GERMAN AMERICAN BANCORP, INC.
Form DEF 14A
March 30, 2011

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934
(Amendment No. __)

Filed by the Registrant	x
Filed by a Party other than the Registrant	o

Check the appropriate box:

o	Preliminary Proxy Statement
o	Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to Rule 14a-12

GERMAN AMERICAN BANCORP, INC.
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

x	No fee required.
o	Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:
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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
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oFee paid previously with preliminary materials.

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1) Amount Previously Paid:
2) Form Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

GERMAN AMERICAN BANCORP, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 19, 2011

We are pleased to notify you that we will hold the 2011 annual meeting of our shareholders on Thursday, May 19, 2011, at 6:30 P.M., Eastern Time, at the Huntingburg Event Center, 200 E 14th Street, Huntingburg, Indiana, for the following purposes:

1. to elect three directors, each to serve until the 2014 annual meeting of shareholders;

2. to consider approval of a proposal to amend the Company's Articles of Incorporation to increase the number of our authorized common shares from 20 million to 30 million;

3. to approve on an advisory basis the compensation of our executive officers who are named in the compensation disclosures in the accompanying Proxy Statement;

4. to advise on the frequency of the advisory vote on executive compensation;

5. to approve, on an advisory basis, the appointment of Crowe Horwath LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2011; and

6. to transact such other business as may properly come before the meeting.

Our Board of Directors has established the close of business on March 10, 2011 as the "record date" for this annual meeting. This means that you are entitled to vote at this meeting (in person or by legally-appointed proxy) if our stock records show that you owned our Common Shares at that time.

We invite you to attend this annual meeting in person. Even if you plan to attend, please complete, sign and date the accompanying proxy and return it to our agent promptly in the enclosed postage-paid envelope - or, vote by Internet or by telephone by following the instructions in the accompanying Proxy Statement.

GERMAN AMERICAN BANCORP, INC.

KENNETH L. SENDELWECK
Secretary

April 1, 2011
Jasper, Indiana

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS OF GERMAN AMERICAN BANCORP, INC.

to be held May 19, 2011

INTRODUCTION

The Board of Directors of German American Bancorp, Inc. is soliciting proxies from shareholders for its use at the 2011 annual meeting of shareholders, and at any adjournment or adjournments of that meeting. The annual meeting is scheduled to be held on Thursday, May 19, 2011, at 6:30 P.M., Eastern Time, at the Huntingburg Event Center, 200 E 14th Street, Huntingburg, Indiana.

To improve readability, German American Bancorp, Inc., which has prepared this proxy statement, will sometimes speak in this document in the first person (using words such as "we" or "our" or "us") and will address its shareholders using second-person words (such as "you" or "your"). We will also sometimes refer to German American Bancorp, Inc., as "the Company." References to the Board of Directors of the Company in this proxy statement will usually be shortened to "our Board."

We are mailing this proxy statement, together with our 2010 annual report (Form 10-K), a proxy card and an invitation to attend our annual meeting, to our shareholders on or about April 1, 2011.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on May 19, 2011:

This Proxy Statement and the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, are available free of charge at www.edocumentview.com/GABC.

INFORMATION ABOUT THE MEETING AND VOTING

Purposes of the Meeting

The purposes of the annual meeting are:

1. To elect three directors, each to serve until the 2014 annual meeting;

2. To consider approval of a proposal to amend the Company's Articles of Incorporation to increase the number of our authorized common shares from 20 million to 30 million;

3. To approve on an advisory basis the compensation of our executive officers who are named in the compensation disclosures in the accompanying Proxy Statement;

4. To advise on the frequency of the advisory vote on executive compensation;

5. To approve, on an advisory basis, the appointment of Crowe Horwath LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2011; and

6. To transact such other business as may properly come before the meeting.

Shareholders Entitled to Vote at the Meeting

Our Board has established the close of business on March 10, 2011 as the "record date" for this annual meeting. This means that you are entitled to vote at this meeting (and any adjournments) if our records show that you owned our Common Shares at that time. As of this record date, 12,556,378 of our common shares were issued and outstanding, held by approximately 3,600 shareholders of record. Each issued and outstanding Common Share as of the record date is entitled to one vote on each matter properly to come before the annual meeting and can be voted only if the record owner of that share, determined as of the record date, is present in person at the meeting or represented by proxy.

Voting Shares By Proxy That You Hold In Your Name

You have three choices:

- VOTE BY INTERNET - www.envisionreports.com/GABC. Use the Internet to transmit your voting instructions up until 1:00 A.M. Central Time on May 19, 2011. Have your proxy card in hand when you access the web site. Follow the steps outlined on the secured website.

- VOTE BY PHONE - 1-800-652-VOTE (8683). Call toll free within the United States, Canada, and Puerto Rico any time on a touch tone telephone up until 1:00 A.M. Central Time on May 19, 2011. There is NO CHARGE to you for the call. Have your proxy card in hand when you call. Follow the instructions provided by the recorded message.

- VOTE BY MAIL - Mark, sign and date your proxy card and return it in the postage-paid envelope we've provided or mail it to Proxy Services, c/o Computershare Investor Services, P O Box 43102, Providence, RI 02940-5068.

Voting Shares That You Hold in Brokerage or Similar Accounts

Many shareholders hold their shares through a stockbroker, bank, or other nominee rather than directly in their own name. If you hold your shares in one of these ways, you are considered a beneficial owner, not a record owner, and you therefore have no direct vote on any matter to come before the annual meeting. Your broker, bank, or nominee will send you voting instructions for you to use in directing the broker, bank or nominee in how to vote your shares. Your broker, bank or nominee may allow you to deliver your voting instructions via the telephone or the Internet.

If you hold your shares through a broker and you do not timely provide your broker with specific instructions on how to vote your shares, your broker will not be authorized to cast a vote on your behalf on Proposals 1 through 4 but will be authorized to cast a vote on your behalf, in its discretion, on Proposal 5. In such cases, a “broker non-vote” may be entered with respect to your shares on Proposals 1 through 4 to reflect that your broker was present with respect to your shares at the meeting but was not exercising voting rights on your behalf with respect to those shares.

Your Voting Options on Each of the Proposals

You may vote "for" or "withhold” (meaning you choose to withhold from our Proxy Committee your authority to vote) with respect to the election of each nominee for director (Proposal 1 on the proxy card).

You may vote "for," "against" or "abstain" with respect to:

- the approval of the amendment to our Articles of Incorporation (Proposal 2 on the proxy card),

- the nonbinding advisory proposal on the compensation of our named executive officers (Proposal 3 on the proxy card),

- the nonbinding advisory proposal on the approval of the appointment of Crowe Horwath LLP (Proposal 5 on the proxy card), and

- any other proposal that may properly be brought before the meeting (Proposal 6 on the proxy card; if you return a proxy card, you will appoint our Proxy Committee as your proxy to vote “for”, “against” or “abstain” with respect to your shares, and will have no opportunity on the proxy card to direct the Proxy Committee as to such proposals due to their presently unknown nature).

You may vote "for" any of the following frequencies (or you may abstain from voting) as to the nonbinding advisory vote on the frequency of the advisory vote on executive compensation (Proposal 4 on the proxy card):

- every third year ("3 Yrs" on the proxy card), or
- every other year ("2 Yrs" on the proxy card), or
- every year ("1 Yr" on the proxy card).

Our Board's Voting Recommendations

Our Board recommends that you vote:

- FOR the election as directors of the three individuals named as its nominees in this proxy statement (Proposal 1 on the proxy card);
- FOR approval of the proposal to amend the Company's Articles of Incorporation (Proposal 2 on the proxy card);
- FOR approval on an advisory basis of the compensation of our executive officers who are named in the compensation disclosures in this Proxy Statement (Proposal 3 on the proxy card);
- FOR the "every third year" ("3 Yr" on the proxy card) choice, on an advisory basis, as to the frequency of the advisory vote on executive compensation (Proposal 4 on the proxy card); and
- FOR the approval, on an advisory basis, of the appointment of Crowe Horwath LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2011 (Proposal 5 on the proxy card).

If any other matter is properly brought before the annual meeting, the Company - through the individuals named on the enclosed proxy card acting as our "Proxy Committee," or their designees, and pursuant to the blanket authorization granted under the proxy card - will vote your shares on that matter in accordance with the discretion and judgment of the Proxy Committee.

Required Votes to Approve Each Proposal

Three positions on our Board are scheduled to be filled by vote of the shareholders at the annual meeting. As a shareholder, you are entitled to cast one vote for each of up to three nominees for election as directors at the annual meeting, but you may not cumulate your votes (in other words, you may not cast votes representing three times the number of your shares entitled to vote in favor of a single nominee). Directors are elected from among the nominees by a plurality of the votes that are cast among all nominees; this means the individuals whose names are validly placed into nomination at the meeting who receive the three highest numbers of votes cast "for" their election will be elected as directors of the Company. If there are only three individuals who are validly placed into nomination at the annual meeting, and assuming a quorum is established and a vote is held on the election at which each of such nominees receives at least one vote, then all of the three nominees will be elected, regardless of the number of "broker nonvotes" or "withhold" instructions our Proxy Committee may have received with respect to one or more of such nominees on the proxy cards or voting instructions that are returned to us.

A majority of the votes cast at the meeting will approve: (i) the proposal to approve the proposal amendment to our Articles of Incorporation that would increases the number of authorized common shares; (ii) the proposal to approve on an advisory basis the compensation of our named executive officers; (iii) the proposal to approve the appointment

of Crowe Horwath LLP and (iv) all other matters that arise at the annual meeting.

With respect to the advisory vote on the frequency of future advisory votes on executive compensation, the alternative receiving the greatest number of votes – every year, every other year or every third year – will be deemed to be the frequency that shareholders approve.

Please note, however, that because the votes on the compensation of our named executive officers, the frequency of future votes on executive compensation, and the appointment of Crowe Horwath LLP are each advisory in nature, the results of such votes will not be binding upon our Board or its committees.

Quorum

Indiana law provides that any shareholder action at a meeting requires that a quorum exist with respect to that meeting. Once a share is represented for any purpose at a meeting, it is deemed by Indiana law to be present for quorum purposes for the remainder of the meeting and (unless a new record date is or must be set for any such adjournment) any adjournment of that meeting.

A majority of the common shares entitled to vote at this meeting, present either in person or by proxy, will constitute a quorum for all purposes at the meeting. If a quorum should not be present, the annual meeting may be adjourned from time to time until a quorum is obtained.

Shares held of record by shareholders who (in person or by proxy) abstain from voting on any or all proposals (and shares represented by "broker non-votes," described above under "Voting Shares That You Hold in Brokerage or Similar Accounts") will be included in the number of shares present at the meeting for purposes of determining the presence of a quorum. However, abstentions and broker non-votes as to any proposal will not be considered to be votes that have been "cast" on that proposal and therefore will not affect the outcome of the vote on any of the five proposals described by this Proxy Statement.

Voting on Possible Other Matters

We are not aware that any person intends to propose that any matter, other than the five numbered proposals specifically described by this Proxy Statement, be presented for consideration or action by our shareholders at our annual meeting. If any such other matter should properly come before the meeting, however, favorable action on such matter would generally require the affirmative vote of a majority of the votes cast, unless our articles of incorporation or bylaws or applicable law require otherwise. If you vote by proxy, you will be granting our Proxy Committee authority to vote your shares on any such other matter in accordance with their discretion and judgment.

Revocation of Proxies or Voting Instructions

A shareholder of record who has delivered a proxy card in response to this solicitation may revoke it before it is exercised at the annual meeting by executing and delivering a timely and valid later-dated proxy, by voting by ballot at the meeting or by giving written notice to the Secretary. If a shareholder of record has voted via the Internet or by telephone, such shareholder may also change that vote with a timely and valid later Internet or telephone vote, as the case may be, or by voting by ballot at the meeting. Attendance at the meeting will not have the effect of revoking a proxy unless a shareholder gives proper written notice of revocation to the Secretary before the proxy is exercised or the shareholder votes by ballot at the meeting. Beneficial owners who have directed their broker, bank or nominee as to how to vote their shares should contact their broker, bank or nominee for instructions as to how they may revoke or change those voting directions.

Solicitation of Proxies

Our Board is making this solicitation of proxies for our annual meeting. Our Company will bear all costs of such solicitation, including the cost of preparing and mailing this proxy statement and the enclosed form of proxy. After the initial mailing of this proxy statement, proxies may be solicited by mail, telephone, facsimile transmission or personally by directors, officers, employees or agents of the Company. Brokerage houses and other custodians, nominees and fiduciaries will be requested to forward soliciting materials to beneficial owners of shares held by them for the accounts of beneficial owners, and we will pay their reasonable out-of-pocket expenses.

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PROPOSAL 1
ELECTION OF DIRECTORS

Our full Board currently consists of eleven directors, including eight directors who served on our Board at the time of the 2010 annual meeting of the Company's shareholders and three new individuals. Thomas W. Seger joined our Board in August 2010, and Marc D. Fine and Chris A. Ramsey each joined our Board effective January 1, 2011. The election of Mr. Fine and Mr. Ramsey (each of whom prior to January 1, 2011, was a member of the board of directors of American Community Bancorp, Inc.) was pursuant to the merger agreement between the Company and American Community Bancorp, Inc., which required that the Company appoint two of the members of American Community's board of directors (of the Company's choosing) to its own Board. The Company's Board, pursuant to that requirement, and upon nomination by the Governance/Nominating Committee, selected Mr. Fine and Mr. Ramsey to be added to it at the time of completion of the merger transaction.

Our Board is divided into three classes, and directors in each class serve a three-year term. The terms of each class expire at successive annual meetings so that the shareholders elect one class of directors at each annual meeting. The current classification of our Board is:

Terms expiring at this annual meeting:	Christina M. Ernst, Gene C. Mehne, and Mark A. Schroeder
Terms expiring at the 2012 annual meeting:	Richard E. Forbes, U. Butch Klem, Chris A. Ramsey, and Michael J. Voyles
Terms expiring at the 2013 annual meeting:	Douglas A. Bawel, Marc D. Fine, J. David Lett, and Thomas W. Seger

Our Board, on the recommendation of the Governance/Nominating Committee, has nominated Ms. Ernst and Messrs. Mehne and Schroeder for re-election at this year's annual meeting. If re-elected, each of our Board's three nominees will serve on our Board until the annual meeting in 2014, or until his or her successor is duly elected and qualified in accordance with the Company's Bylaws. If any of these nominees should become unable to accept election, our Proxy Committee may vote for other person(s) selected by our Board. Our Board has no reason to believe that any of the nominees will be unable to accept election.

The tables below present certain information concerning our Board's nominees for election at this year's annual meeting, followed by information concerning those Board members who are not standing for election this year. This information includes their present principal occupations, which have been the same for the last five years, unless otherwise noted. The biographies of each of the nominees and continuing directors below contains information regarding the experiences, qualifications, attributes or skills that caused the Governance/Nominating Committee and our Board to determine that the person should be re-elected (or should continue to serve even if not standing for re-election) as a director for the Company in 2011.

Following these tables is information concerning our corporate governance and committee structures. We have noted in the tables the Committee memberships of those directors who serve on those standing committees about which information is provided elsewhere in this document, namely our Compensation/Human Resources, Audit, and Governance/Nominating Committees. Our directors also serve on other committees of our Board and the board of directors of the Company's banking subsidiary that are not required to be described by this Proxy Statement and which

are therefore not identified in these listings.

Elsewhere in this proxy statement you will find information concerning the numbers of our common shares that are beneficially owned by each of our directors (see "OWNERSHIP OF OUR COMMON SHARES BY OUR DIRECTORS AND EXECUTIVE OFFICERS") and information regarding the compensation of our directors (see "EXECUTIVE AND DIRECTOR COMPENSATION)." We urge you to review all of this information when deciding how to vote on Proposal 1.

Our Board recommends that you vote FOR all three of the nominees named below.

Nominees for Election at the 2011 Annual Meeting:

Christina M. Ernst

Christina M. Ernst, 61, has been a director of the Company since 2004 and presently serves as a member of its Compensation/Human Resources Committee. She has served since 1988 as Chairman and President of Miller Construction Company, Inc., an electrical contractor based in Vincennes, Indiana, with approximately100 employees. Among her duties is overseeing the investment of approximately $460 million of benefit fund assets as a trustee and member of the investment committee. Ms. Ernst previously served on the board of directors of another publicly held community bank holding company based in Vincennes, Indiana, prior to its acquisition by a larger bank in 1998. Our Board believes that Ms. Ernst brings varied business and investment management experiences, and knowledge of the Knox County community, to it.

Gene C. Mehne

Gene C. Mehne, 66, has served as a director of the Company and its predecessors since 1979, and has been a member of its Audit Committee most of that time through the present. Mr. Mehne, a Purdue University graduate with a degree in Agriculture, represents the agricultural community within the Company's southern Indiana markets, having served as Manager of his family's farm corporation, Mehne Farms, Inc., since 1979 and its President since 1997. Mr. Mehne is also active in Dubois County agricultural associations. Our Board believes that Mr. Mehne brings agribusiness knowledge to it, as well as significant institutional knowledge of the businesses of the Company and the Bank as a result of his long tenure on our Board.

Mark A. Schroeder

Mark A. Schroeder, 57, has served as a director of the Company since 1991, as its Chief Executive Officer since 1999 and as its Chairman since 2009. Mr. Schroeder, who was certified as a public accountant in Indiana in 1995, has 38 years of day-to-day banking experience with the Company, including officer positions in commercial lending and as the Company's chief financial officer and chief operating officer. Mr. Schroeder is active in Indiana and national industry organizations, including the boards of directors of leading state (1999-2010) and national (2004-2010) community banking industry associations, and has served on the Board of Members of the Indiana Department of Financial Institutions since 2007. Our Board believes that Mr. Schroeder’s banking industry knowledge and experience, and his insights as CEO, are invaluable to it.

Continuing Directors of the Class with Terms Expiring at the 2012 Annual Meeting:

Richard E. Forbes

Richard E. Forbes, 63, has served as a director of the Company since 2006, and is the Chairman of its Audit Committee. Certified as a public accountant in 1970, Mr. Forbes became chief financial officer of MasterBrand Cabinets, Inc., a cabinet-manufacturing subsidiary of Fortune Brands (a Fortune 500 company), in 1987, and later became that subsidiary's President (2000) and CEO (2002). From January 2007 until his retirement from active employment in January 2010, Mr. Forbes led another subsidiary of Fortune Brands, namely Fortune Brands Home and Security, Inc., as its President and Chief Executive Officer. Our Board values Mr. Forbes’s business backgrounds in manufacturing as well as his knowledge and experience in finance and accounting matters (he has been designated as the Audit Committee’s “audit committee financial expert” since his election to our Board).

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U. Butch Klem

U. Butch Klem, 60, has served as a director of the Company since 2004, and is Chairman of its Compensation/Human Resources Committee and its Governance/Nominating Committee. Mr. Klem, President and CEO of U.B. Klem Furniture Company, a furniture manufacturer based in Jasper, Indiana, founded that company in 1973, and has grown it to a medium-sized manufacturer employing over 100 people. In the course of managing that growth, Mr. Klem has gained experience in sales, human resources, accounting and finance. Mr. Klem has been our Board's "lead independent director" since 2009, and he provides our Board with leadership as well as his business insights gained from his successful entrepreneurial activities.

Chris A. Ramsey

Chris A. Ramsey, 54, has served as a director of the Company since his election to a newly-created board seat, effective January 1, 2011, and is a member of our Board's Compensation/Human Resources Committee. Mr. Ramsey is president of Ramsey Development Corp. of Indiana, Inc. (a real estate company based in Tell City, Indiana) and the owner of several businesses in the construction and real estate industry with over 25 years' experience in real estate. Mr. Ramsey has served on the boards of directors of the former Bank of Evansville and the former Tell City National Bank (Tell City, Indiana). Mr. Ramsey therefore brings valuable bank director experience as well as real estate experience to our Board.

Michael J. Voyles

Michael J. Voyles, 62, has served as a director of the Company since 1998 (and as a member of the board of a predecessor banking company for 13 years prior to its affiliation with the Company), and is a member of its Governance/Nominating Committee and Audit Committee. Mr. Voyles, who currently is President of Voyles Properties, LLC (real estate holdings) and M.J.V. Inc. (rental properties), was President of Voyles Supermarket, Inc. (retail groceries) based in Petersburg, Indiana, from 1985 through its sale on January 2009. Our Board has benefited and expects to continue to benefit from Mr. Voyles's varied business experiences as well as his knowledge of the Petersburg (and surrounding Pike County) Indiana community.

Continuing Directors of the Class with Terms Expiring at the 2013 Annual Meeting:

Douglas A. Bawel

Douglas Bawel, 55, a director of the Company since 2004 and a member of its Compensation/Human Resources Committee, is President and Chief Executive Officer of Jasper Engines & Transmissions, a $220 million privately-held manufacturer based in Jasper, Indiana, with over 1,500 employees. Mr. Bawel previously served from January 1999 to June 2007 as an outside director of Steel Technologies, Inc., a publicly-held company and served as Chair of its Marketing Management Group and a member of its audit committee. Our Board values Mr. Bawel's insights gained from his years of management experience with Jasper Engines and Transmission, and his past experience in serving on another publicly-held company's board of directors.

Marc D. Fine

Marc D. Fine, 51, has served as a director of the Company since his election to a newly-created Board seat, effective January 1, 2011. Mr. Fine was a director of the former Bank of Evansville, having been among its founding director group in 2001. Mr. Fine has practiced business law in Evansville, Indiana since 1984 and was a founding partner of the law firm of Rudolph, Fine, Porter & Johnson, LLP, in Evansville, of which he is presently the Managing Partner. He is also active in many civic and community organizations and is a Commissioner of the Indiana Gaming

Commission (since 2008), an official agency of the State of Indiana that oversees the state's gaming industry. Our Board believes that Mr. Fine's experience in business (including the banking business), state government, and law, in addition to his involvement in the Evansville business and civic communities, will be of significant benefit to it.

J. David Lett

J. David Lett, 58, a director of the Company since 2000 and a member of its Governance/Nominating Committee, has practiced law for over 30 years with Lett & Jones, a law firm in Martin County, Indiana (part of the Company's southern Indiana market area) that provides legal services to a wide range of individual, governmental and organizational clientele in Martin, Daviess and Dubois Counties, including the Company and its subsidiaries. Mr. Lett's professional and civic relationships and stature within these communities position him well to offer valuable insight and perspective on a variety of matters relating to the Company’s banking, insurance, investment, and trust services.

Thomas W. Seger

Thomas W. Seger, 53, has served as a director of the Company since his election to a newly-created board seat, effective August 16, 2010 and is a member of our Board’s Compensation/Human Resources Committee and Audit Committee. Mr. Seger is vice president of Wabash Valley Produce, a large poultry producer, headquartered in Dubois, Indiana, and president of Simple Transport, which is also located in Dubois. As a result of Mr. Seger’s 32 years’ of experience in poultry and agriculture, Mr. Seger brings to our Board unique perspectives based on his knowledge of the agricultural industry on a local, regional, and national level.

Board Leadership Structure

Our Board is led by a lead independent director and by a Chairman of the Board. The lead independent director assists our Board in assuring effective corporate governance and serves as chairperson of meetings of the independent directors that are held without the presence of any directors who may at that time be deemed not to be independent. The lead independent director also chairs meetings of our Board during any meetings or portions of meetings if the Chairman of the Board is absent. The Chairman of the Board chairs meetings of our Board (other than the separate sessions only of the Board’s independent directors) and of our shareholders. Mr. Klem is our Board’s lead independent director and Mr. Schroeder (our Chief Executive Officer) is our Chairman of the Board.

Our Board believes that this leadership structure is the most appropriate for our Company. Our Board believes that it benefits by the efficiencies achieved in having the role of CEO and Chairman combined in the same individual (Mr. Schroeder), and that the detailed knowledge of our day-to-day operations and business possessed by our Chairman of the Board as a result of his also acting as our CEO greatly enhances the decision-making processes of our Board as a whole. The independence of the Board as a whole is not compromised, however, as a result of the active involvement of Mr. Klem as the designated lead independent director, who is in a position to ensure that the powers and duties of the Chairman are being handled responsibly despite the dual role held by the Chairman as CEO. Furthermore, consistent with NASDAQ listing requirements, the independent directors regularly meet in independent sessions without Mr. Schroeder in attendance.

Director Independence

In accordance with rules of The NASDAQ Stock Market, our Board affirmatively determines the independence of each Director and nominee for election as a Director. Our Board has determined that each of the Directors of the Company (identified above) is independent under the definitions and interpretations of NASDAQ because none of them have any relationship with the Company that, in the opinion of our Board, would interfere with the exercise of his or her independent judgment in carrying out the responsibilities of a director, except that Mark A. Schroeder is not independent because he is the Chairman and Chief Executive Officer of the Company.

Our Board has not established its own definitions (different from the definitions and interpretations of NASDAQ) for determining whether its members are independent, but rather reviews such independence determinations on the basis of the total mix of information available to our Board at the time of the making of each such determination. Included in this information are any relationships (such as the ordinary course loan transactions by the Company's bank subsidiary with members of our Board and their related persons, or the membership of directors in law firms that may provide legal services to the Company and its subsidiaries) that the Company has or may have with its directors that are disclosed in the Company's most recent proxy statement or that become known to our Board from time to time after the issuance of that proxy statement.

In considering the independence of Directors Fine and Lett, the Board reviewed the Company's relationships with the law firms of which those directors are partners. Both of those law firms have their offices in the geographic markets served by the Company's banking and other subsidiaries. Mr. Lett's firm has served as counsel for the Company's subsidiaries in the past and expects that it may continue to do so in the future. Payments by the Company and its subsidiaries to Mr. Lett's firm for that firm's services during 2010 did not exceed $10,000 and are not expected to exceed $10,000 on an annualized basis in the future. Mr. Fine's firm historically represented Bank of Evansville prior to that bank's acquisition by the Company on January 1, 2011, and during periods prior to Mr. Fine's joining our Board effective on that same day. The Company expects that Mr. Fine's firm will from time to time represent the interests of its subsidiaries in legal matters arising in the Evansville area. The Company, however, does not expect that its payments to either of these two law firms will exceed the threshold dollar amounts that are specified by the related person transaction reporting rules of the Securities and Exchange Commission for reporting such transactions in the Company's annual meeting proxy statements, or by the rules of NASDAQ for determining when such payments might affect director independence. On the basis of this review, our Board determined that these law firm relationships did not interfere with the ability of either of those two directors to exercise his independent judgment in carrying out his responsibilities as a director of the Company.

Subsidiary Board Memberships

All members of our Board also serve on the board of directors of German American Bancorp, our wholly-owned bank subsidiary. In addition:

- several of our directors participate in selected meetings of the separate advisory boards of certain banking regions of our bank subsidiary, as follows: Ms. Ernst, West Region; Mr. Klem; East Region; Mr. Lett; West Region; Mr. Voyles, West Region; and Mr. Fine, South Region; and

- Directors Bawel, Mehne, Schroeder, Lett, and Ramsey are members of the boards of directors of two of our other principal operating subsidiaries, German American Financial Advisors & Trust Company and German American Insurance, Inc.

Risk Oversight

All members of our Board oversee the management of our Company's affairs directly and though its committees. In doing so, our Board acts at all times with a view to the best interests of our Company and our shareholders. In fulfilling its mandate, our Board, among other matters, is responsible for reviewing the principal risks of our Company's business to ensure the appropriate systems are in place to manage these risks. The Audit Committee of our Board is charged with the responsibility to assist our Board in monitoring our principal financial risks and the processes employed to manage such risks. In discharging its mandate, the Audit Committee of our Board discusses with management our major financial risk exposures and the steps management has taken to monitor and control such exposures, including our risk assessment and risk management practices.

Committees and Attendance

Our Board held 14 meetings during 2010. All of the directors who acted as such at any time during 2010 attended at least 75% of the aggregate number of meetings of our Board and the committees on which he or she served that were held during 2010 (or the portion of 2010 during which he was a director).

Our Board has standing committees that address issues relating to audit, executive compensation and nominations:

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The Audit Committee, presently consisting of Directors Forbes, Mehne, Seger, and Voyles, met five times in 2010. The Audit Committee oversees the Company's accounting and financial reporting processes and the audits of the Company's consolidated financial statements and internal control over financial reporting.

- The Compensation/Human Resources Committee, presently consisting of Directors Bawel, Ernst, Klem, Ramsey and Seger, met three times during 2010. The Compensation/Human Resources Committee sets compensation for officers other than executive officers, and makes recommendations to our Board with respect to the compensation of executive officers.

- The Governance/Nominating Committee, presently consisting of Directors Klem, Lett and Voyles, met four times during 2010. The Governance/Nominating Committee assists our Board with respect to the composition, performance and functioning of our Board (including the recommendation of nominees for election or appointment to our Board) and the effectiveness of the Company's corporate structure and governance.

Earnings per common share	$	0.07
	$	0.33
Earnings per common share - assuming dilution	$	0.07
	$	0.29

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Dollars in thousands, except per share data)

(Unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders Equity
Balance at January 1, 2005	$ 38,360	$ 215,793	$ (19,269)	$ 70,659	$ 305,543
Comprehensive income:					
Net income for period				12,528	12,528
Change in net unrealized investment gains/losses			(900)		(900)
Total comprehensive income					11,628
Conversion of $120 of subordinated debentures	15	98			113
Balance at March 31, 2005	$ 38,375	$ 215,891	$ (20,169)	$ 83,187	$ 317,284
Balance at January 1, 2006	$ 55,527	$ 379,107	$ (27,306)	$ 112,030	$ 519,358
Comprehensive loss:					
Net income for period				3,973	3,973
Change in net unrealized investment gains/losses			(34,900)		(34,900)
Total comprehensive loss					(30,927)
Stock-based compensation, including the issuance of 55,550 common shares under compensation plans, including related income tax benefit	56	487			543
Conversion of $210 of subordinated debentures	26	184			210
Balance at March 31, 2006	$ 55,609	$ 379,778	$ (62,206)	$ 116,003	$ 489,184

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Three Months Ended March 31, 2006	2005
Operating activities		
Net income	$ 3,973	$ 12,528
Adjustments to reconcile net income to net cash used in operating activities:		
Adjustments related to interest sensitive products:		
Interest credited to account balances	92,546	62,543
Annuity and single premium universal life product charges	(7,600)	(6,262)
Change in fair value of embedded derivatives	62,764	(18,591)
Increase in traditional life and accident and health insurance reserves	2,824	2,196
Policy acquisition costs deferred	(61,631)	(78,635)
Amortization of discount on contingent convertible notes	3,351	
Amortization of deferred policy acquisition costs	30,755	16,666
Provision for depreciation and other amortization	537	449
Amortization of discount and premiums on fixed maturity securities	(58,955)	(48,159)
Realized losses (gains) on investments	42	(232)
Change in fair value of derivatives	(49,328)	35,990
Deferred income taxes	(11,074)	(7,965)
Changes in other operating assets and liabilities:		
Accrued investment income	(19,067)	(9,735)
Federal income taxes recoverable/payable	12,186	5,834
Other policy funds and contract claims	1,321	7,068
Other amounts due to related parties	(7,152)	5,300
Other liabilities	(21,993)	19,699
Other	(2,258)	(258)
Net cash used in operating activities	(28,759)	(1,564)
Investing Activities		
Sales, maturities, or repayments of investments:		
Fixed maturity securities - available for sale	52,528	118,249
Fixed maturity securities - held for investment		723,072
Equity securities, available for sale	17,878	7,166
Mortgage loans on real estate	32,156	22,870
Derivative instruments	37,735	13,276
	140,297	884,633
Acquisition of investments:		
Fixed maturity securities - available for sale	(372,391)	(430,822)
Fixed maturity securities - held for investment	(176,169)	(786,971)
Equity securities, available for sale	(3,980)	(5,025)
Mortgage loans on real estate	(129,810)	(133,623)
Derivative instruments	(45,528)	(32,096)
Policy loans	(17)	(3)
	(727,895)	(1,388,540)
Purchases of property, furniture and equipment	(41)	(291)
Net cash used in investing activities	(587,639)	(504,198)

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	Three Months Ended March 31, 2006	2005
Financing activities		
Receipts credited to annuity and single premium universal life policyholder account balances	$ 564,667	$ 676,286
Coinsurance deposits-related parties	42,413	38,185
Return of annuity and single premium universal life policyholder account balances	(305,606)	(252,321)
Financing fees incurred and deferred	(1,036)	(156)
Repayments of notes payable	(1,024)	(966)
Increase in amounts due under repurchase agreements	217,349	8,996
Proceeds from issuance of subordinated debentures	30,000	
Tax benefits realized from exercise of stock options	137	
Net proceeds from issuance of common stock	377	
Net cash provided by financing activities	547,277	470,024
Decrease in cash and cash equivalents	(69,121)	(35,738)
Cash and cash equivalents at beginning of period	112,395	66,542
Cash and cash equivalents at end of period	$ 43,274	$ 30,804
Supplemental disclosures of cash flow information:		
Cash paid during period for:		
Interest expense	$ 10,652	$ 5,126
Income taxes	3,667	8,750
Non-cash financing and investing activities:		
Premium and interest bonuses deferred as sales inducements	37,890	33,787
Conversion of subordinated debentures	210	113
Subordinated debentures issued to subsidiary trusts for common equity securities of the subsidiary trust	928	

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Unaudited)

1. Organization and Significant Accounting Policies

Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements. The unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring items, which are necessary to present fairly our financial position and results of operations on a basis consistent with the prior audited consolidated financial statements. Operating results for the three months ended March 31, 2006, are not necessarily indicative of the results that may be expected for the year ended December 31, 2006. All significant intercompany accounts and transactions have been eliminated. For further information, refer to the audited consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

Reclassifications

Certain amounts in the unaudited consolidated financial statements for the period ended March 31, 2005 have been reclassified to conform to the financial statement presentation for the period ended March 31, 2006.

Stock-Based Compensation

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

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

The Company s 1996 Stock Option Plan authorized grants of options to officers, directors and employees for up to 1,200,000 shares of the Company s common stock. In 2000, the Company adopted the 2000 Employee Stock Option Plan which authorizes grants of options to officers and employees for up to 1,800,000 shares of the Company s common stock and the Company adopted the 2000 Directors Stock Option Plan which authorizes grants of options to directors for up to 225,000 shares. All options granted under the 1996 and 2000 plans have 10 year terms and a six month vesting period after which they become fully exercisable immediately.

Changes in the number of stock options outstanding during the three months ended March 31, 2006 are as follows:

	Number of Shares	Weighted-Average Exercise Price per Share	Total Exercise Amount
	(Dollars in thousands, except share and per share data)		
Outstanding at January 1, 2006	3,458,912	$ 6.82	$ 23,580
Granted	7,500	14.34	108
Exercised	(55,550)	6.79	(377)
Outstanding at March 31, 2006	3,410,862	6.83	23,311

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

	Stock Options Outstanding			Stock Options Vested		
Range of Exercise Prices	Number of Awards	Remaining Life (yrs)	Weighted Avg Exercise Price Per Share	Number of Awards	Remaining Life (yrs)	Weighted Avg Exercise Price Per Share
$ 3.33 - $ 5.33	1,466,950	1.12	$ 3.62	1,466,950	1.12	$ 3.62
$ 7.33 - $ 9.16	885,970	3.99	7.93	885,970	3.99	7.93
$ 9.49 - $11.35	1,026,442	6.79	10.30	1,017,442	6.76	10.29
$11.88 - $14.34	31,500	9.38	13.00	17,000	8.96	12.38
$ 3.33 - $14.34	3,410,862	3.65	6.83	3,387,362	3.61	6.79

The aggregate intrinsic value of stock options outstanding at March 31, 2006 was $25.6 million, of which $25.5 million relates to vested awards. For the three months ended March 31, 2006, the total intrinsic value of options exercised was $0.4 million. Intrinsic value for stock options is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company s common stock as of the reporting date. Cash received from stock options exercised for the three months ended March 31, 2006 was $0.4 million. The tax benefit realized for the tax deduction from the exercise of stock options was $0.1 million for the three months ended March 31, 2006. There were no exercises of stock options during the three months ended March 31, 2005.

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

	2006	2005
Average risk-free interest rate	4.82%	3.85%
Dividend yield	0%	0%
Average expected life	10 years	10 years
Volatility	26.8%	17.8%

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

Net income, as reported numerator for earnings per common share	$	12,528
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect		(430)
Net income, pro forma numerator for earnings per common share, pro forma		12,098
Interest related to convertible subordinated debentures (net of income tax benefit)		301
Numerator for earnings per common share - assuming dilution, pro forma	$	12,399
Earnings per common share, as reported	$	0.33
Earnings per common share, pro forma	$	0.32
Earnings per common share assuming dilution, as reported	$	0.29
Earnings per common share assuming dilution, pro forma	$	0.28

The Company has entered into deferred compensation arrangements with certain officers, directors, and consultants, whereby these individuals agreed to take common stock of the Company at a future date in lieu of cash payments at the time of service. The common stock is to be issued in conjunction with a trigger event , as that term is defined in the individual agreements. At March 31, 2006 and December 31, 2005, these individuals have earned, and the Company has reserved for future issuance, 405,397 and 399,647 shares of common stock, respectively, pursuant to these arrangements. The Company has accrued liabilities of $2.3 million and $2.2 million at March 31, 2006 and December 31, 2005, respectively, representing the fair value associated with the shares when earned.

During 1997, the Company established the American Equity Investment NMO Deferred Compensation Plan (NMO Deferred Compensation Plan) whereby agents can earn common stock in addition to their normal commissions. Awards are calculated using formulas determined annually by the Company s Board of Directors and are generally based upon new annuity deposits. The number of undistributed vested shares under this plan at March 31, 2006 and December 31, 2005 was 2,486,489 and 2,049,392 shares, respectively. The number of unvested shares under this plan at March 31, 2006 and December 31, 2005 was 578,080 and 1,015,178 shares, respectively. These shares will be distributed at the end of the vesting and deferral period of 9 years. A portion of the awards may be subject to forfeiture if certain production levels are not met over the remaining vesting period. The Company recognizes commission expense as the awards vest based upon the fair value of the Company s stock. For each of the three months ended March 31, 2006 and 2005, the Company recorded commission expense (capitalized as deferred policy acquisition costs) of $2.3 million under these plans. The Company records a liability for the unfunded vested shares equal to the fair market value of its stock. The liability at March 31, 2006 and December 31, 2005 was $12.4 million and $11.9 million, respectively.

The Company has a Rabbi Trust, the NMO Deferred Compensation Trust (the Trust) and has contributed shares of its common stock to the Trust to fund the vested shares liability established under the NMO Deferred Compensation Plan. In accordance with FASB s Emerging Issues Task Force Issue No. 97-14, *Accounting for Deferred Compensation Arrangements where Amounts Earned are Held in a Rabbi Trust and Invested* , the stock held in the Trust is included as part of common stock issued and outstanding. The common shares held in the Rabbi Trust and the related Trust obligation funded by such shares are included in common stock and additional paid-in capital as a respective deduction and addition, with no impact on the reported amount of total stockholders equity, as the Plan does not permit diversification and must be settled by the delivery of a fixed number of shares of the Company s stock. The number of shares held by the trust at March 31, 2006 and December 31, 2005 was 1,725,083 and 1,591,083, respectively. The Company contributed $1.9 million to the Trust, and the Trust purchased 134,000 shares during the three months ended March 31, 2006.

The Company has a Stock Option and Warrant Agreement with Mr. Noble (owner of 6% of its outstanding common stock at March 31, 2006) which allows the purchase of 1,200,000 shares of the Company s common stock. Included in the amount were warrants to purchase 240,000 shares of common stock at $3.33 per shares that were exercised in 2000 and options expiring in 2007 to purchase 600,000 shares of common stock at $3.33 per share and 360,000 shares of common stock at $7.33 per share.

New Accounting Pronouncements

In September 2005, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 05-1 (SOP 05-1), *Accounting by Insurance Enterprises for Deferred Acquisition Costs in*

Connection with Modifications or Exchanges of Insurance Contracts . SOP 05-1 provides guidance on accounting by insurance enterprises for deferred policy acquisition costs and deferred sales inducements on internal replacements of insurance contracts other than those specifically described in SFAS No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale on Investments* . SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights or coverages that occurs by exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 31, 2006. Retrospective application of SOP 05-1 to previously issued financial statements is not permitted. The Company is continuing to evaluate SOP 05-1 but does not believe that it will have a material impact on the consolidated financial statements.

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

2. Subordinated Debentures

On February 15, 2006, American Equity Capital Trust XII (Trust XII) issued $30.0 million of floating rate (three month London Interbank Offered Rate plus 3.50%) trust preferred securities. In connection with the issuance of these trust preferred securities and the related purchase by the Company of all of the Trust s common securities, the Company issued $30.9 million in principal amount of its floating rate subordinated debentures due February 15, 2036 to Trust XII. The sole assets of Trust XII are the subordinated debentures and any interest accrued thereon. The interest payment dates on the subordinated debentures correspond to the distribution dates on the trust preferred securities issued by Trust XII. The trust preferred securities mature simultaneously with the subordinated debentures. The Company s obligations under the subordinated debentures and related agreements provide a full and unconditional guarantee of payments due under the trust preferred securities. Although the Company owns all of the common securities of Trust XII, in accordance with FIN 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* , the Company does not consolidate Trust XII. This accounting treatment is more fully described in notes 1 and 9 to the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

3. Contingencies

Assessments are, from time to time, levied on the Company by life and health guaranty associations in most states in which the Company is licensed to cover losses to policyholders of insolvent or rehabilitated companies. The Company has a liability established for future assessments. The Company believes the liability for guaranty fund assessments is sufficient to provide for future assessments based upon known insolvencies.

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

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

4. Earnings Per Share

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

	Three Months Ended March 31,			
	2006		2005	
	(Dollars in thousands, except per share data)			
Numerator:				
Net income - numerator for earnings per common share	$	3,973	$	12,528
Interest on convertible subordinated debentures (net of income tax benefit)		270		301
Numerator for earnings per common share - assuming dilution	$	4,243	$	12,829
Denominator:				
Denominator for earnings per common share		55,553,981		38,372,359
Effect of dilutive securities:				
Convertible subordinated debentures		2,847,485		2,860,778
Stock options and management subscription rights		1,115,520		1,596,597
Deferred compensation agreements		1,282,196		835,268
Denominator for earnings per common share - assuming dilution		60,799,182		43,665,002
Earnings per common share	$	0.07	$	0.33
Earnings per common share - assuming dilution	$	0.07	$	0.29

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

Management s discussion and analysis reviews our unaudited consolidated financial position at March 31, 2006, and the unaudited consolidated results of operations for the three month periods ended March 31, 2006 and 2005, and where appropriate, factors that may affect future financial performance. This analysis should be read in conjunction with the unaudited consolidated financial statements and notes thereto appearing elsewhere in this Form 10-Q, and the audited consolidated financial statements, notes thereto and selected consolidated financial data appearing in our Annual Report on Form 10-K for the year ended December 31, 2005.

All statements, trend analyses and other information contained in this report and elsewhere (such as in filings by us with the Securities and Exchange Commission, press releases, presentations by us or our management or oral statements) relative to markets for our products and trends in our operations or financial results, as well as other statements including words such as anticipate, believe, plan, estimate, expect, intend, other similar expressions, constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results to be materially different from those contemplated by the forward-looking statements. Such factors include, among other things:

general economic conditions and other factors, including prevailing interest rate levels and stock and credit market performance which may affect (among other things) our ability to sell our products, our ability to access capital resources and the costs associated therewith, the fair value of our investments and the lapse rate and profitability of policies

customer response to new products and marketing initiatives

changes in Federal income tax laws and regulations which may affect the relative income tax advantages of our products

increasing competition in the sale of annuities

regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) bank sales and underwriting of insurance products and regulation of the sale, underwriting and pricing of products

the risk factors or uncertainties listed from time to time in our private placement memorandums or filings with the Securities and Exchange Commission

Overview

We specialize in the sale of individual annuities (primarily deferred annuities) and, to a lesser extent, we also sell life insurance policies. Under accounting principles generally accepted in the United States, or GAAP, premium collections for deferred annuities are reported as deposit liabilities instead of as revenues. Sources of revenues for products accounted for as deposit liabilities are net investment income, surrender charges deducted from the account balances of policyholders in connection with withdrawals, realized gains and losses on investments and changes in fair value of derivatives. Components of expenses for products accounted for as deposit liabilities are interest credited to account balances, changes in fair value of embedded derivatives, amortization of deferred policy acquisition costs and deferred sales inducements, other operating costs and expenses and income taxes.

Annuity deposits by product type collected during the three months ended March 31, 2006 and 2005, were as follows:

Product Type	Three Months Ended March 31, 2006	2005
	(Dollars in thousands)	
Index annuities:		
Index strategies	$ 362,438	$ 418,677
Fixed strategy	177,306	201,585
	539,744	620,262
Fixed rate annuities:		
Single-year rate guaranteed	23,568	52,116
Multi-year rate guaranteed	1,355	3,908
	24,923	56,024
Total before coinsurance ceded	564,667	676,286
Coinsurance ceded	950	1,792
Net after coinsurance ceded	$ 563,717	$ 674,494

Net annuity deposits after coinsurance ceded decreased 16% during the first quarter of 2006 compared to the same period in 2005. We attribute this decrease to the current interest rate environment which made fixed income alternatives such as certificates of deposit more attractive.

Earnings from products accounted for as deposit liabilities are primarily generated from the excess of net investment income earned over the interest credited to the policyholder, or the investment spread . In the case of index annuities, the investment spread consists of net investment income in excess of the cost of the options purchased to fund the index-based component of the policyholder s return and amounts credited as a result of minimum guarantees.

Our investment spread is summarized as follows:

	Three Months Ended March 31, 2006	2005
Average yield on investment assets	6.13%	6.22%
Cost of money:		
Aggregate	3.42%	3.70%
Average net cost of money for index annuities	3.13%	3.32%
Average crediting rate for fixed rate annuities:		
Annually adjustable	3.28%	3.34%
Multi-year rate guaranteed	5.49%	5.49%
Investment spread:		
Aggregate	2.71%	2.52%
Index annuities	3.00%	2.90%
Fixed rate annuities:		
Annually adjustable	2.85%	2.88%
Multi-year rate guaranteed	0.64%	0.73%

The cost of money, average crediting rates and investment spreads are computed without the impact of amortization of deferred sales inducements. With respect to our index annuities, the cost of money includes the average crediting rate on amounts allocated to the fixed rate options, expenses we incur to fund the annual index credits and minimum guaranteed interest credited on the index business. Proceeds received upon expiration or early termination of call options purchased to fund annual index credits are recorded as part of the change in fair value of derivatives, and are

largely offset by an expense for interest credited to annuity policyholder account balances. See Critical Accounting Policies - Derivatives Instruments - Index Products included in Management s Discussion and Analysis included in our Annual Report on Form 10-K for the year ended December 31, 2005.

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

Results of Operations

Three Months Ended March 31, 2006 and 2005

Annuity and single premium universal life product charges (surrender charges assessed against policy withdrawals and mortality and expense charges assessed against single premium universal life policyholder account balances) increased 21% to $7.6 million for the first quarter of 2006, compared to $6.3 million for the same period in 2005. The increase in surrender charges collected during the first quarter of 2006 compared to the same period in 2005 was principally due to a higher amount of surrenders subject to surrender charges in 2006. Withdrawals from annuity and single premium universal life policies subject to surrender charges were $50.9 million and $43.2 million for the three months ended March 31, 2006 and 2005, respectively.

Net investment income increased 30% to $162.4 million in the first quarter of 2006, compared to $124.8 million for the same period in 2005. This increase is principally attributable to the growth in our annuity business and a corresponding increase in our invested assets, offset by a decrease in the average yield earned on investments. Invested assets (on an amortized cost basis) increased 31% to $11.0 billion at March 31, 2006 compared to $8.4 billion at March 31, 2005, while the average yield earned on average invested assets was 6.13% and 6.22% for the three months ended March 31, 2006 and 2005, respectively. The decline in the yield earned on average invested assets is attributable to a general decline in interest rates and the reinvestment of net redemption proceeds from called securities at lower yields. See Quantitative and Qualitative Disclosures About Market Risk.

Realized gains (losses) on investments fluctuate from period to period due to changes in the interest rate and economic environment and the timing of the sale of investments. Realized gains and losses on investments include gains and losses on the sale of securities as well as losses recognized when the fair value of a security is written down in recognition of an other than temporary impairment. The components of realized gains (losses) on investments for the three months ended March 31, 2006 and 2005 are set forth as follows:

	Three Months Ended March 31, 2006	2005
	(Dollars in thousands)	
Available for sale fixed maturity securities:		
Gross realized gains	$ 2,022	$ 261
Gross realized losses	(2,507)	(62)
	(485)	199
Equity securities	443	33
	$ (42)	$ 232

Change in fair value of derivatives (call options purchased to fund annual index credits on index annuities) was an increase of $49.3 million in the first quarter of 2006, compared to a decrease of $36.0 million for the same period in 2005. The difference between the change in fair value of derivatives between the periods is primarily due to the performance of the indices upon which our options are based. A substantial portion of our options are based upon the S&P 500 Index with the remainder based upon other equity and bond market indices. The range of index appreciation for options expiring during the three months ended March 31, 2006 and 2005 is as follows:

	Three Months Ended March 31, 2006	2005
S&P 500 Index		
Point-to-point strategy	5.06% - 10.83%	1.71%-7.62%
Monthly average strategy	1.08% - 4.87%	0.00%-4.82%
Monthly point-to-point strategy	3.21% - 8.68%	N/A
Lehman Brothers U.S. Aggregate and U.S. Treasury indices	1.09% - 3.80%	1.19%-4.39%

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

The change in fair value of derivatives is also influenced by the aggregate cost of options purchased. The aggregate cost of options has increased primarily due to an increased amount of index annuities in force. The aggregate cost of options is also influenced by the amount of policyholder funds allocated to the various indices, market volatility which affects option pricing and the policy terms and historical experience which affects the strikes and caps of the options we purchase. See Critical Accounting Policies - Derivatives Instruments - Index Products included in Management s Discussion and Analysis included in our Annual Report on Form 10-K for the year ended December 31, 2005.

Interest credited to account balances increased 48% to $92.5 million in the first quarter of 2006, compared to $62.5 million for the same period in 2005. The components of interest credited to account balances are summarized as follows:

	Three Months Ended March 31, 2006 (Dollars in thousands)	2005
Index credits on index policies	$ 31,162	$ 9,440
Interest credited on fixed rate annuities and amounts allocated to fixed rate option and minimum guaranteed interest for index annuities	52,446	50,246
Amortization of deferred sales inducements	8,938	2,857
	$ 92,546	$ 62,543

The changes in index credits were attributable to changes in the appreciation of the underlying indices (see discussion above under change in fair value of derivatives) and the amount of funds allocated by policyholders to the respective index options. The increase in interest credited on fixed rate annuities and amounts allocated to the fixed rate option and minimum guaranteed interest for index annuities was due to the growth in the annuity liabilities outstanding, partially offset by decreases in interest crediting rates on many of our products which we implemented in connection with our spread management process (see table above for average crediting rates for fixed rate annuities). The average amount of annuity liabilities outstanding (net of annuity liabilities ceded under coinsurance agreements) increased 31% during the three months ended March 31, 2006 to $10.4 billion from $7.9 billion during the same period in 2005.

The increase in amortization of deferred sales inducements during the three months ended March 31, 2006 was principally attributable to growth in account balances attributable to premium and interest bonus products. Bonus products represented 73% and 70% of our total annuity deposits during the three months ended March 31, 2006 and 2005, respectively. The comparison between periods is also affected by amortization associated with the application of Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133) to our index annuity business. The application of SFAS No. 133 to our index annuity business creates

differences in the recognition of revenues and expenses from derivative instruments including the embedded derivative liabilities in our index annuity contracts. The change in fair value of the embedded derivatives will not correspond to the change in fair value of the purchased options because the purchased options are one-year options while the options valued in the fair value of embedded derivatives cover the expected life of the contracts which typically exceed 10 years. The gross profit adjustments resulting from the application of SFAS No. 133 to our index annuity business increased amortization by $3.1 million for the first quarter of 2006 and reduced amortization by $0.4 million for the same period in 2005. See Critical Accounting Policies - Deferred Policy Acquisition Costs and Deferred Sales Inducements included in Management s Discussion and Analysis included in our Annual Report on Form 10-K for the year ended December 31, 2005.

Change in fair value of embedded derivatives was an increase of $62.8 million in the first quarter of 2006 compared to a decrease of $18.6 million for the first quarter of 2005. The 2006 amount includes $25.3 million for the change in fair value of the conversion option embedded within our contingent convertible senior notes. This option is required to be marked to market in accordance with SFAS No. 133. See note 7 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2005. The portion of the change recognized during the first quarter of 2006 related to the embedded derivatives within our index annuities was a $37.5 million increase compared to a $18.6 million decrease for the first quarter of 2005. This change primarily resulted from an increase in expected index credits on the next policy anniversary dates, which are related to the change in the fair value of the options acquired to fund these index credits discussed above in change in fair value of derivatives . In addition, the host value of the index reserve liabilities increased primarily as a result of increases in index annuity premium deposits. See Critical Accounting Policies - Derivative Instruments - Index Products included in Management s Discussion and Analysis included in our Annual Report on Form 10-K for the year ended December 31, 2005.

Interest expense on notes payable increased to $7.3 million in the first quarter of 2006 compared to $4.1 million for the same period in 2005. This increase was primarily due to $3.4 million of amortization of the discount created in the fourth quarter of 2005 when the conversion option embedded in our contingent convertible senior notes was bifurcated from the host instrument. See note 7 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2005.

Interest expense on subordinated debentures increased 61% to $4.9 million in the first quarter of 2006 compared to $3.0 million for the same period in 2005. This increase was primarily due to the issuance of additional subordinated debentures of $30.9 million during 2006 and $56.7 million in 2005 and increases in weighted average interest rates, which were 7.99% and 7.02% for the first quarter of 2006 and 2005, respectively. The amount of subordinated debentures outstanding at March 31, 2006 was $261.6 million compared to $173.6 million at March 31, 2005.

Interest expense on amounts due under repurchase agreements increased to $5.8 million in the first quarter of 2006 compared to $1.4 million for the same period in 2005. This increase is principally due to increases in the borrowings outstanding which averaged $508.9 million and $211.6 million for the first quarter of 2006 and 2005, respectively and changes in the weighted average interest rates on amounts borrowed which were 4.62% and 2.74%, respectively.

Amortization of deferred policy acquisition costs increased 85% to $30.8 million in the first quarter of 2006, compared to $16.7 million for the same period in 2005. This increase is primarily due to additional annuity deposits as discussed above. The comparison between periods is also affected by amortization associated with the application of SFAS No. 133 to our index annuity business as discussed above. The gross profit adjustments resulting from the application of SFAS No. 133 to our index annuity business increased amortization by $7.9 million in the first quarter of 2006 and reduced amortization by $1.8 million for the same period in 2005.

Other operating costs and expenses increased 25% to $10.2 million in the first quarter of 2006, compared to $8.1 million for the same period in 2005. This increase was principally attributable to an increase of $1.1 million in salaries and related costs of employment due to growth in our annuity business and $0.7 million in risk charges related to our reinsurance agreements with Hannover Life Reassurance Company of America (Hannover). See note 5 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2005 for more information on our reinsurance agreements with Hannover.

Financial Condition

Investments

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

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

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

Investments increased to $11.0 billion at March 31, 2006 compared to $10.5 billion at December 31, 2005 as a result of the growth in our annuity business discussed above. At March 31, 2006, the fair value of our available for sale fixed maturity and equity securities was $195.8 million less than the amortized cost of those investments, compared to $88.7 million at December 31, 2005. At March 31, 2006, the amortized cost of our fixed maturity securities held for investment exceeded the fair value by $343.4 million, compared to $112.8 million at December 31, 2005. The increase in the net unrealized investment losses at March 31, 2006 compared to December 31, 2005 is principally related to an increase in invested assets and an increase in market interest rates.

The composition of our investment portfolio is summarized as follows (dollars in thousands):

	March 31, 2006		December 31, 2005	
	Carrying Amount	Percent	Carrying Amount	Percent
Fixed maturity securities:				
United States Government full faith and credit	$ 2,685		$ 2,774	
United States Government sponsored agencies	7,772,838	70.4%	7,445,474	71.0%
Public utilities	137,720	1.2%	133,346	1.3%
Corporate securities	756,908	6.9%	674,230	6.4%
Redeemable preferred stocks	55,385	0.5%	46,896	0.4%
Mortgage and asset-backed securities:				
Government	192,587	1.7%	220,379	2.1%
Non-government	377,276	3.4%	377,011	3.6%
Total fixed maturity securities	9,295,399	84.1%	8,900,110	84.8%

Equity securities		72,643	0.7%		84,846	0.8%
Mortgage loans on real estate		1,419,291	12.9%		1,321,637	12.6%
Derivative instruments		248,689	2.3%		185,391	1.8%
Policy loans		379			362	
	$	11,036,401	100.0%	$	10,492,346	100.0%

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

	Number of Positions	Amortized Cost	Unrealized Losses	Estimated Fair Value
		(Dollars in thousands)		
March 31, 2006				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	3	$ 1,703	$ (60)	$ 1,643
United States Government sponsored agencies	76	3,047,475	(144,966)	2,902,509
Public utilities	23	128,900	(3,745)	125,155
Corporate securities	84	552,443	(25,340)	527,103
Redeemable preferred stocks	12	40,683	(2,074)	38,609
Mortgage and asset-backed securities:				
United States Government and agencies	10	173,457	(3,747)	169,710
Non-government	29	381,421	(18,763)	362,658
	237	$ 4,326,082	$ (198,695)	$ 4,127,387
Held for investment:				
United States Government sponsored agencies	89	$ 4,870,329	$ (343,420)	$ 4,526,909
	89	$ 4,870,329	$ (343,420)	$ 4,526,909
Equity securities, available for sale:				
Non-redeemable preferred stocks	13	$ 50,141	$ (1,902)	$ 48,239
Common stocks	5	7,696	(1,144)	6,552
	18	$ 57,837	$ (3,046)	$ 54,791
December 31, 2005				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	2	$ 902	$ (24)	$ 878
United States Government sponsored agencies	70	2,822,317	(67,471)	2,754,846
Public utilities	15	84,690	(1,306)	83,384
Corporate securities	54	374,502	(12,596)	361,906
Redeemable preferred stocks	10	35,013	(2,076)	32,937
Mortgage and asset-backed securities:				
United States Government and agencies	7	47,053	(160)	46,893
Non-government	25	280,226	(12,933)	267,293
	183	$ 3,644,703	$ (96,566)	$ 3,548,137
Held for investment:				
United States Government sponsored agencies	81	$ 4,541,914	$ (113,290)	$ 4,428,624
	81	$ 4,541,914	$ (113,290)	$ 4,428,624
Equity securities, available for sale:				
Non-redeemable preferred stocks	12	$ 44,665	$ (2,075)	$ 42,590
Common stocks	5	8,816	(1,534)	7,282
	17	$ 53,481	$ (3,609)	$ 49,872

The amortized cost and estimated fair value of fixed maturity securities at March 31, 2006 and December 31, 2005 by contractual maturity, that were in an unrealized loss position are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. All of our mortgage-backed and asset-backed securities provide for periodic payments throughout their lives, and are shown below as a separate line.

	Available-for-sale		Held for investment	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
March 31, 2006				
Due after one year through five years	$ 44,973	$ 43,676	$	$
Due after five years through ten years	464,733	439,449		
Due after ten years through twenty years	2,072,494	1,986,674	347,808	335,159
Due after twenty years	1,189,004	1,125,220	4,522,521	4,191,750
	3,771,204	3,595,019	4,870,329	4,526,909
Mortgage-backed and asset-backed securities	554,878	532,368		
	$ 4,326,082	$ 4,127,387	$ 4,870,329	$ 4,526,909
December 31, 2005				
Due after one year through five years	$ 31,264	$ 29,906	$	$
Due after five years through ten years	367,098	351,739		
Due after ten years through twenty years	1,821,658	1,783,303	347,612	343,806
Due after twenty years	1,097,404	1,069,003	4,194,302	4,084,818
	3,317,424	3,233,951	4,541,914	4,428,624
Mortgage-backed and asset-backed securities	327,279	314,186		
	$ 3,644,703	$ 3,548,137	$ 4,541,914	$ 4,428,624

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

		March 31, 2006		December 31, 2005	
NAIC Designation	Rating Agency Equivalent	Carrying Amount	Percent	Carrying Amount	Percent
1	Aaa/Aa/A	$ 8,710,802	93.7%	$ 8,368,330	94.0%
2	Baa	473,636	5.1%	416,614	4.7%
3	Ba	95,765	0.9%	93,335	1.0%
4	B	3,368	0.1%	3,396	0.1%
5	Caa and lower	7,110	0.1%	11,719	0.1%
6	In or near default	4,718	0.1%	6,716	0.1%
		$ 9,295,399	100.0%	$ 8,900,110	100.0%

At March 31, 2006 and December 31, 2005 the fair value of investments we owned that were non-investment grade or not rated was $111.0 million and $115.2 million, respectively. Non-investment grade or not rated securities represented 1.2% at March 31, 2006 and 0.9% at December 31, 2005, of the fair value of our fixed maturity securities. The unrealized losses on investments we owned that were non-investment grade or not rated at March 31, 2006 and December 31, 2005,

were $6.0 million and $5.8 million, respectively. The unrealized losses on such securities at March 31, 2006 and December 31, 2005 represented .01% and 2.8%, respectively, of gross unrealized losses on fixed maturity securities.

At each balance sheet date, we identify invested assets which have characteristics (i.e. significant unrealized losses compared to book value and industry trends) creating uncertainty as to our future assessment of an other than temporary impairment. We include these securities on a list which is referred to as our watch list. We exclude from this list securities with unrealized losses which are related to market movements in interest rates and which have no factors indicating that such unrealized losses may be other than temporary. At March 31, 2006, the amortized cost and estimated fair value of fixed maturity securities on the watch list are as follows (dollars in thousands):

Issuer	Amortized Cost	Unrealized Losses	Estimated Fair Value	Maturity Date	Months Below Amortized Cost
Ford Motor Co.	$ 5,003	$ (1,303)	$ 3,700	07/16/2031	7

Our analysis of Ford Motor Co. and its credit performance at March 31, 2006 is as follows:

Ford s senior unsecured credit rating was lowered on August 24, 2005 due to intensified competition, high labor costs and consistently slipping market share in North America. We determined that an other than temporary impairment charge on these securities was not necessary as Ford has strong liquidity allowing for time to correct market share losses and improve its cost structure.

The security on the watch list is current in respect to payments of principal and interest. We have concluded that we have the intent and the ability to hold this security for a period of time sufficient to allow for a recovery in fair value and that there was no other than temporary impairment on this investment at March 31, 2006.

During the first quarter of 2006, we made the determination that an other than temporary impairment had occurred on two of our asset-backed securities backed by leases on airplanes. The other than temporary impairment on these securities resulted from continuing problems in the airline industry and deterioration in the underlying collateral which resulted in changes in the amount of expected principal and interest payments. Concurrent with the determination that these securities were other than temporarily impaired, we decided to sell these securities. The write down/realized loss on these securities was $2.5 million for the three months ended March 31, 2006. We had previously written down these securities by $1.9 million during 2001, $3.0 million during 2002, $2.9 million during 2003 and $2.7 million during 2005 due to deterioration in the underlying collateral.

There were no writedowns on any investments during the three months ended March 31, 2005 due to other than temporary impairments.

At March 31, 2006 and December 31, 2005, we held $1.4 billion and $1.3 billion, respectively, of mortgage loans with commitments outstanding of $77.5 million at March 31, 2006. The portfolio consists of commercial mortgage loans diversified as to property type, location and loan size. The loans are collateralized by the related properties. Our mortgage lending policies establish limits on the amount that can be loaned to one borrower and require diversification by geographic location and collateral type. As of March 31, 2006, there were no delinquencies or defaults in our mortgage loan portfolio. The commercial mortgage loan portfolio is diversified by geographic region and specific collateral property type as follows (dollars in thousands):

	March 31, 2006			December 31, 2005		
		Carrying Amount	Percent		Carrying Amount	Percent
Geographic distribution						
East	$	307,871	21.7%	$	283,085	21.4%
Middle Atlantic		99,489	7.0%		93,579	7.1%
Mountain		220,261	15.5%		198,476	15.0%
New England		44,231	3.1%		47,839	3.6%
Pacific		123,230	8.7%		117,977	8.9%
South Atlantic		230,890	16.3%		213,423	16.1%
West North Central		268,241	18.9%		258,181	19.6%
West South Central		125,078	8.8%		109,077	8.3%
	$	1,419,291	100.0%	$	1,321,637	100.0%

	March 31, 2006		December 31, 2005	
	Carrying Amount	Percent	Carrying Amount	Percent
Property type distribution				
Office	$ 427,358	30.2%	$ 384,606	29.1%
Medical Office	80,169	5.6%	75,716	5.7%
Retail	299,034	21.1%	285,715	21.6%
Industrial/Warehouse	358,281	25.2%	346,461	26.2%
Hotel	61,373	4.3%	52,274	4.0%
Apartment	81,077	5.7%	68,795	5.2%
Mixed use/other	111,999	7.9%	108,070	8.2%
	$ 1,419,291	100.0%	$ 1,321,637	100.0%

Liquidity

On February 15, 2006, American Equity Capital Trust XII (Trust XII) issued $30.0 million of floating rate (three month London Interbank Offered Rate plus 3.50%) trust preferred securities. In connection with the issuance of these trust preferred securities and the related purchase by us of all of the Trust s common securities, we issued $30.9 million in principal amount of our floating rate subordinated debentures due February 15, 2036 to Trust XII. The sole assets of Trust XII are the subordinated debentures and any interest accrued thereon. The terms of the preferred securities issued by Trust XII parallel the terms of the subordinated debentures. Our obligations under the subordinated debentures and related agreements provide a full and unconditional guarantee of payments due under the trust preferred securities. In accordance with Financial Accounting Standards Board Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* , we do not consolidate our subsidiary trusts and record our subordinated debt obligations to the trusts and our equity investments in the trusts. See notes 1 and 9 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2005.

The statutory capital and surplus of our life insurance subsidiaries at March 31, 2006 was $735.8 million. American Equity Life made surplus note interest payments to us of $1.0 million during the three months ended March 31, 2006. For the remainder of 2006, up to $68.7 million can be distributed by American Equity Life as dividends without prior regulatory approval. Dividends may be made only out of earned surplus, and all surplus note payments are subject to prior approval by regulatory authorities. American Equity Life had approximately $111.5 million of statutory earned surplus at March 31, 2006.

The transfer of funds by American Equity Life is also restricted by a covenant in our revolving line of credit which requires American Equity Life to maintain a minimum risk-based capital ratio of 200%.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We seek to invest our available funds in a manner that will maximize shareholder value and fund future obligations to policyholders and debtors, subject to appropriate risk considerations. We seek to meet this objective through investments that: (i) consist predominately of investment grade fixed maturity securities; (ii) have projected returns which satisfy our spread targets; and (iii) have characteristics which support the underlying liabilities. Many of our products incorporate surrender charges, market interest rate adjustments or other features to encourage persistency.

We seek to maximize the total return on our available for sale investments through active investment management. Accordingly, we have determined that our available for sale portfolio of fixed maturity securities is available to be sold in response to: (i) changes in market interest rates; (ii) changes in relative values of individual securities and asset sectors; (iii) changes in prepayment risks; (iv) changes in credit quality outlook for certain securities; (v) liquidity needs: and (vi) other factors. We have a portfolio of held for investment securities which consists principally of long duration bonds issued by U.S. government agencies. These securities are purchased to secure long-term yields which meet our spread targets and support the underlying liabilities.

Interest rate risk is our primary market risk exposure. Substantial and sustained increases and decreases in market interest rates can affect the profitability of our products, the amount of interest we pay on our subordinated debentures, and the fair value of our investments. Our floating rate trust preferred securities issued by Trust III, IV, VII, VIII, IX, X, XI (beginning on December 31, 2010) and XII bear interest at the three month LIBOR plus 3.50% - 4.00%. Our outstanding balance of floating rate trust preferred securities was $134.5 million at March 31, 2006. The profitability of most of our products depends on the spreads between interest yield on investments and rates credited on insurance liabilities. We have the ability to adjust crediting rates (participation or asset fee rates for index annuities) on substantially all of our annuity liabilities at least annually (subject to minimum guaranteed values). In addition, substantially all of our annuity products have surrender and withdrawal penalty provisions designed to encourage persistency and to help ensure targeted spreads are earned. However, competitive factors, including the impact of the level of surrenders and withdrawals, may limit our ability to adjust or maintain crediting rates at levels necessary to avoid narrowing of spreads under certain market conditions.

A major component of our interest rate risk management program is structuring the investment portfolio with cash flow characteristics consistent with the cash flow characteristics of our insurance liabilities. We use computer models to simulate cash flows expected from our existing business under various interest rate scenarios. These simulations enable us to measure the potential gain or loss in fair value of our interest rate-sensitive financial instruments, to evaluate the adequacy of expected cash flows from our assets to meet the expected cash requirements of our liabilities and to determine if it is necessary to lengthen or shorten the average life and duration of our investment portfolio. The duration of a security is the time weighted present value of the security s expected cash flows and is used to measure a security s sensitivity to changes in interest rates. When the durations of assets and liabilities are similar, exposure to interest rate risk is minimized because a change in value of assets should be largely offset by a change in the value of liabilities.

If interest rates were to increase 10% (49 basis points) from levels at March 31, 2006, we estimate that the fair value of our fixed maturity securities would decrease by approximately $396.2 million. The impact on stockholders equity of such decrease (net of income taxes and certain adjustments for changes in amortization of deferred policy acquisition costs and deferred sales inducements) would be an increase of $50.0 million in the accumulated other comprehensive loss. The computer models used to estimate the impact of a 10% change in market interest rates incorporate numerous assumptions, require significant estimates and assume an immediate and parallel change in interest rates without any management of the investment portfolio in reaction to such change. Consequently, potential changes in value of our financial instruments indicated by the simulations will likely be different from the actual changes experienced under given interest rate scenarios, and the differences may be material. Because we actively manage our investments and liabilities, our net exposure to interest rates can vary over time. However, any such decreases in the fair value of our fixed maturity securities (unless related to credit concerns of the issuer requiring recognition of an other than temporary impairment) would generally be realized only if we were required to sell such securities at losses prior to their maturity to meet our liquidity needs, which we manage using the surrender and withdrawal provisions of our annuity contracts and through other means as discussed earlier. See Financial Condition - Liquidity for Insurance Operations included in Management s Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2005.

At March 31, 2006, 86% of our fixed income securities have call features and 15% were subject to call redemption. Another 65% will become subject to call redemption through December 31, 2006. There were no bonds called during the first quarter of 2006. During the first quarter of 2005, we received $0.8 billion in net redemption proceeds related to the exercise of such call options. We have reinvestment risk related to these redemptions to the extent we cannot reinvest the net proceeds in assets with credit quality and yield characteristics similar to the redeemed bonds. Such reinvestment risk typically occurs in a declining rate environment. Should rates decline to levels which tighten the spread between our average portfolio yield and average cost of interest credited on annuity liabilities, we have the ability to reduce crediting rates on most of our annuity liabilities to maintain the spread at our targeted level. At March 31, 2006 approximately 92% of our annuity liabilities were subject to annual adjustment of the applicable crediting rates at our discretion, limited by minimum guaranteed crediting rates of 2% to 4%.

With respect to our index annuities, we purchase call options on the applicable indices to fund the annual index credits on such annuities. These options are primarily one-year instruments purchased to match the funding requirements of the underlying policies. Fair value changes associated with those investments are substantially offset by an increase or decrease in the amounts added to policyholder account balances for index products. For the three months ended March 31, 2006 and 2005, the annual index credits to policyholders on their anniversaries was $31.2 million and $9.4 million, respectively. Proceeds received at expiration of these options related to such credits were $33.3 million and $8.7 million, respectively. The difference between proceeds received at expiration of these options and index credits for the three months ended March 31, 2005 is primarily due to credits attributable to minimum guaranteed interest self funded by us. Within our hedging process we purchase options out of the money to the extent of anticipated minimum guaranteed interest on index policies. On the anniversary dates of the index policies, we purchase new one-year call options to fund the next annual index credits. The risk associated with these prospective purchases is the uncertainty of the cost, which will determine whether we are able to earn our spread on our index business. This is a risk we attempt to manage through the terms of our index annuities, which permit us to change annual participation rates, asset fees, and caps, subject to contractual features. By modifying participation rates, asset fees or caps, we can limit option costs to budgeted amounts, except in cases where the contractual features would prevent further modifications. Based upon actuarial testing which we conduct as a part of the design of our index products and on an ongoing basis, we believe the risk that contractual features would prevent us from controlling option costs is not material.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

In accordance with the Securities Exchange Act Rules 13a-15 and 15d-15, our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our Company s disclosure controls and procedures were effective.

There have been no other significant changes in our internal controls over financial reporting or in other factors that could significantly affect internal controls over financial reporting subsequent to the date of such evaluation.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

Companies in the life insurance and annuity business have faced litigation, including class action lawsuits, alleging improper product design, improper sales practices and similar claims. We are currently a defendant in several purported class action lawsuits filed in state courts alleging improper sales practices. In these lawsuits, the plaintiffs are seeking returns of premiums and other compensatory and punitive damages. We

have reached a final settlement in one of these cases, the impact of which is expected to be immaterial. The class was certified as such incident to the settlement of that case. No class has been certified in any of the other pending cases at this time. Although we have denied all allegations in these lawsuits and intend to vigorously defend against them, the lawsuits are in the early stages of litigation and neither their outcomes nor a range of possible outcomes can be determined at this time. However, we do not believe that these lawsuits will have a material adverse effect on our business, financial condition or results of operations.

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

ITEM 6. EXHIBITS

(a) Exhibits:

4.29	Indenture dated February 15, 2006 between American Equity Investment Life Holding Company and Wells Fargo Bank, National Association, as trustee
4.30	Guarantee Agreement dated February 15, 2006 between American Equity Investment Life Holding Company and Wells Fargo Bank, National Association, as trustee
10.22	2005 Coinsurance and Yearly Renewable Term Reinsurance Agreement dated October 1, 2005, between American Equity Investment Life Insurance Company and Hannover Life Reassurance Company of America
10.23	Amendment I to 2005 Coinsurance and Yearly Renewable Term Reinsurance Agreement dated October 1, 2005, between American Equity Investment Life Insurance Company and Hannover Life Reassurance Company of America
10.24	Amendment II to 2005 Coinsurance and Yearly Renewable Term Reinsurance Agreement dated October 1, 2005, between American Equity Investment Life Insurance Company and Hannover Life Reassurance Company of America
12.1	Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 9, 2006

AMERICAN EQUITY INVESTMENT LIFE
HOLDING COMPANY

By: /s/ David J. Noble
David J. Noble, Chief Executive Officer
(Principal Executive Officer)

By: /s/ Wendy L. Carlson
Wendy L. Carlson, Chief Financial Officer
(Principal Financial Officer)

By: /s/ Ted M. Johnson
Ted M. Johnson, Vice President - Accounting
(Principal Accounting Officer)