DELPHI FINANCIAL GROUP INC/DE
Form 10-Q
May 10, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2010

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

For the transition period from __________ to __________

Commission File Number 001-11462
DELPHI FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	(302) 478-5142	13-3427277
(State or other jurisdiction of incorporation or organization)	(Registrant s telephone number, including area code)	(I.R.S. Employer Identification Number)

1105 North Market Street, Suite 1230, P.O. Box 8985, Wilmington, Delaware	19899
(Address of principal executive offices)	(Zip 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 filing requirements for the past 90 days:

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files):

Yes o No o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Yes o No þ

As of May 5, 2010, the Registrant had 48,382,337 shares of Class A Common Stock and 5,753,833 shares of Class B Common Stock outstanding.

DELPHI FINANCIAL GROUP, INC.
FORM 10-Q
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
Revenue:		
Premium and fee income	$ 347,763	$ 357,721
Net investment income	84,050	62,855
Net realized investment losses:		
Total other than temporary impairment losses	(27,273)	(17,608)
Less: Portion of other than temporary impairment losses recognized in other comprehensive income	4,275	
Net impairment losses recognized in earnings	(22,998)	(17,608)
Other net realized investment gains (losses)	7,892	(4,391)
Net realized investment losses	(15,106)	(21,999)
Total revenues	416,707	398,577
Benefits and expenses:		
Benefits, claims and interest credited to policyholders	246,321	255,598
Commissions	21,396	22,704
Amortization of cost of business acquired	25,570	23,293
Other operating expenses	64,664	60,137
	357,951	361,732
Operating income	58,756	36,845
Interest expense:		
Corporate debt	7,323	3,985
Junior subordinated debentures	3,241	3,240
	10,564	7,225
Income before income tax expense	48,192	29,620
Income tax expense	10,529	5,136

Net income	$ 37,663	$ 24,484
Basic results per share of common stock:		
Net income	$ 0.68	$ 0.51
Diluted results per share of common stock:		
Net income	$ 0.68	$ 0.51
Dividends paid per share of common stock	$ 0.10	$ 0.10

See notes to consolidated financial statements.

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DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Per Share Data)

	March 31, 2010 (Unaudited)	December 31, 2009
Assets:		
Investments:		
Fixed maturity securities, available for sale	$ 5,107,812	$ 4,875,681
Short-term investments	420,292	406,782
Other investments	441,613	466,855
	5,969,717	5,749,318
Cash	61,783	65,464
Cost of business acquired	238,437	250,311
Reinsurance receivables	360,429	355,030
Goodwill	93,929	93,929
Other assets	304,899	293,835
Assets held in separate account	115,277	113,488
Total assets	$ 7,144,471	$ 6,921,375
Liabilities and Equity:		
Future policy benefits:		
Life	$ 347,674	$ 341,736
Disability and accident	789,332	781,701
Unpaid claims and claim expenses:		
Life	60,022	58,665
Disability and accident	439,410	433,273
Casualty	1,222,165	1,187,814
Policyholder account balances	1,469,397	1,454,114
Corporate debt	393,750	365,750
Junior subordinated debentures	175,000	175,000
Other liabilities and policyholder funds	711,035	647,269
Liabilities related to separate account	115,277	113,488
Total liabilities	5,723,062	5,558,810
Equity:		
Preferred Stock, $.01 par; 50,000,000 shares authorized, none issued		
Class A Common Stock, $.01 par; 150,000,000 shares authorized; 56,122,682 and 55,995,995 shares issued and outstanding, respectively	561	560
Class B Common Stock, $.01 par; 20,000,000 shares authorized; 5,981,049 shares issued and outstanding	60	60
Additional paid-in capital	667,727	661,895
Accumulated other comprehensive loss	(11,096)	(33,956)

Retained earnings	959,845	927,706
Treasury stock, at cost; 7,761,216 shares of Class A Common Stock, and 227,216 shares of Class B Common Stock	(197,246)	(197,246)
Total shareholders equity	1,419,851	1,359,019
Noncontrolling interest	1,558	3,546
Total equity	1,421,409	1,362,565
Total liabilities and equity	$ 7,144,471	$ 6,921,375

See notes to consolidated financial statements.

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DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(Dollars in Thousands)
(Unaudited)

	Class A Common Stock	Class B Common Stock	Additional Paid in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Shareholders Equity	Non-controlling Interest	Total Equity
Balance, January 1, 2009	$ 489	$ 60	$ 522,596	$ (351,710)	$ 846,390	$ (197,246)	$ 820,579	$ 4,035	$ 824,614
Net income					24,484		24,484	(5)	24,479
Other comprehensive income:									
Decrease in net unrealized depreciation on investments				15,580			15,580		15,580
Decrease in net loss on cash flow hedge				196			196		196
Change in net periodic pension cost				291			291		291
Comprehensive income							40,551	(5)	40,546
Change in noncontrolling interest ownership								(93)	(93)
Exercise of stock options	1		1,450				1,451		1,451
Stock-based compensation			2,131				2,131		2,131
Cash dividends					(5,302)		(5,302)		(5,302)
Balance, March 31, 2009	$ 490	$ 60	$ 526,177	$ (335,643)	$ 865,572	$ (197,246)	$ 859,410	$ 3,937	$ 863,347
	$ 560	$ 60	$ 661,895	$ (33,956)	$ 927,706	$ (197,246)	$ 1,359,019	$ 3,546	$ 1,362,565

Balance, January 1, 2010									
Net income					37,663		37,663	65	37,728
Other comprehensive income:									
Decrease in net unrealized depreciation on investments				24,050			24,050		24,050
Increase in other than temporary impairment losses recognized in other comprehensive income				(1,437)			(1,437)		(1,437)
Decrease in net loss on cash flow hedge				196			196		196
Change in net periodic pension cost				51			51		51
Comprehensive income							60,523	65	60,588
Change in noncontrolling interest ownership								(2,053)	(2,053)
Exercise of stock options	1		4,044				4,045		4,045
Stock-based compensation			1,788				1,788		1,788
Cash dividends					(5,524)		(5,524)		(5,524)
Balance, March 31, 2010	$ 561	$ 60	$ 667,727	$ (11,096)	$ 959,845	$ (197,246)	$ 1,419,851	$ 1,558	$ 1,421,409

See notes to consolidated financial statements.

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DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
Operating activities:		
Net income	$ 37,663	$ 24,484
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in policy liabilities and policyholder accounts	94,640	99,523
Net change in reinsurance receivables and payables	(7,428)	(7,086)
Amortization, principally the cost of business acquired and investments	15,413	13,543
Deferred costs of business acquired	(30,901)	(34,392)
Net realized losses on investments	15,106	21,999
Net change in federal income tax asset/liability	9,755	4,114
Other	(32,743)	(30,969)
Net cash provided by operating activities	101,505	91,216
Investing activities:		
Purchases of investments and loans made	(435,672)	(207,901)
Sales of investments and receipts from repayment of loans	165,711	77,696
Maturities of investments	139,323	261,307
Net change in short-term investments	(13,510)	(207,968)
Change in deposit in separate account		4,845
Net cash used by investing activities	(144,148)	(72,021)
Financing activities:		
Deposits to policyholder accounts	40,332	61,681
Withdrawals from policyholder accounts	(26,138)	(70,938)
Proceeds from issuance of 2020 Senior Notes	250,000	
Borrowings under revolving credit facility		17,000
Principal payments under revolving credit facility	(222,000)	(2,000)
Cash dividends paid on common stock	(5,524)	(5,302)
Other financing activities	2,292	816
Net cash provided by financing activities	38,962	1,257
(Decrease) increase in cash	(3,681)	20,452
Cash at beginning of period	65,464	63,837
Cash at end of period	$ 61,783	$ 84,289

See notes to consolidated financial statements.

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DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note A Significant Accounting Policies

The financial statements of Delphi Financial Group, Inc. (the Company, which term includes the Company and its consolidated subsidiaries unless the context indicates otherwise) included herein were prepared in conformity with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The information furnished includes all adjustments and accruals of a normal recurring nature, which, in the opinion of management, are necessary for a fair presentation of results for the interim periods. Certain reclassifications have been made in the March 31, 2009 consolidated financial statements to conform to the March 31, 2010 presentation. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ended December 31, 2010. For further information refer to the consolidated financial statements and footnotes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2009 (the 2009 Form 10-K). Capitalized terms used herein without definition have the meanings ascribed to them in the 2009 Form 10-K.

Accounting Changes

Fair Value Measurements. As of January 1, 2010, the Company adopted new guidance issued by the Financial Accounting Standards Board (FASB) requiring additional disclosures regarding fair value measurements. This guidance requires entities to disclose (1) the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy, (2) the reasons for any transfers into or out of Level 3 of the fair value hierarchy and (3) additional information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. The new guidance also clarifies existing fair value measurement disclosure requirements concerning the level of disaggregation and the disclosure of valuation inputs and techniques. Except for the requirement to separately disclose purchases, sales, issuances and settlements on a gross basis in the reconciliation of recurring Level 3 measurements, this guidance is effective for interim and annual reporting periods beginning after December 15, 2009. The requirement to separately disclose purchases, sales, issuances and settlements on a gross basis in the reconciliation of recurring Level 3 measurements is effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of this guidance did not have any effect on the Company s consolidated financial position or results of operations.

Recently Issued Accounting Standards

In April 2010, the FASB issued guidance clarifying that an insurance company should not consider any separate account interests in an investment held for the benefit of policy holders to be the insurer s own interests and should not combine those interests with any interest of its general account in the same investment when assessing the investment for consolidation. Insurance companies are also required to consider a separate account a subsidiary for purposes of evaluating whether the retention of specialized accounting for investments in consolidation is appropriate. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010. Early adoption is permitted. The Company has not yet determined the impact, if any, that the adoption of this guidance will have on its consolidated financial position or results of operations.

Note B Investments

At March 31, 2010, the Company had fixed maturity securities available for sale with a carrying value and a fair value of $5,107.8 million and an amortized cost of $5,114.2 million. At December 31, 2009, the Company had fixed maturity securities available for sale with a carrying value and a fair value of $4,875.7 million and an amortized cost of $4,933.4 million. Declines in market value relative to such securities amortized cost determined to be other than temporary pursuant to the Company s methodology for such determinations, as further discussed below, are reflected as reductions in the amortized cost of such securities.

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DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note B Investments (Continued)

The amortized cost and fair value of investments in fixed maturity securities available for sale are as follows:

	March 31, 2010				
		Gross Unrealized			
	Amortized Cost	Gains	Losses	Other Than Temporary Impairments	Fair Value
	(dollars in thousands)				
Residential mortgage-backed securities	$ 1,561,252	$ 93,481	$ (53,357)	$ (33,531)	$ 1,567,845
Commercial mortgage-backed securities	28,007	514	(1,982)	(243)	26,296
Corporate securities	1,216,195	61,323	(20,789)		1,256,729
Collateralized debt obligations	208,240	94	(91,686)	(1,619)	115,029
U.S. Treasury and other U.S. Government guaranteed securities	196,671	3,245	(664)		199,252
U.S. Government-sponsored enterprise securities	45,115	155	(20)		45,250
Obligations of U.S. states, municipalities and political subdivisions	1,858,706	57,249	(18,544)		1,897,411
Total fixed maturity securities	$ 5,114,186	$ 216,061	$ (187,042)	$ (35,393)	$ 5,107,812

	December 31, 2009				
		Gross Unrealized			
	Amortized Cost	Gains	Losses	Other Than Temporary Impairments	Fair Value
	(dollars in thousands)				
Residential mortgage-backed securities	$ 1,542,204	$ 81,652	$ (65,029)	$ (29,450)	$ 1,529,377
Commercial mortgage-backed securities	29,773	206	(3,682)	(288)	26,009
Corporate securities	1,219,711	49,373	(30,918)		1,238,166
Collateralized debt obligations	215,301	868	(98,281)	(3,444)	114,444
U.S. Treasury and other U.S. Government guaranteed securities	108,114	3,036	(344)		110,806
U.S. Government-sponsored enterprise securities	16,750	483	(231)		17,002
Obligations of U.S. states, municipalities and political subdivisions	1,801,595	59,108	(20,826)		1,839,877

Total fixed maturity securities	$ 4,933,448	$ 194,726	$ (219,311)	$ (33,182)	$ 4,875,681

The amortized cost and fair value of fixed maturity securities available for sale at March 31, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations, with or without prepayment penalties.

	Amortized Cost	Fair Value
	(dollars in thousands)	
Residential mortgage-backed securities	$ 1,561,252	$ 1,567,845
Commercial mortgage-backed securities	28,007	26,296
Other fixed maturity securities:		
One year or less	68,462	67,826
Greater than 1, up to 5 years	550,585	566,397
Greater than 5, up to 10 years	855,932	831,402
Greater than 10 years	2,049,948	2,048,046
Total	$ 5,114,186	$ 5,107,812

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DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note B Investments (Continued)

The gross unrealized losses and fair value of fixed maturity securities available for sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	March 31, 2010					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(dollars in thousands)					
Residential mortgage-backed securities	$ 174,733	$ (7,811)	$ 304,112	$ (79,077)	$ 478,845	$ (86,888)
Commercial mortgage-backed securities			15,489	(2,225)	15,489	(2,225)
Corporate securities	95,995	(3,460)	160,783	(17,329)	256,778	(20,789)
Collateralized debt obligations	15,986	(5,796)	98,330	(87,509)	114,316	(93,305)
U.S. Treasury and other U.S. Government guaranteed securities	142,660	(664)			142,660	(664)
U.S. Government-sponsored enterprise securities	10,980	(20)			10,980	(20)
Obligations of U.S. states, municipalities & political subdivisions	313,694	(5,246)	159,053	(13,298)	472,747	(18,544)
Total fixed maturity securities	$ 754,048	$ (22,997)	$ 737,767	$ (199,438)	$ 1,491,815	$ (222,435)

	December 31, 2009					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(dollars in thousands)					
Residential mortgage-backed securities	$ 235,605	$ (6,783)	$ 312,760	$ (87,696)	$ 548,365	$ (94,479)
Commercial mortgage-backed securities	3,484	(17)	18,466	(3,953)	21,950	(3,970)
Corporate securities	111,656	(3,739)	200,186	(27,179)	311,842	(30,918)
Collateralized debt obligations	9,097	(4,179)	95,651	(97,546)	104,748	(101,725)
U.S. Treasury and other U.S. Government	56,693	(344)			56,693	(344)

guaranteed securities						
U.S. Government-sponsored enterprise securities	9,769	(231)			9,769	(231)
Obligations of U.S. states, municipalities & political subdivisions	331,027	(5,128)	160,359	(15,698)	491,386	(20,826)
Total fixed maturity securities	$ 757,331	$ (20,421)	$ 787,422	$ (232,072)	$ 1,544,753	$ (252,493)

Net investment income was attributable to the following:

	Three Months Ended March 31,	
	2010	2009
	(dollars in thousands)	
Gross investment income:		
Fixed maturity securities, available for sale	$ 81,118	$ 70,484
Mortgage loans	1,913	1,199
Short-term investments	20	248
Other	8,817	(799)
	91,868	71,132
Less: Investment expenses	(7,818)	(8,277)
	$ 84,050	$ 62,855

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DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note B Investments (Continued)

Net realized investment losses arose from the following:

	Three Months Ended March 31,	
	2010	2009
	(dollars in thousands)	
Fixed maturity securities, available for sale	$ (11,449)	$ (18,457)
Mortgage loans	(4,817)	(3,376)
Other investments	1,160	(166)
	$ (15,106)	$ (21,999)

Proceeds from sales of fixed maturity securities during the first three months of 2010 and 2009 were $105.4 million and $223.1 million, respectively. Gross gains of $9.5 million and gross losses of $3.3 million were realized on the 2010 sales and gross gains of $7.8 million and gross losses of $14.1 million were realized on the 2009 sales. Net realized investment gains and losses on investment sales are determined under the specific identification method and are included in income. In the first quarters of 2010 and 2009, the net losses realized on fixed maturity securities also include provisions for the other than temporary declines in the values of certain fixed maturity securities of $17.6 million and $12.2 million, respectively. In the first quarters of 2010 and 2009, the net losses realized on mortgage loans include a provision for the decline in the value of certain mortgage loans of $4.9 million and $3.4 million, respectively. The change in unrealized appreciation and depreciation on investments, primarily relating to fixed maturity securities, is included as a component of accumulated other comprehensive income or loss.

The Company regularly evaluates its investment portfolio utilizing its established methodology to determine whether declines in the fair values of its investments are other than temporary. Under this methodology, management evaluates, among other things, the financial position and prospects of the issuer, conditions in the issuer s industry and geographic area, liquidity of the investment, changes in the amount or timing of expected future cash flows from the investment and recent changes in credit ratings of the issuer by nationally recognized rating agencies to determine if and when a decline in the fair value of an investment below amortized cost is other than temporary. Management also considers the length of time and extent to which the fair value of the investment is lower than its amortized cost and evaluates whether the Company intends to, or will more likely than not be required to, sell the investment before the anticipated recovery in the investment s fair value. In addition, the Company evaluates loan to collateral value ratios, current levels of subordination and vintages of the residential and commercial mortgage-backed securities in its investment portfolio.

If the fair value of a fixed maturity security declines in value below the Company s amortized cost and the Company intends to sell, or determines that it will more likely than not be required to sell, the security before recovery of its amortized cost basis, management considers the security to be other than temporarily impaired and reports its decline in fair value as a realized investment loss. If, however, the Company does not intend to sell the security and determines that it is not more likely than not that it will be required to do so, declines in the fair value that are considered in the judgment of management to be other than temporary are separated into the amounts representing credit losses and the amounts related to other factors. Amounts representing credit losses are reported as realized investment losses in the income statement and amounts related to other factors are included as a component of accumulated other comprehensive income or loss, net of the related income tax benefit and the related adjustment to cost of business acquired. The amount of credit loss is determined by discounting the security s expected cash flows at its effective interest rate, taking into account the security s purchase price. Declines in the fair value of all other investments that are considered in the judgment of management to be other than temporary are reported as realized

investment losses.
During the first three months of 2010, the Company recognized $17.7 million of after-tax other than temporary impairment losses, of which $14.9 million was recognized as after-tax realized investment losses in the income statement related to credit losses and $2.8 million was recognized, net of the related income tax benefit, as a component of accumulated other comprehensive income on the balance sheet related to noncredit losses.

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DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note B Investments (Continued)

The following table provides a reconciliation of the beginning and ending balances of other than temporary impairments on fixed maturity securities held by the Company for which a portion of the other than temporary impairment was recognized in accumulated other comprehensive income or loss (dollars in thousands):

	Three months ended March 31, 2010
Balance at the beginning of period	$ 89,658
Increases attributable to credit losses on securities for which an other than temporary impairment was not previously recognized	6,987
Increases attributable to credit losses on securities for which an other than temporary impairment was previously recognized	7,501
Reductions due to sales, maturities, pay downs or prepayments of securities for which an other than temporary impairment was previously recognized	(18,054)
Balance at the end of the period	$ 86,092

The gross unrealized losses at March 31, 2010 are attributable to 900 fixed maturity security positions, with the largest unrealized loss associated with any one security equal to $4.6 million. Unrealized losses attributable to fixed maturity securities having investment grade ratings by a nationally recognized statistical rating organization comprised 42% of the aggregate gross unrealized losses at March 31, 2010, with the remainder of such losses being attributable to non-investment grade fixed maturity securities.

At March 31, 2010, the Company held approximately $1,220.8 million of insured municipal fixed maturity securities, which represented approximately 20% of the Company s total invested assets. These securities had a weighted average credit rating of AA by nationally recognized statistical rating organizations at March 31, 2010. For the portion of these securities having ratings by nationally recognized statistical rating organizations without giving effect to the credit enhancement provided by the insurance, which totaled $848.0 million at March 31, 2010, the weighted average credit rating at such date by such organizations was also AA . Insurers of significant portions of the municipal fixed maturity securities held by the Company at March 31, 2010 included National Public Finance Guarantee Corp. ($326.7 million), Assured Guaranty ($218.6 million), Ambac Financial Group, Inc. ($145.5 million), Financial Guaranty Insurance Company ($51.3 million) and Radian ($32.2 million). At March 31, 2010, the Company did not have significant holdings of credit enhanced asset-backed or mortgage-backed securities, nor did it have any significant direct investments in the guarantors of the municipal fixed maturity securities held by the Company.

The Company, at times, enters into futures and option contracts and interest rate and credit default swap agreements in connection with its investment strategy and indexed annuity program. These agreements are primarily utilized to reduce the risk associated with changes in the value of the Company s fixed maturity portfolio and to fund the interest crediting obligations associated with the Company s indexed annuity contracts. These positions are carried at fair value with gains and losses included in income. The Company recognized net investment income of $0.5 million during the three months ended March 31, 2010 related to these instruments. The Company had no material outstanding futures and option contracts or interest rate and credit default swap agreements at March 31, 2010. The Company, at times, may also invest in non-dollar denominated fixed maturity securities that expose it to fluctuations in foreign currency rates, and, therefore, may hedge such exposure by using currency forward contracts. The Company had no material currency forward contracts outstanding at March 31, 2010.

To mitigate the risk of interest rates rising before the issuance of the 8.00% Senior Notes due 2033 (2033 Senior Notes) in May 2003, the Company entered into a treasury rate lock agreement in September 2002, with a notional amount of $150.0 million and an anticipated debt term of 10 years. The Company paid $13.8 million upon the issuance of the 2033 Senior Notes in May 2003 to settle the treasury rate lock agreement, of which $12.1 million was recorded in accumulated other comprehensive income and the remaining loss was deemed ineffective and recognized as a reduction of net investment income. This transaction was accounted for as a cash flow hedge; accordingly, $12.1 million of the loss on the treasury rate lock agreement is being amortized into interest expense ratably over 10 years. The Company will amortize $1.2 million of such loss into interest expense over the next twelve months. The Company recognized $0.3 million of such loss into interest expense during the first quarters of 2010 and 2009. The net loss on the treasury rate lock agreement included in accumulated other comprehensive loss was $2.5 million (net of an income tax benefit of $1.3 million) at March 31, 2010.

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DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note C Fair Value Measurements

The Company measures its assets and liabilities recorded at fair value in the consolidated balance sheet based on the framework set forth in the GAAP fair value accounting guidance. This framework establishes a fair value hierarchy of three levels based upon the transparency and availability of information used in measuring the fair value of assets or liabilities as of the measurement date. The levels are categorized as follows:

Level 1- Valuation is based upon quoted prices for identical assets or liabilities in active markets. Level 1 fair value is not subject to valuation adjustments or block discounts.

Level 2 Valuation is based upon quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar instruments in markets that are not active. In addition, a company may use various valuation techniques or pricing models that use observable inputs to measure fair value.

Level 3 Valuation is generated from techniques in which one or more of the significant inputs for valuing such assets or liabilities are not observable. These inputs may reflect the Company s best estimates of the various assumptions that market participants would use in valuing the financial assets and financial liabilities.

For these purposes, the Company determines the existence of an active market for an asset or liability based on its judgment as to whether transactions for the asset or liability occur in such market with sufficient frequency and volume to provide reliable pricing information. If the Company concludes that there has been a significant decrease in the volume and level of activity for an investment in relation to normal market activity for such investment, adjustments to transactions and quoted prices are made to estimate fair value.

The Company s investments in fixed maturity securities available for sale, equity securities available for sale, trading account securities, assets held in the separate account and its liabilities for securities sold, not yet purchased are carried at fair value. The methodologies and valuation techniques used by the Company to value its assets and liabilities measured at fair value are described below.

Instruments included in fixed maturity securities available for sale include mortgage-backed and corporate securities, U.S. Treasury and other U.S. government guaranteed securities, securities issued by U.S. government-sponsored enterprises, and obligations of U.S. states, municipalities and political subdivisions. The market liquidity of each security is taken into consideration in the valuation technique used to value such security. For securities where market transactions involving identical or comparable assets generate sufficient relevant information, the Company employs a market approach to valuation. If sufficient information is not generated from market transactions involving identical or comparable assets, the Company uses an income approach to valuation. The majority of the instruments included in fixed maturity securities available for sale are valued utilizing observable inputs; accordingly, they are categorized in either Level l or Level 2 of the fair value hierarchy described above. However, in instances where significant inputs utilized are unobservable, the securities are categorized in Level 3 of the fair value hierarchy.

The inputs used in the valuation techniques employed by the Company are provided by nationally recognized pricing services, external investment managers and internal resources. To assess these inputs, the Company s review process includes, but is not limited to, quantitative analysis including benchmarking, initial and ongoing evaluations of methodologies used by external parties to calculate fair value, and ongoing evaluations of fair value estimates based on the Company s knowledge and monitoring of market conditions.

The Company uses various valuation techniques and pricing models to measure the fair value of its investments in residential mortgage-backed securities and commercial mortgage-backed securities, including option-adjusted spread models, volatility-driven multi-dimensional single cash flow stream models and matrix correlation to comparable securities. Residential mortgage-backed securities include U.S. agency securities and collateralized mortgage obligations. A portion of the Company s investments in mortgage-backed securities are valued using observable inputs and therefore categorized in Level 2 of the fair value hierarchy. The remaining mortgage-backed securities are valued using varying numbers of non-binding broker quotes or a discount rate adjustment technique based on internal assumptions for expected cash flows and appropriately risk-adjusted discount rates. These methodologies rely on unobservable inputs and thus these securities are categorized in Level 3 of the fair value hierarchy.

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DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note C Fair Value Measurements (Continued)

Corporate securities primarily include fixed rate corporate bonds, floating and variable rate notes and securities acquired through private placements. The Company uses recently executed transactions, market price quotations, benchmark yields and issuer spreads to arrive at the fair value of its investments in corporate securities and collateralized debt obligations. The majority of the corporate securities, other than securities acquired through private placements, are categorized in Level 2 of the fair value hierarchy. Collateralized debt obligations and private placement corporate securities are valued with cash flow models using yield curves, issuer-provided information and material events as key inputs. As these inputs are generally unobservable, collateralized debt obligations and private placement securities are categorized in Level 3 of the fair value hierarchy.

U.S. Treasury and other U.S. government guaranteed securities include U.S. Treasury bonds and notes, Treasury Inflation Protected Securities (TIPS) and other U.S. government guaranteed securities. The fair values of the U.S. Treasury securities and TIPS are based on quoted prices in active markets and are generally categorized in Level 1 of the fair value hierarchy.

Other U.S. government guaranteed securities are valued based on observable inputs including interest rate yield curves, maturity dates, and credit spreads relating to similar instruments. Accordingly, these securities are generally categorized in Level 2 of the fair value hierarchy.

U.S. government-sponsored enterprise securities include issues of medium term notes by U.S. government-sponsored enterprises. The Company uses recently executed transactions, market price quotations, benchmark yields and issuer spreads to arrive at the fair value of these instruments. These inputs are generally observable and these securities are generally categorized in Level 2 of the fair value hierarchy.

Obligations of U.S. states, municipalities and other political subdivisions primarily include bonds or notes issued by U.S municipalities. The Company values these securities using recently executed transactions, spreads, benchmark curves including treasury benchmarks, and trustee reports. These inputs are generally observable and these securities are generally categorized in Level 2 of the fair value hierarchy.

Other investments held at fair value primarily consist of equity securities available for sale and trading account securities. These investments are primarily valued at quoted active market prices and are therefore categorized in Level 1 of the fair value hierarchy. For private equity investments, since quoted market prices are not available, the transaction price is used as the best estimate of fair value at inception. When evidence is believed to support a change to the carrying value from the transaction price, adjustments are made to reflect expected exit values. Ongoing reviews by Company management are based on assessments of each underlying investment, incorporating, among other things, the evaluation of financing and sale transactions with third parties, expected cash flows, material events and market-based information. These investments are included in Level 3 of the fair value hierarchy.

Assets held in the separate account represent funds invested in a separately administered variable life insurance product for which the policyholder, rather than the Company, bears the investment risk. These assets are invested in a limited liability company that invests in entities which trade in various financial instruments. The Company concluded that the value calculated using the equity method of accounting was reflective of the fair market value of such investments. The investment portfolios of the funds in which the fund investments are maintained vary from fund to fund, but are generally comprised of liquid, publicly traded securities that have readily determinable market values and which are carried at fair value on the financial statements of such funds, substantially all of which are audited annually. The amount that an investor is entitled to receive upon the redemption of its investment from the applicable fund is determined by reference to such security values. The Company utilizes the financial statements furnished by the funds to determine the values of its investments in such funds and the carrying value of each such investment, which is based on its proportionate interest in the relevant fund as of the balance sheet date. These investments are included in Level 3 of the fair value hierarchy.

Other liabilities measured at fair value consist of securities sold, not yet purchased. These securities are valued using the quoted active market prices of the securities sold and are categorized in Level 1 of the fair value hierarchy.

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DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note C Fair Value Measurements (Continued)

Assets and liabilities measured at fair value in the consolidated balance sheet on a recurring basis are summarized below:

	March 31, 2010			
	Total	Level 1	Level 2	Level 3
	(dollars in thousands)			
Assets:				
Fixed maturity securities, available for sale:				
Residential mortgage-backed securities	$ 1,567,845	$	$ 1,413,632	$ 154,213
Commercial mortgage-backed securities	26,296			26,296
Corporate securities	1,256,729	5,382	1,162,879	88,468
Collateralized debt obligations	115,029			115,029
U.S. Treasury and other U.S. Government guaranteed securities	199,252	166,549	27,264	5,439
U.S. Government-sponsored enterprise securities	45,250		45,250	
Obligations of U.S. states, municipalities and political subdivisions	1,897,411		1,897,411	
Other investments	95,686	86,322		9,364
Assets held in separate account	115,277			115,277
Total	$ 5,318,775	$ 258,253	$ 4,546,436	$ 514,086
Liabilities:				
Other liabilities	$ 66,596	$ 66,596	$	$

The following table provides reconciliations for Level 3 assets measured at fair value on a recurring basis. Transfers into Level 3 are recognized as of the end of the period.

	Three Months Ended March 31, 2010							
	Total	Residential Mortgage-backed Securities	Commercial Mortgage-backed Securities	Collateralized Corporate Securities	Gov t Debt Obligations	U.S. Treasury and Other U.S. Guaranteed Securities	Other Investments	Assets held in Separate Account
	(dollars in thousands)							
Balance at beginning of quarter	$ 514,448	$ 143,513	$ 26,009	$ 95,920	$ 114,444	$ 11,367	$ 9,707	$ 113,488
Total (losses) gains Included in earnings	(16,846)	(9,952)	(1,197)	(2,232)	(3,265)	(22)	(178)	
	11,440	2,076	2,053	(161)	7,647	(7)	(168)	

Included in other comprehensive income								
Purchases, issuances and settlements	4,950	18,576	(569)	(5,153)	(3,797)	(5,899)	3	1,789
Transfers into Level 3	3,825			3,825				
Transfer out of Level 3	(3,731)			(3,731)				
Balance at end of the period	$ 514,086	$ 154,213	$ 26,296	$ 88,468	$ 115,029	$ 5,439	$ 9,364	$ 115,277
Net losses for the period included in earnings attributable to the net change in unrealized gains and losses of assets measured at fair value using unobservable inputs and held at March 31, 2010 (1)	$ (16,640)	$ (9,948)	$ (1,153)	$ (3,168)	$ (2,193)	$	$ (178)	$

(1) In the first quarter of 2010, net losses of $0.2 million and $16.4 million were reported in the consolidated statements of income under the captions net investment income and net realized investment losses , respectively.

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DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note C Fair Value Measurements (Continued)

The carrying value and estimated fair value of certain of the Company s financial instruments not recorded at fair value in the consolidated balance sheets are shown below. Because fair values for all balance sheet items are not included, the aggregate fair value amounts presented below are not reflective of the underlying value of the Company.

	March 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(dollars in thousands)			
Assets:				
Short-term investments	420,292	420,292	406,782	406,782
Other investments	345,927	345,927	370,565	370,565
Liabilities:				
Policyholder account balances	1,384,568	1,510,737	1,351,565	1,471,669
Corporate debt	393,750	405,329	365,750	361,754
Junior subordinated debentures	175,000	146,860	175,000	124,600
Advances from Federal Home Loan Bank	55,342	69,425	55,342	68,320
Liabilities related to separate account	115,277	115,277	113,488	113,488

The carrying values for short-term investments approximate fair values based on the nature of the investments. Other investments primarily include investment funds organized as limited partnerships and limited liability companies and real estate investment held by limited liability companies which are reflected in the Company s financial statements under the equity method of accounting. In determining the fair value of such investments for purposes of this footnote disclosure, the Company concluded that the value calculated using the equity method of accounting was reflective of the fair market value of such investments. The investment portfolios of the funds in which the fund investments are maintained vary from fund to fund, but are generally comprised of liquid, publicly traded securities that have readily determinable market values and which are carried at fair value on the financial statements of such funds, substantially all of which are audited annually. The amount that an investor is entitled to receive upon the redemption of its investment from the applicable fund is determined by reference to such security values. The Company utilizes the financial statements furnished by the funds to determine the values of its investments in such funds and the carrying value of each such investment, which is based on its proportionate interest in the relevant fund as of the balance sheet date. The carrying values of all other invested assets and separate account liabilities approximate their fair value.

The fair value of policyholder account balances are net of reinsurance receivables and the carrying values have been decreased for related acquisition costs of $76.8 million and $94.0 million at March 31, 2010 and December 31, 2009, respectively. Fair values for policyholder account balances were determined by estimating future cash flows discounted at a current market rate.

The Company believes the fair value of its variable rate long-term debt is equal to its carrying value. The Company pays variable rates of interest on this debt, which are reflective of market conditions in effect from time to time. The fair values of the 2033 Senior Notes, 7.875% Senior Notes due 2020 (2020 Senior Notes) and the 7.376% fixed-to-floating rate junior subordinated debentures due 2067 (Junior Subordinated Debentures) are based on the expected cash flows discounted to net present value. The fair values for fixed rate advances from the FHLB were calculated using discounted cash flow analyses based on the interest rates for the advances at the balance sheet date.

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DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note D Corporate Debt

On January 20, 2010, the Company issued the 2020 Senior Notes pursuant to an effective registration statement. The 2020 Senior Notes were issued in an aggregate principal amount of $250 million with an interest rate of 7.875% and a maturity date of January 31, 2020. The interest on the 2020 Senior Notes will be paid semi-annually in arrears on January 31 and July 31, commencing on July 31, 2010. The 2020 Senior Notes may be redeemed in whole at any time or in part from time to time, at the Company s option, at a redemption price equal to the greater of 100% of the principal amount of the 2020 Senior Notes being redeemed and the applicable make-whole amount (which, in general, would consist of the sum of the present values of the remaining scheduled payments of principal and interest on the 2020 Senior Notes being redeemed discounted to the redemption date by the applicable U.S. Treasury security yield plus an applicable spread), in each case plus any accrued and unpaid interest. The Company used the proceeds from the issuance of the 2020 Senior Notes to repay in full the $222.0 million of outstanding borrowings under the Amended Credit Agreement and for general corporate purposes.

Note E Segment Information

	Three Months Ended March 31,	
	2010	2009
	(dollars in thousands)	
Revenues:		
Group employee benefit products	$ 386,291	$ 381,521
Asset accumulation products	31,597	27,501
Other [(1)]	13,925	11,554
	431,813	420,576
Net realized investment losses	(15,106)	(21,999)
	$ 416,707	$ 398,577
Operating income (loss):		
Group employee benefit products	$ 70,832	$ 58,835
Asset accumulation products	10,412	8,038
Other [(1)]	(7,382)	(8,029)
	73,862	58,844
Net realized investment losses	(15,106)	(21,999)
	$ 58,756	$ 36,845

(1) Primarily consists of operations from integrated disability and absence management

services and
certain
corporate
activities.

Note F Comprehensive Income

Total comprehensive income attributable to common shareholders is comprised of net income and other comprehensive income, which includes the change in unrealized gains and losses on securities available for sale, the change in other than temporary impairments recognized in other comprehensive income, the change in net periodic pension cost and the change in the loss on the cash flow hedge described in Note B. Total comprehensive income attributable to common shareholders was $60.5 million and $40.6 million for the first three months of 2010 and 2009, respectively. Net unrealized losses on securities available for sale decreased $24.1 million and $15.6 million in the first three months of 2010 and 2009, respectively.

Note G Stock-Based Compensation

The Company recognized stock-based compensation expenses of $2.1 million and $2.4 million in the first quarters of 2010 and 2009, respectively. The remaining unrecognized compensation expense related to unvested awards at March 31, 2010 was $21.3 million and the weighted average period of time over which this expense will be recognized is 3.4 years.

The fair values of options were estimated at the grant date using the Black-Scholes option pricing model with the following weighted average assumptions for the first quarter of 2010: expected volatility 42.8%, expected dividends 1.9%, expected lives of the options 6.1 years, and the risk free rate 2.7%. The following weighted average assumptions were used for the first quarter of 2009: expected volatility 37.3%, expected dividends 3.2%, expected lives of the options 6.2 years, and the risk free rate 2.0%.

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DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Note G Stock-Based Compensation (Continued)

The expected volatility reflects the Company s past monthly stock price volatility. The dividend yield is based on the Company s historical dividend payments. The Company used the historical average period from the Company s issuance of an option to its exercise or cancellation and the average remaining years until expiration for the Company s outstanding options to estimate the expected life of options for which the Company had sufficient historical exercise data. The Company used the simplified method to estimate the expected life of options for which sufficient historical data was not available due to significant differences in the vesting periods of these grants compared to previously issued grants. The risk-free rate is derived from public data sources at the time of each option grant. Compensation cost is recognized over the requisite service period of the option using the straight-line method.

Option activity with respect to the Company s plans, excluding the performance-contingent incentive options referenced further below, was as follows:

Options	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2010	3,927,758	$ 29.10		
Granted	499,919	21.24		
Exercised	(164,938)	13.18		
Forfeited	(12,350)	25.77		
Expired	(750)	33.43		
Outstanding at March 31, 2010	4,249,639	28.80	7.1	$ 7,387
Exercisable at March 31, 2010	1,897,213	$ 29.62	5.7	$ 3,007

The weighted average grant date fair value of options granted during the first quarters of 2010 and 2009 was $7.89 and $3.36, respectively. The cash proceeds from stock options exercised were $0.3 million and $0 in the first quarters of 2010 and 2009, respectively. The total intrinsic value of options exercised during the first quarters of 2010 and 2009 was $1.6 million and $0, respectively.

At March 31, 2010, 5,673,250 performance-contingent incentive options were outstanding with a weighted average exercise price of $25.67, a weighted average contractual term of 6.0 years and an intrinsic value of $8.2 million. Of such options, 3,208,250 options with a weighted average exercise price of $24.84, a weighted average contractual term of 4.0 years and an intrinsic value of $7.9 million were exercisable at March 31, 2010.

Note H Computation of Results per Share

The following table sets forth the calculation of basic and diluted results per share (amounts in thousands, except per share data):

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Numerator:		
Net income	$ 37,663	$ 24,484

Denominator:		
Weighted average common shares outstanding	55,160	48,034
Effect of dilutive securities	297	89
Weighted average common shares outstanding, assuming dilution	55,457	48,123
Basic results per share of common stock:		
Net income	$ 0.68	$ 0.51
Diluted results per share of common stock:		
Net income	$ 0.68	$ 0.51

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DELPHI FINANCIAL GROUP, INC.
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Introduction

The Company, through its subsidiaries, underwrites a diverse portfolio of group employee benefit products, primarily long-term and short-term disability, life, excess workers compensation insurance for self-insured employers, large casualty programs including large deductible workers compensation, travel accident, dental and limited benefit health insurance. Revenues from this group of products are primarily comprised of earned premiums and investment income. The profitability of group employee benefit products is affected by, among other things, differences between actual and projected claims experience, the retention of existing customers, product mix and the Company s ability to attract new customers, change premium rates and contract terms for existing customers and control administrative expenses. The Company transfers its exposure to a portion of its group employee benefit risks through reinsurance ceded arrangements with other insurance and reinsurance companies. Accordingly, the profitability of the Company s group employee benefit products is affected by the amount, cost and terms of reinsurance it obtains. The profitability of those group employee benefit products for which reserves are discounted, in particular, the Company s disability and primary and excess workers compensation products, is also significantly affected by the difference between the yield achieved on invested assets and the discount rate used to calculate the related reserves.

The Company continues to benefit from the favorable market conditions which have in recent years prevailed for its excess workers compensation products as to pricing and other contract terms for these products. However, due primarily to improvements in the primary workers compensation market resulting in lower premium rates in that market, conditions relating to new business production and growth in premiums for the Company s excess workers compensation products have been less favorable in recent years. In response to these conditions, the Company has enhanced its focus on its sales and marketing function for these products and has recently achieved significantly improved levels of new business production for these products. In addition, based on the growth and development of the Company s assumed workers compensation and casualty reinsurance product, the Company has included this product in its core products beginning with the third quarter of 2009.

For its other group employee benefit products, the Company is presently experiencing challenging market conditions from a competitive standpoint, particularly as to pricing. These conditions, in addition to the downward pressure on employment and wage levels exerted by the recent recession, are adversely impacting the Company s ability to achieve levels of new business production and growth in premiums for these products commensurate with those achieved in prior years. For these products, the Company is continuing to enhance its focus on the small case niche (insured groups of 10 to 500 individuals), including employers which are first-time providers of these employee benefits, which the Company believes to offer opportunities for superior profitability. The Company is also emphasizing its suite of voluntary group insurance products, which includes, among others, its group limited benefit health insurance product. The Company is presently reviewing the continuing viability of this product in light of the new requirements imposed by the recently adopted federal health care reform legislation, which remains subject to implementing agency regulations and future legislative action and no assurance can be given as to the timing of such review s completion or its outcome. The Company markets its other group employee benefit products on an unbundled basis and as part of an integrated employee benefit program that combines employee benefit insurance coverages and absence management services. The integrated employee benefit program, which the Company believes helps to differentiate itself from competitors by offering clients improved productivity from reduced employee absence, has enhanced the Company s ability to market its other group employee benefit products to large employers.

The Company also operates an asset accumulation business that focuses primarily on offering fixed annuities to individuals. In addition, during the first quarter of 2006, the Company issued $100 million in aggregate principal amount of fixed and floating rate funding agreements with maturities of three to five years in connection with the issuance by an unconsolidated special purpose vehicle of funding agreement-backed notes in a corresponding principal amount. In March 2009, the Company repaid $35.0 million in aggregate principal amount of the floating rate funding agreements at their maturity, resulting in a corresponding repayment of the funding agreement-backed notes.

Also, during the third quarter of 2008, the Company acquired a block of existing SPDA and FPA policies from another insurer through an indemnity assumed reinsurance transaction with such insurer that resulted in the assumption by the Company of policyholder account balances in the amount of $135.0 million. The Company believes that its funding agreement program and annuity reinsurance arrangements enhance the Company s asset accumulation business by providing alternative sources of funds for this business. The Company s liabilities for its funding agreements and annuity reinsurance arrangements are recorded in policyholder account balances. Deposits from the Company s asset accumulation business are recorded as liabilities rather than as premiums. Revenues from the Company s asset accumulation business are primarily comprised of investment income earned on the funds under management. The profitability of asset accumulation products is primarily dependent on the spread achieved between the return on investments and the interest

credited with respect to these products. The Company sets the crediting rates offered on its asset accumulation products in an effort to achieve its targeted interest rate spreads on these products, and is willing to accept lower levels of sales on these products when market conditions make these targeted spreads more difficult to achieve.

The management of the Company s investment portfolio is an important component of its profitability. Over the second half of 2007 and continuing into early 2010, due primarily to the extraordinary stresses affecting the banking system, the housing market and the financial markets generally, particularly the structured mortgage securities market, the financial markets have been the subject of extraordinary volatility. At the same time the overall level of risk-free interest rates has declined substantially. These market conditions resulted in a significant decrease in the Company s level of net investment income for 2008, due primarily to the adverse performance of those investments whose changes in value, positive or negative, are included in the Company s net investment income, such as investment funds organized as limited partnerships and limited liability companies, trading account securities and hybrid financial instruments. In an effort to reduce fluctuations of this type in its net investment income, the Company has repositioned its investment portfolio to reduce its holdings of these types of investments and, in particular, those investments whose performance had demonstrated the highest levels of variability. As part of this effort, the Company has increased its investments in more traditional sectors of the fixed income market such as mortgage-backed securities and municipal bonds. In addition, in light of these market conditions, the Company has been maintaining a significantly larger proportion of its portfolio in short-term investments, which totaled $420.3 million and $406.8 million at March 31, 2010 and December 31, 2009, respectively. The Company is presently engaged in efforts to deploy a significant portion of these short-term investments into longer-term fixed maturity securities which offer more attractive yields; however, no assurance can be given as to the timing of the completion of these efforts or their ultimate outcome.

The Company achieved significantly improved levels of investment income in its repositioned investment portfolio in 2009 and in the first quarter of 2010, during which more favorable market conditions emerged, as compared to 2008. However, these market conditions may worsen in the future and may result in significant fluctuations in net investment income, and as a result, in the Company s results of operations. Accordingly, there can be no assurance as to the impact of the Company s investment repositioning on the level or variability of its future net investment income. In addition, while the total carrying value of the Company s available for sale investment portfolio has increased in recent quarters, the Company s realized investment losses from declines in market value relative to the amortized cost of various securities that it determined to be other than temporary increased significantly during 2009. Investment losses of this type moderated during the first quarter of 2010; however, in light of the continuing effects of the market conditions discussed above, such investment losses may continue or increase in the future and it is not possible to predict the timing or magnitude of such losses.

The following discussion and analysis of the results of operations and financial condition of the Company should be read in conjunction with the Consolidated Financial Statements and related notes included in this document, as well as the Company s annual report on Form 10-K for the year ended December 31, 2009 (the 2009 Form 10-K). Capitalized terms used herein without definition have the meanings ascribed to them in the 2009 Form 10-K. The preparation of financial statements in conformity with GAAP requires management, in some instances, to make judgments about the application of these principles. The amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period could differ materially from the amounts reported if different conditions existed or different judgments were utilized. A discussion of how management applies certain critical accounting policies and makes certain estimates is contained in the 2009 Form 10-K in the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates and should be read in conjunction with the following discussion and analysis of results of operations and financial condition of the Company. In addition, a discussion of uncertainties and contingencies which can affect actual results and could cause future results to differ materially from those expressed in certain forward-looking statements contained in this Management s Discussion and Analysis of Financial Condition and Results of Operations can be found below under the caption Forward-Looking Statements And Cautionary Statements Regarding Certain Factors That May Affect Future Results, in Part I, Item 1A of the 2009 Form 10-K, Risk Factors .

Results of Operations

Summary of Results. Net income was $37.7 million, or $0.68 per diluted share, in the first quarter of 2010 as compared to $24.5 million, or $0.51 per diluted share, in the first quarter of 2009. Net income in the first quarters of 2010 and 2009 included net realized investment losses, net of the related income tax benefit, of $9.8 million, or $0.18 per diluted share, and $14.3 million, or $0.30 per diluted share, respectively. Net income in the first quarter of 2010 as compared to the first quarter of 2009 benefited from a significant increase in net investment income, including increased investment spreads on the Company s asset accumulation products, and growth in income from the Company s core group employee benefit products, and, on a per-share basis, was adversely impacted by the Company s two Class A Common Stock offerings completed during 2009. Net investment income in the first quarter of 2010, which increased 34% from the first quarter of 2009, reflects an increase in the tax equivalent weighted average annualized yield to 6.2% from 5.8%.

The Company believes that the non-GAAP financial measure of operating earnings is informative when analyzing the trends relating to the Company s insurance operations. Operating earnings consist of income from continuing operations excluding after-tax realized investment gains and losses, and the loss on redemption of junior subordinated deferrable interest debentures, as applicable. The Company believes that because realized investment gains and losses, redemption of junior subordinated deferrable interest debentures and discontinued operations arise from events whose occurrence is, to a significant extent, within management s discretion and can fluctuate significantly, thus distorting comparisons between periods, a measure excluding their impact is useful in analyzing the Company s operating trends. Redemptions of junior subordinated deferrable interest debentures occur based on management s decision to redeem such debentures. Investment gains or losses may be realized based on management s decision to dispose of an investment, and investment losses may be realized based on management s judgment that a decline in the market value of an investment is other than temporary. Discontinued operations occur based on management s decision to exit or sell a particular business. Thus, realized investment gains and losses, losses on redemption of junior subordinated deferrable interest debentures and results from discontinued operations are not reflective of the Company s ongoing earnings capacity, and trends in the earnings of the Company s underlying insurance operations can be more clearly identified by removing the effects of these items. For these reasons, management uses the measure of operating earnings to assess performance, including in connection with certain of the performance goals under its incentive compensation plans, and to make operating plans and decisions. The Company believes that analysts and investors typically find measures of this type to be useful as part of their evaluations of insurers financial performance. However, gains and losses of these types, particularly as to investments, occur regularly and should not be considered as nonrecurring items. Further, operating earnings should not be considered a substitute for net income, the most directly comparable GAAP measure, as an indication of the Company s overall financial performance and may not be calculated in the same manner as similarly titled measures utilized by other companies.

Operating earnings for the Company increased 22% to $47.5 million, or $0.86 per diluted share, in the first quarter of 2010 from $38.8 million, or $0.81 per diluted share, in the first quarter of 2009. This increase is primarily attributable to a significant increase in net investment income, including increased investment spreads on the Company s asset accumulation products, and growth in income from the Company s core group employee benefit products, which, on a per-share basis, more than offset the impact of the Company s two Class A Common Stock offerings completed during 2009.

The following table reconciles the respective operating earnings amounts to the corresponding net income amounts for the indicated periods:

	Three Months Ended March 31,	
	2010	2009
Operating earnings	$ 47,482	$ 38,783
Net realized investment losses, net of taxes (A)	(9,819)	(14,299)
Net income	$ 37,663	$ 24,484
Diluted results per share of common stock Operating earnings	$ 0.86	$ 0.81
Net realized investment losses, net of taxes (A)	(0.18)	(0.30)
Net income	$ 0.68	$ 0.51

(A) Net of an income tax benefit of

$5.3 million and $7.7 million, or $0.10 per diluted share and $0.16 per diluted share, for the three months ended March 31, 2010 and 2009, respectively. The tax effect is calculated using the Company s statutory tax rate of 35%.

Premium and Fee Income. Premium and fee income in the first quarter of 2010 was $347.8 million as compared to $357.7 million in the first quarter of 2009. Premiums from core group employee benefit products, which include disability, life, excess workers compensation, travel accident and dental insurance and assumed workers compensation and casualty reinsurance, were $333.3 million and $344.2 million in first quarters of 2010 and 2009, respectively. Assumed workers compensation and casualty reinsurance is included in the Company s core group employee benefit products beginning in the third quarter of 2009. Accordingly, to assist in comparability with prior periods, premiums from this product have also been included in premiums from core group employee benefit products for prior periods. Premiums from excess workers compensation insurance for self-insured employers were $68.0 million and $67.8 million in the first quarters of 2010 and 2009, respectively. Excess workers compensation new business production, which represents the amount of new annualized premium sold, was $13.4 million in the first quarter of 2010 compared to $15.1 million in the first quarter of 2009. Premiums from assumed workers compensation and casualty reinsurance increased 73% to $11.4 million in the first quarter of 2010 from $6.6 million in the first quarter of 2009. Assumed workers compensation and casualty reinsurance production was $5.1 million in the first quarter of 2010 compared to $6.9 million in the first quarter of 2009. SNCC s rates for its 2010 renewal policies declined modestly and SIRs on average are

up modestly in 2010 new and renewal policies for its excess workers compensation products. SNCC s retention of its existing excess workers compensation customers remained strong in the first quarter of 2010.

Premiums from the Company s other core group employee benefit products were $253.9 million and $269.8 million in the first quarter of 2010 and 2009, respectively. During the first quarter of 2010 and 2009, premiums from the Company s group life products were $97.9 million and $103.7 million, respectively, and premiums from the Company s group disability products were $134.4 million and $146.4 million, respectively. Premiums from the Company s turnkey disability business were $13.3 million in the first quarter of 2010 compared to $15.2 million in the first quarter of 2009. New business production for the Company s other core group employee benefit products was $40.0 million and $46.6 million in the first quarters of 2010 and 2009, respectively. Beginning in the third quarter of 2009, production from the Company s turnkey disability product is included in core group employee benefit product production. Accordingly, to assist in comparability with prior periods, production from turnkey disability product has also been included in core production for prior periods. The level of production achieved from these products reflects the Company s focus on the small case niche (insured groups of 10 to 500 individuals). The payments received by the Company in connection with loss portfolio transfers, which are recorded as liabilities rather than as premiums, increased to $5.1 million in the first quarter of 2010 from $3.7 million in the first quarter of 2009.

Deposits from the Company s asset accumulation products were $38.8 million in the first quarter of 2010 as compared to $59.7 million in the first quarter of 2009. Deposits from the Company s asset accumulation products, consisting of new annuity sales and issuances of funding agreements, are recorded as liabilities rather than as premiums. The Company is continuing to maintain its discipline in setting the crediting rates offered on its asset accumulation products in 2010 in an effort to achieve its targeted interest rate spreads on these products.

Net Investment Income. Net investment income in the first quarter of 2010 was $84.1 million as compared to $62.9 million in the first quarter of 2009, an increase of 34%. This increase reflects an increase in the tax equivalent weighted average annualized yield on invested assets to 6.2% in the first quarter of 2010 from 5.8% in the first quarter of 2009, primarily attributable to the improved performance of the Company s investments in investment funds organized as limited partnerships and limited liability companies and a higher level of investment income from the Company s fixed maturity security portfolio resulting from the portfolio repositioning discussed above. See Introduction . The level of net investment income in the first quarter of 2010 period also reflects a 24% increase in average invested assets to $5,814.3 million in 2010 from $4,685.9 million in the first quarter of 2009.

Net Realized Investment Losses. Net realized investment losses decreased to $15.1 million in the first quarter of 2010 from $22.0 million in the first quarter of 2009. The Company monitors its investments on an ongoing basis. When the market value of a security classified as available for sale declines below its cost, the decline is included as a component of accumulated other comprehensive income or loss, net of the related income tax benefit and adjustment to cost of business acquired, on the Company s balance sheet. If management judges the decline to be other than temporary, the portion of the decline related to credit losses is recognized as a realized investment loss in the Company s income statement and the remaining portion of the decline continues to be included as a component of accumulated other comprehensive income or loss. Due to the continuing effects of the adverse market conditions for financial assets described above, the Company recognized $27.3 million of losses in the first quarter of 2010 due to the other than temporary declines in the market values of certain fixed maturity and other investments, of which $23.0 million was recognized as credit-related realized investment losses and $4.3 million remained as a component of accumulated other comprehensive income. The Company recognized $17.6 million of realized losses due to other than temporary impairments in the first quarter of 2009. See Introduction . The Company s investment strategy results in periodic sales of securities and, therefore, the recognition of realized investment gains and losses. During the first quarters of 2010 and 2009, the Company recognized $7.9 million and $(4.4) million, respectively, of net gains (losses) on the sales of securities.

The Company may continue to recognize losses due to other than temporary declines in security market values in the future, and such losses may be significant. The extent of such losses will depend on, among other things, future developments in the United States and global economies, financial and credit markets, credit spreads, interest rates, the outlook for the performance by the issuers of their obligations under such securities and changes in security values. The Company continuously monitors its investments in securities whose fair values are below the Company s

amortized cost pursuant to its procedures for evaluation for other than temporary impairment in valuation. See Note B to the Consolidated Financial Statements and the section in the 2009 Form 10-K entitled Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates for a description of these procedures, which take into account a number of factors. It is not possible to predict the extent of any future changes in value, positive or negative, or the results of the future application of these procedures, with respect to these securities. For further information concerning the Company s investment portfolio, see Liquidity and Capital Resources Investments .

Benefits and Expenses. Policyholder benefits and expenses were $358.0 million in the first quarter of 2010 as compared to $361.7 million in the first quarter of 2009. This decrease primarily reflects the decrease in premiums from the Company s group employee benefit products and does not include additions to reserves for prior years claims and claim expenses. However, there can be no assurance that future periods will not include additions to reserves of this type, which will depend on the Company s future loss development. If the Company were to experience significant adverse loss development in the future, the Company s results of operations could be materially adversely affected. The combined ratio (loss ratio plus expense ratio) for the Company s group employee benefit products increased to 94.1% in the first quarter of 2010 from 93.2% in the first quarter of 2009 primarily resulting from the lower level of premiums from the Company s group employee benefit products in the current period, as well as expenses associated with new product development at SNCC. The weighted average annualized crediting rate on the Company s asset accumulation products, which reflects the effect of the first year bonus crediting rate on certain newly issued products was 4.2% and 4.3% in the first quarters of 2010 and 2009, respectively.

Interest Expense. Interest expense was $10.6 million in the first quarter of 2010 as compared to $7.2 million in the first quarter of 2009. This increase primarily reflects interest expense associated with the 2020 Senior Notes, which were issued by the Company in the first quarter of 2010, partially offset by a decrease in the weighted average borrowings under the Amended Credit Agreement.

Income Tax Expense. Income tax expense was $10.5 million in the first quarter of 2010 as compared to $5.1 million in the first quarter of 2009, primarily due to the higher level of operating income. The Company s effective tax rate was 21.8% in the first quarter of 2010 compared to 17.3% in the first quarter of 2009.

Liquidity and Capital Resources

General. The Company s current liquidity needs include principal and interest payments on any outstanding borrowings under its Amended Credit Agreement and interest payments on the 2020 Senior Notes, 2033 Senior Notes and 2007 Junior Debentures, as well as funding its operating expenses and dividends to stockholders. The 2033 Senior Notes mature in their entirety in May 2033 and are not subject to any sinking fund requirements. The 2007 Junior Debentures will become due on May 15, 2037, but only to the extent that the Company has received sufficient net proceeds from the sale of certain specified qualifying capital securities. Any remaining outstanding principal amount will be due on May 1, 2067. During the first quarter of 2010, the Company issued the 2020 Senior Notes, which will mature in January 2020 and pay interest semi-annually in arrears on January 31 and July 31, commencing on July 31, 2010. The 2020 Senior Notes are not subject to any sinking fund requirements and contain certain provisions permitting their early redemption by the Company. See Note D to the Consolidated Financial Statements. The 2033 Senior Notes and the 2007 Junior Debentures also contain certain provisions permitting their early redemption by the Company. For descriptions of these provisions, see Notes E and H to the Consolidated Financial Statements included in the 2009 Form 10-K.

As a holding company that does not conduct business operations in its own right, substantially all of the assets of the Company are comprised of its ownership interests in its insurance subsidiaries. In addition, the Company held approximately $112.0 million of financial resources available at the holding company level at March 31, 2010, primarily comprised of short-term investments and in investment subsidiaries whose assets are primarily invested in investment funds organized as limited partnerships and limited liability companies. Other sources of liquidity at the holding company level include dividends paid from subsidiaries, primarily generated from operating cash flows and investments, and borrowings under the Amended Credit Agreement. The Company s insurance subsidiaries would be permitted, without prior regulatory approval, to make dividend payments totaling $112.8 million during 2010, of which $1.8 million has been paid to the Company during the first three months of 2010. However, the level of dividends that could be paid consistent with maintaining the insurance subsidiaries RBC and other measures of capital adequacy at levels consistent with its current claims-paying and financial strength ratings from rating agencies is likely to be substantially lower than such amount. In general, dividends from the Company s non-insurance subsidiaries are not subject to regulatory or other restrictions. In addition, the Company is presently categorized as a well known seasoned issuer under Rule 405 of the Securities Act. As such, the Company has the ability to file automatically effective shelf registration statements for unspecified amounts of different securities, allowing for immediate, on-demand offerings.

In October 2006, the Company entered into the Amended Credit Agreement, which, among other things, increased the maximum borrowings available to $250 million, improved the pricing terms and extended the maturity date from May 2010 to October 2011. On November 8, 2007, the amount of the facility was increased to the amount of $350 million, and certain financial institutions were added as new lenders, pursuant to a supplement to the Amended Credit Agreement. Borrowings under the Amended Credit Agreement bear interest at a rate equal to the LIBOR rate for the borrowing period selected by the Company, which is typically one month, plus a spread which varies based on the Company s Standard & Poor s and Moody s credit ratings. Based on the current levels of such ratings, the spread is currently equal to 62.5 basis points. The Amended Credit Agreement contains various financial and other affirmative and negative covenants, along with various representations and warranties, considered ordinary for this type of credit agreement. The covenants include, among others, a maximum Company consolidated

debt to capital ratio, a minimum Company consolidated net worth, minimum statutory risk-based capital requirements for RSLIC and SNCC, and certain limitations on investments and subsidiary indebtedness. As of March 31, 2010, the Company was in compliance in all material respects with the financial and various other affirmative and negative covenants in the Amended Credit Agreement. At March 31, 2010, the Company had no outstanding borrowings and had $350.0 million of borrowings available under the Amended Credit Agreement.

During the first quarter of 2006, the Company issued $100.0 million in aggregate principal amount of fixed and floating rate funding agreements with maturities of three to five years in connection with the issuance by an unconsolidated special purpose vehicle of funding agreement-backed notes in a corresponding principal amount. Based on the Company s investment at risk compared to that of the holders of the funding agreement-backed notes, the Company has concluded that it is not the primary beneficiary of the special purpose vehicle that issued the funding agreement-backed notes. During the first quarter of 2009, the Company repaid $35.0 million in aggregate principal amount of floating rate funding agreements at their maturity. The reserves related to the funding agreements were $65.2 million at March 31, 2010 and 2009.

On May 5, 2010, the Company s Board of Directors declared a cash dividend of $0.10 per share, which will be paid on the Company s Class A Common Stock and Class B Common Stock on June 2, 2010.

The Company and its subsidiaries expect available sources of liquidity to exceed their current and long-term cash requirements.

Investments. The Company s overall investment strategy emphasizes safety and liquidity, while seeking the best available return, by focusing on, among other things, managing the Company s interest-sensitive assets and liabilities and seeking to minimize the Company s exposure to fluctuations in interest rates. The Company s investment portfolio, which totaled $5,969.7 million at March 31, 2010, consists primarily of investments in fixed maturity securities, short-term investments, mortgage loans and equity securities. The Company s investment portfolio also includes investments in investment funds organized as limited partnerships and limited liability companies and trading account securities which collectively totaled $274.0 million at March 31, 2010. At March 31, 2010, the total carrying value of the portfolio of private placement corporate loans, mortgage loans, interests in limited partnerships and limited liability companies and equity securities managed on the Company s behalf by Fortress Investment Group LLC was $57.9 million.

During the first three months of 2010, the market value of the Company s available for sale investment portfolio, in relation to its amortized cost, increased by $52.0 million from year-end 2009, before the related decrease in the cost of business acquired of $17.2 million and a decrease in the federal income tax provision of $12.2 million. At March 31, 2010, gross unrealized appreciation and gross unrealized depreciation, before the related income tax expense or benefit and the related adjustment to cost of business acquired, with respect to the fixed maturity securities in the Company s portfolio totaled $216.1 million (of which $187.1 million was attributable to investment grade securities) and $222.4 million (of which $93.7 million was attributable to investment grade securities), respectively. During the first three months of 2010, the Company recognized pre-tax net investment losses of $15.1 million. The weighted average credit rating of the securities in the Company s fixed maturity portfolio having ratings by nationally recognized statistical rating organizations was A at March 31, 2010. While ratings of this type are intended to address credit risk, they do not address other risks, such as prepayment and extension risks.

See Forward-Looking Statements and Cautionary Statements Regarding Certain Factors That May Affect Future Results, and Part I, Item 1A of the 2009 Form 10-K, Risk Factors , for a discussion of various risks relating to the Company s investment portfolio.

Reinsurance. The Company cedes portions of the risks relating to its group employee benefit products and variable life insurance products under indemnity reinsurance agreements with various unaffiliated reinsurers. The Company pays reinsurance premiums which are generally based upon specified percentages of the Company s premiums on the business reinsured. These agreements expire at various intervals as to new risks, and replacement agreements are negotiated on terms believed appropriate in light of then-current market conditions. The Company currently cedes through indemnity reinsurance 100% of its excess workers compensation risks between $10.0 million and $50.0 million per occurrence, 85% of its excess workers compensation risks between $50.0 million and $100.0 million per occurrence, 100% of its excess workers compensation risks between $100.0 million and $150.0 million per

occurrence, 50% of its excess workers compensation risks between $150.0 million and $200.0 million per occurrence and 15% of its excess workers compensation risks between $200.0 million and $250.0 million, per occurrence. In addition, effective March 17, 2010, the Company currently cedes through indemnity reinsurance up to $20 million of coverage (compared to $10 million previously) with respect to workers compensation losses resulting from certain naturally occurring catastrophic events. The Company also currently cedes through indemnity reinsurance risks in excess of $300,000 per individual and type of coverage for new and existing employer-paid group life insurance policies. Reductions in the Company s reinsurance coverages will decrease the reinsurance premiums paid by the Company under these arrangements and thus increase the Company s premium income, and will also increase the Company s risk of loss with respect to the relevant policies. Generally, increases in the Company s reinsurance coverages will increase the reinsurance premiums paid by the Company under these arrangements and thus decrease the Company s premium income, and will also decrease the Company s risk of loss with respect to the relevant policies.

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Cash Flows. Operating activities increased cash by $101.5 million and $91.2 million in the first three months of 2010 and 2009, respectively. Net investing activities used $144.1 million and $72.0 million of cash during the first three months of 2010 and 2009, respectively, primarily for the purchase of securities. Financing activities provided $39.0 million of cash during the first three months of 2010, principally from the issuance of the 2020 Senior Notes, partially offset by the full repayment of the then outstanding borrowings under the Amended Credit Agreement. During the first three months of 2009, financing activities provided $1.3 million of cash, principally from deposits to policyholder accounts.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the Company s exposure to market risk or its management of such risk since December 31, 2009.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer (CEO) and Senior Vice President and Treasurer (the individual who acts in the capacity of chief financial officer), of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in the rules and regulations of the Securities and Exchange Commission). Based on that evaluation, the Company s management, including the CEO and Senior Vice President and Treasurer, concluded that the Company s disclosure controls and procedures were effective. There were no changes in the Company s internal control over financial reporting during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Forward-Looking Statements And Cautionary Statements Regarding Certain Factors That May Affect Future Results

In connection with, and because it desires to take advantage of, the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions readers regarding certain forward-looking statements in the above Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Form 10-Q and in any other statement made by, or on behalf of, the Company, whether in future filings with the Securities and Exchange Commission or otherwise. Forward-looking statements are statements not based on historical information and which relate to future operations, strategies, financial results, prospects, outlooks or other developments. Some forward-looking statements may be identified by the use of terms such as expects, believes, anticipates, intends, judgment, outlook, effort, attempt, achieve, project or other similar expressions. Fo statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic, competitive and other uncertainties and contingencies, many of which are beyond the Company s control and many of which, with respect to future business decisions, are subject to change. Examples of such uncertainties and contingencies include, among other important factors, those affecting the insurance industry generally, such as the economic and interest rate environment, federal and state legislative and regulatory developments, including but not limited to changes in financial services, employee benefit and tax laws and regulations, changes in accounting rules and interpretations thereof, market pricing and competitive trends relating to insurance products and services, acts of terrorism or war, and the availability and cost of reinsurance, and those relating specifically to the Company s business, such as the level of its insurance premiums and fee income, the claims experience, persistency and other factors affecting the profitability of its insurance products, the performance of its investment portfolio and changes in the Company s investment strategy, acquisitions of companies or blocks of business, and ratings by major rating organizations of the Company and its insurance subsidiaries. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company. Certain of these uncertainties and contingencies are described in more detail in Part I, Item 1A of the 2009 Form 10-K, Risk Factors . The Company disclaims any obligation to update forward-looking information.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

A putative class action, Moore v. Reliance Standard Life Insurance Company, was filed in the United States District Court for the Northern District of Mississippi in July 2008 against the Company s subsidiary, RSLIC. The action challenges RSLIC s ability to pay certain insurance policy benefits through a mechanism commonly known in the insurance industry as a retained asset account and contains related claims of breach of fiduciary duty and prohibited transactions under the federal Employee Retirement Income Security Act of 1974. The Company does not believe that the ultimate resolution of this action will have a material adverse effect on its financial condition.

In addition to this action, the Company is a party to various other litigation and proceedings in the course of its business, primarily involving its insurance operations. In some cases, these proceedings entail claims against the Company for punitive damages and similar types of relief. The ultimate disposition of such litigation and proceedings is not expected to have a material adverse effect on the Company s results of operations, liquidity or financial condition.

Item 1A. Risk Factors

There have been no material changes in the significant factors that may affect the Company s business and operations as described in Part I, Item 1A of the 2009 Form 10-K, Risk Factors.

Item 6. Exhibits

11.1 Computation of Results per Share of Common Stock (incorporated by reference to Note H to the Consolidated Financial Statements included elsewhere herein)

31.1 Certification by the Chairman of the Board and Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) or 15d-14(a)

31.2 Certification by the Senior Vice President and Treasurer of Periodic Report Pursuant to Rule 13a-14(a) or 15d-14(a)

32.1 Certification of Periodic Report Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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.

DELPHI FINANCIAL GROUP, INC.

/s/ ROBERT ROSENKRANZ
Robert Rosenkranz
Chairman of the Board and Chief
Executive Officer
(Principal Executive Officer)

/s/THOMAS W. BURGHART
Thomas W.Burghart
Senior Vice President and Treasurer
(Principal Accounting and Financial
Officer)

Date: May 10, 2010