

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of report (Date of earliest event reported) **October 23, 2006**

Allstate Life Insurance Company

(Exact Name of Registrant as Specified in Charter)

Illinois
(State or Other Jurisdiction
of Incorporation)

0-31248
(Commission File Number)

36-2554642
(IRS Employer
Identification Number)

3100 Sanders Road, Northbrook, Illinois
(Address of Principal Executive Offices)

60062
(Zip Code)

Registrant's telephone number, including area code **(847) 402-5000**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 2 — Financial Information

Item 2.02. Results of Operations and Financial Condition.

The registrant furnishes below its Condensed Consolidated Statements of Operations for the three-month and nine-month periods ended September 30, 2006 and 2005 and Condensed Consolidated Statements of Financial Position as of September 30, 2006 and December 31, 2005, prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), and certain non-GAAP and operating measures:

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(\$ in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	Est. 2006	2005	Est. 2006	2005
Revenues				
Premiums	\$ 129	\$ 104	\$ 392	\$ 359
Contract charges	218	275	780	797
Net investment income	1,035	942	3,026	2,745
Realized capital gains and losses	(30)	26	(137)	51
	<u>1,352</u>	<u>1,347</u>	<u>4,061</u>	<u>3,952</u>
Costs and expenses				
Contract benefits	336	316	989	1,000
Interest credited to contractholder funds	651	589	1,889	1,736
Amortization of deferred policy acquisition costs	106	117	387	450
Operating costs and expenses	82	99	283	325

Restructuring and related charges	5	—	23	—
	<u>1,180</u>	<u>1,121</u>	<u>3,571</u>	<u>3,511</u>
Gain (loss) on disposition of operations	3	1	(85)	(7)
	<u>175</u>	<u>227</u>	<u>405</u>	<u>434</u>
Income from operations before income tax expense				
Income tax expense	53	68	131	120
	<u>122</u>	<u>159</u>	<u>274</u>	<u>314</u>
Net income	<u>\$ 122</u>	<u>\$ 159</u>	<u>\$ 274</u>	<u>\$ 314</u>

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ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$ in millions, except par value data)	September 30, 2006 (Est.)	December 31, 2005
Assets		
Investments		
Fixed income securities, at fair value (amortized cost \$61,332 and \$59,717)	\$ 63,060	\$ 61,977
Mortgage loans	8,396	8,108
Equity securities	471	324
Short-term	1,511	927
Policy loans	745	729
Other	<u>830</u>	<u>691</u>
Total investments	75,013	72,756
Cash	149	154
Deferred policy acquisition costs	3,485	3,948
Reinsurance recoverables, net	3,450	1,699
Accrued investment income	710	648
Other assets	708	582
Separate Accounts	<u>15,595</u>	<u>15,235</u>
Total assets	<u>\$ 99,110</u>	<u>\$ 95,022</u>
Liabilities		
Contractholder funds	\$ 60,622	\$ 58,190
Reserve for life-contingent contract benefits	12,102	11,881
Unearned premiums	34	35
Payable to affiliates, net	96	98
Other liabilities and accrued expenses	4,513	3,054
Deferred income taxes	245	340
Long-term debt	263	181
Separate Accounts	<u>15,595</u>	<u>15,235</u>
Total liabilities	<u>93,470</u>	<u>89,014</u>
Shareholder's Equity		
Redeemable preferred stock — series A, \$100 par value, 1,500,000 shares authorized, 49,230 and outstanding	5	5
Redeemable preferred stock — series B, \$100 par value, 1,500,000 shares authorized, none issued	—	—
Common stock, \$227 par value, 23,800 shares authorized and outstanding	5	5
Additional capital paid-in	1,108	1,108
Retained income	4,151	4,302
Accumulated other comprehensive income:		
Unrealized net capital gains and losses	<u>371</u>	<u>588</u>
Total accumulated other comprehensive income	371	588
Total shareholder's equity	<u>5,640</u>	<u>6,008</u>
Total liabilities and shareholder's equity	<u>\$ 99,110</u>	<u>\$ 95,022</u>

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Definitions of Non-GAAP and Operating Financial Measures

We believe that investors' understanding of our performance is enhanced by our disclosure of the following non-GAAP financial measure. Our methods of calculating this measure may differ from those used by other companies and therefore comparability may be limited.

Operating income is net income excluding:

- realized capital gains and losses, after-tax, except for periodic settlements and accruals on non-hedge derivative instruments which are reported with realized capital gains and losses but included in operating income,
- amortization of deferred policy acquisition costs ("DAC") and deferred sales inducements ("DSI"), to the extent that they resulted from the recognition of certain realized capital gains and losses,
- (loss) gain on disposition of operations, after-tax, and
- adjustments for other significant non-recurring, infrequent or unusual items, when (a) the nature of the charge or gain is such that it is reasonably unlikely to recur within two years, or (b) there has been no similar charge or gain within the prior two years.

Net income is the GAAP measure that is most directly comparable to operating income.

We use operating income to evaluate our results of operations. It reveals trends in our insurance and financial services business that may be obscured by the net effect of realized capital gains and losses, (loss) gain on disposition of operations and adjustments for other significant non-recurring, infrequent or unusual items. Realized capital gains and losses and (loss) gain on disposition of operations may vary significantly between periods and are generally driven by business decisions and economic developments such as market conditions, the timing of which is unrelated to the insurance underwriting process. Moreover, we reclassify periodic settlements on non-hedge derivative instruments into operating income to report them in a manner consistent with the economically hedged investments, replicated assets or product attributes (e.g. net investment income and interest credited to contractholder funds) and by doing so, appropriately reflect trends in product performance. Non-recurring items are excluded because, by their nature, they are not indicative of our business or economic trends. Therefore, we believe it is useful for investors to evaluate these components separately and in the aggregate when reviewing our performance. We use adjusted measures of operating income in incentive compensation. Operating income should not be considered as a substitute for net income and does not reflect the overall profitability of our business.

The following table reconciles operating income and net income.

(\$ in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	Est. 2006	2005	Est. 2006	2005
Operating income	\$ 133	\$ 154	\$ 408	\$ 423
Realized capital gains and losses	(30)	26	(137)	51
Income tax benefit (expense)	10	(9)	48	(18)
Realized capital gains and losses, after-tax	(20)	17	(89)	33
DAC and DSI amortization relating to realized capital gains and losses, after-tax	16	(2)	40	(106)
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	(9)	(10)	(28)	(32)
Gain (loss) on disposition of operations, after-tax	2	—	(57)	(4)
Net income	<u>\$ 122</u>	<u>\$ 159</u>	<u>\$ 274</u>	<u>\$ 314</u>

Operating income return on equity is a ratio that uses a non-GAAP measure. It is calculated by dividing the rolling 12-month operating income by the average of shareholder's equity at the beginning and at the end of the 12-month period, after excluding the effect of unrealized net capital gains. We use it to supplement our evaluation of net income and return on equity. We believe that this measure is useful to investors because it eliminates the effect of items that can fluctuate significantly from period to period and that are driven by economic developments, the magnitude and timing of which are generally not influenced by management: the after-tax effects of realized and unrealized capital gains and losses and the cumulative effect of change in accounting principle, and non-recurring items that are not indicative of our business or economic trends. Return on equity is the most directly comparable GAAP measure. The following table shows the reconciliation.

(\$ in millions)	For the twelve months ended September 30,	
	Est. 2006	2005
Return on equity		
Numerator:		
Net income	\$ 377	\$ 448
Denominator:		
Beginning shareholder's equity	6,182	6,178
Ending shareholder's equity	5,640	6,182
Average shareholder's equity	<u>\$ 5,911</u>	<u>\$ 6,180</u>
Return on equity	<u>6.4%</u>	<u>7.2%</u>

(\$ in millions)	For the twelve months ended September 30,	
	Est. 2006	2005
Operating income return on equity		
Numerator:		

Operating income	<u>\$ 536</u>	<u>\$ 548</u>
Denominator:		
Beginning shareholder's equity	6,182	6,178
Unrealized net capital gains	<u>655</u>	<u>1,022</u>
Adjusted beginning shareholder's equity	5,527	5,156
Ending shareholder's equity	5,640	6,182
Unrealized net capital gains	<u>371</u>	<u>655</u>
Adjusted ending shareholder's equity	5,269	5,527
Average adjusted shareholder's equity	<u>\$ 5,398</u>	<u>\$ 5,342</u>
Operating income return on equity	<u>9.9%</u>	<u>10.3%</u>

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Operating Measure

We believe that investors' understanding of our performance is enhanced by our disclosure of the following operating financial measure. Our method of calculating this measure may differ from that used by other companies and therefore comparability may be limited.

Premiums and deposits is an operating measure that we use to analyze production trends for sales. It includes premiums on insurance policies and annuities and all deposits and other funds received from customers on deposit-type products, which we account for under GAAP as increases to liabilities rather than as revenue.

The following table illustrates where premiums and deposits are reflected in the condensed consolidated financial statements.

(\$ in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	Est. 2006	2005	Est. 2006	2005
Premiums and deposits excluding variable annuities	\$ 2,332	\$ 1,668	\$ 8,129	\$ 8,318
Variable annuity deposits ¹	<u>—</u>	<u>452</u>	<u>678</u>	<u>1,315</u>
Total premiums and deposits	2,332	2,120	8,807	9,633
Deposits to contractholder funds	(2,171)	(1,639)	(7,741)	(8,179)
Deposits to separate accounts	(32)	(379)	(680)	(1,101)
Change in unearned premiums and other adjustments	<u>—</u>	<u>2</u>	<u>6</u>	<u>6</u>
Premiums	<u>\$ 129</u>	<u>\$ 104</u>	<u>\$ 392</u>	<u>\$ 359</u>

¹ Disposed through reinsurance effective June 1, 2006.

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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.

ALLSTATE LIFE INSURANCE COMPANY

By /s/ Samuel H. Pilch
Name: Samuel H. Pilch
Title: Group Vice President and Controller

Date: October 23, 2006

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