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

**FORM 10-Q**

(Mark one)

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008**

**OR**

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

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

**Commission File Number: 333-20277**

**PHL VARIABLE INSURANCE COMPANY**

(Exact name of registrant as specified in its charter)

**Connecticut**

(State or other jurisdiction of incorporation or organization)

**06-1045829**

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

**One American Row, Hartford, Connecticut**

(Address of principal executive offices)

**06102-5056**

(Zip Code)

**(860) 403-5000**

(Registrant's telephone number, including area code)

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

YES ☒ NO ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

(Do not check if smaller reporting company)

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

YES ☐ NO ☒

PHL Variable Insurance Company is a wholly-owned indirect subsidiary of The Phoenix Companies, Inc., and there is no market for the registrant's common stock. As of August 8, 2008, there were 500 shares of the registrant's common stock outstanding.

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

TABLE OF CONTENTS

<b>PART I</b>	<b>FINANCIAL INFORMATION</b>	<b>Page</b>
Item 1.	<a href="#">Financial Statements</a>	3
Item 2.	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	21
Item 3.	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	29
Item 4.	<a href="#">Controls and Procedures</a>	29
<b>PART II</b>	<b>OTHER INFORMATION</b>	
Item 1.	<a href="#">Legal Proceedings</a>	31
Item 1A.	<a href="#">Risk Factors</a>	31
Item 2.	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	31
Item 3.	<a href="#">Defaults Upon Senior Securities</a>	31
Item 4.	<a href="#">Submission of Matters to a Vote of Security Holders</a>	31
Item 5.	<a href="#">Other Information</a>	31
Item 6.	<a href="#">Exhibits</a>	32
<a href="#">Signature</a>		33

[Table of Contents](#)

## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

**PHL VARIABLE INSURANCE COMPANY**  
**Unaudited Interim Condensed Balance Sheet**  
(\$ in thousands, except share data)  
**June 30, 2008 (unaudited) and December 31, 2007**

	June 30, 2008	Dec 31, 2007
<b>ASSETS:</b>		
Available-for-sale debt securities, at fair value	\$ 1,528,914	\$ 1,709,586
Policy loans, at unpaid principal balances	24,857	22,819
Other investments	1,169	1,251
Fair value option investments	5,020	--
Total investments	1,559,960	1,733,656
Cash and cash equivalents	149,118	108,200
Accrued investment income	15,103	17,518
Receivables	44,976	37,178
Deferred policy acquisition costs	1,211,573	1,009,612
Receivable from related parties	18,875	527
Other assets	37,799	20,214
Separate account assets	3,237,390	3,389,356
<b>Total assets</b>	<b>\$ 6,274,794</b>	<b>\$ 6,316,261</b>
<b>LIABILITIES:</b>		
Policyholder deposit funds	\$ 983,252	\$ 1,134,635
Policy liabilities and accruals	1,140,455	981,509
Deferred income taxes	142,515	135,648
Payable to related parties	1,285	28,969
Other liabilities	110,030	48,303
Separate account liabilities	3,237,390	3,389,356
<b>Total liabilities</b>	<b>5,614,927</b>	<b>5,718,420</b>
<b>CONTINGENT LIABILITIES (Note 8)</b>		
<b>STOCKHOLDER'S EQUITY:</b>		
Common stock, \$5,000 par value: 1,000 shares authorized; 500 shares issued	2,500	2,500
Additional paid-in capital	626,218	553,218
Retained earnings	51,191	53,906
Accumulated other comprehensive loss	(20,042)	(11,783)
<b>Total stockholder's equity</b>	<b>659,867</b>	<b>597,841</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 6,274,794</b>	<b>\$ 6,316,261</b>

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

[Table of Contents](#)

**PHL VARIABLE INSURANCE COMPANY**  
**Unaudited Interim Condensed Statement of Income and Comprehensive Income**  
**and Changes in Stockholder's Equity**  
(\$ in thousands)  
**Three and Six Months Ended June 30, 2008 and 2007**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>REVENUES:</b>				
Premiums	\$ 5,314	\$ 2,882	\$ 4,671	\$ 6,061
Insurance and investment product fees	87,717	59,410	171,582	113,529
Net investment income	22,990	27,192	47,311	55,086
Net realized investment gains (losses)	1,689	359	(18,340)	189
<b>Total revenues</b>	<b>117,710</b>	<b>89,843</b>	<b>205,224</b>	<b>174,865</b>
<b>BENEFITS AND EXPENSES:</b>				
Policy benefits	43,573	36,481	94,588	76,461
Policy acquisition cost amortization	38,755	26,923	63,292	50,526
Other operating expenses	25,707	20,424	53,807	37,510
<b>Total benefits and expenses</b>	<b>108,035</b>	<b>83,828</b>	<b>211,687</b>	<b>164,497</b>
Income before income taxes	9,675	6,015	(6,463)	10,368
Income tax (expense) benefit	(3,360)	(1,863)	3,748	(3,214)
<b>Net income (loss)</b>	<b>\$ 6,315</b>	<b>\$ 4,152</b>	<b>\$ (2,715)</b>	<b>\$ 7,154</b>
<b>COMPREHENSIVE INCOME:</b>				
<b>Net income (loss)</b>	<b>\$ 6,315</b>	<b>\$ 4,152</b>	<b>\$ (2,715)</b>	<b>\$ 7,154</b>
Net unrealized investment losses	(2,620)	(5,206)	(8,259)	(4,271)
<b>Other comprehensive loss</b>	<b>(2,620)</b>	<b>(5,206)</b>	<b>(8,259)</b>	<b>(4,271)</b>
<b>Comprehensive income (loss)</b>	<b>\$ 3,695</b>	<b>\$ (1,054)</b>	<b>\$ (10,974)</b>	<b>\$ 2,883</b>
<b>ADDITIONAL PAID-IN CAPITAL:</b>				
Capital contributions from parent	\$ 31,000	\$ 25,000	\$ 73,000	\$ 25,000
<b>RETAINED EARNINGS:</b>				
Cumulative effect of retrospective application of change in accounting (Note 2)	(4,178)	(5,451)	(8,296)	(3,613)
Net income (loss)	6,315	4,152	(2,715)	7,154
Adjustment for initial application of FIN 48 (Note 2)	--	--	--	(1,000)
<b>OTHER COMPREHENSIVE INCOME:</b>				
Other comprehensive loss	(2,620)	(5,206)	(8,259)	(4,271)
<b>Change in stockholder's equity</b>	<b>30,517</b>	<b>18,495</b>	<b>53,730</b>	<b>23,270</b>
Stockholder's equity, beginning of period, as previously reported	629,350	555,053	606,137	550,278
<b>Stockholder's equity, end of period</b>	<b>\$ 659,867</b>	<b>\$ 573,548</b>	<b>\$ 659,867</b>	<b>\$ 573,548</b>

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

[Table of Contents](#)

**PHL VARIABLE INSURANCE COMPANY**  
**Unaudited Interim Condensed Statement of Cash Flows**  
(\$ in thousands)  
**Six Months Ended June 30, 2008 and 2007**

	<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (2,715)	\$ 7,154
Net realized investment (gains) losses	18,340	(189)
Investment income	2,365	3,417
Deferred income taxes	11,314	13,213
Increase in receivables	(8,780)	(4,581)
Increase in deferred policy acquisition costs	(154,825)	(83,875)
Increase in policy liabilities and accruals	160,957	77,231
Other assets and other liabilities net change	(69,457)	(5,122)
<b>Cash from (for) operating activities</b>	<b>(42,801)</b>	<b>7,248</b>
<b>INVESTING ACTIVITIES:</b>		
Investment purchases	(380,465)	(502,550)
Investment sales, repayments and maturities	556,935	715,629
<b>Cash from investing activities</b>	<b>176,470</b>	<b>213,079</b>
<b>FINANCING ACTIVITIES:</b>		
Policyholder deposit fund deposits	168,853	133,597
Policyholder deposit fund withdrawals	(325,389)	(361,596)
Capital contributions from parent	63,785	25,000
<b>Cash for financing activities</b>	<b>(92,751)</b>	<b>(202,999)</b>
<b>Change in cash and cash equivalents</b>	<b>40,918</b>	<b>17,328</b>
Cash and cash equivalents, beginning of period	108,200	47,127
<b>Cash and cash equivalents, end of period</b>	<b>\$ 149,118</b>	<b>\$ 64,455</b>

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

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

[Table of Contents](#)

**PHL VARIABLE INSURANCE COMPANY**  
**Notes to Unaudited Interim Condensed Financial Statements**  
**Three and Six Months Ended June 30, 2008 and 2007**

**1. Organization and Operations**

PHL Variable Insurance Company is a life insurance company offering variable and fixed annuity and non-participating life insurance products. It is a wholly-owned subsidiary of PM Holdings, Inc. PM Holdings, Inc. is a wholly-owned subsidiary of Phoenix Life Insurance Company ("Phoenix Life"), which is a wholly-owned subsidiary of The Phoenix Companies, Inc. ("PNX"), a New York Stock Exchange listed company.

**2. Basis of Presentation and Significant Accounting Policies**

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

**Use of estimates**

In preparing these financial statements in conformity with GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. We employ significant estimates and assumptions in the determination of deferred policy acquisition costs; policyholder liabilities and accruals; the valuation of investments in debt and equity securities; and accruals for deferred income taxes and contingent liabilities. Our significant accounting policies are presented in the notes to our financial statements in our 2007 Annual Report on Form 10-K.

Our interim financial statements do not include all of the disclosures required by GAAP for annual financial statements. In our opinion, we have included all adjustments, consisting of normal recurring adjustments, considered necessary for a fair statement of the results for the interim periods. Financial results for the three- and six-month periods in 2008 are not necessarily indicative of the results that may be expected for the year 2008. These unaudited financial statements should be read in conjunction with our financial statements in our 2007 Annual Report on Form 10-K.

**Accounting Change**

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

[Table of Contents](#)

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

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

### Income Statement

(\$ in thousands)

	Three Months Ended June 30, 2008		
	As calculated under the new method	As calculated under the former method	Effect of Change
Insurance and investment product fees	\$ 87,717	\$ 87,841	\$ (124)
Policy benefits	43,573	34,876	8,697
Policy acquisition cost amortization	38,755	41,176	(2,421)
Income tax (expense) benefit	(3,360)	(5,600)	2,240
Net income (loss)	6,315	10,475	(4,160)

(\$ in thousands)

	Three Months Ended June 30, 2007		
	As adjusted	As originally reported	Effect of Change
Insurance and investment product fees	\$ 59,410	\$ 59,563	\$ (153)
Policy benefits	36,481	32,555	3,926
Policy acquisition cost amortization	26,923	28,243	(1,320)
Income tax (expense) benefit	(1,863)	(2,829)	966
Net income (loss)	4,152	5,945	(1,793)

(\$ in thousands)

	Six Months Ended June 30, 2008		
	As calculated under the new method	As calculated under the former method	Effect of Change
Insurance and investment product fees	\$ 171,582	\$ 170,568	\$ 1,014
Policy benefits	94,588	100,108	(5,520)
Policy acquisition cost amortization	63,292	56,692	6,600
Income tax (expense) benefit	3,748	3,725	23
Net income (loss)	(2,715)	(2,672)	(43)

(\$ in thousands)

	Six Months Ended June 30, 2007		
	As adjusted	As originally reported	Effect of Change
Insurance and investment product fees	\$ 113,529	\$ 113,863	\$ (334)
Policy benefits	76,461	68,231	8,230
Policy acquisition cost amortization	50,526	53,505	(2,979)
Income tax (expense) benefit	(3,214)	(5,169)	1,955
Net income (loss)	7,154	10,784	(3,630)

[Table of Contents](#)

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

Balance Sheet

(\$ in thousands)

	June 30, 2008		
	As calculated under the new method	As calculated under the former method	Effect of Change
Deferred policy acquisition costs	\$ 1,211,573	\$ 1,216,373	\$ (4,800)
Policy liabilities and accruals	1,140,455	1,132,426	8,029
Deferred income tax liability	142,515	147,006	(4,491)
Retained earnings	51,191	59,529	(8,338)

(\$ in thousands)

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

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

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

**Deferred policy acquisition costs**

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

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

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



[Table of Contents](#)

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

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

Underlying assumptions for future periods of EGPs are not altered unless experience deviates significantly from original assumptions. For example, when lapses of our insurance products meaningfully exceed levels assumed in determining the amortization of deferred policy acquisition costs, we adjust amortization to reflect the change in future premiums or EGPs resulting from the unexpected lapses. In the event that we were to revise assumptions used for prior year cohorts, our estimate of projected account values would change and the related EGPs in the deferred policy acquisition cost amortization model would be adjusted to reflect such change. This process is known as "unlocking". Continued favorable experience on key assumptions, which could include increasing separate account fund return performance, decreasing lapses or decreasing mortality could result in an unlocking which would result in a decrease to deferred policy acquisition cost amortization and an increase in the deferred policy acquisition costs asset. Finally, an analysis is performed periodically to assess whether there are sufficient gross margins or gross profits to amortize the remaining deferred policy acquisition costs balances.

### Adoption of new accounting standards

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

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

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

[Table of Contents](#)

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

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

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

### Accounting standards not yet adopted

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

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

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

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

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

[Table of Contents](#)

### 3. Deferred Policy Acquisition Costs

#### Deferred Policy Acquisition Costs:

(\$ in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Policy acquisition costs deferred	\$ 91,304	\$ 72,982	\$ 218,117	\$ 134,400
Costs amortized to expenses:				
Recurring costs	(40,943)	(26,664)	(68,254)	(49,703)
Realized investment (gains) losses	2,188	(259)	4,962	(823)
Offsets to net unrealized investment gains or losses included in other comprehensive income	25,995	12,676	47,136	8,327
Change in deferred policy acquisition costs	78,544	58,735	201,961	92,201
Deferred policy acquisition costs, beginning of period	1,133,029	735,086	1,009,612	701,620
<b>Deferred policy acquisition costs, end of period</b>	<b>\$ 1,211,573</b>	<b>\$ 793,821</b>	<b>\$ 1,211,573</b>	<b>\$ 793,821</b>

### 4. Investing Activities

#### Debt securities

#### Fair Value and Cost of Debt Securities:

(\$ in thousands)

	June 30, 2008		December 31, 2007	
	Fair Value	Cost	Fair Value	Cost
U.S. government and agency	\$ 47,198	\$ 46,879	\$ 65,774	\$ 64,884
State and political subdivision	12,477	12,746	11,029	11,134
Foreign government	25,551	23,500	30,423	27,716
Corporate	833,714	883,680	975,058	998,982
Mortgage-backed	388,605	413,522	358,479	372,733
Other asset-backed	221,369	265,565	268,823	288,927
<b>Available-for-sale debt securities</b>	<b>\$ 1,528,914</b>	<b>\$ 1,645,892</b>	<b>\$ 1,709,586</b>	<b>\$ 1,764,376</b>

#### Unrealized Gains and Losses from Debt Securities:

(\$ in thousands)

	June 30, 2008		December 31, 2007	
	Gains	Losses	Gains	Losses
U.S. government and agency	\$ 936	\$ (617)	\$ 1,193	\$ (303)
State and political subdivision	10	(279)	11	(116)
Foreign government	2,052	(1)	2,732	(25)
Corporate	3,230	(53,196)	8,774	(32,698)
Mortgage-backed	740	(25,657)	2,654	(16,908)
Other asset-backed	806	(45,002)	875	(20,979)
<b>Debt securities gains (losses)</b>	<b>\$ 7,774</b>	<b>\$ (124,752)</b>	<b>\$ 16,239</b>	<b>\$ (71,029)</b>
<b>Debt securities net losses</b>		<b>\$ (116,978)</b>		<b>\$ (54,790)</b>

[Table of Contents](#)

**4. Investing Activities (continued)**

**Aging of Temporarily Impaired**

**Debt Securities:**

(\$ in thousands)

**Debt securities**

U.S. government and agency  
State and political subdivision  
Foreign government  
Corporate  
Mortgage-backed  
Other asset-backed

**Total temporarily impaired securities**

**Below investment grade**

**Below investment grade after offsets for  
deferred policy acquisition cost  
adjustment and taxes**

**Number of securities**

June 30, 2008					
Less than 12 months		Greater than 12 months		Total	
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
\$ 4,126	\$ (12)	\$ 3,337	\$ (605)	\$ 7,463	\$ (617)
2,781	(112)	2,483	(167)	5,264	(279)
--	--	499	(1)	499	(1)
312,796	(14,013)	308,324	(39,183)	621,120	(53,196)
101,153	(6,913)	163,118	(18,744)	264,271	(25,657)
102,474	(22,393)	87,600	(22,609)	190,074	(45,002)
<b>\$ 523,330</b>	<b>\$ (43,443)</b>	<b>\$ 565,361</b>	<b>\$ (81,309)</b>	<b>\$ 1,088,691</b>	<b>\$ (124,752)</b>
<b>\$ 51,816</b>	<b>\$ (4,295)</b>	<b>\$ 56,520</b>	<b>\$ (12,647)</b>	<b>\$ 108,336</b>	<b>\$ (16,942)</b>
	<b>\$ (690)</b>		<b>\$ (2,122)</b>		<b>\$ (2,812)</b>
	<b>351</b>		<b>338</b>		<b>689</b>

Below investment grade debt securities with a fair value of less than 80% of the security's amortized costs totaled \$(8,418) thousand at June 30, 2008. However, none of this unrealized loss remained more than 20% below amortized cost for greater than 12 months.

All of these securities are considered to be temporarily impaired at June 30, 2008 as each of these securities has performed, and is expected to continue to perform, in accordance with their original contractual terms, and we have the ability and intent to hold these securities until they recover their value.

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

At the end of each reporting period, we review all securities for potential recognition of an other-than-temporary impairment. We maintain a watch list of securities in default, near default or otherwise considered by our investment professionals as being distressed, potentially distressed or requiring a heightened level of scrutiny. We also identify securities whose carrying value has been below amortized cost on a continuous basis for zero to six months, six months to 12 months and greater than 12 months. Using this analysis, coupled with our watch list, we review securities to determine if a security is other-than-temporarily impaired.

[Table of Contents](#)

#### 4. Investing Activities (continued)

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

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

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

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

#### Aging of Temporarily Impaired

##### Debt Securities:

(\$ in thousands)

##### Debt Securities

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

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

All of these securities are considered to be temporarily impaired at December 31, 2007 as each of these securities has performed, and is expected to continue to perform, in accordance with their original contractual terms, and we have the ability and intent to hold these securities until they recover their value.

[Table of Contents](#)

#### 4. Investing Activities (continued)

##### Net investment income

##### Sources of Net Investment Income:

(\$ in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Debt securities	\$ 22,546	\$ 26,389	\$ 46,135	\$ 53,398
Policy loans	362	(65)	697	190
Other investments	51	108	76	118
Other income	21	3	112	218
Cash and cash equivalents	489	1,415	1,287	2,337
Total investment income	23,469	27,850	48,307	56,261
Investment expenses	(479)	(658)	(996)	(1,175)
<b>Net investment income</b>	<b>\$ 22,990</b>	<b>\$ 27,192</b>	<b>\$ 47,311</b>	<b>\$ 55,086</b>

##### Net realized investment gains (losses)

##### Sources and Types of Net Realized Investment

##### Gains (Losses):

(\$ in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Debt security impairments	\$ (5,388)	\$ --	\$ (12,336)	\$ (500)
Debt security transaction gains	836	119	1,202	988
Debt security transaction losses	(365)	(457)	(2,124)	(1,888)
Other investments transaction gains (losses)	(177)	(7)	(53)	108
<b>Net transaction gains (losses)</b>	<b>294</b>	<b>(345)</b>	<b>(975)</b>	<b>(792)</b>
<b>Change in fair value of embedded derivative liabilities</b>	<b>6,783</b>	<b>704</b>	<b>(5,029)</b>	<b>1,481</b>
<b>Net realized investment gains (losses)</b>	<b>\$ 1,689</b>	<b>\$ 359</b>	<b>\$ (18,340)</b>	<b>\$ 189</b>

Debt security impairments during the second quarter of 2008 included \$5,388 thousand related to residential mortgage-backed securities. Based on a projected cash flow analysis that incorporates delinquency levels, foreclosures and expected losses on foreclosures, and indicates that we will not receive our contractual principal from certain investments, we recorded impairment losses on those investments.

##### Unrealized investment gains (losses)

##### Sources of Changes in Net Unrealized Investment

##### Gains (Losses):

(\$ in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Debt securities	\$ (32,207)	\$ (20,421)	\$ (62,188)	\$ (14,695)
Other	2,181	(263)	2,346	(201)
<b>Net unrealized investment losses</b>	<b>\$ (30,026)</b>	<b>\$ (20,684)</b>	<b>\$ (59,842)</b>	<b>\$ (14,896)</b>
Net unrealized investment losses	\$ (30,026)	\$ (20,684)	\$ (59,842)	\$ (14,896)
Applicable deferred policy acquisition cost benefit	(25,995)	(12,676)	(47,136)	(8,327)
Applicable deferred income tax expense	(1,411)	(2,802)	(4,447)	(2,298)
Offsets to net unrealized investment losses	(27,406)	(15,478)	(51,583)	(10,625)
<b>Net unrealized investment losses included in other comprehensive income</b>	<b>\$ (2,620)</b>	<b>\$ (5,206)</b>	<b>\$ (8,259)</b>	<b>\$ (4,271)</b>

[Table of Contents](#)

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

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

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

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

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

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

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

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

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

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

[Table of Contents](#)

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

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

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

**Embedded Derivative Liabilities:**

(\$ in thousands)

	June 30, 2008	Dec 31, 2007
GMWB	\$ (74)	\$ (1,512)
GMAB	5,273	1,814
GPAF	1,505	1,373

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

**Additional Insurance Benefits:**

(\$ in thousands)

	Account Value	Net Amount At Risk After Reinsurance	Average Attained Age of Annuitant
GMDB return of premium	\$ 1,320,033	\$ 20,396	59
GMDB step up	1,726,279	109,054	60
GMDB earnings enhancement benefit (EEB)	68,533	126	60
GMDB greater of annual step up and roll up	36,327	6,159	63
<b>Total GMDB at June 30, 2008</b>	<b>\$ 3,151,172</b>	<b>\$ 135,735</b>	
GMIB	\$ 628,980		60
GMAB	420,152		55
GMWB	351,537		61
GPAF	23,372		75
<b>Total at June 30, 2008</b>	<b>\$ 1,424,041</b>		

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

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

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



[Table of Contents](#)

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

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

Liabilities for universal life are generally determined by estimating the expected value of losses when death benefits exceed revenues and recognizing those benefits ratably over the accumulation period based on total expected assessments. The assumptions used in estimating these liabilities are consistent with those used for amortizing deferred policy acquisition costs. A single set of best estimate assumptions is used since these insurance benefits do not vary significantly with capital markets volatility. At June 30, 2008 and December 31, 2007, we held additional universal life benefit reserves of \$37,159 thousand and \$25,930 thousand, respectively.

## 6. Fair Value

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

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

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

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

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

### Assets and Liabilities at Fair Value:

(\$ in thousands)

	As of June 30, 2008			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Available-for-sale debt securities	\$ 9,990	\$ 1,282,567	\$ 236,357	\$ 1,528,914
Separate account assets	3,141,890	93,581	1,919	3,237,390
Fair value option investments	--	5,020	--	5,020
<b>Total assets</b>	<b>\$ 3,151,880</b>	<b>\$ 1,381,168</b>	<b>\$ 238,276</b>	<b>\$ 4,771,324</b>
<b>Liabilities</b>				
Embedded derivative liabilities	\$ --	\$ --	\$ 6,704	\$ 6,704
<b>Total liabilities</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ 6,704</b>	<b>\$ 6,704</b>

[Table of Contents](#)

## 6. Fair Value (continued)

Fair value option investments include a structured loan asset valued at \$5,020 thousand as of June 30, 2008. We elected to apply the fair value option to this note at the time of its acquisition. We purchased the note to obtain principal protection without sacrificing earnings potential. Election of the fair value option allows current earnings recognition and is more consistent with management's view of the security's underlying economics.

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

### Separate Accounts

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

### Valuation of Embedded Derivatives

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

### Level 3 Financial Assets and Liabilities

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

#### Level 3 Financial Assets and Liabilities: (\$ in thousands)

	Three Months Ended June 30, 2008		Six Months Ended June 30, 2008	
	Assets	Liabilities	Assets	Liabilities
Balance, beginning of period	\$ 253,413	\$ (13,487)	\$ 267,185	\$ (1,675)
Purchases/(sales), net	(6,717)	--	(9,758)	--
Net transfers in and out of Level 3	(20,931)	--	(14,090)	--
Realized gains (losses)	(2,797)	6,783	(8,227)	(5,029)
Unrealized gains (losses) included in other comprehensive income (loss)	15,230	--	3,720	--
Amortization/accretion	78	--	(554)	--
<b>Balance, end of period</b>	<b>\$ 238,276</b>	<b>\$ (6,704)</b>	<b>\$ 238,276</b>	<b>\$ (6,704)</b>
<b>Portion of gain (loss) included in net income relating to those assets/liabilities still held</b>	<b>\$ (5,029)</b>	<b>\$ 6,783</b>	<b>\$ (11,612)</b>	<b>\$ (5,029)</b>

[Table of Contents](#)

## 7. Income Taxes

For the three and six months ended June 30, 2008 and 2007, the effective income tax rates applicable to income from continuing operations differ from the 35.0% U.S. federal statutory tax rate. Items giving rise to the differences and the effects are as follows:

### Analysis of Effective Income Tax Rates:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Income taxes at statutory rate	35.0%	35.0%	35.0%	35.0%
Investment income not subject to tax	(0.3%)	(4.0%)	23.0%	(4.0%)
<b>Effective income tax rates applicable to continuing operations</b>	<b>34.7%</b>	<b>31.0%</b>	<b>58.0%</b>	<b>31.0%</b>

Our federal income tax returns are routinely audited by the IRS and estimated provisions are routinely provided in the financial statements in anticipation of the results of these audits. Unfavorable resolution of any particular issue could result in additional use of cash to pay liabilities that would be deemed owed to the IRS. Additionally, any unfavorable or favorable resolution of any particular issue could result in an increase or decrease, respectively, to our effective income tax rate to the extent that our estimates differ from the ultimate resolution. As of June 30, 2008, we had current taxes receivable of \$4,005 thousand.

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

## 8. Contingent Liabilities

### Litigation and Arbitration

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

### Regulatory Matters

State regulatory bodies, the Securities and Exchange Commission ("SEC"), the Financial Industry Regulatory Authority ("FINRA") and other regulatory bodies regularly make inquiries of us and, from time to time, conduct examinations or investigations concerning our compliance with, among other things, insurance laws and securities laws. We endeavor to respond to such inquiries in an appropriate way and to take corrective action if warranted.

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

[Table of Contents](#)

**8. Contingent Liabilities (continued)**

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

Over the past several years, a number of companies have announced settlements of enforcement actions with various regulatory agencies, primarily the SEC and the New York Attorney General's Office. While no such action has been initiated against us, it is possible that one or more regulatory agencies may pursue this type of action against us in the future. Financial services companies have also been the subject of broad industry inquiries by state regulators and attorneys general which do not appear to be company-specific.

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

[Table of Contents](#)

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

**FORWARD-LOOKING STATEMENTS**

*The discussion in this Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We intend for these forward-looking statements to be covered by the safe harbor provisions of the federal securities laws relating to forward-looking statements. These include statements relating to trends in, or representing management's beliefs about our future strategies, operations and financial results, as well as other statements including, but not limited to, words such as "anticipate," "believe," "plan," "estimate," "expect," "intend," "may," "should" and other similar expressions. Forward-looking statements are made based upon management's current expectations and beliefs concerning trends and future developments and their potential effects on us. They are not guarantees of future performance. Actual results may differ materially from those suggested by forward-looking statements as a result of risks and uncertainties which include, among others: (i) changes in general market and business conditions, interest rates and the debt and equity markets; (ii) the possibility that mortality rates, persistency rates or funding levels may differ significantly from our pricing expectations; (iii) the availability, pricing and terms of reinsurance coverage generally and the inability or unwillingness of our reinsurers to meet their obligations to us specifically; (iv) our dependence on non-affiliated distributors for our product sales, (v) downgrades in our debt or financial strength ratings; (vi) our dependence on third parties to maintain critical business and administrative functions; (vii) our ability to attract and retain key personnel in a competitive environment; (viii) the strong competition we face in our business from banks and other insurance companies; (ix) tax developments that may affect us directly, or indirectly through the cost of, the demand for or profitability of our products or services; (x) other legislative or regulatory developments; (xi) legal or regulatory actions; (xii) changes in accounting standards; and (xiii) other risks and uncertainties described herein or in any of our filings with the SEC. We undertake no obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.*

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

This section reviews our results of operations for the three and six months ended June 30, 2008 and 2007. This discussion should be read in conjunction with the unaudited interim condensed financial statements and notes contained in this filing as well as in conjunction with our financial statements for the year ended December 31, 2007 in our 2007 Annual Report on Form 10-K.

**Overview**

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

**Impact of New Accounting Standards**

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

**Critical Accounting Estimates**

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

[Table of Contents](#)

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

**Accounting Change**

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

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

*Deferred Policy Acquisition Costs*

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

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

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

[Table of Contents](#)

Underlying assumptions for future periods of EGPs are not altered unless experience deviates significantly from original assumptions. For example, when lapses of our insurance products meaningfully exceed levels assumed in determining the amortization of deferred policy acquisition costs, we adjust amortization to reflect the change in future premiums or EGPs resulting from the unexpected lapses. In the event that we were to revise assumptions used for prior year cohorts, our estimate of projected account values would change and the related EGPs in the deferred policy acquisition cost amortization model would be adjusted to reflect such change. This process is known as "unlocking". Continued favorable experience on key assumptions, which could include increasing separate account fund return performance, decreasing lapses or decreasing mortality could result in an unlocking which would result in a decrease to deferred policy acquisition cost amortization and an increase in the deferred policy acquisition costs asset. Finally, an analysis is performed periodically to assess whether there are sufficient gross margins or gross profits to amortize the remaining deferred policy acquisition costs balances.

The separate account fund performance assumption is critical to the development of the EGPs related to our variable annuity and variable life insurance businesses. As equity markets do not move in a systematic manner, we use a mean reversion method (reversion to the mean assumption), a common industry practice, to determine the future equity market growth rate assumption used for the amortization of deferred policy acquisition costs. This practice assumes that the expectation for long-term appreciation is not changed by minor short-term market fluctuations. The average long-term rate of assumed separate account fund performance used in estimating gross profits was 6.0% (after fund fees and mortality and expense charges) for the variable annuity business and 6.9% (after fund fees and mortality and expense charges) for the variable life business at both December 31, 2007 and 2006.

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

As part of our analysis of separate account returns, we perform two sensitivity tests. If at December 31, 2007 we had used a 100 basis points lower separate account return assumption (after fund fees and mortality and expense charges) for both the variable annuity and the variable life businesses and used our current best estimate assumptions for all other assumptions to project account values forward from the current value to reproject EGPs, the estimated increase to amortization and decrease to net income would be approximately \$1,794 thousand, after-tax.

If, instead, at December 31, 2007 we had used a 100 basis points higher separate account return assumption (after fund fees and mortality and expense charges) for both the variable annuity and variable life businesses and used our current best estimate assumptions for all other assumptions to project account values forward from the current value to reproject EGPs, the estimated decrease to amortization and increase to net income would be approximately \$1,783 thousand, after-tax.

These revisions are not currently required or anticipated.

[Table of Contents](#)

**Results of Operations**

**Summary Financial Data:**

(\$ in thousands)

**REVENUES:**

	Three Months Ended June 30,		Increase (decrease) and percentage change	
	2008	2007	2008 vs. 2007	
Premiums	\$ 5,314	\$ 2,882	\$ 2,432	84%
Insurance and investment product fees	87,717	59,410	28,307	48%
Net investment income	22,990	27,192	(4,202)	(15%)
Net realized investment gains	1,689	359	1,330	370%
<b>Total revenues</b>	<b>117,710</b>	<b>89,843</b>	<b>27,867</b>	<b>31%</b>

**BENEFITS AND EXPENSES:**

Policy benefits	43,573	36,481	7,092	19%
Policy acquisition cost amortization	38,755	26,923	11,832	44%
Other operating expenses	25,707	20,424	5,283	26%
<b>Total benefits and expenses</b>	<b>108,035</b>	<b>83,828</b>	<b>24,207</b>	<b>29%</b>
Income before income taxes	9,675	6,015	3,660	61%
Applicable income tax expense	(3,360)	(1,863)	(1,497)	80%
<b>Net income</b>	<b>\$ 6,315</b>	<b>\$ 4,152</b>	<b>\$ 2,163</b>	<b>52%</b>

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

Net income increased 52% in the 2008 quarter. This result reflects higher mortality margins and realized investment gains, partially offset by higher policy acquisition cost amortization and lower interest margin.

Mortality margins in universal life and variable universal life increased in 2008, driven by increases in cost of insurance fee revenues that were only partially offset by higher net benefits. While fluctuations in mortality are inherent in our business, this improvement primarily reflects growth in the block of business over recent years. Policy acquisition cost amortization increased \$11,832 thousand in the current year. This increase was caused by growth in the universal life business, the impact of market declines on annuity and variable universal life, and higher surrenders. In addition, lower investment income, only partially offset by a decrease in interest credited, drove a reduction in interest margin for the period.

**Summary Financial Data:**

(\$ in thousands)

**REVENUES:**

	Six Months Ended June 30,		Increase (decrease) and percentage change	
	2008	2007	2008 vs. 2007	
Premiums	\$ 4,671	\$ 6,061	\$ (1,390)	(23%)
Insurance and investment product fees	171,582	113,529	58,053	51%
Net investment income	47,311	55,086	(7,775)	(14%)
Net realized investment gains (losses)	(18,340)	189	(18,529)	(9,803%)
<b>Total revenues</b>	<b>205,224</b>	<b>174,865</b>	<b>30,359</b>	<b>17%</b>

**BENEFITS AND EXPENSES:**

Policy benefits	94,588	76,461	18,127	24%
Policy acquisition cost amortization	63,292	50,526	12,766	25%
Other operating expenses	53,807	37,510	16,297	43%
<b>Total benefits and expenses</b>	<b>211,687</b>	<b>164,497</b>	<b>47,190</b>	<b>29%</b>
Income before income taxes	(6,463)	10,368	(16,831)	(162%)
Applicable income tax (expense) benefit	3,748	(3,214)	6,962	217%
<b>Net income (loss)</b>	<b>\$ (2,715)</b>	<b>\$ 7,154</b>	<b>\$ (9,869)</b>	<b>(138%)</b>

Six months ended June 30, 2008 compared to six months ended June 30, 2007

Net results for the year-to-date period declined to a net loss of \$2,715 thousand. This result was driven by net realized losses, higher policy acquisition cost amortization and higher operating expenses, only partially offset by improved mortality margins.



## [Table of Contents](#)

Net realized investment losses for the six months ended June 30, 2008 include a \$5,029 thousand increase in the embedded derivative liabilities for our variable products guarantees, as well as \$12,336 thousand of impairments, including \$5,388 thousand related to residual mortgage-backed securities. In addition policy acquisition cost amortization increased \$12,766 thousand in the current year, driven by growth in the universal life business, the impact of market declines on annuity and variable universal life and higher surrenders. Operating expenses also increased during 2008 as we continue to invest in the growth of the business.

Partially offsetting these reductions was an increase in mortality margins, reflecting the growth of the business.

## General Account

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

## Separate Accounts

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

## Debt and Equity Securities Held in Our General Account

Our general account debt securities portfolios consist primarily of investment grade publicly-traded and privately-placed corporate bonds, residential mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities. As of June 30, 2008, our general account held debt securities with a carrying value of \$1,528.9 million, representing 98.0% of total general account investments. Public debt securities represented 80.1% of total debt securities, with the remaining 19.9% represented by private debt securities.

## Debt Securities by Type and Credit Quality:

(\$ in thousands)

	As of June 30, 2008			
	Investment Grade		Below Investment Grade	
	Fair Value	Cost	Fair Value	Cost
U.S. government and agency	\$ 47,198	\$ 46,879	\$ --	\$ --
State and political subdivision	12,477	12,746	--	--
Foreign government	13,534	12,653	12,017	10,847
Corporate	722,334	758,708	111,380	124,972
Mortgage-backed	387,780	411,562	825	1,960
Other asset-backed	207,668	249,854	13,701	15,711
<b>Total debt securities</b>	<b>\$ 1,390,991</b>	<b>\$ 1,492,402</b>	<b>\$ 137,923</b>	<b>\$ 153,490</b>
<b>Percentage of total debt securities</b>	<b>91%</b>	<b>91%</b>	<b>9%</b>	<b>9%</b>

We manage credit risk through industry and issuer diversification. Maximum exposure to an issuer is defined by quality ratings, with higher quality issuers having larger exposure limits. Our investment approach emphasizes a high level of industry diversification. The top five industry holdings as of June 30, 2008 in our debt securities portfolio are diversified banking (6.7%), financial services (5.9%), real estate investment trusts (3.0%), insurance (2.7%) and electric utilities (2.4%).

[Table of Contents](#)

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

**Duration of Gross Unrealized Losses**

**on General Account Securities:**

(\$ in thousands)

**Debt securities**

	As of June 30, 2008			
	Total	0 – 6 Months	6 – 12 Months	Over 12 Months
Total fair value	\$ 1,088,691	\$ 367,928	\$ 155,402	\$ 565,361
Total amortized cost	1,213,443	383,599	183,174	646,670
Unrealized losses	<u>\$ (124,752)</u>	<u>\$ (15,671)</u>	<u>\$ (27,772)</u>	<u>\$ (81,309)</u>
Unrealized losses after offsets	<u>\$ (21,054)</u>	<u>\$ (2,703)</u>	<u>\$ (4,471)</u>	<u>\$ (13,880)</u>
Number of securities	<u>689</u>	<u>235</u>	<u>116</u>	<u>338</u>
Investment grade:				
Unrealized losses	<u>\$ (107,810)</u>	<u>\$ (14,328)</u>	<u>\$ (24,820)</u>	<u>\$ (68,662)</u>
Unrealized losses after offsets	<u>\$ (18,242)</u>	<u>\$ (2,491)</u>	<u>\$ (3,993)</u>	<u>\$ (11,758)</u>
Below investment grade:				
Unrealized losses	<u>\$ (16,942)</u>	<u>\$ (1,343)</u>	<u>\$ (2,952)</u>	<u>\$ (12,647)</u>
Unrealized losses after offsets	<u>\$ (2,812)</u>	<u>\$ (212)</u>	<u>\$ (478)</u>	<u>\$ (2,122)</u>

Total net unrealized losses on debt securities were \$116,978 thousand (unrealized losses of \$124,752 thousand less unrealized gains of \$7,774 thousand).

For debt securities with gross unrealized losses, 86.6% of the unrealized losses after offsets pertain to investment grade securities and 13.4% of the unrealized losses after offsets pertain to below investment grade securities at June 30, 2008.

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

**Duration of Gross Unrealized Losses**

**on General Account Securities:**

(\$ in thousands)

**Debt securities**

	As of June 30, 2008			
	Total	0 – 6 Months	6 – 12 Months	Over 12 Months
Unrealized losses over 20% of cost	<u>\$ (56,273)</u>	<u>\$ (43,352)</u>	<u>\$ (12,921)</u>	<u>\$ --</u>
Unrealized losses over 20% of cost after offsets	<u>\$ (9,316)</u>	<u>\$ (7,281)</u>	<u>\$ (2,035)</u>	<u>\$ --</u>
Number of securities	<u>99</u>	<u>83</u>	<u>16</u>	<u>--</u>
Investment grade:				
Unrealized losses over 20% of cost	<u>\$ (47,855)</u>	<u>\$ (40,659)</u>	<u>\$ (7,196)</u>	<u>\$ --</u>
Unrealized losses over 20% of cost after offsets	<u>\$ (7,990)</u>	<u>\$ (6,857)</u>	<u>\$ (1,133)</u>	<u>\$ --</u>
Below investment grade:				
Unrealized losses over 20% of cost	<u>\$ (8,418)</u>	<u>\$ (2,693)</u>	<u>\$ (5,725)</u>	<u>\$ --</u>
Unrealized losses over 20% of cost after offsets	<u>\$ (1,326)</u>	<u>\$ (424)</u>	<u>\$ (902)</u>	<u>\$ --</u>

[Table of Contents](#)

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

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

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

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

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

***Residential Mortgage-Backed Securities***

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

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

## Table of Contents

Most of our residential mortgage-backed securities portfolio is highly rated. As of June 30, 2008, 94% of the total residential portfolio was rated AAA or AA. We have \$76.3 million of sub-prime exposure, \$47.2 million of Alt-A exposure, and \$134.9 million of prime exposure, which combined amount to 15% of our general account. Substantially all of our sub-prime, Alt-A, and prime exposure is investment grade, with 89% being AAA rated, and another 2% in AA securities. We have employed a disciplined approach in the analysis and monitoring of our mortgage-backed securities. Our approach involves a monthly review of each security. Underlying mortgage data is obtained from the security's trustee and analyzed for performance trends. A security-specific stress analysis is performed using the most recent trustee information. This analysis forms the basis for our determination of whether the security will pay in accordance with the contractual cash flows. Year-to-date through June 30, 2008, we have taken impairments of \$11.1 million on our RMBS portfolio. This represents 2.9% of our total residential mortgage-backed securities portfolio and 0.6% of the general account. The losses consist of \$8.0 million from prime, \$2.7 million from Alt-A and \$.4 million from sub-prime.

### Residential Mortgage-Backed Securities:

(\$ in thousands)

	As of June 30, 2008							
	Book Value	Market Value	% General Account <sup>(1)</sup>	AAA	AA	A	BBB	BB and Below
<b>Collateral</b>								
Agency	\$ 119,539	\$ 119,128	7.0%	100.0%	0.0%	0.0%	0.0%	0.0%
Prime	145,811	134,869	7.9%	93.6%	0.2%	0.0%	5.9%	0.3%
Alt-A	54,195	47,216	2.8%	79.7%	0.5%	13.1%	6.7%	0.0%
Sub-prime	89,524	76,343	4.5%	88.3%	5.0%	2.4%	4.3%	0.0%
<b>Total</b>	<b>\$ 409,069</b>	<b>\$ 377,556</b>	<b>22.2%</b>	<b>92.8%</b>	<b>1.2%</b>	<b>2.1%</b>	<b>3.8%</b>	<b>0.1%</b>

(1) Percentages based on Market Value.

### Liquidity and Capital Resources

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

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

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

### Ratings

Rating agencies assign financial strength ratings to Phoenix Life and its subsidiaries based on their opinions of the Companies' ability to meet their financial obligations. Ratings changes may result in increased or decreased interest costs in connection with future borrowings. Such an increase or decrease would affect our earnings and could affect our ability to finance our future growth. Downgrades may also trigger defaults or repurchase obligations. The financial strength ratings as of June 30, 2008 were as follows:

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

[Table of Contents](#)

On May 9, 2008, Fitch affirmed our financial strength rating of A+. On May 8, 2008, Standard & Poor's affirmed our financial strength rating of A-.

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

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

**Contractual Obligations and Commercial Commitments**

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

**Off-Balance Sheet Arrangements**

As of June 30, 2008 and December 31, 2007, we did not have any significant off-balance sheet arrangements as defined by Item 303(a)(4)(ii) of SEC Regulation S-K.

**Reinsurance**

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

**Risk Based Capital**

At June 30, 2008, our estimated Total Adjusted Capital level was in excess of 350% of Company Action Level. PNX management is committed to maintaining appropriate capital levels for the Company to conduct business.

**Statutory Capital and Surplus**

Our statutory basis capital and surplus (including AVR) was \$194.2 million at June 30, 2008.

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

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

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

We have carried out an evaluation under the supervision and with the participation of our management, including our Principal Executive Officer and our Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, these officers have concluded that, as of June 30, 2008, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

[Table of Contents](#)

**Changes in Internal Control over Financial Reporting**

During the three months ended June 30, 2008, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

[Table of Contents](#)

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

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

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

There are no material changes to our Risk Factors as described in our 2007 Annual Report on Form 10-K.

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

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

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

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

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

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

### **ITEM 5. OTHER INFORMATION**

- (a) We are herein providing updated financial information of the Company for the three years ended December 31, 2007. Effective April 1, 2008, we changed our method of accounting for the cost of certain of our long duration reinsurance contracts and for the impact of reinsurance costs on deferred acquisition costs. Accordingly, portions of the following items from our 2007 Annual Report on Form 10-K ("Annual Report") have been updated to reflect the accounting change.

- Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations
- Part II, Item 8 Financial Statements and Supplementary Data

This report updates our Annual Report only to the extent this information is impacted by the accounting change. The updated Annual Report information begins on page A-1 and is incorporated herein by reference.

- (b) No material changes.

[Table of Contents](#)

**ITEM 6. EXHIBITS**

Exhibit

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

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\* Filed herewith

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



[Table of Contents](#)

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**PHL VARIABLE INSURANCE COMPANY**

Date: August 14, 2008

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

[Table of Contents](#)

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*Management's narrative analysis of the results of operations is presented in lieu of Management's Discussion and Analysis of Financial Condition and Results of Operations, pursuant to General Instruction (I)(2)(a) of Form 10-K.*

**FORWARD-LOOKING STATEMENTS**

The discussion in this Form 10-K may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We intend for these forward-looking statements to be covered by the safe harbor provisions of the federal securities laws relating to forward-looking statements. These include statements relating to trends in, or representing management's beliefs about our future strategies, operations and financial results, as well as other statements including, but not limited to, words such as "anticipate," "believe," "plan," "estimate," "expect," "intend," "may," "should" and other similar expressions. Forward-looking statements are made based upon management's current expectations and beliefs concerning trends and future developments and their potential effects on us. They are not guarantees of future performance. Actual results may differ materially from those suggested by forward-looking statements as a result of risks and uncertainties which include, among others: (i) changes in general market and business conditions, interest rates and the debt and equity markets; (ii) the possibility that mortality rates, persistency rates or funding levels may differ significantly from our pricing expectations; (iii) the availability, pricing and terms of reinsurance coverage generally and the inability or unwillingness of our reinsurers to meet their obligations to us specifically; (iv) our dependence on non-affiliated distributors for our product sales, (v) downgrades in our debt or financial strength ratings; (vi) our dependence on third parties to maintain critical business and administrative functions; (vii) our ability to attract and retain key personnel in a competitive environment; (viii) the strong competition we face in our business from banks and other insurance companies; (ix) tax developments that may affect us directly, or indirectly through the cost of, the demand for or profitability of our products or services; (x) other legislative or regulatory developments; (xi) legal or regulatory actions; (xii) changes in accounting standards; and (xiii) other risks and uncertainties described herein or in any of our filings with the SEC. We undertake no obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

[Table of Contents](#)

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

This section reviews our results of operations for each of the two years in the period ended December 31, 2007. This discussion should be read in conjunction with our financial statements in this Form 10-K.

### Business Overview and Earnings Drivers

We provide life insurance and annuity products targeted at affluent and high-net-worth individuals and institutions through a wide variety of third-party financial professionals and intermediaries. In life insurance, our main focus is on permanent life insurance (universal and variable universal life) insuring one or more lives, but we also offer a portfolio of term life insurance products. In annuities, we offer deferred and immediate variable annuities with a variety of death benefit and guaranteed living benefit options.

Our profitability is driven by interaction of the following elements:

- Mortality margins in our variable universal and 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- and premium-based fees (including mortality and expense charges) which we charge on our variable life and variable annuity products, and depend on the premiums collected and account values of those products. Fees also include surrender charges. Non-asset-based fees are charged to cover premium taxes and non-deferrable or renewal commissions.
- Net investment income (NII) earned on universal life and other policyholder funds managed as part of our general account, less the interest credited to policyholders on those funds, as well as NII earned on surplus that we allocate in support of these products.
- Non-deferred expenses incurred in support of the business.
- The 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.
- Net realized investment gains or losses on our general account investments.

Under accounting principles generally accepted in the United States of America, or 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.

[Table of Contents](#)

**Results of Operations**

(\$ in thousands)

	Years Ended December 31,		Increase (decrease) and percentage change	
	2007	2006	2007 vs. 2006	
<b>REVENUES:</b>				
Premiums	\$ 18,602	\$ 13,575	\$ 5,027	37%
Insurance and investment product fees	263,298	180,779	82,519	46%
Investment income, net of expenses	109,607	129,325	(19,718)	(15%)
Net realized investment losses	(7,043)	(2,460)	(4,583)	(186%)
<b>Total revenues</b>	<b>384,464</b>	<b>321,219</b>	<b>63,245</b>	<b>20%</b>
<b>BENEFITS AND EXPENSES:</b>				
Policy benefits	168,395	154,951	13,444	9%
Policy acquisition cost amortization	120,041	93,342	26,699	29%
Other operating expenses	83,601	65,388	18,213	28%
<b>Total benefits and expenses</b>	<b>372,037</b>	<b>313,681</b>	<b>58,356</b>	<b>19%</b>
Income before income taxes	12,427	7,538	4,889	65%
Applicable income tax expense	(1,122)	(1,070)	(52)	5%
<b>Net income</b>	<b>\$ 11,305</b>	<b>\$ 6,468</b>	<b>\$ 4,837</b>	<b>75%</b>

2007 vs. 2006

Net income improved in 2007 to \$11,305 thousand, up from \$6,468 thousand in the prior year. This result reflected improvements in mortality margins and fees, partially offset by higher non-deferred expenses, reflecting investments in the growth of new distribution and business initiatives, and by amortization of deferred policy acquisition costs.

Mortality margins in universal life and variable universal life products increased \$35.3 million in 2007, reflecting a \$65.2 million increase in cost of insurance fees, only partially offset by a \$29.9 million increase in benefits. While fluctuations in mortality are inherent in our business, this improvement primarily reflects growth in the block of business over recent years. Fee revenues, net of premium taxes and non-deferrable commissions, increased \$16.3 million in 2007. However, non-deferred expenses increased as we invested in new product development and sales growth. In addition, higher mortality margins and increasing inforce blocks created higher amortization expense of \$122.2 million in 2007, compared with \$94.4 million in 2006.

**Impact of New Accounting Standards**

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

**Critical Accounting Estimates**

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

Critical accounting estimates are reflective of significant judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The following are areas that we believe require significant judgments:

[Table of Contents](#)

## Accounting Change

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

We adopted the new method because we believe that it better reflects the economics of the underlying reinsurance activity by better matching the reinsurance recovery with the insured loss that gave rise to that recovery. We also believe that the new method is consistent with management's intent in purchasing reinsurance, which is to protect the Company against large and unexpected claims. Comparative amounts from prior periods have been adjusted to apply the new method retrospectively in our financial statements in this Form 10-K.

### *Deferred Policy Acquisition Costs*

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

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

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

[Table of Contents](#)

Underlying assumptions for future periods of EGPs are not altered unless experience deviates significantly from original assumptions. For example, when lapses of our insurance products meaningfully exceed levels assumed in determining the amortization of deferred policy acquisition costs, we adjust amortization to reflect the change in future premiums or EGPs resulting from the unexpected lapses. In the event that we were to revise assumptions used for prior year cohorts, our estimate of projected account values would change and the related EGPs in the deferred policy acquisition cost amortization model would be adjusted to reflect such change. This process is known as "unlocking". Continued favorable experience on key assumptions, which could include increasing separate account fund return performance, decreasing lapses or decreasing mortality could result in an unlocking which would result in a decrease to deferred policy acquisition cost amortization and an increase in the deferred policy acquisition costs asset. Finally, an analysis is performed periodically to assess whether there are sufficient gross margins or gross profits to amortize the remaining deferred policy acquisition costs balances.

The separate account fund performance assumption is critical to the development of the EGPs related to our variable annuity and variable life insurance businesses. As equity markets do not move in a systematic manner, we use a mean reversion method (reversion to the mean assumption), a common industry practice, to determine the future equity market growth rate assumption used for the amortization of deferred policy acquisition costs. This practice assumes that the expectation for long-term appreciation is not changed by minor short-term market fluctuations. The average long-term rate of assumed separate account fund performance used in estimating gross profits was 6.0% (after fund fees and mortality and expense charges) for the variable annuity business and 6.9% (after fund fees and mortality and expense charges) for the variable life business at both December 31, 2007 and 2006.

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

As part of our analysis of separate account returns, we perform two sensitivity tests. If at December 31, 2007 we had used a 100 basis points lower separate account return assumption (after fund fees and mortality and expense charges) for both the variable annuity and the variable life businesses and used our current best estimate assumptions for all other assumptions to project account values forward from the current value to reproject EGPs, the estimated increase to amortization and decrease to net income would be approximately \$1,794 thousand, after-tax.

If, instead, at December 31, 2007 we had used a 100 basis points higher separate account return assumption (after fund fees and mortality and expense charges) for both the variable annuity and variable life businesses and used our current best estimate assumptions for all other assumptions to project account values forward from the current value to reproject EGPs, the estimated decrease to amortization and increase to net income would be approximately \$1,783 thousand, after-tax.

These revisions are not currently required or anticipated.

*Policy Liabilities and Accruals*

Reserves are liabilities representing estimates of the amounts that will come due to our policyholders at some point in the future. GAAP prescribes the methods of establishing reserves, allowing some degree of managerial judgment.

See Note 2 to our financial statements in this Form 10-K for more information.

[Table of Contents](#)

*Valuation of Debt and Equity Securities*

We classify our debt and equity securities held in our general account as available-for-sale and report them in our balance sheet at fair value. Fair value is based on quoted market price, where available. When quoted market prices are not available, we estimate fair value by discounting debt security cash flows to reflect interest rates currently being offered on similar terms to borrowers of similar credit quality, by quoted market prices of comparable instruments and by independent pricing sources or internally developed pricing models.

**Fair Value of General Account Fixed Maturity Securities**

**by Pricing Source:**

(\$ in thousands)

Priced via independent market quotations

Priced via matrices

Priced via broker quotations

Priced via other methods

Short-term investments<sup>(1)</sup>

**Total**

<b>As of December 31, 2007</b>		
	<b>Fixed Maturities at Fair Value</b>	<b>% of Total Fair Value</b>
Priced via independent market quotations	\$ 1,102,959	65%
Priced via matrices	283,484	17%
Priced via broker quotations	264,174	15%
Priced via other methods	53,151	3%
Short-term investments <sup>(1)</sup>	5,818	0%
<b>Total</b>	<b>\$ 1,709,586</b>	<b>100%</b>

<sup>(1)</sup> Short-term investments are valued at amortized cost, which approximates fair value.

Investments whose value is considered by us to be other-than-temporarily impaired are written down to fair value as a charge to realized losses included in our earnings. The assessment of whether impairments have occurred is based on management's case-by-case evaluation of the underlying reasons for the decline in fair value. We consider a wide range of factors about the security issuer and use our best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for near term recovery. Inherent in our evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Considerations we use in the impairment evaluation process include, but are not limited to:

- the length of time and the extent to which the market value has been below cost or amortized cost;
- the potential for impairments of securities when the issuer is experiencing significant financial difficulties;
- the potential for impairments in an entire industry sector or sub-sector;
- our ability and intent to hold the security for a period of time sufficient to allow for recovery of its value;
- unfavorable changes in forecasted cash flows on asset-backed securities; and
- other subjective factors, including concentrations and information obtained from regulators and rating agencies.

The cost basis of these written-down investments is adjusted to fair value at the date the determination of impairment is made. The new cost basis is not changed for subsequent recoveries in value. For mortgage-backed and other asset-backed debt securities, we recognize income using a constant effective yield based on anticipated prepayments and the estimated economic lives of the securities. When actual prepayments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date and any resulting adjustment is included in net investment income. For certain asset-backed securities, changes in estimated yield are recorded on a prospective basis and specific valuation methods are applied to these securities to determine if there has been an other-than-temporary decline in value.

See Note 6 to our financial statements in this Form 10-K for more information.

[Table of Contents](#)

*Deferred Income Taxes*

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, or SFAS 109. The deferred income tax assets and/or liabilities are determined by multiplying the differences between the financial reporting and tax reporting bases 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 income taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances on deferred income tax assets are estimated based on our assessment of the realizability of such amounts.

We have elected to file a consolidated federal income tax return for 2007 and prior years. Within the consolidated tax return, we are required by regulations of the Internal Revenue Service, or the IRS, to segregate the entities into two groups: life insurance companies and non-life insurance companies. We are limited as to the amount of any operating losses from the non-life group that can be offset against taxable income of the life group. These limitations affect the amount of any operating loss carryovers that we have now or in the future.

We have determined, based on our earnings and future income, that it is more likely than not that the deferred income tax assets will be realized. In determining the adequacy of future income, we have considered projected future income, reversal of existing temporary differences and available tax planning strategies and actions that could be implemented, if necessary.

Our federal income tax returns are routinely audited by the IRS, and estimated provisions are routinely provided in the financial statements in anticipation of the results of these audits. Unfavorable resolution of any particular issue could result in additional use of cash to pay liabilities that would be deemed owed to the IRS. Additionally, any unfavorable or favorable resolution of any particular issue could result in an increase or decrease, respectively, to our effective income tax rate to the extent that our estimates differ from the ultimate resolution.

See Note 9 to our financial statements in this Form 10-K for more information.

**General Account**

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

**Separate Accounts**

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

**Debt and Equity Securities Held in 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 asset-backed securities. As of December 31, 2007, our general account debt securities, with a carrying value of \$1,709.6 million, represented 98.6% of total general account investments. Public debt securities represented 79.7% of total debt securities, with the remaining 20.3% represented by private debt securities.



[Table of Contents](#)

Each year, the majority of our general account's net cash flows are invested in investment grade debt securities. In addition, we maintain a portfolio allocation of between 6% and 10% of debt securities in below investment grade rated bonds. Allocations are based on our assessment of relative value and the likelihood of enhancing risk-adjusted portfolio returns. The size of our allocation to below investment grade bonds is also constrained by the size of our net worth. We are subject to the risk that the issuers of the debt securities we own may default on principal and interest payments, particularly in the event of a major economic downturn. Our investment strategy has been to invest the majority of our below investment grade rated bond exposure in the BB rating category, which is equivalent to a Securities Valuation Office, or SVO, securities rating of 3. The BB rating category is the highest quality tier within the below investment grade universe, and BB rated securities historically experienced lower defaults compared to B or CCC rated bonds. As of December 31, 2007, our total below investment grade securities totaled \$144.0 million, or 8.4%, of our total debt security portfolio. Of that amount, \$97.3 million, or 5.7%, of our debt security portfolio was invested in the BB category. Our debt securities having an increased risk of default (those securities with an SVO rating of four or greater which is equivalent to B or below) totaled \$46.7 million, or 2.7%, of our total debt security portfolio.

Our general account debt and equity securities are classified as available-for-sale and are reported at fair value with unrealized gains or losses included in equity. Accordingly, the carrying value of such securities reflects their fair value at the balance sheet date. Fair value is based on quoted market price, where available. When quoted market prices are not available, we estimate fair value for debt securities by discounting projected cash flows based on market interest rates currently being offered on similar terms to borrowers of similar credit quality, by quoted market prices of comparable instruments and by independent pricing sources or internally developed pricing models. Investments whose value, in our judgment, is considered to be other-than-temporarily impaired are written down to fair value as a charge to realized investment losses included in our earnings. The cost basis of these written-down investments is adjusted to fair value at the date the determination of impairment is made. The new cost basis is not changed for subsequent recoveries in value.

**Debt Securities by Type and Credit Quality:**

(\$ in thousands)

	As of December 31, 2007			
	Investment Grade		Below Investment Grade	
	Fair Value	Cost	Fair Value	Cost
United States government and agency	\$ 65,774	\$ 64,884	\$ --	\$ --
State and political subdivision	11,029	11,134	--	--
Foreign government	11,477	11,003	18,946	16,713
Corporate	857,431	872,664	117,627	126,318
Mortgage-backed	358,479	372,733	--	--
Other asset-backed	261,446	281,404	7,377	7,523
<b>Total debt securities</b>	<b>\$ 1,565,636</b>	<b>\$ 1,613,822</b>	<b>\$ 143,950</b>	<b>\$ 150,554</b>
<b>Percentage of total debt securities</b>	<b>92%</b>	<b>91%</b>	<b>8%</b>	<b>9%</b>

We manage credit risk through industry and issuer diversification. Maximum exposure to an issuer is defined by quality ratings, with higher quality issuers having larger exposure limits. Our investment approach has been to create a high level of industry diversification. The top five industry holdings as of December 31, 2007 in our debt securities portfolio are banking (6.8%), diversified financial services (6.7%), insurance (3.3%), REITs (2.7%) and broker dealers (2.5%).

Total net unrealized losses on debt securities were \$54,790 thousand (unrealized losses of \$71,029 thousand less unrealized gains of \$16,239 thousand).

[Table of Contents](#)

At the end of each reporting period, we review our security holdings for potential recognition of an other-than-temporary impairment. We maintain a watch list of securities in default, near default or otherwise considered by our investment professionals as being distressed, potentially distressed or requiring a heightened level of scrutiny. We also identify securities whose carrying value has been below amortized cost on a continuous basis for zero to six months, six months to 12 months and greater than 12 months. This analysis is provided for investment grade and non-investment grade securities. 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 had experienced lesser percentage declines in value on a more selective basis to determine if a security is other-than-temporarily impaired.

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

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

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

**Duration of Gross Unrealized Losses on General Account Securities:**

(\$ in thousands)

**Debt Securities**

	As of December 31, 2007			
	Total	0 - 6 Months	6 - 12 Months	Over 12 Months
Total fair value	\$ 1,128,642	\$ 193,384	\$ 184,274	\$ 750,984
Total amortized cost	1,199,671	210,133	202,606	786,932
Unrealized losses	<u>\$ (71,029)</u>	<u>\$ (16,749)</u>	<u>\$ (18,332)</u>	<u>\$ (35,948)</u>
Unrealized losses after offsets	<u>\$ (11,780)</u>	<u>\$ (2,683)</u>	<u>\$ (2,912)</u>	<u>\$ (6,185)</u>
Number of securities	<u>654</u>	<u>137</u>	<u>106</u>	<u>411</u>
Investment grade:				
Unrealized losses	<u>\$ (61,748)</u>	<u>\$ (15,440)</u>	<u>\$ (17,844)</u>	<u>\$ (28,464)</u>
Unrealized losses after offsets	<u>\$ (10,182)</u>	<u>\$ (2,467)</u>	<u>\$ (2,836)</u>	<u>\$ (4,879)</u>
Below investment grade:				
Unrealized losses	<u>\$ (9,281)</u>	<u>\$ (1,309)</u>	<u>\$ (488)</u>	<u>\$ (7,484)</u>
Unrealized losses after offsets	<u>\$ (1,598)</u>	<u>\$ (216)</u>	<u>\$ (76)</u>	<u>\$ (1,306)</u>

For debt securities with gross unrealized losses, 86.4% of the unrealized losses after offsets for deferred policy acquisition costs and deferred income taxes pertain to investment grade securities and 13.6% of the unrealized losses after offsets pertain to below investment grade securities at December 31, 2007.

[Table of Contents](#)

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

**Duration of Gross Unrealized Losses on General Account Securities:**

(\$ in thousands)

**Debt Securities**

Unrealized losses over 20% of cost

Unrealized losses over 20% of cost after offsets

Number of securities

Investment grade:

Unrealized losses over 20% of cost

Unrealized losses over 20% of cost after offsets

Below investment grade:

Unrealized losses over 20% of cost

Unrealized losses over 20% of cost after offsets

Total	As of December 31, 2007		
	0 - 6 Months	6 - 12 Months	Over 12 Months
\$ (17,781)	\$ (17,781)	\$ --	\$ --
\$ (2,780)	\$ (2,780)	\$ --	\$ --
31	31	--	--
\$ (13,848)	\$ (13,848)	\$ --	\$ --
\$ (2,165)	\$ (2,165)	\$ --	\$ --
\$ (3,933)	\$ (3,933)	\$ --	\$ --
\$ (615)	\$ (615)	\$ --	\$ --

In determining that the securities giving rise to the previously mentioned unrealized losses were not other-than-temporarily impaired, we evaluated the factors cited above. In making these evaluations, we must exercise considerable judgment. Accordingly, there can be no assurance that actual results will not differ from our judgments and that such differences may require the future recognition of other-than-temporary impairment charges that could have a material 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.

**Residential Mortgage-Backed Securities**

The weakness in the U.S. real estate markets, increases in interest rates and the effects of relaxed underwriting standards for mortgages and home equity loans have led to higher delinquency rates for residential mortgage-backed securities, especially those originated in 2006 and those designated as sub-prime. In addition, there have been increased concerns in the financial markets about residential mortgage-backed securities designated as Alt-A.

Sub-prime mortgage lending refers to the origination of residential mortgage loans to customers with weak or impaired credit profiles, including, but not limited to, those with the lowest credit scores. Alt-A mortgage lending refers to the origination of residential mortgage loans to customers who are rated above the sub-prime category but below top rated prime borrowers, for reasons including, but not limited to, the election not to provide documentation for items such as income sources.

We invest directly in residential mortgage-backed securities through our general account. To the extent these assets deteriorate in credit quality and decline in value, 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.

[Table of Contents](#)

Most of our residential mortgage-backed securities portfolio is highly rated. As of December 31, 2007, over 94% of the total residential portfolio was rated AAA or AA. We have \$92,011 thousand of sub-prime exposure, which represents 5.0% of our general account. Substantially all of our sub-prime exposure is investment grade, and 97.6% is AAA rated, with another 1.7% in AA securities. We have employed a disciplined approach in the analysis and monitoring of our mortgage-backed securities. Our approach involves a monthly review of each security. Underlying mortgage data is obtained from the security's trustee and analyzed for performance trends. A security-specific stress analysis is performed using the most recent trustee information. This analysis forms the basis for our determination of whether the security will pay in accordance with the contractual cash flows. Our exposure to sub-prime mortgages originated after 2005 is less than 3% of our general account, with 99% of those securities rated AAA.

**Residential Mortgage-Backed Securities:**

(\$ in thousands)

	As of December 31, 2007							
	Book Value	Market Value	% General Account <sup>(1)</sup>	AAA	AA	A	BBB	BB and Below
<b>Collateral</b>								
Agency	\$ 42,631	\$ 42,247	2.3%	100.0%	0.0%	0.0%	0.0%	0.0%
Prime	179,353	170,249	9.2%	90.3%	0.6%	0.0%	9.1%	0.0%
Alt-A	62,482	58,684	3.2%	91.4%	0.5%	4.7%	3.4%	0.0%
Sub-prime	97,334	92,011	5.0%	97.6%	1.7%	0.6%	0.0%	0.1%
<b>Total</b>	<b>\$ 381,800</b>	<b>\$ 363,191</b>	<b>19.7%</b>	<b>93.5%</b>	<b>0.8%</b>	<b>0.9%</b>	<b>4.8%</b>	<b>0.0%</b>

(1) Percentages based on Market Value.

**Liquidity and Capital Resources**

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

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

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

Additional liquidity to meet cash outflows is available from our portfolio of liquid assets. These liquid assets include substantial holdings of United States government and agency bonds, short-term investments and marketable debt and equity securities.

A primary liquidity concern with respect to life insurance and annuity products is the risk of early policyholder and contractholder withdrawal. We closely monitor our liquidity requirements in order to match cash inflows with expected cash outflows, and employ an asset/liability management approach tailored to the specific requirements of each product line, based upon the return objectives, risk tolerance, liquidity, tax and regulatory requirements of the underlying products. In particular, we maintain investment programs intended to provide adequate funds to pay benefits without forced sales of investments. Products having liabilities with relatively long lives, such as life insurance, are matched with assets having similar estimated lives, such as long-term bonds and private placement bonds. Shorter-term liabilities are matched with investments with short-term and medium-term fixed maturities.

[Table of Contents](#)

**Annuity Actuarial Reserves and Deposit Fund Liability  
Withdrawal Characteristics:**

(\$ in thousands)

	As of December 31,			
	2007		2006	
	Amount <sup>(1)</sup>	Percent	Amount <sup>(1)</sup>	Percent
Not subject to discretionary withdrawal provision	\$ 34,807	1%	\$ 28,769	1%
Subject to discretionary withdrawal without adjustment	531,863	12%	595,654	14%
Subject to discretionary withdrawal with market value adjustment	252,525	6%	398,092	9%
Subject to discretionary withdrawal at contract value less surrender charge	355,558	8%	499,303	11%
Subject to discretionary withdrawal at market value	3,279,915	73%	2,865,268	65%
<b>Total annuity contract reserves and deposit fund liability</b>	<b>\$ 4,454,668</b>	<b>100%</b>	<b>\$ 4,387,086</b>	<b>100%</b>

(1) Annuity contract reserves and deposit fund liability amounts are reported on a statutory basis, which more accurately reflects the potential cash outflows and include variable product liabilities. Annuity contract reserves and deposit fund liabilities are monetary amounts that an insurer must have available to provide for future obligations with respect to its annuities and deposit funds. These are liabilities in our financial statements prepared in conformity with statutory accounting practices. These amounts are at least equal to the values available to be withdrawn by policyholders.

Individual life insurance policies are less susceptible to withdrawals than annuity contracts because policyholders may incur surrender charges and be required to undergo a new underwriting process in order to obtain a new insurance policy. As indicated in the table above, most of our annuity contract reserves and deposit fund liabilities are subject to withdrawals.

Individual life insurance policies, other than term life insurance policies, increase in cash values over their lives. Policyholders have the right to borrow an amount up to a certain percentage of the cash value of their policies at any time. As of December 31, 2007, we had approximately \$416,409 thousand in cash values with respect to which policyholders had rights to take policy loans. The majority of cash values eligible for policy loans are at variable interest rates that are reset annually on the policy anniversary. Policy loans at December 31, 2007 were \$21,605 thousand.

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

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

Rating agencies assign financial strength ratings to Phoenix Life and its subsidiaries based on their opinions of the Companies' ability to meet their financial obligations. Ratings changes may result in increased or decreased interest costs in connection with future borrowings. Such an increase or decrease would affect our earnings and could affect our ability to finance our future growth. Downgrades may also trigger defaults or repurchase obligations. The financial strength and debt ratings as of March 1, 2008 were as follows:

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

[Table of Contents](#)

**Contractual Obligations and Commercial Commitments**

**Contractual Obligations and Commercial Commitments:**

(\$ in thousands)

**Contractual Obligations**

Fixed contractual obligations<sup>(1)</sup>

Other long-term liabilities<sup>(2)</sup>

**Total contractual obligations<sup>(3)</sup>**

As of December 31, 2006				
Total	2008	2009 – 2010	2011 – 2012	Thereafter
\$ --	\$ --	\$ --	\$ --	\$ --
14,159,110	87,338	1,496,523	1,329,308	10,461,941
<b>\$ 14,159,110</b>	<b>\$ 87,338</b>	<b>\$ 1,496,523</b>	<b>\$ 1,329,308</b>	<b>\$ 10,461,941</b>

**Commercial Commitments**

Commitments related to private placements

**Total commercial commitments**

\$ 6,885	\$ 6,885	\$ --	\$ --	\$ --
<b>\$ 6,885</b>	<b>\$ 6,885</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>

(1) We have no fixed contractual obligations as all purchases are made by our parent company and the resulting expenses are allocated to us when incurred.

(2) Policyholder contractual obligations represent estimated benefits from life insurance and annuity contracts issued by us. Policyholder contractual obligations also include separate account liabilities, which are contractual obligations of the separate account assets established under applicable state insurance laws and are legally insulated from our general account assets.

Future obligations are based on our estimate of future investment earnings, mortality, surrenders and applicable policyholder dividends. Actual obligations in any single year, or ultimate total obligations, may vary materially from these estimates as actual experience emerges. As described in Note 2 to our financial statements in this Form 10-K, policy liabilities and accruals are recorded on the balance sheet in amounts adequate to meet the estimated future obligations of the policies in force. The policyholder obligations reflected in the table above exceed the policy liabilities, policyholder deposit fund liabilities and separate account liabilities reported on our December 31, 2007 balance sheet because the above amounts do not reflect future investment earnings and future premiums and deposits on those policies. Separate account obligations will be funded by the cash flows from separate account assets, while the remaining obligations will be funded by cash flows from investment earnings on general account assets and premiums and deposits on contracts in force.

(3) Due to the uncertainty of the timing of future cash flows associated with our unrecognized tax benefits at December 31, 2007, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authorities. Therefore, \$525 thousand of unrecognized tax benefits have been excluded from this table. See Note 9 to our financial statements in this Form 10-K for additional information on unrecognized tax benefits.

**Off-Balance Sheet Arrangements**

As of December 31, 2007, we did not have any significant off-balance sheet arrangements as defined by Item 303(a)(4)(ii) of SEC Regulation S-K.

**Reinsurance**

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

**Statutory Capital and Surplus and Risk-Based Capital**

Connecticut Insurance Law requires that Connecticut life insurers report their risk-based capital. Risk-based capital is based on a formula calculated by applying factors to various asset, premium and statutory reserve items. The formula takes into account the risk characteristics of the insurer, including asset risk, insurance risk, interest rate risk and business risk. The Connecticut Insurance Department has regulatory authority to require various actions by, or take various actions against, insurers whose Total Adjusted Capital (capital and surplus plus AVR) does not exceed certain risk-based capital levels.

[Table of Contents](#)

The levels of regulatory action, the trigger point and the corrective actions required are summarized below:

**Company Action Level** – results when Total Adjusted Capital falls below 200% of Authorized Control Level at which point the company must file a comprehensive plan to the state insurance regulators;

**Regulatory Action Level** – results when Total Adjusted Capital falls below 150% of Authorized Control Level where in addition to the above, insurance regulators are required to perform an examination or analysis deemed necessary and issue a corrective order specifying corrective actions;

**Authorized Control Level** – results when Total Adjusted Capital falls below 100% of Authorized Control Level risk-based capital as defined by the NAIC where in addition to the above, the insurance regulators are permitted but not required to place the company under regulatory control; and

**Mandatory Control Level** – results when Total Adjusted Capital falls below 80% of Authorized Control Level where insurance regulators are required to place the company under regulatory control.

At December 31, 2007, our Total Adjusted Capital level was in excess of 350% of Company Action Level. PNX management is committed to maintaining appropriate capital levels for the Company to conduct business.

See Note 13 to our financial statements in this Form 10-K for more information.

[Table of Contents](#)

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholder of  
PHL Variable Insurance Company:

In our opinion, the accompanying balance sheets and the related statements of income, comprehensive income and changes in stockholder's equity and of cash flows present fairly, in all material respects, the financial position of PHL Variable Insurance Company (the Company) at December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP  
Hartford, Connecticut

March 7, 2008, except as it relates to the effects to the change in accounting for reinsurance of certain of the Company's long duration insurance contracts as reflected in Note 2 to the financial statements, as to which the date is July 31, 2008.



[Table of Contents](#)

**PHL VARIABLE INSURANCE COMPANY**  
**Balance Sheet**  
(\$ in thousands, except share data)  
**December 31, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
<b>ASSETS:</b>		
Available-for-sale debt securities, at fair value	\$ 1,709,586	\$ 2,050,989
Policy loans, at unpaid principal balances	22,819	15,542
Other investments	1,251	1,612
Total investments	1,733,656	2,068,143
Cash and cash equivalents	108,200	47,127
Accrued investment income	17,518	19,882
Receivables	37,178	54,534
Deferred policy acquisition costs	1,009,612	701,620
Receivable from related parties	527	300
Other assets	20,214	2,356
Separate account assets	3,389,356	2,953,063
<b>Total assets</b>	<b>\$ 6,316,261</b>	<b>\$ 5,847,025</b>
<b>LIABILITIES:</b>		
Policyholder deposit funds	\$ 1,134,635	\$ 1,491,367
Policy liabilities and accruals	981,509	709,583
Deferred income taxes	135,648	94,708
Payable to related parties	28,969	25,081
Other liabilities	48,303	26,576
Separate account liabilities	3,389,356	2,953,063
<b>Total liabilities</b>	<b>5,718,420</b>	<b>5,300,378</b>
<b>CONTINGENT LIABILITIES (Note 14)</b>		
<b>STOCKHOLDER'S EQUITY:</b>		
Common stock, \$5,000 par value: 1,000 shares authorized; 500 shares issued	2,500	2,500
Additional paid-in capital	553,218	503,234
Retained earnings	53,906	43,602
Accumulated other comprehensive loss	(11,783)	(2,689)
<b>Total stockholder's equity</b>	<b>597,841</b>	<b>546,647</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 6,316,261</b>	<b>\$ 5,847,025</b>

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

[Table of Contents](#)

**PHL VARIABLE INSURANCE COMPANY**  
**Statement of Income, Comprehensive Income and Changes in Stockholder's Equity**  
(\$ in thousands)  
**Years Ended December 31, 2007, 2006 and 2005**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>REVENUES:</b>			
Premiums	\$ 18,602	\$ 13,575	\$ 9,521
Insurance and investment product fees	263,298	180,779	109,270
Investment income, net of expenses	109,607	129,325	154,374
Net realized investment losses	(7,043)	(2,460)	(10,569)
<b>Total revenues</b>	<u><b>384,464</b></u>	<u><b>321,219</b></u>	<u><b>262,596</b></u>
<b>BENEFITS AND EXPENSES:</b>			
Policy benefits	168,395	154,951	130,279
Policy acquisition cost amortization	120,041	93,342	80,402
Other operating expenses	83,601	65,388	50,493
<b>Total benefits and expenses</b>	<u><b>372,037</b></u>	<u><b>313,681</b></u>	<u><b>261,174</b></u>
Income before income taxes	12,427	7,538	1,422
Applicable income tax (expense) benefit	(1,122)	(1,070)	2,801
<b>Net income</b>	<u><b>\$ 11,305</b></u>	<u><b>\$ 6,468</b></u>	<u><b>\$ 4,223</b></u>
<b>FEES PAID TO RELATED PARTIES (NOTE 10)</b>			
<b>COMPREHENSIVE INCOME:</b>			
<b>Net income</b>	<u><b>\$ 11,305</b></u>	<u><b>\$ 6,468</b></u>	<u><b>\$ 4,223</b></u>
Net unrealized investment losses	(9,095)	(1,277)	(9,986)
Net unrealized derivative instruments losses	--	(807)	(335)
<b>Other comprehensive loss</b>	<u><b>(9,095)</b></u>	<u><b>(2,084)</b></u>	<u><b>(10,321)</b></u>
<b>Comprehensive income (loss)</b>	<u><b>\$ 2,210</b></u>	<u><b>\$ 4,384</b></u>	<u><b>\$ (6,098)</b></u>
<b>ADDITIONAL PAID-IN CAPITAL:</b>			
Capital contributions from parent	\$ 49,984	\$ --	\$ --
<b>RETAINED EARNINGS:</b>			
Adjustment for initial application of FIN 48 (Note 2)	(1,000)	--	--
Net income	11,305	6,468	4,223
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME:</b>			
Other comprehensive loss	(9,095)	(2,084)	(10,321)
<b>Change in stockholder's equity</b>	<u><b>51,194</b></u>	<u><b>4,384</b></u>	<u><b>(6,098)</b></u>
Stockholder's equity, beginning of year	546,647	542,263	548,361
<b>Stockholder's equity, end of year</b>	<u><b>\$ 597,841</b></u>	<u><b>\$ 546,647</b></u>	<u><b>\$ 542,263</b></u>

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

[Table of Contents](#)

**PHL VARIABLE INSURANCE COMPANY**  
**Statement of Cash Flows**  
(\$ in thousands)  
**Years Ended December 31, 2007, 2006 and 2005**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>OPERATING ACTIVITIES:</b>			
Net income	\$ 11,305	\$ 6,468	\$ 4,223
Net realized investment losses	7,043	2,460	10,569
Investment (gains) losses	1,473	4,206	(15,293)
Deferred income taxes	45,837	22,473	15,512
(Increase) decrease in receivables	(4,520)	(6,939)	4,091
Increase in deferred policy acquisition costs	(280,566)	(177,236)	(56,634)
Increase in policy liabilities and accruals	289,311	213,753	155,315
Other assets and other liabilities change	7,868	(1,224)	30,634
<b>Cash from operating activities</b>	<u><b>77,751</b></u>	<u><b>63,961</b></u>	<u><b>148,417</b></u>
<b>INVESTING ACTIVITIES:</b>			
Investment purchases	(890,909)	(1,007,973)	(1,148,093)
Investment sales, repayments and maturities	1,207,988	1,728,360	1,357,687
<b>Cash from investing activities</b>	<u><b>317,079</b></u>	<u><b>720,387</b></u>	<u><b>209,594</b></u>
<b>FINANCING ACTIVITIES:</b>			
Policyholder deposit fund deposits	266,750	223,309	236,099
Policyholder deposit fund withdrawals	(625,507)	(986,348)	(607,890)
Capital contributions from parent	25,000	--	--
<b>Cash for financing activities</b>	<u><b>(333,757)</b></u>	<u><b>(763,039)</b></u>	<u><b>(371,791)</b></u>
<b>Change in cash and cash equivalents</b>	<u><b>61,073</b></u>	<u><b>21,309</b></u>	<u><b>(13,780)</b></u>
Cash and cash equivalents, beginning of year	47,127	25,818	39,598
<b>Cash and cash equivalents, end of year</b>	<u><b>\$ 108,200</b></u>	<u><b>\$ 47,127</b></u>	<u><b>\$ 25,818</b></u>

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

[Table of Contents](#)

**PHL VARIABLE INSURANCE COMPANY**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007, 2006 and 2005**

**1. Organization and Operations**

PHL Variable Insurance Company is a life insurance company offering variable and fixed annuity and non-participating life insurance products. It is a wholly-owned subsidiary of PM Holdings, Inc. PM Holdings, Inc. is a wholly-owned subsidiary of Phoenix Life Insurance Company (Phoenix Life), which is a wholly-owned subsidiary of The Phoenix Companies, Inc. (PNX), a New York Stock Exchange listed company. Phoenix Home Life Mutual Insurance Company demutualized on June 25, 2001 by converting from a mutual life insurance company to a stock life insurance company, became a wholly-owned subsidiary of PNX and changed its name to Phoenix Life Insurance Company.

**2. Basis of Presentation and Significant Accounting Policies**

We have prepared these financial statements in accordance with accounting principles generally accepted in the United States of America, or GAAP, which differ materially from the accounting practices prescribed by various insurance regulatory authorities. We have reclassified certain amounts for 2006 and 2005 to conform with the 2007 presentation.

**Use of estimates**

In preparing these financial statements in conformity with GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. We employ significant estimates and assumptions in the determination of deferred policy acquisition costs; policyholder liabilities and accruals; the valuation of investments in debt and equity securities; and accruals for deferred income taxes and contingent liabilities.

**Accounting Change**

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

We adopted the new method because we believe that it better reflects the economics of the underlying reinsurance activity by better matching the reinsurance recovery with the insured loss that gave rise to that recovery. We also believe that the new method is consistent with management's intent in purchasing reinsurance, which is to protect the Company against large and unexpected claims. Comparative amounts from prior periods, including in Notes 3, 4 and 9, have been adjusted to apply the new method retrospectively in these financial statements. The following financial statement line items were affected by the change in accounting principle. Certain balances shown "as originally reported" have been reclassified to conform to the current period presentation.

[Table of Contents](#)

## 2. Basis of Presentation and Significant Accounting Policies

### Income Statement

(\$ in thousands)

	Year Ended December 31, 2007		
	As adjusted	As originally reported	Effect of Change
Insurance and investment product fees	\$ 263,298	\$ 263,696	\$ (398)
Policy benefits	168,395	157,616	10,779
Policy acquisition cost amortization	120,041	124,015	(3,974)
Income tax (expense) benefit	(1,122)	(3,643)	2,521
Net income (loss)	11,305	15,987	(4,682)

(\$ in thousands)

	Year Ended December 31, 2006		
	As adjusted	As originally reported	Effect of Change
Insurance and investment product fees	\$ 180,779	\$ 180,498	\$ 281
Policy benefits	154,951	151,285	3,666
Policy acquisition cost amortization	93,342	91,168	2,174
Income tax (expense) benefit	(1,070)	(3,016)	1,946
Net income (loss)	6,468	10,081	(3,613)

### Balance Sheet

(\$ in thousands)

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

(\$ in thousands)

	December 31, 2006		
	As adjusted	As originally reported	Effect of Change
Deferred policy acquisition costs	\$ 701,620	\$ 703,794	\$ (2,174)
Policy liabilities and accruals	709,583	706,198	3,385
Deferred income taxes	94,708	96,654	(1,946)
Retained earnings	43,602	47,215	(3,613)

### Adoption of new accounting standards

We adopted the provisions of the Financial Accounting Standards Board, or FASB, Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, or FIN 48, on January 1, 2007. As a result of the implementation of FIN 48, we recognized an increase in reserves for uncertain tax benefits through a cumulative effect adjustment of approximately \$1,000 thousand, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. Including the cumulative effect adjustment, we had \$1,840 thousand of total gross unrecognized tax benefits as of January 1, 2007. The entire amount of unrecognized tax benefits would, if recognized, impact the annual effective tax rate upon recognition. See Note 9 to these financial statements for more information.

[Table of Contents](#)

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

In September 2006, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, or SAB 108. SAB 108 provides guidance for how errors should be evaluated to assess materiality from a quantitative perspective. SAB 108 permits companies to initially apply its provisions by either restating prior financial statements or recording the cumulative effect of initially applying the approach as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment to retained earnings. We adopted SAB 108 on December 31, 2006 with no effect on our financial statements.

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

Effective January 1, 2006, we adopted SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, or SFAS 155. SFAS 155 resolves certain issues surrounding the accounting for beneficial interests in securitized financial assets. Our adoption of SFAS 155 did not have a material effect on our financial statements.

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

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

### Accounting standards not yet adopted

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

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

[Table of Contents](#)

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

In June 2007, the AICPA issued Statement of Position 07-1, *Clarification of the Scope of the Audit and Accounting Guide "Investment Companies" and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*, or SOP 07-1. SOP 07-1 broadens the definition of an investment company for application of this guidance. It provides that an entity that meets the definition of an investment company use fair value as a basis of accounting and reporting and that a parent retains the specialized fair value accounting of the entity if certain criteria are met. On February 14, 2008, the FASB deferred the effective date of SOP 07-1 indefinitely.

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

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, or SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 provides guidance on how to measure fair value when required under existing accounting standards. The statement establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels ("Level 1, 2 and 3"). Level 1 inputs are observable inputs that reflect quoted prices for identical assets or liabilities in active markets that we have the ability to access at the measurement date. Level 2 inputs are observable inputs, other than quoted prices included in Level 1, for the asset or liability. Level 3 inputs are unobservable inputs reflecting our estimates of the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Quantitative and qualitative disclosures will focus on the inputs used to measure fair value for both recurring and non-recurring fair value measurements and the effects of the measurements in the financial statements. We adopted SFAS 157 effective January 1, 2008. We do not expect adoption of this statement to have a material impact on our financial position and results of operations.

### Significant accounting policies

#### *Investments*

##### *Debt and equity securities*

Our debt and equity securities classified as available-for-sale are reported on our balance sheet at fair value. Fair value is based on quoted market price, where available. When quoted market prices are not available, we estimate fair value by discounting debt security cash flows to reflect interest rates currently being offered on similar terms to borrowers of similar credit quality (private placement debt securities), by quoted market prices of comparable instruments (untraded public debt securities) and by independent pricing sources or internally developed pricing models (equity securities). We recognize unrealized investment gains and losses on investments in debt and equity securities that we classify as available-for-sale. We report these unrealized investment gains and losses as a component of other comprehensive income, net of applicable deferred policy acquisition costs and applicable deferred income taxes.

For mortgage-backed and other asset-backed debt securities, we recognize income using a constant effective yield based on anticipated prepayments and the estimated economic lives of the securities. When actual prepayments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date and any resulting adjustment is included in net investment income. For certain asset-backed securities, changes in estimated yield are recorded on a prospective basis and specific valuation methods are applied to these securities to determine if there has been an other-than-temporary decline in value.

[Table of Contents](#)

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

### *Policy loans*

Policy loans are carried at their unpaid principal balances and are collateralized by the cash values of the related policies. We estimate the fair value of fixed rate policy loans by discounting loan interest and loan repayments. We base the discount rate on the 10-year U.S. Treasury rate. We assume that loan interest payments are made at the fixed rate less 17.5 basis points and that loan repayments only occur as a result of anticipated policy lapses. For variable rate policy loans, we consider the unpaid loan balance as fair value, as interest rates on these loans are reset annually based on market rates.

### *Other investments*

Other investments primarily include other partnership interests in which we do not have control or a majority ownership interest and are recorded using the equity method of accounting. We record the net income from investments in partnerships in net investment income.

### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, amounts due from banks, money market instruments and other debt instruments with maturities of three months or less when purchased.

### **Deferred policy acquisition costs**

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

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

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

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



[Table of Contents](#)

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

Underlying assumptions for future periods of EGPs are not altered unless experience deviates significantly from original assumptions. For example, when lapses of our insurance products meaningfully exceed levels assumed in determining the amortization of deferred policy acquisition costs, we adjust amortization to reflect the change in future premiums or EGPs resulting from the unexpected lapses. In the event that we were to revise assumptions used for prior year cohorts, our estimate of projected account values would change and the related EGPs in the deferred policy acquisition cost amortization model would be adjusted to reflect such change. This process is known as "unlocking". Continued favorable experience on key assumptions, which could include increasing separate account fund return performance, decreasing lapses or decreasing mortality could result in an unlocking which would result in a decrease to deferred policy acquisition cost amortization and an increase in the deferred policy acquisition costs asset. Finally, an analysis is performed periodically to assess whether there are sufficient gross margins or gross profits to amortize the remaining deferred policy acquisition costs balances.

### Separate account assets and liabilities

Separate account assets and liabilities related to policyholder funds are carried at fair value. Deposits, net investment income and realized investment gains and losses for these accounts are excluded from revenues, and the related liability increases are excluded from benefits and expenses. Fees assessed to the contractholders for management services are included in revenues when services are rendered.

### Policy liabilities and accruals

Policy liabilities and accruals includes future benefit liabilities for certain life and annuity products. We establish liabilities in amounts adequate to meet the estimated future obligations of policies in force. Future benefit liabilities for traditional life insurance are computed using the net level premium method on the basis of actuarial assumptions as to contractual guaranteed rates of interest, mortality rates guaranteed in calculating the cash surrender values described in such contracts and morbidity. Future benefit liabilities for term and annuities in the payout phase that have significant mortality risk are computed using the net premium method on the basis of actuarial assumptions at the issue date of these contracts for rates of interest, contract administrative expenses, mortality and surrenders. We establish liabilities for outstanding claims, losses and loss adjustment expenses based on individual case estimates for reported losses and estimates of unreported losses based on past experience.

Certain contracts may also include additional death or other insurance benefit features, such as guaranteed minimum death or income benefits offered with variable annuity contracts or no-lapse guarantees offered with universal life insurance contracts. An additional liability is established for these benefits by estimating the expected present value of the excess benefits and recognizing the excess ratably over the accumulation period based on total expected assessments.

### Policyholder deposit funds

Amounts received as payment for certain universal life contracts, deferred annuities and other contracts without life contingencies are reported as deposits to Policyholder deposit funds. The liability for universal life-type contracts is equal to the balance that accrues to the benefit of the policyholders as of the financial statement date, including interest credited, amounts that have been assessed to compensate us for services to be performed over future periods, and any amounts previously assessed against the policyholder that is refundable. The liability for deferred annuities and other contracts without life contingencies is equal to the balance that accrues to the benefit of the contract holder as of the financial statement date which includes the accumulation of deposits plus interest credited, less withdrawals and amounts assessed through the financial statement date.

### Contingent liabilities

Amounts related to contingent liabilities are accrued if it is probable that a liability has been incurred and an amount is reasonably estimable.

[Table of Contents](#)

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

### Revenue recognition

We recognize premiums for long-duration life insurance products as revenue when due from policyholders. We recognize life insurance premiums for short-duration life insurance products as premium revenue pro rata over the related contract periods. We match benefits, losses and related expenses with premiums over the related contract periods.

Amounts received as payment for interest sensitive life contracts, deferred annuities and other contracts without life contingencies are considered deposits and are not included in revenue. Revenues from these products consist primarily of fees assessed during the period against the policyholders' account balances for mortality charges, policy administration charges and surrender charges. Fees assessed that represent compensation for services to be provided in the future are deferred and amortized into revenue over the life of the related contracts. Related benefit expenses include universal life benefit claims in excess of fund values, net investment income credited to policyholders' account balances and amortization of deferred policy acquisition costs.

### Net investment income and net realized investment gains (losses)

We recognize realized investment gains (losses) on asset dispositions on a first-in, first-out basis. We recognize realized investment losses when declines in fair value of debt and equity securities are considered to be other-than-temporarily impaired. We adjust the cost basis of these written down investments to fair value at the date the determination of impairment is made and do not change the new cost basis for subsequent recoveries in value. 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 ability and intent to hold the investment for a period of time to allow for a recovery of value; and
- the financial condition of and near term prospects of the issuer.

### Income taxes

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, or SFAS 109. Accordingly, income tax expense or benefit is recognized based upon amounts reported in the financial statements and the provisions of currently enacted tax laws. We allocate income taxes to income, other comprehensive income and additional paid-in capital, as applicable.

We recognize current income tax assets and liabilities for estimated income taxes refundable or payable based on the current year's income tax returns. We recognize deferred income tax assets and liabilities for the estimated future income tax effects of temporary differences and carryovers. Temporary differences are the differences between the financial statement carrying amounts of assets and liabilities and their tax bases, as well as the timing of income or expense recognized for financial reporting and tax purposes of items not related to assets or liabilities. If necessary, we establish valuation allowances to reduce the carrying amount of deferred income tax assets to amounts that are more likely than not to be realized. We periodically review the adequacy of these valuation allowances and record any reduction in allowances in accordance with SFAS 109's intraperiod allocation rules. We recognize interest and penalties related to amounts accrued on uncertain tax positions and amounts paid or refunded from federal and state income tax authorities in tax expense.

## 3. Reinsurance

We use reinsurance agreements to provide for greater diversification of business, control exposure to potential losses arising from large risks and provide capacity for growth.

[Table of Contents](#)

### 3. Reinsurance (continued)

We remain liable to the extent that reinsuring companies may not be able to meet their obligations under reinsurance agreements in effect. Failure of the reinsurers to honor their obligations could result in losses to us; consequently, we establish reserves for amounts deemed or estimated to be uncollectible. To minimize our exposure to significant losses from reinsurance insolvencies, we evaluate the financial condition of our reinsurers and monitor concentration of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

Our reinsurance program varies based on the type of risk, for example:

- On direct policies, the maximum of individual life insurance retained by us on any one life is \$10 million on single life and joint first-to-die policies and \$12 million for joint last-to-die policies, with excess amounts ceded to reinsurers.
- We cede 80% to 90% of the mortality risk on most new issues of term insurance.
- In August 2006, we entered into an agreement to cede 50% of the risk on policies issued from July 1, 2002 through December 31, 2005, inclusive, with a net amount at risk of \$2 million or greater.
- On January 1, 1996, we entered into a reinsurance agreement that covers 100% of the excess death benefits and related reserves for most variable annuity policies issued from January 1, 1983 through December 31, 1999, including subsequent deposits. We retain the guaranteed minimum death benefit risks on the remaining variable deferred annuities in force that are not covered by this reinsurance arrangement.
- We cede to Phoenix Life 100% of the guaranteed minimum accumulation and withdrawal benefits on our variable annuities.
- Effective January 1, 2008, we entered into an agreement to cede 75% of the risk in excess of \$6.0 million on universal life and variable universal life policies issued from January 1, 2006 through December 31, 2007.

#### Direct Business and Reinsurance:

(\$ in thousands)

	Year Ended December 31,		
	2007	2006	2005
Direct premiums	\$ 87,132	\$ 71,350	\$ 55,277
Premiums ceded to reinsurers	(68,530)	(57,775)	(45,756)
<b>Premiums</b>	<b>\$ 18,602</b>	<b>\$ 13,575</b>	<b>\$ 9,521</b>
Direct policy benefits incurred	\$ 85,898	\$ 54,055	\$ 15,538
Policy benefits assumed from reinsureds	505	965	381
Policy benefits ceded to reinsurers	(44,707)	(26,398)	(9,572)
<b>Policy benefits</b>	<b>\$ 41,696</b>	<b>\$ 28,622</b>	<b>\$ 6,347</b>
Direct life insurance in-force	\$ 70,502,325	\$ 55,175,351	\$ 41,566,483
Life insurance in-force assumed from reinsureds	121,673	104,826	135,447
Life insurance in-force ceded to reinsurers	(48,687,754)	(40,820,818)	(30,459,568)
<b>Life insurance in-force</b>	<b>\$ 21,936,244</b>	<b>\$ 14,459,359</b>	<b>\$ 11,242,362</b>
Percentage of amount assumed to net insurance in-force	0.55%	0.72%	1.20%

The policy benefit amounts above exclude changes in reserves, interest credited to policyholders and withdrawals, which total \$126,699 thousand, \$126,329 thousand and \$123,932 thousand, net of reinsurance, for the years ended December 31, 2007, 2006 and 2005, respectively.

Irrevocable letters of credit aggregating \$26,986 thousand at December 31, 2007 have been arranged with commercial banks in our favor to collateralize the ceded reserves.

[Table of Contents](#)

#### 4. Deferred policy acquisition costs

##### Activity in Deferred Policy Acquisition Costs:

(\$ in thousands)

	Year Ended December 31,		
	2007	2006	2005
Direct acquisition costs deferred	\$ 400,607	\$ 270,577	\$ 137,036
Recurring costs amortized to expense	(122,189)	(94,429)	(86,608)
Credit related to investment gains or losses	2,148	1,087	6,206
Offsets to net unrealized investment gains or losses included in other comprehensive income (loss) (Note 12)	27,426	(4,930)	39,223
Change in deferred policy acquisition costs	307,992	172,305	95,857
Deferred policy acquisition costs, beginning of year	701,620	529,315	433,458
<b>Deferred policy acquisition costs, end of year</b>	<b>\$ 1,009,612</b>	<b>\$ 701,620</b>	<b>\$ 529,315</b>

During 2007, we updated our system for calculating the SOP 03-1 reserves for guaranteed minimum death benefits, resulting in a release in the benefit reserve and a corresponding increase in deferred policy acquisition cost amortization for the quarter. The effects of these adjustments resulted in an overall \$1,649 thousand pre-tax benefit to net income.

During 2006, we benefited from an unlocking of assumptions primarily related to deferred policy acquisition costs. The unlocking was driven by revised assumptions for expected mortality, lapse experience, investment margins and expenses. The effects of the unlocking resulted in an overall \$6.7 million pre-tax charge to net income, as well as increased unearned revenue liabilities by \$1.3 million, increased benefit reserves by \$4.5 million, increased reinsurance liability by \$1.2 million and decreased amortization by \$0.4 million.

#### 5. Policy liabilities and accruals

Policyholder liabilities are primarily for universal life products and include deposits received from customers and investment earnings on their fund balances which range from 3.00% to 5.25% as of December 31, 2007, less administrative and mortality charges.

##### Policyholder deposit funds

Policyholder deposit funds primarily consist of annuity deposits received from customers, dividend accumulations and investment earnings on their fund balances, which range from 2.9% to 14.0% as of December 31, 2007, less administrative charges.

#### 6. Investing Activities

##### Debt and equity securities

##### Fair Value and Cost of Debt Securities:

(\$ in thousands)

	As of December 31,			
	2007		2006	
	Fair Value	Cost	Fair Value	Cost
U.S. government and agency	\$ 65,774	\$ 64,884	\$ 92,579	\$ 93,425
State and political subdivision	11,029	11,134	15,900	16,281
Foreign government	30,423	27,716	49,884	46,505
Corporate	975,058	998,982	1,157,781	1,172,275
Mortgage-backed	358,479	372,733	452,641	455,739
Other asset-backed	268,823	288,927	282,204	280,086
<b>Available-for-sale debt securities</b>	<b>\$ 1,709,586</b>	<b>\$ 1,764,376</b>	<b>\$ 2,050,989</b>	<b>\$ 2,064,311</b>

[Table of Contents](#)
**6. Investing Activities (continued)**
**Unrealized Gains (Losses) from**
**Debt Securities:**
*(\$ in thousands)*

	As of December 31,			
	2007		2006	
	Gains	Losses	Gains	Losses
U.S. government and agency	\$ 1,193	\$ (303)	\$ 295	\$ (1,141)
State and political subdivision	11	(116)	17	(398)
Foreign government	2,732	(25)	3,590	(211)
Corporate	8,774	(32,698)	6,523	(21,017)
Mortgage-backed	2,654	(16,908)	2,862	(5,960)
Other asset-backed	875	(20,979)	3,857	(1,739)
<b>Debt securities gains and losses</b>	<b>\$ 16,239</b>	<b>\$ (71,029)</b>	<b>\$ 17,144</b>	<b>\$ (30,466)</b>
<b>Debt securities net losses</b>		<b>\$ (54,790)</b>		<b>\$ (13,322)</b>

**Aging of Temporarily Impaired**
**Debt Securities:**
*(\$ in thousands)*
**Debt Securities**

	As of December 31, 2007					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government and agency	\$ --	\$ --	\$ 15,629	\$ (303)	\$ 15,629	\$ (303)
State and political subdivision	--	--	10,516	(116)	10,516	(116)
Foreign government	--	--	2,464	(25)	2,464	(25)
Corporate	134,427	(9,598)	478,287	(23,100)	612,714	(32,698)
Mortgage-backed	105,599	(9,822)	162,554	(7,086)	268,153	(16,908)
Other asset-backed	137,632	(15,661)	81,534	(5,318)	219,166	(20,979)
<b>Total temporarily impaired securities</b>	<b>\$ 377,658</b>	<b>\$ (35,081)</b>	<b>\$ 750,984</b>	<b>\$ (35,948)</b>	<b>\$ 1,128,642</b>	<b>\$ (71,029)</b>

<b>Below investment grade</b>	<b>\$ 39,024</b>	<b>\$ (1,797)</b>	<b>\$ 67,088</b>	<b>\$ (7,484)</b>	<b>\$ 106,112</b>	<b>\$ (9,281)</b>
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**Below investment grade after offsets for  
deferred policy acquisition cost  
adjustment and taxes**

<b>\$ (292)</b>	<b>\$ (1,306)</b>	<b>\$ (1,598)</b>
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<b>Number of securities</b>	<b>243</b>	<b>411</b>	<b>654</b>
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Below investment grade debt securities with a fair value of less than 80% of the security's amortized costs totaled \$(3,933) thousand at December 31, 2007, of which none have been in a significant loss position for greater than 12 months.

All of these securities are considered to be temporarily impaired at December 31, 2007 as each of these securities has performed, and is expected to continue to perform, in accordance with their original contractual terms, and we have the ability and intent to hold these securities until they recover their value.

[Table of Contents](#)

**6. Investing Activities (continued)**

**Aging of Temporarily Impaired**

**Debt and Equity Securities:**

(\$ in thousands)

**Debt Securities**

	As of December 31, 2006					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government and agency	\$ 5,643	\$ (19)	\$ 50,878	\$ (1,122)	\$ 56,521	\$ (1,141)
State and political subdivision	1,014	(3)	14,367	(395)	15,381	(398)
Foreign government	4,024	(10)	9,323	(201)	13,347	(211)
Corporate	152,344	(1,595)	689,660	(19,422)	842,004	(21,017)
Mortgage-backed	78,465	(693)	257,905	(5,267)	336,370	(5,960)
Other asset-backed	53,844	(171)	102,302	(1,568)	156,146	(1,739)
<b>Total temporarily impaired securities</b>	<b>\$ 295,334</b>	<b>\$ (2,491)</b>	<b>\$ 1,124,435</b>	<b>\$ (27,975)</b>	<b>\$ 1,419,769</b>	<b>\$ (30,466)</b>
<b>Below investment grade</b>	<b>\$ 20,190</b>	<b>\$ (377)</b>	<b>\$ 90,763</b>	<b>\$ (3,859)</b>	<b>\$ 110,953</b>	<b>\$ (4,236)</b>
<b>Below investment grade after offsets for deferred policy acquisition cost adjustment and taxes</b>		<b>\$ (45)</b>		<b>\$ (550)</b>		<b>\$ (595)</b>
<b>Number of securities</b>		<b>165</b>		<b>565</b>		<b>730</b>

There were no unrealized losses of below investment grade debt securities with a fair value less than 80% of the securities amortized cost at December 31, 2006.

All of these securities are considered to be temporarily impaired at December 31, 2006 as each of these securities has performed, and is expected to continue to perform, in accordance with their original contractual terms, and we have the ability and intent to hold these securities until they recover their value.

**Statutory deposits**

Pursuant to certain statutory requirements, as of December 31, 2007 and 2006, we had on deposit securities with a fair value of \$7,370 thousand and \$8,216 thousand, respectively, in insurance department special deposit accounts. We are not permitted to remove the securities from these accounts without approval of the regulatory authority.

**Net investment income**

**Sources of Net Investment Income:**

(\$ in thousands)

	Year Ended December 31,		
	2007	2006	2005
Debt securities	\$ 105,342	\$ 127,977	\$ 155,648
Equity securities	--	--	2
Other investments	162	148	183
Other income	421	--	--
Policy loans	1,472	581	479
Cash and cash equivalents	4,395	3,089	1,061
Total investment income	111,792	131,795	157,373
Investment expenses	(2,185)	(2,470)	(2,999)
<b>Net investment income</b>	<b>\$ 109,607</b>	<b>\$ 129,325</b>	<b>\$ 154,374</b>

[Table of Contents](#)

**6. Investing Activities (continued)**

**Net realized investment gains (losses)**

**Types of Realized Investment Gains (Losses):**

(\$ in thousands)

**Debt security impairments**

Debt security transaction gains  
Debt security transaction losses  
Equity security transaction gains  
Equity security transaction losses  
Other investment transaction gains (losses)

**Net transaction losses**

**Net realized investment losses**

Year Ended December 31,		
2007	2006	2005
\$ (3,287)	\$ (411)	\$ (2,651)
1,465	2,955	1,764
(2,827)	(7,253)	(9,254)
--	--	26
--	--	(13)
(2,394)	2,249	(441)
<b>(3,756)</b>	<b>(2,049)</b>	<b>(7,918)</b>
<b>\$ (7,043)</b>	<b>\$ (2,460)</b>	<b>\$ (10,569)</b>

**Unrealized investment gains (losses)**

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

(\$ in thousands)

Debt securities  
Equity securities  
Other investments

**Net unrealized investment gains (losses)**

Net unrealized investment gains (losses)

Applicable deferred policy acquisition costs (Note 4)

Applicable deferred income tax benefit

Offsets to net unrealized investment losses

**Net unrealized investment losses included in other comprehensive income**

Year Ended December 31,		
2007	2006	2005
\$ (41,468)	\$ 2,956	\$ (54,591)
--	--	5
50	10	--
<b>\$ (41,418)</b>	<b>\$ 2,966</b>	<b>\$ (54,586)</b>
<b>\$ (41,418)</b>	<b>\$ 2,966</b>	<b>\$ (54,586)</b>
(27,426)	4,930	(39,223)
(4,897)	(687)	(5,377)
(32,323)	4,243	(44,600)
<b>\$ (9,095)</b>	<b>\$ (1,277)</b>	<b>\$ (9,986)</b>

**Investing cash flows**

**Investment Purchases, Sales, Repayments and Maturities:**

(\$ in thousands)

Debt security purchases  
Equity security purchases  
Other investment purchases  
Policy loan advances, net

**Investment purchases**

Debt securities sales  
Debt securities maturities and repayments  
Equity security sales  
Other investment sales

**Investment sales, repayments and maturities**

Year Ended December 31,		
2007	2006	2005
\$ (883,282)	\$ (999,542)	\$ (1,139,974)
--	--	--
(350)	(1,060)	(2,434)
(7,277)	(7,371)	(5,685)
<b>\$ (890,909)</b>	<b>\$ (1,007,973)</b>	<b>\$ (1,148,093)</b>
\$ 816,170	\$ 1,178,127	\$ 873,995
390,297	549,483	477,568
--	--	279
1,521	750	5,845
<b>\$ 1,207,988</b>	<b>\$ 1,728,360</b>	<b>\$ 1,357,687</b>

[Table of Contents](#)

## 6. Investing Activities (continued)

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

### Maturities of Debt Securities:

(\$ in thousands)

	As of December 31, 2007	
	Cost	Fair Value
Due in one year or less	\$ 139,910	\$ 139,540
Due after one year through five years	429,405	424,704
Due after five years through ten years	455,099	441,414
Due after ten years	739,962	703,928
<b>Total</b>	<b>\$ 1,764,376</b>	<b>\$ 1,709,586</b>

## 7. Separate Accounts, Death Benefits and Other Insurance Benefit Features

Separate account products are those for which a separate investment and liability account is maintained on behalf of the policyholder. Investment objectives for these separate accounts vary by fund account type, as outlined in the applicable fund prospectus or separate account plan of operations. Our separate account products include variable annuities and variable life insurance contracts. The assets supporting these contracts are carried at fair value and reported as Separate account assets with an equivalent amount reported as Separate account liabilities. Amounts assessed against the policyholder for mortality, administration, and other services are included within revenue in Insurance and investment product fees. In 2007 and 2006 there were no gains or losses on transfers of assets from the general account to a separate account.

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

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

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

### Separate Account Investments of Account Balances of Contracts with Guarantees:

(\$ in thousands)

	As of December 31,	
	2007	2006
Debt securities	\$ 494,660	\$ 456,148
Equity funds	2,213,164	1,861,762
Other	80,657	68,810
<b>Total</b>	<b>\$ 2,788,481</b>	<b>\$ 2,386,720</b>



[Table of Contents](#)

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

**Changes in Guaranteed Liability Balances:**

(\$ in thousands)

Liability balance as of January 1, 2007

Incurred

Paid

**Liability balance as of December 31, 2007**

Year Ended December 31, 2007	
Annuity GMDB	Annuity GMIB
\$ 26,979	\$ 3,568
(21,813)	2,137
(2,057)	--
<b>\$ 3,109</b>	<b>\$ 5,705</b>

**Changes in Guaranteed Liability Balances:**

(\$ in thousands)

Liability balance as of January 1, 2006

Incurred

Paid

**Liability balance as of December 31, 2006**

Year Ended December 31, 2006	
Annuity GMDB	Annuity GMIB
\$ 27,749	\$ 2,474
1,721	1,094
(2,491)	--
<b>\$ 26,979</b>	<b>\$ 3,568</b>

The reinsurance recoverable asset related to the GMDB was \$1,335 thousand and \$17,139 thousand as of December 31, 2007 and 2006, respectively.

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

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

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

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

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

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

[Table of Contents](#)

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

In order to minimize the volatility associated with the GMWB and GMAB liabilities, we have entered into a contract with Phoenix Life whereby we cede 100% of any claims for these guarantees. Because this contract does not transfer sufficient risk to be accounted for as reinsurance, we use deposit accounting for the contract. As of December 31, 2007 and 2006, the embedded derivative for GMWB and GMAB was immaterial. There were no benefit payments made for the GMWB or GMAB during 2007 or 2006. See Note 10 to these financial statements for more information.

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.

**Additional Insurance Benefits:**

*(\$ in thousands)*

	<b>Account Value</b>	<b>Net Amount At Risk After Reinsurance</b>	<b>Average Attained Age of Annuitant</b>
GMDB return of premium	\$ 1,396,515	\$ 5,398	59
GMDB step up	1,761,416	33,481	60
GMDB earnings enhancement benefit (EEB)	78,136	--	60
GMDB greater of annual step up and roll up	42,492	3,582	63
<b>Total GMDB at December 31, 2007</b>	<b>\$ 3,278,559</b>	<b>\$ 42,461</b>	
GMIB	\$ 696,006		59
GMAB	381,304		55
GMWB	202,073		61
GPAF	36,684		74
<b>Total at December 31, 2007</b>	<b>\$ 1,316,067</b>		

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

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

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

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 December 31, 2007 and 2006, we held additional universal life benefit reserves of \$25,930 thousand and \$8,841 thousand, respectively.

[Table of Contents](#)

## 8. Fair Value of Financial Instruments and Derivative Instruments

### Fair value of financial instruments

#### Carrying Amounts and Estimated Fair Values of Financial Instruments:

(\$ in thousands)

	As of December 31,			
	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 108,200	\$ 108,200	\$ 47,127	\$ 47,127
Debt securities	1,709,586	1,709,586	2,050,989	2,050,989
Policy loans	22,819	22,819	15,542	15,542
<b>Financial assets</b>	<b>\$ 1,840,605</b>	<b>\$ 1,840,605</b>	<b>\$ 2,113,658</b>	<b>\$ 2,113,658</b>
Investment contracts	\$ 1,134,635	\$ 1,139,325	\$ 1,491,367	\$ 1,486,758
<b>Financial liabilities</b>	<b>\$ 1,134,635</b>	<b>\$ 1,139,325</b>	<b>\$ 1,491,367</b>	<b>\$ 1,486,758</b>

### Fair value of investment contracts

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

### Derivative instruments

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 recognized an after-tax gain of \$0.0 million, \$1.2 million and \$0.3 million for the years ended December 31, 2007, 2006 and 2005 (reported as other comprehensive income in Statement of Income, Comprehensive Income and Changes in Stockholder's Equity), which represented the change in fair value of interest rate forward swaps which had been designated as cash flow hedges of the forecasted purchase of assets. For changes in the fair value of derivatives that are designated as cash flow hedges of a forecasted transaction, we recognize the change in fair value of the derivative in other comprehensive income. Amounts related to cash flow hedges that are accumulated in other comprehensive income are reclassified into earnings in the same period or periods during which the hedged forecasted transaction (the acquired asset) affects earnings. For the years 2007, 2006 and 2005, we reclassified after-tax gains of \$0.0 million, \$1.2 million and \$0.3 million, respectively, into earnings related to these derivatives.

We held no derivative assets at December 31, 2007 and 2006. See Note 7 to these financial statements for more information on our embedded derivatives related to our variable annuity guarantees.

## 9. Income Taxes

### Allocation of Income Taxes:

(\$ in thousands)

	Year Ended December 31,		
	2007	2006	2005
Income tax expense (benefit) attributable to:			
Current	\$ (44,715)	\$ (21,403)	\$ (18,313)
Deferred	45,837	22,473	15,512
<b>Income taxes applicable to net income (loss)</b>	<b>1,122</b>	<b>1,070</b>	<b>(2,801)</b>
Other comprehensive loss	(4,898)	(1,121)	(5,558)
<b>Income taxes applicable to comprehensive income (loss)</b>	<b>\$ (3,776)</b>	<b>\$ (51)</b>	<b>\$ (8,359)</b>
<b>Income taxes recovered</b>	<b>\$ (30,557)</b>	<b>\$ (24,094)</b>	<b>\$ (14,288)</b>

[Table of Contents](#)

**9. Income Taxes (continued)**

**Effective Income Tax Rate:**

(\$ in thousands)

Income before income taxes  
Income taxes at statutory rate of 35.0%  
Dividend received deduction  
Tax interest  
Other, net

**Applicable income taxes (benefit)**

Effective income tax (benefit) rates

Year Ended December 31,		
2007	2006	2005
\$ 12,427	\$ 7,538	\$ 1,422
4,350	2,638	498
(2,778)	(1,572)	(2,924)
1	1	(378)
(451)	3	3
<b>\$ 1,122</b>	<b>\$ 1,070</b>	<b>\$ (2,801)</b>
9.0%	14.2%	(197.0)%

**Deferred Income Tax Balances Attributable to Temporary Differences:**

(\$ in thousands)

**Deferred income tax assets:**

Future policyholder benefits  
Unearned premiums / deferred revenues  
Investments

**Gross deferred income tax assets**

**Deferred income tax liabilities:**

Deferred policy acquisition costs  
Investments  
Other

**Gross deferred income tax liabilities**

**Deferred income tax liability**

As of December 31,	
2007	2006
\$ 145,582	\$ 103,886
15,164	10,719
5,948	--
<b>166,694</b>	<b>114,605</b>
296,687	206,752
--	849
5,655	1,712
<b>302,342</b>	<b>209,313</b>
<b>\$ 135,648</b>	<b>\$ 94,708</b>

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

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

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

As of December 31, 2007, we had current taxes receivable of \$10,184 thousand.

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

[Table of Contents](#)

## 9. Income Taxes (continued)

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

### Reconciliation of the Beginning and Ending Amount of Unrecognized Tax Benefits:

(\$ in thousands)

Balance at January 1, 2007	\$	1,840
Reductions for tax positions of prior years		(975)
Settlements with taxing authorities		(340)
<b>Balance at December 31, 2007</b>	<b>\$</b>	<b>525</b>

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 in 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 unrecognized tax benefits that would have a significant impact on the financial position of the company.

Our federal income tax returns are routinely audited by the IRS. We are no longer subject to income tax examinations by federal authorities for tax years prior to 2004. Our U.S. federal income tax returns for 2004 and 2005 are currently being examined. We do not believe that the examination will result in a material change in our financial position. We are not currently under audit with any state taxing authorities.

We recognize interest and penalties related to amounts accrued on uncertain tax positions and amounts paid or refunded from federal and state income tax authorities in tax expense. The interest and penalties recorded during the twelve month periods ending December 31, 2006 and 2007 were not material. We did not have an accrual for the payment of interest and penalties as of December 31, 2007.

## 10. Related Party Transactions

### Capital Contributions

During the year ended December 31, 2007, we received \$49,984 thousand in capital contributions from Phoenix Life, of which \$25,000 thousand was in cash and \$24,984 was in securities.

### Related Party Transactions

The amounts included in the following discussion are gross expenses, before deferrals for policy acquisition costs.

Phoenix Life provides services and facilities to us and is reimbursed through a cost allocation process. The expenses allocated to us were \$270,394 thousand, \$203,521 thousand and \$108,701 thousand for the years ended December 31, 2007, 2006 and 2005, respectively. Amounts payable to Phoenix Life were \$11,767 thousand and \$18,650 thousand as of December 31, 2007 and 2006, respectively.

During 2006, we entered into a contract with Phoenix Life whereby we cede to Phoenix Life the liabilities related to certain guarantees on our annuity products. Because this contract does not transfer sufficient risk to qualify for reinsurance accounting, we account for ceded liabilities as a deposit asset. The asset on deposit with Phoenix Life was \$3,051 thousand and \$220 thousand at December 31, 2007 and 2006, respectively. This amount is included in our balance sheet in other general account assets. Amounts due to Phoenix Life under this contract were \$336 thousand and \$215 thousand at December 31, 2007 and 2006, respectively.

[Table of Contents](#)

**10. Related Party Transactions (continued)**

Phoenix Investment Partners Ltd., or PXP, an indirect wholly-owned subsidiary of PNX, through its affiliated registered investment advisors, provides investment advisory services to us for a fee. Investment advisory fees incurred by us for management of general account assets under this arrangement were \$2,172 thousand, \$2,439 thousand and \$2,993 thousand for the years ended December 31, 2007, 2006 and 2005, respectively. Amounts payable to the affiliated investment advisors were \$15 thousand and \$106 thousand, as of December 31, 2007 and 2006, respectively. Through July 2007 PXP provided investment advisory services to the variable product separate accounts. They received variable product separate account fees on our behalf, retained a portion of those fees, for services provided, and forward the remainder to us. Amounts receivable from PXP for those fees were \$0 thousand and \$245 thousand as of December 31, 2007 and 2006, respectively. The variable product separate account fees retained by PXP were \$271 thousand, \$684 thousand and \$697 thousand for 2007, 2006 and 2005, respectively.

Effective August 2007, Phoenix Variable Advisors, Inc, or PVA, an indirect wholly-owned subsidiary of Phoenix Life became the investment advisor for the variable product separate accounts. They receive variable product separate account fees on our behalf and forward them to us, net of sub-advisory fees they paid. Amounts receivable from PVA for those fees were \$276 thousand as of December 31, 2007.

Phoenix Equity Planning Corporation, or PEPCO, a wholly-owned subsidiary of Phoenix Investment Partners Ltd., is the principal underwriter of our annuity contracts. Until May 31, 2004, contracts could be purchased through registered representatives of our former affiliate, W.S. Griffith Securities, Inc., or Griffith. Other outside broker-dealers are licensed to sell our annuity contracts as well. We incurred commissions for contracts underwritten by PEPCO of \$48,331 thousand, \$38,062 thousand and \$35,422 thousand for the years ended December 31, 2007, 2006 and 2005, respectively. Amounts payable to PEPCO were \$2,269 thousand and \$278 thousand as of December 31, 2007 and 2006, respectively.

Phoenix Life pays commissions to producers who sell our non-registered life and annuity products. Commissions paid by Phoenix Life on our behalf were \$159,847 thousand, \$105,993 thousand and \$54,927 thousand for the years ended December 31, 2007, 2006 and 2005, respectively. Amounts payable to Phoenix Life were \$13,684 thousand and \$4,187 thousand as of December 31, 2007 and 2006, respectively.

**Premium processing services**

We provide payment processing services for Phoenix Life, wherein we receive deposits on Phoenix Life annuity contracts, and forward those payments to Phoenix Life. During 2006, we began including life insurance premiums in this service. In connection with this service, at December 31, 2007 and 2006, we had amounts due to Phoenix Life of \$416 thousand and \$1,914 thousand, respectively. We do not charge any fees for this service.

We also provide payment processing services for Phoenix Life and Annuity, a wholly-owned indirect subsidiary of Phoenix Life, wherein we receive deposits on certain Phoenix Life and Annuity annuity contracts, and forward those payments to Phoenix Life and Annuity. During 2006, we began including life insurance premiums in this service. In connection with this service, at December 31, 2007 and 2006, we had amounts due to Phoenix Life and Annuity of \$482 thousand and \$16 thousand, respectively. We do not charge any fees for this service.

In certain instances Phoenix Life and Phoenix Life and Annuity may receive premiums on behalf of PHLVIC. Amounts due from Phoenix Life were \$237 thousand and \$71 thousand as of December 31, 2007 and 2006, respectively. Amounts due from Phoenix Life and Annuity were \$15 thousand and \$0 thousand as of December 31, 2007 and 2006, respectively.

[Table of Contents](#)

## 11. Employee Benefit Plans and Employment Agreements

PNX has a non-contributory, defined benefit pension plan covering substantially all of its employees and those of its subsidiaries. Retirement benefits are a function of both years of service and level of compensation. PNX also sponsors a non-qualified supplemental defined benefit plan to provide benefits in excess of amounts allowed pursuant to the Internal Revenue Code. PNX's funding policy is to contribute annually an amount equal to at least the minimum required contribution in accordance with minimum funding standards established by the Employee Retirement Income Security Act of 1974 (ERISA). Contributions are intended to provide for benefits attributable not only to service to date, but to service expected to be conferred in the future.

PNX sponsors pension and savings plans for its employees, and employees and agents of its subsidiaries. The qualified plans comply with requirements established by ERISA and excess benefit plans provide for that portion of pension obligations, which is in excess of amounts permitted by ERISA. PNX also provides certain health care and life insurance benefits for active and retired employees. We incur applicable employee benefit expenses through the process of cost allocation by PNX.

In addition to its pension plans, PNX currently provides certain health care and life insurance benefits to retired employees, spouses and other eligible dependents through various plans which it sponsors. A substantial portion of PNX's affiliate employees may become eligible for these benefits upon retirement. The health care plans have varying co-payments and deductibles, depending on the plan. These plans are unfunded.

Applicable information regarding the actuarial present value of vested and non-vested accumulated plan benefits, and the net assets of the plans available for benefits is omitted, as the information is not separately calculated for our participation in the plans. PNX, the plan sponsor, established an accrued liability and amounts attributable to us have been allocated. The amount of such allocated benefits is not significant to the financial statements.

## 12. Other Comprehensive Income

### Sources of

#### Other Comprehensive Income:

(\$ in thousands)

	Year Ended December 31,					
	2007		2006		2005	
	Gross	Net	Gross	Net	Gross	Net
Unrealized gains (losses) on investments	\$ (36,769)	\$ (6,995)	\$ 7,264	\$ 1,516	\$ (64,713)	\$ (16,569)
Net realized investment gains (losses) on available-for-sale securities included in net income	(4,649)	(2,100)	(4,298)	(2,793)	10,127	6,583
Net unrealized investment gains (losses)	(41,418)	(9,095)	2,966	(1,277)	(54,586)	(9,986)
Net unrealized losses on derivative instruments	--	--	(1,241)	(807)	(516)	(335)
Other comprehensive income (loss)	(41,418)	<b>\$ (9,095)</b>	1,725	<b>\$ (2,084)</b>	(55,102)	<b>\$ (10,321)</b>
Applicable deferred policy acquisition cost amortization	(27,425)		4,930		(39,223)	
Applicable deferred income tax benefit	(4,898)		(1,121)		(5,558)	
Offsets to other comprehensive income	(32,323)		3,809		(44,781)	
<b>Other comprehensive loss</b>	<b>\$ (9,095)</b>		<b>\$ (2,084)</b>		<b>\$ (10,321)</b>	

### Components of Accumulated

#### Other Comprehensive Income:

(\$ in thousands)

	As of December 31,			
	2007		2006	
	Gross	Net	Gross	Net
Unrealized losses on investments	\$ (56,002)	\$ (11,784)	\$ (14,584)	\$ (2,689)
Unrealized gains on derivative instruments	--	--	--	--
Accumulated other comprehensive loss	(56,002)	<b>\$ (11,784)</b>	(14,584)	<b>\$ (2,689)</b>
Applicable deferred policy acquisition costs	(37,873)		(10,448)	
Applicable deferred income taxes	(6,345)		(1,447)	
Offsets to other comprehensive income	(44,218)		(11,895)	
<b>Accumulated other comprehensive loss</b>	<b>\$ (11,784)</b>		<b>\$ (2,689)</b>	

[Table of Contents](#)

### 13. Statutory Financial Information and Regulatory Matters

We are required to file annual statements with state regulatory authorities prepared on an accounting basis prescribed or permitted by such authorities. The State of Connecticut Insurance Department, or the Department, has adopted the National Association of Insurance Commissioners', or the NAIC's, Accounting Practices and Procedures manual effective January 1, 2001, or NAIC SAP, as a component of its prescribed or permitted statutory accounting practices. As of December 31, 2007, 2006 and 2005, the Department has not prescribed or permitted us to use any accounting practices that would materially deviate from NAIC SAP. Statutory surplus differs from equity reported in accordance with GAAP primarily because policy acquisition costs are expensed when incurred, investment reserves are based on different assumptions, life insurance reserves are based on different assumptions and income taxes are recorded in accordance with the Statement of Statutory Accounting Principles No. 10, *Income Taxes*, which limits deferred income tax assets based on admissibility tests.

Connecticut Insurance Law requires that Connecticut life insurers report their risk-based capital. Risk-based capital is based on a formula calculated by applying factors to various assets, premium and statutory reserve items. The formula takes into account the risk characteristics of the insurer, including asset risk, insurance risk, interest rate risk and business risk. Connecticut Insurance Law gives the Connecticut Commissioner of Insurance explicit regulatory authority to require various actions by, or take various actions against, insurers whose total adjusted capital does not exceed certain risk-based capital levels. Our risk-based capital was in excess of 350% of Company Action Level (the level where a life insurance enterprise must submit a comprehensive plan to state insurance regulators) as of December 31, 2007 and 2006.

#### Statutory Financial Data:

(\$ in thousands)

Statutory capital and surplus  
Asset valuation reserve

#### Statutory capital, surplus and asset valuation reserve

#### Statutory gain (loss) from operations

#### Statutory net income (loss)

As of or For the Year Ended December 31,		
2007	2006	2005
\$ 167,436	\$ 220,342	\$ 264,825
14,774	14,320	5,575
<b>\$ 182,210</b>	<b>\$ 234,662</b>	<b>\$ 270,400</b>
<b>\$ (98,589)</b>	<b>\$ (33,094)</b>	<b>\$ 12,251</b>
<b>\$ (102,297)</b>	<b>\$ (33,994)</b>	<b>\$ 12,749</b>

The Connecticut Insurance Holding Company Act limits the maximum amount of annual dividends and other distributions in any 12-month period to stockholders of Connecticut domiciled insurance companies without prior approval of the Insurance Commissioner. Under current law, we cannot make any dividend distribution during 2008 without prior approval.

### 14. Contingent Liabilities

#### Litigation and Arbitration

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



[Table of Contents](#)

**14. Contingent Liabilities (continued)**

*Regulatory Matters*

State regulatory bodies, the Securities and Exchange Commission, or SEC, the National Association of Securities Dealers, Inc., or NASD, and other regulatory bodies regularly make inquiries of us and, from time to time, conduct examinations or investigations concerning our compliance with, among other things, insurance laws and securities laws. We endeavor to respond to such inquiries in an appropriate way and to take corrective action if warranted.

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

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

Over the past several years, a number of companies have announced settlements of enforcement actions with various regulatory agencies, primarily the SEC and the New York Attorney General's Office. While no such action has been initiated against us, it is possible that one or more regulatory agencies may pursue this type of action against us in the future. Financial services companies have also been the subject of broad industry inquiries by state regulators and attorneys general which do not appear to be company-specific.

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