
**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, 2010**

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

(State or other jurisdiction of
incorporation or organization)

06-1045829

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

One American Row, Hartford, Connecticut

(Address of principal executive offices)

06102-5056

(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 definition of "accelerated filer", "large 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 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, 2010, 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 Sheets

(\$ in thousands, except share data)

March 31, 2010 (unaudited) and December 31, 2009

	<u>Mar 31,</u> <u>2010</u>	<u>Dec 31,</u> <u>2009</u>
ASSETS:		
Available-for-sale debt securities, at fair value (amortized cost of \$1,435,634 and \$1,390,874)	\$ 1,357,410	\$ 1,276,478
Available-for-sale equity securities, at fair value (amortized cost of \$385 and \$0)	338	--
Venture capital partnerships, at equity in net assets	1,482	--
Policy loans, at unpaid principal balances	53,030	49,675
Other investments	69,982	77,557
Fair value option investments	4,352	4,266
Total investments	1,486,594	1,407,976
Cash and cash equivalents	37,643	83,518
Accrued investment income	12,774	11,007
Receivables	346,342	342,887
Deferred policy acquisition costs	749,254	837,567
Receivable from related parties	7,576	22,968
Other assets	43,406	36,344
Separate account assets	2,913,982	2,872,324
Total assets	<u>\$ 5,597,571</u>	<u>\$ 5,614,591</u>
LIABILITIES:		
Policy liabilities and accruals	\$ 1,336,433	\$ 1,363,818
Policyholder deposit funds	650,383	673,725
Deferred income taxes	27,872	26,678
Payable to related parties	24,346	2,414
Other liabilities	20,678	61,668
Separate account liabilities	2,913,982	2,872,324
Total liabilities	<u>4,973,694</u>	<u>5,000,627</u>
CONTINGENT LIABILITIES (Note 14)		
STOCKHOLDER'S EQUITY:		
Common stock, \$5,000 par value: 1,000 shares authorized; 500 shares issued	2,500	2,500
Additional paid-in capital	802,152	788,152
Accumulated deficit	(150,751)	(156,603)
Accumulated other comprehensive loss	(30,024)	(20,085)
Total stockholder's equity	<u>623,877</u>	<u>613,964</u>
Total liabilities and stockholder's equity	<u>\$ 5,597,571</u>	<u>\$ 5,614,591</u>

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

PHL VARIABLE INSURANCE COMPANY
Unaudited Interim Statements of Income and Comprehensive Income
(\$ in thousands)
Three Months Ended March 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
REVENUES:		
Premiums	\$ 1,179	\$ 5,492
Insurance and investment product fees	107,236	96,286
Net investment income	17,712	20,271
Net realized investment gains (losses):		
Total other-than-temporary impairment ("OTTI") losses	(5,684)	(11,320)
Portion of OTTI losses recognized in other comprehensive income	2,116	3,266
Net OTTI losses recognized in earnings	(3,568)	(8,054)
Net realized investment gains (losses), excluding OTTI losses	4,562	10,112
Total realized investment gains	994	2,058
Total revenues	<u>127,121</u>	<u>124,107</u>
 BENEFITS AND EXPENSES:		
Policy benefits	55,521	55,025
Policy acquisition cost amortization	38,457	38,590
Other operating expenses	23,333	35,685
Total benefits and expenses	<u>117,311</u>	<u>129,300</u>
Income (loss) before income taxes	9,810	(5,193)
Income tax expense (benefit)	3,958	(1,154)
Net income (loss)	<u>\$ 5,852</u>	<u>\$ (4,039)</u>
 COMPREHENSIVE LOSS:		
Net income (loss)	<u>\$ 5,852</u>	<u>\$ (4,039)</u>
Net unrealized investment gains (losses)	(12,978)	(737)
Non-credit portion of OTTI losses recognized in other comprehensive income	3,039	(358)
Other comprehensive loss	<u>(9,939)</u>	<u>(1,095)</u>
Comprehensive loss	<u>\$ (4,087)</u>	<u>\$ (5,134)</u>

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES:		
Net income (loss)	\$ 5,852	\$ (4,039)
Net realized investment gains	(994)	(2,058)
Deferred income taxes	13,161	7,913
Increase in receivables	(6,642)	(31,109)
Increase in accrued investment income	(3,122)	(1,771)
Decrease in deferred policy acquisition costs	35,339	14,090
Increase (decrease) in policy liabilities and accruals	(27,277)	20,027
Other assets and other liabilities net change	(15,803)	(23,862)
Cash from (for) operating activities	<u>514</u>	<u>(20,809)</u>
INVESTING ACTIVITIES:		
Investment purchases	(564,609)	(492,416)
Investment sales, repayments and maturities	518,965	443,676
Policy loan advances, net	(3,356)	(4,584)
Cash for investing activities	<u>(49,000)</u>	<u>(53,324)</u>
FINANCING ACTIVITIES:		
Policyholder deposit fund deposits	28,376	57,051
Policyholder deposit fund withdrawals	(39,765)	(122,950)
Capital contributions from parent	14,000	20,000
Cash from (for) financing activities	<u>2,611</u>	<u>(45,899)</u>
Change in cash and cash equivalents	<u>(45,875)</u>	<u>(120,032)</u>
Cash and cash equivalents, beginning of period	83,518	152,185
Cash and cash equivalents, end of period	<u>\$ 37,643</u>	<u>\$ 32,153</u>

During the three months ended March 31, 2010, the Company received \$14,000 thousand in capital contributions, all of which was in cash. During the three months ended March 31, 2009, the Company received \$20,000 thousand in capital contributions all of which was in cash.

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
COMMON STOCK:		
Balance, beginning of period	\$ 2,500	\$ 2,500
Balance, end of period	<u>\$ 2,500</u>	<u>\$ 2,500</u>
ADDITIONAL PAID-IN CAPITAL:		
Balance, beginning of period	\$ 788,152	\$ 723,152
Capital contributions from parent	14,000	20,000
Balance, end of period	<u>\$ 802,152</u>	<u>\$ 743,152</u>
RETAINED EARNINGS / ACCUMULATED DEFICIT:		
Balance, beginning of period	\$ (156,603)	\$ (141,288)
Adjustment for initial application of accounting changes	--	5,838
Net income (loss)	5,852	(4,039)
Balance, end of period	<u>\$ (150,751)</u>	<u>\$ (139,489)</u>
ACCUMULATED OTHER COMPREHENSIVE LOSS:		
Balance, beginning of period	\$ (20,085)	\$ (51,923)
Adjustment for initial application of accounting changes	--	(1,225)
Other comprehensive loss	(9,939)	(1,095)
Balance, end of period	<u>\$ (30,024)</u>	<u>\$ (54,243)</u>
TOTAL STOCKHOLDER'S EQUITY:		
Balance, beginning of period	\$ 613,964	\$ 532,441
Change in stockholder's equity	9,913	19,479
Balance, end of period	<u>\$ 623,877</u>	<u>\$ 551,920</u>

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

PHL VARIABLE INSURANCE COMPANY
Notes to Unaudited Interim Financial Statements
Three Months Ended March 31, 2010 and 2009

1. Organization and Operations

PHL Variable Insurance Company (“PHL Variable” or the “Company”) is a life insurance company offering variable and fixed annuity and non-participating life insurance products. It is a wholly-owned subsidiary of PM Holdings, Inc. and 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.

Subsequent to the first quarter of 2009, when we lost several key distribution partners and experienced downgrades to our ratings, the Company has had minimal sales of its life and annuity products.

2. Basis of Presentation and Significant Accounting Policies

We have prepared these unaudited 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.

These financials include all adjustments (consisting primarily of accruals) considered necessary for the fair presentation of the balance sheet, statements of income, and statements of cash flows for the interim periods. Certain financial information that is not required for interim reporting has been omitted. The interim financial statements should be read in conjunction with our 2009 Annual Report on Form 10-K. Financial results for the three-month period in 2010 are not necessarily indicative of full year results.

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. Significant estimates and assumptions are made in the determination of estimated gross profits used in the valuation and amortization of assets and liabilities associated with universal life and annuity contracts; policyholder liabilities and accruals; valuation of investments in debt and equity securities and venture capital partnerships; valuation of deferred tax assets; and accruals for contingent liabilities. We are also subject to estimates made by our ultimate parent company related to discount rates and other assumptions for our pension and other post-employment benefits expense.

Risks Associated with Current Economic Market Conditions and Industry Trends

The risks we face related to general economic and business conditions are pronounced given the severity and magnitude of recent adverse economic and market conditions and the potential continuation of these conditions through 2010. 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 and result in higher lapses or surrenders of life and annuity products. More specifically, our business is exposed to the performance of the debt and equity markets. Adverse market conditions may result in a lack of buyers for certain assets, volatility, credit spread changes and benchmark interest rate changes. Each of these factors has and may continue to impact the liquidity and value of our investments.

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

Further, 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 and increased availability of premium financing suggest that the reasons for purchasing our products are changing. At the same time, we also experienced an increase in life insurance sales to older individuals. While we instituted certain controls and procedures to screen applicants, we believe that our sales of universal life products include sales of policies to third party investors who, at the time of policy origination, had no insurable interest in the insured. The effect that these changes may have on our actual experience and profitability will emerge over time.

Adoption of new accounting standards

Consolidation Analysis of Investments Held Through a Separate Account

In April 2010, the Financial Accounting Standards Board (the "FASB") issued amended guidance within ASC 810, *Consolidation*, to clarify that an insurance entity should not consider any separate account interests held for the benefit of policyholders to be the insurer's interests nor should an entity combine those interests with its general account interest in the same investment when assessing the investment for consolidation. The only exception is if the separate account interests are held for the benefit of a related party policy holder. This amended guidance also updated ASC 944, *Financial Services – Insurance*, to clarify that for the purpose of evaluating whether the retention of specialized accounting for investments in consolidation is appropriate, a separate account arrangement should be considered a subsidiary. The amendments do not require an insurer to consolidate an investment in which a separate account holds a controlling financial interest if the investment is not or would not be consolidated in the standalone financial statements of the separate account. The amendments also provide guidance on how an insurer should consolidate an investment fund in situations in which the insurer concludes that consolidation is required. Our adoption in the first quarter of 2010 had no material effect on our financial statements.

Additional Disclosures on Fair Value Measurements

In January 2010, the FASB issued amending guidance ASC 820, *Fair Value Measurements and Disclosures*, which added new disclosures as well as clarified existing disclosure requirements. The amended guidance includes requirements for detailed disclosures of significant transfers between Level 1 and 2 measurements and the reasons for the transfers as well as a gross presentation of Level 3 sales, issuances and settlements. This amendment also provided additional clarification which states that fair value disclosures are required for each class of assets and liabilities and the valuation techniques and the inputs used in determining fair value should be disclosed for both recurring and non-recurring fair value measurements within Level 2 and Level 3. Our adoption in the first quarter of 2010 resulted in additional disclosures but otherwise had no material effect on our financial statements.

Amendments to Consolidation Guidance for Variable Interest Entries

In June 2009, the FASB issued guidance to ASC 810, *Consolidation*, which amends consolidation requirements applicable to variable interest entities ("VIE"). Significant amendments include changes in the method of determining the primary beneficiary of a variable interest entity by replacing the quantitative approach previously required with a qualitative approach. An entity would be considered a primary beneficiary and consolidate a VIE when the entity has both of the following characteristics; (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance; and (b) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. The new guidance also requires ongoing reassessment of whether an enterprise is the primary beneficiary of a VIE.

This revised guidance is effective for all VIEs owned on, or formed after, January 1, 2010. We have evaluated our investment portfolio including venture capital partnerships, collateralized debt obligations ("CDOs"), collateralized loan obligations ("CLOs"), and other structures and entities to identify any variable interests. Furthermore, for any variable interests identified we assessed based on the applicable criteria whether we could potentially be the primary beneficiary. Based upon this assessment, we adopted this guidance effective January 1, 2010 with no material effect on our financial statements.

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

Accounting for Transfers of Financial Assets

In June 2009, the FASB issued new guidance to ASC 860, *Transfers and Servicing*. The amended guidance eliminates the concept of qualifying special-purpose entities and changes requirements for when a financial asset should be derecognized. Additional disclosures are also required on risk related to a transferor's continuing involvement in transferred financial assets. The adoption of this guidance on January 1, 2010 had no material effect on our financial statements.

Accounting standards not yet adopted

Amended Exception for Credit Derivatives

In March 2010, the FASB issued amended guidance to ASC 815, *Derivatives and Hedging*. The amendment clarifies how entities should evaluate credit derivatives embedded in beneficial interests in securitized financial assets. The amendment will require more financial instruments to be accounted for at fair value through earnings, including some unfunded securitized instruments, synthetic collateralized debt obligations and other similar securitization structures. The updated guidance also eliminates the scope exception for bifurcation of embedded credit derivatives in interests in securitized financial assets, unless they are created solely by subordination of one financial instrument to another. Entities are allowed to elect the fair value option for any beneficial interest in securitized financial assets upon adoption. We expect to adopt this guidance effective July 1, 2010 and are in the process of assessing the effect on our financial statements.

Significant accounting policies

Our significant accounting policies are presented in the notes to our financial statements in our 2009 Annual Report on Form 10-K.

3. Deferred Policy Acquisition Costs

Deferred Policy Acquisition Costs: *(\$ in thousands)*

	Three Months Ended	
	March 31,	
	2010	2009
Policy acquisition costs deferred	\$ 3,118	\$ 32,291
Costs amortized to expenses:		
Recurring costs	(39,674)	(38,095)
Realized investment gains (losses)	1,217	(495)
Offsets to net unrealized investment gains or losses included in other comprehensive income (loss)	(58,087)	(13,391)
Cumulative effect of adoption of new guidance	--	(3,805)
Other	5,113	(3,987)
Change in deferred policy acquisition costs	(88,313)	(27,482)
Deferred policy acquisition costs, beginning of period	837,567	1,065,128
Deferred policy acquisition costs, end of period	\$ 749,254	\$ 1,037,646

4. Investing Activities

Debt and equity securities

Fair Value and Cost of General Account Securities: (\$ in thousands)

	March 31, 2010		December 31, 2009	
	Fair Value	Cost	Fair Value	Cost
U.S. government and agency	\$ 122,042	\$ 121,871	\$ 54,101	\$ 54,526
State and political subdivision	6,145	6,488	6,075	6,491
Foreign government	14,036	12,668	13,885	12,678
Corporate	638,069	657,777	636,915	676,009
Commercial mortgage-backed	111,721	118,330	97,381	109,132
Residential mortgage-backed	324,024	357,128	344,633	384,125
CDO/CLO	66,846	83,829	64,999	85,558
Other asset-backed	74,527	77,543	58,489	62,355
Available-for-sale debt securities	\$ 1,357,410	\$ 1,435,634	\$ 1,276,478	\$ 1,390,874
Available-for-sale equity securities	\$ 338	\$ 385	\$ --	\$ --

Unrealized Gains and Losses from General Account Securities: (\$ in thousands)

	March 31, 2010		December 31, 2009	
	Gains	Losses	Gains	Losses
U.S. government and agency	\$ 1,290	\$ (1,119)	\$ 1,117	\$ (1,542)
State and political subdivision	30	(373)	22	(438)
Foreign government	1,369	(1)	1,235	(28)
Corporate	26,329	(46,037)	18,601	(57,695)
Commercial mortgage-backed	3,051	(9,660)	627	(12,378)
Residential mortgage-backed	3,634	(36,738)	1,874	(41,366)
CDO/CLO	277	(17,260)	399	(20,958)
Other asset-backed	386	(3,402)	180	(4,046)
Debt securities gains (losses)	\$ 36,366	\$ (114,590)	\$ 24,055	\$ (138,451)
Debt securities net losses		\$ (78,224)		\$ (114,396)
Equity securities gains (losses)	\$ --	\$ (47)	\$ --	\$ --
Equity securities net losses		\$ (47)		\$ --

Net unrealized investment gains and losses on securities classified as available for sale and certain other assets are included in the balance sheet as a component of accumulated other comprehensive income (loss) ("AOCI"). The table below presents the special category of AOCI for debt securities that are other-than-temporarily impaired when the impairment loss has been split between the credit loss component (in earnings) and the non-credit component (separate category of AOCI) and the subsequent changes in fair value.

Fixed Maturity Securities on which an OTTI Loss has been Recognized, by Type: (\$ in thousands)

	March 31, 2010 ⁽¹⁾	Dec 31, 2009 ⁽¹⁾
U.S. government and agency	\$ --	\$ --
State and political subdivision	--	--
Foreign government	--	--
Corporate	(591)	(591)
Commercial mortgage-backed	(2,950)	(1,739)
Residential mortgage-backed	(11,493)	(11,401)
CDO/CLO	(10,478)	(9,698)
Other asset-backed	--	--
Fixed maturity non-credit losses in AOCI	\$ (25,512)	\$ (23,429)

⁽¹⁾ Represents the amount of other-than-temporary impairment losses in AOCI which, from January 1, 2009, were not included in earnings, excluding net unrealized gains or losses on impaired securities relating to changes in value of such securities subsequent to the impairment date.

4. Investing Activities (continued)

Aging of Temporarily Impaired General Account Securities: (<i>\$ in thousands</i>)	March 31, 2010					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities						
U.S. government and agency	\$ 5,509	\$ (55)	\$ 2,878	\$ (1,064)	\$ 8,387	\$ (1,119)
State and political subdivision	--	--	2,954	(373)	2,954	(373)
Foreign government	1,996	(1)	--	--	1,996	(1)
Corporate	26,884	(659)	141,909	(45,378)	168,793	(46,037)
Commercial mortgage-backed	6,005	(87)	28,154	(9,573)	34,159	(9,660)
Residential mortgage-backed	81,527	(1,794)	133,509	(34,944)	215,036	(36,738)
CDO/CLO	1,225	(5)	59,651	(17,255)	60,876	(17,260)
Other asset-backed	9,106	(41)	20,675	(3,361)	29,781	(3,402)
Debt securities	132,252	(2,642)	389,730	(111,948)	521,982	(114,590)
Equity securities	325	(47)	--	--	325	(47)
Total temporarily impaired securities	\$ 132,577	\$ (2,689)	\$ 389,730	\$ (111,948)	\$ 522,307	\$ (114,637)
Below investment grade	\$ 3,576	\$ (383)	\$ 125,990	\$ (56,756)	\$ 129,566	\$ (57,139)
Below investment grade after offsets for deferred policy acquisition cost adjustment and taxes		\$ (44)		\$ (6,921)		\$ (6,965)
Number of securities		66		278		344

Unrealized losses on below investment grade debt securities with a fair value of less than 80% of the security's amortized cost totaled \$50,797 thousand at March 31, 2010, of which \$46,790 thousand is greater than 20% and over 12 months.

These securities were considered to be temporarily impaired at March 31, 2010 because each of these securities had performed, and was expected to perform, in accordance with its 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 General Account Securities: (<i>\$ in thousands</i>)	As of December 31, 2009					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt Securities						
U.S. government and agency	\$ 5,477	\$ (82)	\$ 2,482	\$ (1,460)	\$ 7,959	\$ (1,542)
State and political subdivision	2,073	(27)	2,916	(411)	4,989	(438)
Foreign government	1,970	(28)	--	--	1,970	(28)
Corporate	42,590	(1,249)	182,079	(56,446)	224,669	(57,695)
Commercial mortgage-backed	21,955	(220)	42,863	(12,158)	64,818	(12,378)
Residential mortgage-backed	104,826	(2,202)	152,818	(39,164)	257,644	(41,366)
CDO/CLO	3,558	(934)	58,288	(20,024)	61,846	(20,958)
Other asset-backed	20,733	(96)	20,441	(3,950)	41,174	(4,046)
Total temporarily impaired securities	\$ 203,182	\$ (4,838)	\$ 461,887	\$ (133,613)	\$ 665,069	\$ (138,451)
Below investment grade	\$ 13,119	\$ (1,499)	\$ 124,409	\$ (65,887)	\$ 137,528	\$ (67,386)
Below investment grade after offsets for deferred policy acquisition cost adjustment and taxes		\$ (323)		\$ (12,017)		\$ (12,340)
Number of securities		102		331		433

Unrealized losses on below investment grade debt securities with a fair value of less than 80% of the security's amortized cost totaled \$60,960 thousand at December 31, 2009, of which \$55,964 thousand is greater than 20% and over 12 months.

4. Investing Activities (continued)

These securities were considered to be temporarily impaired at December 31, 2009 as each of these securities had performed, and was expected to perform, in accordance with its original contractual terms, and because it is more likely than not that we will not need to sell these securities before recovery.

Maturities of General Account Debt Securities:
(*\$ in thousands*)

	As of March 31, 2010	
	Cost	Fair Value
Due in one year or less	\$ 129,622	\$ 130,049
Due after one year through five years	245,685	251,576
Due after five years through ten years	354,268	356,694
Due after ten years	706,059	619,091
Total	\$ 1,435,634	\$ 1,357,410

The maturities of general account debt securities, as of March 31, 2010, are summarized in the table above by contractual sinking fund payment and maturity. Actual maturities may differ from contractual maturities as certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties, and we have the right to put or sell the obligations back to the issuers.

Other-than-temporary impairments

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.

A credit-related loss impairment is determined by calculating 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 and apply the default rate based on the remaining years to maturity. The non-credit related loss component is equal to the difference between the fair value of a bond and its impaired carrying value.

Management exercised significant judgment with respect to certain securities in determining whether impairments are temporary or other-than-temporary. At March 31, 2010, this included securities with \$50,218 thousand of gross unrealized losses of 50% or more for which no other-than-temporary impairment was ultimately indicated. In reaching its conclusions, management used a number of issuer-specific quantitative indicators and qualitative judgments to assess of the probability of receiving a given security's contractual cash flows. This included the issue's implied yield to maturity, cumulative default rate based on 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 requirements. Management also reviewed fundamentals such as issuer credit and liquidity metrics, business outlook and industry conditions. In addition to these reviews, management in each case assessed whether it is more likely than not that we will be required to sell a security before it recovers in value, up to and including maturity. Management maintains a watch list of securities that is reviewed for impairments. 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.

4. Investing Activities (continued)

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 in our significant accounting policies described in Note 2 of our 2009 Annual Report on Form 10-K. 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.

The three holdings at March 31, 2010 with the largest unrealized loss balance(s) which are temporarily impaired are:

- *Preferred Term* – With a fair value of \$12,315 thousand and an unrealized loss of \$17,558 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-callable for the first 5 years) 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 securities and, therefore, this issue does not merit an other-than-temporary impairment at this time.
- *Bear Stearns Asset Backed Securities* – With a fair value of \$4,381 thousand and an unrealized loss of \$5,419 thousand, this security group comprises sub-prime home equity issues. The majority of the issuers are investment grade. In general, there is an increasing delinquency pipeline and low levels of credit support. We have performed numerous stress runs using observable inputs in regard to prepayment speeds, default rates and loss severities, which support ample credit coverage even under considerable loss severities, due to our position in the capital structure. Therefore, we have determined it is probable we will be able to collect all amounts due according to the contractual terms of the securities. We do not intend to sell these securities and recovery remains more likely than not. Therefore, this issue does not merit an other-than-temporary impairment at this time.
- *Alesco Preferred Funding* – With a fair value of \$3,000 thousand and an unrealized loss of \$7,000 thousand, this is a multi-class, cash flow CDO 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 methodology 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. Therefore, this issue does not merit an other-than-temporary impairment at this time.

Debt Securities

Fixed maturity other-than-temporary impairments recorded in the first quarter of 2010 were concentrated in residential mortgage-backed securities and in the CDO/CLO structured products. These impairments were driven primarily by significant rating downgrades and increased credit default rates. In our judgment, these credit events or other adverse conditions of the issuers have caused, or will most likely lead to, a deficiency in the contractual cash flows related to the investment. Therefore, based upon these credit events, we have determined that other-than-temporary impairments exist. Total impairments recognized through earnings related to such credit-related circumstances were \$3,568 thousand in the first quarter of 2010 and \$6,961 thousand in the first quarter of 2009.

4. Investing Activities (continued)

In addition to these credit-related impairments recognized through earnings, we impaired securities to fair value through other comprehensive loss for any impairments related to non-credit related factors. These types of impairments were driven primarily by market or sector credit spread widening or by a lack of liquidity in the securities. The amount of impairments recognized as an adjustment to other comprehensive loss due to these factors was \$2,116 thousand in the first quarter of 2010 and \$3,266 thousand in the first quarter of 2009.

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.

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.

	Three Months Ended March 31,	
	2010	2009
Credit Losses Recognized in Earnings on Debt Securities: <i>(\$ in thousands)</i>		
Debt securities credit losses, beginning of period	\$ (12,442)	\$ (9,634)
Add: Credit losses on other-than-temporary impairments not previously recognized	(246)	(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	(3,322)	--
Less: Increases in cash flows expected on previously impaired securities	--	--
Debt securities credit losses, end of period	\$ (16,010)	\$ (11,267)

Venture capital partnerships

The following table presents investments in limited partnerships interests. We make contributions to partnerships under existing or new funding commitments.

	Three Months Ended March 31,	
	2010	2009
Investment Activity in Venture Capital Partnerships: <i>(\$ in thousands)</i>		
Contributions	\$ 137	\$ --
Equity in earnings (loss) of partnerships	--	--
Distributions	(92)	--
Change in venture capital partnerships	45	--
Venture capital partnership investments, beginning of period	1,437	--
Venture capital partnership investments, end of period	\$ 1,482	\$ --

Net investment income

	Three Months Ended March 31,	
	2010	2009
Sources of Net Investment Income: <i>(\$ in thousands)</i>		
Debt securities	\$ 17,093	\$ 20,705
Policy loans	723	459
Other investments	139	(574)
Fair value option investments	85	(183)
Other income	8	--
Cash and cash equivalents	12	6
Total investment income	18,060	20,413
Investment expenses	(348)	(142)
Net investment income	\$ 17,712	\$ 20,271

4. Investing Activities (continued)

Net realized investment gains (losses)

Sources and Types of Net Realized Investment Gains (Losses):

(\$ in thousands)

	Three Months Ended March 31,	
	2010	2009
Total other-than-temporary debt impairment losses	\$ (5,684)	\$ (10,227)
Portion of loss recognized in other comprehensive income	2,116	3,266
Net debt impairments recognized in earnings	\$ (3,568)	\$ (6,961)
Debt security impairments	\$ (3,568)	\$ (6,961)
Other investments impairments	--	(1,093)
Impairment losses	(3,568)	(8,054)
Debt security transaction gains	237	31
Debt security transaction losses	(1,624)	(229)
Other investments transaction gains (losses)	265	(3)
Net transaction losses	(1,122)	(201)
Realized gains (losses) on derivative assets and liabilities	5,684	10,313
Net realized investment gains (losses), excluding impairment losses	4,562	10,112
Net realized investment gains (losses), including impairment losses	\$ 994	\$ 2,058

Unrealized investment gains (losses)

Sources of Changes in Net Unrealized Investment Gains (Losses):

(\$ in thousands)

	Three Months Ended March 31,	
	2010	2009
Debt securities	\$ 36,172	\$ 18,052
Equity securities	(47)	--
Other investments	322	94
Net unrealized investment gains	\$ 36,447	\$ 18,146
Net unrealized investment gains	\$ 36,447	\$ 18,146
Applicable deferred policy acquisition cost	(58,087)	(19,830)
Applicable deferred income tax expense (benefit)	11,873	589
Offsets to net unrealized investment losses	(46,214)	(19,241)
Net unrealized investment losses included in other comprehensive income	\$ (9,767)	\$ (1,095)

Non-Consolidated Variable Interest Entities

Entities which do not have sufficient equity at risk to allow the entity to finance its activities without additional financial support or in which the equity investors, as a group, do not have the characteristic of a controlling financial interest are referred to as variable interest entities ("VIEs"). We perform ongoing assessments of our investments in VIEs to determine whether we have a controlling financial interest in the VIE and therefore would be considered to be the primary beneficiary. An entity would be considered a primary beneficiary and be required to consolidate a VIE when the entity has both the power to direct the activities of a VIE that most significantly impact the entity's economic performance and the obligation to absorb losses, or right to receive benefits, that could potentially be significant to the VIE.

We are involved with various entities that are deemed to be VIEs primarily as a passive investor in private equity limited partnerships and through direct investments, in which we are not related to the general partner. These investments are accounted for under the equity method of accounting and are primarily included in the separate accounts category of the balance sheet. The following table presents the carrying value of assets and liabilities, and the maximum exposure to loss relating to significant VIEs for which we are not the primary beneficiary.

4. Investing Activities (continued)

Carrying Value of Assets and Liabilities and Maximum Exposure Loss Relating to Variable Interest Entities: <i>(\$ in thousands)</i>	March 31, 2010			December 31, 2009		
	Assets	Liabilities	Maximum Exposure to Loss	Assets	Liabilities	Maximum Exposure to Loss
Limited partnerships	\$ 37,171	\$ --	\$ 37,171	\$ 36,218	\$ --	\$ 36,218
Total	\$ 37,171	\$ --	\$ 37,171	\$ 36,218	\$ --	\$ 36,218

The asset value of our investments in variable interest entities (based upon sponsor values and audited financial statements of the individual entities) for which we are not the primary beneficiary was \$37,171 thousand as of March 31, 2010. Our maximum exposure to loss related to these non-consolidated VIEs is limited to the amount of our investment.

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, 2010, we held derivative assets, net of liabilities, with a fair value of \$69,982 thousand. Derivative credit exposure was diversified with five different counterparties. We also had debt securities of these issuers with a carrying value of \$15,874 thousand. Our maximum amount of exposure with these issuers was \$85,856 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, 2010 and 2009, there were no gains or losses on transfers of assets from the general account to a separate account.

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

Variable annuities

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

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

For annuities with GMDB and GMIB, 200 stochastically generated scenarios were used.

Separate Account Investments of Account Balances of Contracts with Guarantees: <i>(\$ in thousands)</i>	Mar 31, 2010	Dec 31, 2009
Debt securities	\$ 491,711	\$ 490,077
Equity funds	1,842,411	1,830,888
Other	77,900	79,707
Total	\$ 2,412,022	\$ 2,400,672

Changes in Guaranteed Liability Balances: <i>(\$ in thousands)</i>	As of March 31, 2010	
	Annuity GMDB	Annuity GMIB
Liability balance as of January 1, 2010	\$ 5,063	\$ 15,811
Incurred	1,066	(269)
Paid	(1,518)	--
Liability balance as of March 31, 2010	\$ 4,611	\$ 15,542

Changes in Guaranteed Liability Balances: <i>(\$ in thousands)</i>	Year Ended December 31, 2009	
	Annuity GMDB	Annuity GMIB
Liability balance as of January 1, 2009	\$ 9,581	\$ 21,365
Incurred	3,403	(5,554)
Paid	(7,921)	--
Liability balance as of December 31, 2009	\$ 5,063	\$ 15,811

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”), a guaranteed pay-out annuity floor (“GPAF”) and a combination rider (“COMBO”).

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 COMBO includes the GMAB and GMWB riders as well as the GMDB rider at the policyholder's option.

The GMWB, GMAB, GPAF and COMBO 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, GPAF and COMBO 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. As of December 31, 2009, we then recaptured the GMWB for policies issued up to April 30, 2008. 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, 2010 and December 31, 2009, the embedded derivative liabilities for GMWB, GMAB, GPAF and COMBO are listed in the table below. There were no benefit payments made for GMWB or GMAB during 2009 or the first three months of 2010. There were benefit payments made for GPAF of \$516 thousand during 2009 and \$113 thousand during the first three months of 2010.

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)

	<u>Mar 31, 2010</u>	<u>Dec 31, 2009</u>
GMWB	\$ (3,082)	\$ 3,575
GMAB	16,077	19,747
GPAF	1,787	1,749
COMBO	(749)	(584)
Total embedded derivatives	<u>\$ 14,033</u>	<u>\$ 24,487</u>

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	\$ 1,030,757	\$ 41,946	60
GMDB step up	1,508,048	167,602	61
GMDB earnings enhancement benefit (EEB)	49,114	969	61
GMDB greater of annual step up and roll up	32,877	9,312	64
Total GMDB at March 31, 2010	<u>\$ 2,620,796</u>	<u>\$ 219,829</u>	
COMBO	\$ 10,333		59
GMAB	413,338		56
GMIB	513,951		61
GMWB	571,715		61
GPAF	15,308		76
Total at March 31, 2010	<u>\$ 1,524,645</u>		

Additional Insurance Benefits:

(\$ in thousands)

	Account Value	Net Amount At Risk After Reinsurance	Average Attained Age of Annuitant
GMDB return of premium	\$ 1,046,389	\$ 55,447	60
GMDB step up	1,499,571	207,939	61
GMDB earnings enhancement benefit ("EEB")	49,090	1,436	61
GMDB greater of annual step up and roll up	32,833	10,034	64
Total GMDB at December 31, 2009	<u>\$ 2,627,883</u>	<u>\$ 274,856</u>	
COMBO	\$ 10,119		58
GMAB	406,186		55
GMIB	509,703		61
GMWB	562,931		60
GPAF	15,452		76
Total at December 31, 2009	<u>\$ 1,504,391</u>		

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

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

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

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

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

Universal life

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, 2010 and December 31, 2009, we held additional universal life benefit reserves of \$81,489 thousand and \$73,793 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, 2010		As of December 31 2009	
			Asset	Liability	Asset	Liability
Non-Hedging Derivative Instruments						
Interest rate swaps	\$ 35,000	2018	\$ 2,539	\$ --	\$ 1,633	\$ --
Swaptions	14,000	2011	1,193	--	1,161	--
Put options	338,000	2014-2023	60,889	--	65,974	--
Equity futures	38,269	2010	5,361	--	7,338	--
Total non-hedging derivative instruments	\$ 425,269		\$ 69,982	\$ --	\$ 76,106	\$ --

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 2009, our financial strength ratings fell below the specified threshold levels in certain agreements and remain so at March 31, 2010. As a result, the credit risk related contingent features of the instruments have been triggered with respect to such rating thresholds. However, the Company does not have any net liability obligation payable to any counterparty. No counterparties have exercised their option to terminate the transactions, although they reserve all rights available to them as stated in the agreements.

As of March 31, 2010, the Company held no derivative instruments in a net liability position that were not fully offset by other derivative instruments with the same counterparty in a net asset position.

7. Fair Value of Financial Instruments

ASC 820-10 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)

ASC 820-10 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 ASC 820-10 valuation hierarchy (as described above).

Fair Values of Financial Instruments by Level:

(\$ in thousands)

	As of March 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale debt securities				
U.S. government and agency	\$ 9,571	\$ 112,471	\$ --	\$ 122,042
State and political subdivision	--	6,145	--	6,145
Foreign government	--	14,036	--	14,036
Corporate	--	608,499	29,570	638,069
Commercial mortgage-backed	--	99,427	12,294	111,721
Residential mortgage-backed	--	313,744	10,280	324,024
CDO/CLO	--	--	66,846	66,846
Other asset-backed	--	55,621	18,906	74,527
Available-for-sale equity securities	13	325	--	338
Derivative assets	--	69,982	--	69,982
Separate account assets	2,913,884	98	--	2,913,982
Fair value option investments	--	4,352	--	4,352
Total assets	\$ 2,923,468	\$ 1,284,700	\$ 137,896	\$ 4,346,064
Liabilities				
Embedded derivative liabilities	\$ --	\$ --	\$ 14,033	\$ 14,033
Total liabilities	\$ --	\$ --	\$ 14,033	\$ 14,033

There were no transfers between Level 1 and Level 2 assets for the quarter ending March 31, 2010.

7. Fair Value of Financial Instruments (continued)

Fair Values of Financial Instruments by Level:

(\$ in thousands)

	As of December 31, 2009			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale debt securities				
U.S. government and agency	\$ 32,800	\$ 21,301	\$ --	\$ 54,101
State and political subdivision	--	6,075	--	6,075
Foreign government	--	13,885	--	13,885
Corporate	--	595,657	41,258	636,915
Commercial mortgage-backed	--	85,597	11,784	97,381
Residential mortgage-backed	--	328,997	15,636	344,633
CDO/CLO	--	--	64,999	64,999
Other asset-backed	--	39,635	18,854	58,489
Derivative assets	--	76,106	--	76,106
Separate account assets	2,781,730	90,594	--	2,872,324
Fair value option investments	--	4,266	--	4,266
Total assets	\$ 2,814,530	\$ 1,262,113	\$ 152,531	\$ 4,229,174
Liabilities				
Embedded derivative liabilities	\$ --	\$ --	\$ 24,487	\$ 24,487
Total liabilities	\$ --	\$ --	\$ 24,487	\$ 24,487

Carrying Amounts and Fair Values of Financial Instruments:

(\$ in thousands)

	As of March 31, 2010		As of December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 37,643	\$ 37,643	\$ 83,518	\$ 83,518
Available-for-sale debt securities	1,357,410	1,357,410	1,276,478	1,276,478
Available-for-sale equity securities	338	338	--	--
Derivative financial instruments	69,982	69,982	76,106	76,106
Fair value option investments	4,352	4,352	4,266	4,266
Financial assets	\$ 1,469,725	\$ 1,469,725	\$ 1,440,368	\$ 1,440,368
Investment contracts	\$ 650,383	\$ 659,441	\$ 673,725	\$ 684,369
Derivative financial instruments	14,033	14,033	24,487	24,487
Financial liabilities	\$ 664,416	\$ 673,474	\$ 698,212	\$ 708,856

Fair value option investments include a structured loan asset valued at \$4,352 thousand as of March 31, 2010. We elected to apply the fair value option to this note at the time of its acquisition. We purchased the asset 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. Changes in the fair value of this asset are included in net investment income.

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, or are based on disorderly transactions or inactive markets, 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.

7. Fair Value of Financial Instruments (continued)

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.

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.

Structured Securities

For structured securities, we consider the best estimate of cash flows until maturity to determine our ability to collect principal and interest and compare this to the anticipated cash flows when the security was purchased. In addition, management judgment is used to assess the probability of collecting all amounts of the contractual due to us. After consideration is given to the available information relevant to assessing the collectibility, including historical events, current conditions and reasonable forecasts, an estimate of future cash flows is determined. This includes evaluating the remaining payment terms, prepayment speeds, the underlying collateral, expected defaults using current default data and the financial condition of the issuer. Other factors considered are composite credit ratings, industry forecast, 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 reflect the quoted fair value.

To determine fair values for certain structured, collateralized loan obligations (“CLO”) and collateralized debt obligation (“CDO”) assets for which current pricing indications either do not exist, or are based on inactive markets or sparse transactions, we utilize model pricing using a third-party forecasting application that leverages historical trustee information for each modeled security. Principal and interest cash flows are modeled under various default scenarios for a given tranche of a security in accordance with its contractual cash flow priority of claim and subordination with respect to credit losses. The key assumptions include the level of annual default rates, loss-given-default (LGD) or recovery rate, collateral prepayment rate and reinvestment spread.

7. Fair Value of Financial Instruments (continued)

Fair value is then determined based on discounted projected cash flows. We use a discount rate based upon a combination of the current U.S. Treasury rate plus the most recent gross CDO/CLO spreads (including the corresponding swap spread) by original tranche rating, which is representative of the inherent credit risk exposure in a deal's capital structure. A credit loss margin is then deducted from this blended rate equal to the baseline annual default rate times a loss severity rate. The rationale behind the deduction of such credit loss margins is necessary as the projected cash flows have already been default risk-adjusted, taking into account the impact of the projected credit losses in the underlying collateral.

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.

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 is 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.

Retained Interest in Securitization

Retained interests in securitizations do not trade in an active, open market with readily observable prices. Accordingly, we estimate the fair value of certain retained interests in securitizations using discounted cash flow ("DCF") models.

For certain other retained interests in securitizations (such as interest-only strips), a single interest rate path DCF model is used and generally includes assumptions based upon projected finance charges related to the securitized assets, estimated net credit losses, prepayment assumptions and contractual interest paid to third-party investors. Changes in the assumptions used may have a significant impact on our valuation of retained interests and such interests are, therefore, typically classified within Level 3 of the valuation hierarchy.

We compare the fair value estimates and assumptions to observable market data where available and to recent market activity and actual portfolio experience.

7. Fair Value of Financial Instruments (continued)

Private Equity Investments

The valuation of non-public private equity investments requires significant management judgment due to the absence of quoted market prices, an inherent lack of liquidity and the long-term nature of such assets. Private equity investments are valued initially based upon transaction price. The carrying values of private equity investments are adjusted either upwards or downwards from the transaction price to reflect expected exit values as evidenced by financing and sale transactions with third parties, or when determination of a valuation adjustment is confirmed through ongoing reviews by senior investment managers. A variety of factors are reviewed and monitored to assess positive and negative changes in valuation including, but not limited to, current operating performance and future expectations of the particular investment, industry valuations of comparable public companies, changes in market outlook and the third-party financing environment over time. In determining valuation adjustments resulting from the investment review process, emphasis is placed on current company performance and market conditions. Private equity investments are included in Level 3 of the valuation hierarchy.

Private equity investments may also include publicly held equity securities, generally obtained through the initial public offering of privately held equity investments. Such securities are marked-to-market at the quoted public value less adjustments for regulatory or contractual sales restrictions. Discounts for restrictions are quantified by analyzing the length of the restriction period and the volatility of the equity security.

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.

Fair Value of Investment Contracts

For purposes of fair value disclosures, we determine the fair value of guaranteed interest contracts by assuming a discount rate equal to the appropriate U.S. Treasury rate plus 100 basis points to determine the present value of projected contractual liability payments through final maturity. We determine the fair value of deferred annuities and supplementary contracts without life contingencies with an interest guarantee of one year or less at the amount of the policy reserve. In determining the fair value of deferred annuities and supplementary contracts without life contingencies 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.

Deposit type funds, including pension deposit administration contracts, dividend accumulations, and other funds left on deposit not involving life contingencies, have interest guarantees of less than one year for which interest credited is closely tied to rates earned on owned assets. For these liabilities, we assume fair value to be equal to the stated liability balances.

Valuation of Embedded Derivatives

Guarantees that we make on certain variable annuity contracts, including GMAB and GMWB, meet the definition of an embedded derivative. These embedded derivatives are accounted for at fair value using a risk neutral stochastic valuation methodology with changes in fair value recorded in earnings. 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 internally developed assumptions related to mortality rates, lapse rates and policyholder behavior. As there are significant unobservable 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 within the fair value hierarchy.

7. Fair Value of Financial Instruments (continued)

Our fair value calculation includes a credit standing adjustment (the “CSA”). The CSA represents the adjustment that market participants would make to reflect the risk that guaranteed benefit obligations may not be fulfilled by the Company’s life insurance subsidiaries (“nonperformance risk”). In analyzing various alternatives to the CSA calculation, we determined that we could not use credit default swap spreads as there are no such observable instruments on Phoenix Life or its subsidiaries, including us, nor could we consistently obtain an observable price on the surplus notes issued by Phoenix Life, as the surplus notes are not actively traded. Therefore, when discounting the rider cash flows for calculation of the fair value of the liability, we calculated the CSA by using the Fair Market Sector Curve USD Finance (BBB) index that reflects the credit spread for financial services companies similar to the Company’s life insurance subsidiaries. The impact of the CSA at March 31, 2010 and December 31, 2009 was a reduction of \$14,381 thousand and \$19,045 thousand in the reserves associated with these riders, respectively.

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. 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.

Level 3 Financial Assets:

(\$ in thousands)

	As of March 31, 2010					
	Asset-Backed	CDO/CLO	Corporate	CMBS	RMBS	YTD Assets
Balance, beginning of period	\$ 18,854	\$ 64,999	\$ 41,257	\$ 11,784	\$ 15,637	\$ 152,531
Net purchases	5,999	50	41,465	1,327	1,035	49,876
Net sales	(297)	(270)	(51,932)	(1,503)	(1,416)	(55,418)
Transfers into Level 3 ⁽¹⁾	--	--	3,405	--	--	3,405
Transfers out of Level 3 ⁽²⁾	(5,914)	--	(8,710)	--	(3,270)	(17,894)
Realized gains (losses) included in earnings	5	(1,514)	25	--	--	(1,484)
Unrealized gains (losses) included in other comprehensive income (loss)	256	3,576	4,069	684	(1,820)	6,765
Amortization/accretion	3	5	(9)	2	114	115
Balance, end of period	\$ 18,906	\$ 66,846	\$ 29,570	\$ 12,294	\$ 10,280	\$ 137,896

(1) Net transfers into Level 3 for the three months ended March 31, 2010 and 2009 primarily represent private securities for which Level 2 input assumptions for valuation pricing were no longer applicable.

(2) Net transfers out of Level 3 for the three months ended March 31, 2010 and 2009 primarily represent private securities for which reliable Level 2 input assumptions for valuation pricing became obtainable.

7. Fair Value of Financial Instruments (continued)

Level 3 Financial Assets:

(\$ in thousands)

	As of March 31, 2009					
	Asset-Backed	CDO/CLO	Corporate	CMBS	RMBS	YTD Assets
Balance, beginning of period	\$ 23,403	\$ 38,683	\$ 52,665	\$ 19,191	\$ 17,930	\$ 151,872
Net purchases	--	--	21	--	--	21
Net sales	(3,599)	(831)	(3,402)	(510)	(4,412)	(12,754)
Transfers into Level 3 ⁽¹⁾	2,607	--	13,515	--	895	17,017
Transfers out of Level 3 ⁽²⁾	(975)	--	(8,556)	(4,661)	(875)	(15,067)
Realized gains (losses) included in earnings	--	--	(1,916)	--	(2,008)	(3,924)
Unrealized gains (losses) included in other comprehensive income (loss)	129	15,018	(155)	(2,145)	862	13,709
Amortization/accretion	338	17	(224)	3	224	358
Balance, end of period	\$ 21,903	\$ 52,887	\$ 51,948	\$ 11,878	\$ 12,616	\$ 151,232

(1) Net transfers into Level 3 for the three months ended March 31, 2010 and 2009 primarily represent private securities for which Level 2 input assumptions for valuation pricing were no longer applicable.

(2) Net transfers out of Level 3 for the three months ended March 31, 2010 and 2009 primarily represent private securities for which reliable Level 2 input assumptions for valuation pricing became obtainable.

Level 3 Financial Liabilities:

(\$ in thousands)

	Three Months Ended	
	March 31,	
	2010	2009
	Embedded Derivatives	
Balance, beginning of period	\$ 24,487	\$ 118,028
Net purchases/(sales)	--	--
Transfers into Level 3	--	--
Transfers out of Level 3	--	--
Realized (gains) losses	10,454	4,564
Unrealized (gains) losses included in other comprehensive loss	--	--
Amortization/accretion	--	--
Balance, end of period	\$ 14,033	\$ 113,464
Portion of (gain) loss included in net income (loss) relating to those liabilities still held	\$ 10,454	\$ 4,564

Level 3 Gains and Losses:

(\$ in thousands)

	Three Months Ended	
	March 31, 2010	
	Trading Revenues	Other Revenues
Total gains or losses included in earnings (or changes in net assets) for the period	\$ 27	\$ (1,511)
Change in unrealized gains or losses relating to assets still held at the reporting date included in other comprehensive income	\$ --	\$ 6,765

8. Income Taxes

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, 2010 has been computed based on the first three months of 2010 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 2010.

8. Income Taxes (continued)

During the quarter ended March 31, 2010, we performed our quarterly assessment of net deferred tax assets. Significant management judgment is required in determining the provision for income taxes and, in particular, any valuation allowance recorded against our deferred tax assets. As a result of our quarterly assessment, we recorded a reduction to the valuation allowance of \$3,500 thousand for the three months ended March 31, 2010. This net movement was recognized as an expense to the income statement components of \$800 thousand and a benefit to equity components of \$4,300 thousand. We carried a total valuation allowance of \$19,100 thousand and \$22,600 thousand on \$197,650 thousand and \$210,637 thousand of gross deferred tax assets at March 31, 2010 and December 31, 2009, respectively, due to uncertainties related to our ability to utilize a portion of our deferred tax assets that are expected to reverse as capital losses.

We concluded that a valuation allowance on the remaining \$178,550 thousand of gross deferred tax assets at March 31, 2010 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 ASC 740, *Accounting for Income Taxes*.

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.

The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2006. During 2009, the Company resolved examination issues for tax years 2004 and 2005. No material unanticipated assessments were incurred and no adjustments were necessary to our liability for uncertain tax positions.

In accordance with the tax sharing agreement, as of March 31, 2010, we had current taxes recoverable of \$10,081 thousand and as of December 31, 2009 we had current taxes payable of \$18,203 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 period ending March 31, 2010 were not material.

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.

9. Contingent Liabilities (continued)

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 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.

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.

Regulatory actions may be difficult to assess or quantify. 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 financial condition. However, given 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 forward-looking statements include statements relating to trends in, or representing management's beliefs about our future transactions, strategies, operations and financial results, and often contain words such as "will," "anticipate," "believe," "plan," "estimate," "expect," "intend," "may," "should" and other similar words or 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. Our actual business, financial condition or results of operations 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 potential adverse affect of interest rate fluctuations on our business and results of operations; (iii) the effect of adverse capital and credit market conditions on our ability to meet our liquidity needs, our access to capital and our cost of capital; (iv) changes in our investment valuations based on changes in our valuation methodologies, estimations and assumptions; (v) the effect of guaranteed benefits within our products; (vi) potential exposure to unidentified or unanticipated risk that could adversely affect our businesses or result in losses; (vii) the consequences related to variations in the amount of our statutory capital due to factors beyond our control; (viii) the possibility that we not be successful in our efforts to implement a new business plan; (ix) the impact on our results of operations and financial condition of any required increase in our reserves for future policyholder benefits and claims if such reserves prove to be inadequate; (x) further downgrades in our debt or financial strength ratings; (xi) the possibility that mortality rates, persistency rates, funding levels or other factors may differ significantly from our assumptions used in pricing products; (xii) the possibility of losses due to defaults by others including, but not limited to, issuers of fixed income securities; (xiii) the availability, pricing and terms of reinsurance coverage generally and the inability or unwillingness of our reinsurers to meet their obligations to us specifically; (xiv) our ability to attract and retain key personnel in a competitive environment; (xv) our dependence on third parties to maintain critical business and administrative functions; (xvi) the strong competition we face in our business from banks, insurance companies and other financial services firms; (xvii) tax developments that may affect us directly, or indirectly through the cost of, the demand for or profitability of our products or services; (xviii) legislative or regulatory developments; (xix) regulatory or legal actions; (xx) changes in accounting standards; (xxi) the potential impact of a material weakness in our internal control over financial reporting on the accuracy of our reported financial results, investor confidence and our stock price; (xxii) the risks related to a man-made or natural disaster; (xxiii) risks related to changing climate conditions; and (xxiv) other risks and uncertainties described herein or in any of our filings with the SEC. Certain other factors which may impact our business, financial condition or results of operations or which may cause actual results to differ from such forward-looking statements are discussed or included in our periodic reports filed with the SEC and are available on our website at www.phoenixwm.com under "Investor Relations". You are urged to carefully consider all such factors. We do not undertake or plan to update or revise forward-looking statements to reflect actual results, changes in plans, assumptions, estimates or projections, or other circumstances occurring after the date of this Form 10-Q, even if such results, changes or circumstances make it clear that any forward-looking information will not be realized. If we make any future public statements or disclosures which modify or impact any of the forward-looking statements contained in or accompanying this Form 10-Q, such statements or disclosures will be deemed to modify or supersede such statements in this Form 10-Q.

MANAGEMENT'S NARRATIVE ANALYSIS OF THE RESULTS OF OPERATIONS

This section reviews our results of operations for the three months ended March 31, 2010 and 2009. 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, 2009 in our 2009 Annual Report on Form 10-K.

Executive Overview

Business

We provide life insurance and annuity products through third-party distributors, supported by wholesalers and financial planning specialists employed by us. Our historical expertise is in the high-net-worth and affluent market. More recently, we also have begun to focus on the needs of the broader middle market. The principal focus of our life insurance business is on permanent life insurance (universal and variable universal life) insuring one or more lives. Our annuity products include deferred and immediate and fixed variable annuities with a variety of death benefit and guaranteed living benefit options.

In 2009, our ultimate parent company The Phoenix Companies, Inc. ("PNX"), initiated a business plan that shifts the focus of new business development to areas that are less capital intensive, less ratings sensitive and not dependent on particular distributors. This plan leverages existing strengths and includes a newly formed distribution subsidiary of PNX, Saybrus Partners, Inc., repositioning some of our core life and annuity products for the middle market and establishing new relationships with distributors within that market, and identifying market opportunities for our alternative retirement solutions products.

Underlying this plan is a business strategy based on four pillars:

- Balance sheet strength;
- Policyholder security;
- Expense management; and
- Profitable growth.

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 earned on universal life and other policyholder funds managed as part of our general account, less the interest credited to policyholders on those funds. Interest margins also include investment income on assets supporting the Company's surplus.

- *Non-deferred operating expenses* including expenses related to servicing the products and policyholders offered by the Company, consisting of various maintenance and overhead-type expenses, including pension and other benefit costs.
- *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 and hedging programs.
- *Income taxes* expense which is a function of pretax income and significant judgments we make with respect to the reversal of certain temporary book-to-tax differences, and specifically our estimates of taxable income over the periods in which the deferred tax assets are expected to reverse, including consideration of the expiration dates and amounts of carryforwards related to net operating losses, capital losses, foreign tax credits and general business tax credits.

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 accounting principles generally accepted in the United States of America ("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

Since the middle of 2008, the U.S. economy has experienced unprecedented credit and liquidity issues and entered into a recession. Following several years of rapid credit expansion, a sharp contraction in mortgage lending coupled with dramatic declines in home and commercial real estate prices, rising mortgage defaults and increasing foreclosures, resulted in significant write-downs of asset values by financial institutions. 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, 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 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, 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. However, 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 life and annuity policies we provide. Accordingly, the risks we face related to general economic and business conditions are pronounced given the severity and magnitude of recent adverse economic and market conditions and the potential continuation of these conditions through 2010.

More specifically, our business is exposed to the performance of the debt and equity markets, which have been materially and adversely affected by economic developments since the middle of 2008. These adverse conditions included, but are not limited to, a lack of buyers for certain assets, volatility, credit spread changes and benchmark interest rate changes. Each of these factors has and may continue to impact the liquidity and value of our investments.

Further, 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 and increased availability of premium financing suggest that the reasons for purchasing our products are changing. At the same time, we also experienced an increase in life insurance sales to older individuals. While we instituted certain controls and procedures to screen applicants, we believe that our sales of universal life products include sales of policies to third party investors who, at the time of policy origination, had no insurable interest in the insured. The effect that these changes may have on our actual experience and profitability will emerge over time.

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). For example, we have implemented an increase in the cost of insurance rates for certain universal life policies effective April 1, 2010. However, this adjustment, any other permitted adjustments or any additional steps taken to manage our in force business may not be sufficient to maintain profitability. In addition, increasing charges on in force policies or contracts may adversely affect our relationships with distributors, future sales and surrenders and may result in claims against us by policyholders. Furthermore, some of our in force business consists of products that do not permit us to adjust the charges and credited rates of in force policies or contracts.

Effect of Recent Economic Market Conditions and Industry Trends on Earnings Drivers

Recent economic market conditions, and the related changes in our business, primarily affected us in the following areas:

- *Interest margins.* Interest margins decreased \$1,063 thousand to \$1,142 thousand in the first quarter of 2010, compared to \$2,205 thousand in the first quarter of 2009. Universal life and variable annuity interest margins both declined as a result of lower investment income on assets supporting these products as a result of lower yields and fewer assets.
- *Deferred policy acquisition cost.* Deferred policy acquisition cost amortization remained relatively flat at \$38,457 thousand compared to \$38,590 thousand in the first quarter 2010 and 2009, respectively. The change in offsets to deferred policy acquisition costs related to net unrealized investment gains or losses increased to \$58,087 thousand as of March 31, 2010 compared to \$13,391 thousand as of March 31, 2009. The significant fluctuation in offsets was primarily from the improvement in net unrealized losses during the first quarter of 2010.
- *Fees on our life and annuity products.* Fee revenues increased by \$10,950 thousand to \$107,236 thousand in the first quarter of 2010, compared to \$96,286 thousand in the first quarter of 2009. The increase was primarily driven by \$7,097 thousand of higher cost of insurance charges on our universal life policies. In addition, asset-based fees increased \$2,235 thousand on our variable annuity products from higher account balances reflecting the favorable equity markets during the past 12 months.
- *Mortality margins.* Universal life mortality margin increased by \$7,863 thousand to \$47,546 thousand in the first quarter 2010, compared to \$39,683 thousand in the first quarter of 2009. This was a result of continued favorable mortality as well as an increase in cost of insurance charges. Mortality margins in variable universal life increased by \$776 thousand to \$1,923 thousand in the first quarter of 2010, compared to \$1,147 thousand in the first quarter of 2009, a result of favorable mortality. Fluctuations in mortality are inherent in our lines of business.
- *Net realized investment gains or losses on our general account investments.* In the first quarter of 2010, we had net realized investment gains of \$994 thousand, compared to \$2,058 thousand in the first quarter of 2009. Realized gains in the first quarter of 2010 were primarily from realized gains on derivative assets and liabilities of \$5,684 thousand, partially offset by other-than-temporary impairment losses of \$3,568 thousand and debt security transaction losses of \$1,624 thousand. In contrast, realized gains on derivative assets and liabilities in the first quarter of 2009 were \$10,313 thousand, offset by other-than-temporary impairment losses of \$8,054 thousand.

- *Operating expenses.* Non-deferred operating expenses decreased by \$12,352 thousand to \$23,333 thousand in the first quarter of 2010, compared to \$35,685 thousand in the first quarter of 2009. This decrease was a result of significant expense reductions implemented during the year.
- *Income taxes.* The Company recorded income tax expense of \$3,958 thousand in first quarter 2010 compared to an income tax benefit of \$1,154 thousand in the first quarter of 2009. The increase in tax expense in 2010 as compared to a tax benefit in 2009 was primarily driven by the increase in earnings before taxes over the prior year.

Following are recent rating actions that may contribute to these adverse effects, which could be compounded should we experience additional downgrades:

- On January 13, 2010, A.M. Best Company, Inc. downgraded our financial strength rating from B++ to B+ and maintained its negative outlook.
- On September 8, 2009, Moody's Investor Services downgraded our financial strength rating from Baa2 to Ba1 and maintained its negative outlook.
- On February 12, 2010, Standard & Poor's downgraded our financial strength rating from BB to BB- and maintained its negative outlook.

In response to these developments, we expect to continue to focus on the following key strategic pillars in 2010:

- Balance sheet strength;
- Policyholder security;
- Expense management; and
- Profitable growth.

Recent Developments

Formation of Distribution Company

On November 3, 2009, our ultimate parent company announced the formation of a distribution company subsidiary, Saybrus Partners, Inc. ("Saybrus"). Phoenix formed Saybrus as part of a series of actions to strengthen its market position and strategy. Saybrus provides dedicated consultation services to partner companies, as well as support for Phoenix's product line within our own distribution channels.

Suspension of Distribution Relationships

During 2008, State Farm was our largest distributor of annuity and life insurance products. In March 2009, State Farm Mutual Automobile Insurance Company ("State Farm") suspended the sale of Phoenix products pending a re-evaluation of the relationship between the two companies. On July 30, 2009, our ultimate parent company restructured its agreement with State Farm, amending the existing agreement to clarify the service and support it will provide to customers who purchased their policies and contracts through a State Farm agent, as well as State Farm agents themselves. The restructured agreement does not provide for any new sales of our products through the State Farm distribution system. Approximately 80,000 of our inforce policies and contracts were sold through State Farm agents.

In 2008, National Life Group was our second largest distributor of annuity products. In March 2009, National Life Group suspended the sale of Phoenix products.

The actions by these and other distribution partners were primarily in response to downgrades by rating agencies. We have responded by refocusing our strategy on less rating-sensitive activities and market segments.

Impact of New Accounting Standards

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

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Critical accounting estimates are reflective of significant judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

A complete description of our critical accounting estimates is set forth in our 2009 Annual Report on Form 10-K. Management believes that those critical accounting estimates as set forth in the 2009 Annual Report on Form 10-K are important to understanding our results of operations and financial condition. A summary of certain of our critical accounting estimates, updated with information subsequent to the filing of our 2009 Annual Report on Form-10-K, is as follows:

Deferred Income Taxes

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.

As of March 31, 2010, we performed our assessment of net deferred tax assets. Significant management judgment is required in determining the provision for income taxes and, in particular, any valuation allowance recorded against our deferred tax assets. As a result of our quarterly assessment, we recorded a reduction to the valuation allowance of \$3,500 thousand for the three months ended March 31, 2010. This net movement was recognized as an expense to the income statement components of \$800 thousand and a benefit to equity components of \$4,300 thousand. We carried a valuation allowance of \$19,100 thousand on \$197,650 thousand of deferred tax assets at March 31, 2010, due to uncertainties related to our ability to utilize some of the 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 are expected to reverse.

We concluded that a valuation allowance on the remaining \$178,550 thousand of deferred tax assets at March 31, 2010, was not required. Our methodology for determining the realizability of deferred tax assets involves estimates of future taxable income and consideration of available tax planning strategies and actions that could be implemented, if necessary. These estimates are projected through the life of the related deferred tax assets based on assumptions that we believe to be reasonable and consistent with current operating results. Changes in future operating results not currently forecasted may have a significant impact on the realization of deferred tax assets.

We have elected to file a consolidated federal income tax return for 2010 and prior years. 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, and estimated provisions are routinely provided in the financial statements in anticipation of the results of these audits. Unfavorable resolution of any particular issue could result in additional use of cash to pay liabilities that would be deemed owed to the IRS. Additionally, any unfavorable or favorable resolution of any particular issue could result in an increase or decrease, respectively, to our effective income tax rate to the extent that our estimates differ from the ultimate resolution. As of March 31, 2010, we had current taxes recoverable of \$10,081 thousand, including \$52 thousand of unrecognized tax benefits.

See our 2009 Annual Report on Form 10-K for further information on critical accounting estimates related to deferred income taxes.

Other-Than-Temporary Impairments

We recognize realized investment losses when declines in fair value of debt securities are considered to be other-than-temporary. For debt securities, the other-than-temporarily impaired amount is separated into the amount related to a credit loss and is reported as net realized investment losses included in earnings, and any amounts related to other factors are 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 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
- it is probable 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. 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.

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.

On a quarterly basis, 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.

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.

See our Note 4 to our financial statements in this Form 10-Q for more information.

Deferred Policy Acquisition Costs and Present Value of Future Profits

We amortize deferred policy acquisition costs based on the related policy's classification. For individual life insurance policies, deferred policy acquisition costs are amortized in proportion to estimated gross margins. For universal life, variable universal life and accumulation annuities, deferred policy acquisition costs are amortized in proportion to 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.

The amortization of deferred policy acquisition costs requires the use of various assumptions, estimates and judgments about the future. EGPs for products sold in a particular year are aggregated into cohorts. Future EGPs are then projected for the estimated lives of the contracts within each cohort. The assumptions developed as part of our annual process are based on our current best estimates of future events. 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.

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 short-term market fluctuations. The average long-term rate of assumed separate account fund performance used in estimating gross profits was 6.0% (after fund fees and mortality and expense charges) for the variable annuity business and 6.9% (after fund fees and mortality and expense charges) for the variable life business at both March 31, 2010 and December 31, 2009.

To determine the reasonableness of the prior assumptions used and their impact on previously projected account values and the related EGPs, we evaluate, on a quarterly basis, our previously projected EGPs. Our process to assess the reasonableness of our EGPs involves the use of internally developed models, together with actual experience. Actual gross profits that vary from management's initial estimates in a given reporting period, result in increases or decreases in the rate of amortization recorded in the period.

In addition to our quarterly reviews, we conduct comprehensive assumption reviews, typically during the fourth quarter of each year. Upon completion of these assumption reviews, we revise our assumptions to reflect our current best estimate, thereby changing our estimate of EGPs in the deferred policy acquisition cost and unearned revenue amortization models, as well as projections within the death benefit and other insurance benefit reserving models. The deferred policy acquisition cost asset, the unearned revenue reserves and death benefit and other insurance benefit 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." 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.

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.

Results of Operations

Summary Financial Data:

(\$ in thousands)

	Three Months Ended March 31,		Increase (decrease) and percentage change	
	2010	2009	2010 vs. 2009	
REVENUES:				
Premiums	\$ 1,179	\$ 5,492	\$ (4,313)	(79%)
Insurance and investment product fees	107,236	96,286	10,950	11%
Net investment income	17,712	20,271	(2,559)	(13%)
Net realized investment gains (losses):				
Total other-than-temporary impairment ("OTTI") losses	(5,684)	(11,320)	5,636	50%
Portion of OTTI losses recognized in other comprehensive income	2,116	3,266	(1,150)	(35%)
Net OTTI losses recognized in earnings	(3,568)	(8,054)	4,486	56%
Net realized investment gains (losses), excluding OTTI losses	4,562	10,112	(5,550)	(55%)
Total realized investment gains	994	2,058	(1,064)	(52%)
Total revenues	127,121	124,107	3,014	2%
BENEFITS AND EXPENSES:				
Policy benefits	55,521	55,025	496	1%
Policy acquisition cost amortization	38,457	38,590	(133)	--
Other operating expenses	23,333	35,685	(12,352)	(35%)
Total benefits and expenses	117,311	129,300	(11,989)	(9%)
Income (loss) before income taxes	9,810	(5,193)	15,003	NM
Income tax expense (benefit)	3,958	(1,154)	5,112	NM
Net income (loss)	\$ 5,852	\$ (4,039)	\$ 9,891	NM

Not meaningful (NM)

Three months ended March 31, 2010 compared to three months ended March 31, 2009

Net income for the three months ended March 31, 2010 was \$5,852 thousand compared to a net loss from for the three months ended March 31, 2009 of \$4,039 thousand. The improvement reflects higher insurance and investment product fees and lower operating expenses. These improvements were partially offset by lower premiums and lower net realized investment gains.

Fee revenues increased by \$10,950 thousand to \$107,236 thousand in the first quarter of 2010, compared to \$96,286 thousand in the first quarter of 2009. The increase was primarily driven by \$7,097 thousand of higher cost of insurance charges on our universal life policies. In addition, asset-based fees increased \$2,235 thousand on our variable annuity products from higher account balances reflecting the favorable equity markets during the past 12 months.

Non-deferred operating expenses decreased by \$12,352 thousand to \$23,333 thousand in the first quarter of 2010, compared to \$35,685 thousand in the first quarter of 2009. This decrease was a result of significant expense reductions implemented during the year.

Premiums declined as a result of lower sales during the first quarter of 2010 compared to the first quarter of 2009.

In the three months ended March 31, 2010, we had net realized gains of \$994 thousand compared to \$2,058 thousand in the three months ended March 31, 2009. This decline was primarily driven by a decrease of \$4,629 thousand in realized gains on derivative assets and liabilities and an increase in debt security transaction losses of \$1,395 thousand. In addition, there was a decrease of \$4,486 thousand in other-than-temporary impairment losses.

Debt and Equity Securities Held in 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, 2010, our general account held debt securities with a carrying value of \$1,357,410 thousand, representing 91.3% of total general account investments. Public debt securities represented 80.5% of total debt securities, with the remaining 19.5% represented by private debt securities.

Debt Securities by Type and Credit Quality: (\$ in thousands)

	As of March 31, 2010			
	Investment Grade		Below Investment Grade	
	Fair Value	Cost	Fair Value	Cost
U.S. government and agency	\$ 122,042	\$ 121,871	\$ --	\$ --
State and political subdivision	6,145	6,488	--	--
Foreign government	12,701	11,546	1,335	1,122
Corporate	563,206	564,846	74,863	92,931
Commercial mortgage-backed	108,367	109,647	3,354	8,683
Residential mortgage-backed	304,329	324,666	19,695	32,462
CDO/CLO	3,031	3,390	63,815	80,439
Other asset-backed	70,585	73,377	3,942	4,166
Total debt securities	\$ 1,190,406	\$ 1,215,831	\$ 167,004	\$ 219,803
Percentage of total debt securities	87.7%	84.7%	12.3%	15.3%

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, 2010 in our debt securities portfolio are banking (5.7%), diversified financial services (3.5%), electric utilities (3.3%), insurance (3.2%) and REITs (2.3%).

Residential Mortgage-Backed Securities ("RMBS")

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 RMBS 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 RMBS portfolio is highly rated. As of March 31, 2010, 80% of the total residential portfolio was rated AAA or AA. We have \$44,692 thousand of sub-prime exposure, \$33,316 thousand of Alt-A exposure and \$117,741 thousand of prime exposure, which combined amount to 12.8% of our general account. Substantially all of our sub-prime, Alt-A, and prime exposure is investment grade, with 60% being AAA rated, and another 7% 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. RMBS impairments as of March 31, 2010 totaled \$1,484 thousand. These impairments consist of \$46 thousand from prime and \$1,438 thousand from Alt-A.

General Account Residential Mortgage-Backed Securities:

(\$ in thousands)

As of March 31, 2010

	Carrying Value	Market Value	% General Account ⁽¹⁾	Year of Issue					BB and Below
				AAA	AA	A	BBB		
Collateral									
Agency	\$ 127,448	\$ 128,275	8.5%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Prime	129,606	117,741	7.7%	73.1%	4.7%	5.3%	8.1%	8.8%	
Alt-A	40,594	33,316	2.2%	24.0%	12.0%	5.0%	0.0%	59.0%	
Sub-prime	59,481	44,692	2.9%	51.9%	9.8%	2.2%	19.9%	16.2%	
Total	\$ 357,129	\$ 324,024	21.3%	75.8%	4.3%	2.7%	5.7%	11.5%	

(1) Percentages based on Market Value.

General Account Prime Mortgage-Backed Securities:

(\$ in thousands)

As of March 31, 2010

Rating	Carrying Value	Market Value	% General Account ⁽¹⁾	Year of Issue					2003 & Prior
				2010	2007	2006	2005	2004	
AAA	\$ 92,587	\$ 86,059	5.6%	0.0%	0.0%	0.0%	10.1%	44.4%	45.5%
AA	5,934	5,478	0.4%	0.0%	0.0%	35.4%	29.0%	35.6%	0.0%
A	7,043	6,302	0.4%	0.0%	0.0%	24.6%	75.4%	0.0%	0.0%
BBB	11,035	9,541	0.6%	0.0%	0.0%	68.4%	25.8%	5.8%	0.0%
BB and Below	13,007	10,361	0.7%	0.0%	11.7%	15.4%	64.0%	1.9%	7.0%
Total	\$ 129,606	\$ 117,741	7.7%	0.0%	1.0%	9.9%	20.4%	34.8%	33.9%

(1) Percentages based on Market Value.

General Account Alt-A Mortgage-Backed Securities:

(\$ in thousands)

As of March 31, 2010

Rating	Carrying Value	Market Value	% General Account ⁽¹⁾	Year of Issue					2003 & Prior
				2010	2007	2006	2005	2004	
AAA	\$ 8,441	\$ 8,014	0.5%	0.0%	0.0%	0.0%	0.0%	88.3%	11.7%
AA	4,008	3,985	0.3%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%
A	2,209	1,668	0.1%	0.0%	0.0%	0.0%	0.0%	57.4%	42.6%
BBB	--	--	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB and Below	25,936	19,649	1.3%	0.0%	9.7%	35.6%	53.6%	0.0%	1.1%
Total	\$ 40,594	\$ 33,316	2.2%	0.0%	5.7%	33.0%	31.6%	24.1%	5.6%

(1) Percentages based on Market Value.

General Account Sub-Prime Mortgage-Backed Securities:

(\$ in thousands)

As of March 31, 2010

Rating	Carrying Value	Market Value	% General Account ⁽¹⁾	Year of Issue					2003 & Prior
				2010	2007	2006	2005	2004	
AAA	\$ 25,284	\$ 23,218	1.5%	4.3%	21.2%	11.3%	9.8%	35.0%	18.4%
AA	4,951	4,377	0.3%	0.0%	32.6%	0.0%	40.9%	0.0%	26.5%
A	1,050	992	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%
BBB	16,973	8,873	0.6%	0.0%	49.4%	15.5%	24.3%	0.0%	10.8%
BB and Below	11,223	7,232	0.5%	0.0%	61.3%	18.9%	19.8%	0.0%	0.0%
Total	\$ 59,481	\$ 44,692	2.9%	2.2%	33.9%	12.0%	19.4%	18.2%	14.3%

(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,	
	2010	2009
Total other-than-temporary debt impairment losses	\$ (5,684)	\$ (10,227)
Portion of loss recognized in other comprehensive income	2,116	3,266
Net debt impairments recognized in earnings	\$ (3,568)	\$ (6,961)
Debt security impairments	\$ (3,568)	\$ (6,961)
Other investments impairments	--	(1,093)
Impairment losses	(3,568)	(8,054)
Debt security transaction gains	237	31
Debt security transaction losses	(1,624)	(229)
Other investments transaction gains (losses)	265	(3)
Net transaction losses	(1,122)	(201)
Realized gains (losses) on derivative assets and liabilities	5,684	10,313
Net realized investment gains (losses), excluding impairment losses	4,562	10,112
Net realized investment gains (losses), including impairment losses	\$ 994	\$ 2,058

Other-Than-Temporary Impairments

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.

A credit-related loss impairment is determined by calculating 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 and apply the default rate based on the remaining years to maturity. The non-credit related loss component is equal to the difference between the fair value of a bond and its impaired carrying value.

Management exercised significant judgment with respect to certain securities in determining whether impairments are temporary or other-than-temporary. At March 31, 2010, this included securities with \$50,218 thousand of gross unrealized losses of 50% or more for which no other-than-temporary impairment was ultimately indicated. In reaching its conclusions, management used a number of issuer-specific quantitative indicators and qualitative judgments to assess the probability of receiving a given security's contractual cash flows. This included the issue's implied yield to maturity, cumulative default rate based on 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 requirements. Management also reviewed fundamentals such as issuer credit and liquidity metrics, business outlook and industry conditions. In addition to these reviews, management in each case assessed whether it is more likely than not that we will be required to sell a security before it recovers in value, up to and including maturity. Management maintains a watch list of securities that is reviewed for impairments. 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.

The three holdings at March 31, 2010 with the largest unrealized loss balance(s) which are temporarily impaired are:

- *Preferred Term* – With a fair value of \$12,315 thousand and an unrealized loss of \$17,558 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-callable for the first 5 years) 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 securities and, therefore, this issue does not merit an other-than-temporary impairment at this time.
- *Bear Stearns Asset Backed Securities* – With a fair value of \$4,381 thousand and an unrealized loss of \$5,419 thousand, this security group comprises sub-prime home equity issues. The majority of the issuers are investment grade. In general, there is an increasing delinquency pipeline and low levels of credit support. We have performed numerous stress runs using observable inputs in regard to prepayment speeds, default rates and loss severities, which support ample credit coverage even under considerable loss severities, due to our position in the capital structure. Therefore, we have determined it is probable we will be able to collect all amounts due according to the contractual terms of the securities. We do not intend to sell these securities and recovery remains more likely than not. Therefore, this issue does not merit an other-than-temporary impairment at this time.
- *Alesco Preferred Funding* – With a fair value of \$3,000 thousand and an unrealized loss of \$7,000 thousand, this is a multi-class, cash flow CDO 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 methodology 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. Therefore, this issue does not merit an other-than-temporary impairment at this time.

Debt Securities

Fixed maturity other-than-temporary impairments recorded in the first quarter of 2010 were concentrated in residential mortgage-backed securities and in the CDO/CLO structured products. These impairments were driven primarily by significant rating downgrades and increased credit default rates. In our judgment, these credit events or other adverse conditions of the issuers have caused, or will most likely lead to, a deficiency in the contractual cash flows related to the investment. Therefore, based upon these credit events, we have determined that other-than-temporary impairments exist. Total impairments recognized through earnings related to such credit-related circumstances were \$3,568 thousand in the first quarter of 2010 and \$6,961 thousand in the first quarter of 2009.

In addition to these credit-related impairments recognized through earnings, we impaired securities to fair value through other comprehensive loss for any impairments related to non-credit related factors. These types of impairments were driven primarily by market or sector credit spread widening or by a lack of liquidity in the securities. The amount of impairments recognized as an adjustment to other comprehensive loss due to these factors was \$2,116 thousand in the first quarter of 2010 and \$3,266 thousand in the first quarter of 2009.

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.

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.

	Three Months Ended March 31,	
	2010	2009
Credit Losses Recognized in Earnings on Debt Securities: <i>(\$ in thousands)</i>		
Debt securities credit losses, beginning of period	\$ (12,442)	\$ (9,634)
Add: Credit losses on other-than-temporary impairments not previously recognized	(246)	(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	(3,322)	--
Less: Increases in cash flows expected on previously impaired securities	--	--
Debt securities credit losses, end of period	\$ (16,010)	\$ (11,267)

Unrealized Gains and Losses

Net unrealized investment gains and losses on securities classified as available for sale and certain other assets are included in the balance sheet as a component of accumulated other comprehensive income (loss) ("AOCI"). The table below presents the special category of AOCI for debt securities that are other-than-temporarily impaired when the impairment loss has been split between the credit loss component (in earnings) and the non-credit component (separate category of AOCI) and the subsequent changes in fair value.

	March 31, 2010 ⁽¹⁾	Dec 31, 2009 ⁽¹⁾
Fixed Maturity Securities on which an OTTI Loss has been Recognized, by Type: <i>(\$ in thousands)</i>		
U.S. government and agency	\$ --	\$ --
State and political subdivision	--	--
Foreign government	--	--
Corporate	(591)	(591)
Commercial mortgage-backed	(2,950)	(1,739)
Residential mortgage-backed	(11,493)	(11,401)
CDO/CLO	(10,478)	(9,698)
Other asset-backed	--	--
Fixed maturity non-credit losses in AOCI	\$ (25,512)	\$ (23,429)

⁽¹⁾ Represents the amount of other-than-temporary impairment losses in AOCI which, from January 1, 2009, were not included in earnings, excluding net unrealized gains or losses on impaired securities relating to changes in value of such securities subsequent to the impairment date.

The following table presents certain information with respect to our gross unrealized losses related to our investments in general account debt securities as of March 31, 2010. 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, 2010			
	Total	0 – 6 Months	6 – 12 Months	Over 12 Months
Debt securities				
Total fair value	\$ 521,982	\$ 131,659	\$ 593	\$ 389,730
Total amortized cost	636,572	134,115	779	501,678
Unrealized losses	\$ (114,590)	\$ (2,456)	\$ (186)	\$ (111,948)
Unrealized losses after offsets	\$ (14,183)	\$ (371)	\$ (21)	\$ (13,791)
Number of securities	343	62	3	278
Investment grade:				
Unrealized losses	\$ (57,451)	\$ (2,073)	\$ (186)	\$ (55,192)
Unrealized losses after offsets	\$ (7,218)	\$ (327)	\$ (21)	\$ (6,870)
Below investment grade:				
Unrealized losses	\$ (57,139)	\$ (383)	\$ --	\$ (56,756)
Unrealized losses after offsets	\$ (6,965)	\$ (44)	\$ --	\$ (6,921)
Equity securities				
Unrealized losses	\$ (47)	\$ (47)	\$ --	\$ --
Unrealized losses after offsets	\$ (5)	\$ (5)	\$ --	\$ --
Number of securities	1	1	--	--

Total net unrealized losses on debt securities were \$78,224 thousand (unrealized losses of \$114,590 thousand less unrealized gains of \$36,366 thousand).

For debt securities with gross unrealized losses, 50.9% of the unrealized losses after offsets pertain to investment grade securities and 49.1% of the unrealized losses after offsets pertain to below investment grade securities at March 31, 2010.

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, 2010			
	Total	0 – 6 Months	6 – 12 Months	Over 12 Months
Debt securities				
Unrealized losses over 20% of cost	\$ (88,056)	\$ (7,623)	\$ --	\$ (80,433)
Unrealized losses over 20% of cost after offsets	\$ (10,791)	\$ (867)	\$ --	\$ (9,924)
Number of securities	95	20	--	75
Investment grade:				
Unrealized losses over 20% of cost	\$ (37,259)	\$ (3,616)	\$ --	\$ (33,643)
Unrealized losses over 20% of cost after offsets	\$ (4,691)	\$ (411)	\$ --	\$ (4,280)
Below investment grade:				
Unrealized losses over 20% of cost	\$ (50,797)	\$ (4,007)	\$ --	\$ (46,790)
Unrealized losses over 20% of cost after offsets	\$ (6,100)	\$ (456)	\$ --	\$ (5,644)

Liquidity and Capital Resources

In the normal course of business, we enter into transactions involving various types of financial instruments such as debt 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.

The primary liquidity risks regarding cash inflows from our investment activities are the risks of default by debtors, interest rate and other market volatility and potential illiquidity of investments. We closely monitor and manage these risks.

We believe that our current and anticipated sources of liquidity are adequate to meet our present and anticipated needs.

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 January 13, 2010, A.M. Best Company, Inc. downgraded our financial strength rating to B+ from B++ and maintained its negative outlook. On March 10, 2009, A.M. Best Company, Inc. downgraded our financial strength rating to B++ from A.

On September 8, 2009, Moody's Investor Services downgraded our financial strength rating of Baa2 to Ba1. They maintained their negative outlook. On March 10, 2009, Moody's Investor Services downgraded our financial strength rating to Baa2 from Baa1.

On February 12, 2009, Standard & Poor's downgraded our financial strength rating from BB to BB- and maintained its negative outlook. On August 6, 2009, Standard & Poor's downgraded our financial strength rating of BBB- to BB. On May 7, 2009, Standard & Poor's affirmed our financial strength rating of BBB-. On March 10, 2009, Standard & Poor's downgraded our financial strength rating to BBB- from BBB.

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 rating 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 14, 2010 were as follows:

Rating Agency	Financial Strength Ratings of Phoenix Life and PHL Variable Life	Outlook
A.M. Best Company, Inc.	B+	Negative
Moody's	Ba1	Negative
Standard & Poor's	BB-	Negative

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

Contractual Obligations and Commercial Commitments

As of March 31, 2010, there were no significant changes to our outstanding contractual obligations and commercial commitments as disclosed in our 2009 Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

As of March 31, 2010 and December 31, 2009, we did not have any significant off-balance sheet arrangements as defined by Item 303(a)(4)(ii) of SEC Regulation S-K.

Obligations Related to Pension and Postretirement Employee Benefit Plans

Our ultimate parent company provides most of its employees and those of its subsidiaries with post-employment benefits that include retirement benefits, through pension and savings plans, and other benefits, including health care and life insurance. This includes three defined benefit pension plans covering our employees. We incur applicable employee benefit expenses through the process of cost allocation by PNX.

The employee pension plan, covering substantially all of our employees, provides benefits up to the amount allowed under the Internal Revenue Code. The two supplemental plans provide benefits in excess of the primary plan. Retirement benefits under the plans are a function of years of service and compensation. The employee pension plan is funded with assets held in a trust, while the supplemental plans are unfunded. Effective March 31, 2010, all benefit accruals were frozen under our funded and unfunded defined benefit plans.

Employee benefit expense allocated to us for these benefits totaled \$1,440 thousand and \$3,771 thousand at March 31, 2010 and 2009, respectively. Phoenix Life made contributions to the pension plans in the first quarter of 2010, of which \$3,656 thousand has been allocated to us. By December 31, 2010, Phoenix Life expects to make additional contributions to the pension plans, of which approximately \$2,612 thousand will be allocated to us.

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.

Statutory Capital and Surplus

Our statutory basis capital and surplus (including AVR) was \$268,012 thousand at March 31, 2010. Statutory results are preliminary until filed with the regulatory authorities.

Enterprise Risk Management

Our ultimate parent company, PNX, has a comprehensive, enterprise-wide risk management program under which PHL Variable operations are covered. The Chief Risk Officer reports to the Chief Financial Officer and monitors our risk management activities. During 2009, as part of our strategic repositioning and overall expense reduction effort, we refined our approach to risk management across the enterprise. We have an Enterprise Risk Management Committee, chaired by the our ultimate parent company's Chief Executive Officer, whose functions are to establish risk management principles, monitor key risks and oversee our risk-management practices. Several management committees oversee and address issues pertaining to all our major risks—operational, market and product—as well as capital management.

See our 2009 Annual Report on Form 10-K for more information regarding our enterprise risk management. There were no material changes in our exposure to operational and market risk exposure at March 31, 2010 in comparison to December 31, 2009.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information about our management of market risk, see “Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the heading “Enterprise Risk Management.

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 President and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, these officers have concluded that, as of March 31, 2010, 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 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 and that such information is accumulated and communicated to our management, including our President and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are regularly involved in litigation and arbitration, both as a defendant and as a plaintiff. In addition, various regulatory bodies regularly make inquiries of us and, from time to time, conduct examinations or investigations concerning our compliance with, among other things, insurance laws, securities laws, laws governing the activities of broker-dealers and other laws and regulations affecting our registered products. It is not feasible to predict or determine the ultimate outcome of all legal or regulatory proceedings or to provide reasonable ranges of potential losses. We believe that the outcomes of our litigation and regulatory matters are not likely, either individually or in the aggregate, to have a material adverse effect on our 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 2009 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.

Since the middle of 2008, the U.S. economy has experienced unprecedented credit and liquidity issues and entered into a recession. Following several years of rapid credit expansion, a sharp contraction in mortgage lending coupled with dramatic declines in home and commercial real estate prices, rising mortgage defaults and increasing foreclosures, resulted in significant write-downs of asset values by financial institutions. 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, 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 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, 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. However, 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 life and annuity policies we provide. Accordingly, the risks we face related to general economic and business conditions are pronounced given the severity and magnitude of recent adverse economic and market conditions and the potential continuation of these conditions through 2010.

More specifically, our business is exposed to the performance of the debt and equity markets, which have been materially and adversely affected by economic developments since the middle of 2008. These adverse conditions included, but are not limited to, a lack of buyers for certain assets, volatility, credit spread changes and benchmark interest rate changes. Each of these factors has and may continue to impact the liquidity and value of our investments. These effects include, but are not limited to, the following:

- Poor performance of the debt and equity markets diminishes our fee revenues by reducing the value of the assets we manage within our variable annuity and variable life products.
- Significant accounting estimates may be materially affected by the equity and debt markets and their impact on our customers' behavior. For example, in setting amortization schedules for our deferred policy acquisition costs, we make assumptions about future market performance and policyholder behavior. Also, we analyze our ability to utilize deferred tax assets based on projected financial results which reflect the impact of financial markets on our business. At March 31, 2010, we carried a valuation allowance of \$19,100 thousand on \$197,650 thousand of deferred tax assets.
- The funding requirements of our ultimate parent company's pension plan are dependent on the performance of the debt and equity markets. Future market declines could result in additional funding requirements. Also, the funding requirements of our ultimate parent company's pension plan are sensitive to interest rate changes. Should interest rates decrease materially, the value of the liabilities under the plan would increase, as would the requirement for future funding.
- The value of our investment portfolio had an unrealized loss position, before offsets of \$78,224 thousand, at March 31, 2010. This has resulted in, and may, in future periods, continue to result in higher realized losses. We may also experience future unrealized losses. In addition to general interest rate increases or credit spread widening, the value of our investment portfolio can also be depressed by illiquidity and by changes in assumptions or inputs we use in estimating fair value of the portfolio.
- Certain types of securities in our investment portfolio, such as asset-backed securities supported by residential and commercial mortgages, have been disproportionately affected and could experience further realized and/or unrealized losses if the delinquency rates of the underlying mortgage loans increase.

Economic and market conditions have materially and adversely affected us. While there are some signs of an economic and market recovery, it is difficult to predict how long it will take for a sustainable economic and market recovery to take hold or whether the financial markets will once again deteriorate. The lack of credit, lack of confidence in the financial sector, 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.

Interest rate fluctuations could adversely affect our business and results of operations.

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 results of operations.

Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs, our access to capital and our cost of capital.

Adverse capital and credit market conditions may limit our access to liquidity and affect the availability and cost of borrowed funds. We need liquidity to meet policyholder obligations and to pay operating expenses, as well as any shareholder dividends declared by our Board of Directors. Our principal source of liquidity is cash flow generated by operations and investment activities. Without sufficient liquidity, we could be forced to curtail certain of our operations, which would adversely impact our results of operations. Additional actions could include, but are not limited to:

- Access to external sources of capital, including the debt or equity markets;
- Limiting or curtailing sales of certain products and/or restructuring existing products;
- Undertaking asset sales; and
- Seeking temporary or permanent changes to regulatory rules.

Certain of these actions could require regulatory approval.

The principal internal sources of our liquidity are insurance premiums, annuity considerations, deposit funds and cash flow from our investment portfolio and assets, to the extent they consist of cash or assets that are readily convertible into cash. Under normal circumstances, we maintain access to external sources of liquidity, including the potential issuance of debt and equity securities.

The availability of external sources of liquidity depends on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to the financial services industry, and our financial strength ratings and credit capacity. The current uncertainty or volatility in the financial markets and the deterioration of our financial strength ratings has reduced our ability to obtain new financing in support of our business on favorable terms, and eliminated altogether our ability to access certain markets.

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 and 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 and 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. See Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates" for further information regarding our impairment decision-making process. Given current market conditions and liquidity concerns, management's 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 results of operations, 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 lower 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. Market conditions can also result in losses on product related hedges and such losses 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.

Our risk management policies and procedures may leave us exposed to unidentified or unanticipated risk, which could adversely affect our businesses or result in losses.

Our policies and procedures to monitor and manage risks, including hedging programs that utilize derivative financial instruments, may not be fully effective and may leave us exposed to unidentified and unanticipated risks. The Company uses models in its hedging programs and many other aspects of its operations, including but not limited to the estimation of actuarial reserves, the amortization of deferred acquisition costs and the value of business acquired, and the valuation of certain other assets and liabilities. These models rely on assumptions and projections that are inherently uncertain. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective. Past or future misconduct by our employees or employees of our vendors could result in violations of law by us, regulatory sanctions and/or serious reputational or financial harm and the precautions we take to prevent and detect this activity may not be effective in all cases. A failure of our computer systems or a compromise of their security could also subject us to regulatory sanctions or other claims, harm our reputation, interrupt our operations and adversely affect our business, results of operations or financial condition.

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: 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 did not qualify for hedge accounting, changes in interest rates and foreign currency exchange rates, as well as changes to the RBC formulas. Most of these factors are outside of our control. 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.

We may be unsuccessful in our efforts to implement a new business plan.

In light of downgrades to our financial strength ratings and the loss or impairment of our relationships with several key distribution partners, PNX has initiated a new business plan that leverages existing product manufacturing strengths and partnering capabilities to shift the focus of new business development to areas that are less capital intensive, appeal to an expanded range of distributors including those with middle market clients, and not dependent on particular distribution partners. This plan shifts the focus of new business development to distributing our products through our ultimate parent company's newly formed distribution company, selling core products through new distribution channels including independent marketing organizations and expanding alternative retirement product solutions. This new business plan may not succeed and may adversely affect our results of operations and our ability to retain existing customers or attract new customers.

If our reserves for future policyholder benefits and claims are inadequate, we may be required to increase our reserves, which would adversely affect our results of operations and financial condition.

We establish and carry reserves to pay future policyholder benefits and claims. Our reserves do not represent an exact calculation of liability, but rather are actuarial or statistical estimates based on models that include many assumptions and projections which are inherently uncertain and involve the exercise of significant judgment, including as to the levels of and/or timing of receipt or payment of premiums, benefits, claims, expenses, interest credits, investment results (including equity market returns), retirement, mortality, morbidity and persistency. We cannot determine with precision the ultimate amounts that we will pay for, or the timing of payment of, actual benefits, claims and expenses or whether the assets supporting our policy liabilities, together with future premiums, will be sufficient for payment of benefits and claims. If we conclude that our reserves, together with future premiums, are insufficient to cover future policy benefits and claims, we would be required to increase our reserves and incur income statement charges for the period in which we make the determination, which would adversely affect our results of operations and financial condition.

Downgrades of 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, and assign PNX debt ratings, based in each case on their opinions of PNX or Phoenix Life's ability to meet their respective financial obligations.

Our ratings relative to other companies in the industry affect our competitive position. Downgrades have adversely affected our reputation and, hence, our ability to distribute our products through unaffiliated third parties. These downgrades in ratings have materially and adversely affected new sales of our products and the persistency of existing customers, as well as our ability to borrow. At this time, we cannot estimate the impact of specific future rating agency actions on sales or persistency. Any rating downgrades may also result in a lack of access to or 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 and may require us to reduce our operations.

We have recently been downgraded and continue to have a negative outlook.

- On January 13, 2010, A.M. Best Company, Inc. downgraded our financial strength rating from B++ to B+ and maintained its negative outlook.
- On September 8, 2009, Moody's Investor Services downgraded our financial strength rating from Baa2 to Ba1 and maintained its negative outlook.
- On February 12, 2010, Standard & Poor's downgraded our financial strength rating from BB to BB- and maintained its negative outlook.

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. Accordingly, further downgrades may occur in the future at any time and without notice by any rating agency.

Our results may be negatively impacted if investment returns, mortality rates, persistency rates, funding levels, expenses or other factors differ significantly from our assumptions used in pricing products.

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 and increased availability of premium financing suggest that the reasons for purchasing our products are changing. At the same time, we also experienced an increase in life insurance sales to older individuals. While we instituted certain controls and procedures to screen applicants, we believe that our sales of universal life products include sales of policies to third party investors who, at the time of policy origination, had no insurable interest in the insured. The effect that these changes may have on our actual experience and profitability will emerge over time.

Deviations in actual experience from our pricing assumptions have had, and could continue to have, an adverse effect on the profitability of certain universal life products. 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). We are implementing an increase in the cost of insurance rates for certain universal life policies effective April 1, 2010. However, this adjustment and any other permitted adjustments may not be sufficient to maintain profitability. In addition, increasing charges on in force policies or contracts may adversely affect our relationships with distributors, future sales and surrenders and may result in claims against us by policyholders. Furthermore, some of our in force business consists of products that do not permit us to adjust the charges and credited rates of in force 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 our results of operations. 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. See Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates.” 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. 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 2009, the amortization of such costs is accelerated in the period in which the assumptions are changed, resulting in a charge to income. For example, in 2009 we had an unlocking of deferred policy acquisition costs of \$4,262 thousand. Such adjustments may in the future have a material adverse effect on our results of operations or financial condition.

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 our 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.

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 might be unable to attract or retain personnel who are key to our business.

The success of our business is dependent to a large extent on our ability to attract and retain key employees. Competition in the job market for senior executives and professionals such as securities analysts, portfolio managers, sales personnel, underwriters, technology professionals and actuaries can be intense. In general, our employees are not subject to employment contracts or non-compete agreements.

In 2009, to reduce and control our expenditures, we implemented a series of actions, including the freezing of senior management salaries and our ultimate parent company's qualified and non-qualified pension plans, that could impact our relationship with our senior management and our ability to retain or attract senior executives, key employees or professionals we need to operate our business successfully. These actions and further actions that may be implemented could have a negative impact on us.

Our business operations and results 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 results of operations.

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 results of operations.

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 financial 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 able better withstand further market disruption, able to offer more competitive pricing, and have superior access to debt and equity capital.

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 results of operations and financial condition could be materially and adversely affected.

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, deductibility of performance-based compensation that exceeds \$1,000 thousand, 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 results of operations could be adversely impacted.

Potential changes in federal and state regulation may increase our business costs and required capital levels, which could adversely affect our business, 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. These laws and regulations are administered and enforced by a number of different governmental authorities including foreign regulators, state insurance regulators, state securities administrators, the SEC, the New York Stock Exchange, the Financial Industry Regulatory Authority, 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, 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 business. We are regulated by the insurance departments of the states in which we are domiciled (Connecticut) and licensed. State insurance regulators and the 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, 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, operating results, financial condition and liquidity.

Regulatory actions could result in financial losses or harm to our businesses.

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 the regulatory authorities have not 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 regulatory proceedings or to provide reasonable ranges of potential losses. We believe that the outcomes of regulatory matters are not likely, either individually or in the aggregate, to have a material adverse effect on our financial condition. However, given 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 operations or cash flows in particular quarterly or annual periods.

Legal actions are inherent in our businesses and could adversely affect our results of operations or financial position or harm our businesses or reputation.

We are, and in the future may be, subject to legal actions in the ordinary course of our businesses. Some of these proceedings have been brought, and may be brought in the future, on behalf of various alleged classes of complainants. In certain of these matters, the plaintiffs may seek large and/or indeterminate amounts, including punitive or exemplary damages. Substantial legal liability in these or future legal actions could have an adverse effect on us or cause us reputational harm, which in turn could harm our business prospects or result in regulatory or legislative responses.

Our litigation matters are subject to many uncertainties, and given their complexity and scope, their outcome cannot be predicted. It is possible that our results of operations or cash flow in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation matters depending, in part, upon the results of operations or cash flow for such period. In light of the unpredictability of the Company's litigation matters, it is also possible that in certain cases an ultimate unfavorable resolution of one or more pending litigation matters could have a material adverse effect on the Company's financial position.

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.

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. See Note 2 to our financial statements under Item 8 "Financial Statements and Supplementary Data—Adoption of New Accounting Standards" in our 2009 Annual Report on Form 10-K for more information.

Our internal control over financial reporting may not be considered effective in the future, which could result in a loss of investor confidence in our financial reports and in turn have an adverse effect on our stock price.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to furnish a report by our management on our internal control over financial reporting on an annual basis. Such report must contain, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of the year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management.

We believe that we have adequately addressed the previously disclosed deficiencies, but there can be no assurance that we have discovered all of the deficiencies that may exist now and in the future. If our internal control over financial reporting and disclosure controls and procedures have not been sufficiently improved and we were to determine that such weaknesses continue to exist, our investors could lose confidence in the accuracy and completeness of our financial statements and our reports that we file with the SEC.

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 widespread outbreaks of communicable diseases, such as the outbreak of swine flu experienced world-wide in April 2009, have not adversely affected us 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.

Changing climate conditions may adversely affect our financial condition, profitability or cash flows.

The Company is aware of the scientific view that the world is getting warmer. Climate change, to the extent it produces rising temperatures and changes in weather patterns, could impact the frequency or severity of weather events and wildfires. To the extent that climate change impacts mortality rates or consumer behavior and those changes do not match the long-term mortality assumptions in our product pricing, our financial condition, profitability or cash flows could be impacted.

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. REMOVED AND RESERVED

Item 5. OTHER INFORMATION

- (a) None.
- (b) No material changes.

Item 6. EXHIBITS

Exhibit

- 3. 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.: 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 James D. Wehr, 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 James D. Wehr, 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 17, 2010

By: /s/ Peter A. Hofmann

Peter A. Hofmann

Senior Executive Vice President and Chief Financial Officer