AMERUS GROUP CO/IA
Form 10-Q
August 02, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from __________ to __________

Commission File Number 001-15166

AMERUS GROUP CO.

(Exact name of registrant as specified in its charter)

IOWA	**42-1458424**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
699 Walnut Street Des Moines, Iowa	**50309-3948**
(Address of principal executive offices)	(Zip code)

(515) 362-3600

Registrant s telephone number, including area code

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock 38,169,982 shares as of July 31, 2006

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SAFE HARBOR STATEMENT

This Quarterly Report on Form 10-Q, including the Management s Discussion and Analysis of Financial Condition and Results of Operations, contains statements which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements relating to trends in our operations and financial results and our business and products, which include words such as anticipate, believe, plan, estimate, expect, intend, and other similar expressions. Forward-looking statements are made based upon management s current expectations and beliefs concerning future developments and their potential effects on the Company. Such forward-looking statements are not guarantees of future performance. Factors that may cause our actual results to differ materially from those contemplated by these forward-looking statements include, among others, the following possibilities: (a) our shareholders may not approve and adopt the merger agreement with Aviva plc and the transactions contemplated by the merger agreement at the special shareholder meeting; (b) the parties may be unable to obtain governmental and regulatory approvals required for such merger, or required governmental and regulatory approvals may delay the merger or result in the imposition of conditions that could cause the parties to abandon the merger; (c) the parties may be unable to complete the merger because, among other reasons, conditions to the closing of the merger may not be satisfied or waived; (d) general economic conditions and other factors, including prevailing interest rate levels and stock and bond market performance, which may affect (1) our ability to sell our products, (2) the market value of our investments and consequently protection product and accumulation product margins and (3) the lapse rate and profitability of policies; (e) the performance of our investment portfolios which may be affected by general economic conditions, the continued credit quality of the companies whose securities we invest in and the impact of other investment transactions; (f) customer response to new products, distribution channels and marketing initiatives and increasing competition in the sale of insurance and annuities and the recruitment of sales representatives from companies that may have greater financial resources, broader arrays of products, higher ratings and stronger financial performance may impair our ability to retain existing customers, attract new customers and maintain our profitability; (g) our ratings and those of our subsidiaries by independent rating organizations which we believe are particularly important to the sale of our products; (h) mortality, morbidity, and other factors which may affect the profitability of our insurance products; (i) our ability to develop and maintain effective risk management policies and procedures and to maintain adequate reserves for future policy benefits and claims; (j) litigation or regulatory investigations or examinations; (k) regulatory changes, interpretations, initiatives or pronouncements, including those relating to the regulation of insurance companies and the regulation and sales of their products and the programs in which they are used; (l) changes in the federal income tax and other federal laws, regulations, and interpretations, including federal regulatory measures that may significantly affect the insurance business including limitations on antitrust immunity, the applicability of securities laws to insurance products, minimum solvency requirements, and changes to the tax advantages offered by life insurance and annuity products or programs with which they are used; (m) the impact of changes in standards of accounting; (n) our ability to achieve anticipated levels of operational efficiencies and cost-saving initiatives and to meet cash requirements based upon projected liquidity sources; (o) our ability to integrate the business and operations of acquired entities; and (p) various other factors discussed in Item 1A. Risk Factors of our Annual Report on Form 10-K for the period ended December 31, 2005, and of this Quarterly Report on Form 10-Q.

There can be no assurance that other factors not currently anticipated by us will not materially and adversely affect our results of operations. You are cautioned not to place undue reliance on any forward-looking statements made by us or on our behalf. Forward-looking statements speak only as of the date the statement was made. We undertake no obligation to update or revise any forward-looking statement.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

AMERUS GROUP CO.

CONSOLIDATED BALANCE SHEETS

($ in thousands)

	June 30, 2006 (unaudited)	December 31, 2005
Assets		
Investments:		
Securities available-for-sale at fair value:		
Fixed maturity securities	$ 16,201,102	$ 16,727,933
Equity securities	80,119	75,658
Short-term investments	9,999	9,998
Securities held-for-trading purposes at fair value:		
Fixed maturity securities	1,276,341	1,414,225
Equity securities	4,143	2,358
Short-term investments	3,962	
Mortgage loans	988,008	976,135
Policy loans	500,410	483,441
Other investments	425,004	347,552
Total investments	19,489,088	20,037,300
Cash and cash equivalents	491,229	600,160
Accrued investment income	236,155	237,221
Premiums, fees and other receivables	35,855	40,667
Income taxes receivable	25,477	9,005
Reinsurance receivables	745,907	730,532
Deferred policy acquisition costs	2,134,740	1,755,159
Deferred sales inducements	340,675	261,322
Value of business acquired	356,674	356,949
Goodwill	229,670	228,869
Property and equipment	46,398	44,467
Other assets	312,851	306,655
Separate account assets	209,605	221,694
Total assets	$ 24,654,324	$ 24,830,000

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.
CONSOLIDATED BALANCE SHEETS
($ in thousands)

	June 30, 2006 (unaudited)	December 31, 2005
Liabilities and Stockholders Equity		
Liabilities:		
Policy reserves and policyowner funds:		
Future life and annuity policy benefits	$ 19,690,434	$ 19,486,854
Policyowner funds	1,584,548	1,483,873
	21,274,982	20,970,727
Accrued expenses and other liabilities	438,726	500,858
Payable for collateral under securities lending and other transactions	391,468	474,561
Dividends payable to policyowners	160,874	278,839
Policy and contract claims	50,329	66,137
Deferred income taxes	3,191	58,818
Notes payable	564,744	556,051
Separate account liabilities	209,605	221,694
Total liabilities	23,093,919	23,127,685
Stockholders equity:		
Preferred Stock, no par value, 20,000,000 shares authorized, 6,000,000 shares issued and outstanding in 2006 and 2005	144,774	144,830
Common Stock, no par value, 230,000,000 shares authorized; 46,944,310 shares issued and 38,137,344 shares outstanding in 2006; 46,675,811 shares issued and 38,612,874 shares outstanding in 2005	46,944	46,676
Additional paid-in capital common stock	1,244,023	1,231,533
Accumulated other comprehensive loss	(219,214)	(3,612)
Unearned compensation		(3,783)
Retained earnings	728,197	604,747
Treasury stock, at cost (8,806,966 shares in 2006 and 8,062,937 shares in 2005)	(384,319)	(318,076)
Total stockholders equity	1,560,405	1,702,315
Total liabilities and stockholders equity	$ 24,654,324	$ 24,830,000

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.
CONSOLIDATED STATEMENTS OF INCOME
($ in thousands, except share data)

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2006	2005	2006	2005
	(unaudited)			
Revenues:				
Insurance premiums	$ 54,845	$ 61,001	$ 108,343	$ 123,547
Product charges	68,740	54,638	136,802	113,671
Net investment income	286,972	277,040	572,290	545,751
Realized/unrealized capital gains (losses)	(62,865)	6,266	(12,220)	(42,678)
Other income	11,968	11,229	24,885	23,785
	359,660	410,174	830,100	764,076
Benefits and expenses:				
Policyowner benefits	170,791	244,203	382,783	413,786
Underwriting, acquisition and other expenses	42,255	38,419	83,223	79,027
Amortization of deferred policy acquisition costs and value of business acquired	46,762	35,058	115,282	87,801
Dividends to policyowners	17,683	31,864	36,416	51,867
	277,491	349,544	617,704	632,481
Income from continuing operations	82,169	60,630	212,396	131,595
Interest expense	8,765	8,191	17,430	15,971
Income before income tax expense	73,404	52,439	194,966	115,624
Income tax expense	25,431	16,872	66,078	18,569
Net income	47,973	35,567	128,888	97,055
Dividends on preferred stock	2,719		5,438	
	$ 45,254	$ 35,567	$ 123,450	$ 97,055

Net income available to common stockholders				
Net income available to common stockholders per common share:				
Basic	$ 1.18	$ 0.91	$ 3.20	$ 2.46
Diluted	$ 1.09	$ 0.83	$ 2.96	$ 2.27
Weighted average common shares outstanding:				
Basic	38,487,501	39,264,504	38,616,506	39,412,211
Diluted	41,417,538	42,751,912	41,702,996	42,845,240

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
($ in thousands)

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2006	2005	2006	2005
	(unaudited)			
Net income	$ 47,973	$ 35,567	$ 128,888	$ 97,055
Other comprehensive income (loss), before tax:				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during period	(162,388)	143,592	(341,998)	20,050
Reclassification adjustment for losses included in net income	8,030	860	9,978	1,134
Minimum pension liability adjustment			325	
Other comprehensive income (loss), before tax	(154,358)	144,452	(331,695)	21,184
Income tax (expense) benefit related to items of other comprehensive income	54,025	(50,558)	116,093	(7,414)
Other comprehensive income (loss), net of taxes	(100,333)	93,894	(215,602)	13,770
Comprehensive income (loss)	$ (52,360)	$129,461	$ (86,714)	$110,825

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
For the Six Months Ended June 30, 2006 and the Year Ended December 31, 2005
($ in thousands)

	Preferred Stock	Common Stock	Additional Paid-In Capital Common Stock	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance at December 31, 2004	$	$ 44,226	$ 1,198,379	$ 114,670	$ (1,238)	$ 431,911	$ (164,479)	$ 1,623,469
2005:								
Net income						191,179		191,179
Net unrealized loss on securities				(118,034)				(118,034)
Net unrealized loss on derivatives designated as cash flow hedges				(248)				(248)
Issuance of preferred stock, net of costs	144,830							144,830
Conversion of OCEANs		1,675	9,069					10,744
Stock issued under various incentive plans, net of forfeitures		775	24,085		(2,545)		958	23,273
Purchase of treasury stock							(154,555)	(154,555)
Dividends declared on preferred stock						(2,417)		(2,417)
Dividends declared on common stock						(15,926)		(15,926)
Balance at December 31, 2005	144,830	46,676	1,231,533	(3,612)	(3,783)	604,747	(318,076)	1,702,315

2006 (unaudited):								
Net income						128,888		128,888
Net unrealized loss on securities				(215,741)				(215,741)
Net unrealized loss on derivatives designated as cash flow hedges				(72)				(72)
Costs for issuance of preferred stock	(56)							(56)
Stock issued under various incentive plans, net of forfeitures		268	16,273				(9,926)	6,615
Purchase of treasury stock							(56,317)	(56,317)
Dividends declared on preferred stock						(5,438)		(5,438)
Reclassification of unearned compensation under SFAS 123R			(3,783)		3,783			
Minimum pension liability adjustment				211				211
Balance at June 30, 2006	$ 144,774	$ 46,944	$ 1,244,023	$ (219,214)	$	$ 728,197	$ (384,319)	$ 1,560,405

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS
($ in thousands)

	For The Six Months Ended June 30, 2006	2005
	(unaudited)	
Cash flows from operating activities		
Net income	$ 128,888	$ 97,055
Adjustments to reconcile net income to net cash provided by operating activities:		
Product charges	(136,802)	(113,671)
Interest credited to policyowner account balances	261,170	251,539
Change in option value of indexed products and market value adjustments on total return strategy annuities	(62,341)	(12,589)
Realized/unrealized capital losses	12,220	42,678
DAC and VOBA amortization	115,282	87,801
Deferred sales inducements amortization	18,075	10,902
DAC and VOBA capitalized	(241,021)	(242,496)
Change in:		
Accrued investment income	1,066	(3,314)
Reinsurance receivables	(57,460)	(66,884)
Securities held-for-trading purposes:		
Fixed maturities	150,923	127,774
Equity securities	(1,785)	15,413
Short-term investments	(3,962)	
Liabilities for future policy benefits	(70,597)	(85,412)
Accrued expenses and other liabilities	(61,783)	38,553
Policy and contract claims and other policyowner funds	84,357	49,261
Income taxes:		
Current	(18,583)	(39,595)
Deferred	60,439	(15,671)
Other, net	19,668	18,016
Net cash provided by operating activities	197,754	159,360
Cash flows from investing activities:		
Purchase of fixed maturities available-for-sale	(2,354,309)	(2,507,941)
Proceeds from sale of fixed maturities available-for-sale	1,556,153	1,078,389
Maturities, calls and principal reductions of fixed maturities available-for-sale	500,476	702,208
Purchase of equity securities	(13,906)	(3,986)
Proceeds from sale of equity securities	10,180	4,625
Change in short-term investments, net	1,420	(8,381)
Purchase of mortgage loans	(84,548)	(122,181)

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AMERUS GROUP CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
($ in thousands)

	For The Six Months Ended June 30, 2006	2005
	(unaudited)	
Proceeds from repayment and sale of mortgage loans	71,968	56,446
Purchase of other invested assets	(145,999)	(65,358)
Proceeds from sale of other invested assets	103,252	46,699
Change in policy loans, net	(16,969)	700
Other assets, net	(7,128)	(3,403)
Net cash used in investing activities	(379,410)	(822,183)
Cash flows from financing activities:		
Deposits to policyowner account balances	1,537,106	1,610,235
Withdrawals from policyowner account balances	(1,335,898)	(867,110)
Change in debt, net	(306)	482
Change in payable for collateral under securities lending and other transactions	(83,093)	132,600
Dividends to preferred shareholders	(5,438)	
Stock issued under various incentive plans, net of forfeitures	6,615	7,804
Purchase of treasury stock	(56,317)	(24,584)
Excess tax benefits on share-based compensation	2,110	
Debt and preferred stock issuance costs	(1,054)	
Retirement of senior notes		(125,000)
Proceeds from revolving credit agreement	9,000	100,000
Net cash provided by financing activities	72,725	834,427
Net (decrease) increase in cash	(108,931)	171,604
Cash and cash equivalents at beginning of period	600,160	478,441
Cash and cash equivalents at end of period	$ 491,229	$ 650,045
Supplemental disclosure of cash activities:		
Interest paid	$ 17,354	$ 16,942
Income taxes paid	$ 19,240	$ 69,904

Supplemental disclosure of non-cash operating activities:		
Capitalization of deferred sales inducements	$ 53,029	$ 54,618

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) CONSOLIDATION AND BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with United States 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 of the information and footnotes required by GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All adjustments were of a normal recurring nature, unless otherwise noted in the Notes to Consolidated Financial Statements. Operating results for the six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. The consolidated balance sheet at December 31, 2005 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information and for capitalized terms not defined in this Form 10-Q, refer to the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. On July 12, 2006, Aviva plc and the Company entered into an Agreement and Plan of Merger as discussed in note 11.

The accompanying consolidated financial statements include the accounts and operations of the Company and its wholly-owned subsidiaries, principally AmerUs Life Insurance Company (ALIC), AmerUs Annuity Group Co. and its subsidiaries (collectively, AAG), AmerUs Capital Management Group, Inc. and its subsidiaries (collectively, ACM), and ILICO Holdings, Inc., the holding company of Indianapolis Life Insurance Company (ILIC) and its subsidiaries (collectively, ILICO). All significant intercompany transactions and balances have been eliminated in consolidation.

Certain amounts in the 2005 financial statements have been reclassified to conform to the 2006 financial statement presentation.

(2) SHARE-BASED COMPENSATION

Adoption of SFAS 123R

The Company has various share-based compensation plans, which provide for equity awards including stock options, non-vested stock, non-vested stock units, stock appreciation rights (SARs), a long-term incentive plan and a management incentive payment deferral plan. In December 2004, the Financial Accounting Standards Board issued a revision to Statement of Financial Accounting Standards No. 123, Share-Based Payment, (SFAS 123R) which is a revision of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, (SFAS 123). The statement supercedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Effective on January 1, 2006, the Company adopted the modified prospective transition method provided under SFAS 123R. Compensation cost associated with share-based compensation plans recognized for the six months ended June 30, 2006 includes (1) the amortization related to the remaining unvested portion of all share-based awards granted prior to January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (2) the amortization related to all share-based awards granted on or after January 1, 2006, based on the grant date fair value estimated in accordance with SFAS 123R.

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The effect on pro-forma net income and earnings per share in 2005 if the Company had applied the fair value recognition provisions of SFAS 123 to share-based employee compensation would have been as follows:

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2006	2005	2006	2005
	($ in thousands, except share data)			
Net income available to common stockholders, as reported	$ 45,254	$ 35,567	$ 123,450	$ 97,055
Add: 2005 stock-based compensation expense included in reported net income, net of related tax effects		193	$	1,306
Deduct: 2005 total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(749)		(2,521)
2006 actual and 2005 pro forma net income available to common stockholders	$ 45,254	$ 35,011	$ 123,450	$ 95,840
Earnings per common share:				
Basic as reported	$ 1.18	$ 0.91	$ 3.20	$ 2.46
Basic pro forma	$ 1.18	$ 0.89	$ 3.20	$ 2.43
Diluted as reported	$ 1.09	$ 0.83	$ 2.96	$ 2.27
Diluted pro forma	$ 1.09	$ 0.82	$ 2.96	$ 2.24

As part of the adoption of SFAS 123R, the unrecognized compensation cost related to non-vested share-based compensation awards granted prior to January 1, 2006, previously recognized as a separate component of stockholders equity amounting to $3.8 million was reclassified to additional paid-in capital. In addition, prior to the adoption of SFAS 123R, the tax benefits resulting from the exercise of share-based compensation were reported as operating cash flows in the consolidated statement of cash flows. SFAS 123R requires that cash flows resulting from tax deductions in excess of cumulative compensation cost recognized for exercise be classified as financing cash flows. There was no initial change to net income or total stockholders equity upon adoption of SFAS 123R.

General

Stock options, non-vested stock, non-vested stock units, non-vested stock units under the long-term incentive plan and management incentive payment deferral plan units are settled in the Company s stock. Upon exercise of these awards, the Company issues shares from treasury or issues new shares of common stock as the awards cannot be settled for cash. The Company s SARs and Agent Bonus Plan are settled in cash rather than shares of stock.

If the proposed merger, as discussed in note 11, is completed, at the effective time of the merger each outstanding option to purchase Company common stock will be canceled and converted into the right to receive an amount of cash per share equal to the excess, if any, of $69.00 over the exercise price of the option. Each stock unit, performance unit or similar award will be converted into the right to receive $69.00 in cash per unit or award held, with unvested performance units vesting at target levels. Each stock appreciation right will be converted into the right to receive an amount of cash per stock appreciation right equal to the excess of $69.00 over the fair market value of a share of Company common stock on the date of the grant.

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Total compensation expense for share-based awards amounted to $4.0 million ($2.6 million after-tax) and $2.3 million ($1.5 million after-tax) for the six months ended June 30, 2006 and 2005, respectively. As of June 30, 2006, there was $26.1 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to stock-based compensation. That cost is expected to be recognized over vesting periods of generally three to five years.

Stock Option Plans

The Company has four stock incentive plans authorizing the issuance of incentive and non-qualified stock options to employees, officers and non-employee directors of the Company. The option price per share under all plans may not be less than the fair value of the Company s common stock on the date of grant and the term of the option may not be longer than ten years. Options granted on or subsequent to January 1, 2003, have a five-year vesting schedule with one-fifth of the options granted vesting at the end of each of the five years. Generally, options granted prior to January 1, 2003, have a three-year vesting schedule with one-third of the options granted vesting at the end of each of the three years. Option expense was recorded for the first time in 2006, which amounted to $1.7 million for the six months ended June 30, 2006.

A summary of the Company s stock option plans follows:

	Six Months Ended June 30, 2006	
	Number of shares	Weighted average exercise price
Outstanding, beginning of period	2,754,287	$ 32.00
Granted at market price	321,500	59.81
Exercised	(197,285)	26.97
Forfeited	(3,000)	53.57
Outstanding, end of period	2,875,502	$ 35.44
Exercisable, end of period	2,038,438	$ 30.65

The following table summarizes information about stock options outstanding under the Company s option plans as of June 30, 2006:

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Options Outstanding

Range of exercise prices	Remaining options outstanding	Weighted average contractual life in years	Weighted average exercise price
18.30 - 24.40	414,930	3.2	$ 20.91
24.40 - 30.50	925,350	5.1	28.39
30.50 - 36.60	251,584	4.4	34.21
36.60 - 42.70	684,505	6.4	37.99
42.70 - 48.80	254,133	8.5	46.70
48.80 - 54.90	16,500	9.2	51.48
54.90 - 61.00	328,500	9.6	59.76
	2,875,502	5.9	$ 35.44

The following table summarizes information about stock options exercisable under the Company s option plans as of June 30, 2006:

Options Exercisable

Range of exercise prices	Options exercisable	Weighted average exercise price
18.30 - 24.40	414,930	$ 20.91
24.40 - 30.50	797,270	28.64
30.50 - 36.60	238,915	34.20
36.60 - 42.70	537,420	38.09
42.70 - 48.80	49,903	46.51
	2,038,438	$ 30.65

The total intrinsic value of options exercised was $6.7 million for the six months ended June 30, 2006. The aggregate intrinsic value of options outstanding and options exercisable as of June 30, 2006 was $66.5 million and $56.9 million, respectively.

The fair values of options granted are estimated on the date of grant using a Monte Carlo simulation pricing model for awards granted on or after January 1, 2006, and the Black-Scholes pricing model for awards granted prior to January 1, 2006. The determination of the fair value of option awards on the date of grant using an option-pricing model is affected by the stock price as well as assumptions regarding a number of complex and subjective variables. These variables include the expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends. For the 2006 pricing model, the expected term of options granted is estimated by taking the average of the vesting term and the contractual term of the option. The

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volatility of the common stock is estimated by considering both historical and implied volatility in market traded options. The risk-free interest rate in the option valuation model is based on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options. The option valuation model contains an assumption that the Company plans to continue paying a $0.40 per share cash dividend for the foreseeable future. The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. Historical data is used to estimate pre-vesting option forfeitures and record compensation expense only for those awards that are expected to vest. All option awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods. The following are the weighted average assumptions used:

	2006	2005
Expected Volatility	24.64%	30.11%
Risk-free Interest Rate	4.68%	4.31%
Dividend Yield	0.66%	0.88%
Weighted average fair value of options granted	$19.44	$20.25

Non-vested Stock

The Company has awarded restricted stock to eligible employees and non-employee directors under two of the stock incentive plans. The awards have restriction periods of one to five years tied to employment and/or service. The awards are recorded at the market value on the date of the grant as unearned compensation, included in additional paid-in capital, since common shares were legally issued on that date. The initial values of these grants are amortized over the restriction periods, net of forfeitures. Non-vested stock and compensation expense information is as follows:

	Six Months Ended June 30, 2006	
	Number of shares	Weighted average exercise price
Outstanding, beginning of period	48,277	$ 39.57
Granted at market price	7,080	58.57
Outstanding, end of period	55,357	$ 42.00
Compensation expense ($ in thousands)		$ 206

Non-vested Stock Units

The Company awarded 57,296 non-vested common stock units to an employee under one of the stock incentive plans in 2005. The awards have restriction periods of three to four years tied to employment or service. The awards were recorded at the market value on the date of the grant as unearned compensation, included in additional paid-in capital, as shares will be issued at the end of the restriction period. The initial values of these grants are amortized over the restriction periods, net of forfeitures. Compensation expense amounted to $0.4 million for the six months ended June 30, 2006. As of June 30, 2006 and December 31, 2005, there were 49,962 units outstanding.

Stock Appreciation Rights

The Company is authorized to grant SARs to agents under its non-employee stock option plan. Issuance of SARs is made at the sole discretion of the Company. The terms and conditions under this plan are similar to the employee stock incentive plans. The SARs are accounted for as a liability instrument since the awards are settled for cash. The liability for the awards is adjusted based on the current market value of the Company s stock at each reporting date. The Company s SARs are summarized as follows:

	Six Months Ended June 30, 2006	
	Number of shares	Weighted average value
Outstanding, beginning of period	51,755	$ 34.77
Granted at market price	9,500	60.09
Exercised	(4,218)	32.27
Outstanding, end of period	57,037	$ 39.17
Compensation expense ($ in thousands)		$ 131

Long-term Incentive Plan

As part of the stock incentive plans for employees and non-employees, the Human Resources and Compensation Committee of the Board of Directors is authorized to grant awards to senior officers in connection with a long-term incentive plan. The plan provides for an initial grant of units. The units are earned over a multi-year period and the number of units earned varies with the level of performance achieved over such performance period. The number of units earned range from zero to 200% of the initial units granted. Expense is determined based on the grant date fair value of the units determined by a Monte Carlo simulation model. Awards will be paid in common stock or such other consideration as the committee may determine. Awards under this plan are granted under and subject to the terms and conditions of the employee stock incentive plans. As of June 30, 2006 and December 31, 2005, there were 0.1 million units outstanding under the plan. Compensation expense for the plan amounted to $1.0 million and $1.2 million for the six months ended June 30, 2006 and 2005, respectively. The total fair value of awards granted amounted to $4.2 million and $2.6 million during the six months ended June 30, 2006 and 2005, respectively.

Management Incentive Payment Deferral Plan

The Company has a management incentive payment deferral plan under which eligible employees can elect to defer their annual cash bonuses. The Human Resources and Compensation Committee of the Board of Directors determines each year the maximum amount of deferral and percentage of match by the Company. Employees can defer up to 100% of bonuses received. Participant deferrals are 50% matched by the Company up to a maximum match of $10,000. The total deferrals, including participant deferrals and Company match, have a restriction period of three years during which the deferrals cannot be paid out except for certain specified events. Deferrals and match amounts are used to purchase units equal in value to a share of the Company s common stock on the date of deferral. Shares of common stock are distributed at the end of the restriction period. At June 30, 2006 and December 31, 2005, there were 0.2 million and 0.3 million units outstanding with the value of the vested and partially vested units outstanding amounting to $1.0 million and $0.6 million, respectively, which is included as unearned compensation in additional paid-in capital in stockholders equity of the consolidated balance sheet. The total fair value of deferrals and match awards granted amounted to $2.5 million and $2.6 million during the six months ended June 30, 2006 and 2005, respectively. Compensation expense associated with the match portion of the plan amounted to $0.1 million and $0.3 million for the six months ended June 30, 2006 and 2005, respectively.

Agent Bonus Plan

The Company has a bonus plan under which eligible agents receive awards based on exceeding production goals. Units are awarded for the applicable year using the Company s common stock price at the award date. Vesting is generally over a five year period and is dependent on achieving production goals in subsequent years. The bonus plan is accounted for as a liability instrument since the awards are settled for cash. The liability for the awards is adjusted based on the current market value of the Company s stock at each reporting date. At June 30, 2006 and December 31, 2005, there were 0.1 million units outstanding with the value of the vested and partially vested units outstanding amounting to $3.3 million, which is included as an accrued expense in the consolidated balance sheet. The total fair value of the units amounted to $1.0 million and $1.5 million during the six months ended June 30, 2006 and 2005, respectively. Compensation expense associated with the match portion of the plan amounted to $0.4 million and $0.3 million for the six months ended June 30, 2006 and 2005, respectively.

(3) EARNINGS PER SHARE

Basic earnings per share of common stock are computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share assumes the issuance of common shares applicable to stock options, PRIDES[SM] and the Company s Optionally Convertible Equity-Linked Accreting Notes (OCEANs[SM]) and is calculated using the treasury stock method.

Diluted earnings per share applicable to the Company s PRIDES securities are determined using the treasury stock method as it is currently anticipated that holders of the PRIDES are more likely to tender cash in the future for the securities forward contract. The PRIDES added 2,258,370 and 2,356,301 shares to the diluted earnings per share calculation for the three and six months ended June 30, 2006, respectively, and 1,579,084 and 1,540,923 shares to the diluted earnings per share calculation for the three and six months ended June 30, 2005, respectively.

As of September 13, 2005, all of the Company s OCEANs were converted with settlement in cash and common stock. Diluted earnings per share applicable to the OCEANs were determined using the guidance of the Financial Accounting Standards Board s Emerging Issues Task Force Issue 04-8 (EITF 04-8), The Effect of Contingently Convertible Debt on Diluted Earnings per Share, which was effective for periods ending after December 15, 2004. EITF 04-8 requires diluted earnings per share to be computed following the guidance of EITF 90-19, Convertible Bonds with Issuer Option to Settle for Cash upon Conversion, for securities such as the OCEANs which are considered to be Instrument C securities. The conversion spread portion of an Instrument C security should be included in diluted earnings per share based on the number of shares that would be required to be delivered if the instrument had been converted at the end of the period. The OCEANs added 1,075,335 and 1,032,701 shares to the diluted earnings per share calculation for the three and six months ended June 30, 2005, respectively.

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	For The Three Months Ended June 30, 2006			2005		
	Net Income	Number of Shares	Per Share Amount	Net Income	Number of Shares	Per Share Amount
	($ in thousands, except share data)					
Basic EPS						
Net income available to common stockholders from continuing operations	$45,254	38,488	$ 1.18	$35,567	39,265	$ 0.91
Effect of dilutive securities						
Equity compensation		672	(0.02)		833	(0.01)
PRIDES		2,258	(0.07)		1,579	(0.04)
OCEANs					1,075	(0.03)
Diluted EPS	$45,254	41,418	$ 1.09	$35,567	42,752	$ 0.83

	For The Six Months Ended June 30, 2006			2005		
	Net Income	Number of Shares	Per Share Amount	Net Income	Number of Shares	Per Share Amount
	($ in thousands, except share data)					
Basic EPS						
Net income available to common stockholders from continuing operations	$123,450	38,617	$ 3.20	$97,055	39,412	$ 2.46
Effect of dilutive securities						
Equity compensation		730	(0.05)		859	(0.04)
PRIDES		2,356	(0.19)		1,541	(0.09)
OCEANs					1,033	(0.06)
Diluted EPS	$123,450	41,703	$ 2.96	$97,055	42,845	$ 2.27

(4) CLOSED BLOCK

The Company has established two closed blocks, which we refer to collectively as the Closed Block. The first was established on June 30, 1996 in connection with the reorganization of ALIC from a mutual company to a stock company. The second was established as of March 31, 2000 in connection with the reorganization of ILIC from a mutual company to a stock company. Insurance policies which had a dividend scale in effect as of each Closed Block establishment date were included in the Closed Block. The Closed Block was designed to provide reasonable assurance to owners of insurance policies included therein that, after the reorganization of ALIC and ILIC, assets would be available to maintain the dividend scales and interest credits in effect prior to the reorganization if the experience underlying such scales and credits continues.

Summarized financial information of the Closed Block as of June 30, 2006 and December 31, 2005 and for the three and six months ended June 30, 2006 and 2005 are as follows:

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	June 30, 2006	December 31, 2005
	($ in thousands)	
Liabilities:		
Future life and annuity policy benefits	$2,740,595	$2,765,095
Policyowner funds	7,408	7,835
Accrued expenses and other liabilities	7,352	6,420
Dividends payable to policyowners	152,314	154,793
Policy and contract claims	13,658	17,986
Policyowner dividend obligation	1,018	116,684
Total Liabilities	2,922,345	3,068,813
Assets:		
Fixed maturity securities available-for-sale at fair value	1,854,774	1,916,052
Mortgage loans	52,481	60,541
Policy loans	333,646	331,561
Other investments	1,918	
Cash and cash equivalents	7,636	63,506
Accrued investment income	33,163	32,972
Premiums and fees receivable	48,060	58,778
Total Assets	2,331,678	2,463,410
Maximum future earnings to be recognized from assets and liabilities of the Closed Block	$ 590,667	$ 605,403

	For The Three Months Ended June 30,	
	2006	2005
	($ in thousands)	
Operations:		
Insurance premiums	$ 38,023	$ 42,998
Product charges	1,508	1,445
Net investment income	35,998	40,361
Realized losses on investments	(1,056)	(40)
Policyowner benefits	(48,625)	(45,282)
Underwriting, acquisition and other expenses	(1,544)	(631)
Dividends to policyowners	(15,461)	(29,823)

Contribution from the Closed Block before income taxes	$ 8,843	$ 9,028

	For The Six Months Ended June 30,	
	2006	2005
	($ in thousands)	
Operations:		
Insurance premiums	$ 75,372	$ 84,885
Product charges	3,118	3,146
Net investment income	71,601	74,780
Realized gains (losses) on investments	(2,118)	90
Policyowner benefits	(94,651)	(95,403)
Underwriting, acquisition and other expenses	(3,039)	(1,188)
Dividends to policyowners	(32,337)	(47,991)
Contribution from the Closed Block before income taxes	$ 17,946	$ 18,319

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(5) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company accounts for derivatives, including certain derivative instruments embedded in other contracts, at fair value. Accounting for gains and losses resulting from changes in the values of derivatives is dependent upon the use of the derivative and its qualification for special hedge accounting. In addition, we also have trading securities that back our total return strategy traditional annuity products. During the first six months of 2006 and 2005, an unrealized loss has been recognized amounting to $0.2 million and $13.4 million, respectively, primarily from the change in fair value on the trading securities backing the total return strategy products. Additionally, realized/unrealized gains (losses) on investments included an unrealized loss of $2.2 million and $28.0 million for the first six months of 2006 and 2005, respectively, primarily from the change in fair value on call options used as a natural hedge of embedded options within indexed products. Policyowner benefits included an adjustment to contract liabilities for fair value changes in options embedded within the indexed products and fair value changes on total return strategy annuity contracts. The total adjustment to policyowner benefits amounted to a decrease in expense of $62.3 million and $12.6 million for the first six months of 2006 and 2005, respectively.

The following table summarizes the income (loss) impact of the market value adjustments on trading securities and derivatives for the six months ended June 30, 2006 and 2005:

	Six Months Ended June 30, 2006			
	Total Return Products	Indexed Products	Other	Total
	($ in thousands)			
Fixed maturity securities held-for-trading	$ 2,289	$	$ (2,483)	$ (194)
Options		(2,228)	(3)	(2,231)
Market value adjustment to liabilities	(2,089)	60,181	4,248	62,340
Cash flow hedge amortization			54	54
DAC and deferred sales inducements amortization of impact of net adjustments above	(1,205)	(20,520)		(21,725)
Pre-tax total	(1,005)	37,433	1,816	38,244
Income taxes	351	(13,101)	(635)	(13,385)
After-tax total	$ (654)	$ 24,332	$ 1,181	$ 24,859

	Six Months Ended June 30, 2005			
	Total Return Products	Indexed Products	Other	Total
	($ in thousands)			
Fixed maturity securities held-for-trading	$ (12,388)	$	$ (992)	$ (13,380)
Options		(28,068)	20	(28,048)
Market value adjustment to liabilities	2,431	10,119	39	12,589
Cash flow hedge amortization			77	77
DAC and deferred sales inducements amortization of impact of net adjustments above	991	4,579		5,570

Pre-tax total	(8,966)	(13,370)	(856)	(23,192)
Income taxes	3,138	4,679	300	8,117
After-tax total	$ (5,828)	$ (8,691)	$ (556)	$ (15,075)

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(6) FEDERAL INCOME TAXES

The effective income tax rate varied from the prevailing corporate rate primarily as a result of tax exempt income and a reduction in the income tax accrual for the six months ended June 30, 2006 and 2005. The accrual reductions were for the release of provisions originally established for potential tax adjustments related to open Internal Revenue Service exam years from 1997 through 2003 which were settled or eliminated during 2006 and 2005. The accrual was reduced $0.5 million in 2006 and $19.7 million in 2005. The 2005 accrual reduction was primarily related to the settlement of the tax treatment of a leveraged lease investment and the determination of taxable income of some partnership investments. The effective income tax rate excluding the accrual reductions was 34.1% and 33.1% for the six months ended June 30, 2006 and 2005, respectively.

(7) COMMITMENTS AND CONTINGENCIES

AmerUs is routinely involved in litigation and other proceedings, including class actions, reinsurance claims and regulatory proceedings arising in the ordinary course of its business. In recent years, the life insurance industry, including AmerUs Group Co. and its subsidiaries, has been subject to an increase in litigation pursued on behalf of both individuals and purported classes of insurance purchasers, questioning the conduct of insurers and their agents in the marketing of their products. AmerUs pending lawsuits raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including, but not limited to, the underlying facts of each matter, novel legal issues, variations between jurisdictions in which matters are being litigated, differences in applicable laws and judicial interpretations, the length of time before many of these matters might be resolved by settlement or through litigation and, in some cases, the fact that many of these matters are putative class actions in which a class has not been certified and in which the purported class may not be clearly defined, the fact that many of these matters involve multi-state class actions in which the applicable law(s) for the claims at issue is in dispute and therefore unclear, and the current challenging legal environment faced by large corporations and insurance companies. In addition, state and federal regulatory bodies, such as state insurance departments and attorneys general, periodically make inquiries and conduct examinations concerning compliance by AmerUs and others with applicable insurance and other laws. AmerUs responds to such inquiries and cooperates with regulatory examinations in the ordinary course of business.

During 2005 nationwide class actions were filed on April 7, 2005 (United States District Court for the Central District of California), April 25, 2005 (United States District Court for the District of Kansas), May 19, 2005 (United States District Court for Eastern District of Pennsylvania), August 29, 2005 (United States District Court for the Middle District of Florida), November 8, 2005 (United States District Court for the Eastern District of Pennsylvania) and December 8, 2005 (United States District Court for the Eastern District of Pennsylvania) on behalf of certain purchasers of our products against AmerUs Group Co. and/or certain of its subsidiaries (including American and ALIC). On July 7, 2005 a statewide class action was also filed on behalf of certain purchasers of our products in the United States District Court for the Middle District of Florida against many of these same AmerUs entities. The aforementioned lawsuits relate to the use of purportedly inappropriate sales practices and products in the senior citizen market. The complaints allege, among other things, the unauthorized practice of law involving the marketing of estate or financial planning services, the lack of suitability of the products, the improper manner in which they were sold, including pretext sales and non-disclosure of surrender charges, as well as other violations of the state consumer and insurance laws. The plaintiffs in the lawsuits seek compensatory damages, rescission, injunctive relief, treble and/or punitive damages, attorneys fees and other relief and damages. In November 2005, each of the aforementioned lawsuits as well as certain other statewide class actions and individual lawsuits were assigned to the United States District Court for the Eastern District of Pennsylvania for coordinated and consolidated pretrial proceedings.

On February 10, 2005, the California Attorney General and the Insurance Commissioner of the State of California filed suit in the California Superior Court for the County of Los Angeles against American and certain other subsidiaries of AmerUs Group Co. alleging the unauthorized practice of law, claims related to the suitability of the products for, and the manner in which they were sold to, the senior citizen market, including violations of California s insurance code and unfair competition laws. The plaintiffs seek civil penalties, restitution, injunctive relief and other relief and damages.

AmerUs Group Co. and certain of its subsidiaries are among the defendants in a lawsuit by the Attorney General of Pennsylvania on behalf of certain Pennsylvania residents, some of whom were purchasers of our products alleging, in part, claims related to the marketing of our products to senior citizens and violations of consumer protection laws. The plaintiffs seek fines, restitution, injunctive and other relief.

In November 2005, the Superior Court of the State of California for the County of San Luis Obispo approved a settlement of a statewide class of annuity holders and purchasers of estate planning services, Cheves v. American Investors Life Insurance Company, Family First Estate Planning and Family First Insurance Services, et al. The allegations in this case involved claims of breach of contract, misrepresentation, unfair competition and deceptive trade practices. Given the charges previously taken regarding this matter, AmerUs does not currently anticipate that any additional charges will be required as a result of this settlement.

In these matters, plaintiffs seek a variety of remedies including equitable relief in the form of injunctive and other remedies and monetary relief in the form of contractual and extra-contractual damages. Some of these claims and legal actions are in jurisdictions where juries are given substantial latitude in assessing damages, including punitive and exemplary damages. Often more specific information beyond the type of relief sought is not available because plaintiffs have not requested more specific relief in their court pleadings. In our experience, monetary demands in plaintiffs court pleadings bear little relation to the ultimate loss, if any, to AmerUs. Estimates of possible losses or ranges of losses for particular matters cannot in the ordinary course be made with a reasonable degree of certainty. It is possible that AmerUs results of operations or cash flow in a particular quarterly or annual period could be materially adversely affected by an ultimate unfavorable resolution of pending litigation and regulatory matters.

(8) EMPLOYEE BENEFIT PLANS

The Company has a frozen defined benefit pension plan and also has defined benefit plans which provide supplemental retirement benefits to certain agents and executives. In addition to pension benefits, the Company also provides certain health care and life insurance benefits for retired employees. The following is a summary of net periodic benefit cost for these plans for the six months ended June 30, 2006 and 2005:

	Six Months Ended June 30,	
	2006	2005
	($ in thousands)	
Components of net periodic benefit cost:		
Service cost	$ 533	$ 157
Interest cost	3,065	2,944
Expected return on plan assets	(2,438)	(2,431)
Amortization of prior service cost	(69)	44
Amortizaton of actuarial loss	338	356
Total expense	$ 1,429	$ 1,070

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(9) ACCOUNTING DEVELOPMENTS

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109, (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is assessing the impact of adopting FIN 48.

(10) OPERATING SEGMENTS

The Company has two operating segments: Protection Products and Accumulation Products. Products generally distinguish a segment. A brief description of each segment follows:

Protection Products. The primary product offerings consist of term life, universal life and indexed life insurance policies. Indexed life is a type of universal life or interest-sensitive whole life product. These products are marketed on a national basis primarily through Independent Marketing Organizations (IMOs), a Career Marketing Organization (CMO) system, a Personal Producing General Agent (PPGA) system, and a New York distribution system.

Accumulation Products. The primary product offerings consist of individual fixed annuities (comprised of traditional fixed annuities and indexed annuities), marketed on a national basis primarily through IMOs and independent brokers, and insurance contracts issued through funding agreements.

The product offerings within each segment are of a very similar nature. Insurance premiums of the protection products segment are primarily from term life products. Product charges of the protection products segment are from interest-sensitive whole life, universal life and indexed life insurance products. Product charges of the accumulation products segment are from traditional fixed and indexed annuities. Due to the similarity of products within each segment, premiums and product charges are shown by segment and not by specific product type.

The Company uses the same accounting policies and procedures to measure operating segment income and assets as it uses to measure its consolidated income from operations and assets with the exception of the elimination of certain items which management believes are not necessarily indicative of overall operating trends. These items are shown between segment pre-tax operating income and net income on the following operating segment tables and are as follows:

1) Realized/unrealized gains and losses on open block assets.
2) Market value changes and amortization of assets and liabilities associated with the accounting for derivatives, such as:
    - Unrealized gains and losses on open block options and securities held for trading.
    - Change in option value of indexed products and market value adjustments on total return strategy annuities.
    - Cash flow hedge amortization.
3) Amortization of deferred policy acquisition costs (DAC) and value of business acquired (VOBA) related to the unrealized and realized gains and losses on the open block investments and the derivative adjustments.
4) Amortization of deferred sales inducements related to the unrealized and realized gains and losses on the open block investments and the derivative adjustments
5) Other income from non-insurance operations.
6) Interest expense.

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7) Income tax expense.

These items will fluctuate from period to period depending on the prevailing interest rate and economic environment or are not part of the core insurance operations. As a result, management believes they do not reflect the ongoing earnings capacity of the Company s operating segments.

Premiums; product charges; policyowner benefits; insurance expenses; amortization of DAC, deferred sales inducements and VOBA; and dividends to policyowners are attributed directly to each operating segment. Net investment income and closed block realized capital gains and losses are allocated based on directly-related assets required for transacting the business of that segment. Other revenues and benefits and expenses which are deemed not to be associated with any specific segment are grouped together in the All Other category. These items primarily consist of holding company revenues and expenses, operations of the Company s real estate management subsidiary, and accident and health insurance.

Assets are segmented based on policy liabilities directly attributable to each segment. There are no significant intersegment transactions. Depreciation and amortization, excluding amortization of DAC, deferred sales inducements, and VOBA as previously discussed, are not significant. There have been no material changes in segment assets since December 31, 2005.

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Operating Segment Income
($ in thousands)

	Three Months Ended June 30, 2006			
	Protection Products	Accumulation Products	All Other	Total Consolidated
Revenues:				
Insurance premiums	$ 54,284	$ 458	$ 103	$ 54,845
Product charges	51,239	17,501		68,740
Net investment income	89,253	197,276	443	286,972
Realized/unrealized losses on closed block investments	(1,056)			(1,056)
Other income:				
Income from Independent Marketing Organizations		7,607		7,607
Other	886	2,663	812	4,361
	194,606	225,505	1,358	421,469
Benefits and expenses:				
Policyowner benefits	95,052	125,921	184	221,157
Underwriting, acquisition, and other expenses:				
Operating expenses	18,614	9,394	8,725	36,733
Expenses from Independent Marketing Organizations		5,522		5,522
Amortization of DAC and VOBA	17,548	31,405		48,953
Dividends to policyowners	17,682	1		17,683
	148,896	172,243	8,909	330,048
Segment pre-tax operating income	$ 45,710	$ 53,262	$ (7,551)	91,421
Realized/unrealized losses on open block assets				(7,508)
Unrealized losses on open block options and trading investments				(54,301)
Change in option value of indexed products and market value adjustments on total return strategy annuities				51,198
Cash flow hedge amortization				26

Amortization of DAC and VOBA due to open block gains and losses and market value adjustments		2,191
Amortization of deferred sales inducements due to open block gains and losses and market value adjustments		(858)
Income from continuing operations		82,169
Interest (expense)		(8,765)
Income tax (expense)		(25,431)
Net income		47,973
Dividends on preferred stock		(2,719)
Net income available to common stockholders	$	45,254

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Operating Segment Income
($ in thousands)

	Three Months Ended June 30, 2005			
	Protection Products	Accumulation Products	All Other	Total Consolidated
Revenues:				
Insurance premiums	$ 59,569	$ 1,056	$ 376	$ 61,001
Product charges	40,646	13,992		54,638
Net investment income	92,983	183,553	504	277,040
Realized/unrealized losses on closed block investments	(40)			(40)
Other income:				
Income from Independent Marketing Organizations		7,153		7,153
Other	857	2,663	544	4,064
	194,015	208,417	1,424	403,856
Benefits and expenses:				
Policyowner benefits	79,174	132,895	427	212,496
Underwriting, acquisition, and other expenses:				
Operating expenses	19,486	6,901	6,460	32,847
Expenses from Independent Marketing Organizations		5,572		5,572
Amortization of DAC and VOBA	22,107	21,159		43,266
Dividends to policyowners	31,862	2		31,864
	152,629	166,529	6,887	326,045
Segment pre-tax operating income	$ 41,386	$ 41,888	$ (5,463)	77,811
Realized/unrealized losses on open block assets				(1,517)
Unrealized losses on open block options and trading investments				7,823
Change in option value of indexed products and market value adjustments on total return strategy annuities				(31,745)
Cash flow hedge amortization				38

Amortization of DAC and VOBA due to open block gains and losses and market value adjustments		8,208
Other income from non-insurance operations		12
Income from continuing operations		60,630
Interest (expense)		(8,191)
Income tax (expense)		(16,872)
Net income		35,567
Dividends on preferred stock		
Net income available to common stockholders	$	35,567

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Operating Segment Income
($ in thousands)

	Six Months Ended June 30, 2006			
	Protection Products	Accumulation Products	All Other	Total Consolidated
Revenues:				
Insurance premiums	$ 106,928	$ 1,400	$ 15	$ 108,343
Product charges	106,358	30,444		136,802
Net investment income	177,559	393,933	798	572,290
Realized/unrealized losses on closed block investments	(2,118)			(2,118)
Other income:				
Income from Independent Marketing Organizations		16,206		16,206
Other	1,757	5,283	1,639	8,679
	390,484	447,266	2,452	840,202
Benefits and expenses:				
Policyowner benefits	185,464	253,596	(139)	438,921
Underwriting, acquisition, and other expenses:				
Operating expenses	35,765	18,818	16,230	70,813
Expenses from Independent Marketing Organizations		12,410		12,410
Amortization of DAC and VOBA	47,908	53,106		101,014
Dividends to policyowners	36,415	1		36,416
	305,552	337,931	16,091	659,574
Segment pre-tax operating income	$ 84,932	$ 109,335	$ (13,639)	180,628
Realized/unrealized losses on open block assets				(7,677)
Unrealized losses on open block options and trading investments				(2,425)
Change in option value of indexed products and market value adjustments on total return strategy annuities				62,341
Cash flow hedge amortization				54

Amortization of DAC and VOBA due to open block gains and losses and market value adjustments	(14,268)
Amortization of deferred sales inducements due to open block gains and losses and market value adjustments	(6,257)
Income from continuing operations	212,396
Interest (expense)	(17,430)
Income tax (expense)	(66,078)
Net income	128,888
Dividends on preferred stock	(5,438)
Net income available to common stockholders	$ 123,450

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Operating Segment Income
($ in thousands)

	Six Months Ended June 30, 2005			
	Protection Products	Accumulation Products	All Other	Total Consolidated
Revenues:				
Insurance premiums	$ 121,052	$ 1,536	$ 959	$ 123,547
Product charges	87,723	25,948		113,671
Net investment income	179,869	365,199	683	545,751
Realized/unrealized gains on closed block investments	90			90
Other income:				
Income from Independent Marketing Organizations		16,164		16,164
Other	1,718	5,204	1,064	7,986
	390,452	414,051	2,706	807,209
Benefits and expenses:				
Policyowner benefits	168,375	257,623	454	426,452
Underwriting, acquisition, and other expenses:				
Operating expenses	37,879	14,161	13,484	65,524
Expenses from Independent Marketing Organizations		13,503		13,503
Amortization of DAC and VOBA	46,978	46,206		93,184
Dividends to policyowners	51,864	3		51,867
	305,096	331,496	13,938	650,530
Segment pre-tax operating income	$ 85,356	$ 82,555	$ (11,232)	156,679
Realized/unrealized losses on open block assets				(1,340)
Unrealized losses on open block options and trading investments				(41,428)
Change in option value of indexed products and market value adjustments on total return strategy annuities				12,589
Cash flow hedge amortization				77

Amortization of DAC and VOBA due to open block gains and losses and market value adjustments		5,383
Other income from non-insurance operations		(365)
Income from continuing operations		131,595
Interest (expense)		(15,971)
Income tax (expense)		(18,569)
Net income		97,055
Dividends on preferred stock		
Net income available to common stockholders	$	97,055

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(11) SUBSEQUENT EVENT

On July 12, 2006, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with Aviva plc, a public limited company incorporated under the laws of England and Wales (Aviva), and Libra Acquisition Corporation, an Iowa corporation and an indirect wholly owned subsidiary of Aviva (Merger Sub). Under the Merger Agreement, the Merger Sub will be merged with and into the Company, with the Company continuing after the Merger as the surviving corporation and an indirect wholly owned subsidiary of Aviva (the Merger). At the effective date of the Merger, each outstanding share of the Company s stock will be converted into the right to receive $69.00 in cash, without interest. Also, at the effective time of the Merger, each outstanding option to purchase the Company s common stock will be canceled and converted into the right to receive an amount of cash per share equal to the excess, if any, of $69.00 over the exercise price of the option. In addition, the Company s other equity incentive instruments will be cashed out in the Merger.

The Merger Agreement has been approved by the Company s and Aviva s respective boards of directors. The completion of the Merger is subject to customary closing conditions, including the approval of the Company s shareholders and the receipt of certain government and regulatory approvals, including the expiration of all waiting periods required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The Merger Agreement contains certain termination rights of Aviva and the Company and provides that, upon the termination of the Merger Agreement under certain circumstances, the Company would be required on a date certain or upon the occurrence of specified events to pay Aviva a termination fee of $90 million, plus up to $12.5 million of Aviva s out-of-pocket expenses incurred in connection with the Merger Agreement. The Company expects to schedule a special meeting of its shareholders during the fourth quarter of 2006 to vote on the Merger. The Merger is currently expected to close before December 31, 2006.

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Item 2. Management s Discussion And Analysis Of Financial Condition And Results Of Operations

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) addresses the consolidated financial condition of AmerUs Group Co. as of June 30, 2006, compared with December 31, 2005, and our consolidated results of operations for the three and six months ended June 30, 2006 and 2005. You should read the following analysis of our consolidated financial condition and results of operations in conjunction with our MD&A and audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2005, and Unaudited Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

PROPOSED MERGER

On July 12, 2006, we entered into an Agreement and Plan of Merger (the Merger Agreement) with Aviva plc, a public limited company incorporated under the laws of England and Wales (Aviva), and Libra Acquisition Corporation, an Iowa corporation and an indirect wholly owned subsidiary of Aviva (Merger Sub). Under the Merger Agreement, the Merger Sub will be merged with and into AmerUs Group, with AmerUs Group continuing after the Merger as the surviving corporation and an indirect wholly owned subsidiary of Aviva (the Merger). At the effective date of the Merger, each outstanding share of our stock will be converted into the right to receive $69.00 in cash, without interest. Also, at the effective time of the Merger, each outstanding option to purchase our common stock will be canceled and converted into the right to receive an amount of cash per share equal to the excess, if any, of $69.00 over the exercise price of the option. In addition, our other equity incentive instruments will be cashed out in the Merger. This transaction, which is subject to the approval of our shareholders, regulatory approvals, and customary closing conditions, is expected to close before December 31, 2006.

We have made customary representations and warranties and covenants in the Merger Agreement, including covenants relating to obtaining the requisite approval of our shareholders, our conduct of its business between the date of the signing of the Merger Agreement and the closing of the Merger and, subject to certain exceptions, our agreement not to solicit, enter into discussions regarding, or provide confidential information in connection with, alternative transactions. The risk factors related to the Merger are discussed in Part II, Item 1A of this Quarterly Report on Form 10-Q.

The Merger Agreement has been approved by our and Aviva s respective boards of directors. The completion of the Merger is subject to customary closing conditions, including the approval of our shareholders and the receipt of certain government and regulatory approvals, including the expiration of all waiting periods required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The Merger Agreement contains certain termination rights of Aviva and AmerUs Group and provides that, upon the termination of the Merger Agreement under certain circumstances, we would be required on a date certain or upon the occurrence of specified events to pay Aviva a termination fee of $90 million, plus up to $12.5 million of Aviva s out-of-pocket expenses incurred in connection with the Merger Agreement. We expect to schedule a special meeting of our shareholders during the fourth quarter of 2006 to vote on the Merger. The Merger is currently expected to close before December 31, 2006.

NATURE OF OPERATIONS

We are a holding company whose subsidiaries are primarily engaged in the business of marketing, underwriting and distributing a broad range of individual life, annuity and insurance deposit products to individuals and businesses. Collectively, our subsidiaries are licensed in 50 states, the District of Columbia and the U.S. Virgin Islands. We have two reportable operating segments: protection products and accumulation products. The primary offerings of the protection products segment are interest-sensitive whole life, term life, universal life and indexed life insurance policies. The primary offerings of the accumulation products segment are individual fixed annuities (comprised of traditional fixed annuities and indexed annuities) and funding agreements.

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FINANCIAL HIGHLIGHTS

Our financial highlights are as follows:

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2006	2005	2006	2005
	($ in thousands, except share data)			
Segment pre-tax operating income:				
Protection Products	$45,710	$41,386	$ 84,932	$ 85,356
Accumulation Products	53,262	41,888	109,335	82,555
Other operations	(7,551)	(5,463)	(13,639)	(11,232)
Total segment pre-tax operating income	91,421	77,811	180,628	156,679
Non-segment expense, net (A)	43,448	42,244	51,740	59,624
Net income	47,973	35,567	128,888	97,055
Dividends on preferred stock	2,719		5,438	
Net income available to common stockholders	$45,254	$35,567	$123,450	$ 97,055
Diluted net income available to common stockholders per common share	$ 1.09	$ 0.83	$ 2.96	$ 2.27

	June 30, 2006	December 31, 2005
Total assets	$24,654,324	$24,830,000
Stockholders equity	$ 1,560,405	$ 1,702,315

(A) Non-segment expense, net consists primarily of open block realized/unrealized gains and losses, derivative related market value adjustments, interest expense and income taxes.

Operating segment income increased for the protection products segment in the second quarter of 2006 and decreased slightly for the first six months of 2006, compared to the respective periods in 2005. During the second quarter of 2006, projected future margin items for DAC amortization were updated with current estimates resulting in lower DAC amortization and higher protection products pre-tax operating segment income. The decline in our year-to-date protection products pre-tax operating income is primarily due to lower net investment income growth as capital was redeployed from this segment to fund treasury stock purchases in 2006 and 2005. Operating segment income for the accumulation products segment increased in the 2006 periods as compared to the same periods in 2005. Our accumulation products pre-tax operating segment income increased primarily due to higher assets under management and increased product spreads.

Net income increased in the first six months of 2006 compared to 2005 primarily as a result of higher operating segment income and lower unrealized losses on derivatives and the related adjustments to policyowner benefits expense and DAC, VOBA and deferred sales inducements amortization. Partially offsetting this growth was higher income tax expense as the results for the first six months of 2005 included a reduction in the income tax accrual.

Total assets decreased $175.7 million during the first six months of 2006 primarily as a result of increased unrealized losses on investments. Total investments grew $197 million which was offset by an increase in unrealized investment losses of $745 million. Stockholders equity decreased $141.9 million in the first six months of 2006 primarily as a result of increased unrealized losses on available-for-sale investments of $215.7 million, treasury stock purchases of $56.3 million, and dividends declared on preferred stock of $5.4 million. The decrease was partially offset by year-to-date net income of $128.9 million and stock issued under various incentive plans of $6.6 million. The unrealized losses included in accumulated other comprehensive loss are presented after related adjustments to DAC, VOBA, capitalized deferred sales inducements, closed block policyowner dividend obligation, unearned revenue reserves and deferred income taxes.

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PROTECTION PRODUCTS

Our protection products segment primarily consists of term life, universal life and indexed life insurance policies. These products are marketed on a national basis primarily through IMOs, CMOs, a PPGA distribution system and a New York distribution system. When protection products are sold, we invest the premiums we receive in our investment portfolio and establish a liability representing our commitment to the policyowner. We manage investment spread by seeking to maximize the return on these invested assets, consistent with our asset/liability and credit quality policies. We enter into reinsurance arrangements in order to reduce the effects of mortality risk and the statutory capital strain from writing new business. All income statement line items are presented net of reinsurance amounts. In addition, the protection products segment includes the results of the closed block. Protection products in force totaled $103.6 billion at June 30, 2006 and $102.5 billion at December 31, 2005. Protection products in force is a performance measure utilized by investors, analysts and the Company to assess the Company s position in the industry. A summary of our protection products segment operations follows:

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2006	2005	2006	2005
	($ in thousands)			
Revenues:				
Insurance premiums	$ 54,284	$ 59,569	$ 106,928	$ 121,052
Product charges	51,239	40,646	106,358	87,723
Net investment income	89,253	92,983	177,559	179,869
Realized gains (losses) on closed block investments	(1,056)	(40)	(2,118)	90
Other income	886	857	1,757	1,718
Total revenues	194,606	194,015	390,484	390,452
Benefits and expenses:				
Policyowner benefits	95,052	79,174	185,464	168,375
Underwriting, acquisition and other expenses	18,614	19,486	35,765	37,879
Amortization of DAC and VOBA, net of open block gain/loss adjustment	17,548	22,107	47,908	46,978
Dividends to policyowners	17,682	31,862	36,415	51,864
Total benefits and expenses	148,896	152,629	305,552	305,096
Pre-tax operating income Protection Products segment	$ 45,710	$ 41,386	$ 84,932	$ 85,356

Pre-tax operating income from our protection products increased 10.5% in the second quarter of 2006 and decreased 0.5% in the first six months of 2006 compared to the respective 2005 periods. During the second quarter of 2006, projected future margin items for DAC amortization were updated with current estimates resulting in lower DAC amortization expense. In addition, expenses were lower in 2006 as compared to 2005. The year-to-date decline in pre-tax operating income is primarily due to lower net investment income growth as capital from this segment was utilized for treasury stock purchases in 2006 and 2005. The key drivers of our protection products business include sales, persistency, net investment income, mortality and expenses.

Sales. Sales are a key driver of our business as they are a leading indicator of future revenue trends to emerge in segment operating income. Sales are presented as annualized premium which is in accordance with industry practice, and represent the amount of new business sold during the period. Sales are a performance metric which we use to measure the productivity of our distribution network and for compensation of sales and marketing employees and agents. We expect to continue to develop and sell indexed life products to meet the increasing consumer demand which we expect will favorably impact our product margins. The following table summarizes annualized premium by life insurance product:

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	Sales Activity by Product			
	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2006	2005	2006	2005
	($ in thousands)			
Traditional life insurance:				
Interest-sensitive whole life	$ 96	$ 127	$ 162	$ 233
Term and other life	1,672	3,348	3,132	6,405
Universal life:				
Flexible premium without no lapse guarantee	686	3,390	1,377	8,261
Single premium	45		45	
Indexed life:				
Flexible premium without no lapse guarantee	23,495	17,548	45,010	31,009
Flexible premium with no lapse guarantee	5,606	3,715	10,071	6,570
Fixed premium excess interest whole life	641	2,921	1,889	4,631
Single premium	1,050		1,417	
Total	$33,291	$31,049	$ 63,103	$ 57,109

Annualized premiums increased 7.2% in the second quarter of 2006 and 10.5% in the first six months of 2006 as compared to the respective periods of 2005 due to continued growing customer demand for indexed life products. In the first six months of 2006, sales of indexed life products were $58.4 million as compared to $42.2 million for 2005 and comprised 93% of total direct sales in the first six months of 2006 compared to 74% in the first six months of 2005. We are the leading writer of indexed life products in the United States. Traditional and universal life insurance sales continue to decline due to continued growing customer demand for indexed life products.

Premiums and Product Charges. We recognize premiums on traditional life insurance policies as revenues when the premiums are due. Amounts received as payments for universal life and indexed life insurance policies are not recorded as premium revenue, but are instead recorded as a policyowner liability. Revenues from the universal life and indexed life policies consist of charges for the cost of insurance, policy administration and policy surrender and are shown as product charges. All revenue is reported net of reinsurance ceded.

Insurance premium revenue was lower in the first six months of 2006 as compared to the same period in 2005 primarily due to a decline in closed block in force business, lower sales of traditional products as a result of increasing consumer demand for indexed life products and higher reinsurance costs resulting from a timing difference in the recognition of reinsurance premiums. Product charge revenue was higher in 2006 as compared to 2005 due to growth in the indexed life block of business.

Persistency. Persistency, which we measure in terms of a lapse rate, is a key driver of our business as it refers to the policies which remain in our block of business. A low lapse rate means higher persistency indicating more business is remaining in force to generate future revenues. Annualized lapse rates, based on a rolling four quarter period, were 6.6% as of June 30, 2006 compared to 6.2% as of June 30, 2005. This increase was primarily due to higher lapse rates on the whole life product line. Our persistency experience remained within our pricing assumptions.

Net Investment Income. Net investment income is a key driver of our business as it reflects earnings on our invested assets. Net investment income decreased for the first six months of 2006 as compared to the same period a year ago as a result of lower investment earned rates. The lower investment earned rates were partially offset by the growth in average protection products assets which increased approximately $239 million in 2006 over 2005. The year-to-date earned rate of the investment portfolio was 6.29% compared to 6.65% a year ago. Growth in product assets was partially reduced as capital was redeployed from the protection products segment during 2005 to fund purchases of treasury stock.

Mortality and Benefit Expense. Mortality is a key driver of our business as it impacts the amount of our benefit expense. We utilize reinsurance to reduce the effects of mortality risk. Open block mortality was level for the first six months of 2006 and 2005, and remains within our pricing assumptions. Total benefit expense was higher in the first six months of 2006 compared to 2005 primarily due to the growth in our in force block of indexed life business.

Underwriting, Acquisition and Other Expenses. Underwriting, acquisition and other expenses are a key driver of our business as they are costs of our operations. Expenses decreased for the first six months of 2006 compared to 2005 primarily due to decreased state premium taxes and lower policy administration costs as we continue to centralize our administrative functions.

Amortization of DAC and VOBA. The amortization of DAC and VOBA are expense items which decreased for the second quarter of 2006 and increased for the first six months of 2006 as compared to the comparable periods in 2005. During the second quarter of 2006, projected future margin items for DAC amortization were updated with current estimates. These updated projected margins resulted in lower DAC and VOBA amortization in the second quarter of 2006. DAC and VOBA are generally amortized in proportion to product gross margins which increased in the first six months of 2006, resulting in higher year-to-date amortization expense. Year-to-date amortization expense also increased as a result of higher lapses in the whole life product line.

Dividends to Policyowners. In addition to basic policyowner dividends, dividend expense includes increases or decreases to the closed block policyowner dividend obligation liability carried on the consolidated balance sheet. The actual results of the closed block are adjusted to equal the expected earnings based on the actuarial calculation at the time of formation of the closed block (which we refer to as the closed block glide path). An adjustment is made to dividend expense to have the closed block operating results equal the closed block glide path. If the actual results for the period exceed the closed block glide path, increased dividend expense is recorded as a policyowner dividend obligation to reduce the actual closed block results. For actual results less than the closed block glide path, dividend expense is reduced to increase the actual closed block results. As a result of this accounting treatment, operating earnings from the closed block only include the predetermined closed block glide path.

Dividend expense decreased for the first six months of 2006 compared to 2005 due to decreased closed block earnings resulting from the realized losses on closed block investments and lower net investment income.

ACCUMULATION PRODUCTS

Our accumulation products segment primary offerings consist of individual fixed annuities and funding agreements. The fixed annuities are marketed on a national basis primarily through IMOs and independent brokers. Similar to our protection products segment, we invest the premiums we receive from accumulation product deposits in our investment portfolio and establish a liability representing our commitment to the policyowner. We manage product spread by seeking to maximize the return on our invested assets consistent with our asset/liability management and credit quality policies. When appropriate, we periodically reset the interest rates credited to our policyowner liability. Accumulation products reserves totaled $13.5 billion at June 30, 2006 and December 31, 2005. A summary of our accumulation products segment operations follows:

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	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2006	2005	2006	2005
	($ in thousands)			
Revenues:				
Immediate annuity and supplementary contract premiums	$ 458	$ 1,056	$ 1,400	$ 1,536
Product charges	17,501	13,992	30,444	25,948
Net investment income	197,276	183,553	393,933	365,199
Other income	2,663	2,663	5,283	5,204
Total revenues	217,898	201,264	431,060	397,887
Benefits and expenses:				
Policyowner benefits	125,921	132,895	253,596	257,623
Underwriting, acquisition and other expenses	9,394	6,901	18,818	14,161
Amortization of DAC and VOBA	31,405	21,159	53,106	46,206
Dividends to policyowners	1	2	1	3
Total benefits and expenses	166,721	160,957	325,521	317,993
IMO Operations:				
Other income	7,607	7,153	16,206	16,164
Other expenses	5,522	5,572	12,410	13,503
Net IMO operating income	2,085	1,581	3,796	2,661
Pre-tax operating income Accumulation Products segment	$ 53,262	$ 41,888	$ 109,335	$ 82,555

Pre-tax operating income from our accumulation products operations increased 27.2% in the second quarter of 2006 and 32.4% in the first six months of 2006 compared to the respective periods in 2005 primarily due to higher assets under management. The drivers of profitability in our accumulation products business include deposits, persistency, product spread, expenses, and IMO operations.

Deposits. Deposits are a key driver of our business as this is a measure which represents collected premiums to be deposited to policyowner accounts for which we will earn a future product spread. Deposits are presented as collected premiums, which are measured in accordance with industry practice, and represent the amount of new business sold during the period. Deposits are a performance metric which we use to measure the productivity of our distribution network and for compensation of sales and marketing employees and agents. The following table summarizes our accumulation products segment deposits:

	Deposits by Product			
	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2006	2005	2006	2005
	($ in thousands)			

Annuities				
Deferred fixed annuities:				
Traditional fixed annuities	$ 45,582	$ 69,478	$ 82,803	$ 138,360
Indexed annuities	582,059	643,026	1,062,165	1,146,096
Variable annuities	491	593	1,084	1,138
Total direct annuities	628,132	713,097	1,146,052	1,285,594
Funding agreements	174,666	26,200	174,666	26,200
Total	802,798	739,297	1,320,718	1,311,794
Reinsurance ceded	(813)	(2,264)	(1,038)	(4,234)
Total deposits, net of reinsurance	$ 801,985	$ 737,033	$ 1,319,680	$ 1,307,560

Direct annuity deposits decreased 11% in the first six months of 2006 compared to 2005. Sales were impacted primarily by the higher short-term interest rate environment and the resulting increased demand for competing certificate of deposit products. Indexed annuities comprised 93% of total direct annuity deposits in the first six months of 2006 compared to 89% in the first six months of 2005. Our wholly-owned and proprietary organizations accounted for approximately 83% of our annuity deposits in the first six months of 2006 and 2005. We also placed floating and fixed rate funding agreements totaling $174.7 million and $26.2 million during the first six months of 2006 and 2005, respectively. We expect higher interest rates will continue to impact our accumulation segment sales.

Product Charges. The deposits we receive on accumulation products are not recorded as revenue but instead as a policyowner liability. Surrender charges collected on accumulation products are recorded as revenue and shown as a product charge. Product charges increased in the first six months of 2006 as compared to 2005 due to increased policy withdrawals within the surrender charge period.

Persistency. Persistency, which we measure in terms of a withdrawal rate, is a key driver of our business as it refers to the policies which remain in our block of business. A low withdrawal rate reflects higher persistency indicating more business is remaining in force to generate future revenues. Withdrawals represent funds taken out of accumulation products by policyowners not including those due to the death of policyowners. Annuity withdrawal rates without internal replacements, based on a rolling four quarter period, increased in 2006 to 10.9% or $942.2 million compared to 7.8% or $526.1 in 2005. During 2006, higher surrenders were experienced on the annual reset business as market interest rates have risen plus a large block of guaranteed rate annuity business came out of its rate lock period contributing to the increased surrenders. Overall lapse experience has been better than expected and our total withdrawal experience remains within our pricing assumptions.

Product Spread. Product spread is a key driver of our business as it measures the difference between the income earned on our invested assets and the rate which we credit to policyowners, with the difference reflected as segment operating income. We actively manage product spreads in response to changes in our investment portfolio yields by adjusting liability crediting rates while considering our competitive strategies. Asset earned rates and liability crediting rates, based on a rolling four quarter period, were as follows for our annuity products:

	For The Rolling Four Quarters Ended June 30,	
	2006	2005
Asset earned rate	5.71%	5.76%
Liability credited rate	3.46%	3.58%
Product spread	2.25%	2.18%

The product spread increased 7 basis points to 225 basis points for the rolling four quarters ended June 30, 2006 compared to June 30, 2005. Liability crediting rates decreased as a large block of guaranteed rate annuity business came out of its rate lock period.

At June 30, 2006, the account value of traditional annuities totaled $5.0 billion of which approximately 91% have minimum guarantee rates ranging from 3% to 4%. For traditional annuities with an account value of $4.2 billion, the credited rate was equal to the minimum guarantee rate, and as a result, the credited rate cannot be lowered. Traditional annuities with an account value of $0.3 billion had a multi-year guarantee for which the credited rate cannot be decreased until the end of the multi-year period. At the end of the multi-year period, we will have the ability to lower the crediting rate to the minimum guaranteed rate by an average of approximately 150 basis points. The remaining multi-year period is less than one year. Due to these limitations on the ability to lower interest crediting rates and the potential for additional credit defaults and lower reinvestment rates on investments, we could experience spread compression in future periods.

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Underwriting, Acquisition and Other Expenses. Underwriting, acquisition and other expenses are a key driver of our business as they are costs of our operations. Expenses increased in the first six months of 2006 compared to 2005 primarily due to higher legal costs and non-deferrable agent commissions associated with a policy persistency program.

Amortization of DAC and VOBA. The amortization of DAC and VOBA are expense items which increased for the first six months of 2006 as compared to 2005. DAC and VOBA are generally amortized in proportion to product gross margins which increased in the first six months of 2006, resulting in higher amortization expense. In addition, higher surrenders in the second quarter of 2006 resulted in additional amortization.

IMO Operations. IMO Operations are a key driver of our business as the earnings from our wholly-owned IMOs are a component of the accumulation products segment operating income. IMOs have contractual arrangements to promote our insurance products in their networks of agents and brokers. Additionally, they also contract with third party insurance companies. We own four such IMOs. The income from IMO operations primarily represents annuity commissions received by our wholly-owned IMOs from those third party insurance companies. Net IMO operating income increased in the first six months of 2006 compared to 2005 primarily due to lower legal expenses.

OTHER

The other operations consist of our non-core lines of business outside of protection and accumulation products. These lines of business include holding company revenues and expenses, operations of our real estate and asset management subsidiary, and accident and health insurance. The pre-tax operating loss of our other operations in the first six months of 2006 increased as compared to the first six months of 2005 primarily as a result of stock option expense, legal costs and expenses for recruiting and relocating holding company personnel.

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INCOME STATEMENT RECONCILIATION

A reconciliation of our segment pre-tax operating income to net income as shown in our consolidated statements of income follows:

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2006	2005	2006	2005
	($ in thousands)		($ in thousands)	
Segment pre-tax operating income:				
Protection Products	$ 45,710	$ 41,386	$ 84,932	$ 85,356
Accumulation Products	53,262	41,888	109,335	82,555
Other operations	(7,551)	(5,463)	(13,639)	(11,232)
Total segment pre-tax operating income	91,421	77,811	180,628	156,679
Non-segment items increases (decreases) to income:				
Realized and unrealized gains (losses) on assets and liabilities:				
Realized/unrealized gains (losses) on open block assets	(7,508)	(1,517)	(7,677)	(1,340)
Unrealized gains (losses) on open block options and trading investments	(54,301)	7,823	(2,425)	(41,428)
Change in option value of indexed products and market value adjustments on total return strategy annuities	51,198	(31,745)	62,341	12,589
Cash flow hedge amortization	26	38	54	77
(Amortization) restoration of DAC and VOBA due to open block gains and losses and market value adjustments	2,191	8,208	(14,268)	5,383
(Amortization) restoration of deferred sales inducements due to open block gains and losses and market value adjustments	(858)		(6,257)	
Other income (loss) from non-insurance operations		12		(365)
Income from continuing operations	82,169	60,630	212,396	131,595
Interest expense	(8,765)	(8,191)	(17,430)	(15,971)
Income tax expense	(25,431)	(16,872)	(66,078)	(18,569)
Net income	47,973	35,567	128,888	97,055
Dividends on preferred stock	(2,719)		(5,438)	
	$ 45,254	$ 35,567	$ 123,450	$ 97,055

Net income available to common stockholders

Realized and Unrealized Gains (Losses) on Assets and Liabilities. Realized gains (losses) on open block assets will fluctuate from period to period depending on the prevailing interest rates, the economic environment and the timing of investment sales and credit events. As part of managing our invested assets, we routinely sell securities and realize gains and losses.

Unrealized gains (losses) on open block options and trading investments also will fluctuate from period to period depending on prevailing interest rates, the economic environment and credit events. We also have trading securities that back our total return strategy traditional annuity products. The market value adjustment on the trading securities resulted in unrealized losses of $6.3 million and $0.2 million in the second quarter and first six months of 2006, respectively, and unrealized gains of $8.3 million and unrealized losses of $13.4 million in the second quarter and first six months of 2005, respectively. In addition, we use options to hedge our indexed products. In accounting for derivatives, we adjusted our options to market value, which, due to the economic environment and stock market conditions, resulted in an unrealized losses of $48.0 million and $2.2 million in the second quarter and first six months of 2006, respectively, and an unrealized loss of $0.5 million and $28.0 million in the second quarter and first six months of 2005, respectively.

Most of the unrealized gains and losses on the options and trading securities assets are offset by similar adjustments to the option portion of the indexed product reserves and to the total return strategy annuity reserves. The reserve adjustments are reflected in policyowner benefits expense in the consolidated statements of income as the change in option value of indexed products and market value adjustments on total return strategy annuities. The total adjustment to policyowner benefits amounted to reduced expense of $51.2 million and $62.3 million in the second

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quarter and first six months of 2006, respectively, and increased expense of $31.8 million and reduced expense of $12.6 million in the second quarter and first six months of 2005, respectively.

DAC, VOBA and deferred sales inducements amortization is adjusted for realized and unrealized gains and losses and derivative related market value adjustments. As a result of the fluctuating gains and losses and derivative adjustments between periods, DAC and VOBA amortization expense decreased $6.0 million and $19.6 million in the second quarter and first six months of 2006 as compared to the respective periods in 2005. Deferred sales inducements amortization increased $0.9 million and $6.3 million in the second quarter and first six months of 2006 as compared to the respective periods in 2005.

Income Tax Expense. The effective income tax rate varied from the prevailing corporate rate primarily as a result of tax exempt income and a reduction in the income tax accrual for the six months ended June 30, 2006 and 2005. The accrual reductions were for the release of provisions originally established for potential tax adjustments related to open Internal Revenue Service exam years from 1997 through 2003 which were settled or eliminated during 2006 and 2005. The accrual was reduced $0.5 million in 2006 and $19.7 million in 2005. The 2005 accrual reduction was primarily related to the settlement of the tax treatment of a leveraged lease investment and the determination of taxable income of some partnership investments. The effective income tax rate excluding the accrual reductions was 34.1% and 33.1% for the six months ended June 30, 2006 and 2005, respectively.

ACCOUNTING DEVELOPMENTS

In December 2004, the FASB issued a revision to SFAS 123, Share-Based Payment, (SFAS 123R) which is a revision of SFAS 123, Accounting for Stock-Based Compensation, (SFAS 123). The statement supercedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. SFAS 123R requires the fair value of all share-based awards to employees subsequent to January 1, 2006 to be recognized in the income statement over the vesting period, generally five years from date of grant or award. Effective on January 1, 2006 we adopted the modified prospective transition method provided under SFAS 123R. There was no effect to net income or total stockholders equity upon its adoption. See Note 2 to our consolidated financial statements for additional information regarding compensation expense included in net income for the first six months of 2006 and the pro forma disclosure of compensation expense for the first six months of 2005.

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109, (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is assessing the impact of adopting FIN 48.

LIQUIDITY AND CAPITAL RESOURCES

AmerUs Group Co.

As a holding company, our cash flows from operations consist of dividends from subsidiaries, if declared and paid, interest from income on loans and advances to subsidiaries (including a surplus note issued to us by ALIC), investment income on our assets and fees which we charge our subsidiaries, offset by the expenses incurred for debt service, salaries and other expenses.

The payment of dividends by our insurance subsidiaries is regulated under various state laws. Generally, under the various state statutes, our insurance subsidiaries dividends may be paid only from the earned surplus arising from their respective businesses and must receive the prior approval of the respective state regulator to pay any dividend that would exceed certain statutory limitations. The current statutes generally limit any dividend, together with dividends paid out within the preceding 12 months, to the greater of (i) 10% of the respective company s policyowners statutory surplus as of the preceding year end or (ii) the statutory net gain from operations for the previous calendar year. Generally, the various state laws give the state regulators discretion to approve or disapprove requests for dividends in excess of these limits. We also consider risk-based capital levels, capital and liquidity operating needs, and other factors prior to paying dividends from the insurance subsidiaries. Based on the state law limitations and 2005 results, our life insurance subsidiaries could pay us an estimated $143 million in dividends in 2006 without obtaining regulatory approval. Our life insurance subsidiaries paid us approximately $30 million in dividends this year.

On June 16, 2006, we entered into an amended and restated credit agreement, which we refer to as the Revolving Credit Agreement, with a syndicate of lenders. The Revolving Credit Agreement provides up to $300 million of unsecured credit (the Commitment). With the consent of the Administrative Agent, we may increase the Commitment by up to $100 million, provided that existing lenders party to the Revolving Credit Agreement or other lenders agree to lend such amount. As of June 30, 2006, the outstanding loan balance amounted to $9.0 million. The Revolving Credit Agreement provides for typical events of default and covenants with respect to the conduct of business and requires the maintenance of various financial levels and ratios. Among other covenants, we (a) cannot have a leverage ratio greater than 0.35:1.0, (b) must cause our insurance subsidiaries to maintain certain levels of risk-based capital, and (c) cannot permit our subsidiaries to incur additional indebtedness for borrowed money in excess of certain limits typical for such lines of credit. We closely monitor all of these covenants to ensure continued compliance. We also must obtain the consent of the majority of the lenders to continue the Revolving Credit Agreement after the effective date of the Merger with Aviva.

On July 12, 2005, we filed a $1.5 billion shelf registration statement on Form S-3 with the Securities and Exchange Commission (the Shelf Registration), which was declared effective on July 15, 2005. The Shelf Registration will allow us to issue a variety of debt and/or equity securities when market opportunities and the need for financing arise. We utilized the shelf to issue senior notes and preferred stock in the third quarter of 2005. We have $1.05 billion of shelf capacity remaining.

We have $143.8 million of PRIDES outstanding at June 30, 2006. The PRIDES initially consisted of a $25 senior note and a contract requiring the holder to purchase our common stock. Under the purchase contract, holders of each contract are required to purchase our common stock on the settlement date of August 16, 2006, based on a specified settlement rate, which will vary according to the applicable market value of the common stock at the settlement date. The value of the common stock to be issued upon settlement of each purchase contract will not exceed $25, the stated value of the PRIDES, unless the applicable market value of the common stock (which is measured by the common stock price over a 20-day trading day period) increases to more than $33.80 per share. If the market price of our common stock was assumed to be $67 per share at the settlement date, we would issue approximately 4.9 million shares. Proceeds from the stock issuance will be approximately $143.8 million. On May 11, 2006, we entered into a remarketing agreement to remarket the senior note component of our PRIDES in accordance with the terms of the PRIDES. Following the remarketing, the maturity of the senior notes was extended to May 16, 2011, and the interest rate was reset to 6.583% per annum, effective on and after May 16, 2006. The proceeds from the remarketing were used to purchase a Treasury portfolio, which was substituted for the senior notes pledged to the collateral agent to secure the PRIDES holders obligation to purchase our common stock under the related purchase contracts. We did not receive any of the proceeds from the remarketing of the senior notes.

We have purchased our common stock under a stock purchase program approved by our Board of Directors effective June 24, 2005. The plan allowed us to purchase up to six million shares of our common stock at such times and under such conditions, as we deemed advisable. The purchases were to be made in the open market or by such other means as we determined to be appropriate, including privately negotiated purchases. The purchase program superceded all prior purchase programs. In connection with the Merger Agreement, Aviva s consent is required for any future common stock purchases. We purchased 0.7 million shares in the second quarter of 2006 and 2.5 million shares in 2005 under the 2005 purchase plan. The purchase of shares included buybacks under two accelerated share repurchase programs. The accelerated share repurchase programs allowed us to purchase the shares immediately, with the counterparty purchasing the shares in the open market. The 2006 accelerated share repurchase program was completed in the second quarter of 2006, resulting in our paying $41.0 million to purchase 0.7 million shares. The 2005 accelerated share repurchase program was settled in February 2006, resulting in our paying $13.4 million as a final adjusted purchase price.

We manage liquidity on a continuing basis. One way is to minimize our need for capital. We accomplish this by attempting to use our capital as efficiently as possible and by developing capital-efficient products in our insurance subsidiaries. We also manage our mix of sales by focusing on the more capital-efficient products. In addition, we use reinsurance agreements, where cost-effective, to reduce capital strain in the insurance subsidiaries. We also focus on optimizing the consolidated capital structure to properly balance the levels and sources of borrowing and the issuance of equity securities.

Insurance Subsidiaries

Our insurance subsidiaries sources of cash consist primarily of premium receipts; deposits to policyowner account balances; and income from investments, sales, maturities and calls of investments and repayments of investment principal. The uses of cash are primarily related to withdrawals of policyowner account balances, investment purchases, payment of policy acquisition costs, payment of policyowner benefits, repayment of debt, income taxes and current operating expenses. Insurance companies generally produce a positive cash flow from operations, as measured by the amount by which cash flows are adequate to meet benefit obligations to policyowners and normal operating expenses as they are incurred. The remaining cash flow is generally used to increase the asset base to provide funds to meet the need for future policy benefit payments and for writing new business.

Management believes that the current level of cash and available-for-sale, held-for-trading and short-term securities, combined with expected net cash inflows from operations, maturities of fixed maturity investments, principal payments on mortgage-backed securities and sales of its insurance products, will be adequate to meet the anticipated short-term cash obligations of the insurance subsidiaries.

Matching the investment portfolio maturities to the cash flow demands of the type of insurance being provided is an important consideration for each type of protection product and accumulation product. We continuously monitor benefits and surrenders to provide projections of future cash requirements. As part of this monitoring process, we perform cash flow testing of assets and liabilities under various scenarios to evaluate the adequacy of reserves. In developing our investment strategy, we establish a level of cash and securities which, combined with expected net cash inflows from operations and maturities and principal payments on fixed maturity investment securities, are believed adequate to meet anticipated short-term and long-term benefit and expense payment obligations. There can be no assurance that future experience regarding benefits and surrenders will be similar to historic experience since withdrawal and surrender levels are influenced by such factors as the interest rate environment and general economic conditions and the claims-paying and financial strength ratings of the insurance subsidiaries.

We take into account asset/liability management considerations in the product development and design process. Contract terms for the interest-sensitive products include surrender and withdrawal provisions which mitigate the risk of losses due to early withdrawals. These provisions generally do one or more of the following: limit the amount of penalty-free withdrawals, limit the circumstances under which withdrawals are permitted, or assess a surrender charge or market value adjustment relating to the underlying assets.

In addition to the interest-sensitive products, our insurance subsidiaries have issued funding agreements totaling $1,088.7 million outstanding as of June 30, 2006, consisting of one to ten year maturity fixed rate insurance contracts. The assets backing the funding agreements are legally segregated and are not subject to claims that arise out of any other business of the insurance subsidiaries. The funding agreements are further backed by the general account assets of the insurance subsidiaries. The segregated assets and liabilities are included with general account assets in the

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financial statements. The funding agreements may not be cancelled by the holders unless there is a default under the agreement, but the insurance subsidiaries may terminate the agreement at any time.

We also have variable separate account assets and liabilities representing funds that are separately administered, principally for variable annuity contracts, and for which the contractholder bears the investment risk. Separate account assets and liabilities are reported at fair value and amounted to $209.6 million at June 30, 2006. Separate account contractholders generally have no claim against the assets of the general account, except with respect to certain insurance benefits. The operations of the separate accounts are not included in the accompanying consolidated financial statements.

Through their respective memberships in the Federal Home Loan Banks (FHLB) of Des Moines, Topeka, and Indianapolis; ALIC, American and ILIC are eligible to borrow under variable-rate short term fed funds arrangements to provide additional liquidity. These borrowings are secured and interest is payable based on current rates at the time of each advance. There were no borrowings outstanding under these arrangements at June 30, 2006. In addition, ALIC has long-term fixed rate advances from the FHLB outstanding of $11.7 million at June 30, 2006.

The insurance subsidiaries may also obtain liquidity through sales of investments. The investment portfolio as of June 30, 2006, had a carrying value of $19.5 billion, including closed block investments.

The level of capital in the insurance companies is regulated by risk-based capital formulas and is monitored by rating agencies. On March 16, 2006, Moody s Investor Services changed the rating outlook for the Company and its insurance and other subsidiaries to stable from negative. On July 13, 2006, following the announcement that AmerUs Group and Aviva plc had signed a definitive agreement under which Aviva plc would acquire AmerUs Group, rating agencies took the following rating action on the Company and its insurance and other subsidiaries: Moody s review for possible upgrade; Fitch Ratings Watch Positive; A.M. Best review with positive implications; and Standard & Poor s ratings outlook revised from stable to positive. In order to maintain appropriate capital levels, it may be necessary from time to time for AmerUs Group Co. to provide additional capital to the insurance companies.

We participate in a securities lending program whereby certain fixed maturity securities from the investment portfolio are loaned to other institutions for a short period of time. We receive a fee in exchange for the loan of securities and require initial collateral equal to 102 percent, with an on-going level of 100 percent, of the market value of the loaned securities to be separately maintained. Securities with a market value of approximately $310.3 million and $458.8 million were on loan under the program and we were liable for cash collateral under our control of approximately $320.8 million and $474.6 million at June 30, 2006 and December 31, 2005, respectively. The collateral held under the securities lending program has been included in cash and cash equivalents in the consolidated balance sheet and the obligation to return the collateral upon the return of the loaned securities has been included in payable for collateral under securities lending and other transactions.

We also receive collateral that is posted under the ISDA Collateral Support Annex (CSA) requirements. This collateral is posted by derivative counterparties to reduce our exposure to them and bring their exposure within the guidelines of the CSA. The collateral held under the obligation to return the collateral has been included in payable for collateral under securities lending and other transactions.

We may also enter into securities borrowing arrangements from time to time whereby we borrow securities from other institutions and pay a fee. Securities borrowed amounted to $133.4 million at June 30, 2006 and $138.2 million at December 31, 2005, respectively, and are included in accrued expenses and other liabilities in the consolidated balance sheet.

At June 30, 2006, the statutory capital and surplus of the insurance subsidiaries was approximately $1.1 billion. Management believes that each insurance company has statutory capital which provides adequate risk based capital that exceeds required levels.

In the future, in addition to cash flows from operations and borrowing capacity, the insurance subsidiaries may obtain their required capital from AmerUs Group Co.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The main objectives in managing our investment portfolios are to optimize investment income and total investment returns while minimizing credit risks in order to provide maximum support to the insurance underwriting operations. Investment strategies are developed based on many factors including asset liability management, regulatory requirements, fluctuations in interest rates and consideration of other market risks. Investment decisions are centrally managed by investment professionals based on guidelines established by management and approved by the boards of directors.

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments. The market risks related to our financial instruments primarily relate to the investment portfolio, which exposes us to risks related to interest rates, credit quality and prepayment variation. Analytical tools and monitoring systems are in place to assess each of these elements of market risk.

Interest rate risk is the price sensitivity of a fixed income security to changes in interest rates. Management views these potential changes in price within the overall context of asset and liability management. Actuarial professionals estimate the cash flow pattern of our liabilities to determine their duration. This is then compared to the characteristics of the assets that are currently backing the liabilities to arrive at an asset allocation strategy for future investments that management believes mitigates the overall effect of interest rates.

For variable and indexed products, profitability on the portion of the policyowner s account balance invested in the fixed general account option or strategy, if any, is also affected by the spreads between interest yields on investments and rates credited to those policies. For the variable products, the policyholder assumes essentially all the investment earnings risk for the portion of the account balance invested in the separate accounts. For the indexed products, we purchase primarily call options that are designed to match the return owed to contract holders who elect to participate in one or more market indices. Profitability on the portion of the indexed products tied to market indices is significantly impacted by the spread between interest earned on investments and the sum of (1) the cost of underlying call options purchased to match the returns owed to contract holders and (2) the minimum interest guarantees owed to the contract holder, if any. Profitability on the indexed products is also impacted by changes in the fair value of the embedded option which provides the contract holder the right to participate in market index returns after the next anniversary date of the contract. This impacts profitability as we primarily purchase one-year call options to fund the returns owed to the contract holders at the inception of each contract year. This practice matches with the contract holders rights to switch to different indices on each anniversary date. The value of the forward starting options embedded in the indexed products can fluctuate with changes in assumptions as to future volatility of the market indices, risk free interest rates, market returns and the lives of the contracts.

The following table provides information about our fixed maturity investments and mortgage loans for both our trading and other than trading portfolios at June 30, 2006. The table presents amortized cost and related weighted average interest rates by expected maturity dates. The amortized cost approximates the cash flows of principal amounts in each of the periods. The cash flows are based on the earlier of the call date or the maturity date or, for mortgage-backed securities, expected payment patterns. Actual cash flows could differ from the expected amounts.

	6 months 2006	2007	2008	2009	2010	2011	Thereafter	Expected Cash Flows	Fair Value
					($ in millions)				
Fixed maturity securities available-for-sale	$ 397	$ 930	$ 1,058	$ 871	$ 723	$ 1,234	$ 11,628	$ 16,841	$ 16,201
Average interest rate	7.2%	6.0%	6.0%	6.1%	5.8%	5.9%	5.9%		
Fixed maturity securities held-for-trading purposes	$ 40	$ 195	$ 235	$ 128	$ 120	$ 145	$ 413	$ 1,276	$ 1,276
Average interest rate	5.1%	2.8%	2.9%	3.5%	2.7%	3.6%	4.3%		
Mortgage loans	$ 31	$ 58	$ 72	$ 64	$ 72	$ 104	$ 587	$ 988	$ 965
Average interest rate	6.7%	6.8%	6.8%	6.7%	6.7%	6.6%	6.4%		
Total	$ 468	$ 1,183	$ 1,365	$ 1,063	$ 915	$ 1,483	$ 12,628	$ 19,105	$ 18,442

In accordance with our strategy of minimizing credit quality risk, we consistently invest in high quality marketable securities. Fixed maturity securities are comprised of U.S. Treasury, government agency, mortgage-backed and corporate securities. Approximately 61% of fixed maturity securities are issued by the U.S. Treasury or U.S. government agencies or are rated A or better by Moody s, Standard and Poor s, or the NAIC. Less than 7.8% of the bond portfolio is below investment grade. Fixed maturity securities have an average life of approximately 10.2 years.

Prepayment risk refers to the changes in prepayment patterns that can either shorten or lengthen the expected timing of the principal repayments and thus the average life and the effective yield of a security. Such risk exists primarily within the portfolio of mortgage-backed securities. Management monitors such risk regularly. We invest primarily in those classes of mortgage-backed securities that have average or lower prepayment risk.

Our use of derivatives is generally limited to hedging purposes and has principally consisted of using options, futures, interest rate swaps and caps and credit default swaps. These instruments, viewed separately, subject us to varying degrees of market and credit risk. However when used for hedging, the expectation is that these instruments would reduce overall market risk. Credit risk arises from the possibility that counterparties may fail to perform under the terms of the contracts.

Equity price risk is the potential loss arising from changes in the value of equity securities. In general, equities have more year-to-year price variability than intermediate term grade bonds. However, returns over longer time frames have generally been higher.

All of the above risks are monitored on an ongoing basis. A combination of in-house systems and proprietary models and externally licensed software are used to analyze individual securities as well as each portfolio. These tools provide the portfolio managers with information to assist them in the evaluation of the market risks of the portfolio.

Item 4. Controls and Procedures

(a) Based upon their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, are effective for recording, processing, summarizing and reporting the information we are required to disclose in our reports filed under such act.

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(b) There was no change in our internal control over financial reporting during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

AmerUs is routinely involved in litigation and other proceedings, including class actions, reinsurance claims and regulatory proceedings arising in the ordinary course of its business. In recent years, the life insurance industry, including AmerUs Group Co. and its subsidiaries, has been subject to an increase in litigation pursued on behalf of both individuals and purported classes of insurance purchasers, questioning the conduct of insurers and their agents in the marketing of their products. AmerUs pending lawsuits raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including, but not limited to, the underlying facts of each matter, novel legal issues, variations between jurisdictions in which matters are being litigated, differences in applicable laws and judicial interpretations, the length of time before many of these matters might be resolved by settlement or through litigation and, in some cases, the fact that many of these matters are putative class actions in which a class has not been certified and in which the purported class may not be clearly defined, the fact that many of these matters involve multi-state class actions in which the applicable law(s) for the claims at issue is in dispute and therefore unclear, and the current challenging legal environment faced by large corporations and insurance companies. In addition, state and federal regulatory bodies, such as state insurance departments and attorneys general, periodically make inquiries and conduct examinations concerning compliance by AmerUs and others with applicable insurance and other laws. AmerUs responds to such inquiries and cooperates with regulatory examinations in the ordinary course of business.

During 2005 nationwide class actions were filed on April 7, 2005 (United States District Court for the Central District of California), April 25, 2005 (United States District Court for the District of Kansas), May 19, 2005 (United States District Court for Eastern District of Pennsylvania), August 29, 2005 (United States District Court for the Middle District of Florida), November 8, 2005 (United States District Court for the Eastern District of Pennsylvania) and December 8, 2005 (United States District Court for the Eastern District of Pennsylvania) on behalf of certain purchasers of our products against AmerUs Group Co. and/or certain of its subsidiaries (including American and ALIC). On July 7, 2005 a statewide class action was also filed on behalf of certain purchasers of our products in the United States District Court for the Middle District of Florida against many of these same AmerUs entities. The aforementioned lawsuits relate to the use of purportedly inappropriate sales practices and products in the senior citizen market. The complaints allege, among other things, the unauthorized practice of law involving the marketing of estate or financial planning services, the lack of suitability of the products, the improper manner in which they were sold, including pretext sales and non-disclosure of surrender charges, as well as other violations of the state consumer and insurance laws. The plaintiffs in the lawsuits seek compensatory damages, rescission, injunctive relief, treble and/or punitive damages, attorneys fees and other relief and damages. In November 2005, each of the aforementioned lawsuits as well as certain other statewide class actions and individual lawsuits were assigned to the United States District Court for the Eastern District of Pennsylvania for coordinated and consolidated pretrial proceedings.

On February 10, 2005, the California Attorney General and the Insurance Commissioner of the State of California filed suit in the California Superior Court for the County of Los Angeles against American and certain other subsidiaries of AmerUs Group Co. alleging the unauthorized practice of law, claims related to the suitability of the products for, and the manner in which they were sold to, the senior citizen market, including violations of California s insurance code and unfair competition laws. The plaintiffs seek civil penalties, restitution, injunctive relief and other relief and damages.

AmerUs Group Co. and certain of its subsidiaries are among the defendants in a lawsuit by the Attorney General of Pennsylvania on behalf of certain Pennsylvania residents, some of whom were purchasers of our products alleging, in part, claims related to the marketing of our products to senior citizens and violations of consumer protection laws. The plaintiffs seek fines, restitution, injunctive and other relief.

In November 2005, the Superior Court of the State of California for the County of San Luis Obispo approved a settlement of a statewide class of annuity holders and purchasers of estate planning services, Cheves v. American Investors Life Insurance Company, Family First Estate Planning and Family First Insurance Services, et al. The allegations in this case involved claims of breach of contract, misrepresentation, unfair competition and deceptive trade practices. Given the charges previously taken regarding this matter, AmerUs does not currently anticipate that any additional charges will be required as a result of this settlement.

In these matters, plaintiffs seek a variety of remedies including equitable relief in the form of injunctive and other remedies and monetary relief in the form of contractual and extra-contractual damages. Some of these claims and legal actions are in jurisdictions where juries are given substantial latitude in assessing damages, including punitive and exemplary damages. Often more specific information beyond the type of relief sought is not available because plaintiffs have not requested more specific relief in their court pleadings. In our experience, monetary demands in plaintiffs court pleadings bear little relation to the ultimate loss, if any, to AmerUs. Estimates of possible losses or ranges of losses for particular matters cannot in the ordinary course be made with a reasonable degree of certainty. It is possible that AmerUs results of operations or cash flow in a particular quarterly or annual period could be materially adversely affected by an ultimate unfavorable resolution of pending litigation and regulatory matters.

Item 1A. Risk Factors

Business uncertainties and contractual restrictions could lead to adverse effects on our business and operating results prior to completion of the planned Merger with Aviva plc.

Uncertainties related to the Merger and restrictions on the operation of our business imposed by the Merger Agreement may have an adverse effect on our business and operating results. As a result of these uncertainties, we may be unable to attract and retain key employees and agents during the pendency of the Merger, and customers, suppliers and others having business dealings with us may defer business decisions until the Merger is completed or seek to change existing relationships with us. In addition, the Merger Agreement imposes a number of customary restrictions for this type of transaction on the operation of our business prior to completion of the Merger, such as entering into certain material agreements, incurring certain liabilities and indebtedness, acquiring or disposing of material assets, issuing securities and paying dividends (other than regularly scheduled dividends on our Series A Non-Cumulative Perpetual Preferred Stock), among other restrictions. These restrictions could prevent us from pursuing attractive business opportunities that arise prior to completion of the Merger. The pendency of the Merger may also disrupt the operation of our business as a result of the substantial time and effort invested by our management in connection with the Merger.

If we are unable to complete the planned Merger, our business, financial condition, operating results and stock price could suffer.

The completion of our planned Merger with Aviva is subject to customary closing conditions, including the approval of our shareholders and the receipt of certain government and regulatory approvals, including the expiration of all waiting periods required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. In addition, the occurrence of certain events, changes or other circumstances could give rise to the termination of the Merger Agreement. As a result, no assurances can be given that the Merger will be completed. If our shareholders choose not to approve the Merger, or if we otherwise fail to satisfy, or obtain a waiver of the satisfaction of, the closing conditions to the Merger and the Merger is not completed, we could be subject to various adverse consequences, including, but not limited to, the following:

- we would remain liable for significant costs relating to the planned Merger, including, among others, legal, accounting, financial advisory and financial printing expenses;

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an announcement that we have abandoned the planned Merger could trigger a decline in our stock price, to the extent that our stock price reflects a market assumption that we will complete the Merger; and

we may be required to pay a termination fee of $90 million plus expense reimbursements of up to $12.5 million if the Merger Agreement is terminated under certain circumstances.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth information regarding purchases of equity securities for the six months ended June 30, 2006:

Period	(a) Total number of shares (or units) purchased (1)	(b) Average price paid per share (or units)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs (2)
01/01/2006-01/31/2006		$		3,465,500
02/01/2006-02/28/2006	32,000	59.96	32,000	3,433,500
03/01/2006-03/31/2006				3,433,500
04/01/2006-04/30/2006				3,433,500
05/01/2006-05/31/2006	599,398(3)	58.65	599,398	2,834,102
06/01/2006-06/30/2006	99,625(3)	58.65	99,625	2,734,477
Total	731,023	58.71	731,023	

(1) Does not include shares withheld from employee stock awards to satisfy applicable tax withholding obligations.

(2) On June 24, 2005, our board of directors authorized a repurchase program of up to 6 million shares of our

outstanding common stock. The program replaced and terminated a previous program which authorized repurchase of up to 3 million shares. There is no expiration date for this program. In connection with the Merger Agreement, Aviva s consent is required for any future common stock purchases.

(3) Includes 599,398 shares purchased in connection with an accelerated stock buyback program on May 4, 2006, and an additional 99,625 shares received with the final settlement of the program on June 13, 2006.

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Item 4. Submission of Matters to a Vote of Security Holders

At the annual meeting of the Company s shareholders on May 4, 2006, the Company s shareholders approved (1) the reelection of David A. Arledge, John W. Norris, Jr., and John A. Wing; (2) the amended and restated 2003 Stock Incentive Plan; and (3) the ratification of the appointment by the Board of Directors of the Company of Ernst & Young LLP as the Company s independent auditors. The result of the vote is as follows:

Election of David A. Arledge

For:	26,083,694
Withheld:	259,612

Election of John W. Norris Jr.

For:	25,942,129
Withheld:	401,177

Election of John A. Wing

For:	26,074,621
Withheld:	268,685

Amended and Restated 2003 Stock Incentive Plan

For:	19,082,352
Against:	3,952,530
Abstaining:	917,436

Ratification of Ernst & Young LLP

For:	25,240,866
Against:	963,636
Abstaining:	138,804

The term of the following other directors of the Company continued after the meeting: Roger K. Brooks; Thomas F. Gaffney; Thomas C. Godlasky; Louis A. Holland; Ward M. Klein; Jack C. Pester; Heidi L. Steiger; Stephen Strome; and F.A. Wittern, Jr. In addition, Andrew J. Paine, Jr. retired at the May 4, 2006 meeting.

Item 6. Exhibits

A list of exhibits included as part of this report is set forth in the Exhibit Index which immediately precedes such exhibits and is hereby incorporated by reference herein.

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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.

DATED: August 2, 2006

AMERUS GROUP CO.

By /s/ Melinda S. Urion

Melinda S. Urion
Executive Vice President,
Chief Financial Officer and Treasurer
(Principal Financial Officer)

By /s/ Brenda J. Cushing

Brenda J. Cushing
Senior Vice President and Controller
(Principal Accounting Officer)

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AMERUS GROUP CO. AND SUBSIDIARIES
INDEX TO EXHIBITS

Exhibit No.	Description
2.1	Agreement and Plan of Merger by and among Aviva plc, Libra Acquisition Corporation and AmerUs Group, filed as Exhibit 2.1 on Form 8-K dated July 12, 2006 is hereby incorporated by reference.
3.1	Amended and Restated Articles of Incorporation of the Registrant filed as Exhibit 3.1 on Form 10-Q, on November 8, 2005, is hereby incorporated by reference.
3.2	Amended and Restated Bylaws of the Registrant, filed as Exhibit 3.2 on Form 10-Q, dated August 6, 2004, is hereby incorporated by reference.
4.1	Remarketing Agreement among AmerUs Group Co., U.S. Bank National Association (as successor to Wachovia Bank, National Association), Citigroup Global Markets Inc. and Goldman, Sachs & Co., filed as Exhibit 99.1 on Form 8-K dated May 11, 2006 is hereby incorporated by reference.
10.1	Amended and Restated 2003 Stock Incentive Plan, filed as Exhibit 99.1 on Form 8-K dated May 4, 2006 is hereby incorporated by reference.
10.2	Accelerated Share Repurchase Agreement between AmerUs Group Co. and Citibank, N.A., filed as Exhibit 99.2 on Form 8-K dated May 4, 2006 is hereby incorporated by reference.
10.3	Amended and Restated Credit Agreement, filed as Exhibit 10.1 on Form 8-K dated June 16, 2006 is hereby incorporated by reference.
10.4	Employment Agreement by and between AmerUs Group Co. and Thomas C. Godlasky, filed as Exhibit 10.1 on Form 8-K dated July 12, 2006 is hereby incorporated by reference.
10.5	Employment Agreement by and between AmerUs Group Co. and Gregory D. Boal, filed as Exhibit 10.2 on Form 8-K dated July 12, 2006 is hereby incorporated by reference.
10.6	Employment Agreement by and between AmerUs Group Co. and Brian J. Clark, filed as Exhibit 10.3 on Form 8-K dated July 12, 2006 is hereby incorporated by reference.
10.7	Employment Agreement by and between AmerUs Group Co. and Mark V. Heitz, filed as Exhibit 10.4 on Form 8-K dated July 12, 2006 is hereby incorporated by reference.
10.8	Employment Agreement by and between AmerUs Group Co. and Gary R. McPhail, filed as Exhibit 10.5 on Form 8-K dated July 12, 2006 is hereby incorporated by reference.
11.1	Statement Re: Computation of Per Share Earnings is included in note 16 to the consolidated financial statements.
12*	Computation of Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
31.1*	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e).

31.2*	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e).
32.1*	Certification of Chief Executive Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.
32.2*	Certification of Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.

* included herein