**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 MARCH 31, 2009**

**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 twelve 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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 the 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 ☑ Smaller reporting company ☐
*(Do not check if 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 May 12, 2009, 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 Balance Sheet**
($ in thousands, except share data)
**March 31, 2009 (unaudited) and December 31, 2008**

| | Mar 31, 2009 | Dec 31, 2008 |
|---|---|---|
| **ASSETS:** | | |
| Available-for-sale debt securities, at fair value | $ 1,293,677 | $ 1,287,409 |
| Policy loans, at unpaid principal balances | 39,501 | 34,917 |
| Other investments | 112,944 | 102,681 |
| Fair value option investments | 3,908 | 4,091 |
| **Total investments** | **1,450,030** | **1,429,098** |
| Cash and cash equivalents | 32,153 | 152,185 |
| Accrued investment income | 15,359 | 14,804 |
| Receivables | 357,972 | 325,996 |
| Deferred policy acquisition costs | 1,037,646 | 1,065,128 |
| Receivable from related parties | 3,443 | 20,513 |
| Other assets | 40,977 | 37,089 |
| Separate account assets | 2,266,832 | 2,449,141 |
| **Total assets** | **$ 5,204,412** | **$ 5,493,954** |
| **LIABILITIES:** | | |
| Policyholder deposit funds | $ 898,954 | $ 969,270 |
| Policy liabilities and accruals | 1,405,696 | 1,386,611 |
| Deferred income taxes | 39,954 | 33,291 |
| Payable to related parties | -- | 6,271 |
| Other liabilities | 41,055 | 116,929 |
| Separate account liabilities | 2,266,833 | 2,449,141 |
| **Total liabilities** | **4,652,492** | **4,961,513** |
| **CONTINGENT LIABILITIES (Note 9)** | | |
| **STOCKHOLDER'S EQUITY:** | | |
| Common stock, $5,000 par value: 1,000 shares authorized; 500 shares issued | 2,500 | 2,500 |
| Additional paid-in capital | 743,152 | 723,152 |
| Accumulated deficit | (139,489) | (141,288) |
| Accumulated other comprehensive loss | (54,243) | (51,923) |
| **Total stockholder's equity** | **551,920** | **532,441** |
| **Total liabilities and stockholder's equity** | **$ 5,204,412** | **$ 5,493,954** |

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

## PHL VARIABLE INSURANCE COMPANY
**Unaudited Interim Statement of Income and Comprehensive Income**
($ in thousands)
**Three Months Ended March 31, 2009 and 2008**

| | 2009 | 2008 |
|---|---|---|
| **REVENUES:** | | |
| Premiums | $ 5,492 | $ (643) |
| Insurance and investment product fees | 96,286 | 83,865 |
| Net investment income | 20,271 | 24,321 |
| Net realized investment gains (losses) | 10,112 | (13,081) |
| Other-than-temporary impairment losses[1] | (8,054) | (6,948) |
| **Total revenues** | **124,107** | **87,514** |
| | | |
| **BENEFITS AND EXPENSES:** | | |
| Policy benefits | 55,025 | 51,015 |
| Policy acquisition cost amortization | 38,590 | 24,537 |
| Other operating expenses | 35,685 | 28,101 |
| **Total benefits and expenses** | **129,300** | **103,653** |
| Loss before income taxes | (5,193) | (16,139) |
| Income tax benefit | 1,154 | 7,109 |
| **Net loss** | **$ (4,039)** | **$ (9,030)** |
| | | |
| **COMPREHENSIVE LOSS:** | | |
| **Net loss** | **$ (4,039)** | **$ (9,030)** |
| Net unrealized investment losses | (1,095) | (5,639) |
| **Comprehensive loss** | **$ (5,134)** | **$ (14,669)** |

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(1) The 2009 amount represents gross impairments of $11,320 thousand less $3,266 thousand, which was recognized in other comprehensive loss.

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

## PHL VARIABLE INSURANCE COMPANY
### Unaudited Interim Statement of Cash Flows
($ in thousands)
**Three Months Ended March 31, 2009 and 2008**

| | 2009 | 2008 |
|---|---|---|
| **OPERATING ACTIVITIES:** | | |
| Net loss | $ (4,039) | $ (9,030) |
| Net realized investment (gains) losses | (2,058) | 20,029 |
| Investment loss | (1,771) | (701) |
| Deferred income taxes | 7,913 | (4,014) |
| (Increase) decrease in receivables | (31,109) | 110,711 |
| (Increase) decrease in deferred policy acquisition costs | 14,090 | (102,276) |
| Increase (decrease) in policy liabilities and accruals | 20,027 | (41,643) |
| Other assets and other liabilities net change | (23,862) | 10,363 |
| **Cash for operating activities** | **(20,809)** | **(16,561)** |
| | | |
| **INVESTING ACTIVITIES:** | | |
| Investment purchases | (497,000) | (156,476) |
| Investment sales, repayments and maturities | 443,676 | 249,549 |
| **Cash from investing activities** | **(53,324)** | **93,073** |
| | | |
| **FINANCING ACTIVITIES:** | | |
| Policyholder deposit fund deposits | 57,051 | 82,265 |
| Policyholder deposit fund withdrawals | (122,950) | (183,455) |
| Capital contributions from parent | 20,000 | 32,785 |
| **Cash for financing activities** | **(45,899)** | **(68,405)** |
| **Change in cash and cash equivalents** | **(120,032)** | **8,107** |
| Cash and cash equivalents, beginning of period | 152,185 | 108,200 |
| **Cash and cash equivalents, end of period** | **$ 32,153** | **$ 116,307** |

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

**PHL VARIABLE INSURANCE COMPANY**
**Unaudited Interim Statement of Changes in Stockholder's Equity**
($ in thousands)
**Three Months Ended March 31, 2009 and 2008**

| | 2009 | 2008 |
|---|---|---|
| **COMMON STOCK:** | | |
| Balance, beginning of period | $ 2,500 | $ 2,500 |
| **Balance, end of period** | **$ 2,500** | **$ 2,500** |
| | | |
| **ADDITIONAL PAID-IN CAPITAL:** | | |
| Balance, beginning of period | $ 723,152 | $ 553,218 |
| Capital contributions from parent | 20,000 | 42,000 |
| **Balance, end of period** | **$ 743,152** | **$ 595,218** |
| | | |
| **RETAINED EARNINGS / ACCUMULATED DEFICIT:** | | |
| Balance, beginning of period | $ (141,288) | $ 53,906 |
| Cumulative effect of FSP FAS 115-2 | 5,838 | -- |
| Adjusted beginning balance | (135,450) | 53,906 |
| Net loss | (4,039) | (9,030) |
| **Balance, end of period** | **$ (139,489)** | **$ 44,876** |
| | | |
| **ACCUMULATED OTHER COMPREHENSIVE LOSS:** | | |
| Balance, beginning of period | $ (51,923) | $ (11,784) |
| Cumulative effect of FSP FAS 115-2 | (1,225) | -- |
| Adjusted beginning balance | (53,148) | (11,784) |
| Other comprehensive loss | (1,095) | (5,639) |
| **Balance, end of period** | **$ (54,243)** | **$ (17,423)** |
| | | |
| **TOTAL STOCKHOLDER'S EQUITY:** | | |
| Balance, beginning of period | $ 532,441 | $ 597,840 |
| Change in stockholder's equity | 19,479 | 27,331 |
| **Balance, end of period** | **$ 551,920** | **$ 625,171** |

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

## 1. Organization and Operations

PHL Variable Insurance Company ("PHL Variable") 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. Phoenix Home Life Mutual Insurance Company demutualized on June 25, 2001 by converting from a mutual life insurance company to a stock life insurance company, became a wholly-owned subsidiary of PNX and changed its name to Phoenix Life Insurance 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. We have reclassified certain amounts for 2008 to conform with 2009 presentation.

### 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 2008 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-month period in 2009 are not necessarily indicative of the results that may be expected for the year 2009. These unaudited financial statements should be read in conjunction with our financial statements in our 2008 Annual Report on Form 10-K.

### Risks Associated with Current Economic Environment

Over the past year, the U.S. economy has experienced unprecedented credit and liquidity issues and entered into recession. Following several years of rapid credit expansion, a sharp contraction in mortgage lending coupled with dramatic declines in home prices, rising mortgage defaults and increasing home foreclosures, 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 many lenders and institutional investors have reduced and, in some cases, ceased to provide funding to borrowers, including other financial institutions. These factors, combined with declining business and consumer confidence and increased unemployment, have precipitated an economic slowdown and fears of a prolonged recession.

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

Even under more favorable market conditions, general factors such as the availability of credit, consumer spending, business investment, capital market conditions and inflation affect our business. For example, in an economic downturn, higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending may depress the demand for life insurance, annuities and investment products. In addition, this type of economic environment may result in higher lapses or surrenders of policies. Accordingly, the risks we face related to general economic and business conditions are more pronounced given the severity and magnitude of recent adverse economic and market conditions experienced.

More specifically, our business is exposed to the performance of the debt and equity markets, which have been materially and adversely affected by recent economic developments. Adverse conditions, including but not limited to, a lack of buyers in the marketplace, volatility, credit spread changes, and benchmark interest rate changes, have affected and will continue to impact the liquidity and value of our investments.

These extraordinary economic and market conditions have materially and adversely affected us. In 2008 we had a net loss of $195,194 thousand with a more modest loss in the first quarter of 2009. It is difficult to predict how long the current economic and market conditions will continue, whether the financial markets will continue to deteriorate and which aspects of our products and/or business will be adversely affected. However, the lack of credit, lack of confidence in the financial sector, increased volatility in the financial markets and reduced business activity are likely to continue to materially and adversely affect our business, financial condition and results of operations.

### Adoption of new accounting standards

On April 9, 2009, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position (“FSP”) FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (“FSP FAS 157-4”), which further clarifies the application of FASB Statement No. 157, *Fair Value Measurements* (“SFAS 157”), in an inactive market, including guidance on identifying circumstances that indicate a transaction is not orderly or a market is not active. FSP FAS 157-4 supersedes FSP FAS 157-3, which was effective upon issuance on October 10, 2008. The FSP addresses application issues such as how management’s internal assumptions should be considered when measuring fair value when relevant observable data does 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 157-4 was optional for adoption for periods ending after March 15, 2009. We elected to adopt this guidance for the quarter ending March 31, 2009. Our adoption of FSP FAS 157-4 had no material effect on our financial condition or results of operations.

On April 9, 2009, the FASB issued FSP FAS 115-2 and 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (“FSP FAS 115-2”), which changes the application of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (“SFAS 115”). The FSP addresses how to evaluate whether an impairment is other than temporary, and modifies the existing requirement from the intent and ability to hold a security, to an assessment of whether it is more likely than not that the Company will be required to sell the security before recovery. Additionally, the guidance provides for the separation of an other-than-temporary impairment into an amount attributable to credit loss, recognized in earnings, and an amount attributable to other factors, recognized in other comprehensive income. FSP FAS 115-2 was optional for adoption for periods ending after March 15, 2009. We elected to adopt this guidance for the quarter ending March 31, 2009. The cumulative effect of our adoption was $4,613 thousand after offsets and is reflected in stockholder’s equity. The cumulative effect resulted in a decrease to accumulated deficit of $5,838 thousand after offsets, which includes an adjustment of $2,900 thousand to the deferred tax valuation allowance, and an increase to accumulated other comprehensive loss of $1,225 thousand after offsets.

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

On April 9, 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, which requires disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. The FSP also requires such disclosures whenever a publicly-traded company issues summarized financial information for interim reporting periods. FSP FAS 107-1 is effective for interim reporting periods ending after June 15, 2009. Our adoption of this FSP had no material effect on our financial condition or results of operations.

In January 2009, the Financial Accounting Standards Board ("FASB") issued FSP No. EITF 99-20-1, which amends the impairment guidance in EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets* ("EITF 99-20-1"). The FSP revises EITF 99-20's impairment guidance to make it consistent with the requirements of SFAS No. 115 for determining whether an other-than-temporary impairment has occurred. The FSP is effective for these financial statements. Our adoption of the FSP had no material effect on our financial statements.

In December 2008, the FASB issued FASB Staff Position No. FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities,* which requires public entities to provide additional disclosures about transfers of financial assets. It also requires sponsors that have a variable interest in a variable interest entity to provide additional disclosures about their involvement with variable interest entities. The FSP is effective for these financial statements. Our adoption of the FSP had no material effect on our financial statements.

In September 2008, the FASB issued FSP No. FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*. The FSP introduces new disclosure requirements for credit derivatives and certain guarantees. The FSP is effective for these financial statements. Our adoption of the FSP had no material effect on our financial statements.

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 for us in 2009 and does not have an impact on our financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS 160"). SFAS 160 establishes requirements for the presentation of minority interests and for deconsolidation accounting. SFAS 160 was effective for us January 1, 2009 and our adoption did not have a material impact on our financial position and 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.

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

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.

***Significant Accounting Policies***

Effective January 1, 2009, we changed our accounting policy related to net investment income and realized gains (losses) in conjunction with our adoption of FSP FAS 115-2. All other accounting policies are the same as filed in our 2008 Annual Report on Form 10-K.

**Net Investment Income and Net Realized Investment Gains (Losses)**

We recognize realized investment gains (losses) on asset dispositions on a first-in, first-out basis. We recognize realized investment losses when declines in fair value of debt and equity securities are considered to be other-than-temporarily impaired. For debt securities, the other-than-temporarily impaired amount is separated into the amount related to a credit loss as a charge to net realized investment losses included in our earnings, and the amount related to all other factors, which is recognized in other comprehensive income. The credit loss component is calculated using our best estimate of the present value of cash flows expected to be collected from the debt security, by discounting the expected cash flows at the effective interest rate implicit in the security at the time of acquisition. Subsequent to recognition of an impairment loss, the difference between the new cost basis and the cash flows expected to be collected is accreted as interest income.

In evaluating whether a decline in value is other than temporary, we consider several factors including, but not limited to the following:

- the extent and the duration of the decline;
- the reasons for the decline in value (credit event, interest related or market fluctuations);
- our intent to sell the security, or whether it is more likely than not that we will be required to sell it before recovery, and
- the financial condition of and near term prospects of the issuer.

A debt security impairment is deemed other than temporary if:

- we either intend to sell the security, or it is more likely than not that we will be required to sell the security before recovery; or
- we will be unable to collect cash flows sufficient to recover the amortized cost basis of the security.

Impairments due to deterioration in credit that result in a conclusion that the present value of cash flows expected to be collected will not be sufficient to recover the amortized cost basis of the security are considered other than temporary. Other declines in fair value (for example, due to interest rate changes, sector credit rating changes or company-specific rating changes) that result in a conclusion that the present value of cash flows expected to be collected will not be sufficient to recover the amortized cost basis of the security may also result in a conclusion that an other-than-temporary impairment has occurred.

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

The applicable deferred policy acquisition costs and applicable income taxes, which offset realized investment gains and losses and other-than-temporary impairments, are each reported separately as components of net income.

## 3. Deferred Policy Acquisition Costs

| **Deferred Policy Acquisition Costs:** *($ in thousands)* | **Three Months Ended March 31, 2009** | **2008** |
|---|---|---|
| Policy acquisition costs deferred | $ 28,304 | $ 126,813 |
| Costs amortized to expenses: | | |
| Recurring costs | (38,095) | (27,311) |
| Realized investment gains (losses) | (495) | 2,774 |
| Offsets to net unrealized investment gains or losses included in other comprehensive income | (13,391) | 21,141 |
| Cumulative effect of FSP FAS 115-2 | (3,805) | -- |
| Change in deferred policy acquisition costs | (27,482) | 123,417 |
| Deferred policy acquisition costs, beginning of period | 1,065,128 | 1,009,612 |
| **Deferred policy acquisition costs, end of period** | **$ 1,037,646** | **$ 1,133,029** |

## 4. Investing Activities

### Debt securities

| **Fair Value and Cost of Debt Securities:** | **March 31, 2009** | | **December 31, 2008** | |
|---|---|---|---|---|
| *($ in thousands)* | **Fair Value** | **Cost** | **Fair Value** | **Cost** |
| U.S. government and agency | $ 197,360 | $ 198,031 | $ 42,708 | $ 43,689 |
| State and political subdivision | 5,670 | 6,533 | 5,715 | 6,536 |
| Foreign government | 31,526 | 29,591 | 31,087 | 30,130 |
| Corporate | 641,525 | 785,446 | 775,982 | 923,313 |
| Commercial mortgage-backed | 76,762 | 104,231 | 76,136 | 105,256 |
| Residential mortgage-backed | 193,912 | 230,947 | 205,499 | 242,933 |
| CDO/CLO | 52,886 | 91,296 | 40,564 | 93,206 |
| Other asset-backed | 94,036 | 142,694 | 109,718 | 147,165 |
| **Available-for-sale debt securities** | **$ 1,293,677** | **$ 1,588,769** | **$ 1,287,409** | **$ 1,592,228** |

| **Unrealized Gains (Losses) from Debt Securities:** | **March 31, 2009** | | **December 31, 2008** | |
|---|---|---|---|---|
| *($ in thousands)* | **Gains** | **Losses** | **Gains** | **Losses** |
| U.S. government and agency | $ 1,274 | $ (1,945) | $ 1,189 | $ (2,170) |
| State and political subdivision | -- | (863) | -- | (821) |
| Foreign government | 1,952 | (17) | 1,206 | (249) |
| Corporate | 3,087 | (147,008) | 2,632 | (149,963) |
| Commercial mortgage-backed | 97 | (27,566) | 37 | (29,157) |
| Residential mortgage-backed | 3,239 | (40,274) | 1,645 | (39,079) |
| CDO/CLO | 97 | (38,507) | 9 | (52,651) |
| Other asset-backed | 2 | (48,660) | 259 | (37,706) |
| **Debt securities gains and losses** | **$ 9,748** | **$ (304,840)** | **$ 6,977** | **$ (311,796)** |
| **Debt securities net losses** | | **$ (295,092)** | | **$ (304,819)** |

## 4. Investing Activities (continued)

| **Aging of Temporarily Impaired Debt Securities:** *($ in thousands)* | **March 31, 2009** Less than 12 months Fair Value | Less than 12 months Unrealized Losses | Greater than 12 months Fair Value | Greater than 12 months Unrealized Losses | Total Fair Value | Total Unrealized Losses |
|---|---|---|---|---|---|---|
| **Debt securities** | | | | | | |
| U.S. government and agency | $ 966 | $ (35) | $ 2,032 | $ (1,910) | $ 2,998 | $ (1,945) |
| State and political subdivision | 2,377 | (155) | 3,293 | (708) | 5,670 | (863) |
| Foreign government | 970 | (17) | -- | -- | 970 | (17) |
| Corporate | 260,965 | (29,144) | 267,986 | (117,864) | 528,951 | (147,008) |
| Commercial mortgage-backed | 15,158 | (4,322) | 53,567 | (23,244) | 68,725 | (27,566) |
| Residential mortgage-backed | 5,663 | (1,496) | 113,299 | (38,778) | 118,962 | (40,274) |
| CDO/CLO | 5,551 | (5,012) | 45,684 | (33,495) | 51,235 | (38,507) |
| Other asset-backed | 21,224 | (3,633) | 68,989 | (45,027) | 90,213 | (48,660) |
| **Total temporarily impaired securities** | **$ 312,874** | **$ (43,814)** | **$ 554,850** | **$ (261,026)** | **$ 867,724** | **$ (304,840)** |
| **Below investment grade** | **$ 40,218** | **$ (15,319)** | **$ 115,599** | **$ (102,297)** | **$ 155,817** | **$ (117,616)** |
| **Below investment grade after offsets for deferred policy acquisition cost adjustment and taxes** | | **$ (2,438)** | | **$ (17,036)** | | **$ (19,474)** |
| **Number of securities** | | **248** | | **450** | | **698** |

Unrealized losses on below investment grade debt securities with a fair value of less than 80% of the security's amortized cost totaled $109,490 thousand at March 31, 2009 ($17,964 thousand after offsets for taxes and deferred policy acquisition cost amortization), of which $9,846 thousand is greater than 20% and over 12 months.

All of these securities are considered to be temporarily impaired at March 31, 2009 as each of these securities has performed, and is expected to continue to perform, in accordance with their original contractual terms, and because it is more likely than not that we will not need to sell these securities before recovery.

| **Aging of Temporarily Impaired Debt Securities:** *($ in thousands)* | **As of December 31, 2008** Less than 12 months Fair Value | Less than 12 months Unrealized Losses | Greater than 12 months Fair Value | Greater than 12 months Unrealized Losses | Total Fair Value | Total Unrealized Losses |
|---|---|---|---|---|---|---|
| **Debt Securities** | | | | | | |
| U.S. government and agency | $ 2,753 | $ (84) | $ 1,856 | $ (2,086) | $ 4,609 | $ (2,170) |
| State and political subdivision | 2,395 | (137) | 3,319 | (684) | 5,714 | (821) |
| Foreign government | 15,891 | (248) | 499 | (1) | 16,390 | (249) |
| Corporate | 322,514 | (37,561) | 259,454 | (112,402) | 581,968 | (149,963) |
| Commercial mortgage-backed | 36,956 | (12,465) | 35,471 | (16,692) | 72,427 | (29,157) |
| Residential mortgage-backed | 20,775 | (2,515) | 101,488 | (36,564) | 122,263 | (39,079) |
| CDO/CLO | 7,289 | (9,804) | 29,403 | (42,847) | 36,692 | (52,651) |
| Other asset-backed | 32,926 | (6,820) | 69,807 | (30,886) | 102,733 | (37,706) |
| **Total temporarily impaired securities** | **$ 441,499** | **$ (69,634)** | **$ 501,297** | **$ (242,162)** | **$ 942,796** | **$ (311,796)** |
| **Below investment grade** | **$ 48,201** | **$ (16,379)** | **$ 55,610** | **$ (28,721)** | **$ 103,811** | **$ (45,100)** |
| **Below investment grade after offsets for deferred policy acquisition cost adjustment and taxes** | | **$ (2,258)** | | **$ (4,665)** | | **$ (6,923)** |
| **Number of securities** | | **332** | | **402** | | **734** |

Unrealized losses of below investment grade debt securities with a fair value of less than 80% of the security's amortized cost totaled $39,705 thousand at December 31, 2008 ($5,942 thousand after offsets for taxes and deferred policy acquisition cost amortization), of which $943 thousand is greater than 20% and over 12 months.

These securities are considered to be temporarily impaired at December 31, 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.

**Other-Than-Temporary Impairments**

We employ a comprehensive process to determine whether or not a security is in an unrealized loss position and is other-than-temporarily impaired. This assessment is done on a security-by-security basis and involves significant management judgment, especially given recent severe market dislocations.

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 all 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 all securities whose fair value is less than 80% of amortized cost (significant unrealized loss) with emphasis on below investment grade securities with a continuous significant unrealized loss in excess of six months. In addition, we review securities that experienced lesser declines in value on a more selective basis to determine whether any are other-than-temporarily impaired.

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

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

A debt security impairment is deemed other than temporary if:

- we either intend to sell the security, or it is more likely than not that we will be required to sell the security before recovery; or
- we will be unable to collect cash flows sufficient to recover the amortized cost basis of the security.

Impairments due to deterioration in credit that result in a conclusion that the present value of cash flows expected to be collected will not be sufficient to recover the amortized cost basis of the security are considered other than temporary. Other declines in fair value (for example, due to interest rate changes, sector credit rating changes or company-specific rating changes) that result in a conclusion that the present value of cash flows expected to be collected will not be sufficient to recover the amortized cost basis of the security may also result in a conclusion that an other-than-temporary impairment has occurred.

Consistent with FSP FAS 115-2, in situations where the Company has asserted its ability and intent to hold a security to a forecasted recovery, but where now it is more likely than not that we will be required to sell the security before recovery, an impairment is considered other than temporary, even if the present value of cash flows expected to be collected will be sufficient to recover the amortized cost basis of the security.

Specifically for structured securities, to determine whether a collateralized security is impaired, we obtain underlying 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.

Given the significant credit spread widening and lack of liquidity in the current environment, management exercised significant judgment with respect to certain securities in determining whether impairments were other than temporary. This included securities with $140,770 thousand ($22,081 thousand after offsets) of gross unrealized losses of 50% or more for which no other-than-temporary impairment was ultimately indicated. In making its assessments, management used a number of issuer-specific quantitative and qualitative assessments of the probability of receiving contractual cash flows, including the issue's implied yields to maturity, cumulative default rate based on the issue's rating, comparisons of issue-specific spreads to industry or sector spreads, specific trading activity in the issue and other market data such as recent debt tenders and upcoming refinancing exposure, as well as fundamentals such as issuer credit and liquidity metrics, business outlook and industry conditions. In addition to these reviews, management in each case assessed its ability and intent to hold the securities for an extended time to recovery, up to and including maturity. Each security on the watch list was evaluated, analyzed and discussed, with the positive and negative factors weighed in the ultimate determination of whether or not the security was other-than-temporarily impaired.

In determining that the securities giving rise to the previously mentioned unrealized losses were not other-than-temporarily impaired, we considered and evaluated the factors cited above. In making these evaluations, we exercised 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.

In general, the debt security types that were most severely depressed were corporate debt securities, residential mortgage-backed securities ("RMBS") and commercial mortgage-backed securities ("CMBS"). These asset classes continued to be challenged by illiquid markets, rating agency downgrades and generalized credit spread widening. We did not intend to sell these underwater positions, nor was it more likely than not that we would sell these securities before recovery; therefore, the impairments were considered temporary.

*Corporate Debt Securities*

Corporate debt securities make up nearly 50% of the unrealized loss balance. Of these securities with unrealized losses, approximately 85% are of investment grade quality, of which approximately 40% are in the financial services sector. This sector continues to experience depressed valuations despite high ratings, relatively low default rates and continued ability to pay obligations.

*RMBS and CMBS*

RMBS and CMBS debt securities constitute approximately 20% of the unrealized loss balance. These sectors are also experiencing depressed valuations due to illiquidity and rating pressures but our exposure is to highly rated and well diversified securities. We have no direct mortgage loan or real estate holdings.

## 4. Investing Activities (continued)

The three holdings with the largest unrealized loss balance(s) which are temporarily impaired are:

- *Preferred Term* – With a fair value of $18,823 thousand and an unrealized loss of $31,068 thousand, these are multi-class, cash flow collateralized debt obligations ("CDOs") backed by a pool of trust preferred securities ("TruPS") issued by a geographically diverse group of small- and medium-sized depository institutions. TruPS are long-term (30-year, non-call 5) securities subordinated to all other debts of the issuer and are contractually allowed to defer interest payments for up to five years. Dividends are cumulative. We invest in the senior tranches that can withstand significant immediate defaults before experiencing a break in yield. We expect that we will be able to collect cash flows sufficient to recover the entire cost basis of the security.
- *Countrywide Alternative and Home Loans* – With a fair value of $21,250 thousand and an unrealized loss of $10,034 thousand, this security group comprises subordinate mortgage backed securities. The majority are of investment grade quality. They are primarily backed by first lien mortgages. In general, there is an increasing delinquency pipeline and low levels of credit support. We have run numerous Intex scenarios using observable inputs in regard to prepayment speeds, default rates and loss severities, which support ample credit coverage even under considerable loss severities. Therefore, we have determined it is probable we will be able to collect all amounts due according to the contractual terms of the securities. No impairment is required at this time as we do not intend to sell these securities and it is more likely than not that we will not have to sell prior to recovery.
- *Alesco Preferred Funding* – With a fair value of $2,800 thousand and an unrealized loss of $7,200 thousand, these are multi-class, cash flow CDOs backed by a pool of TruPS issued by a geographically diverse pool of small and medium sized depository institutions. Moody's downgraded the A2B class to Ba1 recently. The reasons cited for the downgrades include modifications to the rating agency's methodologies used to rate TruPS CDOs and concerns that the current economic conditions in the U.S. have heightened the risk that institutions issuing TruPS may be more likely to defer payments on their securities. We invest in the second senior most tranches that can withstand significant immediate defaults before experiencing a break in yield. We expect to receive cash payments adequate to recover at least the entire cost basis of the security.

Effective January 1, 2009, we adopted FSP FAS 115-2 for the recognition and presentation of other-than-temporarily impaired investments as described in Note 2 to these financial statements. Investments whose values are considered by us to be other-than-temporarily impaired are written down to fair value. The impairment amount is further separated into the amount related to credit losses, which is recorded as a charge to net realized investment losses included in our earnings, and the amount related to all other factors, which is recognized in other comprehensive income.

Upon adoption of FSP FAS 115-2, we recognized the cumulative effect of the initial application of this guidance. For previously recognized other-than-temporary impairments, we calculated the credit and non-credit components and recorded the related impacts as a cumulative effect adjustment in accumulated deficit and accumulated other comprehensive income, respectively. The cumulative-effect adjustment includes related offsets such as deferred policy acquisition costs, policy dividend obligations in the closed block, and related tax effects. The cumulative effect recognized was $4,613 thousand after offsets and is reflected in stockholder's equity. The cumulative effect resulted in a decrease to accumulated deficit of $5,838 thousand after offsets, which includes an adjustment of $2,900 thousand to the deferred tax valuation allowance, and an increase to accumulated other comprehensive loss of $1,225 thousand after offsets.

Fixed maturity other-than-temporary impairments recorded in the first quarter of 2009 were concentrated in asset-backed securities and in the corporate debt of service companies and financial institutions. These impairments were driven primarily by significant rating downgrades, bankruptcy or other adverse financial conditions of various issuers. In our judgment, these credit events or other adverse conditions of the issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment and, therefore, resulted in other-than-temporary impairments. Total impairments recognized in 2009 through earnings related to such credit-related circumstances were $6,961 thousand.

## 4. Investing Activities (continued)

In addition to these credit-related impairments recognized through earnings, we impaired securities to fair value through other comprehensive loss. These impairments were driven primarily by market or sector credit spread widening or by liquidity concerns. The amount of impairments recognized as an adjustment to other comprehensive loss due to these factors was $3,266 thousand in 2009.

A credit loss impairment is determined by taking the present value of the expected credit losses on a given security's coupon and principal cash flows until maturity. The expected credit loss in a given period is equal to the security's original cash flow for that period multiplied by the cumulative default rate and the loss severity. The resulting credit losses are then discounted at a default option adjusted yield (i.e., at the purchase Treasury yield embedded in the original book yield). The cumulative default rate in a given period is derived from the Moody's 1920-2008 cumulative issuer-weighted default rate study using the worst credible observed cohorts. The loss severity rate is based on the Moody's Loss Given Default ("LGD") rate for a security's LGD rating assigned by Moody's. We consistently use the upper bound of the loss severity range for LGD rating.

Prospectively, we will account for the other-than-temporarily impaired security as if the debt security had been purchased on the impairment date, using an amortized cost basis equal to the previous cost basis less the amount of the credit loss impairment. We will continue to estimate the present value of future cash flows expected and, if significantly greater than the new cost basis, the difference will be accreted as interest income. Correspondingly, the change will be accounted for as a prospective adjustment to the accretable yield.

The following table rolls forward the amount of credit losses recognized in earnings on debt securities held at the beginning of the period, for which a portion of the other-than-temporary impairment was also recognized in other comprehensive income.

| **Credit Losses Recognized in Earnings on Debt Securities:** *($ in thousands)* | **Three Months Ended March 31, 2009** |
|---|---|
| Debt securities credit losses, beginning of period | $ (9,634) |
| Add: Credit losses on other-than-temporary impairments not previously recognized | (1,633) |
| Less: Credit losses on securities sold | -- |
| Less: Credit losses on securities impaired due to intent to sell | -- |
| Add: Credit losses on previously impaired securities | -- |
| Less: Increases in cash flows expected on previously impaired securities | -- |
| **Debt securities credit losses, end of period** | **$ (11,267)** |

*Private Equity*

Our private equity holdings are reflected in other investments and are accounted for using the equity method of accounting. We assess these holdings for impairments based on whether an entity has:

- announced that a restructuring will occur;
- severe liquidity problems that cannot be resolved;
- a bankruptcy filing;
- a financial condition which suggests that future payments are highly unlikely;
- a deteriorating financial condition and quality of underlying assets;
- sustained significant losses during the current year;
- announced adverse changes or events such as changes or planned changes in senior management, restructurings, and/or
- any other factors that indicate that the fair value of the investment may have been negatively impacted.

## 4. Investing Activities (continued)

### Net investment income

| **Sources of Net Investment Income:** *($ in thousands)* | **Three Months Ended March 31, 2009** | **2008** |
|---|---|---|
| Debt securities | $ 20,705 | $ 23,589 |
| Policy loans | 459 | 335 |
| Other investments | (574) | 25 |
| Fair value option investments | (183) | -- |
| Other income | -- | 90 |
| Cash and cash equivalents | 6 | 799 |
| Total investment income | 20,413 | 24,838 |
| Investment expenses | (142) | (517) |
| **Net investment income** | **$ 20,271** | **$ 24,321** |

### Net realized investment gains (losses)

| **Sources and Types of Net Realized Investment Gains (Losses):** *($ in thousands)* | **Three Months Ended March 31, 2009** | **2008** |
|---|---|---|
| Total other-than-temporary debt impairment losses | $ (10,227) | $ -- |
| Portion of loss recognized in other comprehensive income (before taxes) | 3,266 | -- |
| **Net debt impairment losses recognized in earnings** | **$ (6,961)** | **$ --** |
| | | |
| Debt security impairments | $ (6,961) | $ (6,948) |
| Other investments impairments | (1,093) | -- |
| **Total impairments** | **(8,054)** | **(6,948)** |
| Debt security transaction gains | 31 | 366 |
| Debt security transaction losses | (229) | (1,759) |
| Other investments transaction gains (losses) | (3) | 22 |
| **Net transaction losses** | **(201)** | **(1,371)** |
| Realized gains (losses) on derivative assets and liabilities, not designated as hedging instruments | 10,313 | (11,710) |
| **Net realized investment gains (losses), excluding impairments** | **10,112** | **(13,081)** |
| **Net realized investment gains (losses), including impairments** | **$ 2,058** | **$ (20,029)** |

### Unrealized investment gains (losses)

| **Sources of Changes in Net Unrealized Investment Gains (Losses):** *($ in thousands)* | **Three Months Ended March 31, 2009** | **2008** |
|---|---|---|
| Debt securities | $ 18,052 | $ (29,981) |
| Other investments | 94 | 165 |
| **Net unrealized investment gains (losses)** | **$ 18,146** | **$ (29,816)** |
| | | |
| Net unrealized investment gains (losses) | $ 18,146 | $ (29,816) |
| Applicable deferred policy acquisition (costs) benefits | (19,830) | 21,141 |
| Applicable deferred income tax benefit | 589 | 3,036 |
| Offsets to net unrealized investment gains | (19,241) | 24,177 |
| **Net unrealized investment losses included in other comprehensive income (loss)** | **$ (1,095)** | **$ (5,639)** |

## 4. Investing Activities (continued)

### Issuer and Counterparty Credit Exposure

Credit exposure related to issuers and derivatives counterparties is inherent in investments and derivative contracts with positive fair value or asset balances. We manage credit risk through the analysis of the underlying obligors, issuers and transaction structures. We review our debt security portfolio regularly to monitor the performance of obligors and assess the stability of their credit ratings. We also manage credit risk through industry and issuer diversification and asset allocation. Maximum exposure to an issuer or derivative counterparty is defined by quality ratings, with higher quality issuers having larger exposure limits. We have an overall limit on below investment grade rated issuer exposure. To further mitigate the risk of loss on derivatives, we only enter into contracts in which the counterparty is a financial institution with a rating of A or higher.

As of March 31, 2009, we held derivative assets, net of liabilities, with a fair value of $112,941 thousand. Derivative credit exposure was diversified with four different counterparties. We also had debt securities of these issuers with a carrying value of $14,457 thousand. Our maximum amount of exposure with these issuers was $127,398 thousand. See Note 6 to these financial statements for more information regarding derivatives.

## 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-month periods ended March 31, 2009 and 2008, 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.

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”).

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

The GMWB 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, these contracts have a feature 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.

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.

In order to minimize the volatility associated with the GMWB and GMAB liabilities, we previously entered into a contract with Phoenix Life whereby we cede 100% of any claims for these guarantees. However, as of December 31, 2008, we recaptured the GMAB for policies issued up to December 31, 2008 and the GMWB for policies issued up to December 31, 2007. The contract remains in place for future issues. Because this contract does not transfer sufficient risk to be accounted for as reinsurance, we use deposit accounting for the contract. As of March 31, 2009 and December 31, 2008, the embedded derivative liabilities for GMWB, GMAB, and GPAF are listed in the table below. There were no benefit payments made for GMWB or GMAB during 2008 or the first quarter of 2009. There were benefit payments made for GPAF of $322 thousand for 2008 and $275 thousand for the first quarter of 2009.

In order to minimize the volatility associated with the unreinsured liabilities, we have established an alternative risk management strategy. As of recapture, we have begun to hedge the GMAB and GMWB exposure using equity options, equity futures, swaps and swaptions. These investments are included in other investments on our balance sheet.

| **Embedded Derivative Liabilities:** *($ in thousands)* | **Mar 31, 2009** | **Dec 31, 2008** |
|---|---|---|
| GMWB | $ 54,917 | $ 63,663 |
| GMAB | 56,916 | 52,768 |
| GPAF | 1,631 | 1,597 |
| **Total embedded derivatives** | **$ 113,464** | **$ 118,028** |

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.

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

| **Additional Insurance Benefits:** *($ in thousands)* | **Account Value** | **Net Amount At Risk After Reinsurance** | **Average Attained Age of Annuitant** |
|---|---|---|---|
| GMDB return of premium | $ 932,658 | $ 215,235 | 59 |
| GMDB step up | 1,247,176 | 541,099 | 60 |
| GMDB earnings enhancement benefit (EEB) | 44,327 | 10,066 | 60 |
| GMDB greater of annual step up and roll up | 26,039 | 16,678 | 63 |
| **Total GMDB at March 31, 2009** | **$ 2,250,200** | **$ 783,078** | |
| Combination Rider | $ 7,750 | | 57 |
| GMAB | 303,312 | | 55 |
| GMIB | 407,147 | | 60 |
| GMWB | 414,125 | | 60 |
| GPAF | 12,764 | | 75 |
| **Total at March 31, 2009** | **$ 1,145,098** | | |

| **Additional Insurance Benefits:** *($ in thousands)* | **Account Value** | **Net Amount At Risk After Reinsurance** | **Average Attained Age of Annuitant** |
|---|---|---|---|
| GMDB return of premium | $ 1,022,891 | $ 175,465 | 60 |
| GMDB step up | 1,334,746 | 476,867 | 60 |
| GMDB earnings enhancement benefit (“EEB”) | 49,978 | 7,291 | 60 |
| GMDB greater of annual step up and roll up | 28,080 | 15,165 | 63 |
| **Total GMDB at December 31, 2008** | **$ 2,435,695** | **$ 674,788** | |
| Combination | $ 5,105 | | 59 |
| GMAB | 326,719 | | 55 |
| GMIB | 449,877 | | 60 |
| GMWB | 391,077 | | 60 |
| GPAF | 15,071 | | 75 |
| **Total at December 31, 2008** | **$ 1,187,849** | | |

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 elder original owner attaining a certain age. On and after the elder 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 elder original owner’s attaining that age plus premium payments (less any adjusted partial withdrawals) made since that date.

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 elder original owner attaining age 81. On and after the elder 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 elder original owner’s attained age of 81 plus premium payments (less any adjusted partial withdrawals) made since that date.

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

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 March 31, 2009 and December 31, 2008, we held additional universal life benefit reserves of $63,888 thousand and $56,051 thousand, respectively.

## 6. Derivative Instruments

### Derivative Instruments

We use derivatives to manage certain risks in our general account portfolio as well as our insurance liabilities. Our derivatives generally do not qualify for hedge accounting treatment and are stated at fair value with changes in valuation reported in net realized capital gains/losses.

| **Derivative Instruments Held in General Account:** *($ in thousands)* | **Notional Amount** | **Maturity** | **As of March 31, 2009 Asset** | **As of March 31, 2009 Liability** | **As of December 31 2008 Asset** | **As of December 31 2008 Liability** |
|---|---|---|---|---|---|---|
| **Non-Hedging Derivative Instruments** | | | | | | |
| Interest rate swaps | $ 100,000 | 2018 | $ 14,652 | $ -- | $ 15,839 | $ -- |
| Swaptions | 190,000 | 2009 | 5,847 | -- | 10,928 | -- |
| Put options | 207,000 | 2018-2019 | 65,531 | -- | 56,265 | -- |
| Futures contracts | 102,444 | 2009 | 26,911 | -- | 18,551 | -- |
| **Total non-hedging derivative instruments** | **$ 599,444** | | **$ 112,941** | **$ --** | **$ 101,583** | **$ --** |

See Note 5 to these financial statements for more information on our embedded derivatives related to our variable annuity guarantees.

***Interest Rate Swaps***

We maintain an overall interest rate risk-management strategy that primarily incorporates the use of interest rate swaps as hedges of our exposure to changes in interest rates. Our exposure to changes in interest rates primarily results from our commitments to fund interest-sensitive insurance liabilities, as well as from our significant holdings of fixed rate financial instruments. We use interest rate swaps that effectively convert variable rate cash flows to fixed cash flows in order to hedge the interest rate risks associated with guaranteed minimum living benefit (GMAB/GMWB) rider liabilities.

***Interest Rate Options***

We use interest rate options, such as swaptions, to hedge against market risks to assets or liabilities from substantial changes in interest rates. An interest rate swaption gives us the right but not the obligation to enter into an underlying swap. Swaptions are options on interest rate swaps. All of our swaption contracts are receiver swaptions, which give us the right to enter into a swap where we will receive the agreed-upon fixed rate and pay the floating rate. If the market conditions are favorable and the swap is needed to continue hedging our inforce liability business, we will exercise the swaption and enter into a fixed rate swap. If a swaption contract is not exercised by its option maturity date, it expires with no value.

***Exchange Traded Future Contracts***

We use equity index futures to hedge the market risks from changes in the value of equity indices, such as S&P 500, associated with guaranteed minimum living benefit (GMAB/GMWB) rider liabilities. Positions are short-dated, exchange-traded futures with maturities of three months.

## 6. Derivative Instruments (continued)

***Equity Index Options***

The Company uses the following derivative contracts to hedge against market risks from changes in volatility, interest rates and equity indices associated with our Life and Annuity products:

- Equity index options, such as S&P 500 puts for the variable annuity guaranteed minimum living benefit (GMAB/GMWB) rider liabilities;
- Equity index options, such as S&P 500 European calls for the Equity Index Universal Life (EIUL); and
- Equity index options, such as S&P European, Asian and Binary calls for the Equity Index Annuity (EIA).

An equity index put option affords the Company the right to sell a specified equity index at the established price determined at the time the instrument was purchased. The Company may use short-dated options, which are traded on exchanges or use long-dated over-the-counter options, which require entering into an agreement with another party (referred to as the counterparty).

An equity index call option affords the Company the right to buy a specified equity index at the established price determined at the time the instrument was purchased. The Company used exact-dated options, which are traded over-the-counter with another party (referred to as the counterparty) to closely replicate the option payoff profile embedded in EIA and EIUL liabilities.

**Contingent Features**

Certain of our derivative instruments contain provisions that require our insurance companies' financial strength rating to be above a certain threshold. If our financial strength ratings were to fall below a specified rating threshold, certain counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full collateralization on derivative instruments in net liability positions, or even trigger a termination of existing derivatives and/or future derivative transactions.

During the three months ended March 31, 2009, our financial strength ratings fell below the specified threshold levels in certain agreements, and remained so at March 31, 2009. Consequently, the credit risk related contingent features of the instruments were triggered. However, none of the counterparties to these positions exercised their rights to request immediate payment, nor did they demand full collateralization. Additionally, none of the counterparties requested the termination of any existing derivative transactions.

As of March 31, 2009, we held no derivative instruments in a net liability position.

## 7. Fair Value of Financial Instruments

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.

**7. Fair Value of Financial Instruments (continued)**

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.

The following tables present the financial instruments carried at fair value by SFAS 157 valuation hierarchy (as described above).

| **Assets and Liabilities at Fair Value:** | **As of March 31, 2009** | | | |
|---|---|---|---|---|
| *($ in thousands)* | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets** | | | | |
| Available-for-sale debt securities | $ 127,300 | $ 1,015,165 | $ 151,212 | $ 1,293,677 |
| Derivative assets | -- | 112,941 | -- | 112,941 |
| Separate account assets | 2,180,743 | 86,069 | 20 | 2,266,832 |
| Fair value option investments | -- | 3,908 | -- | 3,908 |
| **Total assets** | **$ 2,308,043** | **$ 1,218,083** | **$ 151,232** | **$ 3,677,358** |
| **Liabilities** | | | | |
| Embedded derivative liabilities | $ -- | $ -- | $ 113,464 | $ 113,464 |
| **Total liabilities** | **$ --** | **$ --** | **$ 113,464** | **$ 113,464** |

| **Assets and Liabilities at Fair Value:** | **As of December 31, 2008** | | | |
|---|---|---|---|---|
| *($ in thousands)* | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets** | | | | |
| Available-for-sale debt securities | $ 8,459 | $ 1,127,679 | $ 151,271 | $ 1,287,409 |
| Derivative assets | -- | 101,583 | -- | 101,583 |
| Separate account assets | 2,360,656 | 87,884 | 601 | 2,449,141 |
| Fair value option investments | -- | 4,091 | -- | 4,091 |
| **Total assets** | **$ 2,369,115** | **$ 1,321,237** | **$ 151,872** | **$ 3,842,224** |
| **Liabilities** | | | | |
| Embedded derivative liabilities | $ -- | $ -- | $ 118,028 | $ 118,028 |
| **Total liabilities** | **$ --** | **$ --** | **$ 118,028** | **$ 118,028** |

## 7. Fair Value of Financial Instruments (continued)

| **Carrying Amounts and Estimated Fair Values of Financial Instruments:** *($ in thousands)* | **As of March 31, 2009** | | **As of December 31, 2008** | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** |
| Cash and cash equivalents | $ 32,153 | $ 32,153 | $ 152,185 | $ 152,185 |
| Debt securities | 1,293,677 | 1,293,677 | 1,287,409 | 1,287,409 |
| Policy loans | 39,501 | 39,501 | 34,917 | 34,917 |
| **Financial assets** | **$ 1,365,331** | **$ 1,365,331** | **$ 1,474,511** | **$ 1,474,511** |
| Investment contracts | $ 898,954 | $ 914,154 | $ 969,270 | $ 986,908 |
| **Financial liabilities** | **$ 898,954** | **$ 914,154** | **$ 969,270** | **$ 986,908** |

Fair value option investments include a structured loan asset valued at $3,908 thousand as of March 31, 2009. 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. The majority of the valuations of Level 3 assets were internally calculated or obtained from independent third-party broker quotes.

As a result of the adoption of FAS 157-4 as described in Note 2 to these financial statements, we determine fair value as the price received in an orderly transaction. Thus, we evaluate broker pricing indications, if available, to determine whether the weight of evidence indicates that markets are inactive, or transactions are disorderly. In order to determine whether the volume and level of activity for an asset or liability has significantly decreased, we compare current activity with normal market activity for the asset or liability. We may observe a notable decrease in the number of recent transactions, and the significant decline or absence of a market for new issuances for the security or a similar security. If we do receive a broker pricing indication, we look for substantiation, such as a significant increase in implied liquidity risk premiums, yields, or performance indications when compared to the expected cash flow analysis. We look to see if the pricing indications have varied substantially in a short amount of time where no fundamental event or occurrence has prompted the large variation, or if there is a significant increase in the bid-ask spread. We review published indexes that may have been historically highly correlated with the fair values that no longer are representative of an active market. For corporate positions, we utilize TRACE, for which published trade activity is made available, to assess trading activity levels. For other positions, we rely on many factors such as the observable flows through Bloomberg, trading levels and activity as reported by market participants, and industry publications that speak to trading volume and current market conditions. Using professional judgment and experience, we evaluate and weigh the relevance and significance of all applicable factors to determine if there has been a significant decrease in the volume and level of activity for an asset, or group of similar assets.

Similarly, in order to identify transactions that are not orderly, we take into consideration the activity in the market as stated above, because that can influence the determination and occurrence of an orderly transaction. In addition, we assess the period of the exposure to the market before measurement date to determine adequacy for customary marketing activities. Also, we look to see if it was marketed to a single or limited number of participants. We assess the financial condition of the seller, if available, to determine whether observed transactions may have been forced. If the trading price is an outlier when compared to similar recent transactions, we consider whether this is an indicator of a disorderly trade. Using professional judgment and experience, we evaluate and weigh the relevance and significance of all applicable factors to determine if the evidence suggests that a transaction or group of similar transactions is not orderly.

## 7. Fair Value of Financial Instruments (continued)

Following is a description of our valuation methodologies for assets and liabilities measured at fair value. Such valuation methodologies were applied to all of the assets and liabilities carried at fair value, whether as a result of the adoption of SFAS 159 or previously carried at fair value.

### Structured Securities

For structured securities, we consider the best estimate of cash flows until maturity to determine our ability to collect principal and interest cash flows relative to original cash flows. In addition, we apply reasonable management judgment to the probability of collectibility of all amounts due to us. After consideration is given to the available information relevant to the collectibility, including historical events, current conditions and reasonable forecasts, an estimate of future cash flows is determined. This includes the remaining payment terms, prepayment speeds, the underlying collateral, expected defaults using current default data, and the financial condition of the issuer. Such factors as composite credit ratings, industry forecast and analyst reports and other relevant market data are also considered, similar to those the Company believes market participants would use. For securities for which observable market data is available and substantiated, valuations are taken to the quoted fair value.

To determine fair values for certain structured, CLO and CDO assets for which current pricing indications either did not exist, or were based on inactive markets or sparse transactions, we utilized the following method.

For CLO and CDO assets, fair value was determined based on projected cash flows under default, recovery, collateral prepayment, and reinvestment spread assumptions which reflect the underlying collateral's actual default experience, collateral performance, assessment of the collateral manager's ability to actively manage and effect portfolio credit decisions, 12-month trailing credit migration trends in the bank loan and corporate debt markets, and historical studies, where available. An appropriate discount rate was then applied, determined by using a rate composed of the current U.S. Treasury rate, plus a current net credit spread derived from corporate bonds with the same credit rating, plus an additional spread for liquidity and structure relative to active markets, based on average life and credit rating. In addition to the level of implied liquidity spreads embedded in broker pricing indications, current AAA-rated CLO spreads and normalized liquidity spreads by rating, we also gave consideration to deal-specific characteristics, such as rating stability, credit subordination, collateral performance tests, collateral composition, collateral manager and default scenario sensitivity testing results to assess the available cushion against the emergence of future losses.

### Derivatives

Exchange-traded derivatives valued using quoted prices are classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange. Therefore, the majority of our derivative positions are valued using internally developed models that use as their basis readily observable market parameters. These positions are classified within Level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps, options and credit default swaps.

Fair values for over-the-counter ("OTC") derivative financial instruments, principally forwards, options and swaps, represent the present value of amounts estimated to be received from or paid to a marketplace participant in settlement of these instruments (i.e., the amount we would expect to receive in a derivative asset assignment or would expect to pay to have a derivative liability assumed). These derivatives are valued using pricing models based on the net present value of estimated future cash flows and directly observed prices from exchange-traded derivatives or other OTC trades, while taking into account the counterparty's credit ratings, or our own credit ratings, as appropriate. Determining the fair value for OTC derivative contracts can require a significant level of estimation and management judgment.

## 7. Fair Value of Financial Instruments (continued)

New and/or complex instruments may have immature or limited markets. As a result, the pricing models used for valuation often incorporate significant estimates and assumptions that market participants would use in pricing the instrument, which may impact the results of operations reported in the financial statements. For long-dated and illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. This enables us to mark-to-market all positions consistently when only a subset of prices are directly observable. Values for OTC derivatives are verified using observed information about the costs of hedging the risk and other trades in the market. As the markets for these products develop, we continually refine our pricing models to correlate more closely to the market risk of these instruments.

### Fair Value of Investment Contracts

We determine the fair value of deferred annuities with an interest guarantee of one year or less at the amount of the policy reserve. In determining the fair value of deferred annuities with interest guarantees greater than one year, we use a discount rate equal to the appropriate U.S. Treasury rate plus 100 basis points to determine the present value of the projected account value of the policy at the end of the current guarantee period.

### 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.

SFAS 157 requires a credit standing adjustment. The credit standing adjustment reflects the adjustment that market participants would make to reflect the risk that guaranteed benefit obligations may not be fulfilled (“nonperformance risk”). SFAS 157 explicitly requires nonperformance risk to be reflected in fair value. The Company calculates the credit standing adjustment by applying an average credit spread for companies similar to Phoenix when discounting the rider cash flows for calculation of the liability. This average credit spread is recalculated every quarter and so the fair value will change with the passage of time even in the absence of any other changes that affect the valuation.

### 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.

## 7. Fair Value of Financial Instruments (continued)

| **Level 3 Financial Assets and Liabilities:** *($ in thousands)* | **Three Months Ended March 31, 2009** | | **2008** | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Balance, beginning of period | $ 151,872 | $ (118,028) | $ 267,185 | $ (363) |
| Purchases/(sales), net | (12,733) | -- | (3,042) | -- |
| Net transfers | 1,950 | -- | 6,842 | -- |
| Realized gains (losses) | (3,924) | 4,564 | (5,430) | (11,320) |
| Unrealized gains (losses) included in other comprehensive income (loss) | 13,709 | -- | (11,510) | -- |
| Amortization/accretion | 358 | -- | (632) | -- |
| **Balance, end of period** | **$ 151,232** | **$ (113,464)** | **$ 253,413** | **$ (11,683)** |
| **Portion of gain (loss) included in net income relating to those assets/liabilities still held** | **$ (3,924)** | **$ 4,564** | **$ (6,948)** | **$ (11,320)** |

## 8. Income Taxes

For the three months ended March 31, 2009 and 2008, 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 March 31, 2009** | **2008** |
|---|---|---|
| Income tax benefit at statutory rate | $ (35.0%) | $ (35.0%) |
| Investment income not subject to tax | (8.4%) | (6.5%) |
| Valuation allowance increase | 21.2% | 0.0% |
| **Effective income tax rates applicable to continuing operations** | **$ (22.2%)** | **$ (41.5%)** |

It is our policy to estimate taxes for interim periods based on estimated annual effective tax rates which are derived, in part, from expected annual pre-tax income. However, the federal income tax expense for the three months ended March 31, 2009 has been computed based on the first three months of 2009 as a discrete period due to the uncertainty regarding our ability to reliably estimate pre-tax income for the remainder of the year. Due to this uncertainty, we are unable to develop a reasonable estimate of the annual effective tax rate for the full year 2009. Additionally, for the three months ended March 31, 2009, we recognized an expense of $1,100 thousand to increase the valuation allowance due to uncertainties related to our ability to utilize some of the deferred tax assets. Federal income tax expense for the three months ended March 31, 2008 has been calculated using estimated effective tax rates.

Significant management judgment is required in determining the provision for income taxes and, in particular, any valuation allowance recorded against our deferred tax assets. We carried a valuation allowance of $14,200 thousand and $16,000 thousand on $211,961 thousand and $224,113 thousand of deferred tax assets at March 31, 2009 and December 31, 2008, respectively, due to uncertainties related to our ability to utilize some of our deferred tax assets that are expected to reverse as capital losses. The amount of the valuation allowance has been determined based on our estimates of taxable income over the periods in which the deferred tax assets will be recoverable.

During the quarter ended March 31, 2009, we performed our quarterly assessment of net deferred tax assets. As a result of the assessment, we recorded an additional valuation allowance of $1,100 thousand at March 31, 2009, excluding the cumulative effect of the adoption of FSP FAS 115-2 as of January 1, 2009, which resulted in a reduction in the valuation allowance of $2,900 thousand and is included in accumulated deficit (see Note 2 to our financial statements in this Form 10-Q).

## 8. Income Taxes (continued)

We concluded that a valuation allowance on the remaining $197,761 thousand of deferred tax assets at March 31, 2009, was not required. Our methodology for determining the realizability of deferred tax assets considers estimates of future taxable income from our operations and consideration of available tax planning strategies and actions that could be implemented, if necessary. We also considered future reversals of existing taxable temporary differences. In concluding that a valuation allowance was not required on the remaining deferred tax assets, we considered the more likely than not criteria pursuant to SFAS 109.

We are included in the consolidated federal income tax return filed by PNX and are party to a tax sharing agreement by and among PNX and its subsidiaries. In accordance with this agreement, federal income taxes are allocated as if they had been calculated on a separate company basis, except that benefits for any net operating losses or other tax credits used to offset a tax liability of the consolidated group will be provided to the extent such loss or credit is utilized in the consolidated federal tax return.

Within the consolidated tax return, we are required by regulations of the Internal Revenue Service (“IRS”) to segregate the entities into two groups: life insurance companies and non-life insurance companies. We are limited as to the amount of any operating losses from the non-life group that can be offset against taxable income of the life group. These limitations may affect the amount of any operating loss carryovers that we have now or in the future.

Our federal income tax returns are routinely audited by the IRS. During 2008, the IRS completed its examination of the Company’s 2004 and 2005 federal income tax returns. There is one issue in the 2004 tax year within the life insurance company tax group which will proceed to the appeals level. We believe it is reasonably possible that the timing for resolution of this matter will occur in the next 12 months and may result in a material decline in the level of unrecognized tax benefits which may have an indirect impact on the Company. The IRS commenced their examination of the 2006 and 2007 federal income tax returns during the first quarter of 2009. State examinations are being conducted by Connecticut for the years 1996 through 2005 and New York for the years 2003 through 2005. We do not believe that these examinations will result in a material change to our financial position.

As of March 31, 2009, we had current taxes recoverable of $9,138 thousand.

To the extent required under the relevant tax law, we recognize interest and penalties related to amounts accrued on uncertain tax positions and amounts paid or refunded from federal and state income tax authorities in tax expense. The interest and penalties recorded during the three-month periods ending March 31, 2009 and 2008 were not material. We did not require an accrual for the payment of interest and penalties as of March 31, 2009.

## 9. 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 investment advisor.

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. Based on current information, 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 consolidated 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.

**9. Contingent Liabilities (continued)**

*Regulatory Matters*

State regulatory bodies, the SEC, the Financial Industry Regulatory Authority ("FINRA"), the IRS and other regulatory bodies regularly make inquiries of us and, from time to time, conduct examinations or investigations concerning our compliance with laws and regulations related to, among other things, our insurance and broker-dealer subsidiaries, securities offerings and registered products. We endeavor to respond to such inquiries in an appropriate way and to take corrective action if warranted.

For example, in the fourth quarter of 2008, the State of Connecticut Insurance Department initiated the on-site portion of a routine financial examination of PHL Variable's annual statements for the five year period ending December 31, 2008.

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. 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. Based on current information, we believe that the outcomes of our 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 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) unfavorable general economic developments including, but not limited to, specific related factors such as the performance of the debt and equity markets and changes in interest rates; (ii) the possibility of losses due to defaults by others including, but not limited to, issuers of fixed income securities; (iii) changes in our investment valuations based on changes in our valuation methodologies, estimations and assumptions; (iv) the effect of guaranteed benefits within our products; (v) the consequences related to variations in the amount of our statutory capital due to factors beyond our control; (vi) downgrades in our debt or financial strength ratings; (vii) the possibility that mortality rates, persistency rates, funding levels or other factors may differ significantly from our pricing expectations; (viii) the availability, pricing and terms of reinsurance coverage generally and the inability or unwillingness of our reinsurers to meet their obligations to us specifically; (ix) our dependence on non-affiliated distributors for our product sales; (x) our dependence on third parties to maintain critical business and administrative functions; (xi) the strong competition we face in our business from banks, insurance companies and other financial services firms; (xii) tax developments that may affect us directly, or indirectly through the cost of, the demand for or profitability of our products or services; (xiii) other legislative or regulatory developments; (xiv) legal or regulatory actions; (xv) changes in accounting standards; (xvi) the potential effect of a material weakness in our internal control over financial reporting on the accuracy of our reported financial results; (xvii) the risks related to a man-made or natural disaster; and (xviii) 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 months ended March 31, 2009 and 2008. This discussion should be read in conjunction with the unaudited interim financial statements and notes contained in this filing as well as in conjunction with our financial statements for the year ended December 31, 2008 in our 2008 Annual Report on Form 10-K.

**Executive Overview**

*Business*

We provide life insurance and annuity products through a wide variety of third-party financial professionals and intermediaries, supported by wholesalers and financial planning specialists employed by us. These products and services reflect a particular focus on the high-net-worth and affluent market. Our life and annuity business encompasses a broad range of product offerings. The principal focus of our life insurance business is on permanent life insurance (universal and variable universal life) insuring one or more lives, but we also offer a portfolio of term life insurance products. Our annuity products include deferred and immediate variable annuities with a variety of death benefit and guaranteed living benefit options.

*Earnings Drivers*

Our profitability is driven by interaction of the following elements:

- *Mortality margins in our universal and variable universal life product lines.* We earn cost of insurance ("COI") fees based on the difference between face amounts and the account values (referred to as the net amount at risk or NAR). We pay policyholder benefits and set up reserves for future benefit payments on these products. We define mortality margins as the difference between these fees and benefit costs. Mortality margins are affected by:
    - Number and face amount of policies sold;
    - Actual death claims net of reinsurance relative to our assumptions, a reflection of our underwriting and actuarial pricing discipline, the cost of reinsurance and the natural volatility inherent in this kind of risk; and
    - The policy funding levels or actual account values relative to our assumptions, a reflection of policyholder behavior and investment returns.
- *Fees on our life and annuity products.* Fees consist primarily of asset-based (including mortality and expense charges) and premium-based fees which we charge on our variable life and variable annuity products and depend on the premiums collected and account values of those products. Asset-based fees are calculated as a percentage of assets under management within our separate accounts. Fees also include surrender charges. Non-asset-based fees are charged to cover premium taxes and renewal commissions.
- *Interest margins.* Net investment income ("NII") earned on universal life and other policyholder funds managed as part of our general account, less the interest credited to policyholders on those funds.
- *Non-deferred expenses* including expenses related to selling and servicing the various products offered by the Company, dividends to policyholders and other general business expenses.
- *Deferred policy acquisition cost amortization,* which is based on the amount of expenses deferred, actual results in each quarter and management's assumptions about the future performance of the business. The amount of future profit or margin is dependent principally on investment returns in our separate accounts, investment income in excess of the amounts credited to policyholders, surrender and lapse rates, death claims and other benefit payments, premium persistency, funding patterns and expenses. These factors enter into management's estimates of gross profits or margins, which generally are used to amortize deferred policy acquisition costs. Actual equity market movements, net investment income in excess of amounts credited to policyholders, claims payments and other key factors can vary significantly from our assumptions, resulting in a misestimate of gross profits or margins, and a change in amortization, with a resulting impact to income. In addition, we regularly review and reset our assumptions in light of actual experience, which can result in material changes in amortization.
- *Net realized investment gains or losses* on our general account investments.

Certain of our products include guaranteed benefits. These include guaranteed minimum death benefits, guaranteed minimum accumulation benefits, guaranteed minimum withdrawal benefits and guaranteed minimum income benefits. Periods of significant and sustained downturns in equity markets, increased equity volatility, or reduced interest rates would result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction to earnings.

Under GAAP, premiums and deposits for variable life, universal life and annuity products are not recorded as revenues. For certain investment options of variable products, deposits are reflected on our balance sheet as an increase in separate account liabilities. Premiums and deposits for universal life, fixed annuities and certain investment options of variable annuities are reflected on our balance sheet as an increase in policyholder deposit funds. Premiums and deposits for other products are reflected on our balance sheet as an increase in policy liabilities and accruals.

*Recent Economic Market Conditions and Industry Trends*

Over the past year, the U.S. economy has experienced unprecedented credit and liquidity issues and entered into recession. Following several years of rapid credit expansion, a sharp contraction in mortgage lending coupled with dramatic declines in home prices, rising mortgage defaults and increasing home foreclosures, 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, many lenders and institutional investors have reduced and, in some cases, ceased to provide funding to borrowers, including other financial institutions. These factors, combined with declining business and consumer confidence and increased unemployment, have precipitated an economic slowdown and fears of a prolonged recession.

These extraordinary economic and market conditions have materially and adversely affected us. It is difficult to predict how long the current economic and market conditions will continue, whether the financial markets will continue to deteriorate and which aspects of our products and/or business will be adversely affected. However, the lack of credit, lack of confidence in the financial sector, increased volatility in the financial markets and reduced business activity are likely to continue to materially and adversely affect our business, financial condition and results of operations.

In response to, and in some cases in addition to, recent economic and market conditions, we continue to be influenced by a variety of trends that affect the life insurance industry:

- *Statutory capital and surplus and risk-based capital ("RBC") ratios.* Regulated life insurance entities are subject to risk-based capital requirements which are a function of these entities' statutory capital and surplus and risk-based capital requirements. The impact of economic and market environment has both reduced statutory capital and increased risk-based capital requirements in a variety of ways. For instance, realized losses reduce available capital and surplus, equity market declines increase the amount of statutory reserves that insurers are required to hold for variable annuity guarantees while increasing risk-based capital requirements and credit downgrades of securities increase risk-based capital requirements. We have recently taken capital management actions to improve our capitalization and RBC ratio including, but not limited to, the sale of certain securities in our portfolio and entry into reinsurance arrangements. We may take similar actions in the future.
- *Debt and Financial Strength Ratings.* Recent adverse economic and market conditions have increased the number of debt and financial strength ratings for insurance companies being lowered or placed on negative outlooks. We have recently been downgraded and some of our ratings have negative outlooks. Please see "Management's Narrative Analysis of the Results of Operations—Liquidity and Capital Resources." Further downgrades and outlook changes related to us or the life insurance industry may occur at any time and without notice by any rating agency. Downgrades or outlook changes could increase policy surrenders and withdrawals, adversely affect relationships with distributors, reduce new sales, reduce our ability to borrow and increase our future borrowing costs.
- *Regulatory Changes.* We are subject to extensive laws and regulations. These laws and regulations are complex and subject to change. This is particularly the case given recent adverse economic and market developments. In light of recent events involving certain financial institutions and the current financial crisis, it is possible that the U.S. government will heighten its oversight of the financial services industry, including possibly through a federal system of insurance regulation. In addition, it is possible that these authorities may adopt enhanced or new regulatory requirements intended to prevent future crises in the financial services industry and to assure the stability of institutions under their supervision. We cannot predict whether this or other regulatory proposals will be adopted, or what impact, if any, such regulation could have on our business, consolidated operating results, financial condition or liquidity.

- *Competitive Pressures.* Recent domestic and international consolidation in the financials services industry, driven by regulatory action and other opportunistic transactions in response to adverse economic and market developments, has resulted in an environment in which larger competitors with better financial strength ratings, greater financial resources, marketing and distribution capabilities are better positioned competitively. Larger firms are better able to withstand further market disruption, able to offer more competitive pricing and have superior access to debt and equity capital. If we fail to compete effectively in this environment, our profitability and financial condition could be materially and adversely affected.

*Outlook*

The prospect of continued challenges in the economy, including the potential for an extended or deepening recession, will have further material adverse effects on our business, financial condition and results of operations. In such an environment we may face lower fees and net investment income from life and annuity products, additional net realized investment losses on our general account investments, including further other-than-temporary impairments, higher costs for guaranteed benefits, the potential for further deferred policy acquisition cost unlocking and possible further increases in the valuation allowance of our deferred tax asset.

*Summary of Consolidated Results of Operations*

Results for the quarter ended March 31, 2009 were a loss of $4,039 thousand compared to a loss of $9,030 thousand for the quarter ended March 31, 2008. The improved results were driven by realized investment gains in the first quarter of 2009 compared to realized investment losses in the first quarter of 2008, as well as improved mortality margins. These items were partially offset by higher non-deferred expenses and lower fee revenues. The realized investment losses of $13,081 thousand in the first quarter of 2008 were primarily driven by the increase in fair value of embedded derivative liabilities associated with guarantees on our annuity products. While the guarantees are reinsured, we do not receive reimbursement from the reinsurer until a claim is actually made on the guarantees.

Mortality margins in universal life and variable universal life products increased $7,131 thousand to $40,830 thousand in the first quarter of 2009 compared to $33,699 thousand in the first quarter of 2008. This reflects a $16,247 thousand increase in cost of insurance fees, partially offset by a $9,116 thousand increase in benefits. While fluctuations in mortality are inherent in our business, this improvement primarily reflects growth in the block of business over recent years.

Fee revenues for decreased $4,440 thousand to $16,985 thousand in the first quarter of 2009 compared to $21,425 thousand in the first quarter of 2008. The decrease was primarily driven by lower fee revenues of $3,139 thousand for universal life products and $1,300 thousand for variable annuity products. Our universal life interest margins declined by $932 thousand.

Non-deferred expenses increased $7,584 thousand to $35,685 thousand in the first quarter of 2009 compared to $28,101 thousand in the first quarter of 2008, primarily reflecting $7,700 thousand of sales-related expenses that the Company did not defer due to the decline in sales and severance costs of $1,500 thousand associated with the first phase of our workforce reductions resulting from decline in sales as well as a change in strategic direction of the Company.

**Recent Developments**

On April 15, 2009, Dona D. Young retired from The Phoenix Companies, Inc. and James D. Wehr replaced her as President and Chief Executive Officer. Thomas S. Johnson replaced her as Chairman of the Board.

*Downgrades to Our Financial Strength and Debt Ratings*

We have recently been downgraded and had our outlook revised adversely.

- On May 7, 2009, Standard & Poor's affirmed our financial strength rating of BBB- and maintained its negative outlook. On March 10, 2009, Standard & Poor's downgraded our financial strength rating to BBB- from BBB and maintained its negative outlook. On March 2, 2009, Standard & Poor's downgraded our financial strength rating to BBB from BBB+ with a negative outlook. At the same time, Standard & Poor's removed the ratings from CreditWatch, where they had been placed with negative implications on February 10, 2009.
- On March 10, 2009, Moody's Investor Services downgraded our financial strength rating to Baa2 from Baa1. The outlook is negative. On February 19, 2009, Moody's Investor Service downgraded our financial strength rating to Baa1 from A3.
- On March 10, 2009, A.M. Best Company, Inc. downgraded our financial strength rating to B++ from A and maintained its negative outlook. On January 15, 2009, A.M Best Company, Inc. affirmed our financial strength rating of A and changed our outlook to negative from stable.
- On March 4, 2009, Fitch downgraded our financial strength rating to BBB+ from A and placed the rating on Rating Watch Negative. On May 4, 2009, we informed Fitch that, due to our expense management initiatives, we would no longer provide non-public information to the agency and would cease paying annual rating fees.

*Suspension of Distribution Relationships*

On March 3, 2009, State Farm informed us that it was suspending the sale of Phoenix products pending a re-evaluation of the relationship between the two companies. During 2008, State Farm was our largest distributor of annuity and life insurance products accounting for approximately 25% of our total life insurance premiums and approximately 72% of our annuity deposits.

On March 4, 2009, National Life Group also informed us that it was suspending the sale of Phoenix products. In 2008, National Life was our second largest distributor of annuity products accounting for approximately 13% of our annuity deposits.

The actions by these key distribution partners and rating agencies have materially and adversely affected new sales and our relationships with distributors, and have reduced our ability to borrow. These actions could also increase policy surrenders and withdrawals and increase our future borrowing costs. We are currently assessing the impact of these recent developments on our business prospects, operations and strategy.

**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.

*Deferred Income Taxes*

We account for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes ("SFAS 109"). The deferred tax assets and/or liabilities are determined by multiplying the differences between the financial reporting and tax reporting basis for assets and liabilities by the enacted tax rates expected to be in effect when such differences are recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances on deferred tax assets are estimated based on our assessment of the realizability of such amounts.

Significant management judgment is required in determining the provision for income taxes and, in particular, any valuation allowance recorded against our deferred tax assets. We carried a valuation allowance of $14,200 thousand and $16,000 thousand on $211,961 thousand and $224,113 thousand of deferred tax assets at March 31, 2009 and December 31, 2008, respectively, due to uncertainties related to our ability to utilize some of our deferred tax assets that are expected to reverse as capital losses. The amount of the valuation allowance has been determined based on our estimates of taxable income over the periods in which the deferred tax assets will be recoverable.

During the quarter ended March 31, 2009, we performed our quarterly assessment of net deferred tax assets. As a result of the assessment, we recorded an additional valuation allowance of $1,100 thousand at March 31, 2009, excluding the cumulative effect of the adoption of FSP FAS 115-2 as of January 1, 2009, which resulted in a reduction in the valuation allowance of $2,900 thousand and is included in accumulated deficit (see Note 2 to our financial statements in this Form 10-Q).

We concluded that a valuation allowance on the remaining $197,761 thousand of deferred tax assets at March 31, 2009, was not required. Our methodology for determining the realizability of deferred tax assets considers estimates of future taxable income from our operations and consideration of available tax planning strategies and actions that could be implemented, if necessary. We also considered future reversals of existing taxable temporary differences. In concluding that a valuation allowance was not required on the remaining deferred tax assets, we considered the more likely than not criteria pursuant to SFAS 109.

See our 2008 Annual Report on Form 10-K for further information on critical accounting estimates related to deferred income taxes.

*Other-Than-Temporary Impairments*

Effective January 1, 2009, we adopted FSP FAS 115-2 for the recognition and presentation of other-than-temporarily impaired investments as described in Note 2 to our financial statements in this Form 10-Q. Investments whose value is considered by us to be other-than-temporarily impaired are written down to fair value. The impairment amount is then further separated into the amount related to a credit loss as a charge to net realized investment losses included in our earnings, and the amount related to all other factors which is recognized in other comprehensive income. The assessment of whether impairments have occurred is based on management's case-by-case evaluation of the underlying reasons for the decline in fair value. We consider a wide range of factors about the security issuer and use our best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for recovery. Inherent in our evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential.

Considerations we use in the impairment evaluation process include, but are not limited to:

- the length of time and the extent to which the market value has been below cost or amortized cost;
- the potential for impairments of securities when the issuer is experiencing significant financial difficulties;
- the potential for impairments in an entire industry sector or sub-sector;
- our intent to sell the security, or whether it is more likely than not that we will be required to sell it before recovery;
- unfavorable changes in forecasted cash flows on mortgage-backed and asset-backed securities; and
- other subjective factors, including concentrations and information obtained from regulators and rating agencies.

Historically, for securitized financial asset securities subject to EITF Issue No. 99-20, we periodically updated our best estimate of cash flows over the life of the security. In estimating cash flows, we used assumptions based on current market conditions that we believed market participants would use. When the value thus derived was less than amortized cost, and there was an adverse change in the timing or amount of expected future cash flows since the prior analysis, an other-than-temporary impairment was recognized. Projections of future cash flows were subject to change based on new information regarding performance, data received from third-party sources and internal judgments regarding the future performance of the underlying collateral.

Beginning in the fourth quarter of 2008, we implemented FSP No. EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*. In addition to relying on our best estimate of cash flows that a market participant would use in determining fair value, we apply management judgment of the probability of collecting all amounts due. In making the other-than-temporary impairment assessment, information such as past events, current conditions, reasonable forecasts, expected defaults and relevant market data are considered. Also as part of this analysis, we take an other-than-temporary impairment for those securities that we intend to sell and do not expect the fair value of the security to recover prior to the expected time of sale.

The cost basis of these investments is adjusted to fair value at the date the determination of an other-than-temporary impairment is made. The impairment amount is then further separated into the amount related to a credit loss as a charge to net realized investment losses included in our earnings and the amount related to all other factors which is recognized in other comprehensive income. Subsequent to recognition of an impairment loss, the difference between the new cost basis and the cash flows expected to be collected is accreted as interest income.

*Deferred Policy Acquisition Costs and Present Value of Future Profits*

We amortize deferred policy acquisition costs and present value of future profits based on the related policy's classification. For individual participating life insurance policies, deferred policy acquisition costs and present value of future profits are amortized in proportion to estimated gross margins. For universal life, variable universal life and accumulation annuities, deferred policy acquisition costs and present value of future profits are amortized in proportion to estimated gross profits ("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 and present value of future profits requires the use of various assumptions, estimates and judgments about the future. In the aggregate the assumptions 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 our previously projected EGPs on a quarterly basis. 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 as needed 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 December 31, 2008.

**Results of Operations**

| **Summary Financial Data:** *($ in thousands)* | **Three Months Ended March 31,** | | **Increase (decrease) and percentage change** | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009 vs. 2008** | |
| **REVENUES:** | | | | |
| Premiums | $ 5,492 | $ (643) | $ 6,135 | 954% |
| Insurance and investment product fees | 96,286 | 83,865 | 12,421 | 15% |
| Net investment income | 20,271 | 24,321 | (4,050) | (17%) |
| Net realized investment gains (losses) | 10,112 | (13,081) | 23,193 | 177% |
| Other-than-temporary impairment losses[1] | (8,054) | (6,948) | (1,106) | 16% |
| **Total revenues** | **124,107** | **87,514** | **36,593** | **42%** |
| **BENEFITS AND EXPENSES:** | | | | |
| Policy benefits | 55,025 | 51,015 | 4,010 | 8% |
| Policy acquisition cost amortization | 38,590 | 24,537 | 14,053 | 57% |
| Other operating expenses | 35,685 | 28,101 | 7,584 | 27% |
| **Total benefits and expenses** | **129,300** | **103,653** | **25,647** | **25%** |
| Loss before income taxes | (5,193) | (16,139) | 10,946 | (68%) |
| Applicable income tax benefit | 1,154 | 7,109 | (5,955) | (84%) |
| **Net loss** | **$ (4,039)** | **$ (9,030)** | **$ 4,991** | **(55%)** |

(1) The 2009 amount represents gross impairments of $11,320 thousand less $3,266 thousand, which was recognized in other comprehensive loss.

*Three months ended March 31, 2009 compared to three months ended March 31, 2008*

Results for the quarter ended March 31, 2009 were a loss of $4,039 thousand compared to a loss of $9,030 thousand for the quarter ended March 31, 2008. The improved results were driven by realized investment gains in the first quarter of 2009 compared to realized investment losses in the first quarter of 2008, as well as improved mortality margins. These items were partially offset by higher non-deferred expenses and lower fee revenues. The realized investment losses of $13,081 thousand in the first quarter of 2008 were primarily driven by the increase in fair value of embedded derivative liabilities associated with guarantees on our annuity products. While the guarantees are reinsured, we do not receive reimbursement from the reinsurer until a claim is actually made on the guarantees.

**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 March 31, 2009, our general account held debt securities with a carrying value of $1,293,677 thousand, representing 89.2% of total general account investments. Public debt securities represented 80.4% of total debt securities, with the remaining 19.6% represented by private debt securities.

| **Debt Securities by Type and Credit Quality:** | **As of March 31, 2009** | | | |
|---|---|---|---|---|
| *($ in thousands)* | **Investment Grade** | | **Below Investment Grade** | |
| | **Fair Value** | **Cost** | **Fair Value** | **Cost** |
| U.S. government and agency | $ 197,360 | $ 198,031 | $ -- | $ -- |
| State and political subdivision | 5,670 | 6,533 | -- | -- |
| Foreign government | 17,344 | 16,099 | 14,182 | 13,492 |
| Corporate | 543,943 | 634,449 | 97,582 | 150,997 |
| Commercial mortgage-backed | 75,822 | 101,515 | 940 | 2,716 |
| Residential mortgage-backed | 186,529 | 212,065 | 7,383 | 18,882 |
| CDO/CLO | 12,140 | 16,021 | 40,746 | 75,275 |
| Other asset-backed | 74,702 | 107,194 | 19,334 | 35,500 |
| **Total debt securities** | **$ 1,113,510** | **$ 1,291,907** | **$ 180,167** | **$ 296,862** |
| **Percentage of total debt securities** | **86.1%** | **81.3%** | **13.9%** | **18.7%** |

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 March 31, 2009 in our debt securities portfolio are diversified banking (5.4%), diversified financial services (3.7%), insurance (2.6%), REITs (2.5%) and other foreign government (2.3%).

***Residential Mortgage-Backed Securities***

The weakness in the U.S. residential real estate markets, tighter credit standards and rising unemployment, continue to plague 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 March 31, 2009, 93% of the total residential portfolio was rated AAA or AA. We have $49,766 thousand of sub-prime exposure, $26,397 thousand of Alt-A exposure and $104,039 thousand of prime exposure, which combined amount to 12% of our general account. Substantially all of our sub-prime, Alt-A, and prime exposure is investment grade, with 85% being AAA rated, and another 5% 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. During the first quarter of 2009, impairments to residential mortgage-backed securities totaled $2,713 thousand or 1.1% of the residential mortgage-backed securities portfolio. These impairments consist of $520 thousand from prime, $1,493 thousand from Alt-A and $700 thousand from sub-prime.

**Residential Mortgage-Backed Securities:**

| *($ in thousands)* | As of March 31, 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying Value | Market Value | % General Account(1) | AAA | AA | A | BBB | BB and Below |
| **Collateral** | | | | | | | | |
| Agency | $ 65,561 | $ 67,593 | 4.6% | 100.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Prime | 128,845 | 104,039 | 7.0% | 91.2% | 5.0% | 0.5% | 3.3% | 0.0% |
| Alt-A | 44,622 | 26,397 | 1.8% | 61.9% | 1.2% | 3.3% | 23.4% | 10.2% |
| Sub-prime | 83,493 | 49,766 | 3.4% | 85.2% | 6.6% | 0.0% | 6.4% | 1.8% |
| **Total** | **$ 322,521** | **$ 247,795** | **16.8%** | **89.2%** | **3.6%** | **0.6%** | **5.1%** | **1.5%** |

**Prime Mortgage-Backed Securities:**

| *($ in thousands)* | As of March 31, 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Year of Issue | | | | |
| | Carrying Value | Market Value | % General Account(1) | 2007 | 2006 | 2005 | 2004 | 2003 & Prior |
| **Rating** | | | | | | | | |
| AAA | $ 114,613 | $ 94,847 | 6.4% | 1.4% | 5.3% | 20.0% | 37.4% | 35.9% |
| AA | 7,525 | 5,210 | 0.4% | 0.0% | 95.4% | 0.0% | 0.0% | 4.6% |
| A | 1,001 | 550 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 100.0% |
| BBB | 5,526 | 3,382 | 0.2% | 0.0% | 0.0% | 25.1% | 48.5% | 26.4% |
| BB and below | 180 | 50 | 0.0% | 0.0% | 0.0% | 100.0% | 0.0% | 0.0% |
| **Total** | **$ 128,845** | **$ 104,039** | **7.0%** | **1.3%** | **9.6%** | **19.1%** | **35.7%** | **34.3%** |

**Alt-A Mortgage-Backed Securities:**

| *($ in thousands)* | As of March 31, 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Year of Issue | | | | |
| | Carrying Value | Market Value | % General Account(1) | 2007 | 2006 | 2005 | 2004 | 2003 & Prior |
| **Rating** | | | | | | | | |
| AAA | $ 31,848 | $ 16,335 | 1.1% | 10.7% | 23.7% | 30.9% | 26.6% | 8.1% |
| AA | 387 | 326 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 100.0% |
| A | 1,253 | 872 | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% | 100.0% |
| BBB | 7,548 | 6,178 | 0.4% | 0.0% | 61.2% | 38.8% | 0.0% | 0.0% |
| BB and below | 3,586 | 2,686 | 0.2% | 48.7% | 51.3% | 0.0% | 0.0% | 0.0% |
| **Total** | **$ 44,622** | **$ 26,397** | **1.8%** | **10.0%** | **35.9%** | **28.2%** | **16.4%** | **9.5%** |

(1) Percentages based on Market Value.

**Sub-Prime Mortgage-Backed Securities:**

| *($ in thousands)* | As of March 31, 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Year of Issue | | | | |
| | Carrying Value | Market Value | % General Account(1) | 2007 | 2006 | 2005 | 2004 | 2003 & Prior |
| **Rating** | | | | | | | | |
| AAA | $ 65,367 | $ 42,389 | 2.9% | 29.7% | 13.2% | 22.1% | 24.0% | 11.0% |
| AA | 8,251 | 3,290 | 0.2% | 0.0% | 0.0% | 65.6% | 0.0% | 34.4% |
| A | -- | -- | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| BBB | 8,661 | 3,193 | 0.2% | 40.6% | 59.4% | 0.0% | 0.0% | 0.0% |
| BB and below | 1,214 | 894 | 0.1% | 0.0% | 100.0% | 0.0% | 0.0% | 0.0% |
| **Total** | **$ 83,493** | **$ 49,766** | **3.4%** | **27.9%** | **16.8%** | **23.2%** | **20.5%** | **11.6%** |

(1) Percentages based on Market Value.

## Realized Gains and Losses

The following table presents certain information with respect to realized investment gains and losses, including those on debt securities pledged as collateral, with losses from other-than-temporary impairment charges reported separately in the table. These impairment charges were determined based on our assessment of factors enumerated below, as they pertain to the individual securities determined to be other-than-temporarily impaired.

| **Sources and Types of Net Realized Investment Gains (Losses):** *($ in thousands)* | Three Months Ended March 31, | |
|---|---|---|
| | **2009** | **2008** |
| Total other-than-temporary debt impairment losses | $ (10,227) | $ -- |
| Portion of loss recognized in other comprehensive income (before taxes) | 3,266 | -- |
| **Net debt impairment losses recognized in earnings** | **$ (6,961)** | **$ --** |
| Debt security impairments | $ (6,961) | $ (6,948) |
| Other investments impairments | (1,093) | -- |
| **Total impairments** | **(8,054)** | **(6,948)** |
| Debt security transaction gains | 31 | 366 |
| Debt security transaction losses | (229) | (1,759) |
| Other investments transaction gains (losses) | (3) | 22 |
| **Net transaction losses** | **(201)** | **(1,371)** |
| Realized gains (losses) on derivative assets and liabilities, not designated as hedging instruments | 10,313 | (11,710) |
| **Net realized investment gain (losses), excluding impairments** | **10,112** | **(13,081)** |
| **Net realized investment gains (losses), including impairments** | **$ 2,058** | **$ (20,029)** |

## Other-Than-Temporary Impairments

We employ a comprehensive process to determine whether or not a security is in an unrealized loss position and is other-than-temporarily impaired. This assessment is done on a security-by-security basis and involves significant management judgment, especially given recent severe market dislocations.

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 all 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 all securities whose fair value is less than 80% of amortized cost (significant unrealized loss) with emphasis on below investment grade securities with a continuous significant unrealized loss in excess of six months. In addition, we review securities that experienced lesser declines in value on a more selective basis to determine whether any are other-than-temporarily impaired.

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

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

A debt security impairment is deemed other than temporary if:

- we either intend to sell the security, or it is more likely than not that we will be required to sell the security before recovery; or
- we will be unable to collect cash flows sufficient to recover the amortized cost basis of the security.

Impairments due to deterioration in credit that result in a conclusion that the present value of cash flows expected to be collected will not be sufficient to recover the amortized cost basis of the security are considered other than temporary. Other declines in fair value (for example, due to interest rate changes, sector credit rating changes or company-specific rating changes) that result in a conclusion that the present value of cash flows expected to be collected will not be sufficient to recover the amortized cost basis of the security may also result in a conclusion that an other-than-temporary impairment has occurred.

Consistent with FSP FAS 115-2, in situations where the Company has asserted its ability and intent to hold a security to a forecasted recovery, but where now it is more likely than not that we will be required to sell the security before recovery, an impairment is considered other than temporary, even if the present value of cash flows expected to be collected will be sufficient to recover the amortized cost basis of the security.

Specifically for structured securities, to determine whether a collateralized security is impaired, we obtain underlying 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.

Given the significant credit spread widening and lack of liquidity in the current environment, management exercised significant judgment with respect to certain securities in determining whether impairments were other than temporary. This included securities with $140,770 thousand ($22,081 thousand after offsets) of gross unrealized losses of 50% or more for which no other-than-temporary impairment was ultimately indicated. In making its assessments, management used a number of issuer-specific quantitative and qualitative assessments of the probability of receiving contractual cash flows, including the issue's implied yields to maturity, cumulative default rate based on the issue's rating, comparisons of issue-specific spreads to industry or sector spreads, specific trading activity in the issue and other market data such as recent debt tenders and upcoming refinancing exposure, as well as fundamentals such as issuer credit and liquidity metrics, business outlook and industry conditions. In addition to these reviews, management in each case assessed its ability and intent to hold the securities for an extended time to recovery, up to and including maturity. Each security on the watch list was evaluated, analyzed and discussed, with the positive and negative factors weighed in the ultimate determination of whether or not the security was other-than-temporarily impaired.

In determining that the securities giving rise to the previously mentioned unrealized losses were not other-than-temporarily impaired, we considered and evaluated the factors cited above. In making these evaluations, we exercised 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.

In general, the debt security types that were most severely depressed were corporate debt securities, residential mortgage-backed securities (“RMBS”) and commercial mortgage-backed securities (“CMBS”). These asset classes continued to be challenged by illiquid markets, rating agency downgrades and generalized credit spread widening. We did not intend to sell these underwater positions, nor was it more likely than not that we would sell these securities before recovery; therefore, the impairments were considered temporary.

*Corporate Debt Securities*

Corporate debt securities make up nearly 50% of the unrealized loss balance. Of these securities with unrealized losses, approximately 85% are of investment grade quality, of which approximately 40% are in the financial services sector. This sector continues to experience depressed valuations despite high ratings, relatively low default rates and continued ability to pay obligations.

*RMBS and CMBS*

RMBS and CMBS debt securities constitute approximately 20% of the unrealized loss balance. These sectors are also experiencing depressed valuations due to illiquidity and rating pressures but our exposure is to highly rated and well diversified securities. We have no direct mortgage loan or real estate holdings.

The three holdings with the largest unrealized loss balance(s) which are temporarily impaired are:

- *Preferred Term* – With a fair value of $18,823 thousand and an unrealized loss of $31,068 thousand, these are multi-class, cash flow collateralized debt obligations (“CDOs”) backed by a pool of trust preferred securities (“TruPS”) issued by a geographically diverse group of small- and medium-sized depository institutions. TruPS are long-term (30-year, non-call 5) securities subordinated to all other debts of the issuer and are contractually allowed to defer interest payments for up to five years. Dividends are cumulative. We invest in the senior tranches that can withstand significant immediate defaults before experiencing a break in yield. We expect that we will be able to collect cash flows sufficient to recover the entire cost basis of the security.
- *Countrywide Alternative and Home Loans* – With a fair value of $21,250 thousand and an unrealized loss of $10,034 thousand, this security group comprises subordinate mortgage backed securities. The majority are of investment grade quality. They are primarily backed by first lien mortgages. In general, there is an increasing delinquency pipeline and low levels of credit support. We have run numerous Intex scenarios using observable inputs in regard to prepayment speeds, default rates and loss severities, which support ample credit coverage even under considerable loss severities. Therefore, we have determined it is probable we will be able to collect all amounts due according to the contractual terms of the securities. No impairment is required at this time as we do not intend to sell these securities and it is more likely than not that we will not have to sell prior to recovery.
- *Alesco Preferred Funding* – With a fair value of $2,800 thousand and an unrealized loss of $7,200 thousand, these are multi-class, cash flow CDOs backed by a pool of TruPS issued by a geographically diverse pool of small and medium sized depository institutions. Moody’s downgraded the A2B class to Ba1 recently. The reasons cited for the downgrades include modifications to the rating agency’s methodologies used to rate TruPS CDOs and concerns that the current economic conditions in the U.S. have heightened the risk that institutions issuing TruPS may be more likely to defer payments on their securities. We invest in the second senior most tranches that can withstand significant immediate defaults before experiencing a break in yield. We expect to receive cash payments adequate to recover at least the entire cost basis of the security.

Effective January 1, 2009, we adopted FSP FAS 115-2 for the recognition and presentation of other-than-temporarily impaired investments as described in Note 2 to these financial statements. Investments whose values are considered by us to be other-than-temporarily impaired are written down to fair value. The impairment amount is further separated into the amount related to credit losses, which is recorded as a charge to net realized investment losses included in our earnings, and the amount related to all other factors, which is recognized in other comprehensive income.

Upon adoption of FSP FAS 115-2, we recognized the cumulative effect of the initial application of this guidance. For previously recognized other-than-temporary impairments, we calculated the credit and non-credit components and recorded the related impacts as a cumulative effect adjustment in accumulated deficit and accumulated other comprehensive income, respectively. The cumulative-effect adjustment includes related offsets such as deferred policy acquisition costs, policy dividend obligations in the closed block, and related tax effects. The cumulative effect recognized was $4,613 thousand after offsets and is reflected in stockholder's equity. The cumulative effect resulted in a decrease to accumulated deficit of $5,838 thousand after offsets, which includes an adjustment of $2,900 thousand to the deferred tax valuation allowance, and an increase to accumulated other comprehensive loss of $1,225 thousand after offsets.

Fixed maturity other-than-temporary impairments recorded in the first quarter of 2009 were concentrated in asset-backed securities and in the corporate debt of service companies and financial institutions. These impairments were driven primarily by significant rating downgrades, bankruptcy or other adverse financial conditions of various issuers. In our judgment, these credit events or other adverse conditions of the issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment and, therefore, resulted in other-than-temporary impairments. Total impairments recognized in 2009 through earnings related to such credit-related circumstances were $6,961 thousand.

In addition to these credit-related impairments recognized through earnings, we impaired securities to fair value through other comprehensive loss. These impairments were driven primarily by market or sector credit spread widening or by liquidity concerns. The amount of impairments recognized as an adjustment to other comprehensive loss due to these factors was $3,266 thousand in 2009.

A credit loss impairment is determined by taking the present value of the expected credit losses on a given security's coupon and principal cash flows until maturity. The expected credit loss in a given period is equal to the security's original cash flow for that period multiplied by the cumulative default rate and the loss severity. The resulting credit losses are then discounted at a default option adjusted yield (i.e., at the purchase Treasury yield embedded in the original book yield). The cumulative default rate in a given period is derived from the Moody's 1920-2008 cumulative issuer-weighted default rate study using the worst credible observed cohorts. The loss severity rate is based on the Moody's Loss Given Default ("LGD") rate for a security's LGD rating assigned by Moody's. We consistently use the upper bound of the loss severity range for LGD rating.

Prospectively, we will account for the other-than-temporarily impaired security as if the debt security had been purchased on the impairment date, using an amortized cost basis equal to the previous cost basis less the amount of the credit loss impairment. We will continue to estimate the present value of future cash flows expected and, if significantly greater than the new cost basis, the difference will be accreted as interest income. Correspondingly, the change will be accounted for as a prospective adjustment to the accretable yield.

The following table rolls forward the amount of credit losses recognized in earnings on debt securities held at the beginning of the period, for which a portion of the other-than-temporary impairment was also recognized in other comprehensive income.

| **Credit Losses Recognized in Earnings on Debt Securities:** *($ in thousands)* | **Three Months Ended March 31, 2009** |
|---|---|
| Debt securities credit losses, beginning of period | $ (9,634) |
| Add: Credit losses on other-than-temporary impairments not previously recognized | (1,633) |
| Less: Credit losses on securities sold | -- |
| Less: Credit losses on securities impaired due to intent to sell | -- |
| Add: Credit losses on previously impaired securities | -- |
| Less: Increases in cash flows expected on previously impaired securities | -- |
| **Debt securities credit losses, end of period** | **$ (11,267)** |

*Private Equity*

Our private equity holdings are reflected in other investments and are accounted for using the equity method of accounting. We assess these holdings for impairments based on whether an entity has:

- announced that a restructuring will occur;
- severe liquidity problems that cannot be resolved;
- a bankruptcy filing;
- a financial condition which suggests that future payments are highly unlikely;
- a deteriorating financial condition and quality of underlying assets;
- sustained significant losses during the current year;
- announced adverse changes or events such as changes or planned changes in senior management, restructurings, and/or
- any other factors that indicate that the fair value of the investment may have been negatively impacted.

## Unrealized Gains and Losses

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 March 31, 2009** **Total** | **0 – 6 Months** | **6 – 12 Months** | **Over 12 Months** |
|---|---|---|---|---|
| **Debt securities** | | | | |
| Total fair value | $ 867,724 | $ 70,018 | $ 242,856 | $ 554,850 |
| Total amortized cost | 1,172,564 | 79,422 | 277,266 | 815,876 |
| Unrealized losses | $ (304,840) | $ (9,404) | $ (34,410) | $ (261,026) |
| Unrealized losses after offsets | $ (49,625) | $ (1,556) | $ (6,322) | $ (41,747) |
| Number of securities | 698 | 72 | 176 | 450 |
| Investment grade: | | | | |
| Unrealized losses | $ (187,224) | $ (4,378) | $ (24,117) | $ (158,729) |
| Unrealized losses after offsets | $ (30,151) | $ (816) | $ (4,624) | $ (24,711) |
| Below investment grade: | | | | |
| Unrealized losses | $ (117,616) | $ (5,026) | $ (10,293) | $ (102,297) |
| Unrealized losses after offsets | $ (19,474) | $ (740) | $ (1,698) | $ (17,036) |

Total net unrealized losses on debt securities were $295,092 thousand (unrealized losses of $304,840 thousand less unrealized gains of $9,748 thousand).

For debt securities with gross unrealized losses, 60.8% of the unrealized losses after offsets pertain to investment grade securities and 39.2% of the unrealized losses after offsets pertain to below investment grade securities at March 31, 2009.

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 March 31, 2009** **Total** | **0 – 6 Months** | **6 – 12 Months** | **Over 12 Months** |
|---|---|---|---|---|
| **Debt securities** | | | | |
| Unrealized losses over 20% of cost | $ (251,453) | $ (159,263) | $ (66,002) | $ (26,188) |
| Unrealized losses over 20% of cost after offsets | $ (40,655) | $ (26,217) | $ (10,582) | $ (3,856) |
| Number of securities | 306 | 219 | 71 | 16 |
| Investment grade: | | | | |
| Unrealized losses over 20% of cost | $ (141,963) | $ (83,508) | $ (42,113) | $ (16,342) |
| Unrealized losses over 20% of cost after offsets | $ (22,691) | $ (13,862) | $ (6,423) | $ (2,406) |
| Below investment grade: | | | | |
| Unrealized losses over 20% of cost | $ (109,490) | $ (75,755) | $ (23,889) | $ (9,846) |
| Unrealized losses over 20% of cost after offsets | $ (17,964) | $ (12,355) | $ (4,159) | $ (1,450) |

In determining that the securities giving rise to the previously mentioned unrealized losses were not other-than-temporarily impaired, we considered and evaluated the factors cited above. In making these evaluations, we exercised 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.

**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 May 7, 2009, Standard & Poor's affirmed our financial strength rating of BBB- and maintained its negative outlook. On March 10, 2009, Standard & Poor's downgraded our financial strength rating to BBB- from BBB and maintained its negative outlook. On March 2, 2009, Standard & Poor's downgraded our financial strength rating to BBB from BBB+ with a negative outlook. At the same time, Standard & Poor's removed the ratings from CreditWatch, where they had been placed with negative implications on February 10, 2009.

On March 10, 2009, Moody's Investor Services downgraded our financial strength rating to Baa2 from Baa1. The outlook is negative. On February 19, 2009, Moody's Investor Service downgraded our financial strength rating to Baa1 from A3.

On March 10, 2009, A.M. Best Company, Inc. downgraded our financial strength rating to B++ from A and maintained its negative outlook. On January 15, 2009, A.M Best Company, Inc. affirmed our financial strength rating of A and changed our outlook to negative from stable.

On March 4, 2009, Fitch downgraded our financial strength rating to BBB+ from A and placed the rating on Rating Watch Negative. On May 4, 2009, we informed Fitch that, due to our expense management initiatives, we would no longer provide non-public information to the agency and would cease paying annual rating fees.

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 May 13, 2009 were as follows:

| Rating Agency | Financial Strength Ratings of Phoenix Life and PHL Variable Life | Outlook |
|---|---|---|
| A.M. Best Company, Inc. | B++ (“Good”) | Negative |
| Fitch | BBB+ (“Good”) | Rating Watch Negative |
| Moody’s | Baa2 (“Adequate”) | Negative |
| Standard & Poor’s | BBB- (“Good”) | Negative |

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

See our 2008 Annual Report on Form 10-K for additional information as to liquidity and capital resources.

**Contractual Obligations and Commercial Commitments**

As of March 31, 2009, there were no significant changes to our outstanding contractual obligations and commercial commitments as disclosed in our 2008 Annual Report on Form 10-K.

**Off-Balance Sheet Arrangements**

As of March 31, 2009 and December 31, 2008, 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 March 31, 2009, our estimated Total Adjusted Capital level was in excess of 250% 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 $214.8 million at March 31, 2009.

## 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 of the previously identified material weakness in our internal control over financial reporting, as disclosed in our 2008 Annual Report on Form 10-K and further discussed below under “Previously Identified Material Weakness,” these officers have concluded that, as of March 31, 2009, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) were not effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC’s rules and forms.

However, giving full consideration to the material weakness discussed below, we have performed additional analyses and other procedures in order to provide assurance that our financial statements included in this Quarterly Report on Form 10-Q were prepared in accordance with GAAP and present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP. We intend to continue to perform these additional analyses and other procedures until both full remediation and testing of the remediation of the material weakness is complete. As a result of our consideration of the events and circumstances giving rise to the material weakness and these additional analyses and procedures, we concluded that the financial statements included in this Quarterly Report on Form 10-Q present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

### Previously Identified Material Weakness

As disclosed in our 2008 Annual Report on Form 10-K, management concluded that, as of December 31, 2008, the Company had a material weakness in its internal control over financial reporting designed to ensure proper accounting for income taxes, including the allocation of its income tax provision (benefit) among income from continuing operations, income from discontinued operations and other comprehensive loss. This material weakness, or difficulties encountered in implementing new or improved controls or remediation, could prevent the Company from accurately reporting its financial results, result in material misstatements in its financial statements or cause it to fail to meet its reporting obligations. Additionally, this control deficiency could have resulted in misstatement of the financial statements that would not be prevented or detected. Accordingly, management determined that this control deficiency constitutes a material weakness in the Company’s internal control over financial reporting. Because of this material weakness, management concluded that our internal control over financial reporting was not effective as of December 31, 2008 based on criteria in *Internal Control – Integrated Framework* issued by the COSO.

In response, the Company initiated a remediation plan as described in our 2008 Annual Report on Form 10-K. However, because these remedial actions are not yet complete and have not yet been tested, we were not able to conclude that this material weakness has been remediated, and that our internal control over financial reporting is effective, as of March 31, 2009.

### Remediation Plan

In 2009 we intend to complete the hiring of internal resources, or engage external resources, to provide dedicated expertise to oversee accounting for income taxes. These resources will complete effective control reviews of the effective tax rate reconciliation, the allocation of the income tax provision and other supporting tax workpapers as well as applying relevant tax accounting guidance to the circumstances of the Company, including transaction-related activity.

**Changes in Internal Control over Financial Reporting**

During the three months ended March 31, 2009, there were no changes that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As discussed above, in 2009, we intend to complete the hiring of internal resources, or the engagement of external resources, to provide dedicated expertise to ensure proper accounting for income taxes.

## 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" below and Note 9 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. You should carefully consider the following risk factors 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 SEC. The risks described below are not the only ones we face. Additional risks may also have an adverse effect on our business, financial condition, operating results or liquidity. The following risk factors amend and restate the risk factors presented in our 2008 Annual Report on Form 10-K in their entirety.

**Our business, financial condition, and results of operations have been, and are expected to continue to be, materially and adversely affected by unfavorable general economic developments, as well as by specific related factors such as the performance of the debt and equity markets and changes in interest rates.**

Over the past year, the U.S. economy has experienced unprecedented credit and liquidity issues and entered into recession. Following several years of rapid credit expansion, a sharp contraction in mortgage lending coupled with dramatic declines in home prices, rising mortgage defaults and increasing home foreclosures, 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 many lenders and institutional investors have reduced and, in some cases, ceased to provide funding to borrowers, including other financial institutions. These factors, combined with declining business and consumer confidence and increased unemployment, have precipitated an economic slowdown and fears of a prolonged recession.

Even under more favorable market conditions, general factors such as the availability of credit, consumer spending, business investment, capital market conditions and inflation affect our business. For example, in an economic downturn, higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending may depress the demand for life insurance, annuities and investment products. In addition, this type of economic environment may result in higher lapses or surrenders of policies. Accordingly, the risks we face related to general economic and business conditions are more pronounced given the severity and magnitude of recent adverse economic and market conditions experienced.

More specifically, our business is exposed to the performance of the debt and equity markets, which have been materially and adversely affected by recent economic developments. Adverse conditions, including but not limited to, a lack of buyers in the marketplace, volatility, credit spread changes, and benchmark interest rate changes, have affected and will continue to impact the liquidity and value of our investments. In addition to other ways set forth in additional risk factors below, the ways that poor debt and equity market performance and changes in interest rates have adversely affected, and will continue to adversely affect, our business, financial condition, growth and profitability include, but are not limited to, the following:

- The value of our investment portfolio has declined which has resulted in, and may continue to result in, higher realized and/or unrealized losses. A widening of credit spreads, such as the market has experienced recently, increases the net unrealized loss position of our investment portfolio and may ultimately result in increased realized losses. The value of our investment portfolio can also be affected by illiquidity and by changes in assumptions or inputs we use in estimating fair value. Further, certain types of securities in our investment portfolio, such as asset-backed securities supported by residential and commercial mortgages, have been disproportionately affected. Continued adverse capital market conditions could result in further realized and/or unrealized losses.
- Changes in interest rates also have other effects related to our investment portfolio. In periods of increasing interest rates, life insurance policy loans, surrenders and withdrawals could increase as policyholders seek investments with higher returns. This could require us to sell invested assets at a time when their prices are depressed by the increase in interest rates, which could cause us to realize investment losses. Conversely, during periods of declining interest rates, we could experience increased premium payments on products with flexible premium features, repayment of policy loans and increased percentages of policies remaining in force. We would obtain lower returns on investments made with these cash flows. In addition, borrowers may prepay or redeem bonds in our investment portfolio so that we might have to reinvest those proceeds in lower yielding investments. As a consequence of these factors, we could experience a decrease in the spread between the returns on our investment portfolio and amounts credited to policyholders and contract owners, which could adversely affect our profitability.
- Asset-based fee revenues related to our variable life and annuity products have declined and may continue to decline. Poor performance of the debt and equity markets diminishes our fee revenues by reducing the value of the assets we manage.
- The attractiveness of certain of our products may decrease because they are linked to the equity markets and assessments of our financial strength, resulting in lower profits. Increasing consumer concerns about the returns and features of our products or our financial strength 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.

These extraordinary economic and market conditions have materially and adversely affected us. It is difficult to predict how long the current economic and market conditions will continue, whether the financial markets will continue to deteriorate and which aspects of our products and/or business will be adversely affected. However, the lack of credit, lack of confidence in the financial sector, increased volatility in the financial markets and reduced business activity are likely to continue to materially and adversely affect our business, financial condition and results of operations.

**Losses due to defaults by others, including issuers of fixed income securities (which include structured securities such as commercial mortgage backed securities and residential mortgage backed securities or other high yielding bonds) could adversely affect our business, financial condition and results of operations.**

Issuers or borrowers whose securities or loans we hold, customers, trading counterparties, counterparties under swaps and other derivative contracts, reinsurers, clearing agents, exchanges, clearing houses and other financial intermediaries and guarantors may default on their obligations to us due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons. Such defaults could have a material adverse effect on business, financial condition and results of operations. Additionally, the underlying assets supporting our structured securities may deteriorate causing these securities to incur losses. Our investment portfolio includes investment securities in the financial services sector that have experienced defaults recently. Further defaults could have a material adverse effect on our business, financial condition and results of operations.

**Our valuation of fixed maturity, equity and trading securities may include methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our results of operations or financial condition.**

The unprecedented current market conditions have made it difficult to value certain illiquid securities in our investment portfolio because trading has become less frequent and/or market data less observable. As a result, valuations may include inputs and assumptions that are less observable or require greater estimation and judgment as well as valuation methods which are more complex. These values may not be ultimately realizable in a market transaction, and such values may change very rapidly as market conditions change and valuation assumptions are modified. Decreases in value may have a material adverse effect on our results of operations or financial condition.

The decision on whether to record other-than-temporary impairments or write-downs is determined in part by our assessment of the financial condition and prospects of a particular issuer, projections of future cash flows and recoverability of the particular security as well as management's assertion of our intention to sell the security, and if it is more likely than not that we will sell the securities before recovery. Given current market conditions and liquidity concerns, our determinations of whether a decline in value is other than temporary have placed greater emphasis on our analysis of the underlying credit, and our intention and ability not to have to sell the security, versus the extent and duration of a decline in value. Our conclusions on such assessments may ultimately prove to be incorrect as facts and circumstances change.

**Guaranteed benefits within our products that protect policyholders against significant downturns in equity markets may decrease our earnings, increase the volatility of our results if hedging strategies prove ineffective, result in higher hedging costs and expose us to increased counterparty risk, which may have a material adverse effect on our profitability, financial condition and liquidity.**

Certain of our products include guaranteed benefits. These include guaranteed minimum death benefits, guaranteed minimum accumulation benefits, guaranteed minimum withdrawal benefits and guaranteed minimum income benefits. Periods of significant and sustained downturns in equity markets, increased equity volatility, or reduced interest rates could result in an increase in the valuation of the future policy benefit associated with such products, resulting in a reduction to earnings. We use derivative instruments to hedge the liability exposure and the volatility of earnings associated with some of these liabilities, and even when these and other actions would otherwise successfully mitigate the risks related to these benefits, we remain liable for the guaranteed benefits in the event that derivative counterparties are unable or unwilling to pay. In addition, we are subject to the risk that hedging and other management procedures prove ineffective or that unanticipated policyholder behavior, including increased withdrawals or mortality, combined with adverse market events, produces economic losses beyond the scope of the risk management techniques employed. Hedging instruments we hold to manage product and other risks have not, and may continue to not, perform as intended or expected, resulting in higher realized losses and unforeseen cash needs. Market conditions can also increase the cost of executing product related hedges and such costs may not be recovered in the pricing of the underlying products being hedged. These factors, individually or collectively, may adversely affect our profitability, financial condition or liquidity.

**The amount of statutory capital that we have and the amount of statutory capital that we must hold to meet rating agency and other requirements can vary significantly from time to time and is sensitive to a number of factors outside of our control, including equity market and credit market conditions and changes in rating agency models.**

We conduct the vast majority of our business through our insurance company subsidiaries. Accounting standards and statutory capital and reserve requirements for these entities are prescribed by the applicable insurance regulators and the National Association of Insurance Commissioners ("NAIC"). The NAIC has established regulations that provide minimum capitalization requirements based on risk-based capital ("RBC") formulas for our insurance company subsidiaries. The RBC formula for our insurance company subsidiaries establishes capital requirements relating to insurance, business, asset and interest rate risks.

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors: the amount of statutory income or losses generated by our insurance subsidiaries (which itself is sensitive to equity market and credit market conditions), the amount of additional capital our insurance subsidiaries must hold to support business growth, changes in equity market levels, the value of certain fixed-income and equity securities in our investment portfolio, the value of certain derivative instruments that do not get hedge accounting, changes in interest rates and foreign currency exchange rates, as well as changes to the NAIC RBC formulas. Most of these factors are outside of our control. Our financial strength and credit ratings are significantly influenced by the statutory surplus amounts and RBC ratios of our insurance company subsidiaries. In addition, rating agencies may implement changes to their internal models that have the effect of increasing or decreasing the amount of statutory capital they believe we should hold. Further, in extreme scenarios of equity market declines, such as those experienced recently, the amount of additional statutory reserves that we are required to hold for our variable annuity guarantees increases at a disproportionate rate. This reduces the statutory surplus used in calculating our RBC ratios. We have recently taken capital management actions to bolster our capitalization and RBC ratio including, but not limited to, the sale of certain securities in our portfolio and entry into reinsurance arrangements.

**Downgrades to debt and financial strength ratings could increase policy surrenders and withdrawals, adversely affect relationships with distributors, reduce new sales and increase our future borrowing costs.**

Rating agencies assign Phoenix Life and its subsidiaries financial strength ratings based on their opinions of the company's ability to meet its financial obligations.

Our ratings relative to other companies in the industry affect our competitive position. Downgrades could adversely affect our reputation and, hence, our relationships with existing distributors and our ability to establish additional distributor relationships. If this were to occur, we might experience a decline in sales of certain products and the persistency of existing customers. At this time, we cannot estimate the impact of specific rating agency actions on sales or persistency. A significant decline in our sales or persistency could have a material adverse effect on our financial results. Any rating downgrades may also result in increased interest costs in connection with future borrowings. Such an increase would decrease our earnings and could reduce our ability to finance our future growth on a profitable basis.

We have recently been downgraded and had our outlook revised adversely.

- On May 7, 2009, Standard & Poor's affirmed our financial strength rating of BBB- and maintained its negative outlook. On March 10, 2009, Standard & Poor's downgraded our financial strength rating to BBB- from BBB and maintained its negative outlook. On March 2, 2009, Standard & Poor's downgraded our financial strength rating to BBB from BBB+ with a negative outlook. At the same time, Standard & Poor's removed the ratings from CreditWatch, where they had been placed with negative implications on February 10, 2009.
- On March 10, 2009, Moody's Investor Services downgraded our financial strength rating to Baa2 from Baa1. The outlook is negative. On February 19, 2009, Moody's Investor Service downgraded our financial strength rating to Baa1 from A3.
- On March 10, 2009, A.M. Best Company, Inc. downgraded our financial strength rating to B++ from A and maintained its negative outlook. On January 15, 2009, A.M Best Company, Inc. affirmed our financial strength rating of A and changed our outlook to negative from stable.
- On March 4, 2009, Fitch downgraded our financial strength rating to BBB+ from A and placed the rating on Rating Watch Negative. On May 4, 2009, we informed Fitch that, due to our expense management initiatives, we would no longer provide non-public information to the agency and would cease paying annual rating fees.

Accordingly, further downgrades and outlook revisions related to us or the life insurance industry may occur in the future at any time and without notice by any rating agency. These downgrades have materially and adversely affected new sales and our relationships with distributors, and have reduced our ability to borrow. These could also increase policy surrenders and withdrawals and increase our future borrowing costs.

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. In light of the difficulties experienced recently by many financial institutions, including insurance companies, rating agencies have increased the frequency and scope of their credit reviews and requested additional information from the companies that they rate, including us. They may also adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels. We cannot predict what actions rating agencies may take, or what actions we may take in response.

**Our profitability may decline if investment returns, mortality rates, persistency rates, funding levels, expenses or other factors differ significantly from our pricing expectations.**

We set prices for many of our insurance and annuity products based upon expected investment returns, claims, expected persistency of these policies and the expected level and pattern of premium payments into these policies. We use assumptions for equity market returns, investment portfolio yields, and mortality rates, or likelihood of death, of our policyholders in pricing our products. Pricing also incorporates the expected persistency of these products, which is the probability that a policy or contract will remain in force from one period to the next, as well as the assumed level and pattern of premium payments and the cost we incur to acquire and administer policies.

Recent trends in the life insurance industry may affect our mortality, persistency and funding levels. The evolution of the financial needs of policyholders and the emergence of a secondary market for life insurance suggest that the reasons for purchasing our products are changing, and we have experienced an increase in life insurance sales to older individuals. The effect that these changes may have on our actual experience and profitability is not yet well understood.

Significant deviations in actual experience from our pricing assumptions could have an adverse effect on the profitability of our products. Although most of our current products permit us to increase charges and adjust crediting rates during the life of the policy or contract (subject to guarantees in the policies and contracts), the permitted adjustments may not be sufficient to maintain profitability. In addition, increasing charges on inforce policies or contracts may adversely affect our relationships with distributors and future sales. Furthermore, some of our inforce business consists of products that do not permit us to adjust the charges and credited rates of inforce policies or contracts.

Deviations in actual experience from our pricing assumptions could also cause us to increase the amortization of deferred policy acquisition costs, which would have an adverse impact on profitability. We incur significant costs in connection with acquiring new and renewal business. Costs that vary with, and are primarily related to the production of new and renewal business, are deferred and amortized over time. The recovery of deferred policy acquisition costs is dependent upon the future profitability of the related business. The amount of future profit or margin is dependent on investment returns, surrender and lapse rates, interest margin, mortality, premium persistency, funding patterns and expenses. These factors enter into management's estimates of gross profits or margins, which generally are used to amortize such costs. In particular, equity market movements and our performance have a significant effect on investment returns. Accordingly, sustained and significant changes in the equity markets, such as we have experienced recently, could have an effect on deferred policy acquisition cost amortization. If the estimates of gross profits or margins cannot support the continued amortization or recovery of deferred policy acquisition costs, as was the case in 2008, the amortization of such costs is accelerated in the period in which the assumptions are changed, resulting in a charge to income. Accordingly, such adjustments have had, and may in the future have, a material adverse effect on our results of operations or financial condition.

**We may incur losses if our reinsurers are unwilling or unable to meet their obligations under reinsurance contracts. The availability, pricing and terms of reinsurance may not be sufficient to protect us against losses.**

We utilize reinsurance to reduce the severity and incidence of claims costs, and to provide relief with regard to certain reserves. Under these reinsurance arrangements, other insurers assume a portion of our losses and related expenses; however, we remain liable as the direct insurer on all risks reinsured. Consequently, reinsurance arrangements do not eliminate our obligation to pay claims and we assume credit risk with respect to our ability to recover amounts due from our reinsurers. Although we regularly evaluate the financial condition of our reinsurers, the inability or unwillingness of any reinsurer to meet its financial obligations could negatively affect our operating results. Recent adverse economic and market conditions may exacerbate the inability or unwillingness of our reinsurers to meet their obligations. In addition, market conditions beyond our control determine the availability and cost of reinsurance. No assurances can be made that reinsurance will remain available to the same extent and on the same terms and rates as have been historically available. Recent adverse economic and market conditions may decrease the availability and increase the cost of reinsurance. If we are unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient and at prices that we consider acceptable, we would have to either accept an increase in our net exposure, reduce the amount of business we write, or develop other alternatives to reinsurance. Any of these alternatives may adversely affect our business, financial condition or operating results.

**We depend on non-affiliated distribution for our product sales and if our relationships with these distributors were harmed, we could suffer a loss in revenues.**

We distribute our products through non-affiliated advisors, broker-dealers and other financial intermediaries. There is substantial competition for business within most of these distributors. We believe that our sales through these distributors depend on a variety of factors, such as our financial strength, the quality and pricing of our products and the support services we provide. In 2008, our largest individual distributor of life insurance was a subsidiary of State Farm Mutual Automobile Company (“State Farm”). Our largest distributors of annuities in 2008 were State Farm and National Life Group. In 2008, State Farm accounted for approximately 25% of our total life insurance premiums. In 2008, State Farm accounted for approximately 72% and National Life Group accounted for approximately 13% of our annuity deposits. Since our relationship with State Farm began in mid-2001, it has generated $254 million in cumulative new total life premiums and $1.6 billion in annuity deposits. Our distributors are generally free to sell products from a variety of providers. On March 3, 2009, State Farm informed us that it was suspending the sale of our products pending a re-evaluation of the relationship between the companies. On March 4, 2009, National Life Group informed us that it was suspending the sale of our products. This has materially adversely affected our revenues.

We may not be able to establish or maintain satisfactory relationships with State Farm, National Life Group or other distributors if our ratings, products or services are not competitive. Further, in light of recent adverse economic and market developments, our access to, the reliability of, and service levels provided by our non-affiliated distribution intermediaries may be adversely affected. Accordingly, our business, sales, redemptions, revenues and profitability may be materially affected.

**Our business operations and profitability could be adversely affected by inadequate performance of third-party relationships.**

We are dependent on certain third-party relationships to maintain essential business operations. These services include, but are not limited to, information technology infrastructure, application systems support, transfer agent and cash management services, custodial services, records storage management, backup tape management, security pricing services, medical information, payroll, and employee benefit programs.

We periodically negotiate provisions and renewals of these relationships and there can be no assurance that such terms will remain acceptable to such third parties or us. An interruption in our continuing relationship with certain of these third parties or any material delay or inability to deliver essential services could materially affect our business operations and adversely affect our profitability.

**We face strong competition in our businesses from insurance companies and other financial services firms. This competition could impair our ability to retain existing customers, attract new customers and maintain our profitability.**

We face strong competition in our businesses. We believe that our ability to compete is based on a number of factors, including product features, investment performance, service, price, distribution capabilities, scale, commission structure, name recognition and financial strength ratings. While there is no single company that we identify as a dominant competitor in our business overall, our actual and potential competitors include a large number of insurance companies and other financial services firms, many of which have advantages over us in one or more of the above competitive factors. Recent domestic and international consolidation in the financials services industry, driven by regulatory action and other opportunistic transactions in response to adverse economic and market developments, has resulted in an environment in which larger competitors with better financial strength ratings, greater financial resources, marketing and distribution capabilities are better positioned competitively. Larger firms are better able to withstand further market disruption, able to offer more competitive pricing, and have superior access to debt and equity capital.

We may also be subject to claims by competitors that our products infringe on their patents. In addition, some of our competitors are regulated differently than we are, which may give them a competitive advantage. If we fail to compete effectively in this environment, our profitability and financial condition could be materially and adversely affected.

In light of recent downgrades to our financial strength ratings and the loss or impairment of our relationships with several key distribution partners, we have initiated a new business plan that leverages existing manufacturing strengths and partnering capabilities to shift the focus of new business development to areas that are less capital intensive, less ratings sensitive and not dependent on particular distribution partners. This plan shifts the focus of new business development to private labeling, expanding alternative retirement product solutions, and selling core products within existing distribution relationships as well as through new distribution channels. This new business plan may not succeed and may adversely affect our ability to retain existing customers, attract new customers or maintain our profitability.

**Changes in tax laws may decrease sales and profitability of products and increase our tax costs.**

Under current federal and state income tax law, certain products we offer, primarily life insurance and annuities, receive favorable tax treatment. This favorable treatment may give certain of our products a competitive advantage over noninsurance products. Congress from time to time considers legislation that would reduce or eliminate the favorable policyholder tax treatment currently applicable to life insurance and annuities. Congress also considers proposals to reduce the taxation of certain products or investments that may compete with life insurance and annuities. Legislation that increases the taxation on insurance products or reduces the taxation on competing products could lessen the advantage or create a disadvantage for certain of our products making them less competitive. Such proposals, if adopted, could have a material adverse effect on our financial position or ability to sell such products and could result in the surrender of some existing contracts and policies. In addition, changes in the federal estate tax laws could negatively affect the demand for the types of life insurance used in estate planning.

We also benefit from certain tax benefits, including but not limited to, performance-based compensation that exceeds $1.0 million, tax-exempt bond interest, dividends-received deductions, tax credits (such as foreign tax credits), and insurance reserve deductions. Congress, as well as foreign, state and local governments, also considers from time to time legislation that could modify or eliminate these benefits, thereby increasing our tax costs. If such legislation were to be adopted, our consolidated net income or loss could decline.

**Potential changes in federal and state regulation may increase our business costs and required capital levels, which could adversely affect our business, consolidated operating results, financial condition or liquidity.**

We are subject to extensive laws and regulations. These laws and regulations are complex and subject to change. This is particularly the case given recent adverse economic and market developments. Moreover, they are administered and enforced by a number of different governmental authorities. These authorities include foreign regulators, state insurance regulators, state securities administrators, the SEC, the Financial Industry Regulatory Authority ("FINRA"), the U.S. Department of Justice, and state attorneys general. In light of recent events involving certain financial institutions and the current financial crisis, it is likely that the U.S. government will heighten its oversight of the financial services industry, including possibly through a federal system of insurance regulation. In addition, it is possible that these authorities may adopt enhanced or new regulatory requirements intended to prevent future crises in the financial services industry and to assure the stability of institutions under their supervision. We cannot predict whether this or other regulatory proposals will be adopted, or what impact, if any, such regulation could have on our business, consolidated operating results, financial condition or liquidity.

Each of the authorities that regulate us exercises a degree of interpretive latitude. Consequently, we are subject to the risk that compliance with any particular regulator's or enforcement authority's interpretation of a legal issue may not result in compliance with another regulator's or enforcement authority's interpretation of the same issue, particularly when compliance is judged in hindsight. In addition, there is risk that any particular regulator's or enforcement authority's interpretation of a legal issue may change over time to our detriment, or that changes in the overall legal environment may, even absent any particular regulator's or enforcement authority's interpretation of a legal issue changing, cause us to change our views regarding the actions we need to take from a legal risk management perspective, thus necessitating changes to our practices that may, in some cases, limit our ability to grow and improve the profitability of our business.

State insurance laws regulate most aspects of our U.S. insurance businesses, and our insurance subsidiaries are regulated by the insurance departments of the states in which they are domiciled and licensed. State insurance regulators and the National Association of Insurance Commissioners ("NAIC") regularly re-examine existing laws and regulations applicable to insurance companies and their products. State laws in the U.S. grant insurance regulatory authorities broad administrative powers with respect to, among other things:

- licensing companies and agents to transact business;
- calculating the value of assets to determine compliance with statutory requirements;
- mandating certain insurance benefits; regulating certain premium rates; reviewing and approving policy forms;
- regulating unfair trade and claims practices, including through the imposition of restrictions on marketing and sales practices, distribution arrangements and payment of inducements;
- establishing statutory capital and reserve requirements and solvency standards;
- fixing maximum interest rates on insurance policy loans and minimum rates for guaranteed crediting rates on life insurance policies and annuity contracts;
- approving changes in control of insurance companies;
- restricting the payment of dividends and other transactions between affiliates; and
- regulating the types, amounts and valuation of investments.

Changes in all of these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer at the expense of the insurer and thus could have a material adverse effect on our business, consolidated operating results, financial condition and liquidity. Compliance with these laws and regulations is also time consuming and personnel-intensive, and changes in these laws and regulations may increase materially our direct and indirect compliance costs and other expenses of doing business, thus having an adverse effect on our business, consolidated operating results, financial condition and liquidity.

**Legal and regulatory actions are inherent in our businesses and could result in financial losses or harm to our businesses.**

We are regularly involved in litigation and arbitration, both as a defendant and as a plaintiff. For example, in the last few years we have been involved in disputes relating to certain portions of our discontinued group accident and health reinsurance business. 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, and laws governing the activities of broker-dealers. During the past several years, 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. 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. We have had inquiries relating to market timing and distribution practices in the past, and we continue to cooperate with the applicable regulatory authorities in these matters. While no regulatory authority has ever taken action against us with regard to these inquiries, we may be subject to further related or unrelated inquiries or actions in the future. In light of recent events involving certain financial institutions, it is possible that the U.S. government will heighten its oversight of the financial services industry in general or of the insurance industry in particular. Further, recent adverse economic and market events may have the effect of 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.

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.

**Changes in accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies may adversely affect our financial statements.**

Our financial statements are subject to the application of accounting principles generally accepted in the United States of America ("GAAP"), which is periodically revised and/or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards or guidance issued by recognized authoritative bodies, including the Financial Accounting Standards Board.

For example, the U.S. government, under the EESA, conducted an investigation of fair value accounting during the fourth quarter of 2008 and has granted the SEC the authority to suspend fair value accounting for any registrant or group of registrants in its discretion. Similar actions may take place in the future. The impact of such actions on registrants who apply fair value accounting cannot be readily determined at this time; however, actions taken could have a material adverse effect on the financial condition and results of operations of companies, including ours, that apply fair value accounting.

It is possible that these and other future accounting standards we are required to adopt could change the current accounting treatment that we apply to our financial statements and that such changes could significantly affect our reported financial condition and results of operations.

**We reported a material weakness in our internal control over financial reporting, and if we are unable to improve our internal controls, our financial results may not be accurately reported.**

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2008 and March 31, 2009 identified a material weakness in its internal control over financial reporting designed to ensure proper accounting for income taxes, including the allocation of its income tax provision (benefit) among income from continuing operations, income from discontinued operations and other comprehensive loss. As a result of this material weakness, management determined that our disclosure controls and procedures were not effective as of December 31, 2008 and March 31, 2009. The material weakness is described in Part I, Item 4 entitled "Controls and Procedures" of this Quarterly Report on Form 10-Q. This material weakness, or difficulties encountered in implementing new or improved controls or remediation, could prevent us from accurately reporting our financial results, result in material misstatements in our financial statements or cause us to fail to meet our reporting obligations.

**We are exposed to the risks of natural and man-made disasters, which may adversely affect our operations and financial condition.**

The occurrence of natural disasters, including hurricanes, floods, earthquakes, tornadoes, fires, explosions and pandemic disease and man-made disasters, including acts of terrorism and military actions, could adversely affect our operations or financial condition. For example, a natural disaster or pandemic could adversely affect the mortality or morbidity experience of the Company or its reinsurers. A severe natural disaster or pandemic could result in a substantial increase in mortality experience and have a significant negative impact on our capital and surplus. In addition, a pandemic could result in large areas being subject to quarantine, with the result that economic activity slows or ceases, adversely affecting the marketing or administration of our business within such area and the general economic climate, which in turn could have an adverse affect on us. The possible macroeconomic effects of a pandemic could also adversely affect our investment portfolio. While recent widespread outbreaks of communicable diseases, such as the outbreak of swine flu experienced world-wide in April 2009, have not risen to the pandemic level and we have not been adversely affected thus far, a worsening of this outbreak, or the occurrence of another outbreak of a different communicable disease, may adversely affect our operations or financial condition in the future.

## 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, President, 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, President 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: May 15, 2009

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



**EXHIBIT 31.1**

## CERTIFICATION

I, the President of PHL Variable Insurance Company (the "registrant"), certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of the registrant;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2009

/s/ Philip K. Polkinghorn
Name: Philip K. Polkinghorn
Title: President

**EXHIBIT 31.2**

## CERTIFICATION

I, the Chief Financial Officer of PHL Variable Insurance Company (the “registrant”), certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of the registrant;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 15, 2009

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

**EXHIBIT 32**

## CERTIFICATION

The undersigned hereby certify that the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009 of PHL Variable Insurance Company (the “Company”) filed with the Securities and Exchange Commission on the date hereof fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | |
|---|---|
| /s/ Philip K. Polkinghorn | /s/ Peter A. Hofmann |
| Name: Philip K. Polkinghorn | Name: Peter A. Hofmann |
| Title: President | Title: Senior Executive Vice President and Chief Financial Officer |
| Date: May 15 2009 | Date: May 15, 2009 |

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to PHL Variable Insurance Company and will be retained by PHL Variable Insurance Company and furnished to the Securities and Exchange Commission or its staff upon request.