
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: 001-16517



PHOENIX

THE PHOENIX COMPANIES, INC.
(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

06-1599088

(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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

On April 30, 2010, the registrant had 116.0 million shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

THE PHOENIX COMPANIES, INC.
Unaudited Interim Consolidated Balance Sheets
(\$ in millions, 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 \$10,665.3 and \$10,670.5)	\$ 10,595.7	\$ 10,345.5
Available-for-sale equity securities, at fair value (amortized cost of \$24.8 and \$24.4)	33.0	25.2
Venture capital partnerships, at equity in net assets	199.6	188.6
Policy loans, at unpaid principal balances	2,341.0	2,324.4
Other investments	536.5	539.7
Fair value option investments	68.7	69.3
Total investments	<u>13,774.5</u>	<u>13,492.7</u>
Cash and cash equivalents	129.8	257.7
Accrued investment income	180.9	176.4
Receivables	364.7	356.6
Deferred policy acquisition costs	1,743.0	1,916.0
Deferred income taxes	192.7	166.2
Other assets	171.8	195.8
Discontinued operations assets	3,565.8	3,620.8
Separate account assets	4,451.6	4,418.1
Total assets	<u>\$ 24,574.8</u>	<u>\$ 24,600.3</u>
LIABILITIES:		
Policy liabilities and accruals	\$ 13,140.2	\$ 13,151.1
Policyholder deposit funds	1,318.1	1,342.7
Indebtedness	427.7	428.0
Other liabilities	485.6	527.8
Discontinued operations liabilities	3,545.7	3,601.5
Separate account liabilities	4,451.6	4,418.1
Total liabilities	<u>23,368.9</u>	<u>23,469.2</u>
COMMITMENTS AND CONTINGENT LIABILITIES (NOTES 17 & 18)		
STOCKHOLDERS' EQUITY:		
Common stock, \$.01 par value: 116.0 million and 115.7 million shares outstanding	1.3	1.3
Additional paid-in capital	2,628.0	2,627.3
Accumulated deficit	(1,133.0)	(1,146.7)
Accumulated other comprehensive loss	(110.9)	(171.3)
Treasury stock, at cost: 11.3 million and 11.3 million shares	(179.5)	(179.5)
Total stockholders' equity	<u>1,205.9</u>	<u>1,131.1</u>
Total liabilities and stockholders' equity	<u>\$ 24,574.8</u>	<u>\$ 24,600.3</u>

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

THE PHOENIX COMPANIES, INC.
Unaudited Interim Consolidated Statements of Income and Comprehensive Income
(\$ in millions, except share data)
Three Months Ended March 31, 2010 and 2009

	<u>March 31,</u>	
	<u>2010</u>	<u>2009</u>
REVENUES:		
Premiums	\$ 151.7	\$ 172.2
Fee income	162.5	154.0
Net investment income	204.7	184.9
Net realized investment losses:		
Total other-than-temporary impairment (“OTTI”) losses	(31.4)	(57.7)
Portion of OTTI losses recognized in other comprehensive income	16.9	19.4
Net OTTI losses recognized in earnings	(14.5)	(38.3)
Net realized investment gains, excluding OTTI losses	17.5	63.7
Net realized investment gains	3.0	25.4
Total revenues	<u>521.9</u>	<u>536.5</u>
BENEFITS AND EXPENSES:		
Policy benefits, excluding policyholder dividends	288.6	316.2
Policyholder dividends	62.7	37.8
Policy acquisition cost amortization	68.2	65.6
Interest expense on indebtedness	8.0	8.5
Other operating expenses	80.2	76.0
Total benefits and expenses	<u>507.7</u>	<u>504.1</u>
Income from continuing operations before income taxes	14.2	32.4
Income tax expense	0.2	105.7
Income (loss) from continuing operations	<u>14.0</u>	<u>(73.3)</u>
Loss from discontinued operations, net of income taxes	(0.3)	(1.5)
Net income (loss)	<u>\$ 13.7</u>	<u>\$ (74.8)</u>
EARNINGS PER SHARE:		
Earnings (loss) from continuing operations – basic	\$ 0.12	\$ (0.63)
Earnings (loss) from continuing operations – diluted	\$ 0.12	\$ (0.63)
Loss from discontinued operations – basic	\$ (0.00)	\$ (0.02)
Loss from discontinued operations – diluted	\$ (0.00)	\$ (0.02)
Net earnings (loss) – basic	\$ 0.12	\$ (0.65)
Net earnings (loss) – diluted	\$ 0.12	\$ (0.65)
Basic weighted-average common shares outstanding (in thousands)	116,081	115,619
Diluted weighted-average common shares outstanding (in thousands)	116,575	115,619
COMPREHENSIVE INCOME (LOSS):		
Net income (loss)	<u>\$ 13.7</u>	<u>\$ (74.8)</u>
Net unrealized investment gains	78.5	46.1
Portion of OTTI losses recognized in other comprehensive income	(22.5)	(23.4)
Net unrealized other gains	3.6	35.2
Net unrealized derivative instruments gains (losses)	0.8	(2.6)
Other comprehensive income	<u>60.4</u>	<u>55.3</u>
Comprehensive income (loss)	<u>\$ 74.1</u>	<u>\$ (19.5)</u>

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

THE PHOENIX COMPANIES, INC.
Unaudited Interim Consolidated Statements of Cash Flows
(\$ in millions)
Three Months Ended March 31, 2010 and 2009

	<u>March 31,</u>	
	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES:		
Premiums collected	\$ 145.5	\$ 159.7
Insurance, investment management and product fees collected	160.5	152.9
Investment income collected	193.7	216.3
Policy benefits paid, excluding policyholder dividends	(437.4)	(420.0)
Policyholder dividends paid	(60.0)	(77.3)
Policy acquisition costs paid	(3.8)	(39.8)
Interest expense on indebtedness paid	(5.6)	(5.6)
Other operating expenses paid	(90.8)	(86.7)
Income taxes paid	—	(2.4)
Cash for continuing operations	<u>(97.9)</u>	<u>(102.9)</u>
Discontinued operations, net	3.7	(7.8)
Cash for operating activities	<u>(94.2)</u>	<u>(110.7)</u>
INVESTING ACTIVITIES:		
Investment purchases	(1,678.8)	(1,657.1)
Investment sales, repayments and maturities	1,680.0	1,669.4
Policy loan advances, net	(16.6)	(58.3)
Premises and equipment additions	(0.5)	(2.3)
Effect of deconsolidation of collateralized debt obligations	—	(7.3)
Discontinued operations, net	<u>(4.7)</u>	<u>11.0</u>
Cash for investing activities	<u>(20.6)</u>	<u>(44.6)</u>
FINANCING ACTIVITIES:		
Policyholder deposit fund deposits	141.5	190.5
Policyholder deposit fund withdrawals	(154.8)	(262.1)
Indebtedness repayments	(0.3)	(1.3)
Minority interest	0.5	—
Cash for financing activities	<u>(13.1)</u>	<u>(72.9)</u>
Change in cash and cash equivalents	<u>(127.9)</u>	<u>(228.2)</u>
Cash and cash equivalents, beginning of period	257.7	377.0
Cash and cash equivalents, end of period	<u>\$ 129.8</u>	<u>\$ 148.8</u>

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

THE PHOENIX COMPANIES, INC.
Unaudited Interim Consolidated Statements of Changes in Stockholders' Equity
(\$ in millions)
Three Months Ended March 31, 2010 and 2009

	<u>March 31,</u>	
	<u>2010</u>	<u>2009</u>
COMMON STOCK:		
Balance, beginning of period	\$ 1.3	\$ 1.3
Common shares issued	—	—
Balance, end of period	<u>\$ 1.3</u>	<u>\$ 1.3</u>
ADDITIONAL PAID-IN CAPITAL:		
Balance, beginning of period	\$ 2,627.3	\$ 2,626.4
Issuance of shares and compensation expense on stock compensation awards	0.7	(0.5)
Balance, end of period	<u>\$ 2,628.0</u>	<u>\$ 2,625.9</u>
ACCUMULATED DEFICIT:		
Balance, beginning of period	\$ (1,146.7)	\$ (839.5)
Adjustment for initial application accounting changes	—	11.8
Net income (loss)	13.7	(74.8)
Balance, end of period	<u>\$ (1,133.0)</u>	<u>\$ (902.5)</u>
ACCUMULATED OTHER COMPREHENSIVE LOSS:		
Balance, beginning of period	\$ (171.3)	\$ (743.6)
Adjustment for initial application of accounting changes	—	8.6
Other comprehensive income (loss)	60.4	55.3
Balance, end of period	<u>\$ (110.9)</u>	<u>\$ (679.7)</u>
TREASURY STOCK, AT COST:		
Balance, beginning of period	\$ (179.5)	\$ (179.5)
Change in treasury stock	—	—
Balance, end of period	<u>\$ (179.5)</u>	<u>\$ (179.5)</u>
TOTAL STOCKHOLDERS' EQUITY:		
Balance, beginning of period	\$ 1,131.1	\$ 865.1
Change in stockholders' equity	74.8	0.4
Stockholders' equity, end of period	<u>\$ 1,205.9</u>	<u>\$ 865.5</u>

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

THE PHOENIX COMPANIES, INC.
Notes to Unaudited Interim Consolidated Financial Statements
Three Months Ended March 31, 2010 and 2009

1. Organization and Operations

Phoenix Mutual Life Insurance Company was organized in Connecticut in 1851. In 1992, in connection with its merger with Home Life Insurance Company, the Company redomiciled to New York and changed its name to Phoenix Home Life Mutual Insurance Company (“Phoenix Home Life”).

On June 25, 2001, the effective date of its demutualization, Phoenix Home Life converted from a mutual life insurance company to a stock life insurance company, became a wholly owned subsidiary of The Phoenix Companies, Inc. (the “Company” or “PNX”) and changed its name to Phoenix Life Insurance Company.

The Phoenix Companies, Inc. is a holding company and our operations are conducted through subsidiaries, principally Phoenix Life Insurance Company and PHL Variable Insurance Company. We provide life insurance and annuity products through third-party distributors, supported by wholesalers and financial planning specialists employed by us.

In 2009, we reported the results of our private placement operation as discontinued operations as we were actively pursuing its sale during the fourth quarter of 2009 and expect the transaction to close in the second quarter of 2010. The consolidated balance sheets have been presented with the gross assets and liabilities of discontinued operations in separate lines and the consolidated statements of income and comprehensive income have been presented with the net results from discontinued operations, shown after the results from continuing operations. We have reclassified prior period financial statements to conform to this change. See Note 16 to these financial statements for additional information regarding discontinued operations.

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. Our interim consolidated financial statements include the accounts of The Phoenix Companies, Inc., its subsidiaries and certain sponsored collateralized obligation trusts as described in Note 9 to these financial statements. Significant intercompany balances and transactions have been eliminated in consolidating these financial statements. Certain prior year amounts have been reclassified to conform to the current year presentation.

These financials include all adjustments (consisting primarily of accruals) considered necessary for the fair presentation of the consolidated balance sheet, consolidated statements of income, and consolidated 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 consolidated 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 goodwill; valuation of investments in debt and equity securities and venture capital partnerships; the valuation of deferred tax assets; pension and other postemployment benefits liabilities; and accruals for contingent liabilities.

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

Risks Associated with Current Economic Environment

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 throughout 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.

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 consolidated 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 consolidated 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.

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

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 consolidated financial statements.

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 consolidated 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 consolidated financial statements.

Significant Accounting Policies

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

3. Business Combinations and Dispositions

PFG Holdings, Inc.

In 2003, we acquired the remaining interest in PFG Holdings, Inc. (“PFG”), the holding company for our private placement operation. In November 2007, we amended the original purchase agreement to extend the term for achievement of performance targets related to additional purchase consideration through the end of 2009 and to establish a more objective mechanism to value PFG and calculate the final amount of contingent consideration. As of December 31, 2009, the performance targets that required additional cash payments were not achieved and no remaining obligation exists relating to the purchase agreement.

On January 4, 2010, we signed a definitive agreement to sell PFG and its subsidiaries, including AGL Life Assurance Company, to Tiptree Financial Partners, LP and expect the transaction to close in the second quarter of 2010. This transfer of ownership is subject to regulatory approval; therefore, we cannot be certain that the transaction will close, or that the closing will occur, at the currently anticipated time. Because of the expected divestiture, we have determined that these operations should be reflected as discontinued operations. The consolidated balance sheets have been presented with the gross assets and liabilities of discontinued operations in separate lines and the consolidated statements of income and comprehensive income have been presented with the net results from discontinued operations, shown after the results from continuing operations. We have reclassified prior period financial statements to conform to this change.

4. Demutualization and Closed Block

In 1999, we began the process of reorganizing and demutualizing our then principal operating company, Phoenix Home Life Mutual Insurance Company. We completed the process in June 2001, when all policyholder membership interests in this mutual company were extinguished and eligible policyholders of the mutual company received shares of common stock of The Phoenix Companies, Inc., together with cash and policy credits, as compensation. To protect the future dividends of these policyholders, we also established a closed block for their existing policies.

Because closed block liabilities exceed closed block assets, we have a net closed block liability at each period-end. This net liability represents the maximum future earnings contribution to be recognized from the closed block and the change in this net liability each period is in the earnings contribution recognized from the closed block for the period. To the extent that actual cash flows differ from amounts anticipated, we may adjust policyholder dividends. If the closed block has excess funds, those funds will be available only to the closed block policyholders. However, if the closed block has insufficient funds to make policy benefit payments that are guaranteed, the payments will be made from assets outside of the closed block.

Closed Block Assets and Liabilities: (<i>\$ in millions</i>)	Mar 31, 2010	Dec 31, 2009	Inception
Debt securities	\$ 6,371.5	\$ 6,305.1	\$ 4,773.1
Equity securities	9.9	6.7	—
Mortgage loans	5.7	6.2	399.0
Venture capital partnerships	191.2	180.2	—
Policy loans	1,380.0	1,378.5	1,380.0
Other investments	141.5	142.8	—
Total closed block investments	8,099.8	8,019.5	6,552.1
Cash and cash equivalents	24.6	33.3	—
Accrued investment income	107.4	105.9	106.8
Receivables	55.5	53.3	35.2
Deferred income taxes	264.1	270.3	389.4
Other closed block assets	17.1	22.6	6.2
Total closed block assets	8,568.5	8,504.9	7,089.7
Policy liabilities and accruals	9,167.0	9,246.5	8,301.7
Policyholder dividends payable	299.2	297.8	325.1
Policy dividend obligation	114.8	—	—
Other closed block liabilities	71.5	57.9	12.3
Total closed block liabilities	9,652.5	9,602.2	8,639.1
Excess of closed block liabilities over closed block assets	\$ 1,084.0	\$ 1,097.3	\$ 1,549.4

4. Demutualization and Closed Block (continued)

Closed Block Revenues and Expenses and Changes in Policyholder Dividend Obligations:

(\$ in millions)

	Cumulative from Inception	Three Months Ended March 31,	
		2010	2009
Closed block revenues			
Premiums	\$ 9,095.4	\$ 144.6	\$ 159.8
Net investment income	5,543.4	122.5	103.7
Net realized investment losses	(247.9)	(6.3)	(13.3)
Total revenues	14,390.9	260.8	250.2
Policy benefits, excluding dividends	9,913.7	178.7	196.4
Other operating expenses	93.2	5.8	1.2
Total benefits and expenses, excluding policyholder dividends	10,006.9	184.5	197.6
Closed block contribution to income before dividends and income taxes	4,384.0	76.3	52.6
Policyholder dividends	(3,637.6)	(62.6)	(37.7)
Closed block contribution to income before income taxes	746.4	13.7	14.9
Applicable income tax expense	260.0	4.8	5.0
Closed block contribution to income	\$ 486.4	\$ 8.9	\$ 9.9
Policyholder dividend obligation			
Policyholder dividends provided through earnings	\$ 3,696.0	\$ 62.6	\$ 37.7
Policyholder dividends provided through other comprehensive income	110.0	126.4	40.5
Additions to policyholder dividend liabilities	3,806.0	189.0	78.2
Policyholder dividends paid	(3,717.1)	(72.8)	(77.2)
Increase (decrease) in policyholder dividend liabilities	88.9	116.2	1.0
Policyholder dividend liabilities, beginning of period	325.1	297.8	311.1
Policyholder dividend liabilities, end of period	414.0	414.0	312.1
Policyholder dividends payable, end of period	(299.2)	(299.2)	(312.1)
Policyholder dividend obligation, end of period	\$ 114.8	\$ 114.8	\$ —

As of March 31, 2010, the policyholder dividend obligation includes approximately \$4.8 million for cumulative closed block earnings in excess of expected amounts calculated at the date of demutualization and also includes \$110.0 million of net unrealized gains on investments supporting the closed block liabilities. These closed block earnings will not inure to stockholders, but will result in additional future dividends to closed block policyholders unless otherwise offset by future performance of the closed block that is less favorable than expected. If actual cumulative performance is less favorable than expected, only actual earnings will be recognized in net income.

5. Deferred Policy Acquisition Costs

Deferred Policy Acquisition Costs:

(\$ in millions)

	Three Months Ended March 31,	
	2010	2009
Policy acquisition costs deferred	\$ 3.8	\$ 35.4
Costs amortized to expenses:		
Recurring costs	(67.0)	(66.0)
Realized investment gains (losses)	(1.2)	0.4
Offsets to net unrealized investment gains or losses included in accumulated other comprehensive income	(108.6)	(15.6)
Cumulative effect of adoption of new guidance	—	(4.7)
Change in deferred policy acquisition costs	(173.0)	(50.5)
Deferred policy acquisition costs, beginning of period	1,916.0	2,708.3
Deferred policy acquisition costs, end of period	\$ 1,743.0	\$ 2,657.8

6. Investing Activities

Debt and equity securities

See Note 10 to these financial statements for information on available-for-sale debt and equity securities pledged as collateral.

Fair Value and Cost of General Account Securities:

(\$ in millions)

	March 31, 2010		December 31, 2009	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
U.S. government and agency	\$ 722.7	\$ 710.1	\$ 540.7	\$ 531.5
State and political subdivision	183.2	181.7	179.3	181.0
Foreign government	173.3	150.4	169.7	148.8
Corporate	5,833.5	5,715.9	5,825.9	5,862.2
Commercial mortgage-backed	1,020.7	1,038.6	986.7	1,036.5
Residential mortgage-backed	2,066.4	2,180.7	2,090.4	2,245.5
CDO/CLO	262.8	340.0	258.0	347.6
Other asset-backed	333.1	347.9	294.8	317.4
Available-for-sale debt securities	\$ 10,595.7	\$ 10,665.3	\$ 10,345.5	\$ 10,670.5
Amounts applicable to the closed block	\$ 6,371.5	\$ 6,264.7	\$ 6,305.1	\$ 6,340.4
Available-for-sale equity securities	\$ 33.0	\$ 24.8	\$ 25.2	\$ 24.4
Amounts applicable to the closed block	\$ 9.9	\$ 6.8	\$ 6.7	\$ 6.9
Unrealized Gains and Losses from General Account Securities:	March 31, 2010		December 31, 2009	
(\$ in millions)	Gains	Losses	Gains	Losses
U.S. government and agency	\$ 27.9	\$ (15.3)	\$ 27.0	\$ (17.8)
State and political subdivision	4.6	(3.1)	4.0	(5.7)
Foreign government	22.9	—	21.0	(0.1)
Corporate	306.8	(189.2)	239.0	(275.3)
Commercial mortgage-backed	34.5	(52.4)	22.1	(71.9)
Residential mortgage-backed	40.8	(155.1)	30.6	(185.7)
CDO/CLO	1.5	(78.7)	1.9	(91.5)
Other asset-backed	3.3	(18.1)	2.5	(25.1)
Debt securities gains (losses)	\$ 442.3	\$ (511.9)	\$ 348.1	\$ (673.1)
Debt securities net losses		\$ (69.6)		\$ (325.0)
Equity securities gains (losses)	\$ 10.2	\$ (2.0)	\$ 1.2	\$ (0.4)
Equity securities net gains	\$ 8.2		\$ 0.8	

Net unrealized investment gains and losses on securities classified as available-for-sale and certain other assets are included in the consolidated 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.

6. Investing Activities (continued)

Fixed Maturity Securities on which an OTTI Loss has been Recognized, by Type: (<i>\$ in millions</i>)	March 31, 2010⁽¹⁾	Dec 31, 2009⁽¹⁾
U.S. government and agency	\$ —	\$ —
State and political subdivision	—	—
Foreign government	—	—
Corporate	(4.1)	(4.1)
Commercial mortgage-backed	(6.9)	(4.1)
Residential mortgage-backed	(50.6)	(39.7)
CDO/CLO	(35.8)	(32.9)
Other asset-backed	—	—
Fixed maturity non-credit losses in AOCI	\$ (97.4)	\$ (80.8)

⁽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.

Aging of Temporarily Impaired

General Account Securities:

(*\$ in millions*)

	As of 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	\$ 46.1	\$ (2.8)	\$ 59.7	\$ (12.5)	\$ 105.8	\$ (15.3)
State and political subdivision	11.0	(0.1)	37.5	(3.0)	48.5	(3.1)
Foreign government	2.0	—	—	—	2.0	—
Corporate	167.7	(16.7)	1,148.2	(172.5)	1,315.9	(189.2)
Commercial mortgage-backed	33.2	(0.2)	199.9	(52.2)	233.1	(52.4)
Residential mortgage-backed	346.4	(10.2)	684.5	(144.9)	1,030.9	(155.1)
CDO/CLO	9.9	(2.1)	231.1	(76.6)	241.0	(78.7)
Other asset-backed	51.8	(1.2)	126.6	(16.9)	178.4	(18.1)
Debt securities	\$ 668.1	\$ (33.3)	\$ 2,487.5	\$ (478.6)	\$ 3,155.6	\$ (511.9)
Equity securities	6.4	(2.0)	1.0	—	7.4	(2.0)
Total temporarily impaired securities	\$ 674.5	\$ (35.3)	\$ 2,488.5	\$ (478.6)	\$ 3,163.0	\$ (513.9)
Amounts inside the closed block	\$ 309.2	\$ (17.9)	\$ 1,248.2	\$ (187.6)	\$ 1,557.4	\$ (205.5)
Amounts outside the closed block	\$ 365.3	\$ (17.4)	\$ 1,240.3	\$ (291.0)	\$ 1,605.6	\$ (308.4)
Amounts outside the closed block that are below investment grade	\$ 23.4	\$ (6.7)	\$ 406.9	\$ (141.0)	\$ 430.3	\$ (147.7)
Number of securities		245		1,124		1,369

Unrealized losses on below investment grade debt securities outside the closed block with a fair value of less than 80% of amortized cost totaled \$123.8 million at March 31, 2010. Of this amount, \$107.2 million was below 80% of amortized cost for more than 12 months.

Unrealized losses on below investment grade debt securities held in the closed block with a fair value of less than 80% of amortized cost totaled \$42.6 million at March 31, 2010. Of this amount, \$32.9 million was below 80% of amortized cost for more than 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 was more likely than not that we would not be required to sell it before recovery.

6. Investing Activities (continued)

Aging of Temporarily Impaired

General Account Securities:

(\$ in millions)

	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	\$ 42.6	\$ (1.4)	\$ 51.1	\$ (16.4)	\$ 93.7	\$ (17.8)
State and political subdivision	22.9	(0.2)	42.3	(5.5)	65.2	(5.7)
Foreign government	7.9	(0.1)	—	—	7.9	(0.1)
Corporate	298.5	(22.6)	1,428.8	(252.7)	1,727.3	(275.3)
Commercial mortgage-backed	112.3	(1.5)	297.9	(70.4)	410.2	(71.9)
Residential mortgage-backed	491.4	(14.6)	698.3	(171.1)	1,189.7	(185.7)
CDO/CLO	16.7	(8.3)	225.7	(83.2)	242.4	(91.5)
Other asset-backed	62.7	(0.3)	135.5	(24.8)	198.2	(25.1)
Debt securities	1,055.0	(49.0)	2,879.6	(624.1)	3,934.6	(673.1)
Equity securities	0.9	—	0.6	(0.4)	1.5	(0.4)
Total temporarily impaired securities	\$ 1,055.9	\$ (49.0)	\$ 2,880.2	\$ (624.5)	\$ 3,936.1	\$ (673.5)
Amounts inside the closed block	\$ 498.5	\$ (25.5)	\$ 1,473.5	\$ (264.6)	\$ 1,972.0	\$ (290.1)
Amounts outside the closed block	\$ 557.4	\$ (23.5)	\$ 1,406.7	\$ (359.9)	\$ 1,964.1	\$ (383.4)
Amounts outside the closed block that are below investment grade	\$ 39.8	\$ (11.4)	\$ 414.9	\$ (170.1)	\$ 454.7	\$ (181.5)
Number of securities		356		1,346		1,702

Unrealized losses on below investment grade debt securities outside the closed block with a fair value of less than 80% of amortized cost totaled \$155.9 million at December 31, 2009. Of this amount, \$134.9 million was below 80% of amortized cost for more than 12 months.

Unrealized losses on below investment grade debt securities held in the closed block with a fair value of less than 80% of amortized cost totaled \$68.0 million at December 31, 2009. Of this amount, \$55.4 million was below 80% of amortized cost for more than 12 months.

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

Maturities of General Account Debt Securities:

(\$ in millions)

Maturities at Fair Value

Due in one year or less	\$ 512.6
Due after one year through five years	2,124.6
Due after five years through ten years	2,716.3
Due after ten years	5,242.2
Total	\$ 10,595.7

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

6. Investing Activities (continued)

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 debt securities with \$128.1 million 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 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.

6. Investing Activities (continued)

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

- *Preferred Term Group* – With a fair value of \$28.6 million and an unrealized loss of \$42.6 million, these are multi-class, cash flow CDOs. The Company invests in the senior tranches of the CDOs that can withstand significant immediate defaults before losing any principal. Due to the senior nature of our tranches, we expect that we will be able to collect cash flows sufficient to recover the entire cost basis of the security and, therefore, this issue does not merit an other-than-temporary impairment.
- *GS Mortgage Securities Corp* – With a fair value of \$11 million and an unrealized loss of \$18.4 million, this group of commercial pass-through certificates is backed by static pools of subordinated commercial mortgage-backed security (“CMBS”) tranches. We hold the senior-most tranche of each of the underlying transactions. Delinquent loans within each pool increased during the first quarter of 2010. We ran numerous scenarios using observable data in regards to prepayment speeds, defaults and loss severities and have determined that it is probable that we will be able to collect all amounts due and have the ability and intent to hold these securities until maturity. An other-than-temporary impairment is not required at this time.
- *LNR CDO Ltd 2002-1A DFX* – With a fair value of \$3.4 million and an unrealized loss of \$8.6 million, this security is a seasoned, mezzanine tranche of an \$800 million CMBS CDO originally rated A-/A-/A3 and currently rated BBB-/BBB+/Ba2 by Fitch/S&P/Moody’s, respectively. The Company’s tranche of this security has a remaining average life of 2.25 years and is current on principal and interest. There are no indications that the Company will not receive 100% of contractual cash flows and, therefore, an other-than-temporary impairment is not required.

Debt Securities

Fixed maturity other-than-temporary impairments recorded in the first quarter of 2010 were concentrated in mortgage-backed securities and CDO/CLO holdings. 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 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 debt impairments recognized through earnings related to such credit-related circumstances were \$14.2 million in the first quarter of 2010 and \$31.4 million 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 \$16.9 million in the first quarter of 2010 and \$19.4 million 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, accrete the difference 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.

Credit Losses Recognized in Earnings on Debt Securities: (\$ in millions)

	Three Months Ended March 31,	
	2010	2009
Debt securities credit losses, beginning of period	\$ (44.4)	\$ (41.6)
Add: Credit losses on other-than-temporary impairments not previously recognized	(2.3)	(11.0)
Less: Credit losses on securities sold	—	—
Less: Credit losses on securities impaired due to intent to sell	—	—
Add: Credit losses on previously impaired securities	(9.9)	—
Less: Increases in cash flows expected on previously impaired securities	—	—
Debt securities credit losses, end of period	\$ (56.6)	\$ (52.6)

6. Investing Activities (continued)

Venture capital partnerships

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

Investment Activity in Venture Capital Partnerships:

(\$ in millions)

	Three Months Ended March 31,	
	2010	2009
Contributions	\$ 8.0	\$ 6.2
Equity in earnings (loss) of partnerships	5.3	(20.5)
Distributions	(2.3)	(0.8)
Change in venture capital partnerships	11.0	(15.1)
Venture capital partnership investments, beginning of period	188.6	200.8
Venture capital partnership investments, end of period	\$ 199.6	\$ 185.7
Amounts applicable to the closed block	\$ 191.2	\$ 174.0

Other Investments

Other Investments:

(\$ in millions)

	As of Mar 31,	As of Dec 31,
	2010	2009
Transportation and other equipment leases	\$ 46.2	\$ 47.6
Mezzanine partnerships	180.1	176.2
Affordable housing partnerships	8.7	8.7
Derivative instruments (Note 10)	111.5	116.6
Real estate	31.1	34.9
Other partnership interests ⁽¹⁾	114.0	111.2
Other interests	36.5	35.6
Mortgage loans	8.4	8.9
Other investments	\$ 536.5	\$ 539.7
Amounts applicable to the closed block	\$ 141.5	\$ 142.8

⁽¹⁾ Represents primarily direct equity investments.

Net investment income

Sources of Net Investment Income:

(\$ in millions)

	Three Months Ended March 31,	
	2010	2009
Debt securities	\$ 154.4	\$ 176.4
Equity securities	0.1	—
Venture capital partnerships	5.3	(20.5)
Policy loans	43.4	47.4
Other investments	4.4	(15.4)
Fair value option investments	0.7	(1.5)
Other income	0.2	1.8
Cash and cash equivalents	—	0.1
Total investment income	208.5	188.3
Discontinued operations	(1.7)	(1.0)
Investment expenses	(2.1)	(2.4)
Net investment income	\$ 204.7	\$ 184.9
Amounts applicable to the closed block	\$ 122.5	\$ 103.7

6. Investing Activities (continued)

Net realized investment gains (losses)

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

(\$ in millions)

	Three Months Ended March 31,	
	2010	2009
Total other-than-temporary debt impairment losses	\$ (31.1)	\$ (50.8)
Portion of loss recognized in other comprehensive income (before taxes)	16.9	19.4
Net debt impairment losses recognized in earnings	\$ (14.2)	\$ (31.4)
Debt security impairments	\$ (14.2)	\$ (31.4)
Equity security impairments	(0.3)	—
Other investments impairments	—	(6.9)
Impairment losses	(14.5)	(38.3)
Debt security transaction gains	22.9	3.6
Debt security transaction losses	(5.0)	(3.0)
Equity security transaction gains	—	2.2
Equity security transaction losses	—	—
Venture capital partnership transaction gains (losses)	—	0.4
Other investments transaction gains (losses)	(4.2)	(0.3)
CDO deconsolidation gain	—	57.0
Net transaction gains	13.7	59.9
Realized gains (losses) on fair value option investments	0.2	(2.3)
Realized gains (losses) on derivative assets and liabilities	3.6	6.1
Net realized investment gains (losses), excluding impairment losses	17.5	63.7
Net realized investment gains (losses), including impairments	\$ 3.0	\$ 25.4

Unrealized investment gains (losses)

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

(\$ in millions)

	Three Months Ended March 31,	
	2010	2009
Debt securities	\$ 255.4	\$ 106.5
Equity securities	7.4	—
Debt and equity securities pledged as collateral	—	—
Other investments	0.3	1.1
Net unrealized investment gains (losses)	\$ 263.1	\$ 107.6
Net unrealized investment gains (losses)	\$ 263.1	\$ 107.6
Applicable closed block policyholder dividend obligation	(126.4)	(40.5)
Applicable deferred policy acquisition cost	(108.6)	(32.1)
Applicable deferred income tax	27.9	(12.3)
Offsets to net unrealized investment losses	(207.1)	(84.9)
Net unrealized investment gains (losses) included in other comprehensive income	\$ 56.0	\$ 22.7

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.

6. Investing Activities (continued)

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 included in other invested assets 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.

Carrying Value of Assets and Liabilities and Maximum Exposure Loss Relating to Variable Interest Entities: (\$ in millions)	March 31, 2010			December 31, 2009		
	Assets	Liabilities	Maximum Exposure to Loss	Assets	Liabilities	Maximum Exposure to Loss
Limited partnerships	\$ 608.3	\$ —	\$ 608.3	\$ 575.5	\$ —	\$ 575.5
Direct equity investments	7.8	—	7.8	9.4	—	9.4
Receivable	11.4	—	11.4	11.4	—	11.4
Total	\$ 627.5	\$ —	\$ 627.5	\$ 596.3	\$ —	\$ 596.3

The asset value of our investments in variable interest entities (based upon sponsor values and financial statements of the individual entities) for which we are not the primary beneficiary was \$627.5 million as of March 31, 2010. Our maximum exposure to loss related to these non-consolidated VIEs is limited to the amount of our investment.

In connection with the sale of certain venture capital partnerships, Phoenix Life issued a guarantee with respect to the outstanding unfunded commitments related to the partnerships that were sold. See Note 17 to these financial statements for additional information regarding such commitments.

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 \$109.0 million. Derivative credit exposure was diversified with six different counterparties. We also had debt securities of these issuers with a carrying value of \$134.6 million. Our maximum amount of loss due to credit risk with these issuers was \$243.6 million. See Note 10 to these financial statements for more information regarding derivatives.

7. Financing Activities

Indebtedness at Carrying Value: (\$ in millions)

	As of	
	Mar 31, 2010	Dec 31, 2009
7.15% surplus notes	\$ 174.1	\$ 174.1
7.45% senior unsecured bonds	253.6	253.9
Total indebtedness	\$ 427.7	\$ 428.0

Our 7.15% surplus notes are an obligation of Phoenix Life and are due December 15, 2034. The carrying value of the 2034 notes is net of \$0.9 million of unamortized original issue discount. Interest payments are at an annual rate of 7.15%, require the prior approval of the Superintendent of Insurance of the State of New York and may be made only out of surplus funds which the Superintendent determines to be available for such payments under New York Insurance Law. The notes may be redeemed at the option of Phoenix Life at any time at the “make-whole” redemption price set forth in the offering circular. New York Insurance Law provides that the notes are not part of the legal liabilities of Phoenix Life.

7. Financing Activities (continued)

Our senior unsecured bonds were issued in December 2001 for gross proceeds of \$300.0 million (net proceeds of \$290.6 million) and mature in January 2032. We pay interest at an annual rate of 7.45%. We may redeem any or all of the bonds from January 2007 at a redemption price equal to 100% of principal plus accrued and unpaid interest to the redemption date. We have repurchased a cumulative amount of \$46.5 million of par value of these bonds as of March 31, 2010. During the first quarter 2010, we repurchased \$0.3 million of par value of these bonds for \$0.3 million. During 2009, we repurchased \$30.0 million of par value of these bonds for \$14.6 million resulting in a gain of \$15.4 million.

We have recorded indebtedness at unpaid principal balances of each instrument net of issue discount. The Company or its subsidiaries may, from time to time, purchase its debt securities in the open market subject to considerations including, but not limited to, market conditions, relative valuations, capital allocation and the continued determination that it is in the best interest of the Company and its stakeholders.

At December 31, 2008, the Company and its subsidiary, Phoenix Life, had a \$100 million unsecured senior revolving credit facility. The Company terminated the credit facility effective March 12, 2009. As of the termination date, there were no borrowings on the credit facility.

Future minimum annual principal payments on indebtedness as of March 31, 2010 are: in 2032, \$253.6 million and in 2034, \$175.0 million.

Interest Expense on Indebtedness, including Amortization of Debt Issuance Costs: (*\$ in millions*)

Three Months Ended	
March 31,	
2010	2009
\$ 3.1	\$ 3.1
4.9	5.4
\$ 8.0	\$ 8.5

Surplus notes
Senior unsecured bonds
Interest expense on indebtedness

Common stock dividends

In the first quarter of 2010 and in the twelve months ended December 31, 2009, we did not pay any stockholder dividends.

8. 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 fee income. For 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.

8. 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 in the footnotes to the table 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 for calculating 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:

(\$ in millions)

	Mar 31, 2010	Dec 31, 2009
Debt securities	\$ 661.1	\$ 661.2
Equity funds	2,257.3	2,244.6
Other	96.4	99.5
Total	\$ 3,014.8	\$ 3,005.3

Changes in Guaranteed Liability Balances:

(\$ in millions)

	As of March 31, 2010	
	Annuity GMDB	Annuity GMIB
Liability balance as of January 1, 2010	\$ 5.1	\$ 16.3
Incurred	1.7	(0.2)
Paid	(2.1)	—
Liability balance as of March 31, 2010	\$ 4.7	\$ 16.1

Changes in Guaranteed Liability Balances:

(\$ in millions)

	Year Ended December 31, 2009	
	Annuity GMDB	Annuity GMIB
Liability balance as of January 1, 2009	\$ 9.9	\$ 22.1
Incurred	5.4	(5.8)
Paid	(10.2)	—
Liability balance as of December 31, 2009	\$ 5.1	\$ 16.3

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, excluding policyholder dividends, on our statements of income. 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”).

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

The GMWB rider guarantees the policyholder a minimum amount of withdrawals and benefit payments over time, regardless of the investment performance of the contract, subject to an annual limit. Optional resets are available. In addition, 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 owner with a minimum accumulation of the contract owner's 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.

As of March 31, 2010 and December 31, 2009, there was no reinsurance of the aggregate account value with the GMWB, GMAB, GPAF and COMBO features. In order to minimize the volatility associated with the unreinsured liabilities, we have established an alternative risk management strategy. We began hedging our GMAB exposure in 2006 and GMWB exposure during fourth quarter 2007 using equity options, equity futures, swaps and swaptions. These investments are included in other investments on our balance sheet. Embedded derivative liabilities for GMWB, GMAB, GPAF and COMBO are shown in the table below. There were no benefit payments made for the GMWB and GMAB during the first quarter of 2010 and 2009. There were benefit payments made of \$0.6 million for GPAF during 2009 and \$0.1 million during the first quarter of 2010.

Embedded Derivative Liabilities:

(\$ in millions)

	<u>Mar 31, 2010</u>	<u>Dec 31, 2009</u>
GMWB	\$ (3.2)	\$ 3.8
GMAB	16.4	20.1
GPAF	2.2	2.2
COMBO	(0.8)	(0.6)
Total embedded derivatives	<u>\$ 14.6</u>	<u>\$ 25.5</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 policyholder 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.

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

Additional Insurance Benefits:

(\$ in millions)

	<u>Account Value</u>	<u>Net Amount At Risk After Reinsurance</u>	<u>Average Attained Age of Annuitant</u>
GMDB return of premium	\$ 1,082.2	\$ 44.7	60
GMDB step up	1,622.8	179.8	61
GMDB earnings enhancement benefit (EEB)	49.3	1.0	61
GMDB greater of annual step up and roll up	32.9	9.3	64
Total GMDB at March 31, 2010	<u>\$ 2,787.2</u>	<u>\$ 234.8</u>	
COMBO	\$ 10.6		59
GMAB	425.4		55
GMIB	530.2		61
GMWB	602.1		61
GPAF	18.6		75
Total at March 31, 2010	<u>\$ 1,586.9</u>		

Additional Insurance Benefits:

(\$ in millions)

	<u>Account Value</u>	<u>Net Amount At Risk After Reinsurance</u>	<u>Average Attained Age of Annuitant</u>
GMDB return of premium	\$ 1,097.4	\$ 58.6	60
GMDB step up	1,611.8	222.9	61
GMDB earnings enhancement benefit (EEB)	49.2	1.4	61
GMDB greater of annual step up and roll up	32.8	10.0	64
Total GMDB at December 31, 2009	<u>\$ 2,791.2</u>	<u>\$ 292.9</u>	
COMBO	\$ 10.4		58
GMAB	417.9		55
GMIB	525.8		61
GMWB	592.6		60
GPAF	18.9		75
Total at December 31, 2009	<u>\$ 1,565.6</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 the 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 the greater of annual step up and annual roll up, the death benefit is the greatest 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.

8. 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 death benefit and other insurance benefit reserves of \$98.1 million and \$89.4 million, respectively.

9. Investments Pledged as Collateral and Non-recourse Collateralized Debt

We are involved with various entities in the normal course of business that may be deemed to be variable interest entities (“VIEs”) and, as a result, we may be deemed to hold interests in those entities. In particular, our former asset management affiliate serves as the investment advisor to two collateralized debt obligations (“CDOs”) that were organized to take advantage of bond market arbitrage opportunities. The CDOs reside in bankruptcy remote special-purpose entities (“SPEs”) for which we provide neither recourse nor guarantees. We consolidated these two CDOs at December 31, 2008. As a result of management’s decision in the first quarter of 2009 to legally assign Virtus as the collateral manager, we performed an analysis of both of these CDOs and determined that we are no longer the primary beneficiary. Accordingly, we deconsolidated these two CDOs effective January 1, 2009, resulting in an increase to shareholders’ equity of \$88.8 million for the three months ended March 31, 2009, of which \$57.0 million was recorded as a realized gain and \$31.8 million was reflected as other comprehensive income, effectively reversing losses recorded in earnings and other comprehensive income in prior years.

10. 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 (market value) with changes in valuation reported in net realized capital gains/losses. Derivatives that are designated as hedges for accounting purposes are also stated at fair value. However, changes in the fair value of such derivatives are recorded in other comprehensive income, or net income, depending on the nature and effectiveness of the hedge.

Derivative Instruments Held in

General Account:

(\$ in millions)

	Notional Amount	Maturity	As of Mar 31, 2010		As of Dec 31, 2009	
			Asset	Liability	Asset	Liability
Non-Hedging Derivative Instruments						
Interest rate swaps	\$ 45.0	2018	\$ 2.6	\$ 0.6	\$ 1.7	\$ 0.5
Swaptions	100.0	2011	6.0	—	6.0	—
Put options	495.0	2014-2024	87.5	—	90.9	—
Call options	16.9	2010-2011	4.9	1.3	5.3	0.8
Equity futures	50.8	2010	9.5	—	12.0	—
	<u>707.7</u>		<u>110.5</u>	<u>1.9</u>	<u>115.9</u>	<u>1.3</u>
Hedging Derivative Instruments						
Cross currency swaps	25.0	2012-2016	1.0	0.6	0.7	1.5
	<u>25.0</u>		<u>1.0</u>	<u>0.6</u>	<u>0.7</u>	<u>1.5</u>
Total derivative instruments	<u>\$ 732.7</u>		<u>\$ 111.5</u>	<u>\$ 2.5</u>	<u>\$ 116.6</u>	<u>\$ 2.8</u>

10. Derivative Instruments (continued)

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.

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 uses 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.

Cross Currency Swaps

We use cross currency swaps to hedge against market risks from changes in foreign currency exchange rates. Currency swaps are used to swap bond asset cash flows denominated in a foreign currency back to U.S. dollars. Under foreign currency swaps, we agree with another party (referred to as the counterparty) to exchange principal and periodic interest payments denominated in foreign currency for payments in U.S. dollars.

10. Derivative Instruments (continued)

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.

11. 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 for an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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 collateralized mortgage and debt obligations and 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.

11. Fair Value of Financial Instruments (continued)

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 millions)

	As of March 31, 2010			Total
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale debt securities				
U.S. government and agency	\$ 105.7	\$ 617.0	\$ —	\$ 722.7
State and political subdivision	—	183.2	—	183.2
Foreign government	—	173.3	—	173.3
Corporate	—	5,587.5	246.0	5,833.5
Commercial mortgage-backed	122.7	836.1	61.9	1,020.7
Residential mortgage-backed	7.6	1,990.8	68.0	2,066.4
CDO/CLO	—	—	262.8	262.8
Other asset-backed	—	245.9	87.2	333.1
Available-for-sale equity securities	0.9	0.7	31.4	33.0
Derivative assets	—	111.5	—	111.5
Separate account assets	4,353.4	98.2	—	4,451.6
Fair value option investments	32.2	36.5	—	68.7
Total assets	\$ 4,622.5	\$ 9,880.7	\$ 757.3	\$ 15,260.5
Liabilities				
Derivative liabilities	\$ —	\$ 2.5	\$ 14.6	\$ 17.1
Total liabilities	\$ —	\$ 2.5	\$ 14.6	\$ 17.1

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

Fair Values of Financial Instruments by Level:

(\$ in millions)

	As of December 31, 2009			Total
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale debt securities				
U.S. government and agency	\$ 213.5	\$ 327.2	\$ —	\$ 540.7
State and political subdivision	—	179.3	—	179.3
Foreign government	—	169.7	—	169.7
Corporate	—	5,540.8	285.1	5,825.9
Commercial mortgage-backed	127.7	802.5	56.5	986.7
Residential mortgage-backed	8.1	1,963.7	118.6	2,090.4
CDO/CLO	—	—	258.0	258.0
Other asset-backed	—	197.8	97.0	294.8
Available-for-sale equity securities	1.0	5.0	19.2	25.2
Derivative assets	—	116.6	—	116.6
Separate account assets	4,327.5	90.6	—	4,418.1
Fair value option investments	33.5	35.8	—	69.3
Total assets	\$ 4,711.3	\$ 9,429.0	\$ 834.4	\$ 14,974.7
Liabilities				
Derivative liabilities	\$ —	\$ 2.8	\$ 25.5	\$ 28.3
Total liabilities	\$ —	\$ 2.8	\$ 25.5	\$ 28.3

11. Fair Value of Financial Instruments (continued)

Carrying Amounts and Fair Values of Financial Instruments:

(\$ in millions)

	As of March 31, 2010		As of December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 129.8	\$ 129.8	\$ 257.7	\$ 257.7
Available-for-sale debt securities	10,595.7	10,595.7	10,345.5	10,345.5
Available-for-sale equity securities	33.0	33.0	25.2	25.2
Mortgage loans	8.4	8.4	8.9	8.7
Derivative financial instruments	111.5	111.5	116.6	116.6
Fair value option investments	68.7	68.7	69.3	69.3
Financial assets	\$ 10,947.1	\$ 10,947.1	\$ 10,823.2	\$ 10,823.0
Investment contracts	\$ 1,318.1	\$ 1,332.0	\$ 1,342.7	\$ 1,358.6
Indebtedness	427.7	270.8	428.0	269.6
Derivative financial instruments	17.1	17.1	28.3	28.3
Financial liabilities	\$ 1,762.9	\$ 1,619.9	\$ 1,799.0	\$ 1,656.5

Available-for-sale debt securities as of March 31, 2010 and December 31, 2009 are reported net of \$67.8 million and \$67.3 million, respectively, of Level 2 investments included in discontinued assets on our balance sheet related to discontinued reinsurance operations.

Separate account assets as of March 31, 2010 and December 31, 2009 are reported net of \$3,381.5 million and \$3,423.6 million, respectively, of Level 1 investments included in discontinued assets on our balance sheet related to PFG.

Fair value option investments at March 31, 2010 include \$32.2 million of available-for-sale equity securities backing our deferred compensation liabilities.

Fair value option investments also include a structured loan asset valued at \$36.5 million as of March 31, 2010. We elected to apply the fair value option to this asset 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.

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.

11. Fair Value of Financial Instruments (continued)

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.

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.

11. Fair Value of Financial Instruments (continued)

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

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.

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.

11. Fair Value of Financial Instruments (continued)

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.

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 (“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’s life insurance subsidiaries 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. This average credit spread is recalculated every quarter therefore the fair value will change with the passage of time even in the absence of any other changes that would affect the valuation. The impact of the CSA at March 31, 2010 and December 31, 2009 was a reduction of \$14.8 million and \$18.5 million in the reserves associated with these riders, respectively.

Indebtedness

Fair value of indebtedness is based on quoted market prices.

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.

11. Fair Value of Financial Instruments (continued)

Level 3 Financial Assets:

(\$ in millions)

	Three Months Ended March 31, 2010						
	CDO	RMBS	Corp	Asset-Backed	CMBS	Common Stock	YTD Assets
Balance, beginning of period	\$ 258.0	\$ 118.6	\$ 285.2	\$ 97.0	\$ 56.5	\$ 19.2	\$ 834.5
Net purchases	0.1	1.0	42.9	10.0	1.3	—	55.3
Net sales	(2.1)	(8.0)	(93.4)	(1.7)	(3.7)	—	(108.9)
Transfers into Level 3 ⁽¹⁾	—	—	26.1	—	—	4.5	30.6
Transfers out of Level 3 ⁽²⁾	—	(40.4)	(58.0)	(18.4)	—	—	(116.8)
Realized gains (losses) included in earnings	(5.6)	(0.8)	20.7	(1.5)	—	(1.7)	11.1
Unrealized gains (losses) included in other comprehensive income (loss)	12.4	(2.7)	22.5	1.8	7.7	9.4	51.1
Amortization/accretion	—	0.3	—	—	0.1	—	0.4
Balance, end of period	\$ 262.8	\$ 68.0	\$ 246.0	\$ 87.2	\$ 61.9	\$ 31.4	\$ 757.3

Level 3

Financial Assets:

(\$ in millions)

	Three Months Ended March 31, 2009								
	Corp	Common Stock	CMBS	Asset-Backed	CDO/CLO	RMBS	Gov't Agency	Foreign Gov't	YTD Assets
Balance, beginning of period	\$ 489.0	\$ 23.4	\$ 81.5	\$ 132.0	\$ 175.2	\$ 71.1	\$ 4.2	\$ 0.4	\$ 976.8
Net purchases	2.2	—	—	—	3.8	3.1	—	—	9.1
Net sales	(26.3)	—	(7.7)	(9.7)	(2.0)	(7.0)	(0.9)	(0.2)	(53.8)
Transfers into Level 3 ⁽¹⁾	55.0	1.0	—	18.0	2.4	2.2	—	—	78.6
Transfers out of Level 3 ⁽²⁾	(38.2)	—	(8.9)	(9.9)	(8.8)	(6.4)	(3.2)	—	(75.4)
Realized gains (losses) included in earnings	(5.3)	—	—	(3.8)	(2.6)	(3.8)	—	—	(15.5)
Unrealized gains (losses) included in other comprehensive income (loss)	(1.8)	—	(8.7)	(2.8)	58.3	(0.8)	(0.1)	—	44.1
Amortization/accretion	(0.1)	—	0.1	0.4	0.1	0.7	—	—	1.2
Balance, end of period	\$ 474.5	\$ 24.4	\$ 56.3	\$ 124.2	\$ 226.4	\$ 59.1	\$ —	\$ 0.2	\$ 965.1

(1) 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) 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.

11. Fair Value of Financial Instruments (continued)

Level 3 Financial Liabilities:

(\$ in millions)

	Three Months Ended	
	March 31,	
	2010	2009
	Embedded Derivatives	
Balance, beginning of period	\$ 25.5	\$ 118.5
Net purchases/(sales)	—	—
Transfers into Level 3	—	—
Transfers out of Level 3	—	—
Realized (gains) losses	10.9	4.6
Unrealized (gains) losses included in other comprehensive loss	—	—
Amortization/accretion	—	—
Balance, end of period	\$ 14.6	\$ 113.9
Portion of (gain) loss included in net income (loss) relating to those liabilities still held	\$ 10.9	\$ 4.6

Level 3 Gains and Losses:

(\$ in millions)

	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	\$ 20.0	\$ (8.8)
Change in unrealized gains or losses relating to assets still held at the reporting date included in other comprehensive income	\$ —	\$ 51.3

12. 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 movement in the deferred income taxes and related valuation allowance 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 our continued conclusion that a full valuation allowance is necessary against the net deferred tax asset, the effective tax rate for the three months ended March 31, 2010 is 0%. Similarly, the Company anticipates that the full year end effective tax rate will be 0%.

Maintaining our prior period conclusion regarding the need for a valuation allowance, and considering the movement in the estimated value of individual deferred tax assets and liabilities because of operations, for the three months ended March 31, 2010, we recorded a net decrease in the valuation allowance of \$43.3 million. This net movement was recognized as a benefit to the income statement components of \$6.9 million and a benefit to equity components of \$36.4 million.

We have concluded that a valuation allowance on the \$192.7 million of deferred tax assets attributable to available-for-sale debt securities with gross unrealized losses was not required due to our ability and intent to hold available-for-sale debt securities with gross unrealized losses until recovery of fair value or contractual maturity to avoid realizing taxable capital losses on those securities.

Phoenix and its subsidiaries file consolidated, combined, unitary or separate income tax returns in the U.S. federal, various state and foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2006.

Based upon the timing and status of our current examinations by taxing authorities, we do not believe that it is reasonably possible that any changes to the balance of unrecognized tax benefits occurring within the next 12 months will result in a significant change to the results of operations, financial condition or liquidity. In addition, we do not anticipate that there will be additional payments made or refunds received within the next 12 months with respect to the years under audit. We do not anticipate any increases to the existing unrecognized tax benefits that would have a significant impact on the financial position of the Company.

13. Employee Benefits

Pension and other postretirement benefits

We provide our employees with postemployment benefits that include retirement benefits, through pension and savings plans, and other benefits, including health care and life insurance. The components of pension and postretirement benefit costs follow:

Components of Pension Benefit Costs: (\$ in millions)

	Three Months Ended March 31,	
	2010	2009
Service cost	\$ 0.8	\$ 1.7
Interest cost	9.5	10.1
Expected return on plan assets	(8.2)	(7.3)
Net loss amortization	1.6	5.5
Prior service cost amortization	—	—
Pension benefit cost	\$ 3.7	\$ 10.0

Components of Other Postretirement Benefit Costs: (\$ in millions)

	Three Months Ended March 31,	
	2010	2009
Service cost	\$ 0.1	\$ 0.3
Interest cost	0.8	1.0
Prior service cost amortization	(0.4)	(0.3)
Other postretirement benefit cost	\$ 0.5	\$ 1.0

For the three months ended March 31, 2010, other comprehensive loss includes unrealized gains of \$0.8 million, net of taxes, relating to the amortization of net prior service costs and net gains/losses. Effective March 31, 2010, the benefit accruals under all defined benefit pension plans were frozen and no new participants will be accepted into the plans.

We made contributions of \$16.8 million to the pension plans in the first quarter of 2010. We expect to make additional contributions of approximately \$12 million by December 31, 2010.

Savings plans

During the three months ended March 31, 2010 and 2009, we incurred costs of \$1.2 million and \$1.8 million, respectively, for contributions to our employer-sponsored savings plans.

14. Share-based compensation

We provide share-based compensation to certain of our employees and non-employee directors, as further described below. The compensation cost that has been charged against income for these plans is summarized in the following table:

Share-based Compensation Plans: (\$ in millions)

	Three Months Ended March 31,	
	2010	2009
Compensation cost charged to income from continuing operations	\$ 0.8	\$ 0.4
Income tax expense (benefit) before valuation allowance	\$ 0.2	\$ (0.1)

We did not capitalize any of the cost of stock-based compensation during the three-month periods ended March 31, 2010 and 2009.

14. Share-based compensation (continued)

Stock options

We have stock option plans under which we grant options for a fixed number of common shares to employees and non-employee directors. Our options have an exercise price equal to the market value of the shares at the date of grant. Each option, once vested, entitles the holder to purchase one share of our common stock. The employees' options generally vest over a three-year period while the directors' options vest immediately. Certain options involve both service and market criteria and vest at the later of a stated number of years from the grant date or when the market criterion has been met. If the market criterion has not been met within five years from the grant date, the award will forfeit. The fair values of options granted are measured as of the grant date or modification date and expensed ratably over the vesting period.

Stock Option Activity at

Weighted-Average Exercise Price:

	Three Months Ended March 31,			
	2010		2009	
	Common Shares	Exercise Price	Common Shares	Exercise Price
Outstanding, beginning of period	4,146,779	\$ 11.87	4,835,224	\$ 11.90
Granted	213,794	2.84	5,000	0.53
Exercised	—	—	—	—
Canceled	(267,256)	11.77	(93,470)	13.19
Forfeited	(35,973)	10.41	—	—
Outstanding, end of period	4,057,344	\$ 11.41	4,746,754	\$ 11.86

Options granted during the three months ended March 31, 2010 had a weighted-average fair value of \$1.42 per unit.

As of March 31, 2010, 3.4 million of outstanding stock options were exercisable, with a weighted-average exercise price of \$12.14 per unit.

As of March 31, 2010, there was \$1.2 million of total unrecognized compensation cost related to unvested stock option grants.

In addition to the stock option activity above, 0.3 million stock options are subject to future issuance based on the achievement of a market criterion established under certain of our incentive plans. The market contingency for these stock options will be resolved no later than June 30, 2014.

Restricted stock units

We have restricted stock unit ("RSU") plans under which we grant RSUs to employees and non-employee directors. Each RSU, once vested, entitles the holder to one share of our common stock when the restriction expires. We recognize compensation expense over the vesting period of the RSUs, which is generally three years for each award.

Time-Vested RSU Activity at Weighted-Average Grant Price:

	Three Months Ended March 31,			
	2010		2009	
	RSUs	Price	RSUs	Price
Outstanding, beginning of period	1,265,688	\$ 3.45	2,184,388	\$ 6.68
Awarded	68,117	2.79	105,777	3.12
Converted to common shares/applied to taxes	(413,623)	3.09	(1,259,744)	8.61
Canceled	(4,630)	2.82	—	—
Outstanding, end of period	915,552	\$ 3.56	1,030,421	\$ 3.97

14. Share-based compensation (continued)

Performance Contingent RSU Activity at Weighted-Average Grant Price:

	Three Months Ended March 31,			
	2010		2009	
	RSUs	Price	RSUs	Price
Outstanding, beginning of period	786,629	\$ 2.55	1,343,741	\$ 2.82
Awarded	1,360,079	2.84	—	—
Adjustment for performance results	6,041	2.82	(530,203)	2.82
Converted to common shares/applied to taxes	(23,858)	2.82	(31,883)	2.82
Canceled	(517,538)	2.82	(81,329)	2.82
Outstanding, end of period	1,611,353	\$ 2.71	700,326	\$ 2.82

The intrinsic value of RSUs converted during the three months ended March 31, 2010 was \$1.1 million.

As of March 31, 2010, there was \$1.5 million of total unrecognized compensation cost related to unvested RSU grants.

In addition to the RSU activity above, 0.2 million RSUs are subject to future issuance based on the achievement of market-based criteria established under certain of our incentive plans. The market contingencies for these RSUs will be resolved no later than December 31, 2011.

15. Earnings Per Share

The following table presents a reconciliation of shares used in calculating basic earnings (loss) per common share to those used in calculating diluted earnings (loss) per common share.

Shares Used in Calculation of Basic and Diluted Earnings per Share:

(in thousands)

	Three Months Ended March 31,	
	2010	2009
Weighted-average common shares outstanding	116,081	115,619
Weighted-average effect of dilutive potential common shares:		
Restricted stock units	492	626
Stock options	2	—
Potential common shares	494	626
Less: Potential common shares excluded from calculation due to operating losses	—	(626)
Dilutive potential common share	494	—
Weighted-average common shares outstanding, including dilutive potential common shares	116,575	115,619

Stock options excluded from calculation due to anti-dilutive exercise prices

(i.e., in excess of average common share market prices)

Stock options	3,437	4,742
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As a result of the net loss available to common shareholders for the three months ended March 31, 2009, the Company is required to use basic weighted average common shares outstanding in the calculation of the three months ended March 31, 2009 diluted loss per share, since the inclusion of 0.6 million shares of restricted stock units would have been anti-dilutive to the earnings per share calculation.

16. Discontinued Operations

PFG Holdings, Inc.

In 2003, we acquired the remaining interest in PFG Holdings, Inc. (“PFG”), the holding company for our private placement operation. In November 2007, we amended the original purchase agreement to extend the term for achievement of performance targets related to additional purchase consideration through the end of 2009 and to establish a more objective mechanism to value PFG and calculate the final amount of contingent consideration. As of December 31, 2009, the performance targets that required additional cash payments were not achieved and no remaining obligation exists relating to the purchase agreement.

16. Discontinued Operations (continued)

On January 4, 2010, we signed a definitive agreement to sell PFG and its subsidiaries, including AGL Life Assurance Company, to Tiptree Financial Partners, LP and expect the transaction to close in the second quarter of 2010. This transfer of ownership is subject to regulatory approval; therefore, we cannot be certain that the transaction will close, or that the closing will occur, at the currently anticipated time. Because of the expected divestiture, we have determined that these operations should be reflected as discontinued operations. The consolidated balance sheets have been presented with the gross assets and liabilities of discontinued operations in separate lines and the consolidated statements of income and comprehensive income have been presented with the net results from discontinued operations, shown after the results from continuing operations. We have reclassified prior period financial statements to conform to this change.

The following tables provide detailed information regarding the financial statement lines identified as discontinued operations.

Summarized Balance Sheet for PFG:

(\$ in millions)	As of December 31,	
	Mar 31, 2010	Dec 31, 2009
Policy loans	\$ 81.6	\$ 76.8
Other assets	24.2	41.1
Separate account assets	3,381.5	3,423.6
Total assets	\$ 3,487.3	\$ 3,541.5
Policy liabilities and accruals and other liabilities	\$ 63.3	\$ 108.1
Separate account liabilities	3,381.5	3,423.6
Total liabilities	\$ 3,444.8	\$ 3,531.7

A net loss of \$0.3 million was recognized during the three months ended March 31, 2010. Net income of \$0.3 million was recognized during the three months ended March 31, 2009.

Spin-Off of Virtus

On February 7, 2008, we announced that our Board of Directors had decided to pursue the spin-off our asset management subsidiary, Virtus, formerly known as Phoenix Investment Partners, Ltd., excluding the assets and business of Goodwin in order to enhance stockholder value. On December 12, 2008, our Board of Directors formally approved the spin-off and declared a dividend payable to each holder of record at the close of business on December 22, 2008 of one share of Virtus common stock for every 20 shares of our common stock held by such holder. We distributed 100% of Virtus common stock to our stockholders (other than shares withheld to satisfy certain withholding obligations) on December 31, 2008. Following the spin-off, we and Virtus are independent of each other and have separate boards of directors and management.

Prior to the spin-off, Phoenix Life held an inter-company note receivable from Virtus, with a remaining principal balance of \$33 million. In connection with the spin-off, Virtus repaid \$13 million in principal and issued to Phoenix Life a new \$20 million secured note to replace the \$20 million remaining principal balance on the old note. The new note was issued at a market rate of interest and other arms length terms and was paid in full in 2009.

As of March 31, 2010 and December 31, 2009, no assets or liabilities on the balance sheet identified as discontinued operations related to Virtus. A net loss of \$1.8 million was recognized during the three months ended March 31, 2009 related to additional expenses incurred related to the spin-off.

Discontinued Reinsurance Operations

In 1999, we discontinued our reinsurance operations through a combination of sale, reinsurance and placement of certain retained group accident and health reinsurance business into run-off. We adopted a formal plan to stop writing new contracts covering these risks and to end the existing contracts as soon as those contracts would permit. However, we remain liable for claims under contracts which have not been commuted.

16. Discontinued Operations (continued)

We have established reserves for claims and related expenses that we expect to pay on our discontinued group accident and health reinsurance business. These reserves are based on currently known facts and estimates about, among other things, the amount of insured losses and expenses that we believe we will pay, the period over which they will be paid, the amount of reinsurance we believe we will collect from our retrocessionaires and the likely legal and administrative costs of winding down the business. See Note 18 to these financial statements for additional discussion on remaining liabilities of our discontinued reinsurance operations.

17. Other Commitments

During the normal course of business, the Company enters into agreements to fund venture capital partnerships and to purchase private placement investments. As of March 31, 2010, the Company had unfunded commitments of \$315.6 million under such agreements, of which \$136.0 million are expected to be funded by December 31, 2010.

In connection with the sale of certain venture capital partnerships, Phoenix Life issued a guarantee with respect to the outstanding unfunded commitments related to the partnerships that were sold. As of March 31, 2010, the Company has funded \$6.7 million under this guarantee and has established a receivable from the respective partnerships for this amount. Management believes the receivable to be fully collectible. An additional \$5.5 million of unfunded commitments remain subject to this guarantee.

18. Contingent Liabilities

Spin-off

In anticipation of the spin-off of the Company's asset management business on December 31, 2008, the Company entered into a Separation Agreement, Plan of Reorganization and Distribution by and between the Company and Virtus (the "Separation Agreement") on December 18, 2008. In addition to other matters, the Separation Agreement requires Virtus to retain all litigation, arbitration and regulatory matter liabilities related to Virtus, its subsidiaries and the Company's historical asset management business, with certain limited exceptions (the "Liabilities"). Based on current information, and considering the retention of the Liabilities by Virtus, we do not believe that the outcome of the litigation, arbitration and regulatory matters related to the Liabilities are likely, either individually or in the aggregate, to have a material adverse effect on our consolidated financial condition or to have a material adverse effect on our results of operations or cash flows in particular quarterly or annual periods.

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, employer, investor or investment advisor.

It is not feasible to predict or determine the ultimate outcome of all legal or arbitration proceedings or to provide reasonable ranges of potential losses. Based on current information, we believe that the outcomes of our litigation and arbitration matters are not likely, either individually or in the aggregate, to have a material adverse effect on our consolidated financial condition. However, given the large or indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation and arbitration, it is possible that an adverse outcome in certain matters could, from time to time, have a material adverse effect on our results of operations or cash flows in particular quarterly or annual periods.

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.

18. Contingent Liabilities (continued)

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 consolidated 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.

Discontinued Reinsurance Operations

In 1999, we discontinued our reinsurance operations through a combination of sale, reinsurance and placement of certain retained group accident and health reinsurance business into run-off. We adopted a formal plan to stop writing new contracts covering these risks and to end the existing contracts as soon as those contracts would permit. However, we remain liable for claims under contracts which have not been commuted.

For example, we participate in a workers' compensation reinsurance pool formerly managed by Unicover Managers, Inc. ("Unicover"). The pool ceased accepting new risks in early 1999. Further, we were a retrocessionaire (meaning a reinsurer of other reinsurers) of the Unicover pool. We have been involved in disputes relating to the activities of Unicover. These disputes have been substantially resolved or settled.

Our discontinued group accident and health reinsurance operations also include other (non-Unicover) workers' compensation reinsurance contracts and personal accident reinsurance contracts, including contracts assumed in the London market. We are engaged in arbitrations, disputes or investigations with several ceding companies over the validity of, or amount of liabilities assumed under, their contracts. These arbitrations, disputes and investigations are in various stages.

We bought retrocessional reinsurance for a significant portion of our assumed reinsurance liabilities. Some of the retrocessionaires have disputed the validity of, or amount of liabilities assumed under, their contracts with us. Most of these disputes with retrocessionaires have been resolved or settled.

We have established reserves for claims and related expenses that we expect to pay on our discontinued group accident and health reinsurance business. These reserves are based on currently known facts and estimates about, among other things, the amount of insured losses and expenses that we believe we will pay, the period over which they will be paid, the amount of reinsurance we believe we will collect from our retrocessionaires and the likely legal and administrative costs of winding down the business. Our total net reserves were \$60.2 million as of March 31, 2010 and \$60.7 million as of December 31, 2009.

We expect our reserves and reinsurance to cover the run-off of the business; however, unfavorable or favorable claims and/or reinsurance recovery experience is reasonably possible and could result in our recognition of additional losses or gains, respectively, in future years. Given the uncertainty associated with litigation and other dispute resolution proceedings, as well as the lack of sufficient claims information, the range of any reasonably possible additional future losses or gains is not currently estimable. However, it is our opinion, based on current information and after consideration of the provisions made in these financial statements, that any future adverse or favorable development of recorded reserves and/or reinsurance recoverables will not have a material adverse effect on our consolidated financial position. Nevertheless, it is possible that future developments could have a material adverse effect on our consolidated results of operations 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) our reliance, as a holding company, on dividends and other payments from our subsidiaries to meet our financial obligations and pay future dividends, particularly since our insurance subsidiaries' ability to pay dividends is subject to regulatory restrictions; (xviii) the potential need to fund deficiencies in our closed block; (xix) tax developments that may affect us directly, or indirectly through the cost of, the demand for or profitability of our products or services; (xx) the possibility that the actions and initiatives of the U.S. Government, including those that we elect to participate in, may not improve adverse economic and market conditions generally or our business, financial condition and results of operations specifically; (xxi) legislative or regulatory developments; (xxii) regulatory or legal actions; (xxiii) potential future material losses from our discontinued reinsurance business; (xxiv) changes in accounting standards; (xxv) 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; (xxvi) the risks related to a man-made or natural disaster; (xxvii) risks related to changing climate conditions; and (xxviii) 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 DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section reviews our consolidated financial condition as of March 31, 2010 as compared to December 31, 2009; our consolidated results of operations for the three months ended March 31, 2010 and 2009; and, where appropriate, factors that may affect our future financial performance. 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 consolidated 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, we 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 our newly formed distribution subsidiary, 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

A substantial but gradually declining share of our earnings derives from the closed block, which consists primarily of participating life insurance policies sold prior to our demutualization and initial public offering in 2001. We do not expect the net income contribution from the closed block to deviate materially from its actuarially projected path, subject to the maintenance of a positive policyholder dividend obligation. See Note 4 to our consolidated financial statements in this Form 10-Q and in our 2009 Annual Report on Form 10-K for more information on the closed block.

Apart from the closed block, 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.* Investment income on assets backing surplus was \$5.6 million in the first quarter of 2010, compared to a net loss of \$6.7 million in the first quarter of 2009. The increase of \$12.3 million was primarily from improved valuations and equity in income of alternative asset classes, notably venture capital partnerships. 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.
- *Deferred policy acquisition cost.* Deferred policy acquisition cost amortization remained relatively flat at \$68.2 million compared to \$65.6 million 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 \$108.6 million as of March 31, 2010 compared to \$15.6 million 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 \$8.5 million to \$162.5 million in the first quarter of 2010, compared to \$154.0 million in the first quarter of 2009. The increase was primarily driven by \$6.1 million of higher cost of insurance charges on our universal life policies. In addition, asset-based fees increased \$2.7 million 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 \$5.8 million to \$59.5 million in the first quarter 2010, compared to \$53.7 million 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 decreased by \$1.9 million to \$10.6 million in the first quarter of 2010, compared to \$12.5 million in the first quarter of 2009, resulting from lower cost of insurance charges as well as less 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 \$3.0 million, compared to \$25.4 million in the first quarter of 2009. Realized gains in the first quarter of 2010 were primarily from the sale of a private investment holding, partially offset by other-than-temporary impairment losses of \$14.5 million. In contrast, realized gains in the first quarter of 2009 were primarily the result of the gain recognized on the CDO deconsolidation of \$57.0 million offset by other-than-temporary impairment losses of \$38.3 million.
- *Operating expenses.* Non-deferred operating expenses increased by \$4.2 million to \$80.2 million in the first quarter of 2010, compared to \$76.0 million in the first quarter of 2009. The increase was primarily from premium tax adjustment and targeted investments in growth initiatives, notably Saybrus, our new distribution company. This was partially offset by significant expense reductions implemented during the year.

- *Income taxes.* The Company recorded income tax expense of \$0.2 million in first quarter 2010 to continuing operations compared to \$105.7 million in the first quarter of 2009. The Company had a full valuation allowance as of December 31, 2009 and an effective tax rate of 0% for the three months ended March 31, 2010. In the first quarter of 2009, an increase in the valuation allowance of \$115.9 million was recorded on our deferred tax asset with an offsetting increase to tax expense. The valuation allowance arose based on our inability to rely on future taxable income over the periods in which the deferred tax asset will be recoverable, as well as consideration of expiration of capital losses.

Outlook

During 2009, we took significant actions to reduce expenses, effectively manage our in-force business, reduce balance sheet risk, increase liquidity and pursue new growth opportunities in light of ratings downgrades as the loss of traditional distributors. These actions are beginning to have their intended effect and, we believe, position us for improved results in 2010, particularly if overall market and economic conditions continue to improve. However, further market volatility and/or a “double-dip” recession could have further material adverse effects on our business, financial condition and results of operations. In such an environment, we could face lower fees and net investment income from life and annuity products, adverse mortality as a result of anti-selective policy surrenders, and additional net realized investment losses on our general account investments, including further other-than-temporary impairments. Additionally, we could experience higher costs for guaranteed benefits and the potential for further deferred policy acquisition cost unlocking.

Following are the most recent rating actions from each agency 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 downgraded our senior debt rating from bb+ to bb-. They maintained their negative outlook on all ratings.
- On September 8, 2009, Moody’s Investor Services downgraded our financial strength rating from Baa2 to Ba1 and lowered our senior debt rating from Ba2 to B1. They maintained their negative outlook on all ratings.
- On February 12, 2010, Standard & Poor’s downgraded our financial strength rating from BB to BB- and lowered our senior debt rating from B- to CCC+. They maintained their negative outlook on all ratings.

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, we announced the formation of a distribution company subsidiary, Saybrus Partners, Inc. (“Saybrus”) and that Saybrus had entered into an agreement with financial services firm Edward Jones to provide life insurance consulting services to the firm’s financial advisors. 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. The initial agreement with Edward Jones is for three years and will focus Saybrus consultants on two new insurance carriers in the Edward Jones retail distribution network.

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, we restructured our agreement with State Farm, amending the existing agreement to clarify the service and support we 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. There are approximately 90,000 inforce Phoenix policies and contracts 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.

Recent Acquisitions and Dispositions

See Note 3 to our consolidated financial statements in this Form 10-Q for a discussion of our recent acquisitions and dispositions.

Impact of New Accounting Standards

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

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated 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 consolidated 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

We account for income taxes in accordance with ASC 740, *Accounting for Income Taxes*. The deferred tax assets and/or liabilities are determined by multiplying the differences between the financial reporting and tax reporting basis for assets and liabilities by the enacted tax rates expected to be in effect when such differences are recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances on deferred tax assets are estimated based on our assessment of the realizability of such amounts.

Maintaining our prior period conclusion regarding the need for a valuation allowance, and considering the movement in the estimated value of individual deferred tax assets and liabilities because of operations, for the three months ended March 31, 2010, we recorded a net decrease in the valuation allowance of \$43.3 million. This net movement was recognized as a benefit to the income statement components of \$6.9 million and a benefit to equity components of \$36.4 million.

We have concluded that a valuation allowance on the \$192.7 million of deferred tax assets attributable to available-for-sale debt securities with gross unrealized losses was not required due to our ability and intent to hold available-for-sale debt securities with gross unrealized losses until recovery of fair value or contractual maturity to avoid realizing taxable capital losses on those securities.

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 and equity 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.

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

See Note 6 to our consolidated 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 and present value of future profits based on the related policy's classification. For individual participating life insurance policies, deferred policy acquisition costs and present value of future profits are amortized in proportion to estimated gross margins. For universal life, variable universal life and accumulation annuities, deferred policy acquisition costs and present value of future profits are amortized in proportion to estimated gross profits ("EGPs"). Policies may be surrendered for value or exchanged for a different one of our products (internal replacement). The deferred policy acquisition costs balance associated with the replaced or surrendered policies is amortized to reflect these surrenders.

The amortization of deferred policy acquisition costs and present value of future profits requires the use of various assumptions, estimates and judgments about the future. 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. If revised EGPs based on new assumptions are lower, we would increase deferred policy acquisition cost amortization resulting in a reduction in the deferred policy acquisition cost asset. Favorable experience on key assumptions could result in a decrease to deferred policy acquisition cost amortization and an increase in the deferred policy acquisition costs asset.

Consolidated Results of Operations

Summary Consolidated Financial Data: (\$ in millions)

	Three Months Ended March 31,		Increase (decrease) and percentage change	
	2010	2009	2010 vs. 2009	
REVENUES:				
Premiums	\$ 151.7	\$ 172.2	\$ (20.5)	(12%)
Fee income	162.5	154.0	8.5	6%
Net investment income	204.7	184.9	19.8	11%
Net realized investment losses:				
Total other-than-temporary impairment (“OTTI”) losses	(31.4)	(57.7)	26.3	46%
Portion of OTTI losses recognized in other comprehensive income	16.9	19.4	(2.5)	(13%)
Net OTTI losses recognized in earnings	(14.5)	(38.3)	23.8	62%
Net realized investment gains, excluding OTTI losses	17.5	63.7	(46.2)	(73%)
Total net realized investment gains	3.0	25.4	(22.4)	(88%)
Total revenues	521.9	536.5	(14.6)	(3%)
BENEFITS AND EXPENSES:				
Policy benefits, excluding policyholder dividends	288.6	316.2	(27.6)	(9%)
Policyholder dividends	62.7	37.8	24.9	66%
Policy acquisition cost amortization	68.2	65.6	2.6	4%
Interest expense on indebtedness	8.0	8.5	(0.5)	(6%)
Other operating expenses	80.2	76.0	4.2	6%
Total benefits and expenses	507.7	504.1	3.6	1%
Income before income taxes	14.2	32.4	(18.2)	(56%)
Income tax expense	0.2	105.7	(105.5)	(100%)
Income (loss) from continuing operations	14.0	(73.3)	87.3	119%
Loss from discontinued operations, net of income taxes	(0.3)	(1.5)	1.2	80%
Net income (loss)	\$ 13.7	\$ (74.8)	\$ 88.5	118%

Not meaningful (NM)

Analysis of Consolidated Results of Operations

Three months ended March 31, 2010 vs. March 31, 2009

Net income from continuing operations for the three months ended March 31, 2010 was \$14.0 million, or \$0.12 per share, which compares to a net loss from continuing operations for the three months ended March 31, 2009 of \$73.3 million, or (\$0.63) per share. The improvement from continuing operations reflects higher net investment income, lower policy benefits, and lower income taxes. These improvements were partially offset by lower premiums and lower net realized investment gains.

Net investment income increased by \$19.8 million to \$204.7 million during the three months ended March 31, 2010 from \$184.9 million for the three months ended March 31, 2009. Interest on surplus improved \$12.3 million, an increase to \$5.6 million in the first quarter of 2010 compared to a loss of \$6.7 million in the first quarter of 2009. This improvement was primarily driven by positive valuations and equity in income of venture capital partnerships. 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.

Policy benefits decreased by \$27.6 million to \$288.6 million in the first quarter of 2010 from \$316.2 million in the first quarter of 2009. This decrease was primarily a result of a reduction in policyholder reserves within the closed block as the number of policies in force continues to decrease.

In the first quarter of 2010, we had net realized gains of \$3.0 million, compared to \$25.4 million in the first quarter of 2009. Realized gains in the first quarter of 2010 were primarily driven by the sale of a private investment holding, partially offset by other-than-temporary impairment losses of \$14.5 million. In contrast, realized gains in the first quarter of 2009 were primarily driven from the gain recognized on the CDO deconsolidation of \$57.0 million offset by other-than-temporary impairment losses of \$38.3 million.

The Company recorded income tax expense of \$0.2 million in the first quarter of 2010 to continuing operations compared to \$105.7 million in the first quarter of 2009. The Company had a full valuation allowance as of December 31, 2009 and an effective tax rate of 0% for the three months ended March 31, 2010. In the first quarter of 2009, an increase in the valuation allowance of \$115.9 million was recorded on our deferred tax asset with an offsetting increase to tax expense. The amount of the valuation allowance was determined based on our estimates of future taxable income over the periods in which the deferred tax asset will be recoverable, including consideration of expiration of capital losses.

The net loss recognized associated with our discontinued accident and health business and private placement business held for sale was comparable at \$0.3 million and \$1.5 million for the three months ended March 31, 2010 and 2009, respectively.

Debt and Equity Securities Held in Our General Account

Our general account debt securities portfolio consists primarily of investment grade publicly-traded and privately-placed corporate bonds, residential mortgage-backed securities, commercial mortgage-backed securities and other asset-backed securities. As of March 31, 2010, our general account held debt securities with a carrying value of \$10,595.7 million, representing 76.9% of total general account investments. Public debt securities represented 71.3% of total debt securities, with the remaining 28.7% represented by private debt securities.

General Account Debt Securities at Fair Value:

(\$ in millions)

SVO Rating	S&P Equivalent Designation	Total Debt Securities		Public Debt Securities		Private Debt Securities	
		Mar 31, 2010	Dec 31, 2009	Mar 31, 2010	Dec 31, 2009	Mar 31, 2010	Dec 31, 2009
1	AAA/AA/A	\$ 6,122.6	\$ 5,843.0	\$ 4,817.2	\$ 4,559.2	\$ 1,305.4	\$ 1,283.8
2	BBB	3,405.6	3,389.0	2,065.3	2,043.7	1,340.3	1,345.3
	Total investment grade	9,528.2	9,232.0	6,882.5	6,602.9	2,645.7	2,629.1
3	BB	574.7	644.1	384.9	402.6	189.8	241.5
4	B	237.7	231.0	125.7	124.3	112.0	106.7
5	CCC and lower	173.6	150.5	101.0	86.7	72.6	63.8
6	In or near default	81.5	87.9	61.7	59.8	19.8	28.1
	Total debt securities	\$ 10,595.7	\$ 10,345.5	\$ 7,555.8	\$ 7,276.3	\$ 3,039.9	\$ 3,069.2

Debt Securities by Type:

(\$ in millions)

	As of March 31, 2010				
	Fair Value	Cost	Unrealized Gains (Losses)		
			Gross Gains	Gross Losses	Net Gains (Losses)
U.S. government and agency	\$ 722.7	\$ 710.1	\$ 27.9	\$ (15.3)	\$ 12.6
State and political subdivision	183.2	181.7	4.6	(3.1)	1.5
Foreign government	173.3	150.4	22.9	—	22.9
Corporate	5,833.5	5,715.9	306.8	(189.2)	117.6
Commercial mortgage-backed	1,020.7	1,038.6	34.5	(52.4)	(17.9)
Residential mortgage-backed	2,066.4	2,180.7	40.8	(155.1)	(114.3)
CDO/CLO	262.8	340.0	1.5	(78.7)	(77.2)
Other asset-backed	333.1	347.9	3.3	(18.1)	(14.8)
Total debt securities	\$ 10,595.7	\$ 10,665.3	\$ 442.3	\$ (511.9)	\$ (69.6)
Debt securities outside closed block:					
Unrealized gains	\$ 2,624.8	\$ 2,494.0	\$ 130.8	\$ —	\$ 130.8
Unrealized losses	1,599.4	1,906.6	—	(307.2)	(307.2)
Total outside the closed block	4,224.2	4,400.6	130.8	(307.2)	(176.4)
Debt securities in closed block:					
Unrealized gains	4,815.3	4,503.8	311.5	—	311.5
Unrealized losses	1,556.2	1,760.9	—	(204.7)	(204.7)
Total in the closed block	6,371.5	6,264.7	311.5	(204.7)	106.8
Total debt securities	\$ 10,595.7	\$ 10,665.3	\$ 442.3	\$ (511.9)	\$ (69.6)

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 portfolios were banking (6.3%), electrical utilities (4.8%), insurance (3.5%), diversified financial services (2.9%) and oil (2.7%).

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 RMBS market. Delinquency rates for all sectors of the RMBS 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, 88% of the total residential portfolio was rated AAA or AA. We have \$149.6 million of sub-prime exposure, \$188.6 million of Alt-A exposure and \$500.4 million of prime exposure, which combined amount to 6.1% of our general account. Substantially all of our sub-prime, Alt-A and prime exposure is investment grade, with 56% being AAA rated and another 17% 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 \$5.4 million. These impairments consist of \$0.7 million from prime, \$4.6 million from Alt-A and \$0.1 million from sub-prime.

General Account Residential Mortgage-Backed Securities:

(\$ in millions)

	As of March 31, 2010								
	Carrying Value ⁽²⁾	Market Value ⁽²⁾	% General Account ⁽¹⁾	AAA	AA	A	BBB	BB and Below	% Closed Block
Collateral									
Agency	\$ 1,192.9	\$ 1,227.8	8.8%	100.0%	0.0%	0.0%	0.0%	0.0%	63.4%
Prime	563.0	500.4	3.6%	64.0%	12.4%	4.1%	5.9%	13.6%	41.2%
Alt-A	238.7	188.6	1.4%	29.3%	22.0%	1.8%	9.1%	37.8%	35.4%
Sub-prime	186.1	149.6	1.1%	64.0%	7.5%	0.7%	11.4%	16.4%	5.4%
Total	\$ 2,180.7	\$ 2,066.4	14.9%	82.2%	5.6%	1.2%	3.1%	7.9%	51.3%

(1) Percentages based on Market Value.

(2) Individual categories may not agree with the Debt Securities by Type table on previous page due to nature of underlying collateral.

General Account Prime Mortgage-Backed Securities:

(\$ in millions)

	As of March 31, 2010								
	Carrying Value	Market Value	% General Account ⁽¹⁾	Year of Issue					2003 and Prior
2010				2007	2006	2005	2004		
Rating									
AAA	\$ 343.9	\$ 320.3	2.3%	0.0%	0.0%	2.6%	9.5%	27.3%	60.6%
AA	69.5	62.1	0.4%	0.0%	4.1%	15.0%	13.1%	48.8%	19.0%
A	24.4	20.6	0.2%	0.0%	0.0%	25.2%	73.2%	0.0%	1.6%
BBB	36.4	29.4	0.2%	0.0%	0.0%	38.9%	52.7%	2.6%	5.8%
BB and Below	88.8	68.0	0.5%	0.0%	17.8%	52.8%	23.2%	4.9%	1.3%
Total	\$ 563.0	\$ 500.4	3.6%	0.0%	2.9%	14.0%	17.0%	24.4%	41.7%

(1) Percentages based on Market Value.

General Account Alt-A Mortgage-Backed Securities:

(\$ in millions)

Rating	Carrying Value	Market Value	% General Account ⁽¹⁾	As of March 31, 2010					
				Year of Issue					
				2010	2007	2006	2005	2004	2003 and Prior
AAA	\$ 68.5	\$ 55.2	0.4%	0.0%	0.0%	0.0%	22.2%	76.1%	1.7%
AA	46.1	41.5	0.3%	0.0%	0.0%	85.6%	0.0%	0.0%	14.4%
A	5.0	3.4	0.1%	0.0%	0.0%	0.0%	1.4%	28.2%	70.4%
BBB	25.4	17.2	0.1%	0.0%	0.0%	0.0%	0.0%	78.6%	21.4%
BB and Below	93.7	71.3	0.5%	0.0%	4.0%	30.0%	54.4%	10.3%	1.3%
Total	\$ 238.7	\$ 188.6	1.4%	0.0%	1.5%	30.2%	27.1%	33.8%	7.4%

(1) Percentages based on Market Value.

General Account Sub-Prime Mortgage-Backed Securities:

(\$ in millions)

Rating	Carrying Value	Market Value	% General Account ⁽¹⁾	As of March 31, 2010					
				Year of Issue					
				2010	2007	2006	2005	2004	2003 and Prior
AAA	\$ 105.2	\$ 95.8	0.7%	5.2%	13.3%	3.4%	32.9%	33.7%	11.5%
AA	12.7	11.2	0.1%	0.0%	25.4%	0.0%	43.0%	0.0%	31.6%
A	1.1	1.0	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%
BBB	29.3	17.0	0.1%	0.0%	28.5%	12.0%	23.3%	23.7%	12.5%
BB and Below	37.8	24.6	0.2%	0.0%	53.3%	35.7%	9.5%	1.5%	0.0%
Total	\$ 186.1	\$ 149.6	1.1%	3.3%	22.4%	9.4%	29.2%	24.5%	11.2%

(1) Percentages based on Market Value.

Commercial Mortgage-Backed Securities ("CMBS")
General Account Commercial Mortgage-Backed Securities:

(\$ in millions)

Rating	Carrying Value	Market Value ⁽¹⁾	% General Account ⁽²⁾	As of March 31, 2010					
				Year of Issue					
				Post-2007	2007	2006	2005	2004 and Prior	% Closed Block
AAA	\$ 844.7	\$ 859.3	6.2%	1.3%	5.3%	8.3%	5.7%	79.4%	69.3%
AA	88.9	77.0	0.6%	0.0%	11.4%	11.6%	16.9%	60.1%	66.0%
A	107.6	85.6	0.6%	6.1%	16.6%	3.4%	16.2%	57.7%	52.3%
BBB	37.6	19.7	0.1%	0.0%	21.6%	12.9%	0.0%	65.5%	51.3%
BB and Below	18.8	11.7	0.1%	0.0%	7.5%	0.0%	26.3%	66.2%	41.0%
Total	\$ 1,097.6	\$ 1,053.3	7.6%	1.6%	7.0%	8.1%	7.5%	75.8%	67.0%

(1) Includes commercial mortgage-backed CDOs with carrying and market values of \$58.9 million and \$32.6 million, respectively.

(2) 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 millions)

	Three Months Ended	
	March 31,	
	2010	2009
Total other-than-temporary debt impairment losses	\$ (31.1)	\$ (50.8)
Portion of loss recognized in other comprehensive income (before taxes)	16.9	19.4
Net debt impairment losses recognized in earnings	\$ (14.2)	\$ (31.4)
Debt security impairments	\$ (14.2)	\$ (31.4)
Equity security impairments	(0.3)	—
Other investments impairments	—	(6.9)
Impairment losses	(14.5)	(38.3)
Debt security transaction gains	22.9	3.6
Debt security transaction losses	(5.0)	(3.0)
Equity security transaction gains	—	2.2
Equity security transaction losses	—	—
Venture capital partnership transaction gains (losses)	—	0.4
Other investments transaction gains (losses)	(4.2)	(0.3)
CDO deconsolidation gain	—	57.0
Debt and equity securities pledged as collateral gains	—	—
Debt and equity securities pledged as collateral losses	—	—
Net transaction gains	13.7	59.9
Realized gains (losses) on fair value option investments	0.2	(2.3)
Realized gains (losses) on derivative assets and liabilities	3.6	6.1
Net realized investment gains (losses), excluding impairment losses	17.5	63.7
Net realized investment gains (losses), including impairments	\$ 3.0	\$ 25.4

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 debt securities with \$128.1 million 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 Group* – With a fair value of \$28.6 million and an unrealized loss of \$42.6 million, these are multi-class, cash flow CDOs. The Company invests in the senior tranches of the CDOs that can withstand significant immediate defaults before losing any principal. Due to the senior nature of our tranches, we expect that we will be able to collect cash flows sufficient to recover the entire cost basis of the security and, therefore, this issue does not merit an other-than-temporary impairment.
- *GS Mortgage Securities Corp* – With a fair value of \$11 million and an unrealized loss of \$18.4 million, this group of commercial pass-through certificates is backed by static pools of subordinated commercial mortgage-backed security (“CMBS”) tranches. We hold the senior-most tranche of each of the underlying transactions. Delinquent loans within each pool increased during the first quarter of 2010. We ran numerous scenarios using observable data in regards to prepayment speeds, defaults and loss severities and have determined that it is probable that we will be able to collect all amounts due and have the ability and intent to hold these securities until maturity. An other-than-temporary impairment is not required at this time.
- *LNR CDO Ltd 2002-1A DFX* – With a fair value of \$3.4 million and an unrealized loss of \$8.6 million, this security is a seasoned, mezzanine tranche of an \$800 million CMBS CDO originally rated A-/A-/A3 and currently rated BBB-/BBB+/Ba2 by Fitch/S&P/Moody's, respectively. The Company's tranche of this security has a remaining average life of 2.25 years and is current on principal and interest. There are no indications that the Company will not receive 100% of contractual cash flows and, therefore, an other-than-temporary impairment is not required.

Debt Securities

Fixed maturity other-than-temporary impairments recorded in the first quarter of 2010 were concentrated in mortgage-backed securities and CDO/CLO holdings. 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 debt impairments recognized through earnings related to such credit-related circumstances were \$14.2 million in the first quarter of 2010 and \$31.4 million during 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. These 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 \$16.9 million in the first quarter of 2010 and \$19.4 million 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, accrete the difference 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.

Credit Losses Recognized in Earnings on Debt Securities:

(\$ in millions)

	Three Months Ended	
	March 31,	
	2010	2009
Debt securities credit losses, beginning of period	\$ (44.4)	\$ (41.6)
Add: Credit losses on other-than-temporary impairments not previously recognized	(2.3)	(11.0)
Less: Credit losses on securities sold	—	—
Less: Credit losses on securities impaired due to intent to sell	—	—
Add: Credit losses on previously impaired securities	(9.9)	—
Less: Increases in cash flows expected on previously impaired securities	—	—
Debt securities credit losses, end of period	\$ (56.6)	\$ (52.6)

Private Equity

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

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

Unrealized Gains and Losses

The following tables present certain information with respect to our gross unrealized losses related to our investments in general account debt securities, both outside and inside the closed block, as of March 31, 2010. In the tables, we separately present information that is applicable to unrealized losses both outside and inside the closed block. See Note 4 to our consolidated financial statements in this Form 10-Q for more information regarding the closed block. Applicable deferred policy acquisition costs and deferred income taxes are reflected in comprehensive income.

Gross and Net Unrealized Gains (Losses): (\$ in millions)	As of March 31, 2010					
	Total		Outside Closed Block		Closed Block	
	Gains	Losses	Gains	Losses	Gains	Losses
Debt securities						
Number of positions	2,711	1,361	1,752	1,002	959	359
Unrealized gains (losses)	\$ 442.3	\$ (511.9)	\$ 130.8	\$ (307.2)	\$ 311.5	\$ (204.7)
Applicable policyholder dividend obligation (reduction)	311.5	(204.7)	—	—	311.5	(204.7)
Applicable deferred policy acquisition costs (benefit)	96.3	(173.6)	96.3	(173.6)	—	—
Applicable deferred income taxes (benefit)	12.1	(46.8)	12.1	(46.8)	—	—
Offsets to net unrealized gains (losses)	419.9	(425.1)	108.4	(220.4)	311.5	(204.7)
Unrealized gains (losses) after offsets	\$ 22.4	\$ (86.8)	\$ 22.4	\$ (86.8)	\$ —	\$ —
Net unrealized losses after offsets		\$ (64.4)		\$ (64.4)		\$ —
Equity securities						
Number of positions	63	8	41	6	22	2
Unrealized gains (losses)	\$ 10.2	\$ (2.0)	\$ 6.3	\$ (1.2)	\$ 3.9	\$ (0.8)
Applicable policyholder dividend obligation (reduction)	3.9	(0.8)	—	—	3.9	(0.8)
Applicable deferred income taxes (benefit)	2.2	(0.4)	2.2	(0.4)	—	—
Offsets to net unrealized gains (losses)	6.1	(1.2)	2.2	(0.4)	3.9	(0.8)
Unrealized gains (losses) after offsets	\$ 4.1	\$ (0.8)	\$ 4.1	\$ (0.8)	\$ —	\$ —
Net unrealized gains after offsets	\$ 3.3		\$ 3.3		\$ —	

Net unrealized investment gains and losses on securities classified as available-for-sale and certain other assets are included in the consolidated 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 millions)	March 31, 2010 ⁽¹⁾	Dec 31, 2009 ⁽¹⁾
U.S. government and agency	\$ —	\$ —
State and political subdivision	—	—
Foreign government	—	—
Corporate	(4.1)	(4.1)
Commercial mortgage-backed	(6.9)	(4.1)
Residential mortgage-backed	(50.6)	(39.7)
CDO/CLO	(35.8)	(32.9)
Other asset-backed	—	—
Fixed maturity non-credit losses in AOCI	\$ (97.4)	\$ (80.8)

⁽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.

**Duration of Gross Unrealized Losses on
General Account Securities Outside Closed Block:**
(*\$ in millions*)

	As of March 31, 2010			Over 12 Months
	Total	0 – 6 Months	6 – 12 Months	
Debt securities outside closed block				
Total fair value	\$ 1,599.4	\$ 323.4	\$ 36.1	\$ 1,239.9
Total amortized cost	1,906.6	332.3	43.4	1,530.9
Unrealized losses	\$ (307.2)	\$ (8.9)	\$ (7.3)	\$ (291.0)
Unrealized losses after offsets	\$ (86.9)	\$ (2.9)	\$ (3.0)	\$ (81.0)
Number of securities	1,002	165	19	818
Investment grade:				
Unrealized losses	\$ (159.5)	\$ (4.5)	\$ (5.0)	\$ (150.0)
Unrealized losses after offsets	\$ (46.4)	\$ (1.4)	\$ (2.1)	\$ (42.9)
Below investment grade:				
Unrealized losses	\$ (147.7)	\$ (4.4)	\$ (2.3)	\$ (141.0)
Unrealized losses after offsets	\$ (40.5)	\$ (1.5)	\$ (0.9)	\$ (38.1)
Equity securities outside closed block				
Unrealized losses	\$ (1.2)	\$ (1.2)	\$ —	\$ —
Unrealized losses after offsets	\$ (0.8)	\$ (0.8)	\$ —	\$ —
Number of securities	6	5	—	1

For debt securities outside of the closed block with gross unrealized losses, 53.4% of the unrealized losses after offsets pertain to investment grade securities and 46.6% 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 Outside Closed Block:**
(*\$ in millions*)

	As of March 31, 2010			Over 12 Months
	Total	0 – 6 Months	6 – 12 Months	
Debt securities outside closed block				
Unrealized losses over 20% of cost	\$ (223.0)	\$ (20.8)	\$ (6.2)	\$ (196.0)
Unrealized losses over 20% of cost after offsets	\$ (60.8)	\$ (5.5)	\$ (2.7)	\$ (52.6)
Number of securities	271	53	12	206
Investment grade:				
Unrealized losses over 20% of cost	\$ (99.2)	\$ (6.5)	\$ (3.9)	\$ (88.8)
Unrealized losses over 20% of cost after offsets	\$ (28.2)	\$ (1.5)	\$ (1.8)	\$ (24.9)
Below investment grade:				
Unrealized losses over 20% of cost	\$ (123.8)	\$ (14.3)	\$ (2.3)	\$ (107.2)
Unrealized losses over 20% of cost after offsets	\$ (32.6)	\$ (4.0)	\$ (0.9)	\$ (27.7)
Equity securities outside closed block				
Unrealized losses over 20% of cost	\$ (0.8)	\$ (0.8)	\$ —	\$ —
Unrealized losses over 20% of cost after offsets	\$ (0.5)	\$ (0.5)	\$ —	\$ —
Number of securities	1	1	—	—

**Duration of Gross Unrealized Losses on
General Account Securities Inside Closed Block:**
(*\$ in millions*)

	As of March 31, 2010			
	Total	0 – 6 Months	6 – 12 Months	Over 12 Months
Debt securities inside closed block				
Total fair value	\$ 1,556.2	\$ 279.8	\$ 28.8	\$ 1,247.6
Total amortized cost	1,760.9	290.7	35.0	1,435.2
Unrealized losses	\$ (204.7)	\$ (10.9)	\$ (6.2)	\$ (187.6)
Unrealized losses after offsets	\$ —	\$ —	\$ —	\$ —
Number of securities	359	45	10	304
Investment grade:				
Unrealized losses	\$ (135.1)	\$ (5.9)	\$ (5.9)	\$ (123.3)
Unrealized losses after offsets	\$ —	\$ —	\$ —	\$ —
Below investment grade:				
Unrealized losses	\$ (69.6)	\$ (5.0)	\$ (0.3)	\$ (64.3)
Unrealized losses after offsets	\$ —	\$ —	\$ —	\$ —
Equity securities inside closed block				
Unrealized losses	\$ (0.8)	\$ (0.8)	\$ —	\$ —
Unrealized losses after offsets	\$ —	\$ —	\$ —	\$ —
Number of securities	2	1	—	1

For debt securities inside the closed block with gross unrealized losses, 66.2% of the unrealized losses after offsets pertain to investment grade securities and 33.8% 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 Inside Closed Block:**
(*\$ in millions*)

	As of March 31, 2010			
	Total	0 – 6 Months	6 – 12 Months	Over 12 Months
Debt securities inside closed block				
Unrealized losses over 20% of cost	\$ (120.2)	\$ (13.3)	\$ (10.6)	\$ (96.3)
Unrealized losses over 20% of cost after offsets	\$ —	\$ —	\$ —	\$ —
Number of securities	89	16	6	67
Investment grade:				
Unrealized losses over 20% of cost	\$ (77.6)	\$ (3.9)	\$ (10.3)	\$ (63.4)
Unrealized losses over 20% of cost after offsets	\$ —	\$ —	\$ —	\$ —
Below investment grade:				
Unrealized losses over 20% of cost	\$ (42.6)	\$ (9.4)	\$ (0.3)	\$ (32.9)
Unrealized losses over 20% of cost after offsets	\$ —	\$ —	\$ —	\$ —
Equity securities inside closed block				
Unrealized losses over 20% of cost	\$ —	\$ —	\$ —	\$ —
Unrealized losses over 20% of cost after offsets	\$ —	\$ —	\$ —	\$ —
Number of securities	1	1	—	—

Liquidity and Capital Resources

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

Liquidity refers to the ability of a company to generate sufficient cash flow to meet its cash requirements. The following discussion includes both liquidity and capital resources as these subjects are interrelated.

The Phoenix Companies, Inc. (consolidated)

Summary Consolidated Cash Flows:

(\$ in millions)

	Three Months Ended		Increase (decrease) and	
	March 31,		percentage change	
	2010	2009	2010 vs. 2009	
Continuing operations				
Cash for operating activities	\$ (97.9)	\$ (102.9)	\$ 5.0	5%
Cash for investing activities	(15.9)	(55.6)	39.7	71%
Cash for financing activities	(13.1)	(72.9)	59.8	82%
	\$ (126.9)	\$ (231.4)	\$ 104.5	45%
Discontinued operations				
Cash from (for) operating activities	\$ 3.7	\$ (7.8)	\$ 11.5	147%
Cash from (for) investing activities	(4.7)	11.0	(15.7)	(143%)
	\$ (1.0)	\$ 3.2	\$ (4.2)	(131%)

Not meaningful (NM)

Three months ended March 31, 2010 vs. March 31, 2009

Continuing Operations

Cash used for operating activities declined 5% in the first quarter of 2010 compared to the first quarter of 2009. Acquisition costs were \$36.0 million lower as a result of decline in sales. Investment income declined \$22.6 million in the first quarter of 2010 primarily as a result of lower yields. Policyholder benefits increased \$17.4 million consistent with less favorable mortality related to variable universal life blocks of business. Premium payments and dividends declined \$14.2 million and \$17.3 million, respectively, as a result of the decrease in participating policies within the closed block. While operating cash flows remain negative as of March 31, 2010, this is primarily driven by cash surrenders of deposit-type contracts for which funds are readily available in segregated separate accounts or liquid general account assets.

Cash used for investing activities decreased by \$39.7 million in the first quarter of 2010 compared to the first quarter of 2009. The primary driver of this fluctuation was a decrease of \$41.7 million in outflows for policyholder loan advances as well as increased investment purchase activity consistent with lower surrenders.

A decrease in financing activities of \$59.8 million in the first quarter of 2010 compared to the first quarter of 2009 was primarily driven by a decline in withdrawals consistent with decrease in surrenders as well as a decline in policyholder deposits. See Note 7 to our consolidated financial statements in this Form 10-Q for additional information on financing activities.

Discontinued Operations

Cash flows decreased \$4.2 million from discontinued operations for the first quarter of 2010 as compared with the first quarter of 2009 primarily as a result of settlement activity in this block of business.

The Phoenix Companies, Inc. Sources and Uses of Cash (parent company only)

In addition to existing cash and securities, our primary sources of liquidity consist of dividends from Phoenix Life. Under New York Insurance Law, Phoenix Life is permitted to pay stockholder dividends to the holding company in any calendar year without prior approval from the New York Superintendent of Insurance in the amount of the lesser of 10% of Phoenix Life's surplus to policyholders as of the immediately preceding calendar year or Phoenix Life's statutory net gain from operations for the immediately preceding calendar year, not including realized capital gains. Based on this calculation, given unaudited preliminary results, Phoenix Life would be able to pay a dividend of \$29.2 million in 2010. In assessing our ability to pay dividends from Phoenix Life, we also consider the level of statutory capital and risk-based capital of that entity. Our capitalization has declined in the past two years and we may have less flexibility to pay dividends to PNX if we experience further declines. As of March 31, 2010, we had \$661.2 million of statutory surplus and asset valuation reserve ("AVR") and our risk-based capital ratio was in excess of 250% at Phoenix Life.

Our principal needs at the holding company level are debt service (net of amounts due on bonds repurchased), income taxes and operating expenses. Interest expense on senior unsecured bonds as of the three months ended March 31, 2010 and 2009 was \$4.9 million and \$5.4 million, respectively. As of March 31, 2010, future minimum annual principal payments on senior unsecured bonds are \$253.6 million in 2032.

Life Companies

The Life Companies' liquidity requirements principally relate to: the liabilities associated with various life insurance and annuity products; the payment of dividends by Phoenix Life to the parent company; operating expenses; contributions to subsidiaries; and payment of principal and interest by Phoenix Life on its outstanding debt obligation. 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. The Life Companies also have liabilities arising from the runoff of the remaining discontinued group accident and health reinsurance operations.

Historically, our Life Companies have used cash flow from operations and investing activities to fund liquidity requirements. Their principal cash inflows from life insurance and annuities activities come from premiums, annuity deposits and charges on insurance policies and annuity contracts. In the case of Phoenix Life, cash inflows also include dividends, distributions and other payments from subsidiaries. Principal cash inflows from investing activities result from repayments of principal, proceeds from maturities, sales of invested assets and investment income. The principal cash inflows from our discontinued group accident and health reinsurance operations come from our reinsurance, recoveries from other retrocessionaires and investing activities.

Annualized life surrenders were elevated in 2009, but improved in the first quarter of 2010, dropping to 8.4%, the lowest level since 2008. As the bond market improved in 2009, we were able to shift the composition of our liquidity position from primarily very low yielding treasury bills and notes to include a larger percentage of higher yielding agency mortgage-backed securities. Based on the improvement in portfolio valuations and reduced surrender activity, at the end of the first quarter we reduced our liquidity target from 10% of the portfolio down to 8%. This decrease in liquid assets will be redeployed into investment grade securities to enhance investment income.

We believe that the existing and expected sources of liquidity for our Life Companies are adequate to meet both current and anticipated needs.

Ratings

Rating agencies assign Phoenix Life financial strength ratings and assign the holding company debt ratings based in each case on their opinions of the relevant company's ability to meet its financial obligations. Rating declines may result in lower sales, higher surrenders and increased or decreased interest costs in connection with future borrowings.

On January 13, 2010, A.M. Best Company, Inc. downgraded our financial strength rating from B++ to B+ and downgraded our senior debt rating from bb+ to bb-. They maintained their negative outlook on all ratings. On March 10, 2009, A.M. Best Company, Inc. downgraded our financial strength rating to B++ from A and downgraded our senior debt rating to bb+ from bbb.

On September 8, 2009, Moody's Investor Services downgraded our financial strength rating from Baa2 to Ba1 and lowered our senior debt rating from Ba2 to B1. They maintained their negative outlook on all ratings. On March 10, 2009, Moody's Investor Service downgraded our financial strength rating to Baa2 from Baa1 and downgraded our senior debt rating to Ba2 from Ba1.

On February 12, 2010, Standard & Poor's downgraded our financial strength rating from BB to BB- and lowered our senior debt rating from B- to CCC+. They maintained their negative outlook on all ratings. On August 6, 2009, Standard & Poor's downgraded our financial strength rating of BBB- to BB and lowered our senior debt rating from B+ to B-. On May 7, 2009, Standard & Poor's affirmed our financial strength rating of BBB- and lowered our senior debt rating to B+ from BB-. On March 10, 2009, Standard & Poor's downgraded our financial strength rating to BBB- from BBB and downgraded our senior debt rating to BB- from BB.

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

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

The financial strength and debt ratings as of May 7, 2010 were as follows:

Rating Agency	Financial Strength Rating of Phoenix Life	Outlook	Senior Debt Rating of PNX	Outlook
A.M. Best Company, Inc.	B+	Negative	bb-	Negative
Moody's	Ba1	Negative	B1	Negative
Standard & Poor's	BB-	Negative	CCC+	Negative

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

Consolidated Financial Condition

Consolidated Balance Sheet:

(\$ in millions)

	<u>Mar 31,</u> <u>2010</u>	<u>Dec 31,</u> <u>2009</u>	<u>Increase (decrease) and</u> <u>percentage change</u> <u>2010 vs. 2009</u>	
ASSETS				
Available-for-sale debt securities, at fair value	\$ 10,595.7	\$ 10,345.5	\$ 250.2	2%
Available-for-sale equity securities, at fair value	33.0	25.2	7.8	31%
Venture capital partnerships, at equity in net assets	199.6	188.6	11.0	6%
Policy loans, at unpaid principal balances	2,341.0	2,324.4	16.6	1%
Other investments	536.5	539.7	(3.2)	(1%)
Fair value option investments	68.7	69.3	(0.6)	(1%)
Total investments	13,774.5	13,492.7	281.8	2%
Cash and cash equivalents	129.8	257.7	(127.9)	(50%)
Accrued investment income	180.9	176.4	4.5	3%
Receivables	364.7	356.6	8.1	2%
Deferred policy acquisition costs	1,743.0	1,916.0	(173.0)	(9%)
Deferred income taxes	192.7	166.2	26.5	16%
Other assets	171.8	195.8	(24.0)	(12%)
Discontinued operations assets	3,565.8	3,620.8	(55.0)	(2%)
Separate account assets	4,451.6	4,418.1	33.5	1%
Total assets	\$ 24,574.8	\$ 24,600.3	\$ (25.5)	—
LIABILITIES				
Policy liabilities and accruals	\$ 13,140.2	\$ 13,151.1	\$ (10.9)	—
Policyholder deposit funds	1,318.1	1,342.7	(24.6)	(2%)
Indebtedness	427.7	428.0	(0.3)	—
Other liabilities	485.6	527.8	(42.2)	(8%)
Discontinued operations liabilities	3,545.7	3,601.5	(55.8)	(2%)
Separate account liabilities	4,451.6	4,418.1	33.5	1%
Total liabilities	23,368.9	23,469.2	(100.3)	—
STOCKHOLDERS' EQUITY				
Common stock and additional paid in capital	2,629.3	2,628.6	0.7	—
Accumulated deficit	(1,133.0)	(1,146.7)	13.7	1%
Accumulated other comprehensive loss	(110.9)	(171.3)	60.4	35%
Treasury stock	(179.5)	(179.5)	—	—
Total stockholders' equity	1,205.9	1,131.1	74.8	7%
Total liabilities and stockholders' equity	\$ 24,574.8	\$ 24,600.3	\$ (25.5)	—

March 31, 2010 compared to December 31, 2009

Assets

Available-for-sale debt securities increased primarily due to improvement in unrealized losses from spread tightening in non-treasury sectors.

Venture capital partnerships increased primarily as a result of improvement in valuations as well as equity in earnings for the partnerships.

Cash and cash equivalents decreased due to a shift to available-for-sale debt securities.

Deferred policy acquisition costs decreased as a result of significantly lower unrealized losses on debt securities in the universal life, traditional life and variable annuity blocks of business.

**Composition of Deferred Policy Acquisition Costs
by Product:**

(\$ in millions)

	Mar 31, 2010	Dec 31, 2009	Increase (decrease) and percentage change	
			2010 vs. 2009	
Variable universal life	\$ 267.0	\$ 275.1	\$ (8.1)	(3%)
Universal life	807.5	888.3	(80.8)	(9%)
Variable annuities	191.2	243.6	(52.4)	(22%)
Fixed annuities	8.0	8.3	(0.3)	(4%)
Traditional life	469.3	500.7	(31.4)	(6%)
Total deferred policy acquisition costs	\$ 1,743.0	\$ 1,916.0	\$ (173.0)	(9%)

Other assets decreased as a result of a decrease in receivables related to premium taxes, a reduction in prepaid expenses and a decrease in property and equipment related to depreciation.

Liabilities and Stockholders' Equity

The decrease in other liabilities was attributable to a reduction in general accounts payable, including amounts due reinsurers, as well as a reduction in pension liabilities from a contribution of \$16.8 million during the first quarter of 2010.

Accumulated other comprehensive loss improved as a result of decrease in unrealized losses as well as a corresponding decrease in deferred acquisition cost offsets.

Funds on Deposit

Annuity Funds on Deposit:

(\$ in millions)

	Three Months Ended March 31,	
	2010	2009
Deposits	\$ 19.3	\$ 99.6
Performance and interest credited	124.5	(181.5)
Fees	(14.6)	(11.0)
Benefits and surrenders	(137.3)	(191.3)
Change in funds on deposit	(8.1)	(284.2)
Funds on deposit, beginning of period	3,926.1	3,735.5
Annuity funds on deposit, end of period	\$ 3,918.0	\$ 3,451.3

Three months ended March 31, 2010 vs. March 31, 2009

Annuity funds on deposit decreased \$8.1 million during the three months ended March 31, 2010 compared with a decrease of \$284.2 million in the three months ended March 31, 2009. During the first quarter of 2009, performance of equity markets was poor and this was compounded with benefits and surrenders. In contrast, in the first quarter of 2010, fund performance rebounded and there were lower benefits and surrenders. First quarter 2010 results were partially offset by a decline in deposits reflecting the loss of several key distribution relationships in early 2009.

Variable Universal Life Funds on Deposit:

(\$ in millions)

	Three Months Ended March 31,	
	2010	2009
Deposits	\$ 28.7	\$ 31.2
Performance and interest credited	41.6	(63.7)
Fees and cost of insurance	(22.5)	(24.9)
Benefits and surrenders	(48.4)	(27.1)
Change in funds on deposit	(0.6)	(84.5)
Funds on deposit, beginning of period	1,168.5	1,065.1
Variable universal life funds on deposit, end of period	\$ 1,167.9	\$ 980.6

Three months ended March 31, 2010 vs. March 31, 2009

For the three months ended March 31, 2010, the change in variable universal life funds on deposit was essentially flat compared to an \$84.5 million decrease in the same prior year period. These improvements reflected stronger equity markets. Partially offsetting these improvements were higher surrenders.

Universal Life Funds on Deposit:
(\$ in millions)

	Three Months Ended March 31,	
	2010	2009
Deposits	\$ 84.3	\$ 95.3
Interest credited	23.1	24.0
Fees and cost of insurance	(110.4)	(106.3)
Benefits and surrenders	(45.4)	(38.9)
Change in funds on deposit	(48.4)	(25.9)
Funds on deposit, beginning of period	2,080.7	2,256.0
Universal life funds on deposit, end of period	\$ 2,032.3	\$ 2,230.1

Three months ended March 31, 2010 vs. March 31, 2009

Universal life funds on deposit decreased during both the three months ended March 31, 2010 and 2009. The decrease was \$22.5 million higher in the first quarter of 2010 compared to the first quarter of 2009 primarily as a result of higher surrenders and lower sales.

Contractual Obligations and Commercial Commitments

During the normal course of business, the Company enters into agreements to fund limited partnerships that make debt and equity investments. As of March 31, 2010, the Company had unfunded commitments of \$315.6 million under such investments.

Commitments Related to Recent Business Combinations

Under the terms of purchase agreements related to certain business combinations, we are subject to certain contractual obligations and commitments related to additional purchase consideration and other purchase arrangements as described in our 2009 Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

In connection with the sale of certain venture capital partnerships, Phoenix Life issued a guarantee with respect to the outstanding unfunded commitments related to the partnerships that were sold. As of March 31, 2010, the Company has funded \$6.7 million under this guarantee and has established a receivable from the respective partnerships for this amount. Management believes the receivable to be fully collectible. An additional \$5.5 million of unfunded commitments remain subject to this guarantee.

Reinsurance

We maintain life reinsurance programs designed to protect against large or unusual losses in our life insurance business. Due to the downgrade of Scottish Re in February 2009, we are closely monitoring its financial situation and will periodically assess the recoverability of the reinsurance recoverable. As of March 31, 2010, Scottish Re was current on all its obligations to the Company. Based on our review of its financial statements, reputation in the reinsurance marketplace and other relevant information, we believe that we have no material exposure to uncollectible life reinsurance.

Statutory Capital and Surplus

Phoenix Life's and its subsidiaries' combined statutory basis capital and surplus (including AVR) increased from \$576.9 million at December 31, 2009 to \$665.9 million at March 31, 2010. The principal factors resulting in this increase were net income, unrealized investment gains and changes in deferred taxes and non-admitted assets. Statutory results are preliminary until filed with the regulatory authorities.

Obligations Related to Pension and Postretirement Employee Benefit Plans

As of March 31, 2010, there were no material changes to our obligations related to pension and postretirement employee benefit plans as described in our 2009 Annual Report on Form 10-K.

We made a contribution of \$16.8 million to the pension plans in the first quarter of 2010. We made payments totaling \$3.6 million during 2009. Over the next nine months, we expect to make additional contributions to the plans of approximately \$12 million. Effective March 31, 2010, all benefit accruals under our funded and unfunded defined benefit plans were frozen.

See Note 13 to our consolidated financial statements in this Form 10-Q for additional information.

Enterprise Risk Management

We have a comprehensive, enterprise-wide risk management program. Our 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 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 the Enterprise Risk Management section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2009 Annual Report on Form 10-K. 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 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management has carried out an evaluation, with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. 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 Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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 consolidated financial condition. However, given the large or indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation and regulatory matters, it is possible that an adverse outcome in certain matters could, from time to time, have a material adverse effect on our results of operations or cash flows in particular quarterly or annual periods. See Item 1A, "Risk Factors" below and Note 18 to our consolidated 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:

- Our investments in alternative asset classes, such as hedge funds, private equity funds and limited partnership interests generate returns that are more volatile than other asset classes are also relatively illiquid and may be harder to value or sell in adverse market conditions. Our investments in alternative asset classes produced a net loss before offsets of \$40.1 million in the year ended December 31, 2009 as a result of adverse market conditions in the first half of 2009. Market conditions significantly improved during the second half of 2009 through 2010, resulting in a net gain before offsets of \$9.7 million recognized during the three months ended March 31, 2010.
- 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 \$209.9 million on \$402.6 million of deferred tax assets.
- The funding requirements of our pension plan are dependent on the performance of the debt and equity markets. During the first quarter of 2010, Phoenix made \$16.8 million in contributions and we expect to make additional contributions of approximately \$12 million by December 31, 2010. Future market declines could result in additional funding requirements. Also, the funding requirements of our 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 \$69.6 million, 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 and interest on our debt, 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 credit ratings and credit capacity. The current uncertainty or volatility in the financial markets and the deterioration of our credit 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. Hedging gains were \$5.1 million for the three months ended March 31, 2010. Hedging losses were \$4.2 million in 2009. 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: the amount of statutory income or losses generated by our insurance subsidiaries (which itself is sensitive to equity market and credit market conditions), the amount of additional capital our insurance subsidiaries must hold to support business growth, changes in equity market levels, the value of certain fixed-income and equity securities in our investment portfolio, the value of certain derivative instruments that 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. Our financial strength and credit ratings are significantly influenced by the statutory surplus amounts and RBC ratios of our insurance company subsidiaries. In addition, rating agencies may implement changes to their internal models that have the effect of increasing or decreasing the amount of statutory capital they believe we should hold. Further, in extreme scenarios of equity market declines, such as those experienced recently, the amount of additional statutory reserves that we are required to hold for our variable annuity guarantees increases at a disproportionate rate. This reduces the statutory surplus used in calculating our RBC ratios. We have recently taken capital management actions to bolster our capitalization and RBC ratio including, but not limited to, the sale of certain securities in our portfolio and entry into reinsurance arrangements.

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, we have 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 other companies' products through our 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 us debt ratings, based in each case on their opinions of the Company's 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 downgraded our senior debt rating from bb+ to bb-. They maintained their negative outlook on all ratings.
- On September 8, 2009, Moody's Investor Services downgraded our financial strength rating from Baa2 to Ba1 and lowered our senior debt rating from Ba2 to B1. They maintained their negative outlook on all ratings.
- On February 12, 2010, Standard & Poor's downgraded our financial strength rating from BB to BB- and lowered our senior debt rating from B- to CCC+. They maintained their negative outlook on all ratings.

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 have implemented 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 \$18.0 million. 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. As of December 31, 2009, 64.5% of the total face amount of our written policies was ceded to reinsurers. 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 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.

Because we are a holding company with no direct operations, the inability of our subsidiaries to pay dividends to us in sufficient amounts would harm our ability to meet our obligations and pay future dividends.

We are a holding company, and we have no direct operations. Our principal asset is the capital stock of our subsidiaries. Our ability to meet our obligations for payment of interest and principal on outstanding debt obligations and to pay dividends to shareholders and corporate expenses depends upon the surplus and earnings of our subsidiaries and the ability of our subsidiaries to pay dividends or to advance or repay funds to us. When economic or market conditions deteriorate, as they have recently, the ability of our subsidiaries to pay dividends or to advance or repay funds may be impaired. This is especially true of our insurance company subsidiaries. Payments of dividends and advances or repayment of funds to us by our insurance company subsidiaries are restricted by the applicable laws of their respective jurisdictions, including laws establishing minimum solvency and liquidity thresholds. For example, the ability of Phoenix Life to pay dividends to the Company without special regulatory approval declined from \$53.4 million for 2009 to \$29.2 million for 2010. Changes to these laws, or the application or implementation of those laws by any of the regulatory agencies, especially those of New York State, the domiciliary state of Phoenix Life, could constrain the ability of our subsidiaries to pay dividends or to advance or repay funds to us in sufficient amounts and at times necessary to meet our debt obligations and corporate expenses.

We might need to fund deficiencies in our closed block, which would adversely impact results of operations and could also result in a reduction in investments in our on-going business.

We have allocated assets to our closed block to produce cash flows that, together with additional revenues from the closed block policies, are reasonably expected to support our obligations relating to these policies. Our allocation of assets to the closed block was based on actuarial assumptions about the performance of policies in the closed block and the continuation of the non-guaranteed policyholder dividend scales in effect for 2000, as well as assumptions about the investment earnings the closed block assets will generate over time. Since actual performance is likely to be different from these assumptions, it is possible that the cash flows generated by the closed block assets and the anticipated revenues from the policies included in the closed block will prove insufficient to provide for the benefits guaranteed under these policies even if the non-guaranteed policyholder dividend scale were to be reduced. If this were to occur, we would have to fund the resulting shortfall from assets outside of the closed block, which could adversely affect our results of operations and reduce our ability to invest in other on-going businesses.

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 \$1.0 million, tax-exempt bond interest, dividends-received deductions, tax credits (such as foreign tax credits), and insurance reserve deductions. Congress, as well as foreign, state and local governments, also considers from time to time legislation that could modify or eliminate these benefits, thereby increasing our tax costs. If such legislation were to be adopted, our consolidated 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, consolidated operating results, financial condition or liquidity.

We are subject to extensive laws and regulations. These laws and regulations are complex and subject to change. This is particularly the case given recent adverse economic and market developments. 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, consolidated operating results, financial condition or liquidity.

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

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

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

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

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 consolidated 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 affect 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.

We could have material losses in the future from our discontinued reinsurance business.

In 1999, we discontinued our reinsurance operations through a combination of sale, reinsurance and placement of certain retained group accident and health reinsurance business into run-off. We adopted a formal plan to stop writing new contracts covering these risks and to end the existing contracts as soon as those contracts would permit. However, we remain liable for claims under contracts which have not been commuted.

We have established reserves for claims and related expenses that we expect to pay on our discontinued group accident and health reinsurance business. These reserves are based on currently known facts and estimates about, among other things, the amount of insured losses and expenses that we believe we will pay, the period over which they will be paid, the amount of reinsurance we believe we will collect from our retrocessionaires and the likely legal and administrative costs of winding down the business. Our total net reserves were \$60.2 million as of March 31, 2010.

We expect our reserves and reinsurance to cover the run-off of the business; however, the nature of the underlying risks is such that the claims may take years to reach the reinsurers involved. Therefore, we expect to pay claims out of existing estimated reserves as the level of business diminishes. In addition, unfavorable or favorable claims and/or reinsurance recovery experience is reasonably possible and could result in our recognition of additional losses or gains, respectively, in future years. For these reasons, we cannot know today what our actual claims experience will be. In addition, we are involved in disputes relating to certain portions of our discontinued group accident and health reinsurance business. See Note 23 to our consolidated financial statements under Item 8 “Financial Statements and Supplementary Data” in our Annual Report on Form 10-K for more information.

In establishing our reserves described above for the payment of insured losses and expenses on this discontinued business, we have made assumptions about the likely outcome of the disputes referred to above, including an assumption that substantial recoveries would be available from our reinsurers on all of our discontinued reinsurance business. However, the inherent uncertainty of arbitrations and lawsuits, including the uncertainty of estimating whether any settlements we may enter into in the future would be on favorable terms, makes it hard to predict outcomes with certainty. Given the need to use estimates in establishing loss reserves, and the difficulty in predicting the outcome of arbitrations and lawsuits, our actual net ultimate exposure likely will differ from our current estimate. If future facts and circumstances differ significantly from our estimates and assumptions about future events with respect to the disputes referred to above or other portions of our discontinued reinsurance business, our current reserves may need to be increased materially, with a resulting material adverse effect on our results of operations and financial condition.

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 consolidated financial statements and that such changes could significantly affect our reported financial condition and results of operations. See Note 2 to our consolidated 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, which in turn could cause our stock price to decline.

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

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. REMOVED AND RESERVED

Item 5. OTHER INFORMATION

- (a) Not applicable.
- (b) No material changes.

Item 6. EXHIBITS

Exhibit

- 2.1 Plan of Reorganization (incorporated herein by reference to Exhibit 2.1 to the Phoenix Companies, Inc. Registration Statement on Form S-1 (Registration No. 333-55268), filed February 9, 2001, as amended)
- 3.1 Amended and Restated Certificate of Incorporation of The Phoenix Companies, Inc. (incorporated herein by reference to Exhibit 3.1 to The Phoenix Companies, Inc. Registration Statement on Form S-1 (Registration No. 333-73896), filed November 21, 2001, as amended)

- 3.2 By-Laws of The Phoenix Companies, Inc., as amended June 5, 2003 (incorporated herein by reference to Exhibit 3.2 to The Phoenix Companies, Inc. Annual Report on Form 10-K (Registration No. 333-73896) filed March 11, 2005)
- 4.1 Amended and Restated Certificate of Incorporation and By-Laws of The Phoenix Companies, Inc. (incorporated herein by reference to Exhibits 3.1 and 3.2 hereto, respectively)
- 4.2 Stockholder Rights Agreement, dated as of June 19, 2001, between The Phoenix Companies, Inc. and Equiserve Trust Company, N.A. as Rights Agent (incorporated herein by reference to Exhibit 10.24 to The Phoenix Companies, Inc. Registration Statement on Form S-1 (Registration No. 333-73896), filed November 21, 2001, as amended)
- 4.3 Form of Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of The Phoenix Companies, Inc. (attached as Exhibit A to the Stockholder Rights Agreement filed as Exhibit 4.2 hereto)
- 4.4 Form of Right Certificate (attached as Exhibit B to the Stockholder Rights Agreement filed as Exhibit 4.2 hereto)
- 4.5 Form of Share Certificate for Common Stock, par value \$0.01 per share (incorporated herein by reference to Exhibit 4.1 to The Phoenix Companies, Inc. Registration Statement on Form S-1 (Registration No. 333-55268), filed February 9, 2001, as amended)
- 10.1 The Phoenix Companies, Inc. Stock Incentive Plan, as amended and restated (incorporated herein by reference to Exhibit 10.2 to The Phoenix Companies, Inc. Quarterly Report on Form 10-Q filed May 8, 2008)
- 10.2 First Amendment to The Phoenix Companies, Inc. Stock Incentive Plan, as amended and restated (incorporated herein by reference to Exhibit 10.2 to The Phoenix Companies, Inc. Annual Report on Form 10-K filed March 5, 2009)
- 10.3 Form of Incentive Stock Option Agreement under The Phoenix Companies, Inc. Stock Incentive Plan (incorporated herein by reference to Exhibit 10.3 to The Phoenix Companies, Inc. Annual Report on Form 10-K filed March 11, 2005)
- 10.4 Form of Non-Qualified Stock Option Agreement under The Phoenix Companies, Inc. Stock Incentive Plan (incorporated herein by reference to Exhibit 10.4 to The Phoenix Companies, Inc. Annual Report on Form 10-K filed March 11, 2005)
- 10.5 Form of Non-Qualified Stock Option Agreement (Performance and Service-Vesting Awards) (incorporated herein by reference to Exhibit 10.2 to The Phoenix Companies, Inc. Current Report on Form 8-K filed May 4, 2009)
- 10.6 The Phoenix Companies, Inc. Directors Stock Plan, as amended and restated (incorporated herein by reference to Exhibit 10.6 to The Phoenix Companies, Inc. Quarterly Report on Form 10-Q filed May 8, 2008)
- 10.7 The Phoenix Companies, Inc. Excess Benefit Plan, as amended and restated (incorporated herein by reference to Exhibit 10.9 to The Phoenix Companies, Inc. Quarterly Report on Form 10-Q filed May 8, 2008)
- 10.8 First Amendment to The Phoenix Companies, Inc. Excess Benefit Plan, as amended and restated*
- 10.9 The Phoenix Companies, Inc. Non-Qualified Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.13 to The Phoenix Companies, Inc. Quarterly Report on Form 10-Q filed May 8, 2008) (merged into The Phoenix Companies, Inc. Non-Qualified Excess Investment Plan, effective September 1, 2009)
- 10.10 First Amendment to The Phoenix Companies, Inc. Non-Qualified Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.8 to The Phoenix Companies, Inc. Quarterly Report on Form 10-Q filed November 6, 2009) (merged into The Phoenix Companies, Inc. Non-Qualified Excess Investment Plan, effective September 1, 2009)

- 10.11 The Phoenix Companies, Inc. Non-Qualified Excess Investment Plan (incorporated herein by reference to Exhibit 10.14 to The Phoenix Companies, Inc. Quarterly Report on Form 10-Q filed May 8, 2008)
- 10.12 Discussion of The Phoenix Companies, Inc. Non-Qualified Excess Investment Plan, as amended (incorporated herein by reference to Item 5.02(e) to The Phoenix Companies, Inc. Current Report on Form 8-K filed December 9, 2009)
- 10.13 The Phoenix Companies, Inc. Non-Qualified Excess Investment Plan amended and restated as of September 1, 2009 (incorporated herein by reference to Exhibit 10.10 to The Phoenix Companies, Inc. Quarterly Report on Form 10-Q filed November 6, 2009)
- 10.14 First Amendment to The Phoenix Companies, Inc. Non-Qualified Excess Investment Plan amended and restated as of September 1, 2009*
- 10.15 The Phoenix Companies, Inc. Nonqualified Supplemental Executive Retirement Plan, as amended and restated (incorporated herein by reference to Exhibit 10.9 to The Phoenix Companies, Inc. Annual Report on Form 10-K filed March 5, 2009)
- 10.16 Discussion of The Phoenix Companies, Inc. Nonqualified Supplemental Executive Retirement Plan, as amended and restated (incorporated herein by reference to Item 5.02(e) to The Phoenix Companies, Inc. Current Report on Form 8-K filed December 9, 2009)
- 10.17 First Amendment to The Phoenix Companies, Inc. Nonqualified Supplemental Executive Retirement Plan, as amended and restated*
- 10.18 The Phoenix Companies, Inc. Nonqualified Supplemental Executive Retirement Plan B, as amended and restated (incorporated herein by reference to Exhibit 10.10 to The Phoenix Companies, Inc. Annual Report on Form 10-K filed March 5, 2009)
- 10.19 Discussion of The Phoenix Companies, Inc. Nonqualified Supplemental Executive Retirement Plan B, as amended and restated (incorporated herein by reference to Item 5.02(e) to The Phoenix Companies, Inc. Current Report on Form 8-K filed December 9, 2009)
- 10.20 First Amendment to The Phoenix Companies, Inc. Nonqualified Supplemental Executive Retirement Plan B, as amended and restated*
- 10.21 The Phoenix Companies, Inc. 2003 Restricted Stock, Restricted Stock Unit and Long-Term Incentive Plan, as amended and restated (incorporated herein by reference to Exhibit 10.22 to The Phoenix Companies, Inc. Quarterly Report on Form 10-Q filed May 8, 2008)
- 10.22 Form of Award Letter under The Phoenix Companies, Inc. 2003 Restricted Stock, Restricted Stock Unit and Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.1 to The Phoenix Companies, Inc. Current Report on Form 8-K filed February 8, 2006)
- 10.23 Form of Description of Long Term Incentive Cycle under The Phoenix Companies, Inc. 2003 Restricted Stock, Restricted Stock Unit and Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.2 to The Phoenix Companies, Inc. Current Report on Form 8-K filed February 8, 2006)
- 10.24 Form of Restricted Stock Units Agreement of The Phoenix Companies, Inc. (incorporated herein by reference to Exhibit 10.27 to The Phoenix Companies, Inc. Quarterly Report on Form 10-Q filed May 10, 2006)
- 10.25 Form of Restricted Stock Units Agreement Individual for Performance-Based Incentive Grants (incorporated herein by reference to Exhibit 10.1 to The Phoenix Companies, Inc. Current Report on Form 8-K filed February 28, 2007)
- 10.26 Form of Restricted Stock Units Agreement for Cliff Vested Grants (incorporated herein by reference to Exhibit 10.21 to The Phoenix Companies, Inc. Annual Report on Form 10-K filed March 1, 2007)

- 10.27 Form of Restricted Stock Units Agreement for Performance-Based Grants Tied to Business Line Metrics (incorporated herein by reference to Exhibit 10.22 to The Phoenix Companies, Inc. Quarterly Report on Form 10-Q filed May 9, 2007)
- 10.28 Form of Restricted Stock Units Agreement for 3-Year Performance-Based Long-Term Incentive Cycles (incorporated herein by reference to Exhibit 10.23 to The Phoenix Companies, Inc. Quarterly Report on Form 10-Q filed May 9, 2007)
- 10.29 Form of Restricted Stock Units Agreement (Performance and Service-Vesting Awards) (incorporated herein by reference to Exhibit 10.1 to The Phoenix Companies, Inc. Current Report on Form 8-K filed May 4, 2009)
- 10.30 The Phoenix Companies, Inc. Executive Severance Allowance Plan, as amended and restated (incorporated herein by reference to Exhibit 10.33 to The Phoenix Companies, Inc. Quarterly Report on Form 10-Q filed May 8, 2008)
- 10.31 The Phoenix Companies, Inc. Annual Incentive Plan for Executive Officers, as amended and restated (incorporated herein by reference to Exhibit 10.35 to The Phoenix Companies, Inc. Quarterly Report on Form 10-Q filed May 8, 2008)
- 10.32 The Phoenix Companies, Inc. Equity Deferral Plan (incorporated herein by reference to Exhibit 10.36 to The Phoenix Companies, Inc. Quarterly Report on Form 10-Q filed May 8, 2008)
- 10.33 The Phoenix Companies, Inc. Directors Equity Deferral Plan (incorporated herein by reference to Exhibit 10.37 to The Phoenix Companies, Inc. Quarterly Report on Form 10-Q filed May 8, 2008)
- 10.34 The Phoenix Companies, Inc. Directors Cash Deferral Plan (incorporated herein by reference to Exhibit 10.38 to The Phoenix Companies, Inc. Quarterly Report on Form 10-Q filed May 8, 2008)
- 10.35 Form of Change in Control Agreement (incorporated herein by reference to Exhibit 10.1 to The Phoenix Companies, Inc. Current Report on Form 8-K filed October 30, 2009)
- 10.36 Offer Letter dated February 9, 2004 by The Phoenix Companies, Inc. to Philip K. Polkinghorn (incorporated herein by reference to Exhibit 10.50 to The Phoenix Companies, Inc. Annual Report on Form 10-K filed March 22, 2004)
- 10.37 Letter Agreement dated May 6, 2008 between The Phoenix Companies, Inc. and Dona D. Young (incorporated herein by reference to Exhibit 10.42 to The Phoenix Companies, Inc. Quarterly Report on Form 10-Q filed May 8, 2008)
- 10.38 Second Amended and Restated Employment Agreement dated May 6, 2008 between The Phoenix Companies, Inc. and Dona D. Young (incorporated herein by reference to The Phoenix Companies, Inc. Annual Report on Form 10-K filed March 5, 2009)
- 10.39 Amended and Restated Employment Continuation Agreement effective January 1, 2008, between The Phoenix Companies, Inc. and Dona D. Young (incorporated herein by reference to The Phoenix Companies, Inc. Annual Report on Form 10-K filed March 5, 2009)
- 10.40 Consulting Agreement dated March 22, 2009 between The Phoenix Companies, Inc. and Dona D. Young (incorporated herein by reference to The Phoenix Companies, Inc. Current Report on Form 8-K filed March 23, 2009)
- 10.41 Discussion of compensation of Michael E. Hanrahan (incorporated herein by reference to The Phoenix Companies, Inc. Current Report on Form 8-K filed August 25, 2009 and The Phoenix Companies, Inc. Current Report on Form 8-K filed on February 17, 2010)
- 10.42 Discussion of compensation of James D. Wehr (incorporated herein by reference to The Phoenix Companies, Inc. Current Report on Form 8-K filed May 4, 2009)

- 10.43 Discussion of compensation of Peter A. Hofmann (incorporated herein by reference to The Phoenix Companies, Inc. Current Report on Form 8-K filed November 14, 2007)
- 10.44 Discussion of director compensation and share ownership guidelines (incorporated herein by reference to The Phoenix Companies, Inc. Current Report on Form 8-K filed November 9, 2009)
- 10.45 Form of Cash Agreement for Long-Term Incentive Cycle Performance-Based Grants with Post-Performance Service-Vesting Criteria (incorporated herein by reference to Exhibit 10.1 to The Phoenix Companies, Inc. Current Report on Form 8-K filed April 24, 2009)
- 10.46 Stockholder Rights Agreement dated as of June 19, 2001 (incorporated herein by reference to Exhibit 4.2 hereto)
- 10.47 Fiscal Agency Agreement dated as of December 15, 2004 between Phoenix Life Insurance Company and The Bank of New York (incorporated herein by reference to Exhibit 10.38 to The Phoenix Companies, Inc. Annual Report on Form 10-K filed March 11, 2005)
- 10.48 First Amended and Restated Credit Agreement dated as of April 2, 2008, by and among The Phoenix Companies, Inc., and Phoenix Life Insurance Company as Borrowers; Wachovia Bank, National Association, as Administrative Agent; The Bank of New York, as Syndication Agent; BMO Capital Markets Financing, Inc., JPMorgan Chase Bank, N.A., and PNC Bank, National Association, as Documentation Agents; and the other Lenders party thereto (incorporated herein by reference to Exhibit 10.1 to The Phoenix Companies, Inc. Current Report on Form 8-K filed April 7, 2008)
- 10.49 First Amendment to First Amended and Restated Credit Agreement, dated as of November 7, 2008, by and among The Phoenix Companies, Inc. and Phoenix Life Insurance Company as borrowers; Wachovia Bank, National Association, as administrative agent; The Bank of New York, as syndication agent; BMO Capital Markets Financing, Inc., JPMorgan Chase Bank, N.A., and PNC Bank, National Association, as documentation agents; and the other lenders party thereto (incorporated herein by reference to Exhibit 10.55 to The Phoenix Companies, Inc. Quarterly Report on Form 10-Q dated November 10, 2008)
- 10.50 Agreement, dated as of April 16, 2008, among The Phoenix Companies, Inc. Oliver Press Partners, LLC and certain of its affiliates party thereto (incorporated herein by reference to Exhibit 10.1 to The Phoenix Companies, Inc. Current Report on Form 8-K filed April 16, 2008)
- 10.51 Investment and Contribution Agreement, dated as of October 30, 2008, by and among The Phoenix Companies, Inc., Phoenix Investment Management Company, Virtus Holdings, Inc. and Harris Bankcorp, Inc. (incorporated by reference herein to Exhibit 10.1 to The Phoenix Companies, Inc. Current Report on Form 8-K filed November 5, 2008)
- 10.52 Separation Agreement, Plan of Reorganization and Distribution by and between The Phoenix Companies, Inc. and Virtus Investment Partners, Inc. dated as of December 18, 2008 (incorporated herein by reference to Exhibit 10.1 to The Phoenix Companies, Inc. Current Report on Form 8-K filed December 23, 2008)
- 10.53 Transition Services Agreement by and between The Phoenix Companies, Inc. and Virtus Investment Partners, Inc. dated as of December 18, 2008 (incorporated herein by reference to Exhibit 10.2 to The Phoenix Companies, Inc. Current Report on Form 8-K filed December 23, 2008)
- 10.54 Tax Separation Agreement by and between The Phoenix Companies, Inc. and Virtus Investment Partners, Inc. dated as of December 18, 2008 (incorporated herein by reference to Exhibit 10.3 to The Phoenix Companies, Inc. Current Report on Form 8-K filed December 23, 2008)
- 10.55 Amendment to Tax Separation Agreement by and between The Phoenix Companies, Inc. and Virtus Investment Partners, Inc. dated as of April 8, 2009 (incorporated herein by reference to Exhibit 10.39 to The Phoenix Companies, Inc. Quarterly Report on Form 10-Q filed May 8, 2009)
- 10.56 Employee Matters Agreement by and between The Phoenix Companies, Inc. and Virtus Investment Partners, Inc. dated as of December 18, 2008 (incorporated herein by reference to Exhibit 10.4 to The Phoenix Companies, Inc. Current Report on Form 8-K filed December 23, 2008)

- 10.57 Amended and Restated Technology Services Agreement by and among Phoenix Life Insurance Company and Electronic Data Systems, LLC dated January 1, 2009 (incorporated herein by reference to Exhibit 10.1 to The Phoenix Companies, Inc. Current Report on Form 8-K dated January 6, 2009)
- 12 Ratio of Earnings to Fixed Charges*
- 31.1 Certification of James D. Wehr, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
- 31.2 Certification of Peter A. Hofmann, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
- 32 Certification by James D. Wehr, Chief Executive Officer and Peter A. Hofmann, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

* Filed herewith

We will furnish any exhibit upon the payment of a reasonable fee, which fee shall be limited to our reasonable expenses in furnishing such exhibit. Requests for copies should be directed to: Corporate Secretary, The Phoenix Companies, Inc., 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.

THE PHOENIX COMPANIES, INC.

Date: May 10, 2010

By: /s/ Peter A. Hofmann

Peter A. Hofmann

Senior Executive Vice President and Chief Financial Officer