Equity Investment Life Insurance Company and Hannover Life Reassurance Company of America****
10.25	Credit Agreement dated November 20, 2006 among American Equity Investment Life Holding Company, KeyBank National Association and LaSalle Bank National Association
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
23.2	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 American Equity Investment Life Holding Company's Registration Statement on Form 10 dated April 29, 1999
**	Incorporated by reference to the Registration Statement on Form 10 dated April 29, 1999 and Post-Effective Amendment No. 1 to the Registration Statement on Form 10 dated July 20, 1999
†	Incorporated by reference to Form 10-K for the period ended December 31, 1999
††	Incorporated by reference to Form 10-Q for the period ended June 30, 2000
†††	Incorporated by reference to Form 10-K for the period ended December 31, 2000
††††	Incorporated by reference to Form 10-Q for the period ended September 30, 2001
†††††	Incorporated by reference to Form 10-K for the period ended December 31, 2001
††††††	Incorporated by reference to Form 10-K for the period ended December 31, 2002
†††††††	Incorporated by reference to Form 10-Q for the period ended June 30, 2003
††††††††	Incorporated by reference to Form 10-K for the period ended December 31, 2003
†††††††††	Incorporated by reference to Form 10-Q for the period ended June 30, 2004
††††††††††	Incorporated by reference to Form 10-Q for the period ended September 30, 2004
†††††††††††	Incorporated by reference to Form 10-Q for the period ended June 30, 2005
††††††††††††	Incorporated by reference to Form 10-Q for the period ended September 30, 2005
***	Incorporated by reference to Form 10-K for the period ended December 31, 2005
****	Incorporated by reference to Form 10-Q for the period ended March 31, 2006
*****	Incorporated by reference to Form 10-Q for the period ended September 30, 2006
#	Incorporated by reference to the Registration Statement on Form S-1 dated September 15, 2003, including all pre-effective amendments thereto
##	Previously filed with the original Form 10-K for the period ended December 31, 2004

CREDIT AGREEMENT

dated as of

November 20, 2006

among

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY,

THE LENDERS PARTY HERETO,

KEYBANK NATIONAL ASSOCIATION,
as Administrative Agent, Co-Lead Arranger,
Sole Book Runner and Swingline Lender

and

LASALLE BANK NATIONAL ASSOCIATION, as Co-Lead Arranger

This CREDIT AGREEMENT is made and entered into as of November 20, 2006 among AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY, the LENDERS party hereto, KEYBANK NATIONAL ASSOCIATION, as Administrative Agent, Co-Lead Arranger, Sole Book Runner and Swingline Lender, and LASALLE BANK NATIONAL ASSOCIATION, as Co-Lead Arranger.

Recitals:

A. The Borrower desires to borrow funds under this Agreement for general corporate purposes, including liquidity and working capital.

B. The Lenders are willing to make loans under the terms and conditions set forth in this Agreement.

Agreements:

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE 1

DEFINITIONS

Section 1.01. *Defined Terms.* As used in this Agreement, the following terms have the meanings specified below:

"Adjusted Consolidated Debt" means, as of any date, Consolidated Debt (of the type described in any or all of clauses (a), (b), (c), (d), (e), (h) and (i) of the definition of "Debt", but, as to clause (i), only to the extent that it is an unpaid obligation in respect of a letter of credit or letter of guaranty that is then due and payable and not contingent) on such date, other than (i) Debt evidenced by Trust Preferred Securities Notes, but only to the extent that the aggregate unpaid principal balance of such Trust Preferred Securities Notes on such date does not exceed an amount equal to fifteen percent (15%) of Total Capitalization on such date (for the sake of clarity, with any portion of Debt evidenced by Trust Preferred Securities Notes that exceeds an amount equal to fifteen percent (15%) of Total Capitalization on such date being included in Consolidated Debt for the purposes of this definition) and (ii) other Subordinated Debt.

"Adjusted LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Adjustment.

"Adjusted Total Capitalization" means, as of any date, an amount equal to Total Capitalization, plus Accumulated Other Comprehensive Loss, or minus Accumulated Other Comprehensive Income (as those terms are used under GAAP), as applicable, to the extent, if any, reflected as a component of Consolidated Net Worth as of such date.

"Administrative Agent" means KeyBank National Association, in its capacity as administrative agent under the Loan Documents, and its successors in such capacity.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls, or is Controlled by or under common Control with such specified Person.

"Agent" means the Administrative Agent.

"Alternate Base Rate" means, for any day, a rate per annum equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect on such day, plus one-half percent (0.50%). Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate will be effective from and including the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"American Equity Life" means American Equity Investment Life Insurance Company, an Iowa insurance company.

"Amounts Available for Dividends" means, (a) as of the end of the first, second and third Fiscal Quarters of any Fiscal Year, the maximum aggregate amount of dividends that American Equity Life and each other Insurance Subsidiary is permitted to pay as of the first day of such Fiscal Year and (b) as of the end of the last Fiscal Quarter of any Fiscal Year, the maximum aggregate amount of dividends that American Equity Life and each other Insurance Subsidiary is permitted to pay as of the first day of the immediately succeeding Fiscal Year, in each case under the Applicable Insurance Code of its state of domicile and without necessitating approval of the Applicable Insurance Regulatory Authority.

"Anti-Terrorism Laws" means any laws relating to terrorism or money laundering, including Executive Order No. 13224, the USA Patriot Act, the laws comprising or implementing the Bank Secrecy Act, and the laws administered by the United States Treasury Department's Office of Foreign Asset Control (as any of the foregoing laws may from time to time be amended, renewed, extended, or replaced).

"Applicable Insurance Code" means, as to any Insurance Subsidiary, the insurance code or other statute of any state where such Insurance Subsidiary is domiciled or doing insurance business and any successor statute of similar import, together with the regulations thereunder, as amended or otherwise modified and in effect from time to time. References to sections of the Applicable Insurance Code shall be construed to also refer to successor sections.

"Applicable Insurance Regulatory Authority" means, when used with respect to any Insurance Subsidiary, the insurance department or similar administrative authority or agency located in the state in which such Insurance Subsidiary is domiciled.

"Applicable Rate" means for any day:

(a) with respect to any Revolving Loan that is a Eurodollar Loan, the applicable rate per annum set forth in the Pricing Schedule in the row opposite the caption "Euro-Dollar Margin" and in the column corresponding to the "Pricing Level" that applies for such day; and

(b) with respect to the facility fees payable hereunder, the applicable rate per annum set forth in the Pricing Schedule in the row opposite the caption "Facility Fee Rate" and in the column corresponding to the "Pricing Level" that applies for such day.

In each case, the "Applicable Rate" will be based on the Borrower's Pricing Rating (as defined in the Pricing Schedule) as of the relevant determination date; *provided* that at any time when an Event of Default has occurred and is continuing, such Applicable Rates will be those set forth in the Pricing Schedule as "Pricing Level V".

On the Effective Date and until adjusted pursuant to the provisions of this definition and the Pricing Schedule, the Applicable Rate will be determined by reference to Level III Pricing.

"Arrangers" means KeyBanc Capital Markets and LaSalle Bank National Association, in their capacity as co-lead arrangers of the credit facility provided under this Agreement.

"Assignment" means an assignment and assumption agreement entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 9.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

"Assumed Reinsurance" means reinsurance assumed by any Insurance Subsidiary from another Person (other than from another Insurance Subsidiary or Affiliate of the Borrower).

"Authorized Control Level Risk-Based Capital", as of any date, has the meaning set forth on page 23, line 30, column 1 of the annual Statutory Statement most recently filed by American Equity Life and each other Insurance Subsidiary (or equivalent page, line, column or statement, to the extent that any thereof is modified or replaced).

"Base Rate", when used with respect to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"Best" means A.M. Best & Co. and its successors and assigns or, if it shall be dissolved or shall no longer assign ratings to insurance companies, then any other nationally recognized insurance statistical rating agency designated by the Administrative Agent.

"Blocked Person" has the meaning specified in Section 3.19.

“Board of Directors” means, the Board of Directors of the Borrower or any committee thereof duly authorized to act on behalf of such Board of Directors.

“Borrower” means American Equity Investment Life Holding Company, an Iowa corporation, and its successors.

“Borrower Cash Generated” means, as of the end of any Fiscal Quarter, the sum of (a) Amounts Available for Dividends as of such Fiscal Quarter-end and (b) Trailing Borrower-Only EBITDA as of such Fiscal Quarter-end.

“Borrower Net Income” means, for any period, the net income (or loss) of the Borrower only (that is, not on a Consolidated basis) for such period, as determined in accordance with GAAP, except that, notwithstanding GAAP, (a) the only revenues that shall be included in such determination are (i) interest received in cash on the Surplus Notes; (ii) revenues of the Borrower under the Investment Advisory Agreement; (iii) income from investments of the Borrower, excluding the Borrower’s investments in its Subsidiaries; (iv) cash flow from Subsidiaries that are not Insurance Subsidiaries; and (v) income from interest rate Hedging Agreements to which the Borrower is a party and that are entered into in connection with Subordinated Debt under which the Borrower is the borrower or other primary obligor; and (b) non-cash Interest Expense in connection with the Convertible 2004 Debt that would otherwise be included in the computation of net income by reason of Financial Accounting Standard 133 shall be excluded from such determination.

“Borrower-Only EBITDA” means, for any period, Borrower Net Income for such period, plus, without duplication and only to the extent reflected as a charge in the statement of such Borrower Net Income for such period, (a) Interest Expense of the Borrower only for such period, (b) depreciation of the Borrower only for such period, as determined in accordance with GAAP, (c) amortization of the Borrower only for such period, as determined in accordance with GAAP, and (d) all provisions for Income Taxes (exclusive of Income Taxes attributable to the income or income or excess profits of the Subsidiaries) during such period.

“Borrowing” means Loans of the same Interest Type made, converted or continued on the same day and, in the case of Eurodollar Loans, as to which the same Interest Period is in effect. The term “Borrowing” does not apply to a Swingline Loan.

“Borrowing Request” means a request by the Borrower for a Borrowing in accordance with Section 2.03.

“Business Day” means any day that is not a Saturday, Sunday or other day on which commercial banks in Cleveland, Ohio are authorized or required by law to remain closed; *provided* that, when used in connection with a Eurodollar Loan, the term “Business Day” shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

“Capital Lease Obligations” of any Person means obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or

personal property, or a combination thereof, which obligations are required under GAAP to be classified and accounted for as capital leases on a balance sheet of such Person. The amount of such obligations will be the capitalized amount thereof determined in accordance with GAAP.

“Cash Coverage Ratio” means, as of the end of any Fiscal Quarter, the ratio of (a) Borrower Cash Generated as of such Fiscal Quarter-end to (b) Trailing Fixed Charges as of such Fiscal Quarter-end.

“Ceded Reinsurance” means risk that is ceded (whether by co-insurance, reinsurance or equivalent relationship otherwise named) by any Insurance Subsidiary to any other Person (other than to another Insurance Subsidiary or Affiliate of the Borrower), other than Surplus Relief Reinsurance.

“Change in Control” means the occurrence of any of the following:

(a) at any time that any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that for the purposes of this clause (a) such person shall be deemed to have “beneficial ownership” of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than any one or more of the following: (i) 10% of the aggregate ordinary voting power represented by the issued and outstanding Equity Interests in the Borrower and (ii) 10% of the aggregate equity value represented by the issued and outstanding Equity Interests in the Borrower;

(b) during any period of eighteen (18) consecutive calendar months, individuals who at the beginning of such period constituted the Board of Directors (together with any new directors (i) whose election by the Board of Directors was, or (ii) whose nomination for election by the Borrower’s shareholders was, prior to the date of the proxy or consent solicitation relating to such nomination, approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved), shall cease for any reason to constitute a majority of the members of the Board of Directors then in office;

(c) the adoption of a plan relating to the liquidation or dissolution of the Borrower; or

(d) the merger (other than a merger permitted under the provisions of Section 6.03) or consolidation of the Borrower with or into another Person or the merger of another Person with or into the Borrower, or the sale of all or substantially all the assets of the Borrower (determined on a Consolidated basis) to another Person, other than a merger or consolidation transaction in which holders of Equity Interests representing 100% of the ordinary voting power represented by the Equity Interests in the Borrower immediately prior to such transaction (or other securities into which such securities are converted as part of such merger or consolidation transaction) own directly or indirectly at least a majority of the ordinary voting power represented by the Equity Interests in the surviving Person in such merger or consolidation transaction issued and outstanding immediately after such transaction and in substantially the same proportion as before the transaction.

"Change in Law" means (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after such date or (c) compliance by any Lender (or, for purposes of Section 2.15(b), by any lending office of such Lender or by such Lender's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after such date.

"Commitment" means, with respect to each Lender, the commitment of such Lender to make Revolving Loans and to acquire participations in Swingline Loans hereunder, expressed as an amount representing the maximum aggregate amount of such Lender's Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.08 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 2.05 or Section 9.04. The initial amount of each Lender's Commitment is set forth on Schedule 2.01, or in the Assignment pursuant to which such Lender shall have assumed its initial Commitment, as applicable. The initial aggregate amount of the Commitments is $150,000,000.

"Consolidated" means the Borrower and its Subsidiaries, taken as a whole in accordance with GAAP.

"Consolidated Assets" means, as at the date of any determination, the net book value of all assets of the Borrower and its Subsidiaries as of such date classified as assets in accordance with GAAP and determined on a Consolidated basis.

"Consolidated Interest Expense" means Interest Expense of the Borrower and its Subsidiaries determined on a Consolidated basis.

"Consolidated Liabilities" means, as at any date of determination, all liabilities of the Borrower and its Subsidiaries as of such date classified as liabilities in accordance with GAAP and determined on a Consolidated basis.

"Consolidated Net Worth" means, as at any date of determination, the remainder of (a) all Consolidated Assets (after deducting all applicable reserves and excluding any re-appraisal or write-up of assets after the date of this Agreement) as of such date, minus (b) all Consolidated Liabilities as of such date, but computed without giving effect to Accumulated Other Comprehensive Income (Loss) under Financial Accounting Standards 115 and 123.

"Control" means possession, directly or indirectly, of the power (a) to vote 10% or more of any class of voting securities of a Person or (b) to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

"Convertible 2004 Debt" has the meaning specified in Section 6.01.

"Convertible 2004 Debt Documents" means the Indenture in respect of the Convertible 2004 Debt dated December 6, 2004 by and between the Borrower and U.S. Bank National Association, as Trustee, as supplemented by the First Supplemental Indenture dated December 30, 2004, the Borrower's 5.25% Contingent Convertible Senior Notes Due 2024 issued thereunder, the Registration Rights Agreement (as defined therein) and related agreements and other documents, as amended and supplemented from time to time pursuant to this Agreement.

"Current Redeemable Equity" means any preferred stock or other Equity Interests, which in either case, is subject to mandatory redemption at any time prior to the first anniversary of the Maturity Date (as it exists on any date of determination).

"Debt" of any Person means, without duplication:

(a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind (other than unspent cash deposits held in escrow by or in favor of such Person, or in a segregated deposit account controlled by such Person, in each case in the ordinary course of business to secure the performance obligations of, or damages owing from, one or more third parties),

(b) all obligations of such Person evidenced by bonds, debentures, notes (including, without limitation, the Trust Preferred Securities Notes) or similar instruments,

(c) all obligations of such Person on which interest charges are customarily paid (other than obligations where interest is levied only on late or past due amounts).

(d) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person,

(e) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business),

(f) all Debt of others secured by (or for which the holder of such Debt has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Debt secured thereby has been assumed,

(g) all Guarantees by such Person of Debt of others,

(h) all Capital Lease Obligations of such Person,

(i) all unpaid obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty (other than cash collateralized letters of credit to secure the performance of workers' compensation, unemployment insurance, other social security laws or regulations, bids, trade contracts, leases, environmental and other statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case, obtained in the ordinary course of business),

(j) all capital stock of such Person which is required to be redeemed or is redeemable at the option of the holder if certain events or conditions occur or exist or otherwise, and

(k) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances.

The Debt of any Person shall include the Debt of any other entity (including any partnership in which such Person is a general partner) to the extent that such Person is liable therefor pursuant to law or judicial holding as a result of such Person's ownership interest in or other relationship with such entity, except to the extent that contractual provisions binding on the holder of such Debt provide that such Person is not liable therefor; *provided* that Debt shall not include (i) obligations with respect to insurance policies, annuities, guaranteed investment contracts and similar products underwritten by, or Reinsurance Agreements or Retrocession Agreements entered into by, an Insurance Subsidiary in the ordinary course of its business, (ii) obligations with respect to Surplus Relief Reinsurance ceded by an Insurance Subsidiary, or (iii) obligations in the ordinary course of business of such Person to purchase securities that arise out of or in connection with the sale of the same or substantially similar securities or to return collateral consisting of securities arising out of or in connection with the loan of the same or substantially similar securities.

"Default" means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"Dollars" or **"$"** refers to lawful money of the United States.

"Domestic Subsidiary" means each Subsidiary that is not a Foreign Subsidiary.

"Effective Date" means the date on which each of the conditions specified in Section 4.01 is satisfied (or waived in accordance with Section 9.02).

"Effective Date Trust Preferred Securities" means mandatorily redeemable preferred securities issued by any of the following Delaware business trusts that are Affiliates of the Borrower as of the Effective Date: American Equity Capital Trust I, American Equity Capital Trust II, American Equity Capital Trust III, American Equity Capital Trust IV, American Equity Capital Trust V, American Equity Capital Trust VI, American Equity Capital Trust VII, American Equity Capital Trust VIII, American Equity Capital Trust IX, American Equity Capital Trust X, American Equity Capital Trust XI and American Equity Capital Trust XII.

"Environmental Laws" means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, the preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Material or the effects of the environment on health and safety.

"Equity Interests" means (a) shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person or (b) any Equity Rights in such Person.

"Equity Rights" means, with respect to any Person, any subscriptions, options, warrants, commitments, preemptive rights or agreements of any kind (including, without limitation, any stockholders' or voting trust agreements) for the issuance, sale, registration or voting of, or securities convertible into, any additional shares of capital stock of any class, or partnership or other ownership interests of any type in, such Person.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that, together with the Borrower or any Subsidiary, is treated as a single employer under Section 4 14(b) or (c) of the Internal Revenue Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Internal Revenue Code, is treated as a single employer under Section 414 of the Internal Revenue Code.

"ERISA Event" means (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (except an event for which the 30-day notice period is waived); (b) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Internal Revenue Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 4 12(d) of the Internal Revenue Code or Section 3 03(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Borrower or any ERISA Affiliate of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f) the incurrence by the Borrower or any ERISA Affiliate of any liability with respect to withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"Eurodollar", when used with respect to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

"Events of Default" has the meaning specified in Article 7.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

"Excluded Taxes" means, with respect to any Lender Party or other recipient of a payment made by or on account of any obligation of the Borrower hereunder:

(a) income or franchise taxes imposed on (or measured by) its net income, receipts, capital or net worth by the United States (or any jurisdiction within the United States, except to the extent that such jurisdiction within the United States imposes such taxes solely in connection with such Lender Party's enforcement of its rights or exercise of its remedies under the Loan Documents), or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located (collectively, "Income Taxes");

(b) any branch profits taxes imposed by the United States or any similar tax imposed by any other jurisdiction described in clause (a) above; and

(c) in the case of a Foreign Lender, any withholding tax that (i) is in effect and would apply to amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement or designates a new lending office or (ii) is attributable to such Foreign Lender's failure to comply with Section 2.17(e).

Notwithstanding the foregoing, a withholding tax will not be an "Excluded Tax" to the extent that (A) it is imposed on amounts payable to a Foreign Lender by reason of an assignment made to such Foreign Lender at the Borrower's request pursuant to Section 2.19(b), (B) it is imposed on amounts payable to a Foreign Lender by reason of any other assignment and does not exceed the amount for which the assignor would have been indemnified pursuant to Section 2.17(a) or (C) in the case of designation of a new lending office, it does not exceed the amount for which such Foreign Lender would have been indemnified if it had not designated a new lending office.

"Exposure" means, with respect to any Lender at any time, the sum of (a) the aggregate outstanding principal amount of such Lender's Revolving Loans at such time and (b) such Lender's Swingline Exposure at such time.

"Federal Funds Effective Rate" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of Cleveland, or, if such rate is not so published on such Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Federal Reserve Board" means the Board of Governors of the Federal Reserve System of the United States.

"Financial Officer" means the chief financial officer, vice chairman, or vice president of accounting of the Borrower.

"Financing Transactions" means any one or more of the execution, delivery and performance by the Borrower of the Loan Documents to which it is to be a party, and the borrowing of Loans.

"Fiscal Quarter" means a fiscal quarter of the Borrower.

"Fiscal Quarter Increase" means, as to any Fiscal Quarter, the sum of (a) the greater of (i) an amount equal to 50% of the Borrower's Consolidated net, after tax earnings (determined in accordance with GAAP) for such Fiscal Quarter and (ii) zero dollars ($0) and (b) and an amount equal to 50% of Net Available Proceeds received by the Borrower in such Fiscal Quarter.

"Fiscal Year" means a fiscal year of the Borrower.

"Fitch" means Fitch Ratings, a subsidiary of Fimilac, S.A.

"Fixed Charges" means, for any period, the sum, without duplication, of (a) Consolidated Interest Expense for such period, (b) Restricted Payments made or incurred by the Borrower during such period, and (c) payments of Income Taxes made by the Borrower during such period, except to the extent that such Income Taxes are paid with the proceeds of payments made by a Subsidiary pursuant to a tax sharing agreement between the Borrower and such Subsidiary.

"Foreign Lender" means any Lender that is organized under the laws of a jurisdiction outside the United States.

"Foreign Subsidiary" means a Subsidiary (which may be a corporation, limited liability company, partnership or other legal entity) organized under the laws of a jurisdiction outside the United States, and conducting substantially all its operations outside the United States.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the most recent audited Consolidated financial statements of the Borrower and its Consolidated Subsidiaries delivered to the Lenders.

"Governmental Authority" means the government of the United States or any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"Guarantee" by any Person (the "guarantor") means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Debt or other debt-like obligations of any other Person (the **"primary obligor"**) in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation or to purchase (or advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of

assuring the owner of such Debt or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Debt or other obligation; *provided* that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business.

"Hazardous Materials" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Hedging Agreement" means any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest rate, currency exchange rate or commodity price hedging arrangement.

"Income Taxes" has the meaning specified in clause (a) of the definition of Excluded Taxes.

"Indemnified Taxes" means all Taxes except Excluded Taxes.

"Insurance Subsidiary" means a Subsidiary that is a regulated insurance company. As of the date of this Agreement, American Equity Investment Life Insurance Company and American Equity Investment Life Insurance Company of New York constitute the Insurance Subsidiaries.

"Interest Election" means an election by the Borrower to change or continue the Interest Type of a Borrowing in accordance with Section 2.07.

"Interest Expense" means, for any fiscal period, all expense of the Borrower or any of its Subsidiaries for such fiscal period classified as interest expense for such period, including interest on capitalized interest and interest under "synthetic" leases, in accordance with GAAP; *provided* that Interest Expense shall not include (a) interest expense, if any, in respect of Hedging Agreements that would otherwise be included pursuant to Financial Accounting Standard 133; (b) interest expense in respect of obligations in the ordinary course of business of the Borrower or any of its Subsidiaries to purchase securities that arise out of or in connection with the sale of the same or substantially similar securities or to return collateral consisting of securities arising out of or in connection with the loan of the same or substantially similar securities; or (c) non-cash interest expense accrued on the Convertible 2004 Debt.

"Interest Payment Date" means (a) with respect to any Base Rate Loan, the last day of each calendar quarter, (b) with respect to any Swingline Loan, the day on which such Loan is required to be repaid and (c) with respect to any Eurodollar Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, if such Interest Period is longer than three months, each day during such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period.

"Interest Period" means, with respect to any Eurodollar Borrowing, the period beginning on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter, as the Borrower may elect; *provided* that (a) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (b) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and thereafter shall be deemed to be the effective date of the most recent conversion or continuation of such Borrowing.

"Interest Type", when used with respect to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Investment" means, for any Person: (a) the acquisition (whether for cash, Property, services or securities or otherwise) of capital stock, bonds, notes, debentures, partnership or other ownership interests or other securities of any other Person or any agreement to make any such acquisition (including, without limitation, any "short sale" or any sale of any securities at a time when such securities are not owned by the Person entering into such sale); (b) the making of any deposit with, or advance, loan or other extension of credit or capital contribution to, any other Person (including the purchase of Property from another Person subject to an understanding or agreement, contingent or otherwise, to resell such Property to such Person), but excluding any such advance, loan or extension of credit having a term not exceeding 90 days arising in connection with the sale of inventory or supplies by such Person in the ordinary course of business; (c) the entering into of any Guarantee of, or other contingent obligation with respect to, Debt or other liability of any other Person and (without duplication) any amount committed to be advanced, lent or extended to such Person; or (d) the entering into of any Hedging Agreement.

"Lender Affiliate" means, (a) with respect to any Lender, (i) an Affiliate of such Lender or (ii) any entity (whether a corporation, partnership, trust or otherwise) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by such Lender or an Affiliate of such Lender and (b) with respect to any Lender that is a fund which invests in bank loans and similar extensions of credit, any other fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

"Lender Parties" means the Lenders and the Administrative Agent.

"Lenders" means the Persons listed on Schedule 2.01 and any other Person that shall have become a party hereto pursuant to an Assignment or Section 2.05, other than any such Person that ceases to be a party hereto pursuant to an Assignment. Unless the context requires otherwise, the term "Lenders" includes the Swingline Lender.

"LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period, the per annum rate of interest, determined by the Administrative Agent in accordance with its usual procedures (which determination shall be conclusive and binding absent manifest error) as of approximately 11:00 A.M. (London time) two (2) Business Days prior to the beginning of such Interest Period pertaining to such Eurodollar Borrowing, appearing on page 3750 of the Dow Jones Telerate Service (or any successor to or substitute page of such Service, or any successor to or substitute for such Service providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) as the rate in the London interbank market for dollar deposits in immediately available funds with a maturity comparable to such Interest Period. In the event that such a rate quotation is not available for any reason, then the rate shall be the rate, determined by the Administrative Agent as of approximately 11:00 A.M. (London time) two (2) Business Days prior to the beginning of such Interest Period pertaining to such Eurodollar Borrowing, to be the average (rounded upwards, if necessary, to the nearest one sixteenth of one percent (1/16th of 1%)) of the per annum rates of interest at which dollar deposits in immediately available funds, approximately equal in principal amount to such Eurodollar Borrowing and for a maturity comparable to the Interest Period, are offered to KeyBank National Association by prime banks in the London interbank market.

"Lien" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"Like-Kind Exchange" means the disposition of property in exchange for similar property or for cash proceeds in a transaction qualifying as a like-kind exchange pursuant to Section 1031 of the Internal Revenue Code of 1986 (or any successor provision).

"Loan Documents" means this Agreement, any promissory note issued by the Borrower pursuant to Section 2.09(e) and any certificate required to be delivered by the Borrower pursuant to Article 2 or Article 5.

"Loans" means loans made by the Lenders to the Borrower pursuant to this Agreement. Unless the context requires otherwise, the term "Loans" includes Swingline Loans.

"Long-Term Debt" means any Debt that, in accordance with GAAP, constitutes (or, when incurred, constituted) a long-term liability.

"Material Adverse Effect" means a material adverse effect on (a) the business, operations, properties, assets, financial condition, prospects, contingent liabilities or material agreements of the Borrower and its Subsidiaries taken as a whole, (b) the ability of the Borrower to perform any of its obligations under any Loan Document or (c) the rights of or benefits available to any Lender Party under, or the validity or enforceability of, any Loan Document.

"Material Debt" means Debt (other than obligations in respect of the Loans) or obligations in respect of one or more Hedging Agreements, of any one or more of the Borrower and its Subsidiaries in an aggregate principal amount exceeding $10,000,000. For purposes of determining Material Debt, the "principal amount" of the obligations of the Borrower or any Subsidiary in respect of any Hedging Agreement at any time will be the maximum aggregate amount (after giving effect to any netting agreements) that the Borrower or such Subsidiary would be required to pay if such Hedging Agreement were terminated at such time.

"Material Insurance Subsidiary" means a Material Subsidiary that is also an Insurance Subsidiary. As of the date of this Agreement, American Equity Investment Life Insurance Company constitutes the only Material Insurance Subsidiary.

"Material Subsidiary" means a Subsidiary that holds, directly or indirectly, more than 5% of the Consolidated assets of the Borrower and its Subsidiaries at such time or that accounts for more than 5% of the consolidated revenues of the Borrower and its Subsidiaries at such time, in each instance determined in accordance with GAAP.

"Maturity Date" means the Revolving Availability Termination Date.

"Minimum Net Worth" means, for any Fiscal Quarter, the minimum Consolidated Net Worth required to be maintained by the Borrower as of the end of such Fiscal Quarter pursuant to Section 6.13.

"Moody's" means Moody's Investors Service, Inc. and its successors and assigns or, if it shall be dissolved or shall no longer assign credit ratings to long term debt, then any other nationally recognized statistical rating agency designated by the Administrative Agent.

"Multiemployer Plan" means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

“NAIC” means the National Association of Insurance Commissioners and any successor thereto.

“Net Available Proceeds” means, with respect to the sale or other disposition of any Equity Interests of the Borrower or a Material Subsidiary, the aggregate amount of all cash received by the Borrower and its Material Subsidiaries in respect of such sale or other disposition, net of reasonable expenses incurred by the Borrower and its Material Subsidiaries in connection therewith.

“Other Taxes” meansany and all present or future recording, stamp, documentary, excise, transfer, sales, property or similar taxes, charges or levies arising from any payment made under any Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, any Loan Document.

“Participants” has the meaning specified in Section 9.04(e).

“PBGC” means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

“Percentage” means, with respect to any Lender, the percentage of the Total Commitment represented by such Lender’s Commitment. If the Commitments have terminated or expired, the Percentages will be determined based on the Commitments most recently in effect, adjusted to give effect to any assignments.

“Permitted Investments” means any of the following: (a) any investment in direct obligations of the United States of America or any agency thereof; (b) investments in time deposit accounts, certificates of deposit and money market deposits maturing within 90 days of the date of acquisition thereof issued by any Lender or a bank or trust company which is organized under the laws of the United States of America, any State thereof or any foreign country recognized by the United States of America, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of $100,000,000 (or the foreign currency equivalent thereof) and whose long-term debt is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Exchange Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor; (c) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (a) above entered into with a Lender or a bank meeting the qualifications described in clause (b) above; (d) investments in commercial paper, maturing not more than 90 days after the date of acquisition, issued by a corporation (other than an Affiliate of the Borrower) organized and in existence under the laws of the United States of America or any foreign country recognized by the United States of America with a rating at the times as of which any investment therein is made of “P-l” (or higher) by Moody’s or “A-1” (or higher) by S&P; (e) investments in securities with maturities of six months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P or “A” by Moody’s; and (f) any other investment permitted by the Applicable Insurance Regulatory Authority.

“Permitted Liens” means:

(a) Liens imposed by law for taxes that are not yet due or are being contested in compliance with Section 5.05;

(b) carriers’, warehousemen’s, mechanics’, materialmen’s, repairmen’s and other like Liens imposed by law, arising in the ordinary course of business and securing obligations that are not overdue by more than 30 days or are being contested in compliance with Section 5.05:

(c) pledges and deposits made in the ordinary course of business in compliance with workers’ compensation, unemployment insurance and other social security laws or regulations (including, without limitation, deposits made in the ordinary course of business to cash collateralize letters of credit described in the parenthetical in clause (i) of the definition of “Debt”);

(d) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, and Liens imposed by statutory or common law relating to banker’s liens or rights of setoff or similar rights relating to deposit accounts, in each case in the ordinary course of business;

(e) Liens arising under escrows, trusts, custodianships, separate accounts, funds withheld procedures, and similar deposits, arrangements, or agreements established with respect to insurance policies, annuities, guaranteed investment contracts and similar products underwritten by, or Reinsurance Agreements entered into by, any Insurance Subsidiary in the ordinary course of business;

(f) deposits with insurance regulatory authorities in the ordinary course of business; and

(g) easements, zoning restrictions, rights-of-way, licenses, reservations, minor irregularities of title and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligation and do not materially detract from the value of the affected property or interfere with the ordinary conduct of business of the Borrower or any Material Subsidiary;

provided that, except as provided in clause (c), above, the term “Permitted Liens” shall not include any Lien that secures Debt.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“Plan” means any employee pension benefit plan (except a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Internal Revenue Code or Section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) a "contributing sponsor" as defined in Section 400 l(a)(13) of ERISA.

"Prevailing Eastern Time" means "eastern standard time" as defined in 15 USC §263 as modified by 15 USC §260a.

"Pricing Schedule" means the Pricing Schedule attached hereto.

"Prime Rate" means, for any day, the rate of interest per annum then most recently publicly announced by KeyBank National Association as its "prime" rate (or equivalent rate otherwise named) in effect at its principal office in Cleveland, Ohio, which prime rate is not necessarily the lowest rate of interest charged by KeyBank National Association to commercial borrowers. Each change in the Prime Rate will be effective for purposes hereof from and including the date such change is publicly announced as being effective.

"Rating Agency" means each of S&P and Best.

"Register" has the meaning specified in Section 9.04(c).

"Reinsurance Agreement" means any agreement, contract, treaty or other arrangement providing for Ceded Reinsurance by any Insurance Subsidiary or any Subsidiary of such Insurance Subsidiary.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Related Parties" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and its Affiliates.

"Required Lenders" means, at any time, Lenders having aggregate Exposures and unused Commitments representing more than 50% of the sum of all Exposures and unused Commitments at such time.

"Restricted Payment" means, without duplication, (a) any dividend or other distribution (whether in cash, securities or other property) with respect to any Equity Interest in the Borrower or with respect to any Trust Preferred Securities or (b) any payment (whether in cash, securities or other property) or incurrence of an obligation by the Borrower or any of its Subsidiaries, including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any Equity Interest in the Borrower or any Trust Preferred Securities.

"Retrocession Agreement" means any agreement, contract, treaty or other arrangement (other than Surplus Relief Reinsurance) whereby any Insurance Subsidiary or any Subsidiary of such Insurance Subsidiary cedes reinsurance to other insurers (other than to another Insurance Subsidiary or any of its Subsidiaries).

"Revolving Availability" means on any date an amount equal to the Total Commitment Amount on such date, minus the Total Outstanding Amount on such date.

"Revolving Availability Period" means the period from and including the Effective Date to but excluding the Revolving Availability Termination Date (or, if earlier, the date on which all outstanding Commitments terminate).

"Revolving Availability Termination Date" means November 18, 2011 (or if such date is not a Business Day with respect to Eurodollar Loans, the next preceding day that is a Business Day with respect to Eurodollar Loans).

"Revolving Loan" means a Loan made pursuant to Section 2.02.

"Risk-Based Capital Ratio" means, as of the end of any Fiscal Quarter, the ratio of (a) Total Adjusted Capital as of such Fiscal Quarter-end to (b) an amount equal to (i) Authorized Control Level Risk-Based Capital as of such Fiscal Quarter-end, <u>times</u> (ii) two (2).

"**Sale-Leaseback Transaction"** has the meaning specified in Section 6.07.

"SAP" means, with respect to any Insurance Subsidiary, the accounting procedures and practices prescribed or permitted by the Applicable Insurance Regulatory Authority, applied on a basis consistent with those that, in accordance with the last sentence of Section 1.04 hereof, are to be used in making the calculations for purposes of determining compliance with this Agreement.

"S&P" means Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc., and its successors and assigns or, if it shall be dissolved or shall no longer assign credit ratings to long term debt, then any other nationally recognized statistical rating agency designated by the Administrative Agent.

"SEC" means the United States Securities and Exchange Commission.

"Senior Debt Rating" means a rating of the Borrower's senior long-term debt which is not secured or supported by a guarantee, letter of credit or other form of credit enhancement; *provided* that if a Senior Debt Rating by a Rating Agency is required to be at or above a specified level and such Rating Agency shall have changed its system of classifications after the date hereof, the requirement will be met if the Senior Debt Rating by such Rating Agency is at or above the new rating which most closely corresponds to the specified level under the old rating system; and *provided further* that the Senior Debt Rating in effect on any date is that in effect at the close of business on such date.

"Statutory Reserve Adjustment" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Federal Reserve Board to which the Administrative Agent is subject with respect to eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Federal Reserve Board). Such reserve percentages will include those imposed pursuant to such Regulation D. Eurodollar Loans will be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Adjustment will be adjusted automatically on and as of the effective date of any change in any applicable reserve percentage.

"Statutory Statement" means, as to any Insurance Subsidiary, a statement of the condition and affairs of such Insurance Subsidiary, prepared in accordance with statutory accounting practices required or permitted by the Applicable Insurance Regulatory Authority, and filed with the Applicable Insurance Regulatory Authority.

"Statutory Surplus" means, as at any date for any Insurance Subsidiary, the aggregate amount of surplus as regards policyholders (determined without duplication in accordance with SAP) of such Insurance Subsidiary, as set forth on page 3, line 38, of the most recent Statutory Statement of such Insurance Subsidiary (or equivalent page, line, or statement, to the extent that any thereof is modified or replaced).

"Subordinated Debt" means the Debt of the Borrower evidenced by the Trust Preferred Securities Notes and any other Debt of the Borrower (a) no part of the principal of which is required to be paid (whether by way of mandatory sinking fund, mandatory redemption, mandatory prepayment or otherwise), prior to the date that is twelve months after the Maturity Date and (b) that has been subordinated to the Loans and other obligations of the Borrower under the Loan Documents in right and time of payment upon terms that are satisfactory to the Required Lenders, which terms may, in the Required Lenders' determination, include (without limitation) limitations or restrictions on the right of the holder of such Debt to receive payments and exercise remedies.

"subsidiary" means, with respect to any Person (the "**parent**") at any date, (a) any corporation, limited liability company, partnership or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date and (b) any other corporation, limited liability company, partnership or other entity (i) of which securities or other ownership interests (A) representing more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership voting interests or (B) otherwise having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions, are, as of such date, owned, controlled or held, or (ii) that is otherwise Controlled (pursuant to clause (b) of the definition of "Control") as of such date, by the parent and/or one or more of its subsidiaries, but excluding any such entity that is required to be consolidated under GAAP solely by reason of FASB Interpretation No. 46.

"Subsidiary" means any subsidiary of the Borrower. As of the date of this Agreement, American Equity Investment Life Insurance Company, American Equity Investment Life Insurance Company of New York, American Equity Investment Capital, Inc., and American Equity Investment Properties, L.C. are the Subsidiaries of the Borrower.

"Surplus Note" means any surplus note or debenture issued at any time by American Equity Life or other Insurance Subsidiary to the Borrower, as such surplus note or debenture may be amended or modified in accordance with this Agreement and approved by the Applicable Insurance Regulatory Authority.

"Surplus Relief Reinsurance" means any transaction in which any Insurance Subsidiary or any Subsidiary of such Insurance Subsidiary cedes business under a reinsurance agreement that

would be considered a "financing-type" reinsurance agreement as determined by the independent certified public accountants of American Equity Life or other Insurance Subsidiary in accordance with principles published by the Financial Accounting Standards Board or the Second Edition of the AICPA Audit Guide for Stock Life Insurance Companies (pp. 91-92 or equivalent provisions), as the same may be revised from time to time.

"Swingline Exposure" means, at any time, the aggregate outstanding principal amount of the Swingline Loans at such time. The Swingline Exposure of any Lender at any time will be its Percentage of the total Swingline Exposure at such time.

"Swingline Lender" means KeyBank National Association, in its capacity as the lender of Swingline Loans hereunder.

"Swingline Loan" means a Loan made pursuant to Section 2.04.

"Taxes" means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

"Total Adjusted Capital", as of any date, has the meaning set forth on, whichever is most recently filed by American Equity Life and each other Insurance Subsidiary, (a) page 23, line 29, column 1 of its most recently filed annual Statutory Statement or (b) page 3, line 38, column 1 of its most recently filed quarterly Statutory Statement (or, in each case, equivalent page, line, column or statement, to the extent that any thereof is modified or replaced).

"Total Capitalization" means, as of any date, the aggregate of, without duplication, (a) Consolidated Debt of the Borrower, of the type described in any or all of clauses (a), (b), (c), (d), (e) and (h) of the definition of "Debt", on such date and (b) Consolidated Net Worth of the Borrower, on such date.

“Total Commitment” means, at any date, the aggregate of the Commitments of all Lenders at such date.

“Total Outstanding Amount” means, at any date, the aggregate Exposures of all Lenders at such date.

“Trailing Borrower-Only EBITDA” means, as of the end of any Fiscal Quarter, Borrower-Only EBITDA for such Fiscal Quarter, plus Borrower-Only EBITDA for the three (3) immediately preceding Fiscal Quarters.

“Trailing Fixed Charges” means, as of the end of any Fiscal Quarter, Fixed Charges for such Fiscal Quarter, plus Fixed Charges for the three (3) immediately preceding Fiscal Quarters.

“Trust Preferred Securities” means mandatorily redeemable preferred securities issued by one or more Delaware business trusts that are Affiliates of the Borrower (including, without limitation, Effective Date Trust Preferred Securities), to which trusts the Borrower has issued

Trust Preferred Securities Notes, *provided* that no such preferred securities shall be mandatorily redeemable earlier than November 18, 2014.

“Trust Preferred Securities Notes” means (a) the unsecured junior subordinated deferrable interest notes issued by the Borrower to evidence loans made to the Borrower by the issuers of the Trust Preferred Securities from the proceeds of the sale of such Trust Preferred Securities under and pursuant to any of the Effective Date Trust Preferred Securities **and (b)** any subsequent unsecured junior subordinated deferrable interest notes issued by the Borrower to evidence loans made to the Borrower by the issuers of the Trust Preferred Securities from the proceeds of the sale of such Trust Preferred Securities, which notes are governed by indentures in all material respects equivalent (other than the face amount of such debentures) to that certain Junior Subordinated Indenture dated June 15, 2005 between the Borrower and JPMorgan Chase Bank, N.A., as trustee.

“United States” means the United States of America.

“USA Patriot Act” means the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

“Withdrawal Liability” means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

“Wholly Owned Subsidiary” means, with respect to any Person, any corporation, partnership or other entity of which all of the equity securities or other ownership interests (other than, in the case of a corporation, directors’ qualifying shares) are directly or indirectly owned or controlled by such Person or one or more Wholly Owned Subsidiaries of such Person or by such Person and one or more Wholly Owned Subsidiaries of such Person.

Section 1.02. *Classification of Loans and Borrowings.* For purposes of this Agreement, Loans and Borrowings may be classified by Interest Type (e.g., a “Eurodollar Loan” or a “Eurodollar Borrowing”).

Section 1.03. *Terms Generally.* The definitions of terms herein (including those incorporated by reference to another document) apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun includes the corresponding masculine, feminine and neuter forms. The words “include”, **“**includes**”** and **“**including**”** shall be deemed to be followed by the phrase **“**withoutlimitation**”.** The word **“**will**”** shall be construed to have the same meaning and effect as the word **“**shall**”.** Unless the context requires otherwise, (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (c) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its

entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the word “property” shall be construed to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

Section 1.04. *Accounting Terms; Changes in GAAP.*

(a) Except as otherwise expressly provided herein, all accounting terms used herein shall be interpreted, and all financial statements and certificates and reports as to financial matters required to be delivered to the Administrative Agent hereunder shall (unless otherwise disclosed to the Administrative Agent in writing at the time of delivery thereof in the manner described in subsection (b) below) be prepared, in accordance with GAAP or with SAP applied on a basis consistent with those used in the preparation of the latest financial statements furnished to the Administrative Agent hereunder (which, prior to the delivery of the first financial statements under Section 5.01 hereof, shall mean the audited, or annual statutory, financial statements as at December 31, 2005 referred to in Section 3.04 hereof). All calculations made for the purposes of determining compliance with this Agreement shall (except as otherwise expressly provided herein) be made by application of GAAP or with statutory accounting practices applied on a basis consistent with those used in the preparation of the latest annual or quarterly financial statements furnished to the Administrative Agent pursuant to Section 5.01 hereof (or, prior to the delivery of the first financial statements under Section 5.01 hereof, used in the preparation of the audited, or annual statutory, financial statements as at December 31, 2005 referred to in Section 3.04 hereof) unless (i) the Borrower shall have objected to determining such compliance on such basis at the time of delivery of such financial statements or (ii) the Required Lenders (through the Administrative Agent) shall so object in writing within 30 days after delivery of such financial statements, in either of which events such calculations shall be made on a basis consistent with those used in the preparation of the latest financial statements as to which such objection shall not have been made (which, if objection is made in respect of the first financial statements delivered under Section 5.01 hereof, shall mean the audited, or annual statutory, financial statements referred to in Section 3.04 hereof).

(b) The Borrower shall deliver to the Administrative Agent at the same time as the delivery of any annual or quarterly financial statement under Section 5.01 hereof (i) a description in reasonable detail of any material variation between the application of accounting principles, or statutory accounting practices, employed in the preparation of such statement and the application of accounting principles, or statutory accounting practices, employed in the preparation of the next preceding annual or quarterly financial statements as to which no objection has been made in accordance with the last sentence of subsection (a) above and (ii) reasonable estimates of the difference between such statements arising as a consequence thereof.

(c) To enable the ready and consistent determination of compliance with the covenants set forth in Article 6 hereof, the Borrower shall not change the last day of its fiscal year from December 31, or the last days of the first three fiscal quarters in each of its fiscal years from March 31, June 30 and September 30 of each year, respectively.

ARTICLE 2

THE CREDITS

Section 2.01. *Commitments.* (a) Subject to the terms and conditions set forth herein, each Lender agrees to make Revolving Loans to the Borrower from time to time during the Revolving Availability Period in an aggregate principal amount that will not at any time result in (A) such Lender's Exposure exceeding its Commitment or (B) the Total Outstanding Amount exceeding the Total Commitment then in effect. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Revolving Loans.

(b) The Commitments of the Lenders are several, i.e., the failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder, and no Lender shall be responsible for any other Lender's failure to make Loans as and when required hereunder.

Section 2.02. *Revolving Loans.* (a) Each Revolving Loan shall be made as part of a Borrowing consisting of Loans of the same Interest Type made by the Lenders ratably in accordance with their respective Commitments, as the Borrower may request (subject to Section 2.14) in accordance herewith. Each Lender at its option may make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan. Any exercise of such option shall not affect the Borrower's obligation to repay such Loan as provided herein.

(b) At the beginning of each Interest Period for any Eurodollar Borrowing, the aggregate amount of such Borrowing shall be an integral multiple of $5,000,000 and not less than $10,000,000. When each Base Rate Borrowing is made, the aggregate amount of such Borrowing shall be an integral multiple of $1,000,000 and not less than $5,000,000; *provided* that a Base Rate Borrowing may be in an aggregate amount that is equal to the entire unused balance of the Commitments. Borrowings of more than one Interest Type may be outstanding at the same time; *provided* that there shall not at any time be more than a total of five (5) Eurodollar Borrowings outstanding.

(c) Notwithstanding any other provision hereof, the Borrower will not be entitled to request, or to elect to convert or continue, any Eurodollar Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date.

Section 2.03. *Requests to Borrow Revolving Loans.* To request a Revolving Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone (a) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., Prevailing Eastern Time, three Business Days before the date of the proposed Borrowing or (b) in the case of a Base Rate Borrowing, not later than 11:00 a.m., Prevailing Eastern Time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower. Each such telephonic and

written Borrowing Request shall specify the following information in compliance with Section 2.02:

(i) the aggregate amount of such Borrowing;

(ii) the date of such Borrowing, which shall be a Business Day;

(iii) whether such Borrowing is to be a Base Rate Borrowing or a Eurodollar Borrowing;

(iv) in the case of a Eurodollar Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of "Interest Period"; and

(v) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.06.

If no election as to the Interest Type of a Borrowing is specified, the requested Borrowing will be a Base Rate Borrowing. If no Interest Period with respect to a requested Eurodollar Borrowing is specified, the Borrower will be deemed to have selected an Interest Period of one month's duration. Promptly after it receives a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender as to the details of such Borrowing Request and the amount of such Lender's Loan to be made pursuant thereto.

Section 2.04. *Swingline Loans.* (a) Subject to the terms and conditions set forth herein, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time during the Revolving Availability Period, in each case in an amount that (i) is an integral multiple of $500,000, (ii) will not result in the aggregate outstanding principal amount of all Swingline Loans exceeding $15,000,000 and (iii) will not result in the Total Outstanding Amount exceeding the Total Commitment then in effect; *provided* that the Swingline Lender will not be required to make a Swingline Loan to refinance an outstanding Swingline Loan. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Swingline Loans.

(b) To request a Swingline Loan, the Borrower shall notify the Administrative Agent of such request by telephone (confirmed by telecopy or email transmission), not later than 3:00 p.m., Prevailing Eastern Time, on the proposed date of borrowing. Each such notice shall be irrevocable and shall specify the requested date (which shall be a Business Day) and amount of the requested Swingline Loan. The Administrative Agent shall promptly advise the Swingline Lender of any such notice received from the Borrower. The Swingline Lender shall make each Swingline Loan available to the Borrower by means of a credit to the Borrower's general deposit account with the Swingline Lender by 5:00 p.m., Prevailing Eastern Time, on the requested date of such Swingline Loan. Each Swingline Loan shall bear interest at the rate specified in Section 2.13(c).

(c) The Borrower unconditionally promises to pay to the Swingline Lender the then unpaid principal amount of each Swingline Loan on the earlier of the Maturity Date and the thirtieth day after such Swingline Loan is made; *provided* that, unless the Swingline Lender otherwise expressly agrees in writing, on each day that a Borrowing of Revolving Loans is made, the Borrower shall repay all Swingline Loans that were outstanding when such Borrowing was requested.

(d) The Borrower will have the right at any time to prepay any Swingline Loan in full or in part in an amount that is an integral multiple of $500,000. The Borrower shall notify the Swingline Lender and the Administrative Agent, by telephone (confirmed by telecopy or email transmission), of the date and amount of any such prepayment not later than noon, Prevailing Eastern Time, on the date of prepayment. Each such prepayment shall be made directly to the Swingline Lender and shall be accompanied by accrued interest on the amount prepaid.

(e) The Swingline Lender may, by written notice given to the Administrative Agent not later than 3:00 p.m., Prevailing Eastern Time, on any Business Day, require the Lenders to acquire participations on such Business Day in all or a portion of the Swingline Loans then outstanding. Such notice shall specify the aggregate amount of Swingline Loans in which Lenders will participate. Promptly after it receives such notice, the Administrative Agent shall notify each Lender as to the details thereof and such Lender's Percentage of such aggregate amount of Swingline Loans. Each Lender agrees, upon receipt of such notification, to pay to the Administrative Agent, for the account of the Swingline Lender, such Lender's Percentage of such aggregate amount of Swingline Loans. Each Lender's obligation to acquire participations in Swingline Loans pursuant to this subsection is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or any reduction or termination of the Commitments, and each payment by a Lender to acquire such participations shall be made without any offset, abatement, withholding or reduction whatsoever. Each Lender shall comply with its obligation under this subsection by wire transfer of immediately available funds, in the same manner as provided in Section 2.06 with respect to Loans made by such Lender (and Section 2.06(b) shall apply, *mutatis mutandis*, to the payment obligations of the Lenders under this subsection), and the Administrative Agent shall promptly pay to the Swingline Lender the amounts so received by it from the Lenders. The Administrative Agent shall notify the Borrower of any participations in Swingline Loans acquired pursuant to this subsection, and thereafter payments in respect of such Swingline Loans shall be made to the Administrative Agent and not to the Swingline Lender. Any amounts received by the Swingline Lender from the Borrower (or any other party on behalf of the Borrower) in respect of a Swingline Loan after the Swingline Lender receives the proceeds of a sale of participations therein shall be promptly remitted to the Administrative Agent, which shall promptly remit any such amounts received by it to the Lenders that shall have made payments pursuant to this subsection and to the Swingline Lender, as their interests may appear. The purchase of participations in Swingline Loans pursuant to this subsection will not relieve the Borrower of any default in the payment thereof.

Section 2.05. *Optional Increase in Commitments.* At any time prior to the date that is thirty days prior to the Revolving Availability Termination Date, if no Default shall have occurred and be continuing (or would result after giving effect thereto), the Borrower, may, if it so elects, increase the aggregate amount of the Commitments (each such increase to be in an aggregate

amount that is an integral multiple of $5,000,000 and not less than $10,000,000), either by designating a financial institution not theretofore a Lender to become a Lender (such designation to be effective only with the prior written consent of the Administrative Agent and the Swingline Lender, which consent will not be unreasonably withheld or delayed, and only if such financial institution accepts a Commitment in an aggregate amount that is an integral multiple of $5,000,000 and not less than $10,000,000), or by agreeing with an existing Lender that such Lender's Commitment shall be increased. Upon execution and delivery by the Borrower and such Lender or other financial institution of an instrument (a **"Commitment Acceptance")** in form reasonably satisfactory to the Administrative Agent, such existing Lender shall have a Commitment as therein set forth or such other financial institution shall become a Lender with a Commitment as therein set forth and with all the rights and obligations of a Lender with such a Commitment hereunder, and any such other financial institution shall be deemed to be a Lender for all purposes of this Agreement and the other Loan Documents without any amendment hereto or thereto and without the consent of any other party (other than those required above in this Section 2.05); *provided:*

(a) that the Borrower shall provide prompt notice of such increase to the Administrative Agent, who shall promptly notify the Lenders;

(b) that the Borrower shall have delivered to the Administrative Agent a copy of the Commitment Acceptance;

(c) that the amount of such increase, together with all other increases in the aggregate amount of the Commitments pursuant to this Section 2.05 since the date of this Agreement, does not exceed $50,000,000;

(d) that, before and after giving effect to such increase, the representations and warranties of the Borrower contained in Article 3 of this Agreement shall be true and correct; and

(e) that the Administrative Agent shall have received such evidence (including an opinion of Borrower's counsel) as it may reasonably request to confirm the Borrower's due authorization of the transactions contemplated by this Section 2.05 and the validity and enforceability of the obligations of the Borrower resulting therefrom.

On the date of any such increase, the Borrower shall be deemed to have represented to the Administrative Agent and the Lenders that the conditions set forth in clauses (a) through (e) above have been satisfied.

Upon any increase in the aggregate amount of the Commitments pursuant to this Section 2.05:

(x) within five Domestic Business Days, in the case of any Base Rate Borrowings then outstanding, and at the end of the then current Interest Period with respect thereto, in the case of any Eurodollar Borrowings then outstanding, the Borrower shall prepay such Borrowing in its entirety and, to the extent the Borrower elects to do so and subject to the conditions specified in Article 4, the Borrower shall reborrow Loans from the

Lenders in proportion to their respective Commitments after giving effect to such increase, until such time as all outstanding Loans are held by the Lenders in such proportion; and

(y) each existing Lender whose Commitment has not increased pursuant to this Section 2.05 (each, a "**Non-increasing Lender**") shall be deemed, without further action by any party hereto, to have sold to each Lender whose Commitment has been assumed or increased under this Section 2.05 (each, an "**Increased Commitment Lender**"), and each Increased Commitment Lender shall be deemed, without further action by any party hereto, to have purchased from each Non-Increasing Lender, a participation (on the terms specified in Section 2.04(e) respectively) in each Swingline Loan in which such Non-Increasing Lender has acquired a participation in an amount equal to such Increased Commitment Lender's Percentage thereof, until such time as all Swingline Exposures are held by the Lenders in proportion to their respective Commitments after giving effect to such increase.

Section 2.06. *Funding of Revolving Loans.* (a) Each Lender making a Revolving Loan hereunder shall wire the principal amount thereof in immediately available funds, by 1:00 p.m., Prevailing Eastern Time, on the proposed date of such Loan, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders. The Administrative Agent shall make such funds available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower maintained with the Administrative Agent in Cleveland, Ohio and designated by the Borrower in the applicable Borrowing Request.

(b) Unless the Administrative Agent receives notice from a Lender before the proposed date of any Borrowing that such Lender will not make its share of such Borrowing available to the Administrative Agent, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with Section 2.06(a) and may, in reliance on such assumption, make a corresponding amount available to the Borrower. In such event, if a Lender has not in fact made its share of such Borrowing available to the Administrative Agent, such Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the day such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate reasonably determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of the Borrower, the interest rate applicable to Base Rate Loans. If such Lender pays such amount to the Administrative Agent, such amount shall constitute such Lender's Loan included in such Borrowing.

Section 2.07. *Interest Elections.* (a) Each Borrowing of Revolving Loans initially shall be of the Interest Type specified in the applicable Borrowing Request and, in the case of a Eurodollar Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Borrower may elect to convert such Borrowing to a different Interest Type or, in the case of a Eurodollar Borrowing, to continue such Borrowing for one or more additional Interest Periods, all as provided in this Section. The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated

ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing.

(b) To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent thereof by telephone by the time that a Borrowing Request would be required under Section 2.03 if the Borrower were requesting that a Borrowing of the Interest Type resulting from such election be made on the effective date of such election. Each such telephonic Interest Election shall be irrevocable and shall be confirmed promptly by hand delivery, telecopy or e-mail transmission to the Administrative Agent of a written Interest Election in a form approved by the Administrative Agent and signed by the Borrower.

(c) Each telephonic and written Interest Election shall specify the following information in compliance with Section 2.02 and subsection (e) of this Section:

(i) the Borrowing to which such Interest Election applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be a Base Rate Borrowing or a Eurodollar Borrowing; and

(iv) if the resulting Borrowing is to be a Eurodollar Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of "Interest Period".

If an Interest Election requests a Eurodollar Borrowing but does not specify an Interest Period, the Borrower will be deemed to have selected an Interest Period of one month's duration.

(d) Promptly after it receives an Interest Election, the Administrative Agent shall advise each Lender as to the details thereof and such Lender's portion of each resulting Borrowing.

(e) if the Borrower fails to deliver a timely Interest Election with respect to a Eurodollar Borrowing before the end of an Interest Period applicable thereto, such Borrowing (unless repaid) will be converted to a Base Rate Borrowing at the end of such Interest Period. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing, (i) no outstanding Borrowing may be converted to or continued as a Eurodollar Borrowing and (ii) each Eurodollar Borrowing (unless repaid) will be converted to a Base Rate Borrowing at the end of the Interest Period applicable thereto on the date of such notice.

Section 2.08. *Termination or Reduction of Commitments.* (a) Unless previously terminated, the Commitments will terminate on the Revolving Availability Termination Date.

(b) The Borrower may at any time terminate, or from time to time reduce, the Commitments; *provided* that (i) the amount of each reduction of the Commitments shall be an integral multiple of $5,000,000 and not less than $10,000.000 and (ii) the Borrower shall not terminate or reduce the Commitments if, after giving effect thereto and to any concurrent prepayment of Revolving Loans pursuant to Section 2.10, the total Exposures would exceed the total Commitments and (iii) the Borrower shall not reduce the Commitments if, after giving effect thereto, the outstanding Commitments would be less than $50,000,000.

(c) The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Commitments under Section 2.08(b), at least one Business Day before the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly after it receives any such notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section will be irrevocable; *provided* that any such notice terminating the Commitments may state that it is conditioned on the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or before the specified effective date) if such condition is not satisfied. Any termination or reduction of the Commitments will be permanent and will be made ratably among the Lenders in accordance with their respective Commitments.

Section 2.09. *Payment at Maturity; Evidence of Debt.* (a) The Borrower unconditionally promises to pay to the Administrative Agent on the Maturity Date, for the account of each Lender, the then unpaid principal amount of such Lender's Revolving Loans.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Interest Type thereof and each Interest Period (if any) applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to subsections (b) and (c) of this Section shall be *prima facie* evidence of the existence and amounts of the obligations recorded therein; *provided* that any failure by any Lender or the Administrative Agent to maintain such accounts or any error therein shall not affect the Borrower's obligation to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that Loans made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note

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payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

Section 2.10. *Optional and Mandatory Prepayments.* (a) *Optional Prepayments.* The Borrower will have the right at any time to prepay any Borrowing in whole or in part, subject to the provisions of this Section and Section 2.16.

(b) *Mandatory Prepayments.* If at any date the Total Outstanding Amount exceeds the Total Commitment calculated as of such date, then not later than the next succeeding Business Day, the Borrower shall be required to prepay the Loans in an amount equal to such excess until the Total Outstanding Amount does not exceed the Total Commitment.

(c) *Allocation of Prepayments.* Before any optional or mandatory prepayment of Borrowings hereunder, the Borrower shall select the Borrowing or Borrowings to be prepaid and shall specify such selection in the notice of such prepayment pursuant to Section 2.10(f).

(d) *Partial Prepayments.* Each partial prepayment of a Borrowing shall be in an amount that would be permitted under Section 2.02(b) for a Borrowing of the same Interest Type, except as needed to apply fully the required amount of a mandatory prepayment. Each partial prepayment of a Borrowing shall be applied ratably to the Loans included in such Borrowing.

(e) *Accrued Interest.* Each prepayment of a Borrowing shall be accompanied by accrued interest to the extent required by Section 2.11 or Section 2.13.

(f) *Notice of Prepayments.* The Borrower shall notify the Administrative Agent by telephone (confirmed by telecopy or e-mail transmission) of any prepayment of any Borrowing hereunder (i) in the case of a Eurodollar Borrowing, not later than noon, Prevailing Eastern Time, three Business Days before the date of prepayment and (ii) in the case of a Base Rate Borrowing, not later than noon, Prevailing Eastern Time, on the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date, the principal amount of each Borrowing or portion thereof to be prepaid and, in the case of a mandatory prepayment, a reasonably detailed calculation of the amount of such prepayment; *provided* that, if a notice of optional prepayment is given in connection with a conditional notice of termination of the Commitments as contemplated by Section 2.08(c), then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.08(c). Promptly after it receives any such notice, the Administrative Agent shall advise the Lenders of the contents thereof.

Section 2.11. *Change in Control.* (a) If a Change in Control of the Borrower shall occur, the Borrower shall, within one Business Day after the occurrence thereof, give the Administrative Agent notice thereof, and the Administrative Agent shall promptly notify each Lender thereof. Such notice shall describe in reasonable detail the facts and circumstances giving rise thereto and the date of such Change in Control and each Lender may, by notice to the Borrower and the

Administrative Agent (a **"Termination Notice"**) given not later than ten days after the date of such Change of Control, terminate its Commitment, which shall be terminated, and declare any Loans made by it (together with accrued interest thereon) and any other amounts payable hereunder for its account to be, and such Loans and such amounts shall become, due and payable, in each case on the day following delivery of such Termination Notice (or if such day is not a Business Day, the next succeeding Business Day), without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

(b) If the Commitment of any Lender is terminated pursuant to this Section at a time when any Swingline Loan is outstanding, then (i) such Lender shall remain responsible to the Swingline Lender with respect to such Swingline Loan to the same extent as if its Commitment had not terminated and (ii) the Borrower shall pay to such Lender an amount in immediately available funds (which funds shall be held as collateral pursuant to arrangements satisfactory to such Lender) equal to such Lender's Percentage of the aggregate outstanding principal amount of such Swingline Loan at such time.

Section 2.12. *Fees.* (a) The Borrower shall pay to the Administrative Agent for the account of each Lender a facility fee, which shall accrue during the Revolving Availability Period at the Applicable Rate on the average daily amount of the Commitment of such Lender, whether used or unused, during the period from and including the Effective Date to the date on which such Commitment terminates. Such facility fee shall be payable in arrears on the last day of each calendar quarter in respect of the quarter then ending and on the earlier date on which the Commitment of such Lender shall be terminated or assigned in whole.

(b) The Borrower shall pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon by the Borrower and the Administrative Agent.

(d) All fees payable hereunder shall be computed on the basis of a year of 360 days and will be payable for the actual number of days elapsed and shall be paid on the dates due, in immediately available funds, to the Administrative Agent for distribution, in the case of facility fees and utilization fees, to the Lenders entitled thereto. Fees paid shall not be refundable under any circumstances.

Section 2.13. *Interest.* (a)The Loans comprising each Base Rate Borrowing shall bear interest for each day at the Alternate Base Rate.

(b) The Loans comprising each Eurodollar Borrowing shall bear interest for each Interest Period in effect for such Borrowing at the Adjusted LIBO Rate for such Interest Period, plus the Applicable Rate.

(c) Each Swingline Loan shall bear interest for each day at the rate per annum equal to (i) the rate determined by the Swingline Lender to be its cost of funds in respect of such Swingline Loan, plus (ii) the Applicable Rate for Eurodollar Borrowings then in effect.

(d) Notwithstanding the foregoing, (i) if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to (A) in the case of overdue principal of any Loan, 2% plus the rate that otherwise would be applicable to such Loan as provided in the preceding subsections of this Section or (B) in the case of any other amount, 2% plus the Alternate Base Rate; and (ii) upon notice to the Borrower from the Administrative Agent upon and during the continuance of an Event of Default, and continuing for so long as an Event of Default exists (but without duplication of the interest accruing pursuant to clause (i), above), interest on the Loans shall bear interest, after as well as before judgment, at a rate per annum equal to 2% plus the rate that otherwise would be applicable to such Loan as provided in the preceding subsections of this Section.

(e) Interest accrued on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and upon termination of the Commitments; *provided* that (i) interest accrued pursuant to Section 2.13(d) shall be payable on demand, (ii) upon any repayment of any Loan (except a prepayment of a Base Rate Revolving Loan before the end of the Revolving Availability Period), interest accrued on the principal amount repaid shall be payable on the date of such repayment and (iii) upon any conversion of a Eurodollar Loan before the end of the current Interest Period there for, interest accrued on such Loan shall be payable on the effective date of such conversion.

(f) All interest hereunder will be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate will be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case will be payable for the actual number of days elapsed (including the first day but excluding the last day). Each applicable Alternate Base Rate or Adjusted LIBO Rate shall be determined by the Administrative Agent, and its determination thereof will be conclusive absent manifest error.

Section 2.14. *Alternate Rate of Interest.* If before the beginning of any Interest Period for a Eurodollar Borrowing:

(i) the Dow Jones Telerate Service is no longer quoting rates for LIBO Rates and there is no substitute or successor thereto as provided in Section 1.01, and if deposits in dollars in the applicable amounts are not being offered by KeyBank National Association in the London interbank market for such Interest Period; or

(ii) Lenders having 50% or more of the aggregate principal amount of the Loans to be included in such Borrowing advise the Administrative Agent that the Adjusted LIBO Rate for such Interest Period, after giving effect to Section 2.15, will not adequately and fairly reflect the cost to such Lenders of making or maintaining such Loans for such Interest Period;

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then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a Eurodollar Borrowing will be ineffective and (ii) if any Borrowing Request requests a Eurodollar Borrowing, such Borrowing will be made as a Base Rate Borrowing.

Section 2.15. *Increased Costs.* (a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate); or

(ii) impose on any Lender or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Lender;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Loan (or of maintaining its obligation to make Eurodollar Loans) or to increase the cost to such Lender or to reduce any amount received or receivable by such Lender hereunder (whether of principal, interest or otherwise), then the Borrower shall pay to such Lender such additional amount or amounts as will compensate it for such additional cost incurred or reduction suffered.

(b) If any Lender determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a consequence of this Agreement or the Loans made by such Lender, to a level below that which such Lender or such Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy), then from time to time following receipt of the certificate referred to in subsection (c) of this Section, the Borrower shall pay to such Lender such additional amount or amounts as will compensate it or its holding company for any such reduction suffered.

(c) A certificate of a Lender setting forth the amount or amounts necessary to compensate it or its holding company, as the case may be, as specified in subsection (a) or (b) of this Section shall be delivered to the Borrower and shall be rebuttably presumed to be correct. Each such certificate shall contain a representation and warranty on the part of the Lender to the effect that such Lender has complied with its obligations pursuant to Section 2.19 hereof in an effort to eliminate or reduce such amount. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Failure or delay by any Lender to demand compensation pursuant to this Section will not constitute a waiver of its right to demand such compensation; *provided* that the Borrower will not be required to compensate a Lender pursuant to this Section for any increased cost or reduction incurred more than 180 days before it notifies the Borrower of the Change in Law giving rise to such increased cost or reduction and of its intention to claim compensation therefor. However, if the Change in Law giving

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rise to such increased cost or reduction is retroactive, then the 180-day period referred to above will be extended to include the period of retroactive effect thereof.

Section 2.16. *Break Funding Payments.* If (a) any principal of any Eurodollar Loan is repaid on a day other than the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) any Eurodollar Loan is converted on a day other than the last day of an Interest Period applicable thereto, (c) the Borrower fails to borrow, convert, continue or prepay any Revolving Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.10(f) and is revoked in accordance therewith), or (d) any Eurodollar Loan is assigned on a day other than the last day of an Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.19, then the

Borrower shall compensate each Lender for its loss, cost and expense attributable to such event. In the case of a Eurodollar Loan, such loss, cost and expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of (i) the amount of interest that would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the end of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, the Interest Period that would have begun on the date of such failure), over (ii) the amount of interest that would accrue on such principal amount for such period at the interest rate which such Lender would bid were it to bid, at the beginning of such period, for dollar deposits of a comparable amount and period from other banks in the eurodollar market. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

Section 2.17. *Taxes.* (a) All payments by the Borrower under the Loan Documents shall be made free and clear of and without deduction or withholding for any Indemnified Taxes or Other Taxes; *provided* that, if the Borrower shall be required to deduct or withhold any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable will be increased as necessary so that, after all required deductions and withholdings (including deductions applicable to additional sums payable under this Section) are made, each relevant Lender Party receives an amount equal to the sum it would have received had no such deductions or withholdings been made, (ii) the Borrower shall make such deductions or withholdings and (iii) the Borrower shall pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify each Lender Party, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by such Lender Party with respect to any payment by or obligation of the Borrower under the Loan Documents (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to

amounts payable under this Section) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto (unless such penalties, interest or expenses arise by reason of the gross negligence or willful misconduct of such Lender), whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of any such payment delivered to the Borrower by a Lender Party on its own behalf, or by the Administrative Agent on behalf of a Lender Party, shall be conclusive absent manifest error. If the Borrower has indemnified any Lender Party pursuant to this Section 2.17(c), such Lender Party shall take such steps as the Borrower shall reasonably request (at the Borrower's expense) to assist the Borrower in recovering the Indemnified Taxes or Other Taxes and any penalties or interest attributable thereto; *provided* that no Lender Party shall be required to take any action pursuant to this Section 2.17(c) unless, in the reasonable judgment of such Lender Party, such action (i) would not subject such Lender Party to any unreimbursed cost or expense and (ii) would not otherwise be disadvantageous to such Lender Party.

(d) As soon as practicable after the Borrower pays any Indemnified Taxes or Other Taxes to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the laws of the United States, or any treaty to which the United States is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate. If any such Foreign Lender becomes subject to any Tax because it fails to comply with this subsection as and when prescribed by applicable law, the Borrower shall take such steps (at such Foreign Lender's expense) as such Foreign Lender shall reasonably request to assist such Foreign Lender to recover such Tax.

(f) The provisions of this Section 2.17 shall survive the termination of this Agreement and repayment of the Loans.

Section 2.18. *Payments Generally; Pro Rata Treatment; Sharing of Set-Offs.* (a) The Borrower shall make each payment required to be made by it under the Loan Documents (whether of principal, interest or fees, or amounts payable under Section 2.15, 2.16 or 2.17(c) or otherwise) before the time expressly required under the relevant Loan Document for such payment (or, if no such time is expressly required, before noon, Prevailing Eastern Time), on the date when due, in immediately available funds, without set-off or counterclaim. Any amount received after such time on any day may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices at 127 Public Square, 6th Floor, Cleveland, Ohio 44114 (or such other address as may from time to time be designated by the Administrative Agent to the Borrower in writing), except payments to be made directly to the Swingline Lender as expressly provided herein and except that payments pursuant to Sections

2.15,2.16, 2.17 and 9.03 shall be made directly to the Persons entitled thereto and payments pursuant to other Loan Documents shall be made to the Persons specified therein. The Administrative Agent shall distribute any such payment received by it for the account of any other Person to the appropriate recipient promptly alter receipt thereof. Unless otherwise specified herein, if any payment under any Loan Document shall be due on a day that is not a Business Day, the date for payment will be extended to the next succeeding Business Day and, if such payment accrues interest, interest thereon will be payable for the period of such extension. All payments under each Loan Document shall be made in dollars.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, interest and fees then due hereunder, such funds shall be applied (i) first, to pay interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, to pay principal then due hereunder, ratably among the Lenders in accordance with the amounts of principal then due.

(c) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Loans or any of its participations in Swingline Loans resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Loans and participations in Swingline Loans and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Loans and participations in Swingline Loans of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans and participations in Swingline Loans; *provided* that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this subsection shall not apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this subsection shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(d) Unless, before the date on which any payment is due to the Administrative Agent for the account of one or more Lender Parties hereunder, the Administrative Agent receives from the Borrower notice that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance on such assumption, distribute to each relevant Lender Party the amount due to it. In such event, if the Borrower has not in fact made such payment, each Lender Party severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender Party with interest thereon, for each day from and including the day such amount is distributed to it

to but excluding the day it repays the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(e) If any Lender fails to make any payment required to be made by it pursuant to Section 2.04(e), 2.06(b), 2.18(d) or 9.03(c), the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

Section 2.19. *Lender's Obligation to Mitigate; Replacement of Lenders.* (a) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, then such Lender shall use all commercially reasonable efforts to mitigate or eliminate the amount of such compensation or additional amount, including without limitation, by designating a different lending office for funding or booking its Loans hereunder or by assigning its rights and obligations hereunder to another of its offices, branches or affiliates; *provided* that no Lender shall be required to take any action pursuant to this Section 2.19(a) unless, in the reasonable judgment of such Lender, such designation or assignment or other action (i) would eliminate or reduce amounts payable pursuant to Section 2.15 or 2.17, as the case may be, in the future, (ii) would not subject such Lender to any unreimbursed cost or expense and (iii) would not otherwise be disadvantageous to such Lender in any material respect. The Borrower shall pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, or if any Lender defaults in its obligation to fund Loans hereunder, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all its interests, rights and obligations under this Agreement (including, without limitation, participations in Swingline Loans) to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); *provided* that (i) the Borrower shall have received the prior written consent of the Administrative Agent (and, if a Commitment is being assigned, the Swingline Lender), which consents shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in Swingline Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.15 or payments required to be made pursuant to Section 2.17, such assignment will result in a material reduction in such compensation or payments. A Lender shall not be required to make any such assignment if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment cease to apply.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lender Parties that:

Section 3.01. *Organization; Powers.* The Borrower and each of its Material Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and, except where failures to do so, in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

Section 3.02. *Authorization; Enforceability.* The Financing Transactions to be entered into by the Borrower are within its corporate, limited liability company or similar company powers and have been duly authorized by all necessary corporate, limited liability company (or similar) action and, if required, stockholder or equity holder action. This Agreement has been duly executed and delivered by the Borrower and constitutes, and each other Loan

Document to which the Borrower is to be a party, when executed and delivered by the Borrower, will constitute, a legal, valid and binding obligation of the Borrower, as the case may be, in each case enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

Section 3.03. *Governmental Approvals; No Conflicts.* The Financing Transactions and the use of the proceeds thereof (a) do not require any consent or approval of, registration or filing with, or other action by, any Governmental Authority, except such as have been obtained or made and are in full force and effect, (b) will not violate any applicable law or regulation or the charter, by-laws, limited liability company agreement or other organizational documents of the Borrower or any order of any Governmental Authority, (c) will not violate or result in a default under any indenture, agreement or other instrument binding upon the Borrower or any of its properties, or give rise to a right thereunder to require the Borrower to make any payment, where such default or payment reasonably can be expected to have a Material Adverse Effect and (d) will not result in the creation or imposition of any Lien on any property of the Borrower.

Section 3.04. *Financial Statements; No Material Adverse Change.* (a) The Borrower has heretofore furnished to the Lenders (i) the audited Consolidated balance sheet of the Borrower and its Subsidiaries as of December 31, 2005 and the related Consolidated statements of income and cash flows for the Fiscal Year then ended, reported on by KPMG LLP, independent public accountants, and (ii) the unaudited Consolidated balance sheet of the Borrower and its Subsidiaries as of September 30, 2006 and the related Consolidated statements of income and cash flows for the Fiscal Quarter then ended and for the portion of the Fiscal Year then ended, all certified by the Borrower's chief financial officer. Such financial statements present fairly, in all material respects, the Consolidated financial position of the Borrower and its Subsidiaries as of such dates and its Consolidated results of operations and cash flows for such periods in accordance with

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GAAP, subject to normal year-end adjustments and the absence of footnotes in the case of the statements referred to in clause (ii) above. None of the Borrower or any of its Material Subsidiaries has on the date hereof any material contingent liabilities, material liabilities for taxes, material unusual forward or long-term commitments or material unrealized or anticipated losses from any unfavorable commitments, except as referred to or reflected or provided for in said balance sheets as at said dates.

(b) Since December 31, 2005 (or, after the Effective Date, since the last day of the Fiscal Year in respect of which the Borrower has delivered audited financial statements pursuant to Section 5.01(i)) there has been no material adverse change in the business, operations, properties, assets, financial condition, prospects, contingent liabilities or material agreements of the Borrower and its Subsidiaries, taken as a whole.

(c) The Borrower has heretofore furnished to each of the Lenders the annual Statutory Statement of each Insurance Subsidiary for the fiscal year thereof ended December 31, 2005, and the quarterly Statutory Statement of each Insurance Subsidiary for the partial year ended September 30, 2006, in each case as filed with the Applicable Insurance Regulatory Authority. All such Statutory Statements present fairly in all material respects the financial condition of each Insurance Subsidiary as at, and the results of operations for, the fiscal year ended December 31, 2005, and partial year ended September 30, 2006, in accordance with statutory accounting practices prescribed or permitted by the Applicable Insurance Regulatory Authority. Since September 30, 2006, there has been no material adverse change in the financial condition of any Material Insurance Subsidiary from that set forth in its respective Statutory Statement as at September 30, 2006.

Section 3.05. *Insurance Licenses.* Schedule T to the most recent annual Statutory Statement of each Insurance Subsidiary lists, as of the Effective Date, all of the jurisdictions in which such Insurance Subsidiary holds active licenses (including, without limitation, licenses or certificates of authority from Applicable Insurance Regulatory Authorities), permits or authorizations to transact insurance and reinsurance business or to act as an insurance agent or broker (collectively, the **"Licenses"**). Each Insurance Subsidiary is in compliance in all material respects with each License held by it. No License (to the extent material) is the subject of a proceeding for suspension or revocation or any similar proceedings, there is no sustainable basis for such a suspension or revocation, and to the knowledge of the Borrower no such suspension or revocation has been threatened by any Applicable Insurance Regulatory Authority except in any such case where such proceedings would not have a Material Adverse Effect.

Section 3.06. *Borrower's Subsidiaries.*

(a) As of the Effective Date, the Borrower has no Subsidiaries, other than those set forth on Part A of Schedule 3.06. Part A of Schedule 3.06 accurately identifies the jurisdiction under the laws of which each such Subsidiary is formed and whether such Subsidiary is or is not, as the case may be, a Material Subsidiary as of the Effective Date.

(b) Set forth on Part B of Schedule 3.06 is a complete and correct list of all Investments (other than (i) Investments disclosed in Part A of said Schedule 3.06 and any other Investments

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existing as of the date hereof permitted under Section 6.04 and (ii) Guarantees of Debt the aggregate principal or face amount of which Debt is less than $5,000,000) held by the Borrower or any of its Subsidiaries in any Person on the date hereof and, for each such Investment, (A) the identity of the Person or Persons holding such Investment and (B) the nature of such Investment. Except as disclosed in Part B of Schedule 3.06, each of the Borrower and its Subsidiaries owns, free and clear of all Liens, all such Investments.

Section 3.07. *Litigation.* There is no action, suit, arbitration proceeding or other proceeding, inquiry or investigation, at law or in equity, before or by any arbitrator or Governmental Authority pending against the Borrower or any Material Subsidiary or of which the Borrower or any Material Subsidiary has otherwise received notice or which, to the knowledge of the Borrower, is threatened against the Borrower or any Material Subsidiary (i) as to which, but after giving effect to any applicable insurance claim reserve, there is a reasonable possibility of an unfavorable decision, ruling or finding which would reasonably be expected to result in a Material Adverse Effect or (ii) that involves any of the Loan Documents or the Financing Transactions or the use of the proceeds thereof.

Section 3.08. *Compliance with Laws and Agreements; Foreign Asset Control Regulations.* (a) The Borrower is in compliance with all laws, regulations and orders of any Governmental Authority applicable to it or its property (including (i) all Environmental Laws, (ii) ERISA, (iii) applicable laws, regulations and orders dealing with intellectual property, and (iv) the Fair Labor Standards Act and other applicable law dealing with such matters) and all indentures, agreements and other instruments binding on it or its property, except where failures to do so, in the aggregate, would not reasonably be expected to result in a Material Adverse Effect. No Default has occurred and is continuing.

(b) The Borrower is and will remain in full compliance with all laws and regulations applicable to it ensuring that no person who owns a controlling interest in or otherwise controls the Borrower is or shall be (A) listed on the Specially Designated Nationals and Blocked Person List maintained by the Office of Foreign Assets Control **("OFAC")**. Department of the Treasury, and/or any other similar lists maintained by OFAC pursuant to any authorizing statute, Executive Order or regulation or (B) a person designated under Section 1(b), (c) or (d) of Executive Order No. 13224 (September 23, 2001), any related enabling legislation or any other similar Executive Orders.

Section 3.09. *Investment Company Status.* The Borrower is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 3.10. *Taxes.* The Borrower and its Subsidiaries are members of an affiliated group of corporations filing consolidated returns for Federal income tax purposes, of which the Borrower is the "common parent" (within the meaning of Section 1504 of the Code) of such group. The Borrower and its Material Subsidiaries have filed all Federal income tax returns and all other material tax returns that are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by the Borrower or any of its Material Subsidiaries. The charges, accruals and reserves on the books of the Borrower and its Material

Subsidiaries in respect of taxes and other governmental charges are, in the opinion of the Borrower, adequate. The Borrower has not given or been requested to give a waiver of the statute of limitations relating to the payment of any Federal, state, local and foreign taxes or other impositions.

Section 3.11. *Material Agreements and Liens.*

(a) Part A of Schedule 3.11 is a complete and correct list of each credit agreement, loan agreement, indenture, purchase agreement, guarantee, letter of credit or other arrangement providing for or otherwise relating to any Debt or any extension of credit (or commitment for any extension of credit) to, or Guarantee by, the Borrower or any of its Subsidiaries, outstanding on the date hereof the aggregate principal or face amount of which equals or exceeds (or may equal or exceed) $5,000,000, and the aggregate principal or face amount outstanding or that may become outstanding under each such arrangement is correctly described in Part A of said Schedule 3.11.

(b) Part B of Schedule 3.11 is a complete and correct list of each Lien securing Debt of any Person outstanding on the date hereof the aggregate principal or face amount of which equals or exceeds (or may equal or exceed) $5,000,000 and covering any Property of the Borrower or any of its Subsidiaries, and the aggregate Debt secured (or that may be secured) by each such Lien and the Property covered by each such Lien is correctly described in Part B of said Schedule 3.11.

Section 3.12. *Environmental Matters.* Each of the Borrower and its Subsidiaries has obtained all environmental, health and safety permits, licenses and other authorizations required under all Environmental Laws to carry on its business as now being or as proposed to be conducted, except to the extent failure to have any such permit, license or authorization would not (either individually or in the aggregate) have a Material Adverse Effect. Each of such permits, licenses and authorizations is in full force and effect and each of the Borrower and its Subsidiaries is in compliance with the terms and conditions thereof, and is also in compliance with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in any applicable Environmental Law or in any regulation, code, plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated or approved thereunder, except to the extent failure to comply therewith would not (either individually or in the aggregate) have a Material Adverse Effect.

Section 3.13. *Capitalization.* The authorized capital stock of the Borrower consists, on the date hereof, of an aggregate of 127,000,000 shares consisting of (a) 125,000,000 shares of common stock, $1 par value, of which (as of September 30, 2006) 55,839,818 shares were duly and validly issued and outstanding, each of which shares is fully paid and non-assessable, and (b) 2,000,000 shares of preferred stock, $1 par value, of which (as of September 30, 2006) no shares were issued and outstanding, each of which shares is fully paid and non-assessable. As of the date hereof, (i) except as set forth in Part A of Schedule 3.13, there are no outstanding Equity Rights with respect to the Borrower and (ii) except as set forth in Part B of Schedule 3.13, there are no outstanding obligations of the Borrower or any of its Subsidiaries to repurchase, redeem, or otherwise acquire any shares of capital stock of the Borrower nor are there any outstanding obligations of the Borrower or any of its Subsidiaries to make payments to any Person, such as

"phantom stock" payments, where the amount thereof is calculated with reference to the fair market value or equity value of the Borrower or any of its Subsidiaries.

Section 3.14. *No Reliance.* The Borrower has made, independently and without reliance upon the Administrative Agent or any Lender, and based on such documents and information as it has deemed appropriate, its own decision to enter into this Agreement and has made (and will continue to make), independently and without reliance upon the Administrative Agent or any Lender, and based on such documents and information as it has deemed appropriate (or shall deem appropriate at the time), its own legal, credit and tax analysis of the transactions contemplated hereby.

Section 3.15. *ERISA.* No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other ERISA Events for which liability is reasonably expected to occur, would reasonably be expected to result in a Material Adverse Effect.

Section 3.16. *Regulation U.* Neither the Borrower nor any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U).

Section 3.17. *Disclosure.* The Borrower has disclosed to the Lenders all agreements, instruments and corporate or other restrictions to which it is subject, and all other matters known to it, that, individually or in the aggregate, would reasonably be expected to result in a Material Adverse Effect. All of the reports, financial statements, certificates and other written information (other than projected financial information) that have been made available by or on behalf of the Borrower to the Arrangers, the Administrative Agent or any Lender in connection with the negotiation of this Agreement or any other Loan Document or delivered hereunder or thereunder, are complete and correct in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein not materially misleading in light of the circumstances under which such statements are made; *provided* that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based on assumptions believed to be reasonable at the time.

Section 3.18. *Solvency.* Immediately after the Financing Transactions to occur on the Effective Date are consummated and after giving effect to the application of the proceeds of each Loan made on the Effective Date and after giving effect to the application of the proceeds of each Loan made on any other date, (a) the fair value of the assets of the Borrower, at a fair valuation, will exceed its debts and liabilities, subordinated, contingent or otherwise; (b) the Borrower will be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and (c) the Borrower will not have unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and proposed to be conducted after the Effective Date.

Section 3.19. *Anti-Terrorism Requirements.*

(a) Neither any Borrower nor any Affiliate of any Borrower, is in violation in any material respect of any Anti-Terrorism Law or engages in or conspires to engage in any transaction

that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law.

(b) Neither any Borrower, nor any Affiliate of any Borrower or their respective agents acting or benefiting in any capacity in connection with the Loans or other transactions hereunder, is any of the following (each a "Blocked Person"):

(i) a Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order No. 13224;

(ii) a Person owned or controlled by, or acting for or on behalf of, any Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order No. 13224;

(iii) a Person with which any Lender is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law;

(iv) a Person that commits, threatens or conspires to commit or supports "terrorism" as defined in the Executive Order No. 13224;

(v) a Person that is named as a "specially designated national" on the most current list published by the U.S. Treasury Department Office of Foreign Asset Control at its official website or any replacement website or other replacement official publication of such list, or

(vi) a Person who is affiliated or associated with a Person listed above.

(c) Neither the Borrower or, to the knowledge of the Borrower, any of its agents acting or benefiting in any capacity in connection with the Loans or other transactions hereunder, (i) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person, or (ii) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224.

ARTICLE 4

CONDITIONS

Section 4.01. *Effective Date.* The obligations of the Lenders to make Loans hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 9.02):

(a) The Administrative Agent shall have received counterparts hereof signed by the Borrower and each of the Lenders listed on the signature pages hereof (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of facsimile or other written confirmation from such party that it has executed a counterpart hereof).

(b) The Administrative Agent shall have received favorable written opinions addressed to the Administrative Agent and the Lenders and dated the Effective Date of Wendy Carlson, General Counsel of the Borrower, and Skadden, Arps, Slate, Meagher & Flom, LLP, special counsel for the Borrower, which opinions shall cover such matters relating to the Borrower, the Loan Documents and the Financing Transactions, and otherwise shall be in such form and substance, as the Administrative Agent shall request. The Borrower requests such counsel to deliver such opinions.

(c) The Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of the Borrower and its Material Subsidiaries, the authorization for and validity of the Financing Transactions and any other legal matters relating to the Borrower, its Material Subsidiaries, the Loan Documents or the Financing Transactions, all in form and substance satisfactory to the Administrative Agent and its counsel.

(d) The Administrative Agent shall have received a certificate, dated the Effective Date and signed by the President, a Vice President or a Financial Officer of the Borrower, confirming compliance with the conditions set forth in clauses (b), (c) and (d) of Section 4.02.

(e) That the Required Lenders shall not have notified the Administrative Agent of their determination that, since December 31, 2005, any event, development or circumstance has occurred that has had or would reasonably be expected to have a Material Adverse Effect.

(f) That neither of the Arrangers nor the Administrative Agent shall have become aware of any information or other matter affecting the Borrower or the Financing Transactions which was in existence prior to the date of this Agreement and is inconsistent in a material and adverse manner with any such information or other matter disclosed to them prior to the date of this Agreement.

(g) The Borrower shall have paid all fees and other amounts due and payable to the Lender Parties on or before the Effective Date, including an up-front fee to each Lender as specified in a separate letter between the Arranger and the Borrower and further including, to the extent invoiced, all out-of-pocket expenses (including fees, charges and disbursements of counsel) required to be reimbursed or paid by the Borrower under the Loan Documents.

(h) All consents and approvals required to be obtained from any Governmental Authority or other Person in connection with the Financing Transactions shall have been obtained and be in full force and effect, except where failure to obtain such approval or consent would not have a Material Adverse Effect.

(i) The Borrower shall have delivered to the Administrative Agent evidence reasonably satisfactory to the Administrative Agent that the Credit Agreement among the Borrower, various lender parties thereto, and U.S. Bank National Association, as agent dated September 22, 2004, as thereafter amended or supplemented, shall have expired or been

terminated and that all of the respective Debt and other obligations of the Borrower and its Subsidiaries thereunder shall have been paid and satisfied in full.

(j) The Administrative Agent shall have received from the trustee under each indenture governing the Trust Preferred Securities Notes a confirmation of the subordination of the Borrower’s Debt and obligations thereunder to its Debt and obligations hereunder, all in form and substance satisfactory to the Administrative Agent; *provided* that, at the option of the Borrower, the requirements of this paragraph (j) may be satisfied (i) by causing the opinion of counsel delivered by Skadden, Arps, Slate, Meagher & Flom, LLP pursuant to paragraph (b), above, to contain an opinion in respect of such subordination reasonably satisfactory to the Administrative Agent in form and substance or (ii) pursuant to the provisions of this paragraph (j), other than the provisions of clause (i) of this proviso, no later than 60 days after the Effective Date.

(k) The Administrative Agent and the Lenders shall have received from the Borrower such other certificates and other documents as the Administrative Agent or any Lender may reasonably have requested, including the promissory note complying with Section 2.09(e) of any Lender requesting such promissory note.

If, pursuant to the option provided in clause (ii) of the proviso in paragraph (j) of this Section 4.01, the Borrower defers satisfaction of the condition precedent therein set forth, the Borrower’s failure to satisfy such condition on or before 60 days after the Effective Date shall constitute an Event of Default.

Section 4.02. *Conditions to Initial Utilization and Each Subsequent Utilization.* The obligation of each Lender to make a Loan on the occasion of any Borrowing (including the initial Borrowing), the obligation of the Swingline Lender to make any Swingline Loan (including the initial Swingline Loan, if such initial Swingline Loan is made prior to the occasion of the initial Borrowing), are each subject to receipt of the Borrower’s request therefor in accordance herewith and to the satisfaction of the following conditions:

(a) The Effective Date shall have occurred.

(b) Immediately before and immediately after giving effect to such Borrowing or Swingline Loan, as applicable, no Default shall have occurred and be continuing.

(c) The representations and warranties of the Borrower set forth in the Loan Documents shall be true on and as of the date of such Borrowing or Swingline Loan, as applicable.

(d) Immediately before and after such Borrowing or Swingline Loan is made, the Total Outstanding Amount will not exceed the Total Commitment.

Each Borrowing and each Swingline Loan shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in clauses (b), (c) and (d) of this Section.

ARTICLE 5

AFFIRMATIVE COVENANTS

Until all the Commitments have expired or terminated and the principal of and interest on each Loan and all fees and other amounts payable hereunder have been paid in full, the Borrower covenants and agrees with the Lenders that:

Section 5.01. *Financial Statements and Other Information.* The Borrower shall furnish to the Administrative Agent (for delivery to each Lender):

(i) as soon as available and in any event within 90 days after the end of each Fiscal Year, its audited Consolidated balance sheet as of the end of such Fiscal Year and the related statements of income and cash flows for such Fiscal Year, setting forth in each case in comparative form the figures for the previous Fiscal Year, all reported on by KPMG LLP or other independent public accountants of recognized national standing (without qualification or exception and without any qualification or exception as to the scope of such audit) as presenting fairly in all material respects the financial position, results of operations and cash flows of the Borrower and its Subsidiaries on a Consolidated basis in accordance with generally accepted auditing standards;

(ii) as soon as available and in any event within 45 days after the end of each of the first three Fiscal Quarters of each Fiscal Year, its Consolidated balance sheet as of the end of such Fiscal Quarter and the related statements of income and cash flows for such Fiscal Quarter and for the then elapsed portion of such Fiscal Year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous Fiscal Year, all certified by a Financial Officer as (A) reflecting all adjustments (which adjustments are normal and recurring unless otherwise disclosed) necessary for a fair presentation of the results for the period covered and (B) having been prepared in accordance with the applicable rules of the SEC;

(iii) concurrently with each delivery of financial statements under clause (i) or (ii) above, a certificate of a Financial Officer (A) certifying as to whether a Default has occurred and is continuing and, if a Default has occurred and is continuing, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (B) setting forth reasonably detailed calculations demonstrating compliance with Sections 6.11 through Section 6.14, inclusive, and (C) identifying any change(s) in GAAP or in the application thereof that have become effective since the date of, and have had an effect on, the Borrower’s most recent audited financial statements referred to in Section 3.04 or delivered pursuant to this Section (and, if any such change has become effective, specifying the effect of such change on the financial statements accompanying such certificate);

(iv) concurrently with each delivery of financial statements under clause (i) above, (A) a certificate of the accounting firm that reported on such financial statements

stating whether during the course of their examination of such financial statements they obtained knowledge of any Default (which certificate may be limited to the extent required by accounting rules or guidelines) and (B) a certificate of a Financial Officer identifying any Subsidiary that has been formed or acquired during the Fiscal Year covered by such financial statements;

(v) promptly after the same become publicly available, copies of all periodic and other material reports and proxy statements filed by the Borrower or any Material Subsidiary with the SEC, or any Governmental Authority succeeding to any or all of the functions of the SEC;

(vi) promptly upon the effectiveness of any material amendment or modification of, or any waiver of the rights of the Borrower or any Material Subsidiary under, the certificate of formation, limited liability company agreement, certificate of incorporation, by-laws or other organizational documents of the Borrower or any Material Subsidiary, and

(vii) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of the Borrower and its Material Subsidiaries, or compliance with the terms of any Loan Document, as the Administrative Agent or any Lender may reasonably request.

provided that any information or document that is required to be furnished by any of clauses (i), (ii), (v), (vi) and (vii) of this Section 5.01 and that is filed with the SEC via the EDGAR filing system shall be deemed to be furnished so long as the Borrower provides to the Administrative Agent and the Lenders electronic or written notice of the posting of such information or document.

Section 5.02. *Notice of Material Events.* The Borrower shall furnish to the Administrative Agent and each Lender prompt written notice of the following:

(a) the occurrence of any Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority or Applicable Insurance Regulatory Authority against or affecting the Borrower or any Material Subsidiary that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect or the filing any other legal or arbitral proceedings, and any material development in respect of such legal or other proceedings, affecting the Borrower or any of its Subsidiaries, except proceedings that, if adversely determined, would not (either individually or in the aggregate) have a Material Adverse Effect;

(c) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liabilities of the Borrower and its Material Subsidiaries in an aggregate amount exceeding $5,000,000;

(d) (i) the occurrence of any change in the Borrower’s Senior Debt Rating by any of Best, Fitch and S&P and (ii) the establishment of a Senior Debt Rating of the Borrower by

Moody's and, after such establishment, any change in the Borrower's Senior Debt Rating by Moody's;

(e) at least five Business Days prior to the effectiveness of any amendment to the terms of the Convertible 2004 Debt, or the effectiveness of any agreement governing any Debt in replacement or exchange thereof, a copy of such amendment or agreement;

(f) any actual or proposed change in any Applicable Insurance Code that could reasonably be expected to have a Material Adverse Effect, promptly upon the Borrower's or any Insurance Subsidiary's becoming aware of such actual or proposed change;

(g) any change in the published rating by Best of any Person to which any Insurance Subsidiary has ceded risk pursuant to a Reinsurance Agreement if such change causes such published rating to be "B+" or lower; and

(h) any other development that results in, or would reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or other executive officer of the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

Section 5.03. *Material Insurance Subsidiary Reporting.* The Borrower shall furnish to the Administrative Agent and each Lender copies of the following:

(i) promptly after filing with the Applicable Insurance Regulatory Authority and in any event within 45 days after the end of each for the first three quarterly fiscal periods of each fiscal year of each Material Insurance Subsidiary, its quarterly Statutory Statement for such quarterly fiscal period, together with the opinion thereon of a senior financial officer of such Material Insurance Subsidiary stating that such Statutory Statement presents the financial condition of such Material Insurance Subsidiary for such quarterly fiscal period in accordance with statutory accounting practices required or permitted by the Applicable Insurance Regulatory Authority;

(ii) promptly after filing with the Applicable Insurance Regulatory Authority and in any event within 90 days after the end of each fiscal year of each Material Insurance Subsidiary, the annual Statutory Statement of such Material Insurance Subsidiary for such year, together with (i) the opinion thereon of a senior financial officer of such Material Insurance Subsidiary stating that said annual Statutory Statement presents the financial condition of such Material Insurance Subsidiary for such fiscal year in accordance with statutory accounting practices required or permitted by the Applicable Insurance Regulatory Authority and (ii) a certificate of a valuation actuary affirming the adequacy of reserves taken by such Material Insurance Subsidiary in respect of future policyholder benefits as at the end of such fiscal year (as shown on such Statutory Statement);

(iii) within ninety (90) days after the close of each fiscal year of each Insurance Subsidiary, a copy of the "Statement of Actuarial Opinion" for such Insurance Subsidiary which is provided to the Applicable Insurance Regulatory Authority (or equivalent information should such Applicable Insurance Regulatory Authority no longer require such a statement), which statement shall be in the format prescribed by the Applicable Insurance Code of such Insurance Subsidiary;

(iv) within 180 days after the end of each fiscal year of each Material Insurance Subsidiary, the report of KPMG LLP (or other independent certified public accountants of recognized national standing) on the annual Statutory Statements delivered pursuant to clause (ii), above;

(v) promptly after any Material Insurance Subsidiary receives the results of a triennial examination by the NAIC of the financial condition and operations of such Insurance Subsidiary or any of its Material Subsidiaries, a copy thereof;

(vi) promptly following the delivery or receipt by the Borrower or any of its Material Insurance Subsidiaries of any correspondence, notice or report to or from any Applicable Insurance Regulatory Authority that relates, to any material extent, to the financial viability of any of its Material Subsidiaries, a copy thereof;

(vii) within five Business Days after receipt, notice from any Applicable Insurance Regulatory Authority of any threatened or actual proceeding for suspension or revocation of any License or any similar proceeding with respect to any such License; and

(viii) promptly, notice of any denial of coverage, litigation, or arbitration arising out of any Reinsurance Agreements to which any Insurance Subsidiary is a party which denial, litigation or arbitration involves $10,000,000 or more.

Section 5.04. *Existence; Conduct of Business.* Except as otherwise permitted under Section 6.03, the Borrower shall, and shall cause each of its Material Subsidiaries to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges, franchises, patents, copyrights, trademarks and trade names material to the conduct of its business.

Section 5.05. *Payment of Obligations.* The Borrower shall, and shall cause each of its Material Subsidiaries to, pay all of its Material Debt and other material obligations, including Tax liabilities, before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP, (c) such contest effectively suspends collection of the contested obligation and the enforcement of any Lien securing such obligation and (d) the failure to make payment pending such contest would not reasonably be expected to result in a Material Adverse Effect.

Section 5.06. *[Reserved].*

Section 5.07. *Insurance.* The Borrower shall keep itself and all of its insurable properties, and shall cause each Material Subsidiary to keep itself and all of its insurable properties, insured at all times to such extent, by such insurers, and against such hazards and liabilities as is customarily carried by prudent businesses of like size and enterprise; and promptly upon the Administrative Agent's written request upon and during the continuance of an Event of Default, the Borrower shall furnish to the Administrative Agent such information about any such insurance as the Administrative Agent may from time to time reasonably request; *provided* that, nothing in this Section 5.07 shall be deemed to require any of the Borrower's Material Subsidiaries to enter into any Reinsurance Agreement and *provided*, *further*, that The Borrower and its Material Subsidiaries may self-insure against such hazards and risks, and in such amounts as is customary for corporations of a similar size and in similar lines of business.

Section 5.08. *NAIC Ratio.* In the event that the NAIC or any Applicable Insurance Regulatory Authority shall at any time promulgate any risk-based capital ratio requirements or guidelines, the Borrower shall cause each Material Insurance Subsidiary to comply with the minimum requirements or guidelines applicable to it as established by the NAIC or such Applicable Insurance Regulatory Authority.

Section 5.09. *Proper Records; Rights to Inspect and Appraise.* The Borrower shall, and shall cause each of its Material Subsidiaries to, keep proper books of record and account in which complete and correct entries are made of all transactions relating to its business and activities. The Borrower shall, and shall cause each of its Material Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers, directors and employees, all at such reasonable times and as often as reasonably requested, but, other than in exigent circumstances, taking into account periodic accounting and regulatory compliance demands on the Borrower and its Subsidiaries.

Section 5.10. *Compliance with Laws.*

(a) The Borrower shall, and shall cause each of its Material Subsidiaries to, comply with all laws, rules, regulations and orders of any Governmental Authority (including all Environmental Laws and ERISA and the respective rules and regulations thereunder) applicable to it or its property, other than such laws, rules or regulations (a) the validity or applicability of which the Borrower or any Subsidiary is contesting in good faith by appropriate proceedings or (b) the failure to comply with which cannot reasonably be expected to result in a Material Adverse Effect.

(b) Without limiting the generality of the foregoing, the Borrower and its Affiliates and agents shall not (i) conduct any business or engage in any transaction or dealing with any Blocked Person, including the making or receiving of any contribution of funds, goods or services to or for the benefit of any Blocked Person, (ii) deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224; or (iii) engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in the Executive Order No. 13224, the USA Patriot Act or any other Anti-Terrorism Law. The Borrower shall deliver to

the Lenders any certification or other evidence reasonably requested from time to time by any Lender in its reasonable discretion, confirming the Borrower's compliance with this Section 5.10.

Section 5.11. *Use of Proceeds.* The proceeds of the Revolving Loans and Swingline Loans will be used only to finance the general corporate purposes of the Borrower (including, without limitation, liquidity and working capital needs of the Borrower and its Subsidiaries). No part of the proceeds of any Loan will be used, directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Federal Reserve Board, including Regulations U and X.

ARTICLE 6

NEGATIVE COVENANTS

Until all the Commitments have expired or terminated and the principal of and interest on each Loan and all fees and other amounts payable hereunder have been paid in full, the Borrower covenants and agrees with the Lenders that:

Section 6.01. *Debt; Certain Equity Securities.* (a) The Borrower shall not, and shall not permit any of its Material Subsidiaries to, create, incur, assume or permit to exist any Debt, except:

(i) Debt created under the Loan Documents;

(ii) Debt existing on the date hereof (other than Debts that, individually, do not exceed $1,000,000 and, in the aggregate, do not exceed $5,000,000 in principal amount) and listed in Schedule 6.01;

(iii) Debt of Material Subsidiaries to the Borrower or to other Material Subsidiaries;

(iv) Debt of $260,000,000 in aggregate principal amount incurred on, respectively, December 6, 2004 and December 30, 2004 by the Borrower pursuant to a note offering exempt from the registration requirements of the Securities Act of 1933, as amended (the "Convertible 2004 Debt"), which Convertible 2004 Debt at all times shall be on terms consistent in all material respects with those contained in the Convertible 2004 Debt Documents (the "Existing Terms"), and any Debt, not greater than $260,000,000 in principal amount and otherwise on terms not more restrictive on or otherwise less favorable to the Borrower in any material respect than the Existing Terms, in exchange therefor, whether or not the notes, debentures or other instruments evidencing such exchange Debt are exempt from such registration requirements (without limiting the generality of the foregoing, it is the intention hereby that the terms of the Convertible 2004 Debt, including the effect of any modification thereof, and the terms of any Debt in exchange or replacement thereof, (i) provide for a final scheduled maturity not earlier than December 6, 2024 and (ii) otherwise shall not be more restrictive on, or otherwise less favorable to, the Borrower in any material respect than the Existing Terms);

(v) additional Debt of the Borrower and its Material Subsidiaries (including, without limitation, Capital Lease Obligations and other Debt secured by Liens permitted under Section 6.02 hereof) up to but not exceeding $10,000,000 in the aggregate at any one time outstanding as to all such Debt described in this clause (v);

(vi) Subordinated Debt; and

(vii) additional unsecured Debt not to exceed $10,000,000 in aggregate principal amount at any time outstanding as to the Borrower and its Subsidiaries on a Consolidated basis.

(b) The Borrower shall not issue Current Redeemable Equity.

Section 6.02. *Liens.* The Borrower shall not, and shall not permit any of its Material Subsidiaries to, create or permit to exist any Lien on any property now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(i) Permitted Liens;

(ii) any Lien on any property of the Borrower or any Material Subsidiary existing on the date hereof and listed in Schedule 6.02; *provided* that (A) such Lien shall not apply to any other property of the Borrower or any Material Subsidiary and (B) such Lien shall secure only those obligations which it secures on the date hereof and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(iii) any Lien existing on any property or asset before the acquisition thereof by the Borrower or any Material Subsidiary or existing on any property or asset of any Person that first becomes a Material Subsidiary after the date hereof before the time such Person becomes a Material Subsidiary; *provided* that (A) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming a Material Subsidiary, (B) such Lien will not apply to any other property or asset of the Borrower or any Material Subsidiary, (C) such Lien will secure only those obligations which it secures on the date of such acquisition or the date such Person first becomes a Material Subsidiary, as the case may be, and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof, and (D) the principal amount of Debt secured by any such Lien shall at no time exceed 80% of the fair market value (as determined in good faith by a senior financial officer of the Borrower) of such property at the time it was acquired (by purchase, construction or otherwise);

(iv) Liens on fixed or capital assets acquired, constructed or improved by the Borrower or any Material Subsidiary; *provided* that (A) the Debt secured by such Liens is permitted by, as applicable, Section 6.01, (B) such Liens and the Debt secured thereby are incurred before or within 90 days after such acquisition or the completion of such construction or improvement, (C) the Debt secured thereby does not exceed the cost of

acquiring, constructing or improving such fixed or capital assets, and (D) such Liens will not apply to any other property of the Borrower or any Material Subsidiary;

(v) Liens to secure a Debt owing to the Borrower; and

(vi) any Lien arising out of the refinancing, extension, renewal or refunding of any Debt secured by a Lien permitted by any of clauses (iii), (iv), (v) or (vi) of this Section; *provided* that such Debt is not increased (except by the amount of fees, expenses and premiums required to be paid in connection with such refinancing, extension, renewal or refunding) and is not secured by any additional assets.

Section 6.03. *Fundamental Changes.*

(a) The Borrower shall not, nor shall it permit any of its Material Subsidiaries to, enter into any transaction of merger or consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution).

(b) The Borrower shall not, nor shall it permit any of its Material Subsidiaries to, acquire any business or property from, or capital stock of, or be a party to any acquisition of, any Person except for purchases of inventory and other property to be sold or used in the ordinary course of business, Assumed Reinsurance in the ordinary course of business, Investments permitted under Section 6.04, and capital expenditures in the ordinary course of business.

(c) the Borrower shall not, nor shall it permit any of its Material Subsidiaries to, convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, all or a substantial part of its business or Property, whether now owned or hereafter acquired.

(d) Neither the Borrower nor any Subsidiary will engage in any business if, after giving effect to such business, less than one-half of the Borrower's Consolidated revenues, determined in accordance with GAAP, would be derived from the providing of insurance (including insurance agency) and other financial services.

Notwithstanding the foregoing provisions of this Section 6.03:

(i) any Subsidiary of the Borrower may be merged or consolidated with or into: (A) the Borrower if the Borrower shall be the continuing or surviving corporation or (B) any other such Subsidiary; *provided* that if any such transaction shall be between a Subsidiary and a Wholly Owned Subsidiary, the Wholly Owned Subsidiary shall be the continuing or surviving corporation;

(ii) any Material Subsidiary of the Borrower may sell, lease, transfer or otherwise dispose of any or all of its property (upon voluntary liquidation or otherwise) to the Borrower or a Wholly Owned Subsidiary of the Borrower;

(iii) any Material Subsidiary of the Borrower may merge or consolidate with or acquire any other Person if, in the case of a merger or consolidation, the surviving corporation is a Wholly Owned Subsidiary of the Borrower; and

(iv) the Borrower may merge with another Person, but only so long (A) as the surviving corporation is the Borrower, (B) after giving effect thereto, no Default would exist hereunder, (C) the business activity engaged in by such other Person would be permitted under Section 6.03(d) hereof if such other Person were a Subsidiary of the Borrower prior to such merger or consolidation and (D) the aggregate amount of the Statutory Surplus (determined as at the date of the relevant merger, consolidation or acquisition) of all such other Persons that have been the subject of any merger, consolidation or acquisition pursuant to this clause (iv) during any calendar year (other than any such merger, consolidation or acquisition financed solely with Net Available Proceeds) shall be less than $25,000,000.

Section 6.04. *Investments, Loans, Advances, Guarantees and Acquisitions.* The Borrower shall not, nor shall it permit any of its Material Subsidiaries to, make or permit to remain outstanding any Investments except (i) Investments outstanding on the date hereof and identified in Part B of Schedule 3.06, (ii) operating deposit accounts with banks, (iii) Permitted Investments, (iv) Investments by the Borrower and its Material Subsidiaries in their respective Subsidiaries, (v) Hedging Agreements in the ordinary course of the Borrower’s or such Subsidiary’s business, (vi) as to each Insurance Subsidiary, investments that would be permitted under the investment provisions of its Applicable Insurance Code administered and enforced by its Applicable Insurance Regulatory Authority, and (vii) as to the Borrower, any investment that, pursuant to clause (vi), above, would be permitted to be made by any of its Insurance Subsidiaries.

Section 6.05. *Asset Sales.* The Borrower shall not, and shall not permit any of its Material Subsidiaries to, sell, transfer, lease or otherwise dispose of any property, including any Equity Interest owned by it, nor will any Material Subsidiary issue any additional Equity Interest in such Subsidiary, except:

(a) sales of used or surplus equipment and Permitted Investments in the ordinary course of business;

(b) Sale-Leaseback Transactions permitted pursuant to Section 6.07; and

(c) other sales of assets so long as (i) immediately before and after giving effect thereto, no Default shall have occurred and be continuing, and (ii) the Senior Debt Rating by each Rating Agency immediately following the sale’s becoming known publicly is not more than one level or category lower than the Senior Debt Rating by such Rating Agency immediately prior to the sale’s becoming known publicly.

Section 6.06. *Ceded Reinsurance*. The Borrower shall not, nor shall it permit any other Insurance Subsidiary to:

(a) enter into any Reinsurance Agreement in respect of ceded risk in excess of $10,000,000 with any Person other than (i) another Insurance Subsidiary, (ii) any Person for which the most recently published rating by Best is “B++” or higher or, if such Person is not rated by Best, which has a Statutory Surplus (or the equivalent thereof) of not less than $500,000,000, (iii) any Person that posts security under such Reinsurance Agreement in an amount equal to the total liabilities assumed by such Person, through a letter of credit

issued by an “authorized bank” (as such term is defined by the Applicable Insurance Regulatory Authority) or cash collateral deposit or (iv) any other reinsurers acceptable to the Administrative Agent, *provided* however, that for purposes of the foregoing clause (ii), any “NA” designation shall not be considered a rating of Best;

(b) enter into any Reinsurance Agreement or Reinsurance Agreements with Lloyd’s of London if the aggregate amount of reinsurance ceded thereby would exceed 15% of the aggregate premium volume of reinsurance ceded by the Insurance Subsidiaries.

(c) enter into any Surplus Relief Reinsurance except with another Insurance Subsidiary; *provided* that the Insurance Subsidiaries identified on Schedule 6.06 may continue to maintain (and from time to time replace so long as the amount thereof does not increase) the Surplus Relief Reinsurance in effect on the date hereof and described on Schedule 6.06; or

(d) enter into any Reinsurance Agreement or Reinsurance Agreements if such Reinsurance Agreements will result in a 20% or more reduction of net premium volume for the Insurance Subsidiaries in any 12-month period.

Section 6.07. *Sale and Leaseback Transactions.* The Borrower shall not, nor shall it permit any of its Material Subsidiaries to, enter into any an arrangement with any Person (other than the Borrower or any of its Material Subsidiaries) providing for the leasing to the Borrower or any of its Material Subsidiaries for a period of more than five years of any property which has been or is to be sold or transferred by the Borrower or such Material Subsidiary to such Person or to any other Person (other than the Borrower or any of its Material Subsidiaries), to which funds have been or are to be advanced by such Person on the security of the property subject to such lease (a “**Sale-Leaseback Transaction**”) if, after giving effect thereto, the Value (as defined below) of all Sale/Leaseback Transactions at such time would exceed 10% of the Consolidated Net Worth of the Borrower at such time. For purposes of this Section 6.07, "**Value**" shall mean, with respect to any Sale-Leaseback Transaction as at any time, the amount equal to the greater of (a) the net proceeds of the sale or transfer of the property subject to such Sale-Leaseback Transaction and (b) the fair value, in the opinion of the board of directors of the Borrower of such property at the time of entering into such Sale-Leaseback Transaction, in either case divided first by the number of full years of the term of the lease and then multiplied by the number of full years of such term remaining at the time of determination, without regard to any renewal or extension options contained in such lease; *provided* that all obligations under such sale-leaseback agreements shall constitute Debt for purposes of calculating compliance with the covenants set forth in this Article 6.

Section 6.08. *Restricted Payments.* The Borrower shall not declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so unless, both immediately before and after giving effect to such Restricted Payment, no Default exists.

Section 6.09. *Transactions with Affiliates.* Except as expressly permitted by this Agreement, the Borrower shall not, nor shall it permit any of its Material Subsidiaries to, directly or indirectly: (a) make any Investment in an Affiliate; (b) transfer, sell, lease, assign or otherwise

dispose of any property to an Affiliate; (c) merge into or consolidate with or purchase or acquire property from an Affiliate; or (d) enter into any other transaction directly or indirectly with or for the benefit of an Affiliate (including, without limitation, Guarantees and assumptions of obligations of an Affiliate); *provided* that (i) any Affiliate who is an individual may serve as a director, officer or employee of the Borrower or any of its Material Subsidiaries and receive reasonable compensation for his or her services in such capacity and (ii) the Borrower and its Material Subsidiaries may enter into transactions (other than extensions of credit by the Borrower or any of its Material Subsidiaries to an Affiliate) providing for the leasing of property, the rendering or receipt of services or the purchase or sale of inventory and other property in the ordinary course of business if the monetary or business consideration arising therefrom would be substantially as advantageous to the Borrower and its Material Subsidiaries as the monetary or business consideration that would obtain in a comparable transaction with a Person not an Affiliate (or in the case of any management agreement or investment advisory agreement among or between the Borrower and its Insurance Subsidiaries, that is approved by the Applicable Insurance Regulatory Authorities).

Section 6.10. *Restrictive Agreements.* The Borrower shall not and shall not permit any of its Material Subsidiaries to, directly or indirectly, enter into or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition on (a) the ability of the Borrower or any Material Subsidiary to create or permit to exist any Lien on any of its property or (b) the ability of any Material Subsidiary to pay dividends or other distributions with respect to any shares of its capital stock or to make or repay loans or advances to the Borrower or any other Material Subsidiary or to Guarantee Debt of the Borrower or any other Material Subsidiary; *provided* that (i) the foregoing shall not apply to restrictions and conditions imposed by law or by any Loan Document, (ii) the foregoing shall not apply to restrictions and conditions existing on the date hereof and identified on Schedule 6.10 (but shall apply to any amendment or modification expanding the scope of, or any extension or renewal of, any such restriction or condition), (iii) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary pending such sale, *provided* that such restrictions and conditions apply only to the Subsidiary that is to be sold and such sale is permitted hereunder, (iv) clause (a) of this Section shall not apply to restrictions or conditions imposed by any agreement relating to secured Debt permitted by this Agreement if such restrictions or conditions apply only to the property securing such Debt and (v) clause (a) of this Section shall not apply to customary provisions in leases and other contracts restricting the assignment thereof.

Section 6.11. *Ratio of Debt to Capital.* The Borrower shall not, as of the end of any Fiscal Quarter, permit the ratio of (a) its Adjusted Consolidated Debt as of such Fiscal Quarter-end to (b) its Adjusted Total Capitalization as of such Fiscal Quarter-end to be greater than 0.425 to 1.

Section 6.12. *Risk-Based Capital Ratio.* The Borrower shall not permit the Risk-Based Capital Ratio of any Material Insurance Subsidiary as of the end of any Fiscal Quarter to be less than 2.00 to 1.

Section 6.13. *Consolidated Net Worth.* The Borrower shall not permit its Consolidated Net Worth (a) as of the end of the Fiscal Quarter ending September 30, 2006, to be less than $484,278,000 and (b) as of the end of any Fiscal Quarter thereafter, to be less than an amount equal

to (i) the Fiscal Quarter Increase for the immediately preceding Fiscal Quarter, plus (ii) the Minimum Net Worth for such immediately preceding Fiscal Quarter.

Section 6.14. *Cash Coverage Ratio.* The Borrower shall not permit the Cash Coverage Ratio as of the end of any Fiscal Quarter to be less than 1.25 to 1.00.

Section 6.15. *Amendment of Material Documents; Prepayments.* (a) The Borrower shall not, and shall not permit any of its Material Subsidiaries to, without the prior written consent of the Required Lenders, amend, modify, supplement or waive any of its rights under its certificate of formation, limited liability company agreement, certificate of incorporation, by-laws or other organizational documents, in each case in any manner that would reasonably be expected to have a Material Adverse Effect.

(b) The Borrower shall not, and shall not permit any Subsidiary to, enter into any amendment, waiver or other modification of any of the Convertible 2004 Debt Documents, any of the Trust Preferred Securities Notes or any indenture or other agreement governing the Trust Preferred Securities Notes, or of any document evidencing or otherwise governing any Material Debt (i) if the effect of such amendment, waiver or other modification is to increase the interest rate on such Debt, increase the amount of principal due on any date, change (to earlier dates) any dates upon which payments of principal or interest are due thereon, change any event of default or condition to an event of default with respect thereto (other than to eliminate or make less onerous any such event or default or increase any grace period related thereto), change the redemption, prepayment or defeasance provisions thereof, or change any collateral therefor (other than to release such collateral), or (ii) if the effect of such amendment or change, together with all other amendments or changes made, is to increase in any material respect the obligations of the obligor thereunder or to confer any additional rights on the holders of such Debt (or a trustee or other representative on their behalf).

(c) The Borrower shall not, and shall not permit any Subsidiary to, make or agree to pay or make, directly or indirectly, any payment or other distribution (whether in cash, securities or other property) of or in respect of principal of or interest on any Subordinated Debt, or any payment or other distribution (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation, defeasance or termination of any Subordinated Debt, except:

(i) payments (other than optional or voluntary prepayments) as and when due in respect of such Subordinated Debt but only to the extent, if any, permitted by the subordination terms, subordination agreement or intercreditor agreement (or equivalent agreement otherwise named) applicable to such Subordinated Debt; and

(ii) refinancings of such Subordinated Debt with the proceeds of other Subordinated Debt.

Section 6.16. *Lines of Business*. The Borrower shall not, nor shall it permit any of its Subsidiaries to, engage to any substantial extent in any line or lines of business activity other than the business of owning and operating life insurance companies as conducted on the date hereof and

businesses related or incidental thereto (it being understood that the businesses of American Equity Investment Capital, Inc. and American Equity Investment Properties, L.C., to the extent conducted as of the date hereof, are related to the business of owning and operating life insurance companies).

ARTICLE 7

EVENTS OF DEFAULT

If any of the following events ("**Events of Default**") shall occur:

(a) the Borrower shall fail to pay any principal of any Loan when the same shall become due, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower shall fail to pay when due any interest on any Loan or any fee or other amount (except an amount referred to in clause (a) above) payable under any Loan Document, and such failure shall continue unremedied for a period of five (5) Business Days;

(c) any representation, warranty or certification made or deemed made by or on behalf of the Borrower or any Material Subsidiary in or in connection with any Loan Document or any amendment or modification thereof or waiver thereunder, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with any Loan Document or any amendment or modification thereof or waiver thereunder, shall prove to have been incorrect in any material respect when made or deemed made;

(d) the Borrower shall fail to observe or perform any covenant or agreement contained in Section 5.0l(i), Section 5.0l(ii), Section 5.0l (iii), Section 5.0l (iv), Section 5.02, Section 5.03, Section 5.04, Section 5.08, Section 5.10 or Section 5.11 or in Article 6;

(e) the Borrower shall fail to observe or perform any provision of any Loan Document (other than those failures covered by clauses (a), (b), (c) and (d) of this Article 7) and such failure shall continue for 15 days after the earlier of notice of such failure to the Borrower from the Administrative Agent or knowledge of such failure by an officer of the Borrower;

(f) the Borrower or any of its Material Subsidiaries shall fail to make a payment or payments (whether of principal or interest and regardless of amount) in respect of any Material Debt when the same shall become due, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(g) any event or condition occurs that (i) results in any Material Debt becoming due before its scheduled maturity or (ii) enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of Material Debt or any trustee or agent on its or their behalf to cause any Material Debt to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, before its scheduled maturity or (iii) results in the termination of or enables one or more banks or financial institutions to terminate commitments to provide in

excess of $10,000,000 aggregate principal amount of credit to the Borrower or its Material Subsidiaries; *provided* that, in the case of any event described in clauses (ii) or (iii) that would permit Material Debt to be accelerated or would permit termination of such commitments, as applicable, only after the lapse of a cure period, so long as the Borrower has notified the Administrative Agent immediately upon occurrence of such event, such event shall give rise to an Event of Default hereunder upon expiration of such cure period; and *provided, further*, that neither (A) a mandatory payment of cash required by Section 10.01 of the Indenture described in the definition of Convertible 2004 Debt Documents (as it provides on the date hereof) nor (B) a mandatory prepayment of Material Debt required to be made by reason of the sale or other disposition (including, without limitation, condemnation or insured casualty) of assets securing such Material Debt shall be deemed to be an event or condition described in any of clauses (i), (ii) and (iii). above;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Borrower or any of its Material Subsidiaries or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any of its Material Subsidiaries or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 30 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) the Borrower or any of its Material Subsidiaries shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) above, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for any the Borrower or any of its Material Subsidiaries or for a substantial part of' its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(j) the Borrower or any of its Material Subsidiaries shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(k) one or more judgments for the payment of money, not covered by insurance, in an aggregate amount exceeding, after giving effect to any insurance, an amount equal to 3% of the Borrower's shareholders' equity, as reflected on the balance sheet of the Borrower as of the most recent Fiscal Quarter end, shall be rendered against the Borrower or any of its Material Subsidiaries and shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any asset of the Borrower or any of its Material Subsidiaries to enforce any such judgment;

(l) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, would reasonably be expected to result in a Material Adverse Effect; or

(m) any provision of any Loan Document after delivery thereof shall for any reason cease to be valid and binding on or enforceable against the Borrower, or the Borrower shall so state in writing;

then, and in every such event (except an event with respect to the Borrower described in clause (h) or (i) above), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are waived by the Borrower; and in the case of any event with respect to the Borrower described in clause (h) or (i) above, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are waived by the Borrower.

ARTICLE 8

THE ADMINISTRATIVE AGENT

Section 8.01. *Appointment and Authorization.* Each Lender Party irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions as agent on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms of the Loan Documents, together with such actions and powers as are reasonably incidental thereto.

Section 8.02. *Rights and Powers as a Lender.* The Administrative Agent shall, in its capacity as a Lender, have the same rights and powers as any other Lender and may exercise or refrain from exercising the same as though it were not the Administrative Agent. The Administrative Agent and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or Affiliate of the Borrower as if it were not the Administrative Agent hereunder.

Section 8.03. *Limited Duties and Responsibilities.* The Administrative Agent shall not have any duties or obligations except those expressly set forth in the Loan Documents. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any

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fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by the Loan Documents that the Administrative Agent is required in writing to exercise by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02), and (c) except as expressly set forth in the Loan Documents, the Administrative Agent shall not have any duty to disclose, or be liable for any failure to disclose, any information relating to the Borrower or any of its Subsidiaries that is communicated to or obtained by the Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02) or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Loan Document, (ii) the contents of any certificate, report or other document delivered thereunder or in connection therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth in any Loan Document, (iv) the validity, enforceability, effectiveness or genuineness of any Loan Document or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article 4 or elsewhere in any Loan Document, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

Section 8.04. *Authority to Rely on Certain Writings, Statements and Advice.* The Administrative Agent shall be entitled to rely on, and shall not incur any liability for relying on, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely on any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

Section 8.05. *Sub-Agents and Related Parties.* The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through one or more sub-agents appointed by it. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding Sections of this Article shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to activities in connection with the syndication of the credit facilities provided for herein as well as activities as the Administrative Agent hereunder.

Section 8.06. *Resignation; Successor Agent.* Subject to the appointment and acceptance of a successor Administrative Agent as provided in this Section, the Administrative Agent may resign at any time by notifying the Lenders and the Borrower. Upon any such resignation, the

Required Lenders shall have the right, in consultation with the Borrower, to appoint a successor Agent; *provided* that consultation with the Borrower shall not be required if an Event of Default shall have occurred and be continuing. If no successor Administrative Agent shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Agent which shall be a bank or financial institution. Upon acceptance of its appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed by the Borrower and such successor Administrative Agent. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article and Section 9.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Agent was acting as an Administrative Agent hereunder.

Section 8.07. *Credit Decisions by Lenders.* Each Lender acknowledges that it has, independently and without reliance on the Administrative Agent or any other Lender Party and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance on the Administrative Agent or any other Lender Party and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based on this Agreement, any other Loan Document or related agreement or any document furnished hereunder or thereunder.

Section 8.08. *Agent's Fees.* The Borrower shall pay to the Administrative Agent for its own account fees in the amounts and at the times previously agreed upon by the Borrower and such Agent.

Section 8.09 *Syndication Agent, Documentation Agent, Etc.*. Neither of the Lead Arrangers nor the Sole Book Runner, in their capacities as such, shall have any duties or responsibilities or incur any liability under this Agreement or any of the Loan Documents.

Section 8.10 *No Reliance on Administrative Agent's Customer Identification Program* . Each of the Lenders acknowledges and agrees that neither such Lender nor any of its Affiliates, participants or assignees, may rely on the Administrative Agent to carry out such Lender's, Affiliate's, participant's or assignee's customer identification program, or other obligations required or imposed under or pursuant to the USA Patriot Act or the regulations thereunder, including the regulations contained in 31 CFR 103.121 (as hereafter amended or replaced, the "CIP Regulations"), or any other anti-terrorism law, including any programs involving any of the following items relating to or in connection with any of the Borrower, its Affiliates or its agents, this Agreement, the other Loan Documents or the transactions hereunder or contemplated hereby: (1) any identity verification procedures, (2) any record keeping, (3) comparisons with government

lists, (4) customer notices or (5) other procedures required under the CIP Regulations or such other laws.

ARTICLE 9

MISCELLANEOUS

Section 9.01. *Notices.* Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to the Borrower, to it at 5000 Westown Parkway, Suite 200, West Des Moines, Iowa 50266, Attention of David J. Noble, President (Facsimile No. (515) 221-9947)*;*

(b) if to the Administrative Agent or to the Swingline Lender, to KeyBank National Association, 127 Public Square, Cleveland, Ohio 44114, Attention of Mary K. Young (Facsimile No. (216) 689-4981); and

(c) if to any other Lender, to it at its address (or facsimile number) set forth in its Administrative Questionnaire.

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the Administrative Agent and the Borrower. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement will be deemed to have been given on the date of receipt.

Section 9.02. *Waivers; Amendments.* (a) No failure or delay by any Lender Party in exercising any right or power hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Lender Parties under the Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of any Loan Document or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by subsection (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan shall not be construed as a waiver of any Default, regardless of whether any Lender Party had notice or knowledge of such Default at the time.

(b) No Loan Document or provision thereof may be waived, amended or modified except, in the case of this Agreement, by an agreement or agreements in writing entered into by the Borrower and the Required Lenders or, in the case of any other Loan Document, by an agreement or agreements in writing entered into by the parties thereto with the consent of the Required Lenders; *provided* that no such agreement shall:

(i) increase the Commitment of any Lender without its written consent;

(ii) reduce the principal amount of any Loan or reduce the rate of interest thereon, or reduce any fee payable hereunder, without the written consent of each Lender Party affected thereby;

(iii) postpone the maturity of any Loan, or the required date of any mandatory payment of principal (including without limitation pursuant to Section 2.10(b), or any date for the payment of any interest or fee payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender Party affected thereby;

(iv) change the definition of "Percentage" or change Section 2.18(b) or 2.18(c) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender affected thereby;

(v) change any provision of this Section or the percentage set forth in the definition of "Required Lenders" or any other provision of any Loan Document specifying the number or percentage of Lenders required to take any action thereunder, without the written consent of each Lender; or

(vi) increase the aggregate amount of the Commitments (without giving effect to any increases permitted or theretofore made pursuant to Section 2.05) under this Agreement to be in excess of $200,000,000, or amend Section 2.05 to permit increases in the aggregate Commitments permitted thereunder to be in excess of the $50,000,000 set forth therein on the date hereof, without the written consent of the Administrative Agent and Lenders having aggregate Exposures and unused Commitments representing more than two-thirds (2/3) of the sum of all Exposures and unused Commitments at such time (it being understood that an increase in the Commitment of any Lender is subject to clause (i) above); and

provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent or the Swingline Lender without its prior written consent; and *provided further* that neither a reduction or termination of Commitments pursuant to Section 2.08 or 2.11, nor an increase in Commitments pursuant to Section 2.05, constitutes an amendment, waiver or modification for purposes of this Section 9.02.

(c) The Administrative Agent may, but shall have no obligation to, from time to time promulgate revised, replacement Schedules 2.01 (which, upon such promulgation, absent manifest error, shall become Schedule 2.01 hereto) and revisions or supplements to other Loan Documents to reflect changes in the parties constituting the Lenders and their respective Commitments pursuant to Assignments and Section 2.05, in each instance without the necessity of the agreement of the Borrower and the Required Lenders.

Section 9.03. *Expenses; Indemnity; Damage Waiver.* (a) The Borrower shall pay (i) all reasonable and documented out-of-pocket expenses incurred by the Arranger, the Administrative Agent and their respective Affiliates, including, without limitation, the reasonable fees, charges and disbursements of Squire, Sanders & Dempsey L.L.P., special counsel for the Administrative Agent, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of the Loan Documents and any amendments, modifications or waivers of the provisions thereof (whether or not the transactions contemplated hereby or thereby shall be consummated) and (ii) all reasonable out-of-pocket expenses incurred by any Lender Party, including the fees, charges and disbursements of any counsel for any Lender Party, in connection with the replacement of any Lender pursuant to Section 2.19(b), the enforcement or protection of its rights in connection with the Loan Documents (including its rights under this Section) or the Loans, including all such reasonable out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of the Loans.

(b) The Borrower shall indemnify each of the Lender Parties and their respective Related Parties (each such Person being called an "**Indemnitee**") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the fees, charges and disbursements of counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of

(i) the execution or delivery of any Loan Document or any other agreement or instrument contemplated hereby, the performance by the parties to the Loan Documents of their respective obligations thereunder or the consummation of the Financing Transactions or any other transactions contemplated hereby, (ii) any Loan or the use of the proceeds therefrom, (iii) any actual or alleged presence or release of Hazardous Materials on or from any property currently or formerly owned or operated by the Borrower or any Subsidiary, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; *provided* that (i) such indemnity shall not be available to any Indemnitee to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from such Indemnitee's gross negligence or willful misconduct; (ii) such indemnity shall not be available to any Indemnitee for losses, claims, damages, liabilities or related expenses arising out of a proceeding in which such indemnitee and the Borrower are adverse parties to the extent that the Borrower prevails on the merits, as determined by a court of competent jurisdiction (it being understood that nothing in this Agreement shall preclude a claim or suit by the Borrower against any Indemnitee for such Indemnitee's failure to perform any of its obligations to the Borrower under the Loan Documents); (iii) the Borrower shall not, in connection with any such proceeding or related proceedings in the same jurisdiction and in the absence of conflicts of interest, be liable for the fees and expenses of more than one law firm at any one time for the Indemnitees (which law firm shall be selected (x) by mutual agreement of the Administrative Agent and the Borrower or (y) if no such agreement has been reached following the Administrative Agent's good faith consultation with the Borrower with respect thereto, by the Administrative Agent in its sole discretion); (iv) each Indemnitee shall give the Borrower (x) prompt notice of any such action brought against such Indemnitee in connection with a claim for which it is entitled to indemnity under this Section and (y) an opportunity to consult from time to time with such indemnitee regarding defensive measures and potential settlement; and (v) the

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Borrower shall not be obligated to pay the amount of any settlement entered into without its written consent (which consent shall not be unreasonably withheld).

(c) To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent or the Swingline Lender under subsection (a) or (b) of this Section, each Lender severally agrees to pay to such Agent or the Swingline Lender, as the case may be, such Lender's pro rata share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; *provided* that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against such Agent or the Swingline Lender in its capacity as such. For purposes hereof, a Lender's "**pro rata share**" shall be determined based on its share of the sum of the total Exposures and unused Commitments at the time.

(d) To the extent permitted by applicable law, the Borrower shall not assert, and it hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Financing Transactions, any Loan or the use of the proceeds thereof.

(e) All amounts due under this Section shall be payable within five Business Days after written demand therefor.

Section 9.04. *Successors and Assigns.* (a) The provisions of this Agreement shall be binding on and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (except the parties hereto, their respective successors and assigns permitted hereby and, to the extent expressly provided herein, the Related Parties of the Lender Parties) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of any Commitment it has at the time and any Loans at the time owing to it); *provided* that:

(i) except in the case of an assignment to a Lender or a Lender Affiliate, each of the Borrower and the Administrative Agent (and, in the case of an assignment of all or a portion of a Commitment or any Lender's obligations in respect of its Swingline Exposure, and the Swingline Lender) must give their prior written consent to such assignment (which consents shall not be unreasonably withheld);

(ii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement;

(iii) unless each of the Borrower and the Administrative Agent otherwise consent, the amount of the Commitment or Loans of the assigning Lender subject to each such assignment (determined as of the date on which the relevant Assignment is delivered to the Administrative Agent) shall not be less than $5,000,000; *provided* that this clause (iii) shall not apply to an assignment to a Lender or a Lender Affiliate or an assignment of the entire remaining amount of the assigning Lender's Commitment or Loans;

(iv) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment, together with a processing and recordation fee of $3,500; *provided* that only one such fee shall be due in respect of a simultaneous assignment to more than one Lender Affiliate; and

(v) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent a completed Administrative Questionnaire;

and *provided further* that any consent of the Borrower otherwise required under this subsection shall not be required if an Event of Default has occurred and is continuing. Subject to acceptance and recording thereof pursuant to subsection (d) of this Section, from and after the effective date specified in each Assignment the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment, be released from its obligations under this Agreement (and, in the case of an Assignment covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.15, 2.16, 2.17 and 9.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with subsection (e) of this Section.

(c) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices in Cleveland, Ohio a copy of each Assignment delivered to it and a register for the recordation of the names and addresses of the Lenders, their respective Commitments and the principal amounts of the Loans owing to each Lender pursuant to the terms hereof from time to time (the "**Register**"). The entries in the Register shall be conclusive (absent manifest error), and the parties hereto may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by any party hereto at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of a duly completed Assignment executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), any processing and recordation fee referred to in, and payable pursuant to, subsection (b) of this Section and any written consent to such assignment required by subsection (b) of this Section, the Administrative Agent shall accept such Assignment and record

the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this subsection.

(e) Any Lender may, without the consent of the Borrower or any other Lender Party, sell participations to one or more banks or other entities ("**Participants**") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitments and the Loans owing to it); *provided* that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower and the other Lender Parties shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce the Loan Documents and to approve any amendment, modification or waiver of any provision of the Loan Documents; *provided* that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in clause (i), (ii), (iii) or (iv) of the first proviso to Section 9.02(b) that affects such Participant. Subject to subsection (f) of this Section, each Participant shall be entitled to the benefits of Sections 2.15, 2.16 and 2.17 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.09 as though it were a Lender, *provided* that such Participant agrees to be subject to Section 2.18(c) as though it were a Lender.

(f) A Participant shall not be entitled to receive any greater payment under Section 2.15 or 2.17 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.17 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.17(e) as though it were a Lender.

(g) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; *provided* that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

Section 9.05. *USA Patriot Act.* Each Lender or assignee or participant of a Lender that is not incorporated under the laws of the United States of America or a state thereof (and is not excepted from the certification requirement contained in Section 313 of the USA Patriot Act and the applicable regulations because it is both (i) an affiliate of a depository institution or foreign bank that maintains a physical presence in the United States or foreign country, and (ii) subject to supervision by a banking authority regulating such affiliated depository institution or foreign bank) shall deliver to the Administrative Agent the certification, or, if applicable, recertification, certifying that such Lender is not a "shell" and certifying to other matters as required by Section

313 of the USA Patriot Act and the applicable regulations: (1) within ten (10) days after the Effective Date, and (2) as such other times as are required under the USA Patriot Act.

Section 9.06. *Survival.* All covenants, agreements, representations and warranties made by the Borrower in the Loan Documents and in certificates or other instruments delivered in connection with or pursuant to the Loan Documents shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of the Loan Documents and the making of any Loans, regardless of any investigation made by any such other party or on its behalf and notwithstanding that any Lender Party may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as any principal of or accrued interest on any Loan or any fee or other amount payable hereunder is outstanding and unpaid or any Commitment has not expired or terminated. The provisions of Sections 2.15,2.16, 2.17 and 9.03 and Article 8 shall survive and remain in full force and effect regardless of the consummation of the Financing Transactions, the repayment of the Loans, the expiration or termination of the Commitments or the termination of this Agreement or any provision hereof.

Section 9.07. *Counterparts; Integration; Effectiveness.* This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the other Loan Documents and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement (i) will become effective when the Administrative Agent shall have signed this Agreement and received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto and (ii) thereafter will be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy will be effective as delivery of a manually executed counterpart of this Agreement.

Section 9.08. *Severability.* If any provision of any Loan Document is invalid, illegal or unenforceable in any jurisdiction then, to the fullest extent permitted by law, (i) such provision shall, as to such jurisdiction, be ineffective to the extent (but only to the extent) of such invalidity, illegality or unenforceability, (ii) the other provisions of the Loan Documents shall remain in full force and effect in such jurisdiction and shall be liberally construed in favor of the Lender Parties in order to carry out the intentions of the parties thereto as nearly as may be possible and (iii) the invalidity, illegality or unenforceability of any such provision in any jurisdiction shall not affect the validity, legality or enforceability of such provision in any other jurisdiction.

Section 9.09. *Right of Setoff.* If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of the Borrower against any obligations of the Borrower now or hereafter existing hereunder and held by such Lender, irrespective of

whether or not such Lender shall have made any demand hereunder and although such obligations may be unmatured. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) that such Lender may have.

Section 9.10. *Governing Law; Jurisdiction; Consent to Service of Process.* (a) This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) The Borrower irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the courts of the State of Ohio sitting in Cuyahoga County and of the courts of the State of New York sitting in New York County and of the United States District Court of the Northern District of Ohio and of the United States District Court of the Southern District of New York, and any relevant appellate court, in any action or proceeding arising out of or relating to any Loan Document, or for recognition or enforcement of any judgment, and each party hereto irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in any such Ohio or New York state court or, to the extent permitted by law, in any such Federal court. Each party hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in any Loan Document shall affect any right that any Lender Party may otherwise have to bring any action or proceeding relating to any Loan Document against the Borrower or its properties in the courts of any jurisdiction.

(c) The Borrower irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to any Loan Document in any court referred to in subsection (b) of this Section. Each party hereto irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of any such suit, action or proceeding in any such court.

(d) Each party hereto irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in any Loan Document will affect the right of any party hereto to serve process in any other manner permitted by law.

Section 9.11. *WAIVER OF JURY TRIAL.* EACH PARTY HERETO WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENT OR ANY TRANSACTION CONTEMPLATED THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED. EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

Section 9.12. *Headings.* Article and Section headings and the Table of Contents herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

Section 9.13. *Confidentiality.* Each Lender Party agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations of any Governmental Authority or any stock exchange or similar self-regulated entity or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedy hereunder or any suit, action or proceeding relating to any Loan Document or the enforcement of any right thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any actual or prospective assignee of or Participant in any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations, (g) with the consent of the Borrower or (h) to the extent such Information either (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to any Lender Party on a nonconfidential basis from a source other than the Borrower. For the purposes of this Section, "**Information**" means all information received from the Borrower relating to the Borrower or its business, other than any such information that is available to any Lender Party on a nonconfidential basis before disclosure by the Borrower; *provided* that, in the case of information received from the Borrower after the date hereof, such information is clearly identified at the time of delivery as confidential.

Notwithstanding the foregoing, effective from the date of commencement of discussions concerning the transactions contemplated hereby, the parties hereto and each of their employees, representatives or other agents may disclose to any and all Persons, without limitation of any kind, the tax treatment and tax structure of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that have been provided to them relating to such tax treatment and tax structure.

Section 9.14. *Interest Rate Limitation.* Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts that are treated as interest on such Loan under applicable law (collectively the "**Charges**"), shall exceed the maximum lawful rate (the "**Maximum Rate**") that may be contracted for, charged or otherwise received by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such Lender shall have received such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of payment.

[No additional provisions are on this page; the page next following is the signature page.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN EQUITY INVESTMENT LIFE
HOLDING COMPANY

By: /s/ Debra J. Richardson
Debra J. Richardson,
Senior Vice President

KEYBANK NATIONAL ASSOCIATION, as
Administrative Agent, Co-Lead Arranger, Sole Book Runner and Swingline Lender

By: /s/ Mary K. Young
Mary K. Young
Senior Vice President

LASALLE BANK NATIONAL ASSOCIATION, as Co-Lead Arranger

By: /s/ Brandon S. Allison
Brandon S. Allison
Vice President

LENDERS

KEYBANK NATIONAL ASSOCIATION,
as Lender

By: /s/ Mary K. Young
Mary K. Young
Senior Vice President

[Lender Signatures Continued]

LASALLE BANK NATIONAL ASSOCIATION

By: /s/ Brandon S. Allison

Name/Title: Brandon S. Allison, Vice President

CITIBANK, N.A.

By: /s/ Drew Desky

Name/Title: Drew Desky, Director

BANKERS TRUST COMPANY, N.A.

By: /s/ Jon M. Doll

Name/Title: Jon M. Doll, Vice President

DEUTSCHE BANK AG, NEW YORK BRANCH

By: /s/ John S. McGill

Name/Title: John S. McGill, Director

By:/s/ Michael Campites

Name/Title: Michael Campites, Vice President

JPMORGAN CHASE BANK, N.A.

By: /s/ Thomas A. Kiepura

Name/Title: Thomas A. Kiepura, Vice President

SUNTRUST BANK

By: /s/ Timothy M. O’Leary

Name/Title: Timothy M. O’Leary, Director

WEST BANK

By: /s/ Donald R. Stone,

Name/Title: Donald R. Stone, Vice President

PRICING SCHEDULE

Borrower's Pricing Rating*	Pricing Level	Euro-Dollar Margin	Facility Fee Rate
bbb+/BBB+ or any higher Borrower's Pricing Rating	Level I	0.500%	0.125%
bbb/BBB	Level II	0.600%	0.150%
bbb-/BBB-	Level III	0.800%	0.200%
bb+/BB+	Level IV	1.000%	0.250%
bb/BB or any lower Borrower's Pricing Rating	Level V	1.250%	0.375%

* If another statistical rating agency is substituted for Best or S&P pursuant to the definition of "Best" or "S&P", the equivalent ratings category designations of such substitute Rating Agency shall be substituted for the ratings category designations of, as the case may be, Best or S&P set forth in this table.

For purposes of this Schedule, the following terms have the following meanings:

"Borrower's Pricing Rating" means, as of any day, the Senior Debt Rating on such day of each of Best and S&P; *provided* that (i) in the event that on any day the Rating Agencies' respective Senior Debt Ratings do not both fall into the same one of the Pricing Levels set forth above, the Borrower's Pricing Rating shall the higher of the two Senior Debt Ratings on such day; except that if the lower of such two Senior Debt Ratings on such day is more than one Pricing Level lower than the higher of such two Senior Debt Ratings, then the Borrower's Pricing Rating shall be deemed to be that of the Pricing Level that is immediately above such lower Senior Debt Rating; and (ii) in the event that, on any day, less than both of the Rating Agencies shall not then have in effect a Senior Debt Rating, the Pricing Level shall be Pricing Level V. The Pricing Levels shall be re-determined on each day on which occurs an announcement of a change in the Senior Debt Rating issued by either Rating Agency.

"Pricing Level" means for any day, the Pricing Level (I, II, II, IV or V) indicated on the table above that corresponds to the Borrower's Pricing Rating on such day. Pricing Levels are referred to in ascending order, that is, Pricing Level I is the lowest Pricing Level and Pricing Level V is the highest Pricing Level.

EXHIBIT A

ASSIGNMENT AND ACCEPTANCE

AGREEMENT dated as of ____________________, ___________ among [NAME OF ASSIGNOR] (the "**Assignor**" and [NAME OF ASSIGNEE] (the "**Assignee**").

WHEREAS, this Assignment and Acceptance (the "**Agreement**") relates to the Credit Agreement dated as of November 20, 2006 among American Equity Investment Life Holding Company (the "**Borrower**"), the Assignor and the other Lenders party thereto, KeyBank National Association, as Administrative Agent (the "Administrative Agent"), Co-Lead Arranger, Sole Book Runner and Swingline Lender and LaSalle Bank National Association, Co-Lead Arranger (as amended from time to time, the "**Credit Agreement**").

WHEREAS, as provided under the Credit Agreement, the Assignor has a Commitment to make Loans to the Borrower and participate in Swingline Loans in an aggregate principal amount at any time outstanding not to exceed $____________

WHEREAS, Loans made to the Borrower by the Assignor under the Credit Agreement in the aggregate principal amount of $______________ are outstanding at the date hereof;

WHEREAS, Swingline Loans in the aggregate principal amount of $______________ are outstanding at the date hereof; and

WHEREAS, the Assignor proposes to assign to the Assignee all of the rights of the Assignor under the Credit Agreement in respect of a portion of its Commitment thereunder in an amount equal to $_____________ (the "**Assigned Amount**"), together with a corresponding portion of each of its outstanding Loans and its Swingline Exposure, and the Assignee proposes to accept such assignment and assume the corresponding obligations of the Assignor under the Credit Agreement;

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements contained herein, the parties hereto agree as follows:

SECTION 1. *Definitions.* All capitalized terms not otherwise defined herein have the respective meanings set forth in the Credit Agreement.

SECTION 2. *Assignment.* The Assignor hereby assigns and sells to the Assignee all of the rights of the Assignor under the Credit Agreement to the extent of the Assigned Amount and a corresponding portion of each of its outstanding Loans and its Swingline Exposure, and the Assignee hereby accepts such assignment from the Assignor and assumes all of the obligations of the Assignor under the Credit Agreement to the extent of the Assigned Amount and the corresponding portion of each of its outstanding Loans and its Swingline Exposure. Upon the execution and delivery hereof by the Assignor and the Assignee [and by the Borrower, the Administrative Agent and the Swingline Lender](1) and the payment of the amounts specified in

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(1) Delete if consent is not required.

Section 3 required to be paid on the date hereof (i) the Assignee shall, as of the date hereof, succeed to the rights and be obligated to perform the obligations of a Lender under the Credit Agreement with a Commitment in an amount equal to the Assigned Amount and shall acquire the rights of the Assignor with respect to a corresponding portion of each of its outstanding Loans and its Swingline Exposure and (ii) the Commitment of the Assignor shall, as of the date hereof, be reduced by the Assigned Amount, and the Assignor shall be released from its obligations under the Credit Agreement to the extent such obligations have been assumed by the Assignee. The assignment provided for herein shall be without recourse to the Assignor.

SECTION 3. *Payments.* As consideration for the assignment and sale contemplated in Section 2 hereof, the Assignee shall pay to the Assignor on the date hereof in Federal funds the amount heretofore agreed between them.(2) Facility fees accrued before the date hereof are for the account of the Assignor and such fees accruing on and after the date hereof with respect to the Assigned Amount are for the account of the Assignee. Each of the Assignor and the Assignee agrees that if it receives any amount under the Credit Agreement which is for the account of the other party hereto, it shall receive the same for the account of such other party to the extent of such other party's interest therein and promptly pay the same to such other party.

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(2) Amount should combine principal together with accrued interest and breakage compensation, if any, to be paid by the Assignee, net of any portion of any upfront fee to be paid by the Assignor to the Assignee. It may be preferable in an appropriate case to specify these amounts generically or by formula rather than as a fixed sum.

[SECTION 4. *Consent of the Borrower, the Administrative Agent, and the Swingline Lender.* This Agreement is conditioned upon the consent of the Borrower, the Administrative Agent and the Swingline Lender pursuant to Section 9.04(b) of the Credit Agreement. The execution of the Agreement by the Borrower, the Administrative Agent and the Swingline Lender is evidence of this consent.](3)

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(3) Delete if consent is not required.

SECTION 5. *Non-Reliance on Assignor.* The Assignor makes no representation or warranty in connection with, and shall have no responsibility with respect to, the solvency, financial condition, or statements of the Borrower. or the validity and enforceability of the Borrower's obligations under the Credit Agreement, any note issued thereunder or any Loan Document. The Assignee acknowledges that it has, independently and without reliance on the Assignor, and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter its own independent appraisal of the business, affairs and financial condition of the Borrower.

SECTION 6. *Governing Law.* This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 7. *Counterparts.* This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered by their duly authorized officers as of the date first above written.

[NAME OF ASSIGNOR]

By: ______________________________
Name:
Title:

[NAME OF ASSIGNEE]

By: ______________________________
Name:
Title:

The undersigned consent to the foregoing assignment.

[AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

By: ______________________________
Name:
Title:](4)

[KEYBANK NATIONAL ASSOCIATION, as Administrative Agent and Swingline Lender

By: ____________________________
Name:
Title:](5)

(4) Delete if Borrower's consent is not required.

(5) Delete (or modify as appropriate) if consent of Administrative Agent, and/or Swingline Lender is not required.

Schedule 2.01

Commitment Schedule

Name of Lender	Commitment
KeyBank National Association	$ 30,000,000
LaSalle Bank National Association	$ 30,000,000
CitiBank, N.A.	$ 20,000,000
Bankers Trust Company, N.A.	$ 15,000,000
Deutsche Bank AG, New York Branch	$ 15,000,000
JPMorgan Chase Bank, N.A.	$ 15,000,000
SunTrust Bank	$ 15,000,000
West Bank	$ 10,000,000
Total	$ 150,000,000

Exhibit 12.1

Ratio of Earnings to Fixed Charges

	Year Ended December 31,				
	2006	2005	2004	2003	2002
Consolidated income before income taxes and minority interests(a)	$ 116,925	$ 70,894	$ 69,481	$ 39,308	$ 28,951
Interest credited to account balances	429,062	311,479	309,034	248,075	183,503
Interest expense on General Agency Commission and Servicing Agreement(a)	—	—	—	—	3,596
Interest expense on notes payable(a)	20,382	16,324	2,358	2,713	1,901
Interest expense on subordinated debentures(a)	21,354	14,145	9,609	7,661	—
Interest expense on amounts due under repurchase agreements and other interest expense	32,931	11,280	3,148	1,278	1,777
Interest portion of rental expense	431	388	344	314	267
Consolidated earnings	$ 621,085	$ 424,510	$ 393,974	$ 299,349	$ 219,995
Interest credited to account balances	429,062	311,479	309,034	248,075	183,503
Interest expense on General Agency Commission and Servicing Agreement(a)	—	—	—	—	3,596
Interest expense on notes payable(a)	20,382	16,324	2,358	2,713	1,901
Interest expense on subordinated debentures(a)	21,354	14,145	9,609	7,661	—
Interest expense on amounts due under repurchase agreements and other interest expense	32,931	11,280	3,148	1,278	1,777
Interest portion of rental expense	431	388	344	314	267
Combined fixed charges	$ 504,160	$ 353,616	$ 324,493	$ 260,041	$ 191,044
Ratio of consolidated earnings to fixed charges	1.2	1.2	1.2	1.2	1.2
Ratio of consolidated earnings to fixed charges excluding interest credited to account balances	2.6	2.7	5.5	4.3	4.8

(a) On December 31, 2003, retroactive to January 1, 2003, we adopted Financial Accounting Standards Board ("FASB") Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* ("FIN 46") During the first quarter of 2005, retroactive to January 1, 2003, we adopted FASB Staff Position No. FIN 46(R)-5, *Implicit Variable Interests Under FIN 46*. See note 1 to our audited consolidated financial statements.

EXHIBIT 21.2

SUBSIDIARIES OF AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

American Equity Investment Life Insurance Company

American Equity Capital Trust I

American Equity Capital Trust II

American Equity Capital Trust III

American Equity Capital Trust IV

American Equity Capital Trust VII

American Equity Capital Trust VIII

American Equity Capital Trust IX

American Equity Capital Trust X

American Equity Capital Trust XI

American Equity Capital Trust XII

American Equity Investment Properties, L.C.

American Equity Investment Capital, Inc.

American Equity Investment Life Insurance Company of New York

American Equity Investment Service Company

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
American Equity Investment Life Holding Company

We consent to the incorporation by reference in the Registration Statements (Form S-3 No. 333-113630, Form S-3 No. 333-123862, and Form S-8 No. 333-127001) of American Equity Investment Life Holding Company and in the related Prospectuses of our reports dated March 12, 2007, with respect to the consolidated balance sheets of American Equity Investment Life Holding Company as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2006 and 2005, and all related financial statement schedules, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006 and the effectiveness of internal control over financial reporting as of December 31, 2006, which reports appear in the December 31, 2006 annual report on Form 10-K of American Equity Investment Life Holding Company.

As discussed in Note 1 to the consolidated financial statements, in 2006 the Company adopted Securities and Exchange Commission Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements*.

/s/ KPMG

Des Moines, Iowa
March 12, 2007

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form S-3 No. 333-113630, Form S-3 No. 333-123862 and Form S-8 No. 333-127001) of American Equity Investment Life Holding Company and in the related Prospectuses of our report dated March 11, 2005, except for the third and fourth paragraphs of Note 1, as to which the date is November 11, 2005, with respect to the consolidated financial statements and schedules of American Equity Investment Life Holding Company for the year ended December 31, 2004 included in this Annual Report (Form 10-K) for the year ended December 31, 2006.

/s/ Ernst & Young LLP

Des Moines, Iowa
March 9, 2007

Exhibit 31.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David J. Noble, certify that:

1. I have reviewed this annual report on Form 10-K of American Equity Investment Life Holding Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2007

By: /s/ DAVID J. NOBLE
David J. Noble, *Chief Executive Officer*
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Wendy L. Carlson, certify that:

1. I have reviewed this annual report on Form 10-K of American Equity Investment Life Holding Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2007

By: /s/ WENDY L. CARLSON
Wendy L. Carlson, *Chief Financial Officer*
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of American Equity Investment Life Holding Company (the “Company”) on Form 10-K for the fiscal year ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David J. Noble, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 12, 2007

By: /s/ DAVID J. NOBLE
D.J. Noble, *Chief Executive Officer*
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of American Equity Investment Life Holding Company (the “Company”) on Form 10-K for the fiscal year ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Wendy L. Carlson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 12, 2007

By: /s/ WENDY L. CARLSON
Wendy L. Carlson, *Chief Financial Officer*
(Principal Financial Officer)