

AMERICAN NATIONAL INSURANCE CO /TX/

Form 10-Q

August 07, 2009

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q**

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from _____ to _____

Commission file number: 001-34280

AMERICAN NATIONAL INSURANCE COMPANY

(Exact name of registrant as specified in its charter)

Texas

74-0484030

*(State or other jurisdiction of
incorporation or organization)*

*(I.R.S. employer
identification number)*

**One Moody Plaza
Galveston, Texas**

77550-7999
(Zip code)

(Address of principal executive offices)

(409) 763-4661

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of July 31, 2009, the registrant had 26,820,166 shares of common stock, \$1.00 par value per share, outstanding.

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS (Unaudited)

Consolidated Statements of Income for the three and six months ended June 30, 2009 and 2008 3

Consolidated Statements of Financial Position as of June 30, 2009 and December 31, 2008 4

Consolidated Statements of Shareholders Equity for the six months ended June 30, 2009 and 2008 5

Consolidated Statements of Comprehensive Income for the six months ended June 30, 2009 and 2008 5

Consolidated Statements of Cash Flows for the six months ended June 30, 2009 and 2008 6

Notes to Consolidated Financial Statements 7

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS 32

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK 69

ITEM 4 CONTROLS AND PROCEDURES 70

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS 71

ITEM 1A. RISK FACTORS 72

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS 72

ITEM 3. DEFAULTS IN SENIOR SECURITIES 72

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF THE SECURITY HOLDERS 72

ITEM 5. OTHER INFORMATION 72

ITEM 6. EXHIBITS 73

SIGNATURES 73

EXHIBIT INDEX 74

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS****Consolidated Statements of Income**

(Unaudited and in thousands, except for per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
PREMIUMS AND OTHER REVENUE				
Premiums				
Life	\$ 65,228	\$ 72,859	\$ 135,318	\$ 147,014
Annuity	53,641	27,347	90,857	71,646
Accident and health	69,651	73,040	149,573	145,077
Property and casualty	276,427	293,088	568,916	593,194
Other policy revenues	44,768	43,379	88,448	85,445
Net investment income	214,664	215,868	407,860	403,456
Realized investments gains (losses)	(2,674)	15,564	(8,061)	17,131
Other-than-temporary impairments	(6,074)	(19,897)	(74,148)	(27,049)
Other income	12,159	10,314	21,024	19,728
Total revenues	727,790	731,562	1,379,787	1,455,642
BENEFITS, LOSSES AND EXPENSES				
Policy Benefits				
Life	72,317	73,901	146,266	145,867
Annuity	63,151	35,954	106,808	85,704
Accident and health	57,699	54,471	121,766	115,050
Property and casualty	243,771	279,508	491,845	497,119
Interest credited to policy account balances	95,714	75,942	177,302	143,089
Commissions for acquiring and servicing policies	114,675	132,318	227,590	257,588
Other operating costs and expenses	120,378	133,169	231,540	250,714
Increase in deferred policy acquisition costs	(27,396)	(40,617)	(34,029)	(69,348)
Total benefits, losses and expenses	740,309	744,646	1,469,088	1,425,783
Income (loss) from continuing operations before federal income tax, and equity in earnings of unconsolidated affiliates,	(12,519)	(13,084)	(89,301)	29,859
Provision (benefit) for federal income taxes				
Current	(10,330)	(27,631)	(25,105)	(17,278)
Deferred	(446)	16,604	(16,694)	16,471
Equity in earnings (losses) of unconsolidated affiliates, net of tax	(3,180)	348	(5,117)	7,996
Income (loss) from continuing operations	(4,923)	(1,709)	(52,619)	38,662

Edgar Filing: AMERICAN NATIONAL INSURANCE CO /TX/ - Form 10-Q

Loss from discontinued operations		(1,100)		(2,446)
Net income (loss)	\$ (4,923)	\$ (2,809)	\$ (52,619)	\$ 36,216
Less Net income (loss) attributable to noncontrolling interests	(568)	126	(569)	126
Net income (loss) attributable to American National Insurance Company and Subsidiaries	\$ (4,355)	\$ (2,935)	\$ (52,050)	\$ 36,090
Amounts attributable to American National Insurance Company common stockholders				
Earnings (loss) per share:				
Basic	\$ (0.16)	\$ (0.11)	\$ (1.96)	\$ 1.36
Diluted	\$ (0.16)	\$ (0.11)	\$ (1.96)	\$ 1.35
Weighted average common shares outstanding	26,498,832	26,479,832	26,498,832	26,479,832
Weighted average common shares outstanding and dilutive potential common shares	26,599,550	26,646,008	26,599,550	26,646,008

See accompanying notes to consolidated financial statements.

Table of Contents
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited and In thousands)

	June 30, 2009	December 31, 2008
ASSETS		
Investments, other than investments in unconsolidated affiliates		
Fixed Securities:		
Bonds held-to-maturity, at amortized cost	\$ 7,313,157	\$ 6,681,837
Bonds available-for-sale, at market	4,042,267	3,820,837
Preferred stocks, at market	27,126	48,822
Equity securities:		
Common stocks, at market	863,805	853,530
Mortgage loans on real estate, net of allowance	2,003,300	1,877,053
Policy loans	357,289	354,398
Investment real estate, net of accumulated depreciation of \$200,657 and \$191,435	562,067	528,905
Short-term investments	456,332	295,170
Other invested assets	84,822	85,151
 Total investments	 15,710,165	 14,545,703
 Cash	 32,638	 66,096
Investments in unconsolidated affiliates	151,459	154,309
Accrued investment income	188,504	184,801
Reinsurance ceded receivables	416,504	482,846
Prepaid reinsurance premiums	57,339	61,433
Premiums due and other receivables	316,105	325,019
Deferred policy acquisition costs	1,412,936	1,482,664
Property and equipment, net	93,055	92,458
Current federal income taxes	24,087	68,327
Deferred federal income taxes	97,342	195,508
Other assets	148,855	159,254
Separate account assets	604,374	561,021
 Total assets	 \$ 19,253,363	 \$ 18,379,439
LIABILITIES		
Policyholder funds		
Future policy benefits:		
Life	\$ 2,457,811	\$ 2,436,001
Annuity	702,583	664,136
Accident and health	96,001	96,548
Policy account balances	9,038,280	8,295,527
Policy and contract claims	1,315,485	1,401,960
Participating policyholder share	152,757	149,970
Other policyholder funds	962,126	959,134
 Total policyholder liabilities	 14,725,043	 14,003,276

Liability for Retirement Benefits	188,527	184,124
Notes payable	110,493	111,922
Other liabilities	367,576	376,863
Separate account liabilities	604,374	561,021
Total liabilities	15,996,013	15,237,206
STOCKHOLDERS EQUITY		
Common stock, \$1.00 par value, Authorized 50,000,000 Issued 30,832,449, Outstanding 26,820,166 shares	30,832	30,832
Additional paid-in capital	9,891	7,552
Accumulated other comprehensive (loss)	(64,606)	(221,148)
Retained earnings	3,371,598	3,414,946
Treasury stock, at cost	(98,308)	(98,326)
Total American National stockholders equity	3,249,407	3,133,856
Noncontrolling interest	7,943	8,377
Total equity	3,257,350	3,142,233
Total liabilities and equity	\$ 19,253,363	\$ 18,379,439

See accompanying notes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)
(Unaudited and in thousands, except for per share data)

	Six Months Ended June 30,	
	2009	2008
Common Stock		
Balance at beginning and end of the period	\$ 30,832	\$ 30,832
Additional Paid-In Capital		
Balance at beginning of year	7,552	6,080
Issuance of treasury shares as restricted stock	(18)	(1,139)
Amortization of restricted stock	2,357	1,097
Balance as of June 30,	\$ 9,891	\$ 6,038
Accumulated Other Comprehensive Income		
Balance at beginning of year	(221,148)	145,972
Change in unrealized gains on marketable securities, net	205,645	(154,236)
Impact of adoption of FSP FAS 115-2 and FAS 124-2, net	(49,890)	
Foreign exchange adjustments	(776)	259
Minimum pension liability adjustment	1,563	(572)
Balance as of June 30,	\$ (64,606)	\$ (8,577)
Retained Earnings		
Balance at beginning of year	3,414,946	3,653,365
Net income (loss)	(52,050)	36,090
Cash dividends to common stockholders (\$0.77, and \$0.77 per share)	(41,188)	(41,273)
Impact of adoption of FSP FAS 115-2 and FAS 124-2, net	49,890	
Balance as of June 30,	\$ 3,371,598	\$ 3,648,182
Treasury Stock		
Balance at beginning of year	(98,326)	(99,465)
Net issuance of restricted stock	18	1,139
Balance as of June 30,	\$ (98,308)	\$ (98,326)
Noncontrolling Interest		
Balance at beginning of the year	8,377	4,539
Contributions	491	836
Distributions	(50)	(376)
Gain (loss) attributable to noncontrolling interest	(875)	194

Balance as of June 30,	\$ 7,943	\$ 5,193
Total Equity		
Balance as of June 30,	\$ 3,257,350	\$ 3,583,342

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2009	2008
Net Income (loss)	\$ (52,050)	\$ 36,090
Other comprehensive income (loss), net of tax		
Change in unrealized gains on marketable securities, net	205,645	(154,236)
Foreign exchange adjustments	(776)	259
Minimum pension liability adjustment	1,563	(572)
Total other comprehensive income (loss)	\$ 206,432	\$ (154,549)
Total comprehensive income (loss) attributable to American National Insurance Company and Subsidiaries	\$ 154,382	\$ (118,459)

See accompanying notes to consolidated financial statements.

Table of Contents
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited and in thousands)

	Six Months Ended June 30,	
	2009	2008
OPERATING ACTIVITIES		
Net income (loss)	\$ (52,050)	\$ 36,090
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Realized losses on investments	82,209	9,918
Amortization of discounts and premiums on bonds	7,979	8,284
Capitalized interest on policy loans and mortgage loans	(13,853)	1,201
Depreciation	17,293	15,421
Interest credited to policy account balances	176,546	143,133
Charges to policy account balances	(85,177)	(87,198)
Deferred federal income tax (benefit) expense	16,694	(16,471)
Deferral of policy acquisition costs	(248,564)	(275,574)
Amortization of deferred policy acquisition costs	214,539	206,589
Equity in earnings of unconsolidated affiliates	(7,872)	12,709
Changes in:		
Policyholder funds liabilities	(20,986)	71,783
Reinsurance ceded receivables	66,342	1,303
Premiums due and other receivables	8,914	(17,602)
Accrued investment income	(3,703)	(8,389)
Current federal income tax liability	44,240	(29,502)
Liability for retirement benefits	4,403	314
Prepaid reinsurance premiums	4,094	1,200
Other, net	(13,080)	46,671
Net cash provided by operating activities	197,968	119,880
INVESTING ACTIVITIES		
Proceeds from sales of:		
Bonds available for sale	20,910	6,132
Stocks	60,451	53,805
Real Estate	1,204	4,500
Other invested assets		3,933
Proceeds from maturities of:		
Bonds available for sale	146,260	238,001
Bonds held to maturity	441,781	385,610
Principal payments received on:		
Mortgage loans	63,860	72,270
Policy loans	22,889	4,869
Purchases of investments:		
Bonds available for sale	(67,110)	(629,718)
Bonds held to maturity	(1,081,138)	(680,943)
Stocks	(19,847)	(156,547)
Real estate	(32,656)	(64,397)

Edgar Filing: AMERICAN NATIONAL INSURANCE CO /TX/ - Form 10-Q

Mortgage loans	(208,828)	(296,702)
Policy loans	(13,920)	(7,342)
Other invested assets	(6,270)	(19,086)
Decrease (increase) in short-term investments, net	(161,162)	435,323
Decrease (increase) in investment in unconsolidated affiliates, net	2,850	(29,495)
(Increase) in property and equipment, net	(8,767)	(7,003)
Net cash used in investing activities	(839,493)	(686,790)
FINANCING ACTIVITIES		
Policyholders deposits to policy account balances	1,347,735	1,282,013
Policyholders withdrawals from policy account balances	(697,051)	(670,300)
Increase (Decrease) in notes payable	(1,429)	22,442
Dividends to stockholders	(41,188)	(41,273)
Net cash provided by financing activities	608,067	592,882
NET INCREASE (DECREASE) IN CASH	(33,458)	25,972
Cash:		
Beginning of the year	66,096	134,069
Balance as of June 30,	\$ 32,638	\$ 160,041

See accompanying notes to consolidated financial statements.

Table of Contents

1. NATURE OF OPERATIONS

American National Insurance Company and its consolidated subsidiaries (collectively American National) operate primarily in the insurance industry. Operating on a multiple product line basis, American National offers a broad line of insurance coverage, including individual and group life, health, and annuities; personal lines property and casualty; and credit insurance. In addition, through non-insurance subsidiaries, American National offers mutual funds and invests in real estate. The majority of revenues are generated by the insurance business. Business is conducted in all states and the District of Columbia, as well as Puerto Rico, Guam and American Samoa. Various distribution systems are utilized, including home service, multiple line, group brokerage, credit, independent third-party marketing organizations and direct sales to the public.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in conformity with (i) U.S. generally accepted accounting principles (GAAP) for interim financial information; and (ii) the rules and regulations of the U.S. Securities and Exchange Commission (SEC) for Form 10-Q. In addition to GAAP accounting literature, specific SEC regulation is also applied to the financial statements issued by insurance companies.

The consolidated financial statements and notes as of June 30, 2009 and for the three and six months ended June 30, 2009 are unaudited. These financial statements reflect all adjustments which are, in the opinion of management, considered necessary for the fair presentation of the financial position, statements of income and cash flows for the interim periods. In preparing the accompanying financial statements, we have evaluated subsequent events through the financial statements filing date. These financial statements and notes should be read in conjunction with American National s Annual Consolidated Financial Statements and related notes incorporated within the amended Form 10 Registration Statement filed with the SEC on July 1, 2009.

All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in unconsolidated affiliates are shown at cost plus equity in undistributed earnings since the dates of acquisition. American National s life insurance business in Mexico, which is reported as discontinued operations, had an immaterial impact on revenue for the three and six months ended June 30, 2009.

Certain reclassifications have been made to prior period amounts to conform to the current period presentation. The preparation of consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported financial statement balances. Actual results could differ from those estimates. The following estimates have been identified as critical in that they involve a high degree of judgment and are subject to a significant degree of variability:

- Other-than-temporary impairment of investment securities;
- Deferred acquisition costs;
- Reserves;
- Reinsurance recoverable;
- Pension and postretirement benefit plans;
- Litigation contingencies; and
- Federal income taxes.

As of June 30, 2009, American National s significant accounting policies and practices remain materially unchanged from those disclosed in Note 2 of its 2008 Annual Consolidated Financial Statements incorporated within the amended Form 10 Registration Statement filed with the SEC on July 1, 2009 with the exception of the other-than-temporary impairment (OTTI) of debt securities accounting policy.

American National s accounting policy on OTTI of debt securities was significantly modified due to the April 2009 issuance of the Financial Accounting Standards Board s (FASB s) FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (refer to Note 3). Under the new policy, an OTTI has occurred for a debt security in an unrealized loss position when American National either (a) has the intent to sell the debt security or (b) it is more likely than not that it will be required to sell the debt security before its anticipated recovery of its amortized costs basis. If either criteria is met, OTTI is recognized in earnings in the amount of the amortized cost basis of the debt security in excess of its fair value, as of the impairment measurement date.

Table of Contents

For all debt securities in unrealized loss positions which American National does not intend to sell and for which it is not more likely than not that they will be required to sell before its anticipated recovery, American National assesses whether the amortized cost basis of the debt security will be recovered by comparing the net present value of cash flows expected to be collected from the debt security with its amortized cost basis. Management estimates cash flows expected to be collected from the debt security using information based on its historical experience as well as using market observable data, such as industry analyst reports and forecasts, sector credit ratings and other data relevant to the collectability of a security. The net present value of cash flows expected to be collected from the debt security is calculated by discounting management's best estimate of cash flows expected to be collected on the debt security at the effective interest rate implicit in the debt security when acquired. If the net present value of the cash flows expected to be collected from the debt security is less than the amortized cost basis of the debt security, an OTTI has occurred in the form of a credit loss. The credit loss is recognized in earnings in the amount of excess amortized costs over the net present value of the cash flows expected to be collected from the debt security. If the fair value of the debt security is in excess of its net present value of the cash flows expected to be collected from the debt security at the impairment measurement date, a non-credit loss exists which is recorded in other comprehensive income (loss) in the amount of the fair value of the debt security in excess of the net present value of the cash flows expected to be collected from the debt security.

After the recognition of an OTTI, the debt security is accounted for as if it had been purchased on the measurement date of the OTTI, with an amortized cost basis equal to its previous amortized cost basis less the related OTTI recognized in earnings. The new amortized cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. Should there be a significant increase in the estimate of cash flows expected to be collected from a previously impaired debt security, the increase would be accounted for prospectively by accreting it as interest income over the remaining life of the debt security.

3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**Adoption of New Accounting Standards**

In May 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No.165, Subsequent Events (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. It requires that an entity evaluate its subsequent events up through the date of issuance of its financial statements as well as disclosure of the date of such evaluation. SFAS 165 is effective for interim and annual periods ending after June 15, 2009.

Accordingly, American National adopted SFAS 165 prospectively in its second quarter of fiscal year 2009. The adoption of this standard on April 1, 2009 did not have a material effect on American National's consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position (FSP) Financial Accounting Standard (FAS) 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2/124-2). FSP FAS 115-2/124-2 requires entities to separate an OTTI of a debt security into two components when there are credit related losses associated with the impaired debt security for which management asserts that it does not have the intent to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of its cost basis. The amount of the other-than-temporary impairment related to a credit loss is recognized in earnings, and the amount of the other-than-temporary impairment related to other factors (the non-credit loss) is recorded in other comprehensive income (loss). FSP FAS 115-2/124-2 is effective for interim and annual periods ending after June 15, 2009. As of the beginning of the interim period of adoption, FSP FAS 115-2/124-2 requires a cumulative-effect adjustment to reclassify the non-credit component of previously recognized other-than-temporary impairment losses from retained earnings to other comprehensive loss. On April 1, 2009, American National adopted FSP FAS 115-2/124-2 which resulted in a cumulative-effect adjustment of \$49,890,000, net of taxes, as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are Not Orderly (FSP FAS 157-4). Under FSP FAS 157-4, if an entity determines that there has been a significant decrease in the volume and level of activity for the asset or the liability in relation to the normal market activity for the asset or liability (or similar assets

or liabilities), then transactions or quoted prices may not accurately reflect fair value. In addition, if there is evidence that the transaction for the asset or liability is not orderly, the entity shall place little, if any weight on that transaction price as an indicator of fair value. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. American National adopted FSP FAS 157-4 on April 1, 2009, and the adoption of this standard did not have a material effect on American National's consolidated financial statements.

Table of Contents

In April 2009, the FASB issued FSP FAS 107-1 and Accounting Principles Board Opinion (APB) 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 require disclosures about fair value of financial instruments in interim and annual financial statements. FSP FAS 107-1 and APB 28-1 are effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. American National adopted FSP FAS 107-1 and APB 28-1 on April 1, 2009 and the adoption of this standard did not have a material effect on American National s consolidated financial statements.

Future Adoption of New Accounting Standards

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS 168). SFAS 168 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP in the United States, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF), and related accounting literature. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. SFAS 168 will not have an impact on American National s consolidated financial statements, other than changes in reference from specific accounting standards to accounting standards codification references.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46R (SFAS 167). SFAS 167 amends FASB Interpretation No. (FIN) 46 (revised December 2003), Consolidation of Variable Interest Entities (FIN 46R) to require an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This statement requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. This standard is effective for fiscal years beginning after November 15, 2009. Accordingly, American National will adopt SFAS 167 in fiscal year 2010 and is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets (SFAS 166). SFAS 166 removes the concept of a qualifying special-purpose entity (QSPE) from SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities (SFAS 140) and removes the exception from applying FIN 46R. This standard also clarifies the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. This standard is effective for fiscal years beginning after November 15, 2009. Accordingly, American National will adopt SFAS 166 in fiscal year 2010 and is currently evaluating the impact of adopting this standard on its consolidated financial statements.

Table of Contents**4. INVESTMENTS**

The amortized cost and estimated fair values of investments in held-to-maturity and available-for-sale securities are shown below (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2009				
Debt Securities				
Bonds held-to-maturity:				
U.S. treasury and other U.S. government corporations and agencies	\$ 21,345	\$ 225	\$ (19)	\$ 21,551
States of the U.S. and political subdivisions of the states	214,603	5,668	(1,696)	218,575
Foreign governments	28,986	2,837		31,823
Corporate debt securities	6,251,024	144,414	(281,547)	6,113,891
Residential mortgage backed securities	722,045	22,129	(29,097)	715,077
Commercial mortgage backed securities	32,609		(25,038)	7,571
Collateralized debt securities	9,447	44	(746)	8,745
Other debt securities	33,098	2,225		35,323
Total bonds held-to-maturity	\$ 7,313,157	\$ 177,542	\$ (338,143)	\$ 7,152,556
Bonds available-for-sale:				
U.S. treasury and other U.S. government corporations and agencies	3,450	491		3,941
States of the U.S. and political subdivisions of the states	582,276	11,623	(6,465)	587,434
Foreign governments	5,000	1,053		6,053
Corporate debt securities	3,230,468	40,047	(233,459)	3,037,056
Residential mortgage backed securities	379,787	8,564	(7,599)	380,752
Collateralized debt securities	26,303	492	(4,077)	22,718
Other debt securities	4,207	106		4,313
Total bonds available-for-sale	\$ 4,231,491	\$ 62,376	\$ (251,600)	\$ 4,042,267
Total debt securities	\$ 11,544,648	\$ 239,918	\$ (589,743)	\$ 11,194,823
Marketable equity securities				
Common stock:				
Consumer goods	147,365	30,234	(8,047)	169,552
Energy & utilities	90,584	33,480	(3,370)	120,694
Finance	106,616	26,601	(6,794)	126,423
Healthcare	86,891	20,780	(4,792)	102,879
Industrials	60,858	12,574	(2,887)	70,545

Edgar Filing: AMERICAN NATIONAL INSURANCE CO /TX/ - Form 10-Q

Information technology	109,655	24,443	(4,700)	129,398
Materials	19,090	3,191	(580)	21,701
Telecommunication services	34,812	3,908	(1,734)	36,986
Mutual funds	83,478	2,911	(762)	85,627
Total common stock	\$ 739,349	\$ 158,122	\$ (33,666)	\$ 863,805
Preferred stock	30,359	3,959	(7,192)	27,126
Total marketable equity securities	\$ 769,708	\$ 162,081	\$ (40,858)	\$ 890,931
Total investments in securities	\$ 12,314,356	\$ 401,999	\$ (630,601)	\$ 12,085,754

Table of Contents

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2008				
Debt Securities				
Bonds held-to-maturity:				
U.S. treasury and other U.S. government corporations and agencies	\$ 11,484	\$ 346	\$	\$ 11,830
States of the U.S. and political subdivisions of the states	155,420	4,485	(1,611)	158,294
Foreign governments	28,975	3,481		32,456
Corporate debt securities	5,602,250	48,963	(532,544)	5,118,669
Residential mortgage backed securities	735,025	13,557	(39,288)	709,294
Commercial mortgage backed securities	32,110		(24,368)	7,742
Collateralized debt securities	39,768	330	(5,274)	34,824
Other debt securities	76,805	81	(1,292)	75,594
Total bonds held-to-maturity	\$ 6,681,837	\$ 71,243	\$ (604,377)	\$ 6,148,703
Bonds available-for-sale:				
U.S. treasury and other U.S. government corporations and agencies	3,462	900		4,362
States of the U.S. and political subdivisions of the states	591,405	6,281	(19,477)	578,209
Foreign governments	5,000	2,332		7,332
Corporate debt securities	3,195,355	29,053	(441,400)	2,783,008
Residential mortgage backed securities	427,460	4,355	(14,618)	417,197
Collateralized debt securities	25,649	133	(4,710)	21,072
Other debt securities	11,229		(1,572)	9,657
Total bonds available-for-sale	\$ 4,259,560	\$ 43,054	\$ (481,777)	\$ 3,820,837
Total debt securities	\$ 10,941,397	\$ 114,297	\$ (1,086,154)	\$ 9,969,540
Marketable equity securities				
Common stock:				
Consumer goods	159,068	23,558	(15,093)	167,533
Energy & utilities	97,103	25,105	(8,889)	113,319
Finance	128,866	17,824	(13,048)	133,642
Healthcare	94,807	21,076	(6,380)	109,503
Industrials	72,360	10,786	(9,618)	73,528
Information technology	111,976	7,910	(15,207)	104,679
Materials	30,725	1,685	(6,886)	25,524
Telecommunication services	39,171	5,359	(3,840)	40,690

Edgar Filing: AMERICAN NATIONAL INSURANCE CO /TX/ - Form 10-Q

Mutual funds		86,832	2,389	(4,109)	85,112
Total common stock	\$	820,908	\$ 115,692	\$ (83,070)	\$ 853,530
Preferred stock		60,718	3,609	(15,505)	48,822
Total marketable equity securities	\$	881,626	\$ 119,301	\$ (98,575)	\$ 902,352
Total investments in securities	\$	11,823,023	\$ 233,598	\$ (1,184,729)	\$ 10,871,892

The net unrealized losses were primarily related to corporate bonds concentrated within the financial services sector. These net unrealized losses were primarily company specific and due to current credit market conditions.

Table of Contents**DEBT SECURITIES**

The amortized cost and estimated fair value, by contractual maturity, of debt securities at June 30, 2009, are shown below (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Bonds Held-to-Maturity		Bonds Available-for-Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 127,596	\$ 124,453	\$ 160,341	\$ 160,027
Due after one year through five years	3,348,029	3,321,556	1,743,430	1,664,582
Due after five years through ten years	3,057,602	2,939,790	1,663,808	1,564,363
Due after ten years	774,080	762,682	653,636	645,364
	\$ 7,307,307	\$ 7,148,481	\$ 4,221,215	\$ 4,034,336
Without single maturity date	5,850	4,075	10,276	7,931
Total	\$ 7,313,157	\$ 7,152,556	\$ 4,231,491	\$ 4,042,267

For the six months ended June 30, 2009, securities with an amortized cost of \$230,000 were transferred from held-to-maturity to available-for-sale due to evidence of a significant deterioration in the issuers' creditworthiness. An unrealized loss of \$136,000 was established at the time of transfer.

At June 30, 2008, there were no carrying value transfers from held-to-maturity to available-for-sale due to evidence of a significant deterioration in the issuers' creditworthiness.

DERIVATIVE INSTRUMENTS

American National purchases derivative contracts that serve as economic hedges against fluctuations in the equity markets to which equity indexed annuity products are exposed. Equity indexed annuities include a fixed host annuity contract and an embedded equity derivative. These derivative instruments are not accounted for as hedging under SFAS 133. The following table details the gain or loss on derivatives related to equity indexed annuities:

Derivatives Not Designated as Hedging Instruments Under FAS Statement 133	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives			
		Three Months Ended June 30, 2009		Six Months Ended June 30, 2009	
Equity Index Options	Investment Income	\$ 1,757	\$ (3,546)	\$ (2,101)	\$ (12,736)
Equity Index Annuity Embedded Derivative	Interest Credited to Policyholders	\$ (3,000)	\$ 4,321	\$ (738)	\$ 14,318

Table of Contents**UNREALIZED GAINS AND LOSSES ON SECURITIES**

Unrealized gains (losses) on marketable equity securities and bonds available-for-sale, presented in the stockholders equity section of the consolidated statements of financial position, are net of deferred tax assets of \$1,608,000 and \$15,731,000 for the periods ended June 30, 2009 and 2008 respectively.

The change in the net unrealized gains (losses) on securities for the six months period ended June 30, 2009 and 2008 are summarized as follows (in thousands):

	2009	2008
Bonds available-for-sale	\$ 249,499	\$ (85,774)
Preferred stocks	8,663	(12,063)
Common stocks	91,834	(153,429)
Amortization of deferred policy acquisition costs	(103,757)	6,791
	246,239	(244,475)
Provision (benefit) for federal income taxes	85,004	(85,516)
	\$ 161,235	\$ (158,959)
Change in unrealized gains (losses) of investments attributable to participating policyholders interest	(5,480)	4,723
Impact of adoption of FSP FAS 115-2 and FAS 124-2	49,890	
Total	\$ 205,645	\$ (154,236)

Table of Contents

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2009 and December 31, 2008, are summarized as follows (in thousands):

	Less than 12 months		12 Months or more		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
June 30, 2009						
Debt Securities						
Bonds held-to-maturity:						
U.S. treasury and other U.S. government corporations and agencies	\$ 19	\$ 4,843	\$	\$	\$ 19	\$ 4,843
States of the U.S. and political subdivisions of the states	883	47,474	813	7,433	1,696	54,907
Corporate debt securities	26,586	522,048	254,961	2,166,474	281,547	2,688,522
Residential mortgage backed securities	338	28,183	28,759	202,439	29,097	230,622
Commercial mortgage backed securities			25,038	7,571	25,038	7,571
Collateralized debt securities	746	5,031			746	5,031
Total bonds held-to-maturity	\$ 28,572	\$ 607,579	\$ 309,571	\$ 2,383,917	\$ 338,143	\$ 2,991,496
Bonds available-for-sale:						
States of the U.S. and political subdivisions of the states	1,663	91,363	4,802	123,366	6,465	214,729
Corporate debt securities	51,660	495,747	181,799	1,357,494	233,459	1,853,241
Residential mortgage backed securities	1,556	28,414	6,043	36,605	7,599	65,019
Collateralized debt securities	599	2,615	3,478	8,463	4,077	11,078
Total bonds available-for-sale	\$ 55,478	\$ 618,139	\$ 196,122	\$ 1,525,928	\$ 251,600	\$ 2,144,067
Total debt securities	\$ 84,050	\$ 1,225,718	\$ 505,693	\$ 3,909,845	\$ 589,743	\$ 5,135,563
Marketable equity securities						
Common stock:						
Consumer goods	7,589	39,882	458	4,202	8,047	44,084
Energy & utilities	2,488	16,450	882	4,623	3,370	21,073
Finance	6,321	44,605	473	2,002	6,794	46,607
Healthcare	3,505	30,825	1,287	8,296	4,792	39,121
Industrials	2,210	14,415	677	3,932	2,887	18,347
Information technology	4,270	26,559	430	3,712	4,700	30,271
Materials	580	5,589			580	5,589
Telecommunications services	1,353	9,138	381	2,631	1,734	11,769
Mutual funds	746	12,410	16	391	762	12,801

Edgar Filing: AMERICAN NATIONAL INSURANCE CO /TX/ - Form 10-Q

Total common stock	\$ 29,062	\$ 199,873	\$ 4,604	\$ 29,789	\$ 33,666	\$ 229,662
Preferred stock	1,288	3,877	5,904	15,196	7,192	19,073
Total marketable equity securities	\$ 30,350	\$ 203,750	\$ 10,508	\$ 44,985	\$ 40,858	\$ 248,735
Total investments in securities	\$ 114,400	\$ 1,429,468	\$ 516,201	\$ 3,954,830	\$ 630,601	\$ 5,384,298

Table of Contents

	Less than 12 months		12 Months or more		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
December 31, 2008						
Debt Securities						
Bonds held-to-maturity:						
U.S. treasury and other U.S. government corporations and agencies	\$	\$	\$	\$	\$	\$
States of the U.S. and political subdivisions of the states	1,571	21,104	40	383	1,611	21,487
Corporate debt securities	280,110	2,685,787	252,434	928,186	532,544	3,613,973
Residential mortgage backed securities	31,471	186,404	7,817	50,425	39,288	236,829
Commercial mortgage backed securities	24,368	7,742			24,368	7,742
Collateralized debt securities	613	4,785	4,661	23,844	5,274	28,629
Other debt securities	1,292	9,566			1,292	9,566
Total bonds held-to-maturity	\$ 339,425	\$ 2,915,388	\$ 264,952	\$ 1,002,838	\$ 604,377	\$ 3,918,226
Bonds available-for-sale:						
States of the U.S. and political subdivisions of the states	15,383	274,191	4,094	35,295	19,477	309,486
Corporate debt securities	247,590	1,683,287	193,810	643,327	441,400	2,326,614
Residential mortgage backed securities	8,067	102,382	6,551	51,327	14,618	153,709
Collateralized debt securities	1,822	10,295	2,888	8,529	4,710	18,824
Other debt securities	1,572	9,657			1,572	9,657
Total bonds available-for-sale	\$ 274,434	\$ 2,079,812	\$ 207,343	\$ 738,478	\$ 481,777	\$ 2,818,290
Total debt securities	\$ 613,859	\$ 4,995,200	\$ 472,295	\$ 1,741,316	\$ 1,086,154	\$ 6,736,516
Marketable equity securities						
Common stock:						
Consumer goods	13,717	66,398	1,376	5,014	15,093	71,412
Energy & utilities	8,203	24,909	686	2,818	8,889	27,727
Finance	12,729	49,150	319	1,190	13,048	50,340
Healthcare	5,177	29,429	1,203	5,826	6,380	35,255
Industrials	9,496	23,880	122	593	9,618	24,473
Information technology	13,859	57,237	1,348	2,583	15,207	59,820
Materials	6,665	15,164	221	456	6,886	15,620
Telecommunications services	3,838	16,570	2	7	3,840	16,577
Mutual funds	4,107	16,775	2	6	4,109	16,781

Total common stock	\$ 77,791	\$ 299,512	\$ 5,279	\$ 18,493	\$ 83,070	\$ 318,005
Preferred stock	1,238	7,853	14,267	31,835	15,505	39,688
Total marketable equity securities	\$ 79,029	\$ 307,365	\$ 19,546	\$ 50,328	\$ 98,575	\$ 357,693
Total investments in securities	\$ 692,888	\$ 5,302,565	\$ 491,841	\$ 1,791,644	\$ 1,184,729	\$ 7,094,209

For all investment securities, including those securities in an unrealized loss position for 12 months or more, American National performs quarterly analyses to determine if an other-than-temporary impairment loss should be recorded for any securities. As of June 30, 2009, the securities above did not meet the criteria for other-than temporary impairment. At June 30, 2009, the unrealized losses were primarily the result of the deterioration in credit spreads as well as the continuance of an illiquid market. There were no delinquent coupon payments attributed to the unimpaired bonds as of June 30, 2009. Even though the duration of the unrealized gain on the securities exceeds one year, American National maintains the intent and ability to hold the securities until either their maturity or their value recovers.

Table of Contents**INVESTMENT INCOME AND REALIZED GAINS (LOSSES)**

Investment income and realized gains (losses) on investments, before federal income taxes, for the three and six months ended June 30, 2009 and 2008 are summarized as follows (in thousands):

	Investment Income		Realized		Investment Income		Realized	
	Three Months Ended		Gains/(Losses)		Six Months Ended		Gains/(Losses)	
	June 30,		Three Months		June 30,		Six Months Ended	
	2009	2008	2009	2008	2009	2008	2009	2008
Bonds	\$ 156,284	\$ 157,063	\$ (2,433)	\$ 3,244	\$ 307,730	\$ 309,391	\$ (3,403)	\$ 3,425
Preferred stocks	1,128	1,747		554	2,066	2,951	(1,620)	554
Common stocks	6,708	8,875	(2)	12,922	12,701	15,256	(818)	13,583
Mortgage loans	34,333	28,351			66,309	53,890		
Real estate	36,706	31,636		145	62,065	55,419		1,739
Other invested assets	10,610	14,183	(49)	515	14,984	17,083	287	
	245,769	241,855	(2,484)	17,380	465,855	453,990	(5,554)	19,301
Investment expenses	(31,105)	(25,987)			(57,995)	(50,534)		
Decrease (increase) in valuation allowances			(190)	(1,816)			(2,507)	(2,170)
Total	\$ 214,664	\$ 215,868	\$ (2,674)	\$ 15,564	\$ 407,860	\$ 403,456	\$ (8,061)	\$ 17,131

OTHER-THAN-TEMPORARY IMPAIRMENT

The following tables summarize other-than-temporary impairments (OTTI) for the periods indicated (in thousands):

	Three Months Ended June		Six Months Ended June 30,	
	2009	2008	2009	2008
Bonds	\$	\$ (16,989)	\$ (5,898)	\$ (16,989)
Common stocks	(6,074)	(2,908)	(67,750)	(10,060)
Mortgage loans			(500)	
Total	\$ (6,074)	\$ (19,897)	\$ (74,148)	\$ (27,049)

As discussed in Note 2, certain OTTI losses on bonds are bifurcated into two components: credit losses and non-credit losses. The net amount recognized in earnings (credit loss impairments) represents the difference between the amortized cost of the bond and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the bond prior to impairment. Any remaining difference between the bond's fair value and amortized cost (non-credit loss impairments) is recognized in other comprehensive income.

Since the adoption of FSP FAS 115-2/124-2 on April 1, 2009 (see Note 2), all OTTI's recognized on bonds were entirely comprised of credit losses. Therefore, during the three months ended June 30, 2009, no non-credit loss was recognized in OCI.

5. CREDIT RISK MANAGEMENT

American National employs a strategy to invest funds at the highest return possible commensurate with sound and prudent investing practices to ensure a well-diversified investment portfolio.

BONDS

Management believes American National's bond portfolio is diversified and of investment grade. The bond portfolio distributed by quality rating at June 30, 2009 and December 31, 2008 is summarized as follows:

	June 30, 2009	December 31, 2008
AAA	13%	17%
AA+	1%	1%
AA	2%	6%
AA-	4%	4%
A+	9%	11%
A	13%	16%
A-	13%	13%
BBB+	14%	11%
BBB	17%	12%
BBB-	7%	4%
BB+ and below	7%	5%
	100%	100%

Table of Contents**COMMON STOCK**

American National's stock portfolio by market sector distribution at June 30, 2009 and December 31, 2008 is summarized as follows:

	June 30, 2009	December 31, 2008
Consumer Goods	20%	20%
Financials	15%	16%
Energy & Utilities	14%	13%
Information Technology	15%	13%
Health Care	12%	13%
Mutual Funds	10%	10%
Industrials	8%	8%
Communications	4%	5%
Materials	2%	2%
	100%	100%

MORTGAGE LOANS AND INVESTMENT REAL ESTATE

American National invests primarily in the commercial sector in areas that offer the potential for property value appreciation. Generally, mortgage loans are secured by first liens on income-producing real estate.

Mortgage loans and investment real estate by property type distribution at June 30, 2009 and December 31, 2008 are summarized as follows:

	Mortgage Loans		Investment Real Estate	
	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
Office Buildings	29%	30%	18%	18%
Industrial	28%	25%	42%	45%
Shopping Centers	19%	21%	23%	23%
Hotels/Motels	16%	17%	2%	2%
Other	5%	4%	13%	11%
Commercial	3%	3%	2%	1%
	100%	100%	100%	100%

American National has a diversified portfolio of mortgage loans and real estate properties. Mortgage loans and real estate investments by geographic distribution at June 30, 2009 and December 31, 2008 are as follows:

	Mortgage Loans		Investment Real Estate	
	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
West South Central	23%	22%	63%	64%
East North Central	20%	22%	8%	6%
South Atlantic	16%	17%	15%	16%
Pacific	11%	13%	3%	2%

Edgar Filing: AMERICAN NATIONAL INSURANCE CO /TX/ - Form 10-Q

Middle Atlantic	9%	10%		
Mountain	5%	5%	1%	1%
New England	5%	5%		
East South Central	7%	4%	9%	10%
West North Central	4%	2%	1%	1%
	100%	100%	100%	100%

Table of Contents**6. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amounts and estimated fair values of financial instruments at June 30, 2009 and December 31, 2008 are as follows (in thousands):

	June 30, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Fixed maturities				
Held-to-maturity:				
U.S. treasury and other U.S. government corporations and agencies	\$ 21,345	\$ 21,551	\$ 11,484	\$ 11,830
States of the U.S. and political subdivisions of the states	214,603	218,575	155,420	158,294
Foreign governments	28,986	31,823	28,975	32,456
Corporate debt securities	6,251,024	6,113,891	5,602,250	5,118,669
Residential mortgage backed securities	722,045	715,077	735,025	709,294
Commercial mortgage backed securities	32,609	7,571	32,110	7,742
Collateralized debt securities	9,447	8,745	39,768	34,824
Other debt securities	33,098	35,323	76,805	75,594
Total fixed maturities, held-to-maturity	\$ 7,313,157	\$ 7,152,556	\$ 6,681,837	\$ 6,148,703
Available-for-sale:				
U.S. treasury and other U.S. government corporations and agencies	3,941	3,941	4,362	4,362
States of the U.S. and political subdivisions of the states	587,434	587,434	578,209	578,209
Foreign governments	6,053	6,053	7,332	7,332
Corporate debt securities	3,037,056	3,037,056	2,783,008	2,783,008
Residential mortgage backed securities	380,752	380,752	417,197	417,197
Collateralized debt securities	22,718	22,718	21,072	21,072
Other debt securities	4,313	4,313	9,657	9,657
Total fixed maturities, available-for-sale	\$ 4,042,267	\$ 4,042,267	\$ 3,820,837	\$ 3,820,837
Total fixed maturities	\$ 11,355,424	\$ 11,194,823	\$ 10,502,674	\$ 9,969,540
Marketable equity securities				
Common stock:				
Consumer Goods	169,552	169,552	167,533	167,533
Energy & Utilities	120,694	120,694	113,319	113,319
Finance	126,423	126,423	133,642	133,642
Healthcare	102,879	102,879	109,503	109,503
Industrials	70,545	70,545	73,528	73,528
Information Technology	129,398	129,398	104,679	104,679
Materials	21,701	21,701	25,524	25,524
Mutual Funds	85,627	85,627	85,112	85,112

Edgar Filing: AMERICAN NATIONAL INSURANCE CO /TX/ - Form 10-Q

Telecommunication Services	36,986	36,986	40,690	40,690
Preferred stock	27,126	27,126	48,822	48,822
Total marketable equity securities	\$ 890,931	\$ 890,931	\$ 902,352	\$ 902,352
Options	9,996	9,996	6,157	6,157
Mortgage loans on real estate	2,003,300	1,996,051	1,877,053	1,891,895
Policy loans	357,289	357,289	354,398	354,398
Short-term investments	456,332	456,332	295,170	295,170
Total financial assets	\$ 15,073,272	\$ 14,905,422	\$ 13,937,804	\$ 13,419,512
Financial Liabilities:				
Investment contracts	7,372,671	7,372,671	6,626,561	6,626,561
Liability for embedded derivatives of equity indexed annuities	10,268	10,268	6,208	6,208
Notes payable	110,493	110,493	111,922	111,922
Total financial liabilities	\$ 7,493,432	\$ 7,493,432	\$ 6,744,691	\$ 6,744,691

Table of Contents

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability. A fair value hierarchy is used to determine fair value based on a hypothetical transaction at the measurement date from the perspective of a market participant. An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities. American National defines active markets based on average trading volume for equity securities. The size of the bid/ask spread is used as an indicator of market activity for fixed maturity securities.
- Level 2 Quoted prices in markets that are not active or inputs that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities other than quoted prices in Level 1; quoted prices in markets that are not active; or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Unobservable inputs reflect American National's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models and third-party evaluation, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

American National has analyzed the third-party pricing services valuation methodologies and related inputs, and has also evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Based on the results of this evaluation and investment class analysis, each price was classified into Level 1, 2, or 3.

American National utilizes a pricing service to estimate fair value measurements for approximately 99.0% of fixed maturity securities. The pricing service utilizes market quotations for fixed maturity securities that have quoted prices in active markets. Since fixed maturities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements for these securities using its proprietary pricing applications which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. Additionally, the pricing service uses an Option Adjusted Spread model to develop prepayment and interest rate scenarios.

The pricing service evaluates each asset class based on relevant market information, relevant credit information, perceived market movements and sector news. The market inputs utilized in the pricing evaluation, listed in the approximate order of priority, include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and economic events. The extent of the use of each market input depends on the asset class and the market conditions. Depending on the security, the priority of the use of inputs may change or some market inputs may not be relevant. For some securities additional inputs may be necessary.

American National has reviewed the inputs and methodology used by the pricing service and the techniques applied by the pricing service to produce quotes that represent the fair value of a specific security. The review of the pricing service's methodology confirms the service is utilizing information from organized transactions or a technique that represents a market participant's assumptions. American National does not adjust quotes received by the pricing service.

The pricing service utilized by American National has indicated that it will only produce an estimate of fair value if there is objectively verifiable information available. If the pricing service discontinues pricing an investment, American National would be required to produce an estimate of fair value using some of the same methodologies as the pricing service, but would have to make assumptions for market based inputs that are unavailable due to market conditions.

The fair value estimates of most fixed maturity investments including municipal bonds are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturities provided by the pricing service are included in the amount disclosed in Level 2 of the hierarchy.

Additionally, American National holds a small amount of fixed maturities that have characteristics that make them unsuitable for matrix pricing. For these fixed securities, a quote from a broker (typically a market maker) is obtained. Due to the disclaimers on the quotes that indicate that the price is indicative only, American National includes these fair value estimates in Level 3. The pricing of certain private placement debt also includes significant non-observable inputs, the internally determined credit rating of the security and an externally provided credit spread, and are classified in Level 3.

Table of Contents

For public common and preferred stocks, American National receives prices from a nationally recognized pricing service that are based on observable market transactions and these securities are disclosed in Level 1. For certain preferred stock held, current market quotes in active markets are unavailable. In these instances, American National receives an estimate of fair value from the pricing service that provides fair value estimates for the fixed maturity securities. The service utilizes some of the same methodologies to price the preferred stocks as it does for the fixed maturities. These estimates for equity securities are disclosed in Level 2.

Some assets and liabilities do not fit the hierarchical model for determining fair value. For policy loans, the carrying amount approximates their fair value, because the policy loans cannot be separated from the policy contract. The fair value of investment contract liabilities is determined in accordance with GAAP rules on insurance products and is estimated using a discounted cash flow model, assuming the companies' current interest rates on new products. The carrying value for these contracts approximates their fair value. The carrying amount for notes payable approximates their fair value.

The following table provides quantitative disclosures regarding fair value hierarchy measurements of our financial assets and liabilities at June 30, 2009 (in thousands):

	Fair Value at June 30, 2009	Fair Value Measurement at June 30, 2009 Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Fixed maturities				
Held-to-maturity:				
U.S. treasury and other U.S. government corporations and agencies	\$ 21,551	\$	\$ 21,551	\$
States of the U.S. and political subdivisions of the states	218,575		218,575	
Foreign governments	31,823		31,823	
Corporate debt securities	6,113,891		6,106,786	7,105
Residential mortgage backed securities	715,077		711,556	3,521
Commercial mortgage backed securities	7,571		7,571	
Collateralized debt securities	8,745		834	7,911
Other debt securities	35,323		35,323	
Total fixed maturities, held-to-maturity	\$ 7,152,556	\$	\$ 7,134,019	\$ 18,537
Available-for-sale:				
U.S. treasury and other U.S. government corporations and agencies	3,941		3,941	
States of the U.S. and political subdivisions of the states	587,434		587,434	
Foreign governments	6,053		6,053	
Corporate debt securities	3,037,056		3,020,421	16,635
Residential mortgage backed securities	380,752		380,734	18

Edgar Filing: AMERICAN NATIONAL INSURANCE CO /TX/ - Form 10-Q

Commercial mortgage backed securities				
Collateralized debt securities	22,718		10,252	12,466
Other debt securities	4,313		4,313	
Total fixed maturities, available-for-sale	\$ 4,042,267	\$	\$ 4,013,148	\$ 29,119
Total fixed maturities	\$ 11,194,823	\$	\$ 11,147,167	\$ 47,656
Marketable equity securities				
Common stock:				
Consumer Goods	169,552	169,552		
Energy & Utilities	120,694	120,694		
Finance	126,423	126,423		
Healthcare	102,879	102,879		
Industrials	70,545	70,545		
Information Technology	129,398	129,398		
Materials	21,701	21,701		
Mutual Funds	85,627	85,627		
Telecommunication Services	36,986	36,986		
Preferred stock	27,126	26,364		762
Total marketable equity securities	\$ 890,931	\$ 890,169	\$	\$ 762
Options	9,996			9,996
Mortgage loans on real estate	1,996,051		1,996,051	
Short-term investments	456,332		456,332	
Total financial assets	\$ 14,548,133	\$ 890,169	\$ 13,599,550	\$ 58,414
Financial Liabilities:				
Liability for embedded derivatives of equity indexed annuities	\$ 10,268	\$	\$	\$ 10,268

Table of Contents

	Fair Value at December 31, 2008	Fair Value Measurement at December 31, 2008 Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Fixed maturities				
Held-to-maturity:				
U.S. treasury and other U.S. government corporations and agencies	\$ 11,830	\$	\$ 11,830	\$
States of the U.S. and political subdivisions of the states	158,294		158,294	
Foreign governments	32,456		32,456	
Corporate debt securities	5,118,669		5,111,068	7,601
Residential mortgage backed securities	709,294		705,491	3,803
Commercial mortgage backed securities	7,742		7,742	
Collateralized debt securities	34,824		26,117	8,707
Other debt securities	75,594		75,584	10
Total fixed maturities, held-to-maturity	\$ 6,148,703	\$	\$ 6,128,582	\$ 20,121
Available-for-sale:				
U.S. treasury and other U.S. government corporations and agencies	4,362		4,362	
States of the U.S. and political subdivisions of the states	578,209		578,209	
Foreign governments	7,332		7,332	
Corporate debt securities	2,783,008		2,752,640	30,368
Residential mortgage backed securities	417,197		407,754	9,443
Commercial mortgage backed securities				
Collateralized debt securities	21,072		18,062	3,010
Other debt securities	9,657		9,657	
Total fixed maturities, available-for-sale	\$ 3,820,837	\$	\$ 3,778,016	\$ 42,821
Total fixed maturities	\$ 9,969,540	\$	\$ 9,906,598	\$ 62,942
Marketable equity securities				
Common stock:				
Consumer Goods	167,533	167,533		

Energy & Utilities	113,319	113,319		
Finance	133,642	133,642		
Healthcare	109,503	109,503		
Industrials	73,528	73,528		
Information Technology	104,679	104,679		
Materials	25,524	25,524		
Mutual Funds	85,112	85,112		
Telecommunication Services	40,690	40,690		
Preferred stock	48,822	27,566		21,256
Total marketable equity securities	\$ 902,352	\$ 881,096	\$	\$ 21,256
Options	6,157			6,157
Mortgage loans on real estate	1,891,895		1,891,895	
Short-term investments	295,170		295,170	
Total financial assets	\$ 13,065,114	\$ 881,096	\$ 12,093,663	\$ 90,355
Financial Liabilities:				
Liability for embedded derivatives of equity indexed annuities	\$ 6,208	\$	\$	\$ 6,208

Table of Contents

For assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period, a reconciliation of the beginning and ending balances, is as follows (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs Level 3 Totals
Beginning Balance January 1, 2009	\$ 84,148
Net losses included in other comprehensive income (loss)	(1,656)
Net fair value change for derivatives included in net income (loss)	(4,300)
Purchases, sales, and settlements of derivatives (net)	4,441
Transfers into Level 3	175
Transfers (out) of Level 3	(34,662)
Ending balance June 30, 2009	48,146

The unrealized loss for the six months ended June 30, 2009 of Level 3 assets was \$1,656,000. There were no unrealized gains in Level 3 assets at June 30, 2009.

The transfers into Level 3 were the result of securities no longer being priced by the third-party pricing service. As the securities were priced by a third-party service, inputs were used that are observable or derived from market data which resulted in classification of these assets as Level 2. In accordance with American National's pricing methodology, these securities are being valued with similar techniques as the pricing service; however, company developed data is used in the process, which results in unobservable inputs, and a corresponding transfer into Level 3. The transfers out of level 3 were comprised of \$13.0 million of sales, \$20.8 million of maturities, and \$0.9 of transfers into Level 2.

Table of Contents**7. DEFERRED POLICY ACQUISITION COSTS**

Deferred policy acquisition costs as of June 30, 2009 and December 31, 2008, and premiums for the six month periods ended June 30, 2009 and 2008 are summarized as follows (in thousands):

	Life & Annuity	Accident & Health	Property & Casualty	Total
Balance at December 31, 2008	\$ 1,269,308	\$ 74,870	\$ 138,486	\$ 1,482,664
Additions	99,964	8,101	140,503	248,568
Amortization	(68,826)	(11,940)	(133,773)	(214,539)
Effect of change in unrealized loss on available-for-sale securities	(103,757)			(103,757)
Net change	(72,619)	(3,839)	6,730	(69,728)
Balance at June 30, 2009	\$ 1,196,689	\$ 71,031	\$ 145,216	\$ 1,412,936
Premiums for the six months ended:				
June 30, 2009	\$ 226,175	149,573	568,916	\$ 944,664
June 30, 2008	\$ 218,660	145,077	593,194	\$ 956,931

Commissions comprise the majority of the additions to deferred policy acquisition costs for each year.

8. LIABILITY FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

Activity in the liability for accident and health and property and casualty unpaid claims and claim adjustment expenses is summarized as shown below (in thousands):

	2009	2008
Balance at January 1	\$ 1,310,272	\$ 1,256,698
Less reinsurance recoverables	377,692	363,140
Net beginning balance	932,580	893,558
Incurred related to:		
Current year	599,573	622,266
Prior years	(6,165)	(31,216)
Total incurred	593,408	591,050
Paid related to:		
Current year	293,295	316,917
Prior years	270,953	243,648
Total paid	564,248	560,565
Net balance at June 30	961,740	924,043
Plus reinsurance recoverables	283,519	353,634

Balance at June 30 **\$ 1,245,259** **\$ 1,277,677**

The balances at June 30 are included in policy and contract claims in the consolidated statements of financial position.

Table of Contents

The potential uncertainty generated by volatility in loss development profiles is adjusted for through the selection of loss development factor patterns for each line of insurance. The net and gross reserve calculations have shown redundancies for the last several years as a result of losses emerging favorably compared to what was implied by the loss development patterns used in the original estimation of losses in prior years. Estimates for ultimate incurred losses and loss adjustment expenses attributable to insured events of prior years decreased by approximately \$6,000,000 for the six months ended June 30, 2009 and \$31,000,000 for the same period in 2008.

9. NOTES PAYABLE

At June 30, 2009 and December 31, 2008, American National's real estate holding companies were partners in affiliates that had notes payable to third-party lenders totaling \$110,493,000 and \$111,922,000, respectively. These notes have interest rates ranging from 5.15% to 8.07% and maturities from 2010 to 2014. Each note is secured by the real estate owned through the respective affiliated entity, and American National's liability for these notes are limited to the amount of its investment in the respective affiliate, which totaled \$13,255,000 and \$13,226,000 at June 30, 2009 and December 31, 2008, respectively.

10. FEDERAL INCOME TAXES

The federal income tax provisions vary from the amounts computed when applying the statutory federal income tax rate. A reconciliation of the effective tax rate of the companies to the statutory federal income tax rate for the three and six months ended June 30, 2009 and 2008 is as follows (in thousands, except percentages):

	Three Months Ended				Six Months Ended			
	June 30,		June 30,		June 30,		June 30,	
	2009	2008	2009	2008	2009	2008	2009	2008
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Income tax on pre-tax income	\$ (4,382)	35.0%	\$ (4,579)	35.0%	\$ (31,255)	35.0%	\$ 10,451	35.0%
Tax-exempt investment income	(2,381)	2.7	(2,265)	(7.6)	(4,704)	5.3	(4,312)	(14.4)
Dividend exclusion	(1,692)	1.9	(5,406)	(18.1)	(6,422)	7.2	(7,092)	(23.8)
Miscellaneous tax credits, net	(1,635)	1.8	(1,758)	(5.9)	(3,186)	3.6	(2,398)	(8.0)
Other items, net	(686)	0.8	3,366	10.0	3,768	(4.2)	2,544	8.5
	\$ (10,776)	42.2%	\$ (10,642)	13.4%	\$ (41,799)	46.9%	\$ (807)	(2.7)%

Table of Contents

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 2009 and December 31, 2008 are as follows (in thousands):

	June 30, 2009	December 31, 2008
DEFERRED TAX ASSETS:		
Marketable securities, principally due to impairment losses	\$ 120,814	\$ 138,487
Marketable securities, principally due to net unrealized (gains) losses	24,049	146,192
Investment in real estate and other invested assets, principally due to investment valuation allowances	1,870	1,279
Policyholder funds, principally due to policy reserve discount	192,726	187,277
Policyholder funds, principally due to unearned premium reserve	32,004	30,716
Non-qualified pension	28,532	27,630
Participating policyholders surplus	27,673	28,615
Pension	37,326	36,968
Commissions and other expenses	19,626	24,395
Other assets		8,518
Net deferred tax assets	\$ 484,620	\$ 630,077
DEFERRED TAX LIABILITIES:		
Investment in bonds, principally due to accrual of discount on bonds	(10,865)	(18,221)
Deferred policy acquisition costs, due to difference between GAAP and tax amortization methods	(371,498)	(410,970)
Property, plant and equipment, principally due to difference between GAAP and tax depreciation methods	(4,075)	(5,377)
Other liabilities	(840)	
Net deferred tax liabilities	(387,278)	(434,568)
Total deferred tax	\$ 97,342	\$ 195,508

In the second quarter of 2009, American National removed a \$25,000,000 valuation allowance that was established in the first quarter of 2009. The valuation allowance was removed as a result of a decrease in unrealized losses in the investment portfolio. The change in the valuation allowance is included in Accumulated Other Comprehensive Income in the Consolidated Statements of Financial Position.

American National implemented FIN No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. Related interest expense is included with the Other operating costs and expenses in the Consolidated Statements of Income. No interest expense has been incurred during the six months ended June 30, 2009, while \$94,000 in interest was recognized during the six months ended June 30, 2008. No provision has provided for penalties related to American National's uncertain tax positions.

The statute of limitations for the examination of federal income tax returns by the Internal Revenue Service for years 2005 to 2008 has either been extended or has not expired. In the opinion of management, all prior year deficiencies have been paid or adequate provisions have been made for any tax deficiencies that may be upheld.

Table of Contents**11. COMPONENTS OF COMPREHENSIVE INCOME (LOSS)**

The items included in comprehensive income (loss), other than net income (loss), are unrealized gains and losses on available-for-sale securities (net of deferred acquisition costs), foreign exchange adjustments and pension liability adjustments. The details on the unrealized gains and losses included in comprehensive income (loss), and the related tax effects thereon, are as follows (in thousands):

	Before Federal Income Tax	Federal Income Tax Expense	Net of Federal Income Tax
June 30, 2009			
Unrealized gain (loss)	\$ 349,995	\$ 92,685	\$ 257,310
Less: reclassification adjustment for net losses realized in net income	(79,484)	(27,819)	(51,665)
Net unrealized gain component of comprehensive income	\$ 270,511	\$ 64,866	\$ 205,645
June 30, 2008			
Unrealized gain (loss)	\$ (251,266)	\$ (103,199)	\$ (148,067)
Less: reclassification adjustment for net losses realized in net income	(9,490)	(3,321)	(6,169)
Net unrealized loss component of comprehensive income	\$ (260,756)	\$ (106,520)	\$ (154,236)

12. STOCKHOLDERS EQUITY AND NONCONTROLLING INTERESTS**Common Stock**

American National has only one class of common stock with a par value of \$1.00 per share and 50,000,000 authorized shares. The amounts outstanding at the dates indicated were as follows:

	June 30, 2009	December 31, 2008	June 30, 2008
Common Stock			
Shares issued	30,832,449	30,832,449	30,832,449
Treasury shares	4,012,283	4,013,616	4,013,616
Restricted shares	321,334	339,001	339,001
Unrestricted outstanding shares	26,498,832	26,479,832	26,479,832

Stock-Based Compensation

American National has one stock-based compensation plan. Under this plan, American National can grant Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Performance Awards, Incentive Awards and any combination of these. The number of shares available for grants under the plan cannot exceed 2,900,000 shares, and no more than 200,000 shares may be granted to any one individual in any calendar year. The plan provides for the award of Restricted Stock. Restricted Stock awards entitle the participant to full dividend and voting rights. Unvested shares are restricted as to disposition, and are subject to forfeiture under certain circumstances. Compensation expense is recognized over the vesting period. The restrictions on these awards lapse after 10 years and feature a graded vesting schedule in the case of the retirement of an award holder. Seven awards of restricted stock have been granted, with a total of 321,000 shares granted at an exercise price of zero. These awards result in compensation expense to American National over the vesting period. The amount of compensation expense

recorded was \$1,516,000 for the six months ended June 30, 2009 and \$2,694,000 for the 12 months ended December 31, 2008.

Table of Contents

The plan provides for the award of Stock Appreciation Rights (SAR). The SARs give the holder the right to compensation based on the difference between the price of a share of stock on the grant date and the price on the exercise date. The SARs vest at a rate of 20% per year for 5 years and expire 5 years after the vesting period. American National uses the average of the high and low price on the last trading day of the period to calculate the fair value and compensation expense for SARs. The fair value of the SARs was \$22,000 at June 30, 2009 and \$16,000 at December 31, 2008. Compensation expense or (income) was recorded totaling \$7,000 for the six months ended June 30, 2009 and (\$1,777,000) for the year ended December 31, 2008.

SAR and Restricted Stock (RS) information for June 30, 2009 and December 31, 2008 and 2007 are as follows:

	SAR Shares	SAR Weighted- Average Price per Share	RS Shares	RS Weighted- Average Price per Share
Outstanding at December 31, 2007	96,724	\$ 97.84	253,000	\$ 4.40
Granted	96,917	115.92	86,001	
Exercised	(4,109)	81.30		
Canceled				
Outstanding at December 31, 2008	189,532	\$ 107.44	339,001	\$ 3.28
Granted	2,999	66.76	1,333	
Exercised	(100)	57.00	(19,000)	
Canceled	(6,630)	107.45		
Outstanding at June 30, 2009	185,801	\$ 106.81	321,334	\$

The weighted-average contractual remaining life for the 185,801 SAR shares outstanding as of June 30, 2009, is 7.1 years. The weighted-average exercise price for these shares is \$106.81 per share. Of the shares outstanding, 88,218 are exercisable at a weighted-average exercise price of \$100.80 per share.

The weighted-average contractual remaining life for the 321,334 Restricted Stock shares outstanding as of June 30, 2009, is 5.3 years. The weighted-average exercise price for these shares is \$0 per share. None of the shares outstanding was exercisable.

Earnings (Loss) Per Share

Basic earnings per share was calculated using a weighted average number of shares outstanding of 26,498,832 at June 30, 2009 and 26,479,832 at December 31, and June 30, 2008. The Restricted Stock resulted in diluted earnings per share as follows for the year 2008. Due to the net losses incurred in 2009 and 2008, diluted earnings per share are equal to basic earnings per share.

	June 30, 2009	December 31, 2008	June 30, 2008
Unrestricted shares outstanding	26,498,832	26,479,832	26,479,832
Incremental shares from restricted stock	100,718	137,625	166,176
Total shares for diluted calculations	26,599,550	26,617,457	26,646,008
Diluted earnings (losses) per share	\$ (1.96)	\$ (5.82)	\$ 1.35

Dividends

American National's payment of dividends to stockholders is restricted by statutory regulations. Generally, the restrictions require life insurance companies to maintain minimum amounts of capital and surplus, and in the absence of special approval, limit the payment of dividends to the greater of statutory net gain from operations on an annual, non-cumulative basis, or 10% of statutory surplus. Additionally, insurance companies are not permitted to distribute the excess of stockholders' equity, as determined on a GAAP basis over that determined on a statutory basis. At June 30, 2009 and December 31, 2008, American National's statutory capital and surplus was \$1,757,110,000 and \$1,804,712,000, respectively.

Generally, the same restrictions on amounts that can transfer in the form of dividends, loans, or advances apply to American National's insurance subsidiaries.

Table of Contents

At June 30, 2009, approximately \$1,297,599,000 of American National's consolidated stockholders' equity represents net assets of its insurance subsidiaries, compared to \$1,297,226,000 at December 31, 2008. Any transfer of these net assets to American National would be subject to statutory restrictions and approval.

Noncontrolling Interests

American National County Mutual Insurance Company (County Mutual) is a mutual insurance company that is owned by its policyholders. However, the company has a management agreement which effectively gives complete control of County Mutual to American National. As a result, County Mutual is included in the consolidated financial statements. The interest that the policyholders of County Mutual have in the financial position of County Mutual is reflected as a noncontrolling interest totaling \$6,750,000 at June 30, 2009 and December 31, 2008.

American National's subsidiary, ANTAC, Inc., is a partner in various joint ventures. ANTAC exercises significant control or ownership of these joint ventures, resulting in their consolidation into the American National consolidated financial statements. As a result of the consolidation, the interest of the other partners of the joint ventures is shown as a minority interest. Noncontrolling interests were a net liability of \$1,193,000 and \$1,627,000 at June 30, 2009 and December 31, 2008, respectively.

13. SEGMENT INFORMATION

American National and its subsidiaries are engaged principally in the insurance business. Management organizes the business into five operating segments:

The Life segment markets whole, term, universal, variable and credit life insurance on a national basis primarily through employee, independent and multiple line agents, direct marketing channels and independent third-party marketing organizations.

The Annuity segment develops, sells and supports fixed, equity-indexed, and variable annuity products. These products are primarily sold through independent agents and brokers, but are also sold through employee agents, financial institutions and multiple line agents.

The Health segment's primary lines of business are Medicare Supplement, medical expense, employer medical stop loss, true group, other supplemental health products and credit disability insurance. Health products are typically distributed through employee agents, exclusive agents, independent agents and Managing General Underwriters.

The Property and Casualty segment writes auto, homeowners, agribusiness, and other personal and commercial insurance. These products are primarily sold through multiple line exclusive agents. Credit related property insurance is also written through independent agents.

The Corporate and Other business segment consists of net investment income on the capital not allocated to the insurance lines and the operations of non-insurance lines of business. This segment also provides mutual fund products.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Many of the principal factors that drive the profitability of each operating segment are separate and distinct. All income and expense amounts specifically attributable to policy transactions are recorded directly to the appropriate operating segment. Income and expenses not specifically attributable to policy transactions are allocated to each segment as follows:

Net investment income from fixed income assets (bonds and mortgage loans) is allocated based on the funds generated by each line of business at the average yield available from these fixed income assets at the time such funds become available.

Net investment income from all other assets is allocated to the operating segments in accordance with the amount of equity invested in each segment, with the remainder going to Corporate and Other.

Expenses are allocated to the lines based upon various factors, including premium and commission ratios within the respective operating segments.

Realized gains or losses on investments are all allocated to Corporate and Other. The insurance segments are assessed a default charge, as a reduction to their investment income on a monthly basis, to compensate the Corporate and Other segment for any realized losses incurred on the assets supporting the insurance business.

Table of Contents

Equity in earnings of unconsolidated affiliates are allocated to Corporate and Other.

Federal income taxes have been applied to the net earnings of each segment based on a fixed tax rate. Any difference between the amount allocated to the segments and the total federal income tax amount is allocated to Corporate and Other.

Segment operating income provides pertinent and advantageous information to investors, as it represents the basis on which American National's business performance is internally assessed by its chief operating decision makers. During the third quarter of 2008, the chief operating decision makers redefined the segment reporting structure to better align it with their current processes for assessing business performance and allocating resources. In previous financial reporting periods, operating segments were aggregated based on marketing distribution channels. In accordance with the performance measurements used by the chief operating decision makers, the segment reporting has been reorganized into five operating segments according to the type of insurance products sold or services rendered. The segment reporting for prior periods has been restated to reflect the change in business segments.

The following tables summarize American National's key financial measures used by the chief operating decision makers, including operating results and allocation of assets as of and for the six months ended June 30, 2009 and 2008 (in thousands):

<i>(Six Months Ended June 30, 2009)</i>	Life	Annuity	Health	Property & Casualty	Corporate & Other	TOTAL
Premiums and other revenues:						
Premiums	\$ 135,318	\$ 90,857	\$ 149,573	\$ 568,916	\$	\$ 944,664
Other policy revenues	80,851	7,597				88,448
Net investment income	110,786	212,644	8,049	33,770	42,611	407,860
Other income	920	2,463	5,028	4,452	8,161	21,024
Total operating revenues	327,875	313,561	162,650	607,138	50,772	1,461,996
Realized investment gains (losses)					(82,209)	(82,209)
Total revenues	327,875	313,561	162,650	607,138	(31,437)	1,379,787
Benefits, losses and expenses:						
Policy benefits	146,266	106,808	121,766	491,845		866,685
Interest credited to policy account balances	30,208	147,094				177,302
Commissions for acquiring and servicing policies	43,690	55,983	22,812	105,105		227,590
Other operating costs and expenses	90,712	29,283	31,567	59,483	20,495	231,540
Decrease (increase) in deferred policy acquisition costs	329	(31,467)	3,839	(6,730)		(34,029)
Total benefits, losses and expenses	311,205	307,701	179,984	649,703	20,495	1,469,088
Income (loss) before other items and federal income taxes	\$ 16,670	\$ 5,860	\$ (17,334)	\$ (42,565)	\$ (51,932)	\$ (89,301)

<i>(Six Months Ended June 30, 2008)</i>	Life	Annuity	Health	Property & Casualty	Corporate & Other	TOTAL
---	-------------	----------------	---------------	--	----------------------------------	--------------

				Property & Casualty	Corporate & Other	
Premiums and other revenues:						
Premiums	\$ 147,014	\$ 71,646	\$ 145,077	\$ 593,194	\$	\$ 956,931
Other policy revenues	74,696	10,749				85,445
Net investment income	112,654	180,598	8,233	38,947	63,024	403,456
Other income (loss)	1,781	(3,044)	6,686	4,388	9,917	19,728
Total operating revenues	336,145	259,949	159,996	636,529	72,941	1,465,560
Realized investment gains (losses)					(9,918)	(9,918)
Total revenues	336,145	259,949	159,996	636,529	63,023	1,455,642
Benefits, losses and expenses:						
Policy benefits	145,867	85,704	115,050	497,119		843,740
Interest credited to policy account balances	32,030	111,059				143,089
Commissions for acquiring and servicing policies	72,404	49,967	20,599	114,618		257,588
Other operating costs and expenses	104,950	22,472	29,817	58,881	34,594	250,714
Decrease (increase) in deferred policy acquisition costs	(39,200)	(23,929)	3,138	(9,357)		(69,348)
Total benefits, losses and expenses	316,051	245,273	168,604	661,261	34,594	1,425,783
Income (loss) before other items and federal income taxes	\$ 20,094	\$ 14,676	\$ (8,608)	\$ (24,732)	\$ 28,429	\$ 29,859

Table of Contents**14. COMMITMENTS AND CONTINGENCIES**

In the ordinary course of their operations, American National had commitments outstanding at June 30, 2009, to purchase, expand or improve real estate, to fund mortgage loans, and to purchase other invested assets aggregating \$262,909,000, of which \$244,631,000 is expected to be funded in 2009. The remaining balance of \$18,278,000 will be funded in 2010 and beyond. As of June 30, 2009, all of the mortgage loan commitments have interest rates that are fixed.

Guarantees

In the normal course of business, American National has guaranteed bank loans for customers of a third-party marketing operation. The bank loans are used to fund premium payments on life insurance policies issued by American National. The loans are secured by the cash values of the life insurance policies. If the customer were to default on the bank loan, American National would be obligated to pay off the loan. However, since the cash value of the life insurance policies always equals or exceeds the balance of the loans, management does not foresee any loss on the guarantees. The total amount of the guarantees outstanding as of June 30, 2009, was approximately \$206,513,000, while the total cash values of the related life insurance policies was approximately \$207,961,000.

Litigation

American National was a defendant in a lawsuit related to the alleged inducement of another company's insurance agents to become agents of American National (*Farm Bureau Life Insurance Company and Farm Bureau Mutual Insurance Company v. American National Insurance Company et al.*, D. Utah, filed July 23, 2003). Plaintiffs initially alleged that American National improperly induced agents to leave Plaintiffs and join American National, asserting claims against American National for inducing one of Plaintiffs' managers to breach duties allegedly owed to Plaintiffs as well as claims against American National for misappropriation of trade secrets, tortious interference with contractual relationships, business disparagement, libel, defamation, civil conspiracy, unjust enrichment and unfair competition. By the time of trial, some claims had been dismissed; however, Plaintiffs' surviving claims continued to allege that their damages from the wrongful conduct exceeded \$3.9 million, and Plaintiffs also sought punitive damages. The jury reached a verdict adverse to American National, and the court reduced the amount of such verdict as to American National to approximately \$7.1 million. An appeal has been taken to the Tenth Circuit. American National has accrued an appropriate amount for resolution of this case, including attorneys' fees, and believes that any additional amounts necessary will not be material to the consolidated financial statements.

American National is a defendant in a lawsuit which proposed to certify one or more classes of persons who contend that American National allegedly violated various provisions of the Fair Labor Standards Act and the California Labor Code, engaged in unfair business practices, fraud and deceit, conversion, and negligent misrepresentation with respect to certain of its sales agents (*Dulanto v. American National Insurance Company*, C.D. Cal., filed October 31, 2008). Upon Plaintiff's motion, the Court dismissed the class allegations in this lawsuit leaving only the Plaintiff's individual claims against the company. The plaintiff seeks statutory penalties, restitution, interest, penalties, attorneys' fees, punitive damages and injunctive relief in an unspecified amount. The parties reached an agreement to resolve the remaining claims in this lawsuit and are in the process of finalizing those documents. American National believes that it has meritorious defenses. At this time, however, no prediction can be made as to the probability or remoteness of any recovery against American National.

American National is a defendant in a putative class action lawsuit wherein the Plaintiff proposes to certify a class of persons who purchased certain American National proprietary deferred annuity products (*Rand v. American National Insurance Company*, N.D. Cal., filed February 12, 2009). Plaintiff alleges that American National violated the California Insurance, Business & Professions, Welfare & Institutions, and Civil Codes through its marketing practices. Plaintiff seeks statutory penalties, restitution, interest, penalties, attorneys' fees, punitive damages and injunctive relief in an unspecified amount. American National believes that it has meritorious defenses; however, no prediction can be made as to the probability or remoteness of any recovery against American National.

American National is also a defendant in various other lawsuits concerning alleged failure to honor certain loan commitments, alleged breach of certain agency and real estate contracts, various employment matters, allegedly deceptive insurance sales and marketing practices, and other litigation arising in the ordinary course of operations. Certain of these lawsuits include claims for compensatory and punitive damages. After reviewing these matters with

legal counsel, management is of the opinion that the ultimate resultant liability, if any, would not have a material adverse effect on American National's consolidated financial position or results of operations. However, these lawsuits are in various stages of development, and future facts and circumstances could result in management's changing its conclusions.

Based on information currently available, management also believes that amounts ultimately paid, if any, arising from these cases would not have a material effect on the company's consolidated results of operations and financial position. However, it should be noted that the frequency of large damage awards, which bear little or no relation to the economic damages incurred by plaintiffs in some jurisdictions, continue to create the potential for an unpredictable judgment in any given lawsuit. It is possible that, if the defenses in these lawsuits are not successful, and the judgments are greater than management can anticipate, the resulting liability could have a material impact on the consolidated financial results.

Table of Contents**15. RELATED PARTY TRANSACTIONS**

American National has entered into recurring transactions and agreements with certain related parties as a part of its ongoing operations. These include mortgage loans, management contracts, agency commission contracts, marketing agreements, health insurance contracts, legal services, and insurance contracts. The impact on the consolidated financial statements of the significant related party transactions as of June 30, 2009, is shown below (amounts in thousands):

Related Party	Financial Statement Line Impacted	Amount as of June 30, 2009
Gal-Tex Hotel Corporation	Mortgage loans on real estate	\$ 12,312
Gal-Tex Hotel Corporation	Investment income	453
Gal-Tex Hotel Corporation	Other operating costs & expenses	171
Moody Insurance Group, Inc.	Commissions	1,803
Moody Insurance Group, Inc.	Other operating costs & expenses	116
National Western Life Ins. Co.	Accident & health premiums	95
National Western Life Ins. Co.	Other operating costs & expenses	640
Moody Foundation	Accident & health premiums	54
Greer, Herz & Adams, LLP	Other operating costs & expenses	4,544

16. SUBSEQUENT EVENTS

Included in American National's investment portfolio are debt securities issued by CIT Group, Inc. (CIT) with an amortized cost of \$74.2 million as of June 30, 2009. As has been widely reported, CIT, a bank holding company, is experiencing liquidity issues. During July of 2009, CIT's Troubled Asset Relief Program application for assistance was denied by the U.S. government. On July 20, 2009, CIT announced that it entered into a \$3.0 billion loan facility provided by a group of its major bondholders. On the same day, CIT also announced a debt tender offer in an attempt to avoid bankruptcy and improve its liquidity. As of August 3, 2009, CIT has said that it has received enough offers to complete the debt repurchase program.

As of August 7, 2009, we are unable to determine the impact that CIT's liquidity issues will have on the value of our debt securities, if any.

American National will continue to monitor CIT's situation and evaluate any potential impact to our debt securities which are scheduled to mature at various dates between April 2012 and June 2015.

Table of Contents**ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Set forth on the following pages is management's discussion and analysis (MD&A) of the financial condition and results of operations for the three and six months ended June 30, 2009 and June 30, 2008 of American National Insurance Company and its subsidiaries (referred to in this document as we , our , us , or the Company). Such information should be read in conjunction with our consolidated financial statements together with the notes to the consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q and our amended Form 10 Registration Statement filed with the Securities and Exchange Commission (SEC) on July 1, 2009.

Forward-Looking Statements

Certain statements contained herein are forward-looking statements. The forward-looking statements contained herein are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and include estimates and assumptions related to economic, competitive and legislative developments. Forward looking statements may be identified by words such as expects , intends , anticipates , plans , believes , estimates , will or words of similar meaning; and include, but are not limited to, statements regarding the outlook of our business and financial performance. These forward looking statements are subject to change and uncertainty which are, in many instances, beyond our control and, have been made based upon our expectations and beliefs concerning future developments and their potential effect upon us. There can be no assurance that future developments will be in accordance with our expectations, or that the effect of future developments on us will be anticipated. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties. There are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements. These factors include among others:

- international economic and financial crisis, including the performance and fluctuations of fixed income, equity, real estate, credit capital and other financial markets;
- interest rate fluctuations;
- estimates of our reserves for future policy benefits and claims;
- differences between actual experience regarding mortality, morbidity, persistency, surrender experience, interest rates or market returns, and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes;
- changes in our assumptions related to deferred policy acquisition costs, valuation of business acquired or goodwill;
- changes in our claims-paying or credit ratings;
- investment losses and defaults;
- competition in our product lines and for personnel;
- changes in tax law;
- regulatory or legislative changes;
- adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including in connection with our divestiture or winding down of businesses;
- domestic or international military actions, natural or man-made disasters, including terrorist activities or pandemic disease, or other events resulting in catastrophic loss of life and/or property;
- ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks;
- effects of acquisitions, divestitures and restructurings, including possible difficulties in integrating and realizing the projected results of acquisitions;
- changes in statutory or U.S. Generally Accepted Accounting Principles (GAAP) practices or policies; and
- changes in assumptions for retirement expense.

Table of Contents

We describe these risks and uncertainties in greater detail in Item IA, *Risk Factors*, in our amended Form 10 Registration Statement filed with the SEC on July 1, 2009. It has never been a matter of corporate policy for us to make specific projections relating to future earnings, and we do not endorse any projections regarding future performance made by others. Additionally, we do not publicly update or revise forward-looking statements based on the outcome of various foreseeable or unforeseeable events.

Overview

American National Insurance Company has more than 100 years of experience. We have maintained our home office in Galveston, Texas since our founding in 1905. Historically, our core business has been life insurance; however, we also offer individual and group health insurance and annuities, credit insurance, pension products, mutual funds, and property and casualty insurance for personal lines, agribusiness, and targeted commercial exposures. We provide personalized service to more than eight million policyholders throughout the United States, the District of Columbia, Puerto Rico, Guam, and American Samoa. Our total assets and stockholders' equity as of June 30, 2009 were \$19.3 billion and \$3.3 billion, respectively, and at December 31, 2008 were \$18.4 billion and \$3.1 billion, respectively.

General Trends

There were no material changes to the general trends we are experiencing, as discussed in the MD&A included in our amended Form 10 filed with the SEC on July 1, 2009.

Critical Accounting Estimates

We have prepared unaudited interim consolidated financial statements on the basis of U.S. GAAP. In addition to GAAP accounting literature, insurance companies have to apply specific SEC regulation to the financial statements. The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and their accompanying notes. Actual results could differ from results reported using those estimates.

We have identified the following estimates as critical to our business operations and the understanding of the results of our operations, as they involve a higher degree of judgment and are subject to a significant degree of variability: evaluation of other-than-temporary impairments on securities; deferred policy acquisition costs; reserves; valuation of policyholder liabilities and associated reinsurance recoverables; pension and other postretirement benefit obligations; contingencies relating to corporate litigation and regulatory matters; and federal income taxes.

Our accounting policies inherently require the use of judgments relating to a variety of assumptions and estimates, particularly expectations of current and future mortality, morbidity, persistency, expenses and interest rates. Due to the inherent uncertainty when using the assumptions and estimates, the effect of certain accounting policies under different conditions or assumptions could be different from those reported in the consolidated financial statements.

For a discussion of the critical accounting estimates, see the MD&A in our amended Form 10 Registration Statement filed with the SEC on July 1, 2009. There were no material changes in accounting policies from December 31, 2008, with the exception of changes made to the other-than-temporary impairment of debt securities accounting policy.

Refer to Item 1, Note 2 to the Consolidated Financial Statements included in this report for a discussion on the other-than-temporary impairment of debt securities accounting policy.

Recently Issued Accounting Pronouncements

Refer to Item 1, Note 3 to the Consolidated Financial Statements for a discussion on Adoption of New Accounting Standards and Future Adoption of New Accounting Standards.

Table of Contents**Consolidated Results of Operations**

The following is a discussion of our consolidated results of operations for the three and six months ended June 30, 2009 and 2008. For a discussion of our segment results, see *Results of Operations and Related Information by Segment*. The following table sets forth the consolidated results of operations:

	Three Months Ended June 30,		Increase/ (Decrease)	Six Months Ended June 30,		Increase/ (Decrease)
	2009	2008		2009	2008	
	(in thousands)					
Revenues:						
Premiums	\$ 464,947	\$ 466,334	\$ (1,387)	\$ 944,664	\$ 956,931	\$ (12,267)
Other Policy Revenues	44,768	43,379	1,389	88,448	85,445	3,003
Net Investment Income	214,664	215,868	(1,204)	407,860	403,456	4,404
Realized investment gains (losses)	(8,748)	(4,333)	(4,415)	(82,209)	(9,918)	(72,291)
Other Income	12,159	10,314	1,845	21,024	19,728	1,296
Total Revenues	727,790	731,562	(3,772)	1,379,787	1,455,642	(75,855)
Benefits And Expenses:						
Policy Benefits	436,938	443,834	(6,896)	866,685	843,740	22,945
Interest credited to policy account balances	95,714	75,942	19,772	177,302	143,089	