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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

(MARK ONE)

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006**

**OR**

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

**FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

**Commission File Number: 333-20277**

**PHL VARIABLE INSURANCE COMPANY**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**06-1045829**

(I.R.S. Employer  
Identification No.)

**One American Row, Hartford, Connecticut 06102-5056  
(860) 403-5000**

(Address, including zip code, and telephone number,  
including area code, of principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant 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  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

PHL Variable Insurance Company is a wholly-owned indirect subsidiary of The Phoenix Companies, Inc., and there is no market for the registrant's common stock. On October 31, 2006, there were 500 shares of the registrant's common stock outstanding.

**The registrant meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this Form with the reduced disclosure format permitted by that General Instruction.**

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**PHL VARIABLE INSURANCE COMPANY**  
**Unaudited Interim Condensed Balance Sheet**  
(\$ in thousands)

**September 30, 2006 (unaudited) and December 31, 2005**

	<u>Sept 30, 2006</u>	<u>Dec 31, 2005</u>
<b>ASSETS:</b>		
Available-for-sale debt securities, at fair value .....	\$ 2,092,526	\$ 2,789,491
Policy loans, at unpaid principal balances.....	14,570	8,171
Other invested assets .....	<u>1,268</u>	<u>1,129</u>
Total investments .....	2,108,364	2,798,791
Cash and cash equivalents .....	36,969	25,818
Accrued investment income .....	23,410	30,837
Receivables .....	49,183	25,107
Deferred policy acquisition costs.....	652,386	529,315
Receivable from related parties.....	3,240	32,340
Other general account assets .....	1,110	247
Separate account assets .....	<u>2,747,577</u>	<u>2,537,685</u>
<b>Total assets</b> .....	<b><u>\$ 5,622,239</u></b>	<b><u>\$ 5,980,140</u></b>
<b>LIABILITIES:</b>		
Policyholder deposit funds .....	\$ 1,563,698	\$ 2,256,129
Policy liabilities and accruals .....	625,711	487,573
Deferred income taxes .....	91,819	73,356
Payable to related parties.....	22,954	72,446
Other general account liabilities .....	20,277	10,688
Separate account liabilities.....	<u>2,747,577</u>	<u>2,537,685</u>
<b>Total liabilities</b> .....	<b><u>5,072,036</u></b>	<b><u>5,437,877</u></b>
<b>CONTINGENT LIABILITIES (Note 5)</b>		
<b>STOCKHOLDER'S EQUITY:</b>		
Common stock, \$5,000 par value: 1,000 shares authorized; 500 shares issued .....	2,500	2,500
Additional paid-in capital.....	503,234	503,234
Retained earnings .....	47,684	37,134
Accumulated other comprehensive loss.....	<u>(3,215)</u>	<u>(605)</u>
<b>Total stockholder's equity</b> .....	<b><u>550,203</u></b>	<b><u>542,263</u></b>
<b>Total liabilities and stockholder's equity</b> .....	<b><u>\$ 5,622,239</u></b>	<b><u>\$ 5,980,140</u></b>

The accompanying notes are an integral part of these financial statements.

**PHL VARIABLE INSURANCE COMPANY**  
**Unaudited Interim Condensed Statement of Income and Comprehensive Income**  
**and Changes in Stockholder's Equity**  
(\$ in thousands)

**Three and Nine Months Ended September 30, 2006 and 2005**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
<b>REVENUES:</b>				
Premiums	\$ 2,975	\$ 1,595	\$ 8,669	\$ 4,486
Insurance and investment product fees	46,015	26,496	129,850	75,663
Investment income, net of expenses	30,404	38,323	99,370	114,244
Net realized investment losses	(169)	(3,062)	(4,315)	(5,332)
<b>Total revenues</b>	<b>79,225</b>	<b>63,352</b>	<b>233,574</b>	<b>189,061</b>
<b>BENEFITS AND EXPENSES:</b>				
Policy benefits	28,548	32,439	109,036	97,882
Policy acquisition cost amortization	27,480	14,105	61,304	65,421
Other operating expenses	14,781	6,376	50,556	23,094
<b>Total benefits and expenses</b>	<b>70,809</b>	<b>52,920</b>	<b>220,896</b>	<b>186,397</b>
Income before income taxes	8,416	10,432	12,678	2,664
Applicable income taxes (benefits)	1,027	1,149	2,128	(1,754)
<b>Net income</b>	<b>\$ 7,389</b>	<b>\$ 9,283</b>	<b>\$ 10,550</b>	<b>\$ 4,418</b>
<b>COMPREHENSIVE INCOME:</b>				
<b>Net income</b>	<b>\$ 7,389</b>	<b>\$ 9,283</b>	<b>\$ 10,550</b>	<b>\$ 4,418</b>
Net unrealized gains (losses)	6,666	(4,268)	(2,610)	(7,776)
<b>Comprehensive income (loss)</b>	<b>\$ 14,055</b>	<b>\$ 5,015</b>	<b>\$ 7,940</b>	<b>\$ (3,358)</b>
<b>RETAINED EARNINGS:</b>				
Net income	\$ 7,389	\$ 9,283	\$ 10,550	\$ 4,418
<b>OTHER COMPREHENSIVE INCOME:</b>				
Other comprehensive income (loss)	6,666	(4,268)	(2,610)	(7,776)
<b>Change in stockholder's equity</b>	<b>14,055</b>	<b>5,015</b>	<b>7,940</b>	<b>(3,358)</b>
Stockholder's equity, beginning of period	536,148	539,988	542,263	548,361
<b>Stockholder's equity, end of period</b>	<b>\$ 550,203</b>	<b>\$ 545,003</b>	<b>\$ 550,203</b>	<b>\$ 545,003</b>

The accompanying notes are an integral part of these financial statements.

**PHL VARIABLE INSURANCE COMPANY**  
**Unaudited Interim Condensed Statement of Cash Flows**  
(\$ in thousands)  
**Nine Months Ended September 30, 2006 and 2005**

	<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>OPERATING ACTIVITIES:</b>		
Net income .....	\$ 10,550	\$ 4,418
Net realized investment losses.....	4,315	5,332
Investment income (loss).....	2,623	(4,222)
Deferred income taxes .....	19,867	6,439
(Increase) decrease in receivables .....	(3,190)	7,211
Increase in deferred policy acquisition costs.....	(124,129)	(12,726)
Increase in policy liabilities and accruals.....	146,520	96,980
Other assets and other liabilities net change .....	(15,088)	1,926
<b>Cash from operating activities .....</b>	<b><u>41,468</u></b>	<b><u>105,358</u></b>
<b>INVESTING ACTIVITIES:</b>		
Investment purchases .....	(656,568)	(868,028)
Investment sales.....	428,489	290,851
Investment maturities and repayments .....	889,851	687,070
<b>Cash from investing activities .....</b>	<b><u>661,772</u></b>	<b><u>109,893</u></b>
<b>FINANCING ACTIVITIES:</b>		
Policyholder deposit fund deposits.....	156,231	180,052
Policyholder deposit fund withdrawals .....	(848,320)	(413,068)
<b>Cash for financing activities.....</b>	<b><u>(692,089)</u></b>	<b><u>(233,016)</u></b>
<b>Change in cash and cash equivalents .....</b>	<b><u>11,151</u></b>	<b><u>(17,765)</u></b>
Cash and cash equivalents, beginning of period .....	25,818	39,598
<b>Cash and cash equivalents, end of period .....</b>	<b><u>\$ 36,969</u></b>	<b><u>\$ 21,833</u></b>

The accompanying notes are an integral part of these financial statements.

**PHL VARIABLE INSURANCE COMPANY**  
**Notes to Unaudited Interim Condensed Financial Statements**  
**Three and Nine Months Ended September 30, 2006 and 2005**

**1. Organization and Operations**

PHL Variable Insurance Company is a life insurance company offering variable and fixed annuity and non-participating life insurance products. It is a wholly-owned subsidiary of PM Holdings, Inc. PM Holdings, Inc. is a wholly-owned subsidiary of Phoenix Life Insurance Company (Phoenix Life), which is a wholly-owned subsidiary of The Phoenix Companies, Inc., a New York Stock Exchange listed company. Certain prior year amounts have been reclassified to conform with the 2006 presentation.

We have prepared these financial statements in accordance with accounting principles generally accepted in the United States of America, or GAAP. In preparing these financial statements in conformity with GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities at reporting dates and the reported amounts of revenues and expenses during the reporting periods. Actual results will differ from these estimates and assumptions. We employ significant estimates and assumptions in the determination of: deferred policy acquisition costs; policyholder liabilities and the determination of accruals; the valuation of investments in debt and equity securities; the valuation of deferred tax liabilities and accruals for contingent liabilities. Our significant accounting policies are presented in the notes to our financial statements in our 2005 Annual Report on Form 10-K.

Our interim financial statements do not include all of the disclosures required by GAAP for annual financial statements. In our opinion, we have included all adjustments, consisting of normal recurring adjustments, considered necessary for a fair statement of the results for the interim periods. Financial results for the three and nine-month periods in 2006 are not necessarily indicative of the results that may be expected for the year 2006. These unaudited financial statements should be read in conjunction with our financial statements in our 2005 Annual Report on Form 10-K.

**Recently issued accounting standards**

*Fair Value Measurements:* In September 2006, the Financial Accounting Standards Board, or FASB issued SFAS 157, *Fair Value Measurements*, or SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies under other existing accounting pronouncements that require or permit fair value measurements, and does not require any new fair value measurements. This guidance is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact of SFAS 157 on our financial position and results of operations.

*Uncertain Tax Positions:* In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes*, or FIN 48. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on measurement and classification of taxes and introduces new disclosure requirements. This guidance is effective for fiscal years beginning after December 15, 2006. We are currently assessing the impact of FIN 48 on our financial position and results of operations.

*Deferred Acquisition Costs:* In September 2005, the Accounting Standards Executive Committee, or AcSEC, of the American Institute of Certified Public Accountants, or AICPA, issued Statement of Position 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts*, or SOP 05-1. SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in Statement of Financial Accounting Standards No. 97, or SFAS No. 97. The SOP defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. This SOP is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. We will adopt SOP 05-1 on January 1, 2007. We are currently assessing the impact of SOP 05-1 on our financial position and results of operations.

*Servicing of Financial Assets:* In March 2006, the FASB issued SFAS 156, *Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140*, or SFAS 156. SFAS 156 provides guidance on recognition and disclosure of servicing assets and liabilities and is effective beginning January 1, 2007. We do not expect our adoption of SFAS 156 to have a material impact on our financial statements.

## Accounting changes

*Certain Hybrid Financial Instruments:* Effective January 1, 2006, we adopted SFAS 155, *Accounting for Certain Hybrid Financial Instruments*, or SFAS 155. SFAS 155 resolves certain issues surrounding the accounting for beneficial interests in securitized financial assets. Our adoption of SFAS 155 did not have a material effect on our financial statements.

*Other-Than-Temporary Impairments:* Effective January 1, 2006, we adopted FASB Staff Position Nos. FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, or FSP 115-1. FSP 115-1 provides guidance as to the determination of other-than-temporarily impaired securities and requires certain financial disclosures with respect to unrealized losses. These accounting and disclosure requirements largely codify our existing practices as to other-than-temporarily impaired securities and, accordingly, our adoption did not have a material effect on our financial statements.

## 2. Operating Activities

### Activity in Deferred Policy Acquisition Costs: (\$ in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Policy acquisition costs deferred .....	\$ 53,785	\$ 33,975	\$ 185,432	\$ 78,147
Recurring costs amortized to expense .....	(27,615)	(15,807)	(63,550)	(67,123)
Decrease (increase) related to realized investment gains or losses .....	135	1,702	2,246	1,702
(Cost) credit offsets to net unrealized investment gains or losses included in other comprehensive income .....	(22,184)	25,868	(1,057)	34,916
Change in deferred policy acquisition costs .....	4,121	45,738	123,071	47,642
Deferred policy acquisition costs, beginning of period .....	648,265	435,362	529,315	433,458
<b>Deferred policy acquisition costs, end of period .....</b>	<b>\$ 652,386</b>	<b>\$ 481,100</b>	<b>\$ 652,386</b>	<b>\$ 481,100</b>

## 3. Investing Activities

### Debt securities

#### Fair Value and Cost of Debt Securities: (\$ in thousands)

	September 30, 2006		December 31, 2005	
	Fair Value	Cost	Fair Value	Cost
U.S. government and agency .....	\$ 112,487	\$ 113,869	\$ 124,552	\$ 125,673
State and political subdivision .....	17,967	18,219	28,585	28,934
Foreign government .....	52,017	48,808	73,412	69,275
Corporate .....	1,189,146	1,207,371	1,490,696	1,510,681
Mortgage-backed .....	452,232	455,092	648,124	649,346
Other asset-backed .....	268,677	267,734	424,122	425,634
<b>Debt securities .....</b>	<b>\$ 2,092,526</b>	<b>\$ 2,111,093</b>	<b>\$ 2,789,491</b>	<b>\$ 2,809,543</b>

We owned no non-income producing debt securities as of September 30, 2006 or 2005.

Gross and Net Unrealized Gains and Losses from Debt and Equity Securities: (\$ in thousands)	September 30, 2006		December 31, 2005	
	Gains	Losses	Gains	Losses
U.S. government and agency.....	\$ 252	\$ (1,634)	\$ 369	\$ (1,490)
State and political subdivision.....	180	(432)	239	(588)
Foreign government.....	3,435	(226)	4,539	(402)
Corporate.....	5,557	(23,782)	10,796	(30,781)
Mortgage-backed.....	3,065	(5,925)	6,141	(7,363)
Other asset-backed.....	2,977	(2,034)	2,052	(3,564)
<b>Debt securities gains (losses).....</b>	<b>\$ 15,466</b>	<b>\$ (34,033)</b>	<b>\$ 24,136</b>	<b>\$ (44,188)</b>
<b>Debt securities net losses.....</b>	<b>\$ (18,567)</b>		<b>\$ (20,052)</b>	
<b>Equity securities gains.....</b>	<b>\$ 14</b>		<b>\$ —</b>	
<b>Equity securities net gains.....</b>	<b>\$ 14</b>		<b>\$ —</b>	

Aging of Temporarily Impaired Debt Securities: (\$ in thousands)	As of September 30, 2006					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Debt securities</b>						
U.S. government and agency.....	\$ 13,838	\$ (60)	\$ 69,256	\$ (1,574)	\$ 83,094	\$ (1,634)
State and political subdivision.....	1,019	(3)	14,386	(429)	15,405	(432)
Foreign government.....	4,038	(18)	9,320	(208)	13,358	(226)
Corporate.....	256,298	(3,203)	677,368	(20,579)	933,666	(23,782)
Mortgage-backed.....	75,630	(721)	243,810	(5,204)	319,440	(5,925)
Other asset-backed.....	35,579	(202)	115,864	(1,832)	151,443	(2,034)
<b>Total temporarily impaired securities.....</b>	<b>\$ 386,402</b>	<b>\$ (4,207)</b>	<b>\$ 1,130,004</b>	<b>\$ (29,826)</b>	<b>\$ 1,516,406</b>	<b>\$ (34,033)</b>
<b>Below investment grade.....</b>	<b>\$ 34,903</b>	<b>\$ (513)</b>	<b>\$ 72,614</b>	<b>\$ (3,499)</b>	<b>\$ 107,517</b>	<b>\$ (4,012)</b>
<b>Below investment grade after offsets for deferred policy acquisition cost adjustment and taxes.....</b>		<b>\$ (61)</b>		<b>\$ (516)</b>		<b>\$ (577)</b>

These securities are considered to be temporarily impaired at September 30, 2006 as each of these securities has performed, and is expected to continue to perform, in accordance with their original contractual terms, and we have the ability and intent to hold these securities until they recover their value.

There are no unrealized losses of below investment grade debt securities with a fair value less than 80% of the securities amortized cost at September 30, 2006.

Aging of Temporarily Impaired Debt Securities: (\$ in thousands)	As of December 31, 2005					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Debt Securities</b>						
U.S. government and agency.....	\$ 62,372	\$ (714)	\$ 33,369	\$ (776)	\$ 95,741	\$ (1,490)
State and political subdivision.....	7,854	(15)	16,067	(573)	23,921	(588)
Foreign government.....	14,877	(269)	4,834	(133)	19,711	(402)
Corporate.....	651,536	(18,520)	340,112	(12,261)	991,648	(30,781)
Mortgage-backed.....	245,240	(3,751)	165,412	(3,612)	410,652	(7,363)
Other asset-backed.....	140,801	(1,797)	101,004	(1,767)	241,805	(3,564)
<b>Total temporarily impaired securities.....</b>	<b>\$ 1,122,680</b>	<b>\$ (25,066)</b>	<b>\$ 660,798</b>	<b>\$ (19,122)</b>	<b>\$ 1,783,478</b>	<b>\$ (44,188)</b>
<b>Below investment grade.....</b>	<b>\$ 72,000</b>	<b>\$ (2,888)</b>	<b>\$ 40,186</b>	<b>\$ (2,667)</b>	<b>\$ 112,186</b>	<b>\$ (5,555)</b>
<b>Below investment grade after offsets for deferred acquisition cost adjustment and taxes.....</b>		<b>\$ (469)</b>		<b>\$ (305)</b>		<b>\$ (774)</b>



These securities were considered to be temporarily impaired at December 31, 2005 as each of these securities had performed, and was expected to continue to perform, in accordance with their original contractual terms, and we have the ability and intent to hold these securities until they recover their value.

### Net investment income

#### Sources of Net Investment Income: (\$ in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Debt securities .....	\$ 29,410	\$ 37,721	\$ 98,114	\$ 114,301
Equity securities .....	—	1	—	2
Other investments .....	62	12	101	48
Policy loans .....	508	325	642	557
Cash and cash equivalents .....	917	176	2,010	604
Total investment income .....	30,897	38,235	100,867	115,512
Less: investment expenses .....	493	(88)	1,497	1,268
<b>Net investment income .....</b>	<b>\$ 30,404</b>	<b>\$ 38,323</b>	<b>\$ 99,370</b>	<b>\$ 114,244</b>

### Net realized investment gains (losses)

#### Sources and Types of Net Realized Investment Gains (Losses): (\$ in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Debt security impairments .....	\$ —	\$ (1,638)	\$ (411)	\$ (1,638)
Debt security transaction gains .....	240	685	2,503	1,539
Debt security transaction losses .....	(447)	(1,717)	(7,008)	(4,970)
Equity security transaction gains .....	—	—	—	26
Other invested asset transaction gains (losses) .....	38	(392)	601	(289)
<b>Net transaction gains (losses) .....</b>	<b>(169)</b>	<b>(1,424)</b>	<b>(3,904)</b>	<b>(3,694)</b>
<b>Net realized investment gains (losses) .....</b>	<b>\$ (169)</b>	<b>\$ (3,062)</b>	<b>\$ (4,315)</b>	<b>\$ (5,332)</b>
Net realized investment gains (losses) .....	\$ (169)	\$ (3,062)	\$ (4,315)	\$ (5,332)
Applicable deferred policy acquisition costs .....	(135)	(1,702)	(2,246)	(1,702)
Applicable deferred income tax benefit .....	(11)	(476)	(724)	(1,271)
Offsets to realized investment gains .....	(146)	(2,178)	(2,970)	(2,973)
<b>Net realized investment gains (losses) included in net income .....</b>	<b>\$ (23)</b>	<b>\$ (884)</b>	<b>\$ (1,345)</b>	<b>\$ (2,359)</b>

### Unrealized investment gains (losses)

#### Sources of Changes in Net Unrealized Investment Gains (Losses): (\$ in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Debt securities .....	\$ 31,562	\$ (32,470)	\$ (3,608)	\$ (46,623)
Equity securities .....	14	28	14	(5)
<b>Net unrealized investment gains (losses) .....</b>	<b>\$ 31,576</b>	<b>\$ (32,442)</b>	<b>\$ (3,594)</b>	<b>\$ (46,628)</b>
Net unrealized investment gains (losses) .....	\$ 31,576	\$ (32,442)	\$ (3,594)	\$ (46,628)
Applicable deferred policy acquisition costs (benefit) .....	22,184	(25,868)	1,057	(34,916)
Applicable deferred income tax benefit .....	3,511	(2,390)	(1,404)	(4,187)
Offsets to net unrealized investment losses .....	25,695	(28,258)	(347)	(39,103)
<b>Net unrealized investment gains (losses) included in other comprehensive income .....</b>	<b>\$ 5,881</b>	<b>\$ (4,184)</b>	<b>\$ (3,247)</b>	<b>\$ (7,525)</b>

#### 4. Income Taxes

For the nine months ended September 30, 2006 and 2005, the effective income tax rates applicable to operating income differ from the 35.0% U.S. federal statutory tax rate. Items giving rise to the differences and the effects are as follows:

Analysis of Effective Income Tax Rates:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Income taxes at statutory rate .....	35.0%	35.0%	35.0%	(35.0%)
Investment income not subject to tax .....	(22.8%)	(24.0%)	(18.2%)	(30.8%)
<b>Effective income tax benefit rates applicable to operating income .....</b>	<b>12.2%</b>	<b>11.0%</b>	<b>16.8%</b>	<b>(65.8%)</b>

Our federal income tax returns are routinely audited by the IRS and estimated provisions are routinely provided in the financial statements in anticipation of the results of these audits. The current periods being audited by the IRS are the 2002 and 2003 tax years. While it is often difficult to predict the outcome of these audits, including the timing of any resolution of any particular tax matter, we believe that our reserves, as recorded on the balance sheet, are adequate for all open years. Unfavorable resolution of any particular issue could result in additional use of cash to pay liabilities that would be deemed owed to the IRS. Additionally, any unfavorable or favorable resolution of any particular issue could result in an increase or decrease, respectively, to our effective income tax rate to the extent that our estimates differ from the ultimate resolution.

#### 5. Contingent Liabilities

We are regularly involved in litigation, both as a defendant and as a plaintiff. The litigation naming us as a defendant ordinarily involves our activities as an insurer, investor or taxpayer. Several current proceedings are discussed below. In addition, state regulatory bodies, the Securities and Exchange Commission, or SEC, the National Association of Securities Dealers, Inc., or NASD, and other regulatory bodies regularly make inquiries of us and, from time to time, conduct examinations or investigations concerning our compliance with, among other things, insurance laws and securities laws.

For example, during 2003 and 2004, the SEC conducted examinations of certain Company variable products and certain affiliated investment advisors and mutual funds. In 2004, the NASD also commenced examinations of two affiliated broker-dealers; the examinations were closed in April 2005 and November 2004, respectively. In February 2005, the NASD notified an affiliate of the Company that it was asserting violations of trade reporting rules by the affiliate of the Company. The affiliated company responded to the NASD allegations in May 2005 but has not received any further inquiries to date.

Federal and state regulatory authorities from time to time make inquiries and conduct examinations regarding compliance by the Company with securities and other laws and regulations affecting its registered products. The Company endeavors to respond to such inquiries in an appropriate way and to take corrective action if warranted. Recently, there has been a significant increase in federal and state regulatory activity relating to financial services companies, with a number of recent regulatory inquiries focusing on late-trading, market timing and valuation issues. Our products entitle us to impose restrictions on transfers between separate account sub-accounts associated with our variable products.

In 2004 and 2005, the Boston District Office of the SEC conducted a compliance examination of certain of the Company's affiliates that are registered under the Investment Company Act of 1940 or the Investment Advisers Act of 1940. Following the examination, the staff of the Boston District Office issued a deficiency letter primarily focused on perceived weaknesses in procedures for monitoring trading to prevent market timing activity. The staff requested the Company to conduct an analysis as to whether shareholders, policyholders and contract holders who invested in the funds that may have been affected by undetected market timing activity had suffered harm and to advise the staff whether the Company believes reimbursement is necessary or appropriate under the circumstances. A third party was retained to assist the Company in preparing the analysis. Based on this analysis, the Company advised the SEC that it does not believe that reimbursement is appropriate.

Over the past two years, a number of companies have announced settlements of enforcement actions with various regulatory agencies, primarily the SEC and the New York Attorney General's Office. While no such action has been initiated against us, it is possible that one or more regulatory agencies may pursue this type of action against us in the future.

Financial services companies have also been the subject of broad industry inquiries by state regulators and attorneys general which do not appear to be company-specific. In this regard, in 2004, we received a subpoena from the Connecticut Attorney General's office requesting information regarding certain distribution practices since 1998. Over 40 companies received such a subpoena. We cooperated fully and have had no further inquiry since filing our response.

These types of regulatory actions may be difficult to assess or quantify, may seek recovery of indeterminate amounts, including punitive and treble damages, and the nature and magnitude of their outcomes may remain unknown for substantial periods of time. While it is not feasible to predict or determine the ultimate outcome of all pending investigations and legal proceedings or to provide reasonable ranges of potential losses, we believe that their outcomes are not likely, either individually or in the aggregate, to have a material adverse effect on our financial condition, or consideration of available insurance and reinsurance and the provision made in our financial statements. However, given the large or indeterminate amounts sought in certain of these matters and litigation's inherent unpredictability, it is possible that an adverse outcome in certain matters could, from time to time, have a material adverse effect on our results of operation or cash flows.

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

### **FORWARD-LOOKING STATEMENTS**

*The following discussion may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Company intends these forward-looking statements to be covered by the safe harbor provisions of the federal securities laws relating to forward-looking statements. These include statements relating to trends in, or representing management's beliefs about, the Company's future strategies, operations and financial results, as well as other statements including words such as "anticipate," "believe," "plan," "estimate," "expect," "intend," "may," "should" and other similar expressions. Forward-looking statements are made based upon management's current expectations and beliefs concerning trends and future developments and their potential effects on the Company. They are not guarantees of future performance. Actual results may differ materially from those suggested by forward-looking statements as a result of risks and uncertainties which include, among others: (i) changes in general economic conditions, including changes in interest and currency exchange rates and the performance of financial markets; (ii) heightened competition, including with respect to pricing, entry of new competitors and the development of new products and services by new and existing competitors; (iii) regulatory, accounting or tax developments that may affect the Company or the cost of, or demand for, its products or services; (iv) downgrades in the financial strength ratings of the Company; (v) discrepancies between actual claims experience and assumptions used in setting prices for the Company's products and establishing the Company's liabilities for future policy benefits and claims relating to such products; (vi) movements in the equity markets that affect our investment results, the fees we earn from funds on deposit and the demand for our variable products; (vii) the relative success and timing of implementation of the Company's strategies; (viii) the effects of closing the Company's retail brokerage operations; and (ix) other risks and uncertainties described in Part II, Item 1A. "Risk Factors" below or in any of the Company's other filings with the SEC. The Company undertakes no obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.*

### **MANAGEMENT'S NARRATIVE ANALYSIS OF THE RESULTS OF OPERATIONS**

This section reviews our results of operations for the three and nine months ended September 30, 2006 and 2005. This discussion should be read in conjunction with the unaudited interim condensed financial statements and notes contained in this filing as well as in conjunction with our financial statements for the year ended December 31, 2005 in our 2005 Annual Report on Form 10-K.

#### **Overview**

We are a manufacturer of life insurance, annuity and investment products. We provide products and services through a wide variety of third-party professionals and institutional consultants.

We derive our revenues principally from:

- premiums on life insurance;
- insurance and investment product fees on variable life and annuity products and universal life products; and
- net investment income and net realized investment gains.

Under accounting principles generally accepted in the United States of America, or GAAP, premium and deposit collections for variable life, universal life and annuity products are not recorded as revenues. For certain investment options of variable products, collections are reflected on our balance sheet as an increase in separate account liabilities. Collections for universal life, fixed annuities and certain investment options of variable annuities are reflected on our balance sheet as an increase in policyholder deposit funds. Collections for other products are reflected on our balance sheet as an increase in policy liabilities and accruals.

Our expenses consist principally of:

- insurance policy benefits provided to policyholders, including interest credited on policies;
- deferred policy acquisition costs amortization;
- other operating expenses; and
- income taxes.

Our profitability depends principally upon:

- the adequacy of our product pricing, which is primarily a function of our:
  - ability to select underwriting risks;
  - mortality experience;
  - ability to generate investment earnings;
  - ability to maintain expenses in accordance with our pricing assumptions; and
  - persistency on policies issued (the percentage of policies remaining in force from year to year as measured by premiums);
- the amount and composition of funds on deposit;
- the maintenance of our target spreads between the rate of earnings on our investments and interest rates credited to customers; and
- our ability to manage expenses.

Our sales and financial results over the last several years have been affected by demographic, industry and market trends. The baby boom generation has begun to enter its prime savings years. Americans generally have begun to rely less on defined benefit retirement plans, social security and other government programs to meet their postretirement financial needs. Product preferences have shifted between fixed and variable options depending on market and economic conditions. Our balanced product portfolio, including universal life, variable life and variable annuity products, is well positioned to meet this shifting demand.

### **Recently Issued Accounting Standards**

*Fair Value Measurements:* In September 2006, the Financial Accounting Standards Board, or FASB issued SFAS 157, *Fair Value Measurements*, or SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies under other existing accounting pronouncements that require or permit fair value measurements, and does not require any new fair value measurements. This guidance is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact of SFAS 157 on our financial position and results of operations.

*Uncertain Tax Positions:* In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes*, or FIN 48. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on measurement and classification of taxes and introduces new disclosure requirements. This guidance is effective for fiscal years beginning after December 15, 2006. We are currently assessing the impact of FIN 48 on our financial position and results of operations.

*Deferred Acquisition Costs:* In September 2005, the Accounting Standards Executive Committee, or AcSEC, of the American Institute of Certified Public Accountants, or AICPA, issued Statement of Position 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts*, or SOP 05-1. SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in Statement of Financial Accounting Standards No. 97, or SFAS No. 97. The SOP defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. This SOP is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. We will adopt SOP 05-1 on January 1, 2007. We are currently assessing the impact of SOP 05-1 on our financial position and results of operations.

*Servicing of Financial Assets:* In March 2006, the FASB issued SFAS 156, *Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140*, or SFAS 156. SFAS 156 provides guidance on recognition and disclosure of servicing assets and liabilities and is effective beginning January 1, 2007. We do not expect our adoption of SFAS 156 to have a material impact on our financial statements.

### **Accounting changes**

*Certain Hybrid Financial Instruments:* Effective January 1, 2006, we adopted SFAS 155, *Accounting for Certain Hybrid Financial Instruments*, or SFAS 155. SFAS 155 resolves certain issues surrounding the accounting for beneficial interests in securitized financial assets. Our adoption of SFAS 155 did not have a material effect on our financial statements.

*Other-Than-Temporary Impairments:* Effective January 1, 2006, we adopted FASB Staff Position Nos. FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, or FSP 115-1. FSP 115-1 provides guidance as to the determination of other-than-temporarily impaired securities and requires certain financial disclosures with respect to unrealized losses. These accounting and disclosure requirements largely codify our existing practices as to other-than-temporarily impaired securities and, accordingly, our adoption did not have a material effect on our financial statements.

### **Critical Accounting Estimates**

The discussion and analysis of our results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Critical accounting estimates are reflective of significant judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

#### *Deferred Policy Acquisition Costs ("DAC")*

The costs of acquiring new business, principally commissions, underwriting, distribution and policy issue expenses, all of which vary with and are primarily related to production of new business, are deferred.

We amortize DAC based on the related policy's classification. For individual life insurance policies, DAC is amortized in proportion to estimated gross margins. For universal life, variable universal life and accumulation annuities, DAC is amortized in proportion to estimated gross profits, or EGPs. Policies may be surrendered for value or exchanged for a different one of our products (internal replacement). The DAC balance associated with the replaced or surrendered policies is amortized to reflect these surrenders.

Each year, we develop future EGPs for the products sold during that year. The EGPs for products sold in a particular year are aggregated into cohorts. Future EGPs are projected for the estimated lives of the contracts. The amortization of DAC requires the use of various assumptions, estimates and judgments about the future. The assumptions, in the aggregate, are considered important in the projections of EGPs. The assumptions developed as part of our annual process are based on our current best estimates of future events, which are likely to be different for each year's cohort. Assumptions considered to be significant in the development of EGPs include separate account fund performance, surrender and lapse rates, interest margin, mortality, premium persistency and expenses. These assumptions are reviewed on a regular basis and are generally based on our past experience, industry studies, regulatory requirements and estimates about the future.

To determine the reasonableness of the prior assumptions used and their impact on previously projected account values and the related EGPs, we evaluate, on a quarterly basis, our previously projected EGPs. Our process to assess the reasonableness of our EGPs involves the use of internally developed models, together with studies and actual experience. Incorporated in each scenario are our current best estimate assumptions with respect to separate account returns, surrender and lapse rates, interest margin, mortality, premium persistency and expenses.

Underlying assumptions for future periods of EGPs are not altered unless experience deviates significantly from original assumptions. For example, when lapses of our insurance products meaningfully exceed levels assumed in determining the amortization of DAC, we adjust amortization to reflect the change in future premiums or EGPs resulting from the unexpected lapses. In the event that we were to revise assumptions used for prior year cohorts, our estimate of projected account values would change and the related EGPs in the DAC amortization model would be adjusted to reflect such change. This process is known as “unlocking”. Continued favorable experience on key assumptions, which could include increasing separate account fund return performance, decreasing lapses or decreasing mortality could result in an unlocking which would result in a decrease to DAC amortization and an increase in the DAC asset.

Finally, an analysis is performed periodically to assess whether there are sufficient gross margins or gross profits to amortize the remaining DAC balances.

The separate account fund performance assumption is critical to the development of the EGPs related to our variable annuity and variable life insurance businesses. As equity markets do not move in a systematic manner, we use a mean reversion method (reversion to the mean assumption), a common industry practice to determine the future equity market growth rate assumption used for the amortization of DAC. This practice assumes that the expectation for long-term appreciation is not changed by minor short-term market fluctuations. The average long-term rate of assumed separate account fund performance used in estimating gross profits was 6.0% (after fund fees and mortality and expense charges) for the variable annuity business and 6.9% (after fund fees and mortality and expense charges) for the variable life business at September 30, 2006.

We perform analysis with respect to the sensitivity of a change in the separate account performance assumption as it is critical to the development of the EGPs related to our variable annuity and variable life insurance business. Equity market movements have a significant impact on the account value of variable life and annuity products and the fees earned on these. EGPs could increase or decrease with these movements in the equity market. Sustained and significant changes in the equity markets could therefore have an impact on DAC amortization.

To illustrate the effects of this analysis, assume we had concluded that a revision to previously projected account returns and related EGPs was required as of September 30, 2006. For example, if we had used a 100 basis points lower separate account return assumption (after fund fees and mortality and expense charges) for both the variable annuity and the variable life businesses and used our current best estimate assumptions for all other assumptions to project account values forward from the current value to reproject EGPs, the estimated increase to amortization and decrease to net income would be approximately \$2,045 thousand, after-tax, for the nine months ended September 30, 2006.

If instead we had used a 100 basis points higher separate account return assumption (after fund fees and mortality and expense charges) for both the variable annuity and variable life businesses and used our current best estimate assumptions for all other assumptions to project account values forward from the current value to reproject EGPs, the estimated decrease to amortization and increase to net income would be approximately \$2,364 thousand, after-tax, for the nine months ended September 30, 2006.

Although such hypothetical revisions are not currently required or anticipated, we believe they could reasonably occur based on past variances in experience.

See our 2005 Annual Report on Form 10-K for a further description of our critical accounting estimates.

## Results of Operations

Summary Financial Data: (\$ in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	2005	Change	2006	2005	Change
<b>REVENUES:</b>						
Premiums.....	\$ 2,975	\$ 1,595	\$ 1,380	\$ 8,669	\$ 4,486	\$ 4,183
Insurance and investment product fees .....	46,015	26,496	19,519	129,850	75,663	54,187
Investment income, net of expenses.....	30,404	38,323	(7,919)	99,370	114,244	(14,874)
Net realized investment losses.....	(169)	(3,062)	2,893	(4,315)	(5,332)	1,017
<b>Total revenues.....</b>	<b>79,225</b>	<b>63,352</b>	<b>15,873</b>	<b>233,574</b>	<b>189,061</b>	<b>44,513</b>
<b>BENEFITS AND EXPENSES:</b>						
Policy benefits.....	28,548	32,439	(3,891)	109,036	97,882	11,154
Policy acquisition cost amortization .....	27,480	14,105	13,375	61,304	65,421	(4,117)
Other operating expenses.....	14,781	6,376	8,405	50,556	23,094	27,462
<b>Total benefits and expenses.....</b>	<b>70,809</b>	<b>52,920</b>	<b>17,889</b>	<b>220,896</b>	<b>186,397</b>	<b>34,499</b>
Income before income taxes..	8,416	10,432	(2,016)	12,678	2,664	10,014
Applicable income taxes (benefit).....	1,027	1,149	(122)	2,128	(1,754)	3,882
<b>Net income.....</b>	<b>\$ 7,389</b>	<b>\$ 9,283</b>	<b>\$ (1,894)</b>	<b>\$ 10,550</b>	<b>\$ 4,418</b>	<b>\$ 6,132</b>

### *Three and nine months ended September 30, 2006 vs. September 30, 2005*

Premium revenues for the three and nine months ended September 30, 2006 increased \$1,380 thousand, or 87%, and \$4,183 thousand, or 93%, over the comparable periods in 2005 due to higher sales of our term life insurance products.

Insurance and investment product fees for the three and nine months ended September 30, 2006 increased \$19,519 thousand, or 74%, and \$54,187 thousand, or 72%, respectively, over the comparable periods in 2005 due principally to higher universal life fees resulting from higher sales and growth of policies in force.

Net investment income for the three and nine months ended September 30, 2006 decreased 21% and 13%, respectively, from the comparable periods in 2005. These decreases are due primarily to lower incidence of makewhole premiums on called bonds and lower invested asset amounts related to a decrease in annuity funds on deposit, primarily related to discontinued products.

Net realized investment losses for the three and nine-month periods ended September 30, 2006 decreased 97% and 43%, respectively, from the comparable periods in 2005 due to an improving credit cycle that resulted in fewer impairment losses in 2006 over the comparable 2005 period.

Policy benefits for the three months ended September 30, 2006 decreased 12% from the comparable period in 2005 as a result of lower interest credited for annuities which resulted from the decline in general account funds on deposit, primarily related to discontinued products. These decreases were partially offset by higher benefit costs for universal life, which resulted from growth of policies in force. Policy benefits for the nine months ended September 30, 2006 increased 12% over the comparable period in 2005 primarily due to higher universal life benefit costs resulting from higher claims and growth of policies in force, partially offset by lower interest credited on annuities.

Policy acquisition cost amortization for the three months ended September 30, 2006 increased \$13,375 thousand, or 95%, over the comparable period in 2005 due primarily to higher insurance and other margins for universal life. Policy amortization for the nine months ended September 30, 2006 decreased \$4,117 thousand, or 6%, from the comparable period in 2005 due primarily to the effects of unlocking which increased annuity amortization in 2005 partially offset by unlocking effects in 2005 which reduced universal life amortization.



Other operating expenses for the three and nine months ended September 30, 2006 increased 132% and 119%, respectively, over the comparable periods in 2005 as a result of higher non-deferred expenses, such as maintenance and indirect costs associated with business growth and premium taxes driven primarily by the increase in universal life new business.

## General Account

The invested assets in our general account are generally of high quality and broadly diversified across asset classes, sectors and individual credits and issuers. Our investment professionals manage these general account assets in investment segments that support specific product liabilities. These investment segments have distinct investment policies that are structured to support the financial characteristics of the related liabilities within them. Segmentation of assets allows us to manage the risks and measure returns on capital for our various products.

## Separate Accounts

Separate account assets are managed in accordance with the specific investment contracts and guidelines relating to our variable products. We generally do not bear any investment risk on assets held in separate accounts. Rather, we receive investment management fees based on assets under management. Assets held in separate accounts are not available to satisfy general account obligations.

## Debt and Equity Securities Held in Our General Account

Our general account debt securities portfolios consist primarily of investment-grade publicly traded and privately placed corporate bonds, residential mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities. As of September 30, 2006, our general account held debt securities with a carrying value of \$2,092.5 million, representing 99.2% of total general account investments. Public debt securities represented 80.3% of total debt securities, with the remaining 19.7% represented by private debt securities.

### Debt Securities by Type and Credit Quality:

(\$ in thousands)

	As of September 30, 2006			
	Investment Grade		Below Investment Grade	
	Fair Value	Cost	Fair Value	Cost
United States government and agency .....	\$ 112,487	\$ 113,869	\$ —	\$ —
State and political subdivision .....	17,967	18,219	—	—
Foreign government .....	23,288	23,029	28,729	25,779
Corporate .....	1,058,567	1,073,699	130,579	133,672
Mortgage-backed .....	452,232	455,092	—	—
Other asset-backed .....	257,849	256,957	10,828	10,777
<b>Total debt securities</b> .....	<b>\$ 1,922,390</b>	<b>\$ 1,940,865</b>	<b>\$ 170,136</b>	<b>\$ 170,228</b>
<b>Percentage of total debt securities</b> .....	<b>91.9%</b>	<b>91.9%</b>	<b>8.1%</b>	<b>8.1%</b>

We manage credit risk through industry and issuer diversification. Maximum exposure to an issuer is defined by quality ratings, with higher quality issuers having larger exposure limits. Our investment approach emphasizes a high level of industry diversification. The top five industry holdings as of September 30, 2006 in our debt securities portfolio are diversified financial services (6.2%), banking (5.6%), insurance (3.5%), telecommunications equipment (2.6%) and real estate investment trusts (2.5%).

Total net unrealized losses on debt securities were \$18.6 million (unrealized losses of \$34.1 million less unrealized gains of \$15.5 million).

At the end of each reporting period, we review our security holdings for potential recognition of an other-than-temporary impairment. We maintain a watch list of securities in default, near default or otherwise considered by our investment professionals as being distressed, potentially distressed or requiring a heightened level of scrutiny. We also identify securities whose carrying value has been below amortized cost on a continuous basis.

The following table presents certain information with respect to our gross unrealized losses related to our investments in general account debt securities. Applicable deferred acquisition costs and deferred income taxes reduce the effect of these losses on our comprehensive income.

**Duration of Gross Unrealized Losses**

**on General Account Securities:**

*(\$ in thousands)*

	<b>As of September 30, 2006</b>			
	<b>Total</b>	<b>0 – 6 Months</b>	<b>6 – 12 Months</b>	<b>Over 12 Months</b>
<b>Debt securities</b>				
Total fair value	\$ 1,516,406	\$ 86,049	\$ 300,353	\$ 1,130,004
Total amortized cost	1,550,439	86,723	303,886	1,159,830
Unrealized losses	<u>\$ (34,033)</u>	<u>\$ (674)</u>	<u>\$ (3,533)</u>	<u>\$ (29,826)</u>
Unrealized losses after offsets	<u>\$ (4,426)</u>	<u>\$ (78)</u>	<u>\$ (424)</u>	<u>\$ (3,924)</u>
Unrealized losses over 20% of cost	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Unrealized losses over 20% of cost after offsets	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Investment grade:				
Unrealized losses	<u>\$ (30,021)</u>	<u>\$ (315)</u>	<u>\$ (3,379)</u>	<u>\$ (26,327)</u>
Unrealized losses after offsets	<u>\$ (3,849)</u>	<u>\$ (38)</u>	<u>\$ (403)</u>	<u>\$ (3,408)</u>
Unrealized losses over 20% of cost	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Unrealized losses over 20% of cost after offsets	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Below investment grade:				
Unrealized losses	<u>\$ (4,012)</u>	<u>\$ (359)</u>	<u>\$ (154)</u>	<u>\$ (3,499)</u>
Unrealized losses after offsets	<u>\$ (577)</u>	<u>\$ (40)</u>	<u>\$ (21)</u>	<u>\$ (516)</u>
Unrealized losses over 20% of cost	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Unrealized losses over 20% of cost after offsets	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

For debt securities with gross unrealized losses, 87.0% of the unrealized losses after offsets pertain to investment grade securities and 13.0% of the unrealized losses after offsets pertain to below investment grade securities at September 30, 2006.

In determining that the securities giving rise to unrealized losses were not other-than-temporarily impaired, we considered many factors, including those cited previously. In making these evaluations, we must exercise considerable judgment. Accordingly, there can be no assurance that actual results will not differ from our judgments and that such differences may require the future recognition of other-than-temporary impairment charges that could have a material effect on our financial position and results of operations. In addition, the value of, and the realization of any loss on, a debt security or equity security is subject to numerous risks, including interest rate risk, market risk, credit risk and liquidity risk. The magnitude of any loss incurred by us may be affected by the relative concentration of our investments in any one issuer or industry. We have established specific policies limiting the concentration of our investments in any single issuer and industry and believe our investment portfolio is prudently diversified.

**Liquidity and Capital Resources**

In the normal course of business, we enter into transactions involving various types of financial instruments such as debt and equity securities. These instruments have credit risk and also may be subject to risk of loss due to interest rate and market fluctuations.

Our liquidity requirements principally relate to the liabilities associated with various life insurance and annuity products and operating expenses. Liabilities arising from life insurance and annuity products include the payment of benefits, as well as cash payments in connection with policy surrenders, withdrawals and loans.

Historically, we have used cash flow from operations and investment activities to fund liquidity requirements. Our principal cash inflows from life insurance and annuities activities come from premiums, annuity deposits and charges on insurance policies and annuity contracts. Principal cash inflows from investment activities result from repayments of principal, proceeds from maturities, sales of invested assets and investment income.

### *Ratings*

Ratings are an important factor in establishing our competitive position in the insurance and financial services marketplace. There can be no assurance that our ratings will continue for any given period of time or that they will not be changed. In the event our ratings are downgraded, our ability to borrow, the level of our revenues and the persistency of our business may be adversely affected. Please see Section II, Item 1A. "Risk Factors" below.

Our current financial strength and debt ratings are set forth in the chart below.

<u>Rating Agency</u>	<u>Financial Strength Ratings of Phoenix Life and PHL Variable Life</u>
A.M. Best Company, Inc.	A ("Excellent")
Fitch	A+ ("Strong")
Standard & Poor's	A ("Strong")
Moody's	A3 ("Good")

On July 27, 2006, Standard & Poor's affirmed our rating, as well as Phoenix Life's A ("Strong") financial strength rating. In addition, Standard & Poor's revised its outlook for these ratings from stable to negative. On July 28, 2006, Fitch affirmed our rating, as well as Phoenix Life's A+ ("Strong") financial strength rating, and maintained its stable outlook.

These ratings are not a recommendation to buy or hold any of our securities.

See our 2005 Annual Report on Form 10-K for additional information as to liquidity and capital resources.

### **Contractual Obligations and Commercial Commitments**

As of September 30, 2006, there were no significant changes to our outstanding contractual obligations and commercial commitments as disclosed in our 2005 Annual Report on Form 10-K.

### **Off-Balance Sheet Arrangements**

As of September 30, 2006 and December 31, 2005, we did not have any significant off-balance sheet arrangements as defined by Item 303(a)(4)(ii) of SEC Regulation S-K.

### **Reinsurance**

We maintain life reinsurance programs designed to protect against large or unusual losses in our life insurance business. Based on our review of their financial statements and reputations in the reinsurance marketplace, we believe that these third-party reinsurers are financially sound and, therefore, that we have no material exposure to uncollectible life reinsurance.

### **Statutory Capital and Surplus**

Our statutory basis capital and surplus (including AVR) was \$256.0 million at September 30, 2006.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We have omitted this information from this report as we meet the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and are therefore filing this Form with the reduced disclosure format permitted by that General Instruction.

### **ITEM 4. CONTROLS AND PROCEDURES**

Evaluation of Disclosure Controls and Procedures. We have carried out an evaluation under the supervision and with the participation of our management, including our Principal Executive Officer and our Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, these officers have concluded that, as of September 30, 2006, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

Changes in Internal Control over Financial Reporting. During the three months ended on September 30, 2006, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are regularly involved in litigation, both as a defendant and as a plaintiff. The litigation naming us as a defendant ordinarily involves our activities as an insurer, investor or taxpayer. Several current proceedings are discussed below. In addition, state regulatory bodies, the Securities and Exchange Commission, or SEC, the National Association of Securities Dealers, Inc., or NASD, and other regulatory bodies regularly make inquiries of us and, from time to time, conduct examinations or investigations concerning our compliance with, among other things, insurance laws and securities laws.

For example, during 2003 and 2004, the SEC conducted examinations of certain Company variable products and certain affiliated investment advisors and mutual funds. In 2004, the NASD also commenced examinations of two affiliated broker-dealers; the examinations were closed in April 2005 and November 2004, respectively. In February 2005, the NASD notified an affiliate of the Company that it was asserting violations of trade reporting rules by the affiliate of the Company. The affiliated company responded to the NASD allegations in May 2005 but has not received any further inquiries to date.

Federal and state regulatory authorities from time to time make inquiries and conduct examinations regarding compliance by the Company with securities and other laws and regulations affecting its registered products. The Company endeavors to respond to such inquiries in an appropriate way and to take corrective action if warranted. Recently, there has been a significant increase in federal and state regulatory activity relating to financial services companies, with a number of recent regulatory inquiries focusing on late-trading, market timing and valuation issues. Our products entitle us to impose restrictions on transfers between separate account sub-accounts associated with our variable products.

In 2004 and 2005, the Boston District Office of the SEC conducted a compliance examination of certain of the Company's affiliates that are registered under the Investment Company Act of 1940 or the Investment Advisers Act of 1940. Following the examination, the staff of the Boston District Office issued a deficiency letter primarily focused on perceived weaknesses in procedures for monitoring trading to prevent market timing activity. The staff requested the Company to conduct an analysis as to whether shareholders, policyholders and contract holders who invested in the funds that may have been affected by undetected market timing activity had suffered harm and to advise the staff whether the Company believes reimbursement is necessary or appropriate under the circumstances. A third party was retained to assist the Company in preparing the analysis. Based on this analysis, the Company advised the SEC that it does not believe that reimbursement is appropriate.

Over the past two years, a number of companies have announced settlements of enforcement actions with various regulatory agencies, primarily the SEC and the New York Attorney General's Office. While no such action has been initiated against us, it is possible that one or more regulatory agencies may pursue this type of action against us in the future.

Financial services companies have also been the subject of broad industry inquiries by state regulators and attorneys general which do not appear to be company-specific. In this regard, in 2004, we received a subpoena from the Connecticut Attorney General's office requesting information regarding certain distribution practices since 1998. Over 40 companies received such a subpoena. We cooperated fully and have had no further inquiry since filing our response.

These types of regulatory actions may be difficult to assess or quantify, may seek recovery of indeterminate amounts, including punitive and treble damages, and the nature and magnitude of their outcomes may remain unknown for substantial periods of time. While it is not feasible to predict or determine the ultimate outcome of all pending investigations and legal proceedings or to provide reasonable ranges of potential losses, we believe that their outcomes are not likely, either individually or in the aggregate, to have a material adverse effect on our financial condition, or consideration of available insurance and reinsurance and the provision made in our financial statements. However, given the large or indeterminate amounts sought in certain of these matters and litigation's inherent unpredictability, it is possible that an adverse outcome in certain matters could, from time to time, have a material adverse effect on our results of operation or cash flows.

## **ITEM 1A. RISK FACTORS**

We face significant risks, any of which could have a significant or material adverse effect on our business, financial condition, operating results or liquidity. The risks described below updates the risk factors described in our 2005 Form 10-K and should be read in addition to those risk factors. The risk factors described in this Form 10-Q and our 2005 Form 10-K may not be the only risks we face. This information should be considered carefully together with the other information contained in this Form 10-Q and the other reports and materials we file with the Securities and Exchange Commission.

**Downgrades to Phoenix Life's and PHL Variable Insurance Company's financial strength ratings could increase policy surrenders and withdrawals, adversely affect relationships with distributors, reduce new sales and earnings from certain of our life insurance products and increase our future borrowing costs.**

Rating agencies assign financial strength ratings based on their opinions of the relevant company's ability to meet its financial obligations. Financial strength ratings reflect a rating agency's view of an insurance company's ability to meet its obligations to its insureds. These ratings are therefore key factors underlying the competitive position of life insurers. Downgrades could adversely affect our reputation and, hence, our relationships with existing distributors and our ability to establish additional distributor relationships. If this were to occur, we might experience a decline in sales of certain products and the persistency of existing customers. At this time, we cannot estimate the impact on sales or persistency. A significant decline in our sales or persistency could have a material adverse effect on our financial results.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

We have omitted this information from this report as we meet the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and are therefore filing this Form with the reduced disclosure format permitted by that General Instruction.

## **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

We have omitted this information from this report as we meet the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and are therefore filing this Form with the reduced disclosure format permitted by that General Instruction.

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

We have omitted this information from this report as we meet the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and are therefore filing this Form with the reduced disclosure format permitted by that General Instruction.

## **ITEM 5. OTHER INFORMATION**

(a) None.

(b) No material changes.

## ITEM 6. EXHIBITS

### Exhibit

- 3.1 Form of Amended and Restated Certificate of Incorporation (as amended and restated effective May 31, 1994) (incorporated herein by reference to Exhibit 3.1 to the PHL Variable Insurance Company's Annual Report on Form 10-K filed March 31, 2006)
- 3.2 Bylaws of PHL Variable Life Insurance Company (as amended and restated effective May 16, 2002) (incorporated herein by reference to Exhibit 3.2 to the PHL Variable Insurance Company's Annual Report on Form 10-K filed March 31, 2006)
- 10.1 Services Agreement effective as of January 1, 1995 by and among PHL Variable Insurance Company, Phoenix Life Insurance Company, American Life and Reassurance Company, Phoenix American Life Insurance Company and Phoenix Home Life Mutual Insurance Company (incorporated herein by reference to Exhibit 10.1 to the PHL Variable Insurance Company's Annual Report on Form 10-K filed March 31, 2006)
- 10.2 Investment Management Agreement effective as of January 1, 1995 by and between PHL Variable Insurance Company and Phoenix Investment Counsel, Inc. (incorporated herein by reference to Exhibit 10.2 to the PHL Variable Insurance Company's Annual Report on Form 10-K filed March 31, 2006)
- 10.3 Amendment #1 (effective as of January 1, 1998) to the Investment Management Agreement dated as of January 1, 1995 by and between PHL Variable Insurance Company and Phoenix Investment Counsel, Inc. (incorporated herein by reference to Exhibit 10.3 to the PHL Variable Insurance Company's Annual Report on Form 10-K filed March 31, 2006)
- 10.4 Amended and Restated Tax Allocation Agreement dated as of January 1, 2001 by and among The Phoenix Companies, Inc. and most of its subsidiaries (incorporated herein by reference to Exhibit 10.4 to the PHL Variable Insurance Company's Annual Report on Form 10-K filed March 31, 2006)
- 10.5 Amendment #1 (effective as of January 1, 2006) to the Amended and Restated Tax Allocation Agreement dated as of January 1, 2001 by and among The Phoenix Companies, Inc. and most of its subsidiaries (incorporated herein by reference to Exhibit 10.5 to the PHL Variable Insurance Company's Annual Report on Form 10-K filed March 31, 2006)
- 31.1 Certification of Philip K. Polkinghorn, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 31.2 Certification of Michael E. Haylon, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 32 Certification by Philip K. Polkinghorn, Chief Executive Officer and Michael E. Haylon, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*

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\* Filed herewith

**We will furnish any exhibit upon the payment of a reasonable fee, which fee shall be limited to our reasonable expenses in furnishing such exhibit.** Requests for copies should be directed to: Corporate Secretary, PHL Variable Insurance Company, One American Row, P.O. Box 5056, Hartford, Connecticut 06102-5056.

## Signature

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.

PHL VARIABLE INSURANCE COMPANY

Date: November 14, 2006

By: /s/ Michael E. Haylon  
Michael E. Haylon, Executive Vice President  
and Chief Financial Officer