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, 2008

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)

Connecticut	**06-1045829**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One American Row, Hartford, Connecticut	**06102-5056**
(Address of principal executive offices)	(Zip Code)

(860) 403-5000
(Registrant's telephone number, including area code)

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

YES ☒ NO ☐

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

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☒ *(Do not check if smaller reporting company)*	Smaller reporting company ☐

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. As of November 7, 2007, 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, except share data)
September 30, 2008 (unaudited) and December 31, 2007

	Sept 30, 2008	Dec 31, 2007
ASSETS:		
Available-for-sale debt securities, at fair value	$ 1,450,421	$ 1,709,586
Policy loans, at unpaid principal balances	36,525	22,819
Other investments	1,135	1,251
Fair value option investments	4,875	--
Total investments	1,492,956	1,733,656
Cash and cash equivalents	86,249	108,200
Accrued investment income	16,530	17,518
Receivables	201,699	37,178
Deferred policy acquisition costs	1,140,262	1,009,612
Receivable from related parties	12,718	527
Other assets	41,213	20,214
Separate account assets	2,949,465	3,389,356
Total assets	**$ 5,941,092**	**$ 6,316,261**
LIABILITIES:		
Policyholder deposit funds	$ 930,620	$ 1,134,635
Policy liabilities and accruals	1,183,467	981,509
Deferred income taxes	131,613	135,648
Payable to related parties	6,617	28,969
Other liabilities	102,663	48,303
Separate account liabilities	2,949,465	3,389,356
Total liabilities	**5,304,445**	**5,718,420**
CONTINGENT LIABILITIES (Note 8)		
STOCKHOLDER'S EQUITY:		
Common stock, $5,000 par value: 1,000 shares authorized; 500 shares issued	2,500	2,500
Additional paid-in capital	626,218	553,218
Retained earnings	34,718	53,906
Accumulated other comprehensive loss	(26,789)	(11,783)
Total stockholder's equity	**636,647**	**597,841**
Total liabilities and stockholder's equity	**$ 5,941,092**	**$ 6,316,261**

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, 2008 and 2007

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
REVENUES:				
Premiums	$ 5,423	$ 4,199	$ 10,094	$ 10,260
Insurance and investment product fees	93,554	67,356	265,136	180,885
Net investment income	22,510	27,609	69,821	82,695
Net realized investment losses	(28,390)	(1,987)	(46,730)	(1,798)
Total revenues	**93,097**	**97,177**	**298,321**	**272,042**
BENEFITS AND EXPENSES:				
Policy benefits	51,774	43,140	146,362	119,601
Policy acquisition cost amortization	46,533	27,895	109,825	78,421
Other operating expenses	21,117	20,640	74,924	58,150
Total benefits and expenses	**119,424**	**91,675**	**331,111**	**256,172**
Income (loss) before income taxes	(26,327)	5,502	(32,790)	15,870
Income tax (expense) benefit	9,853	466	13,601	(2,748)
Net income (loss)	**$ (16,474)**	**$ 5,968**	**$ (19,189)**	**$ 13,122**
COMPREHENSIVE INCOME:				
Net income (loss)	**$ (16,474)**	**$ 5,968**	**$ (19,189)**	**$ 13,122**
Net unrealized investment losses	(6,746)	(2,410)	(15,005)	(6,681)
Comprehensive income (loss)	**$ (23,220)**	**$ 3,558**	**$ (34,194)**	**$ 6,441**
ADDITIONAL PAID-IN CAPITAL:				
Capital contributions from parent	$ --	$ 24,984	$ 73,000	$ 49,984
RETAINED EARNINGS:				
Net income (loss)	(16,474)	5,968	(19,189)	13,122
Adjustment for initial application of FIN 48 (Note 2)	--	--	--	(1,000)
ACCUMULATED OTHER COMPREHENSIVE LOSS:				
Other comprehensive loss	(6,746)	(2,410)	(15,005)	(6,681)
Change in stockholder's equity	**(23,220)**	**28,542**	**38,806**	**55,425**
Stockholder's equity, beginning of period	659,867	573,528	597,841	546,645
Stockholder's equity, end of period	**$ 636,647**	**$ 602,070**	**$ 636,647**	**$ 602,070**

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, 2008 and 2007

	Nine Months Ended September 30,	
	2008	**2007**
OPERATING ACTIVITIES:		
Net income	$ (19,189)	$ 13,122
Net realized investment losses	46,730	1,798
Investment income (loss)	179	(29)
Deferred income taxes	4,045	28,319
(Increase) decrease in receivables	(161,072)	1,149
Increase in deferred policy acquisition costs	(51,111)	(161,241)
Increase in policy liabilities and accruals	202,607	161,748
Other assets and other liabilities net change	(44,193)	8,385
Cash from (for) operating activities	**(22,004)**	**53,251**
INVESTING ACTIVITIES:		
Investment purchases	(894,831)	(745,205)
Investment sales, repayments and maturities	1,061,777	985,648
Cash from investing activities	**166,946**	**240,443**
FINANCING ACTIVITIES:		
Policyholder deposit fund deposits	223,693	190,437
Policyholder deposit fund withdrawals	(454,371)	(505,796)
Capital contributions from parent	63,785	25,000
Cash for financing activities	**(166,893)**	**(290,359)**
Change in cash and cash equivalents	**(21,951)**	**3,335**
Cash and cash equivalents, beginning of period	108,200	47,127
Cash and cash equivalents, end of period	**$ 86,249**	**$ 50,462**

During the nine months ended September 30, 2008, we received $73,000 thousand in capital contributions, of which $63,785 thousand was in cash and $9,215 was in securities.

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, 2008 and 2007

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. ("PNX"), a New York Stock Exchange listed company.

2. Basis of Presentation and Significant Accounting Policies

We have prepared these financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which differ materially from the accounting practices prescribed by various insurance regulatory authorities.

Use of estimates

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 the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. We employ significant estimates and assumptions in the determination of deferred policy acquisition costs; policyholder liabilities and accruals; the valuation of investments in debt and equity securities; and accruals for deferred income taxes and contingent liabilities. Our significant accounting policies are presented in the notes to our financial statements in our 2007 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 2008 are not necessarily indicative of the results that may be expected for the year 2008. These unaudited financial statements should be read in conjunction with our financial statements in our 2007 Annual Report on Form 10-K.

Accounting Change

Effective April 1, 2008, we changed our method of accounting for the cost of certain of our long duration reinsurance contracts accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* ("SFAS 113"). In conjunction with this change, we also changed our method of accounting for the impact of reinsurance costs on deferred acquisition costs. SFAS 113 requires us to amortize the estimated cost of reinsurance over the life of the underlying reinsured contracts. Under our previous method, we recognized reinsurance recoveries as part of the net cost of reinsurance and amortized this balance over the estimated lives of the underlying reinsured contracts in proportion to estimated gross profits ("EGPs") consistent with the method used for amortizing deferred policy acquisition costs. Under the new method, reinsurance recoveries are recognized in the same period as the related reinsured claim. In conjunction with this change, we also changed our policy for determining EGPs relating to these contracts to include the effects of reinsurance, where previously these effects had not been included.

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2. Basis of Presentation and Significant Accounting Policies (continued)

We adopted the new method because we believe that it better reflects the economics of the underlying reinsurance activity by better matching the reinsurance recovery with the insured loss that gave rise to that recovery. We also believe that the new method is consistent with management's intent in purchasing reinsurance, which is to protect the Company against large and unexpected claims. Comparative amounts from prior periods have been adjusted to apply the new method retrospectively in these financial statements. The following financial statement line items were affected by the change in accounting principle.

Income Statement

($ in thousands)	Three Months Ended September 30, 2008		
	As calculated under the new method	As calculated under the former method	Effect of Change
Insurance and investment product fees	$ 93,554	$ 93,756	$ (202)
Policy benefits	51,774	47,803	3,971
Policy acquisition cost amortization	46,533	48,912	(2,379)
Income tax (expense) benefit	9,853	9,225	628
Net income (loss)	(16,474)	(15,308)	(1,166)

($ in thousands)	Three Months Ended September 30, 2007		
	As adjusted	As originally reported	Effect of Change
Insurance and investment product fees	$ 67,356	$ 67,510	$ (154)
Policy benefits	43,140	39,107	4,033
Policy acquisition cost amortization	27,895	29,251	(1,356)
Income tax (expense) benefit	466	(525)	991
Net income (loss)	5,968	7,808	(1,840)

($ in thousands)	Nine Months Ended September 30, 2008		
	As calculated under the new method	As calculated under the former method	Effect of Change
Insurance and investment product fees	$ 265,136	$ 264,324	$ 812
Policy benefits	146,362	147,911	(1,549)
Policy acquisition cost amortization	109,825	105,604	4,221
Income tax (expense) benefit	13,601	12,950	651
Net income (loss)	(19,189)	(17,980)	(1,209)

($ in thousands)	Nine Months Ended September 30, 2007		
	As adjusted	As originally reported	Effect of Change
Insurance and investment product fees	$ 180,885	$ 181,373	$ (488)
Policy benefits	119,601	107,338	12,263
Policy acquisition cost amortization	78,421	82,757	(4,336)
Income tax (expense) benefit	(2,748)	(5,693)	2,945
Net income (loss)	13,122	18,592	(5,470)

2.Basis of Presentation and Significant Accounting Policies (continued)

Balance Sheet

($ in thousands)	September 30, 2008		
	As calculated under the new method	As calculated under the former method	Effect of Change
Deferred policy acquisition costs	$ 1,140,262	$ 1,142,682	$ (2,420)
Policy liabilities and accruals	1,183,467	1,171,264	12,203
Deferred income tax liability	131,613	136,731	(5,118)
Retained earnings	34,718	44,223	(9,505)

($ in thousands)	December 31, 2007		
	As adjusted	As originally reported	Effect of Change
Deferred policy acquisition costs	$ 1,009,612	$ 1,007,811	$ 1,801
Policy liabilities and accruals	981,509	966,945	14,564
Deferred income tax liability	135,648	140,115	(4,467)
Retained earnings	53,906	62,202	(8,296)

As of January 1, 2007, the cumulative effect of the new method on our stockholders' equity was a decrease of $3,613 thousand which was recorded to retained earnings.

Following is a description of our accounting for deferred policy acquisition costs, which has been updated from our 2007 Annual Report on Form 10-K to reflect a change in our method of accounting for the effects of reinsurance.

Deferred policy acquisition costs

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 deferred policy acquisition costs based on the related policy's classification. For individual life insurance policies, deferred policy acquisition costs are amortized in proportion to estimated gross margins. For universal life, variable universal life and accumulation annuities, deferred policy acquisition costs are amortized in proportion to EGPs. Policies may be surrendered for value or exchanged for a different one of our products (internal replacement). The deferred policy acquisition costs 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 deferred policy acquisition costs 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, funding patterns, expenses and reinsurance costs and recoveries. These assumptions are reviewed on a regular basis and are 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, funding patterns, expenses and reinsurance costs and recoveries.

2. Basis of Presentation and Significant Accounting Policies (continued)

In addition to our quarterly reviews, we complete a comprehensive assumption study during the fourth quarter of each year. Upon completion of an assumption study, we revise our assumptions to reflect our current best estimate, thereby changing our estimate of projected account values and the related EGPs in the deferred policy acquisition cost and unearned revenue amortization models as well as SOP 03-1 reserving models. The deferred policy acquisition cost asset, as well as the unearned revenue reserves and SOP 03-1 reserves are then adjusted with an offsetting benefit or charge to income to reflect such changes in the period of the revision, a process known as “unlocking.”

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 deferred policy acquisition costs, 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 deferred policy acquisition cost amortization model would be unlocked, or adjusted, to reflect such change. 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 deferred policy acquisition cost amortization and an increase in the deferred policy acquisition costs asset. Finally, an analysis is performed periodically to assess whether there are sufficient gross margins or gross profits to amortize the remaining deferred policy acquisition costs balances.

Adoption of new accounting standards

On October 10, 2008, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position FAS 157-3 (“FSP FAS 157-3”), which clarifies the application of SFAS No. 157, *Fair Value Measurement* (“SFAS 157”) in an inactive market. The FSP addresses application issues such as how management’s internal assumptions should be considered when measuring fair value when relevant observable data do not exist; how observable market information in a market that is not active should be considered when measuring fair value and how the use of market quotes should be considered when assessing the relevance of observable and unobservable data available to measure fair value. FSP FAS 157-3 was effective upon issuance. Our adoption of FSP FAS 157-3 had no material effect on our financial condition or results of operations.

On February 15, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS 159”), which gives entities the option to measure eligible financial assets, financial liabilities and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. Additionally, SFAS 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings. We adopted SFAS 159 as of January 1, 2008 with no effect on our financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 provides guidance on how to measure fair value when required under existing accounting standards. The statement establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (“Level 1, 2 and 3”). Level 1 inputs are observable inputs that reflect quoted prices for identical assets or liabilities in active markets that we have the ability to access at the measurement date. Level 2 inputs are observable inputs, other than quoted prices included in Level 1, for the asset or liability. Level 3 inputs are unobservable inputs reflecting our estimates of the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Quantitative and qualitative disclosures will focus on the inputs used to measure fair value for both recurring and non-recurring fair value measurements and the effects of the measurements in the financial statements. We adopted SFAS 157 effective January 1, 2008 with no material impact on our financial position and results of operations. See Note 6 to these financial statements for more information.

2. Basis of Presentation and Significant Accounting Policies (continued)

We adopted the provisions of the FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), on January 1, 2007. As a result of the implementation of FIN 48, we recognized an increase in reserves for uncertain tax benefits through a cumulative effect adjustment of approximately $1,000 thousand, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. Including the cumulative effect adjustment, we had $1,840 thousand of total gross unrecognized tax benefits as of January 1, 2007. The entire amount of unrecognized tax benefits would, if recognized, impact the annual effective tax rate upon recognition.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140* ("SFAS 156"). SFAS 156 provides guidance on recognition and disclosure of servicing assets and liabilities and was effective beginning January 1, 2007. We adopted this standard effective January 1, 2007 with no material impact on our financial position and results of operations.

In September 2005, the Accounting Standards Executive Committee ("AcSEC") of the AICPA's issued Statement of Position 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts* ("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 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 adopted this standard effective January 1, 2007 with no material effect on our financial position and results of operations.

Accounting standards not yet adopted

In May 2008, the FASB issued SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts, an Interpretation of FASB Statement No. 60* ("SFAS 163"). Financial guarantee insurance and reinsurance contracts are contracts issued by insurance enterprises that provide protection to the holder of a financial obligation from a financial loss in the event of a default. The new accounting standard applies to recognition and measurement of premium revenue and claim liabilities on such contracts and to related disclosures. SFAS 163 will be effective for us on January 1, 2009. We do not have financial guarantee insurance products and, accordingly, do not expect our adoption of SFAS 163 to have an effect on our financial position and results of operations.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of GAAP-basis financial statements. The Standard is effective 60 days following SEC approval of the Public Company Accounting Oversight Board amendments to remove the hierarchy of generally accepted accounting principles from the auditing standards. SFAS 162 is not expected to have an impact on our financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* ("SFAS 161"). This statement amends and expands the requirement for qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 will be effective for us on January 1, 2009.

In December 2007, the FASB issued SFAS No. 141(R), *Accounting for Business Combinations* ("SFAS 141(R)"). SFAS 141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed and requires the acquirer to disclose all information needed to evaluate and understand the nature and financial effect of the combination and is effective beginning for fiscal years beginning after December 15, 2008. We will adopt this standard effective January 1, 2009 and do not expect it to have a material impact on our financial position and results of operations.

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2. Basis of Presentation and Significant Accounting Policies (continued)

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS 160"). SFAS 160 requires all entities to report noncontrolling interests in subsidiaries in the same way—as equity in the consolidated financial statements and requires that associated transactions be treated as equity transactions—and is effective beginning for fiscal years beginning after December 15, 2008. We will adopt this standard effective January 1, 2009 and do not expect it to have a material impact on our financial position and results of operations.

3. Deferred Policy Acquisition Costs

Deferred Policy Acquisition Costs: *($ in thousands)*	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2008	**2007**	**2008**	**2007**
Policy acquisition costs deferred	$ 75,326	$ 105,262	$ 293,443	$ 239,662
Costs amortized to expenses:				
Recurring costs	(49,512)	(29,225)	(117,766)	(78,928)
Realized investment gains	2,980	1,331	7,942	508
Deferred acquisition cost offset – ceded reserve and expense allowance	(132,508)	--	(132,508)	--
Offsets to net unrealized investment gains or losses included in other comprehensive income	32,403	8,777	79,539	17,104
Change in deferred policy acquisition costs	(71,311)	86,145	130,650	178,346
Deferred policy acquisition costs, beginning of period	1,211,573	793,821	1,009,612	701,620
Deferred policy acquisition costs, end of period	**$ 1,140,262**	**$ 879,966**	**$ 1,140,262**	**$ 879,966**

Effective September 30, 2008, we executed a coinsurance agreement with our parent, Phoenix Life, whereby we cede 90% of the results on universal life policies with issue dates of January 1, 2008 and later. The resulting offset to deferred acquisition costs is reflected in the table above.

4. Investing Activities

Debt securities

Fair Value and Cost of Debt Securities: *($ in thousands)*	**September 30, 2008**		**December 31, 2007**	
	Fair Value	**Cost**	**Fair Value**	**Cost**
U.S. government and agency	$ 46,498	$ 47,759	$ 65,774	$ 64,884
State and political subdivision	6,158	6,539	11,029	11,134
Foreign government	25,084	23,482	30,423	27,716
Corporate	828,909	910,966	975,058	998,982
Mortgage-backed	332,596	369,383	358,479	372,733
Other asset-backed	211,176	249,070	268,823	288,927
Available-for-sale debt securities	**$ 1,450,421**	**$ 1,607,199**	**$ 1,709,586**	**$ 1,764,376**

Unrealized Gains and Losses from Debt Securities: *($ in thousands)*	**September 30, 2008**		**December 31, 2007**	
	Gains	**Losses**	**Gains**	**Losses**
U.S. government and agency	$ 812	$ (2,073)	$ 1,193	$ (303)
State and political subdivision	12	(393)	11	(116)
Foreign government	1,640	(38)	2,732	(25)
Corporate	2,619	(84,676)	8,774	(32,698)
Mortgage-backed	285	(37,072)	2,654	(16,908)
Other asset-backed	289	(38,183)	875	(20,979)
Debt securities gains (losses)	**$ 5,657**	**$ (162,435)**	**$ 16,239**	**$ (71,029)**
Debt securities net losses		**$ (156,778)**		**$ (54,790)**

Aging of Temporarily Impaired Debt Securities: *($ in thousands)*	**September 30, 2008**					
	Less than 12 months		**Greater than 12 months**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Debt securities						
U.S. government and agency	$ 6,752	$ (387)	$ 2,255	$ (1,686)	$ 9,007	$ (2,073)
State and political subdivision	1,662	(230)	2,484	(163)	4,146	(393)
Foreign government	2,013	(35)	497	(3)	2,510	(38)
Corporate	372,931	(24,652)	319,997	(60,024)	692,928	(84,676)
Mortgage-backed	111,825	(8,934)	164,797	(28,138)	276,622	(37,072)
Other asset-backed	59,638	(7,432)	134,971	(30,751)	194,609	(38,183)
Total temporarily impaired securities	**$ 554,821**	**$ (41,670)**	**$ 625,001**	**$ (120,765)**	**$ 1,179,822**	**$ (162,435)**
Below investment grade	**$ 36,727**	**$ (5,365)**	**$ 65,818**	**$ (19,428)**	**$ 102,545**	**$ (24,793)**
Below investment grade after offsets for deferred policy acquisition cost adjustment and taxes		**$ (756)**		**$ (2,973)**		**$ (3,729)**
Number of securities		**359**		**394**		**753**

Below investment grade debt securities with a fair value of less than 80% of the security's amortized costs totaled $16,595 thousand at September 30, 2008, of which $7,050 thousand have been in an unrealized loss for greater than 12 months.

All of these securities are considered to be temporarily impaired at September 30, 2008 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.

In determining that the securities are not other-than-temporarily impaired, we considered and evaluated the factors cited below. 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.

At the end of each reporting period, we review all securities 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 for zero to six months, six months to 12 months and greater than 12 months. Using this analysis, coupled with our watch list, we review securities to determine if a security is other-than-temporarily impaired.

4. Investing Activities (continued)

Our assessment of whether an investment in a debt or equity security is other-than-temporarily impaired includes whether the issuer has:

- defaulted on payment obligations;
- declared that it will default at a future point outside the current reporting period;
- announced that a restructuring will occur outside the current reporting period;
- severe liquidity problems that cannot be resolved;
- filed for bankruptcy;
- a financial condition which suggests that future payments are highly unlikely;
- deteriorating financial condition and quality of assets;
- sustained significant losses during the current year;
- announced adverse changes or events such as changes or planned changes in senior management, restructurings, or a sale of assets; and/or
- been affected by any other factors that indicate that the fair value of the investment may have been negatively impacted.

In determining whether collateralized securities are impaired, we obtain underlying mortgage data from the security's trustee and analyze it for performance trends. A security-specific stress analysis is performed using the most recent trustee information. This analysis forms the basis for our determination of whether the security will pay in accordance with the contractual cash flows.

If we determine that the security is impaired, we write it down to its then current fair value and record a realized loss in that period.

Aging of Temporarily Impaired Debt Securities: *($ in thousands)*	**As of December 31, 2007**					
	Less than 12 months		**Greater than 12 months**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Debt Securities						
U.S. government and agency	$ --	$ --	$ 15,629	$ (303)	$ 15,629	$ (303)
State and political subdivision	--	--	10,516	(116)	10,516	(116)
Foreign government	--	--	2,464	(25)	2,464	(25)
Corporate	134,427	(9,598)	478,287	(23,100)	612,714	(32,698)
Mortgage-backed	105,599	(9,822)	162,554	(7,086)	268,153	(16,908)
Other asset-backed	137,632	(15,661)	81,534	(5,318)	219,166	(20,979)
Total temporarily impaired securities	**$ 377,658**	**$ (35,081)**	**$ 750,984**	**$ (35,948)**	**$ 1,128,642**	**$ (71,029)**
Below investment grade	**$ 39,024**	**$ (1,797)**	**$ 67,088**	**$ (7,484)**	**$ 106,112**	**$ (9,281)**
Below investment grade after offsets for deferred policy acquisition cost adjustment and taxes		**$ (292)**		**$ (1,306)**		**$ (1,598)**
Number of securities		**243**		**411**		**654**

Below investment grade debt securities with a fair value of less than 80% of the security's amortized costs totaled $(3,933) thousand at December 31, 2007. However, none of this unrealized loss remained more than 20% below amortized cost for greater than 12 months.

All of these securities are considered to be temporarily impaired at December 31, 2007 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.

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4. Investing Activities (continued)

Net investment income

Sources of Net Investment Income: *($ in thousands)*	**Three Months Ended September 30, 2008**	**2007**	**Nine Months Ended September 30, 2008**	**2007**
Debt securities	$ 21,987	$ 26,139	$ 68,121	$ 79,538
Policy loans	421	701	1,119	891
Other investments	67	18	143	136
Other income	1	181	113	398
Cash and cash equivalents	567	1,050	1,854	3,387
Total investment income	23,043	28,089	71,350	84,350
Investment expenses	(533)	(480)	(1,529)	(1,655)
Net investment income	**$ 22,510**	**$ 27,609**	**$ 69,821**	**$ 82,695**

Net realized investment gains (losses)

Sources and Types of Net Realized Investment Gains (Losses): *($ in thousands)*	**Three Months Ended September 30, 2008**	**2007**	**Nine Months Ended September 30, 2008**	**2007**
Debt security impairments	$ (6,241)	$ (421)	$ (18,577)	$ (921)
Debt security transaction gains	134	256	1,336	1,244
Debt security transaction losses	(749)	(429)	(2,874)	(2,317)
Other investments transaction gains (losses)	(62)	(3)	(83)	106
Net transaction losses	**(677)**	**(176)**	**(1,621)**	**(967)**
Change in fair value of embedded derivative liabilities	**(21,472)**	**(1,390)**	**(26,532)**	**90**
Net realized investment losses	**$ (28,390)**	**$ (1,987)**	**$ (46,730)**	**$ (1,798)**

Debt security impairments during the third quarter of 2008 included $4,535 thousand related to residential mortgage-backed securities. Based on a projected cash flow analysis that incorporates delinquency levels, foreclosures and expected losses on foreclosures, and indicates that we will not receive our contractual principal from certain investments, we recorded impairment losses on those investments.

Unrealized investment gains (losses)

Sources of Changes in Net Unrealized Investment Gains (Losses): *($ in thousands)*	**Three Months Ended September 30, 2008**	**2007**	**Nine Months Ended September 30, 2008**	**2007**
Debt securities	$ (39,800)	$ (12,648)	$ (101,988)	$ (27,343)
Other	(2,983)	160	(637)	(41)
Net unrealized investment losses	**$ (42,783)**	**$ (12,488)**	**$ (102,625)**	**$ (27,384)**
Net unrealized investment losses	$ (42,783)	$ (12,488)	$ (102,625)	$ (27,384)
Applicable deferred policy acquisition cost benefit	(32,404)	(8,778)	(79,540)	(17,104)
Applicable deferred income tax benefit	(3,633)	(1,299)	(8,080)	(3,598)
Offsets to net unrealized investment losses	(36,037)	(10,077)	(87,620)	(20,702)
Net unrealized investment losses included in other comprehensive income	**$ (6,746)**	**$ (2,411)**	**$ (15,005)**	**$ (6,682)**

5. Separate Accounts, Death Benefits and Other Insurance Benefit Features

Separate account products are those for which a separate investment and liability account is maintained on behalf of the policyholder. Investment objectives for these separate accounts vary by fund account type, as outlined in the applicable fund prospectus or separate account plan of operations. Our separate account products include variable annuities and variable life insurance contracts. The assets supporting these contracts are carried at fair value and reported as Separate account assets with an equivalent amount reported as Separate account liabilities. Amounts assessed against the policyholder for mortality, administration, and other services are included within revenue in insurance and investment product fees. During the three and nine-month periods ended September 30, 2008 and 2007, there were no gains or losses on transfers of assets from the general account to a separate account.

Many of our variable contracts offer various guaranteed minimum death, accumulation, withdrawal and income benefits. These benefits are offered in various forms as described below. We currently reinsure a significant portion of the death benefit guarantees associated with our in-force block of business. We establish policy benefit liabilities for minimum death and income benefit guarantees relating to certain annuity policies as follows:

- Liabilities associated with the guaranteed minimum death benefit (“GMDB”) are determined by estimating the expected value of death benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments. The assumptions used in estimating the liabilities are generally consistent with those used for amortizing deferred policy acquisition costs.
- Liabilities associated with the guaranteed minimum income benefit (“GMIB”) are determined by estimating the expected value of the income benefits in excess of the projected account balance at the date of annuitization and recognizing the excess ratably over the accumulation period based on total expected assessments. The assumptions used for calculating such guaranteed income benefit liabilities are generally consistent with those used for amortizing deferred policy acquisition costs.

For annuities with GMDB, 200 stochastically generated scenarios were used. For annuities with GMIB, we used 1,000 stochastically generated scenarios.

The GMDB and GMIB guarantees are recorded in policy liabilities and accruals on our balance sheet. Changes in the liability are recorded in policy benefits on our statement of operations. In a manner consistent with our policy for deferred policy acquisition costs, we regularly evaluate estimates used and adjust the additional liability balances, with a related charge or credit to benefit expense if actual experience or other evidence suggests that earlier assumptions should be revised.

We also offer certain variable products with a guaranteed minimum withdrawal benefit (“GMWB”), a guaranteed minimum accumulation benefit (“GMAB”) and a guaranteed pay-out annuity floor (“GPAF”).

The GMWB rider guarantees the policyholder a minimum amount of withdrawals and benefit payments over time, regardless of the investment performance of the contract, subject to an annual limit. Optional resets are available. In addition, we introduced a feature for these contracts beginning in the fourth quarter of 2005 that allows the policyholder to receive the guaranteed annual withdrawal amount for as long as they are alive.

The GMAB rider provides the contract holder with a minimum accumulation of their purchase payments deposited within a specific time period, adjusted for withdrawals, after a specified amount of time determined at the time of issuance of the variable annuity contract.

The GPAF rider provides the policyholder with a minimum payment amount if the variable annuity payment falls below this amount on the payment calculation date.

The Combination Rider includes the GMAB and GMWB riders as well as the GMDB rider at the policyholder’s option.

5. Separate Accounts, Death Benefits and Other Insurance Benefit Features (continued)

The GMWB, GMAB and GPAF represent embedded derivatives in the variable annuity contracts that are required to be reported separately from the host variable annuity contract. They are carried at fair value and reported in policyholder deposit funds. The fair value of the GMWB, GMAB and GPAF obligation is calculated based on actuarial and capital market assumptions related to the projected cash flows, including benefits and related contract charges, over the lives of the contracts, incorporating expectations concerning policyholder behavior. As markets change, mature and evolve and actual policyholder behavior emerges, management continually evaluates the appropriateness of its assumptions.

As of September 30, 2008 and December 31, 2007, 100% of the aggregate account value with the GMWB, GMAB and GPAF features was not reinsured. In order to minimize the volatility associated with the unreinsured liabilities, we have established an alternative risk management strategy. We began hedging our GMAB exposure in 2006 and GMWB exposure during the fourth quarter of 2007 using equity options, equity futures, swaps and swaptions. These investments are included in other investments on our balance sheet.

Embedded Derivative Liabilities: *($ in thousands)*	**Sept 30, 2008**	**Dec 31, 2007**
GMWB	$ 10,852	$ (1,512)
GMAB	15,953	1,814
GPAF	1,560	1,373

For those guarantees of benefits that are payable in the event of death, the net amount at risk is generally defined as the current guaranteed minimum death benefit in excess of the current account balance at the balance sheet date. For guarantees of benefits that are payable upon annuitization, the net amount at risk is generally defined as the present value of the minimum guaranteed annuity payments available to the policy holder determined in accordance with the terms of the contract in excess of the current account balance. For guarantees of accumulation balances, the net amount at risk is generally defined as the guaranteed minimum accumulation balance minus the current account balance.

Additional Insurance Benefits *($ in thousands)*	**Account Value**	**Net Amount At Risk After Reinsurance**	**Average Attained Age of Annuitant**
GMDB return of premium	$ 1,205,514	$ 69,703	60
GMDB step up	1,572,024	260,513	60
GMDB earnings enhancement benefit (EEB)	60,604	1,564	60
GMDB greater of annual step up and roll up	31,909	9,914	63
Total GMDB at September 30, 2008	**$ 2,870,051**	**$ 341,694**	
Combination Rider	$ 1,055		65
GMAB	394,631		55
GMIB	551,981		60
GMWB	385,722		60
GPAF	20,296		75
Total at September 30, 2008	**$ 1,353,685**		

With the return of premium, the death benefit is the greater of current account value or premiums paid (less any adjusted partial withdrawals).

With the step up, the death benefit is the greater of current account value, premiums paid (less any adjusted partial withdrawals) or the annual step up amount prior to the eldest original owner attaining a certain age. On and after the eldest original owner attains that age, the death benefit is the greater of current account value or the death benefit at the end of the contract year prior to the eldest original owner’s attaining that age plus premium payments (less any adjusted partial withdrawals) made since that date.

5. Separate Accounts, Death Benefits and Other Insurance Benefit Features (continued)

With EEB, the death benefit is the greater of the premiums paid (less any adjusted partial withdrawals) or the current account value plus the EEB. The EEB is an additional amount designed to reduce the impact of taxes associated with distributing contract gains upon death.

With greater of annual step up and annual roll up, the death benefit is the greater of premium payments (less any adjusted partial withdrawals), the annual step up amount, the annual roll up amount or the current account value prior to the eldest original owner attaining age 81. On and after the eldest original owner attained age 81, the death benefit is the greater of current account value or the death benefit at the end of the contract year prior to the eldest original owner's attained age of 81 plus premium payments (less any adjusted partial withdrawals) made since that date.

Liabilities for universal life are generally determined by estimating the expected value of losses when death benefits exceed revenues and recognizing those benefits ratably over the accumulation period based on total expected assessments. The assumptions used in estimating these liabilities are consistent with those used for amortizing deferred policy acquisition costs. A single set of best estimate assumptions is used since these insurance benefits do not vary significantly with capital markets volatility. At September 30, 2008 and December 31, 2007, we held additional universal life benefit reserves of $45,571 thousand and $25,930 thousand, respectively.

6. Fair Value

SFAS No. 157 ("SFAS 157") defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels, from highest to lowest, are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. Level 1 securities include highly liquid government bonds, mortgage products, exchange-traded equities and exchange-traded corporate debt.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Examples of such instruments include certain high-yield debt securities.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement. Securities classified within Level 3 include broker quoted investments, certain residual interests in securitizations and other less liquid securities. Most valuations that are based on brokers' prices are classified as Level 3 due to a lack of transparency in the process they use to develop prices.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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6. Fair Value (continued)

The following table presents the financial instruments carried at fair value as of September 30, 2008, by SFAS 157 valuation hierarchy (as described above).

Assets and Liabilities at Fair Value:	**As of September 30, 2008**			
($ in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale debt securities	$ 10,058	$ 1,199,407	$ 240,956	$ 1,450,421
Separate account assets	2,854,062	93,883	1,520	2,949,465
Fair value option investments	--	4,875	--	4,875
Total assets	**$ 2,864,120**	**$ 1,298,165**	**$ 242,476**	**$ 4,404,761**
Liabilities				
Embedded derivative liabilities	$ --	$ --	$ 28,365	$ 28,365
Total liabilities	**$ --**	**$ --**	**$ 28,365**	**$ 28,365**

Fair value option investments include a structured loan asset valued at $4,875 thousand as of September 30, 2008. We elected to apply the fair value option to this note at the time of its acquisition. We purchased the note to obtain principal protection without sacrificing earnings potential. Election of the fair value option allows current earnings recognition and is more consistent with management's view of the security's underlying economics.

We have an established process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models that use primarily market-based or independently-sourced market parameters, including interest rate yield curves, option volatilities and currency rates. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, our own creditworthiness, liquidity and unobservable parameters that are applied consistently over time.

Separate Accounts

Separate account assets are primarily invested in mutual funds but also have investments in fixed maturity and equity securities. The separate account investments are valued in the same manner, and using the same pricing sources and inputs, as the fixed maturity, equity security and short-term investments of the Company. Mutual funds are included in Level 1. Most debt securities and short-term investments are included in Level 2.

Valuation of Embedded Derivatives

Embedded derivatives are guarantees that we make on certain variable annuity contracts, including GMAB and GMWB. These embedded derivatives are fair valued using a risk neutral stochastic valuation methodology. The inputs to our fair value methodology include information derived from the asset derivatives market, including the volatility surface and the swap curve. Several additional inputs are not obtained from independent sources, but instead reflect our own assumptions about what market participants would use in pricing the contracts. These inputs are therefore considered "unobservable" and fall into Level 3 of the fair value hierarchy. These inputs include mortality rates, lapse rates and policyholder behavior assumptions. Because there are significant Level 3 inputs included in our fair value methodology for these embedded derivative liabilities, we consider the above-described methodology as a whole to be Level 3.

Level 3 Financial Assets and Liabilities

The following table sets forth a summary of changes in the fair value of our Level 3 financial assets and liabilities. As required by SFAS 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. For example, a hypothetical derivative contract with Level 1, Level 2 and significant Level 3 inputs would be classified as a Level 3 financial instrument in its entirety. Subsequently, even if only Level 1 and Level 2 inputs are adjusted, the resulting gain or loss is classified as Level 3. Further, Level 3 instruments are frequently hedged with instruments that are classified as Level 1 or Level 2 and, accordingly, gains or losses reported as Level 3 in the table below may be offset by gains or losses attributable to instruments classified in Level 1 or 2 of the fair value hierarchy.

6. Fair Value (continued)

Level 3 Financial Assets and Liabilities: *($ in thousands)*	**Three Months Ended September 30, 2008**		**Nine Months Ended September 30, 2008**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Balance, beginning of period	$ 238,276	$ (6,704)	$ 267,185	$ (1,675)
Purchases/(sales), net	(6,620)	--	(16,379)	--
Net transfers in and out of Level 3	10,076	--	(4,014)	--
Realized gains (losses)	(4,538)	(21,661)	(12,765)	(26,690)
Unrealized gains (losses) included in other comprehensive income (loss)	5,014	--	8,734	--
Amortization/accretion	268	--	(285)	--
Balance, end of period	**$ 242,476**	**$ (28,365)**	**$ 242,476**	**$ (28,365)**
Portion of gain (loss) included in net income relating to those assets/liabilities still held	**$ (5,006)**	**$ (21,661)**	**$ (16,618)**	**$ (26,690)**

7. Income Taxes

For the three and nine months ended September 30, 2008 and 2007, the effective income tax rates applicable to income from continuing operations 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,**	
	2008	**2007**	**2008**	**2007**
Income taxes at statutory rate	35.0%	35.0%	35.0%	35.0%
Investment income not subject to tax	2.4%	(26.5)%	6.5%	(17.7)%
Effective income tax rates applicable to continuing operations	**37.4%**	**8.5%**	**41.5%**	**17.3%**

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. 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. As of September 30, 2008, we had current taxes receivable of $8,582 thousand.

We have determined, based on our earnings and projected future taxable income of the consolidated group, that it is more likely than not that deferred income tax assets at September 30, 2008, December 31, 2007 and 2006 will be realized.

See Note 2 to these financial statements for information regarding the implementation of FIN 48.

8. Contingent Liabilities

Litigation and Arbitration

We are regularly involved in litigation and arbitration, both as a defendant and as a plaintiff. The litigation and arbitration naming us as a defendant ordinarily involves our activities as an insurer, investor, or taxpayer. It is not feasible to predict or determine the ultimate outcome of all legal or arbitration proceedings or to provide reasonable ranges of potential losses. We believe that the outcomes of our litigation and arbitration matters are not likely, either individually or in the aggregate, to have a material adverse effect on our financial condition. However, given the large or indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation and arbitration, it is possible that an adverse outcome in certain matters could, from time to time, have a material adverse effect on our results of operations or cash flows in particular quarterly or annual periods.

8. Contingent Liabilities (continued)

Regulatory Matters

State regulatory bodies, the Securities and Exchange Commission (“SEC”), the Financial Industry Regulatory Authority (“FINRA”) 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. We endeavor to respond to such inquiries in an appropriate way and to take corrective action if warranted.

In addition, federal and state regulatory authorities from time to time make inquiries and conduct examinations regarding compliance by Phoenix Life and its subsidiaries with securities and other laws and regulations affecting their registered products. We endeavor to respond to such inquiries in an appropriate way and to take corrective action if warranted. 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 2005, the Boston District Office of the SEC completed a compliance examination of certain of PNX’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 PNX 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 PNX believes reimbursement is necessary or appropriate under the circumstances. A third party was retained to assist PNX in preparing the analysis. Based on this analysis, PNX advised the SEC that it does not believe that reimbursement is appropriate.

Over the past several 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.

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 inquiries, investigations, legal proceedings and other regulatory actions, 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. However, given the large or indeterminate amounts sought in certain of these actions and the inherent unpredictability of regulatory matters, 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 in particular quarterly or annual periods.

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

FORWARD-LOOKING STATEMENTS

The discussion in this Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We intend for 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 our future strategies, operations and financial results, as well as other statements including, but not limited to, 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 us. 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) the effects of recent adverse market and economic developments on all aspects of our business; (ii) changes in general market and business conditions, interest rates and the debt and equity markets; (iii) the possibility that mortality rates, persistency rates or funding levels may differ significantly from our pricing expectations; (iv) the availability, pricing and terms of reinsurance coverage generally and the inability or unwillingness of our reinsurers to meet their obligations to us specifically; (v) our dependence on non-affiliated distributors for our product sales, (vi) downgrades in our debt or financial strength ratings; (vii) our dependence on third parties to maintain critical business and administrative functions; (viii) our ability to attract and retain key personnel in a competitive environment; (ix) the strong competition we face in our business from banks and other insurance companies; (x) tax developments that may affect us directly, or indirectly through the cost of, the demand for or profitability of our products or services; (xi) other legislative or regulatory developments; (xii) legal or regulatory actions; (xiii) changes in accounting standards; and (xiv) other risks and uncertainties described herein or in any of our filings with the SEC. We undertake 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, 2008 and 2007. 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, 2007 in our 2007 Annual Report on Form 10-K.

Overview

For an overview of our current business and an explanation of the key drivers of our revenues, expenses and overall profitability, please see the "Business Overview and Earnings Drivers" discussion in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2007 Annual Report on Form 10-K.

Impact of New Accounting Standards

For a discussion of accounting standards, see Note 2 to our financial statements in this Form 10-Q.

Critical Accounting Estimates

The analysis of our results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("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.

As further described below, during 2008 we changed our method of accounting for reinsurance and for calculating deferred policy acquisition cost amortization. See our 2007 Annual Report on Form 10-K for a discussion of additional critical accounting estimates.

Accounting Change

Effective April 1, 2008, we changed our method of accounting for the cost of certain of our long duration reinsurance contracts accounted for in accordance with SFAS No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* ("SFAS 113"). In conjunction with this change, we also changed our method of accounting for the impact of reinsurance costs on deferred acquisition costs. SFAS 113 requires us to amortize the estimated cost of reinsurance over the life of the underlying reinsured contracts. Under our previous method, we recognized reinsurance recoveries as part of the net cost of reinsurance and amortized this balance over the estimated lives of the underlying reinsured contracts in proportion to estimated gross profits ("EGPs") consistent with the method used for amortizing deferred policy acquisition costs. Under the new method, reinsurance recoveries are recognized in the same period as the related reinsured claim. In conjunction with this change, we also changed our policy for determining EGPs relating to these contracts to include the effects of reinsurance, where previously these effects had not been included.

We adopted the new method because we believe that it better reflects the economics of the underlying reinsurance activity by better matching the reinsurance recovery with the insured loss that gave rise to that recovery. We also believe that the new method is consistent with management's intent in purchasing reinsurance, which is to protect the Company against large and unexpected claims. Following is a description of our accounting for deferred policy acquisition costs, which has been updated from our 2007 Annual Report on Form 10-K to reflect a change in our method of accounting for the effects of reinsurance.

Deferred Policy Acquisition Costs

We amortize deferred policy acquisition costs based on the related policy's classification. For individual life insurance policies, deferred policy acquisition costs are amortized in proportion to estimated gross margins. For universal life, variable universal life and accumulation annuities, deferred policy acquisition costs are amortized in proportion to EGPs. Policies may be surrendered for value or exchanged for a different one of our products (internal replacement). The deferred policy acquisition costs 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 deferred policy acquisition costs 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, funding patterns, expenses and reinsurance costs and recoveries. These assumptions are reviewed on a regular basis and are 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, funding patterns, expenses and reinsurance costs and recoveries.

In addition to our quarterly reviews, we complete a comprehensive assumption study during the fourth quarter of each year. Upon completion of an assumption study, we revise our assumptions to reflect our current best estimate, thereby changing our estimate of projected account values and the related EGPs in the deferred policy acquisition cost and unearned revenue amortization models as well as SOP 03-1 reserving models. The deferred policy acquisition cost asset, as well as the unearned revenue reserves and SOP 03-1 reserves are then adjusted with an offsetting benefit or charge to income to reflect such changes in the period of the revision, a process known as “unlocking.”

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 deferred policy acquisition costs, 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 deferred policy acquisition cost amortization model would be unlocked, or adjusted, to reflect such change. 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 deferred policy acquisition cost amortization and an increase in the deferred policy acquisition costs asset. Finally, an analysis is performed periodically to assess whether there are sufficient gross margins or gross profits to amortize the remaining deferred policy acquisition costs 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 deferred policy acquisition costs. 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 both December 31, 2007 and 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 deferred policy acquisition cost amortization. Periodically, we also perform analysis with respect to the sensitivity of a change in assumed mortality as it is critical to the development of the EGPs related to our universal life insurance business.

As part of our analysis of separate account returns, we perform two sensitivity tests. If at December 31, 2007 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 $1,794 thousand, after-tax.

If, instead, at December 31, 2007 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 $1,783 thousand, after-tax.

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Results of Operations

Summary Financial Data: *($ in thousands)*	**Three Months Ended September 30,**		**Increase (decrease) and percentage change**	
	2008	**2007**	**2008 vs. 2007**	
REVENUES:				
Premiums	$ 5,423	$ 4,199	$ 1,224	29%
Insurance and investment product fees	93,554	67,356	26,198	39%
Net investment income	22,510	27,609	(5,099)	(18%)
Net realized investment losses	(28,390)	(1,987)	(26,403)	1,329%
Total revenues	**93,097**	**97,177**	**(4,080)**	**(4%)**
BENEFITS AND EXPENSES:				
Policy benefits	51,774	43,140	8,634	20%
Policy acquisition cost amortization	46,533	27,895	18,638	67%
Other operating expenses	21,117	20,640	477	2%
Total benefits and expenses	**119,424**	**91,675**	**27,749**	**30%**
Income before income taxes	(26,327)	5,502	(31,829)	(578%)
Applicable income tax benefit	9,853	466	9,387	2,014%
Net income (loss)	**$ (16,474)**	**$ 5,968**	**$ (22,442)**	**(376%)**

Three months ended September 30, 2008 compared to three months ended September 30, 2007

Net income decreased 376% in the 2008 quarter. This result reflects higher net realized investment losses, higher amortization expense and lower interest margin. These decreases to income were partially offset by higher mortality margin.

Realized losses during the third quarter were primarily driven by increases in the fair value of embedded derivative liabilities in our variable annuity contracts. Realized losses also include impairments of $4,535 thousand during the third quarter related to residential mortgage-backed securities. Policy acquisition cost amortization increased $18,638 thousand in the current year quarter. This increase was caused by growth in the universal life business, the impact of market declines on annuities and higher surrenders. Lower investment income, combined with an increase in interest credited, drove a reduction in interest margin for the period. Mortality margin in universal life increased in 2008, driven by increases in cost of insurance fee revenues that were only partially offset by higher net benefits.

Summary Financial Data: *($ in thousands)*	**Nine Months Ended September 30,**		**Increase (decrease) and percentage change**	
	2008	**2007**	**2008 vs. 2007**	
REVENUES:				
Premiums	$ 10,094	$ 10,260	$ (166)	(2%)
Insurance and investment product fees	265,136	180,885	84,251	47%
Net investment income	69,821	82,695	(12,874)	(16%)
Net realized investment losses	(46,730)	(1,798)	(44,932)	2,499%
Total revenues	**298,321**	**272,042**	**26,279**	**10%**
BENEFITS AND EXPENSES:				
Policy benefits	146,362	119,601	26,761	22%
Policy acquisition cost amortization	109,825	78,421	31,404	40%
Other operating expenses	74,924	58,150	16,774	29%
Total benefits and expenses	**331,111**	**256,172**	**74,939**	**29%**
Income before income taxes	(32,790)	15,870	(48,660)	(307%)
Applicable income tax (expense) benefit	13,601	(2,748)	16,349	595%
Net income (loss)	**$ (19,189)**	**$ 13,122**	**$ (32,311)**	**(246%)**

Nine months ended September 30, 2008 compared to nine months ended September 30, 2007

Net results for the year-to-date period declined 246% to a net loss of $19,189 thousand. This result was driven by higher net realized investment losses, higher operating and amortization expenses and lower interest margin. These decreases to income were partially offset by improved mortality margins and increased fee revenues.

Net realized investment losses for the nine months ended September 30, 2008 include a $26,532 thousand increase in the embedded derivative liabilities for our variable products guarantees, as well as $18,577 thousand of impairments, including $16,019 thousand related to residential mortgage-backed securities. In addition, policy acquisition cost amortization increased $31,404 thousand in the current year, driven by growth in the universal life business, the impact of market declines on annuities and higher surrenders. Operating expenses also increased during 2008 as we continue to invest in the growth of the business. Partially offsetting these reductions were increases in mortality margins and fee revenues. Mortality margin in universal life increased in 2008, driven by increases in cost of insurance fee revenues that were only partially offset by higher net benefits. Fee revenues on our life and annuity products primarily consist of asset- and premium-based fees and have increased in 2008 due to growth of the in-force business.

General Account

The invested assets in our general account are generally of high quality and broadly diversified across fixed income sectors, public and private income securities 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, 2008, our general account held debt securities with a carrying value of $1,450,421 thousand, representing 97.2% of total general account investments. Public debt securities represented 78.8% of total debt securities, with the remaining 21.2% represented by private debt securities.

Debt Securities by Type and Credit Quality: *($ in thousands)*	**As of September 30, 2008**			
	Investment Grade		**Below Investment Grade**	
	Fair Value	**Cost**	**Fair Value**	**Cost**
U.S. government and agency	$ 46,498	$ 47,759	$ --	$ --
State and political subdivision	6,158	6,539	--	--
Foreign government	17,763	16,607	7,321	6,875
Corporate	734,226	795,223	94,683	115,743
Mortgage-backed	328,155	364,942	4,441	4,441
Other asset-backed	189,862	224,061	21,314	25,009
Total debt securities	**$ 1,322,662**	**$ 1,455,131**	**$ 127,759**	**$ 152,068**
Percentage of total debt securities	**91.2%**	**90.5%**	**8.8%**	**9.5%**

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, 2008 in our debt securities portfolio are diversified banking (6.3%), financial services (6.1%), real estate investment trusts (3.0%), insurance (2.7%) and electric utilities (2.6%).

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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)*	As of September 30, 2008 Total	0 – 6 Months	6 – 12 Months	Over 12 Months
Debt securities				
Total fair value	$ 1,179,822	$ 422,337	$ 132,484	$ 625,001
Total amortized cost	1,342,257	443,543	152,948	745,766
Unrealized losses	$ (162,435)	$ (21,206)	$ (20,464)	$ (120,765)
Unrealized losses after offsets	$ (25,004)	$ (3,553)	$ (3,022)	$ (18,429)
Number of securities	753	271	88	394
Investment grade:				
Unrealized losses	$ (137,642)	$ (19,702)	$ (16,603)	$ (101,337)
Unrealized losses after offsets	$ (21,275)	$ (3,341)	$ (2,478)	$ (15,456)
Below investment grade:				
Unrealized losses	$ (24,793)	$ (1,504)	$ (3,861)	$ (19,428)
Unrealized losses after offsets	$ (3,729)	$ (212)	$ (544)	$ (2,973)

Total net unrealized losses on debt securities were $156,778 thousand (unrealized losses of $162,435 thousand less unrealized gains of $5,657 thousand).

For debt securities with gross unrealized losses, 85.1% of the unrealized losses after offsets pertain to investment grade securities and 14.9% of the unrealized losses after offsets pertain to below investment grade securities at September 30, 2008.

The following table represents those securities whose fair value is less than 80% of amortized cost (significant unrealized loss) that have been at a significant unrealized loss position on a continuous basis.

Duration of Gross Unrealized Losses on General Account Securities: *($ in thousands)*	**As of September 30, 2008** Total	0 – 6 Months	6 – 12 Months	Over 12 Months
Debt securities				
Unrealized losses over 20% of cost	$ (82,071)	$ (54,703)	$ (18,730)	$ (8,638)
Unrealized losses over 20% of cost after offsets	$ (12,236)	$ (8,380)	$ (2,639)	$ (1,217)
Number of securities	122	92	23	7
Investment grade:				
Unrealized losses over 20% of cost	$ (65,476)	$ (46,669)	$ (17,219)	$ (1,588)
Unrealized losses over 20% of cost after offsets	$ (9,692)	$ (7,042)	$ (2,426)	$ (224)
Below investment grade:				
Unrealized losses over 20% of cost	$ (16,595)	$ (8,034)	$ (1,511)	$ (7,050)
Unrealized losses over 20% of cost after offsets	$ (2,544)	$ (1,338)	$ (213)	$ (993)

Our assessment of whether an investment in a debt or equity security is other-than-temporarily impaired includes whether the issuer has:

- defaulted on payment obligations;
- declared that it will default at a future point outside the current reporting period;
- announced that a restructuring will occur outside the current reporting period;
- severe liquidity problems that cannot be resolved;
- filed for bankruptcy;
- a financial condition which suggests that future payments are highly unlikely;
- deteriorating financial condition and quality of assets;
- sustained significant losses during the current year;
- announced adverse changes or events such as changes or planned changes in senior management, restructurings, or a sale of assets; and/or
- been affected by any other factors that indicate that the fair value of the investment may have been negatively impacted.

In determining whether collateralized securities are impaired, we obtain underlying mortgage data from the security's trustee and analyze it for performance trends. A security-specific stress analysis is performed using the most recent trustee information. This analysis forms the basis for our determination of whether the security will pay in accordance with the contractual cash flows.

If we determine that the security is impaired, we write it down to its then current fair value and record a realized loss in that period.

In determining that the securities giving rise to the previously mentioned unrealized losses were not other-than-temporarily impaired, we evaluated the factors cited above. 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 affect 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.

Residential Mortgage-Backed Securities

The weakness in the U.S. residential real estate markets, increases in mortgage rates and the effects of relaxed underwriting standards for mortgages and home equity loans have led to higher delinquency rates and losses for the residential mortgage-backed securities market. Delinquency rates for all sectors of the residential mortgage-backed market, including sub-prime, Alt-A and prime, have increased beyond historical averages.

We invest directly in residential mortgage-backed securities through our general account. To the extent these assets deteriorate in credit quality and decline in value for an extended period, we may realize impairment losses. We have been focused on identifying those securities that can withstand significant increases in delinquencies and foreclosures in the underlying mortgage pools before incurring a loss of principal.

Most of our residential mortgage-backed securities portfolio is highly rated. As of September 30, 2008, 95% of the total residential portfolio was rated AAA or AA. We have $72.5 million of sub-prime exposure, $40.2 million of Alt-A exposure, and $124.6 million of prime exposure, which combined amount to 15% of our general account. Substantially all of our sub-prime, Alt-A and prime exposure is investment grade, with 91% being AAA rated and another 2% in AA securities. We have employed a disciplined approach in the analysis and monitoring of our mortgage-backed securities. Our approach involves a monthly review of each security. Underlying mortgage data is obtained from the security's trustee and analyzed for performance trends. A security-specific stress analysis is performed using the most recent trustee information. This analysis forms the basis for our determination of whether the security will pay in accordance with the contractual cash flows. Year-to-date through September 30, 2008, we have taken impairments of $15.1 million on our residential mortgage-backed securities portfolio. This represents 5.0% of our total residential mortgage-backed securities portfolio and 1.0% of the general account. The losses consist of $8.5 million from prime, $6.1 million from Alt-A and $.5 million from sub-prime.

Residential Mortgage-Backed Securities:

($ in thousands)	As of September 30, 2008							
	Book Value	Market Value	% General Account[(1)]	AAA	AA	A	BBB	BB and Below
Collateral								
Agency	$ 68,273	$ 67,965	4.3%	100.0%	0.0%	0.0%	0.0%	0.0%
Prime	140,847	124,625	7.9%	94.6%	0.4%	0.0%	4.7%	0.3%
Alt-A	49,927	40,213	2.5%	83.9%	0.7%	2.3%	4.2%	8.9%
Sub-prime	88,753	72,453	4.6%	89.0%	5.3%	2.2%	2.5%	1.0%
Total	**$ 347,800**	**$ 305,256**	**19.3%**	**93.1%**	**1.5%**	**0.8%**	**3.1%**	**1.5%**

(1) Percentages based on Market Value.

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, investment activities and capital contributions from our shareholder 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

Rating agencies assign financial strength ratings to Phoenix Life and its subsidiaries based on their opinions of the Companies' ability to meet their financial obligations. Ratings changes may result in increased or decreased interest costs in connection with future borrowings. Such an increase or decrease would affect our earnings and could affect our ability to finance our future growth. Downgrades may also trigger defaults or repurchase obligations.

On September 18, September 29, October 2 and October 10, 2008, A.M. Best Company, Inc., Fitch Ratings Ltd., Moody's Investors Service and Standard & Poor's, respectively, each revised its outlook for the U.S. life insurance sector to negative from stable, citing, among other things, the significant deterioration and volatility in the credit and equity markets, economic and political uncertainty, and the expected impact of realized and unrealized investment losses on life insurers' capital levels and profitability.

Given these developments, it is possible that rating agencies will heighten the level of scrutiny that they apply to us, will request additional information from us, and may adjust upward the capital and other requirements employed in their models for maintenance of certain ratings levels.

We cannot predict what additional actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business. As with other companies in the financial services industry, our ratings could be downgraded at any time and without any notice by any rating agency.

The financial strength ratings as of October 31, 2008 were as follows:

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

On October 31, 2008, Fitch downgraded our financial strength rating to A from A+ and maintained its negative outlook. On October 31, 2008, Standard & Poor's downgraded our financial strength rating to BBB+ from A- and changed our outlook to negative from stable.

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

See our 2007 Annual Report on Form 10-K for additional information as to liquidity and capital resources.

Contractual Obligations and Commercial Commitments

As of September 30, 2008, there were no significant changes to our outstanding contractual obligations and commercial commitments as disclosed in our 2007 Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

As of September 30, 2008 and December 31, 2007, 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, reputations in the reinsurance marketplace and other relevant information, we believe that these reinsurers are financially sound and, therefore, that we have no material exposure to uncollectible life reinsurance.

Risk Based Capital

At September 30, 2008, our estimated Total Adjusted Capital level was in excess of 300% of Company Action Level. PNX management is committed to maintaining appropriate capital levels for the Company to conduct business.

Statutory Capital and Surplus

Our statutory basis capital and surplus (including AVR) was $175.7 million at September 30, 2008.

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, 2008, 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 September 30, 2008, 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 and arbitration, both as a defendant and as a plaintiff. In addition, various 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, securities laws, laws governing the activities of broker-dealers and other laws and regulations affecting our registered products. It is not feasible to predict or determine the ultimate outcome of all legal or regulatory proceedings or to provide reasonable ranges of potential losses. We believe that the outcomes of our litigation and regulatory matters are not likely, either individually or in the aggregate, to have a material adverse effect on our consolidated financial condition. However, given the large or indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation and regulatory matters, it is possible that an adverse outcome in certain matters could, from time to time, have a material adverse effect on our results of operations or cash flows in particular quarterly or annual periods. See Item 1A, “Risk Factors” in our 2007 Annual Report on Form 10-K and Note 8 to our financial statements in this Form 10-Q for additional information.

Item 1A. RISK FACTORS

In addition to the normal risks of business, we are subject to significant risks and uncertainties, including those listed below. The risks described below update the risk factors described in our 2007 Annual Report on Form 10-K and should be read in addition to those risk factors. You should carefully consider the following risk factors and the risk factors described in our 2007 Annual Report on Form 10-K before investing in our securities, any of which could have a significant or material adverse effect on our business, financial condition, operating results or liquidity. This information should be considered carefully together with the other information contained in this report and the other reports and materials we file with the Securities and Exchange Commission. The risks described below and in our 2007 Annual Report on Form 10-K are not the only ones we face. Additional risks may also have an adverse effect on our business, financial condition, operating results or liquidity.

Recent market and economic developments may materially and adversely affect our business, revenues, earnings, sales, assets under management, financial condition and results of operations.

Recent markets have experienced unprecedented credit and liquidity issues as well as volatility and declines in the equity markets. Lending practices in past years, particularly in the “sub-prime” market, coupled with dramatic declines in home prices, rising mortgage defaults and increasing home foreclosures, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to most sectors of the credit markets, and to credit default swaps and other derivative securities, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions, to be subsidized by the U.S. government and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, credit markets have worsened considerably, with many lenders and institutional investors reducing, and in some cases, ceasing to provide funding to borrowers, including other financial institutions. Additionally, concerns over increasing unemployment, inflation and energy costs as well as geopolitical issues have contributed to diminished expectations for the economy and the financial markets going forward. These factors, combined with declining business and consumer confidence and increased unemployment, have precipitated an economic slowdown and fears of a prolonged recession. As a result, the financial markets and the U.S. economy are experiencing a period of extreme volatility.

It is difficult to predict how long the current economic and market conditions will continue, how the coordinated actions of the U.S. government and other international economic leaders will affect the current environment, and whether the financial markets will continue to deteriorate and which aspects of our products and/or business will be adversely affected. However, the resulting lack of available credit, lack of confidence in the financial sector, increased volatility in the financial markets and reduced business activity may materially and adversely affect us. Recent market and economic developments, including a 17% decline in equity markets during October 2008, have affected, or have the potential to affect, us negatively by:

- Affecting the value of our investments, which has resulted in, and may continue to result in, higher realized and/or unrealized losses;
- Raising the cost of some of our products, resulting in lower profits, because of higher reserves for guaranteed death benefits and living benefits, and higher DAC amortization because of lower revenue and higher reserves in the future;
- Increasing consumer concerns about the returns and attractiveness of our products, which may cause existing clients to surrender policies or withdraw assets, and diminish our ability to sell policies and attract assets from new and existing clients, which would result in lower sales and fee revenues;
- Reducing the ability and/or willingness of our reinsurers to meet their obligations, or adversely affecting the availability and cost of reinsurance, which would negatively affect our operating results;
- Affecting the access to, reliability of, and service levels provided by our non-affiliated distribution intermediaries, which could materially affect our sales, redemptions and business operations;
- Increasing competition from stronger rivals in a more consolidated financial services industry, driven by regulatory action or other opportunistic transactions;
- Causing regulators to change the laws and regulations that affect us, which may result in greater compliance costs and restrictions on our ability to do business;
- Encouraging litigation, arbitration and regulatory action in response to the increased frequency and magnitude of investment losses, which may result in unfavorable judgments, awards and settlements, regulatory fines and an increase in our related legal expenses;
- Changing the accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies, which may adversely affect our financial statements;
- Reducing our ability to access existing or to obtain new financing in support of our business on favorable terms, or eliminating our ability to access existing or obtain new financing at all; and
- Damaging our reputation indirectly by association with the industries most seriously affected by market and economic developments, or directly due to a decline in investment performance or service levels, which may affect our ability to retain existing clients or attract new clients;

Any of these negative effects may materially and adversely affect our business, revenues, earnings, sales, assets under management, financial condition and results of operations.

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 Peter A. Hofmann, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32	Certification by Philip K. Polkinghorn, Chief Executive Officer and Peter A. Hofmann, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

* 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, 2008

By: /s/ Peter A. Hofmann
Peter A. Hofmann
Senior Executive Vice President and Chief Financial Officer