

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2010

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)

<u>Delaware</u> (State or other jurisdiction of incorporation or organization)	<u>(302) 478-5142</u> (Registrant's telephone number, including area code)	<u>13-3427277</u> (I.R.S. Employer Identification Number)
<u>1105 North Market Street, Suite 1230, P.O. Box 8985, Wilmington, Delaware</u> (Address of principal executive offices)		<u>19899</u> (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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 No

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

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

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

Yes No

As of November 1, 2010, the Registrant had 48,571,659 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		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Revenue:				
Premium and fee income	\$ 357,019	\$ 342,610	\$1,057,348	\$ 1,052,776
Net investment income	86,886	88,682	249,170	243,560
Net realized investment gains (losses):				
Total other than temporary impairment losses	(13,886)	(73,771)	(62,818)	(137,007)
Less: Portion of other than temporary impairment losses recognized in other comprehensive income ...	<u>7,498</u>	<u>21,748</u>	<u>12,599</u>	<u>42,467</u>
Net impairment losses recognized in earnings	(6,388)	(52,023)	(50,219)	(94,540)
Other net realized investment gains (losses)	<u>7,580</u>	<u>1,564</u>	<u>22,431</u>	<u>(5,389)</u>
	1,192	(50,459)	(27,788)	(99,929)
Loss on early retirement of senior notes	<u>(3,760)</u>	<u>-</u>	<u>(3,972)</u>	<u>-</u>
Total revenues	<u>441,337</u>	<u>380,833</u>	<u>1,274,758</u>	<u>1,196,407</u>
Benefits and expenses:				
Benefits, claims and interest credited to policyholders	250,594	240,956	741,602	748,361
Commissions	24,149	21,886	69,339	67,046
Amortization of cost of business acquired	30,124	26,740	81,861	76,217
Other operating expenses	<u>63,285</u>	<u>60,943</u>	<u>190,860</u>	<u>181,587</u>
	<u>368,152</u>	<u>350,525</u>	<u>1,083,662</u>	<u>1,073,211</u>
Operating income	73,185	30,308	191,096	123,196
Interest expense:				
Corporate debt	7,783	3,806	23,370	11,667
Junior subordinated debentures	<u>3,241</u>	<u>3,247</u>	<u>9,730</u>	<u>9,728</u>
	<u>11,024</u>	<u>7,053</u>	<u>33,100</u>	<u>21,395</u>
Income before income tax expense	62,161	23,255	157,996	101,801
Income tax expense	<u>15,982</u>	<u>2,321</u>	<u>37,130</u>	<u>19,261</u>
Net income	46,179	20,934	120,866	82,540
Less: Net income attributable to noncontrolling interest	<u>42</u>	<u>111</u>	<u>115</u>	<u>226</u>
Net income attributable to shareholders	<u>\$ 46,137</u>	<u>\$ 20,823</u>	<u>\$ 120,751</u>	<u>\$ 82,314</u>
Basic results per share of common stock:				
Net income attributable to shareholders	\$ 0.83	\$ 0.39	\$ 2.18	\$ 1.63
Diluted results per share of common stock:				
Net income attributable to shareholders	\$ 0.83	\$ 0.39	\$ 2.17	\$ 1.63
Dividends paid per share of common stock	\$ 0.11	\$ 0.10	\$ 0.31	\$ 0.30

See notes to consolidated financial statements.

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

	<u>September 30,</u> 2010	<u>December 31,</u> 2009
Assets:		
Investments:		
Fixed maturity securities, available for sale.....	\$ 5,724,161	\$ 4,875,681
Short-term investments	360,415	406,782
Other investments	<u>476,436</u>	<u>466,855</u>
	6,561,012	5,749,318
Cash.....	77,248	65,464
Cost of business acquired.....	246,002	250,311
Reinsurance receivables	362,481	355,030
Goodwill.....	93,929	93,929
Other assets	335,791	293,835
Assets held in separate account.....	<u>117,321</u>	<u>113,488</u>
Total assets	<u>\$ 7,793,784</u>	<u>\$ 6,921,375</u>
Liabilities and Equity:		
Future policy benefits:		
Life.....	\$ 339,566	\$ 341,736
Disability and accident.....	793,841	781,701
Unpaid claims and claim expenses:		
Life.....	52,721	58,665
Disability and accident.....	448,863	433,273
Casualty	1,277,071	1,187,814
Policyholder account balances	1,662,176	1,454,114
Corporate debt.....	368,750	365,750
Junior subordinated debentures.....	175,000	175,000
Other liabilities and policyholder funds	908,761	647,269
Liabilities related to separate account	<u>117,321</u>	<u>113,488</u>
Total liabilities.....	<u>6,144,070</u>	<u>5,558,810</u>
Equity:		
Preferred Stock, \$.01 par; 50,000,000 shares authorized, none issued.....	-	-
Class A Common Stock, \$.01 par; 150,000,000 shares authorized; 56,303,328 and 55,995,995 shares issued, respectively	563	560
Class B Common Stock, \$.01 par; 20,000,000 shares authorized; 5,981,049 shares issued	60	60
Additional paid-in capital	675,428	661,895
Accumulated other comprehensive income (loss).....	138,180	(33,956)
Retained earnings.....	1,031,307	927,706
Treasury stock, at cost; 7,761,216 shares of Class A Common Stock and 227,216 shares of Class B Common Stock.....	<u>(197,246)</u>	<u>(197,246)</u>
Total shareholders' equity	1,648,292	1,359,019
Noncontrolling interest	<u>1,422</u>	<u>3,546</u>
Total equity	<u>1,649,714</u>	<u>1,362,565</u>
Total liabilities and equity	<u>\$ 7,793,784</u>	<u>\$ 6,921,375</u>

See notes to consolidated financial statements.

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
Cumulative effect adjustment, April 1, 2009.....	-	-	-	(2,372)	2,372	-	-	-	-
Net income.....	-	-	-	-	82,314	-	82,314	226	82,540
Other comprehensive income:									
Decrease in net unrealized depreciation on investments.....	-	-	-	325,660	-	-	325,660	-	325,660
Increase in other than temporary impairment losses recognized in other comprehensive income	-	-	-	(19,343)	-	-	(19,343)	-	(19,343)
Decrease in net loss on cash flow hedge.....	-	-	-	589	-	-	589	-	589
Change in net periodic pension cost....	-	-	-	873	-	-	873	-	873
Comprehensive income.....	-	-	-	-	-	-	390,093	226	390,319
Net contribution from noncontrolling interest.....	-	-	-	-	-	-	-	37	37
Issuance of common stock	65	-	121,056	-	-	-	121,121	-	121,121
Exercise of stock options.....	5	-	9,189	-	-	-	9,194	-	9,194
Stock-based compensation	-	-	6,842	-	-	-	6,842	-	6,842
Cash dividends.....	-	-	-	-	(14,767)	-	(14,767)	-	(14,767)
Balance, September 30, 2009	\$ 559	\$ 60	\$ 659,683	\$ (46,303)	\$ 916,309	\$(197,246)	\$ 1,333,062	\$ 4,298	\$ 1,337,360
Balance, January 1, 2010	\$ 560	\$ 60	\$ 661,895	\$ (33,956)	\$ 927,706	\$(197,246)	\$ 1,359,019	\$ 3,546	\$ 1,362,565
Net income.....	-	-	-	-	120,751	-	120,751	115	120,866
Other comprehensive income:									
Increase in net unrealized appreciation on investments.....	-	-	-	165,893	-	-	165,893	-	165,893
Decrease in other than temporary impairment losses recognized in other comprehensive income	-	-	-	4,407	-	-	4,407	-	4,407
Decrease in net loss on cash flow hedge.....	-	-	-	1,682	-	-	1,682	-	1,682
Change in net periodic pension cost....	-	-	-	154	-	-	154	-	154
Comprehensive income.....	-	-	-	-	-	-	292,887	115	293,002
Net distribution to noncontrolling interest.....	-	-	-	-	-	-	-	(2,239)	(2,239)
Exercise of stock options.....	3	-	8,604	-	-	-	8,607	-	8,607
Stock-based compensation	-	-	4,929	-	-	-	4,929	-	4,929
Cash dividends.....	-	-	-	-	(17,150)	-	(17,150)	-	(17,150)
Balance, September 30, 2010	\$ 563	\$ 60	\$ 675,428	\$ 138,180	\$ 1,031,307	\$(197,246)	\$ 1,648,292	\$ 1,422	\$ 1,649,714

See notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2010	2009
Operating activities:		
Net income attributable to shareholders	\$ 120,751	\$ 82,314
Adjustments to reconcile net income attributable to shareholders to net cash provided by operating activities:		
Change in policy liabilities and policyholder accounts	180,506	225,538
Net change in reinsurance receivables and payables	(9,657)	(4,613)
Amortization, principally the cost of business acquired and investments	65,264	38,295
Deferred costs of business acquired	(101,002)	(97,936)
Net realized losses on investments	27,788	99,929
Net change in federal income taxes	12,197	6,632
Other	(42,849)	(14,101)
Net cash provided by operating activities	<u>252,998</u>	<u>336,058</u>
Investing activities:		
Purchases of investments and loans made	(1,599,851)	(1,206,214)
Sales of investments and receipts from repayment of loans.....	1,057,614	177,957
Maturities of investments	70,801	637,166
Net change in short-term investments.....	46,367	(171,162)
Change in deposit in separate account.....	-	4,845
Net cash used by investing activities.....	<u>(425,069)</u>	<u>(557,408)</u>
Financing activities:		
Deposits to policyholder accounts	277,854	242,614
Withdrawals from policyholder accounts	(82,832)	(131,337)
Proceeds from issuance of 2020 Senior Notes.....	250,000	-
Borrowings under revolving credit facility	50,000	17,000
Principal payments under revolving credit facility	(222,000)	(2,000)
Early retirement of senior notes.....	(75,000)	-
Proceeds from issuance of common stock	-	121,121
Cash dividends paid on common stock.....	(17,150)	(14,767)
Other financing activities.....	2,983	7,151
Net cash provided by financing activities	<u>183,855</u>	<u>239,782</u>
Increase in cash.....	11,784	18,432
Cash at beginning of period	<u>65,464</u>	<u>63,837</u>
Cash at end of period	<u>\$ 77,248</u>	<u>\$ 82,269</u>

See notes to consolidated financial statements.

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 September 30, 2009 and December 31, 2009 consolidated financial statements to conform to the September 30, 2010 presentation. Operating results for the three and nine months ended September 30, 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 policyholders 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.

In October 2010, the FASB issued guidance limiting the extent to which an insurer may capitalize costs incurred in the acquisition of an insurance contract. The guidance provides that, in order to be capitalized, such costs must be incremental and directly related to the acquisition of a new or renewal insurance contract. Insurers may only capitalize costs related to successful efforts in attaining a contract and advertising costs may only be capitalized if certain direct response advertising criteria are met. This guidance will be effective for interim and annual reporting periods beginning after December 15, 2011, with either prospective or retrospective adoption permitted. If the initial application of this guidance results in the capitalization of acquisition costs that had not been capitalized previously by an entity, the entity may elect not to capitalize those types of costs. The Company has not yet determined the impact that the adoption of this guidance will have on its consolidated financial position or results of operations.

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

Note B – Investments – (Continued)

The following table contains information, as of September 30, 2010, regarding the portions of the Company's investments in non-agency residential mortgage-backed securities ("RMBS") represented by securities whose underlying mortgage loans are categorized as prime, Alt-A and subprime, respectively, and the distributions of the securities within these categories by the years in which they were issued (vintages) and the highest of their ratings from Standard & Poor's, Moody's and Fitch. All dollar amounts in this table are based upon the fair values of these securities as of September 30, 2010. As of this date, based upon the most recently available data regarding the concentrations by state of the mortgage loans underlying these securities, the states having loan concentrations in excess of 5% were as follows: California (38.7%), New York (6.9%) and Florida (6.5%).

Vintage	Non-Agency Prime RMBS – Fair Value					Total
	AAA	AA	A	BBB	BB and Below ⁽¹⁾	
	(dollars in thousands)					
2001 and prior.....	\$ 2,254	\$ -	\$ -	\$ -	\$ -	\$ 2,254
2002.....	8,519	1,505	2,591	-	498	13,113
2003.....	85,508	2,133	2,949	7,159	5,956	103,705
2004.....	44,680	1,110	-	1,633	5,329	52,752
2005.....	11,332	6,215	1,784	18,667	56,995	94,993
2006.....	14,979	678	-	-	27,058	42,715
2007.....	-	-	-	-	85,408	85,408
2008.....	954	-	-	-	671	1,625
Total.....	<u>\$168,226</u>	<u>\$ 11,641</u>	<u>\$ 7,324</u>	<u>\$ 27,459</u>	<u>\$181,915</u>	<u>\$396,565</u>

⁽¹⁾ The securities enumerated in this column include securities having a total of \$169.5 million in fair value that have received the equivalent of an investment grade rating from the National Association of Insurance Commissioners (the "NAIC") under the process initiated by the NAIC in 2009 which takes into account, among other things, the discounts at which the Company originally purchased the securities and modeling of the potential losses with respect to the securities' underlying loans.

Vintage	Non-Agency Alt-A RMBS – Fair Value					Total
	AAA	AA	A	BBB	BB and Below ⁽¹⁾	
	(dollars in thousands)					
2001 and prior.....	\$ -	\$ -	\$ -	\$ 1,911	\$ -	\$ 1,911
2002.....	269	1,882	-	-	-	2,151
2003.....	49,381	-	-	-	1,960	51,341
2004.....	19,336	2,242	139	202	1,708	23,627
2005.....	2,434	17,394	-	1,122	40,157	61,107
2006.....	10,363	31	5,437	9,084	77,625	102,540
2007.....	332	-	-	9	125,133	125,474
Total.....	<u>\$ 82,115</u>	<u>\$ 21,549</u>	<u>\$ 5,576</u>	<u>\$ 12,328</u>	<u>\$246,583</u>	<u>\$368,151</u>

⁽¹⁾ The securities enumerated in this column include securities having a total of \$195.5 million in fair value that have received the equivalent of an investment grade rating from the NAIC under the process initiated by the NAIC in 2009 which takes into account, among other things, the discounts at which the Company originally purchased the securities and modeling of the potential losses with respect to the securities' underlying loans.

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

Note B – Investments – (Continued)

Vintage	Non-Agency Subprime RMBS – Fair Value					Total
	AAA	AA	A	BBB	BB and Below ⁽¹⁾	
	(dollars in thousands)					
2003.....	\$ 9,500	\$ 1,341	\$ -	\$ -	\$ -	\$ 10,841
2004.....	12,671	-	519	2,903	484	16,577
2005.....	12,639	17,871	546	-	-	31,056
2006.....	-	-	-	2,475	1,066	3,541
2007.....	-	-	-	-	1,423	1,423
Total.....	<u>\$ 34,810</u>	<u>\$ 19,212</u>	<u>\$ 1,065</u>	<u>\$ 5,378</u>	<u>\$ 2,973</u>	<u>\$ 63,438</u>

⁽¹⁾ The securities enumerated in this column include securities having a total of \$2.7 million in fair value that have received the equivalent of an investment grade rating from the NAIC under the process initiated by the NAIC in 2009 which takes into account, among other things, the discounts at which the Company originally purchased the securities and modeling of the potential losses with respect to the securities' underlying loans.

The amortized cost and fair value of fixed maturity securities available for sale at September 30, 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)	
Agency residential mortgage-backed securities.....	\$ 751,900	\$ 810,143
Non-agency residential mortgage-backed securities.....	818,537	828,154
Commercial mortgage-backed securities.....	35,786	32,492
Other fixed maturity securities:		
One year or less.....	100,506	99,705
Greater than 1, up to 5 years.....	573,623	592,968
Greater than 5, up to 10 years.....	904,601	939,650
Greater than 10 years.....	<u>2,313,158</u>	<u>2,421,049</u>
Total.....	<u>\$ 5,498,111</u>	<u>\$ 5,724,161</u>

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:

	September 30, 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)					
Agency residential mortgage-backed securities	\$ 16,111	\$ (22)	\$ 426	\$ (37)	\$ 16,537	\$ (59)
Non-agency residential mortgage-backed securities	22,449	(1,053)	242,945	(66,070)	265,394	(67,123)
Commercial mortgage-backed securities..	11,490	(368)	4,786	(3,269)	16,276	(3,637)
Corporate securities.....	31,403	(529)	88,309	(14,437)	119,712	(14,966)
Collateralized debt obligations.....	12,007	(2,009)	141,112	(44,252)	153,119	(46,261)
U.S. Treasury and other U.S. Government guaranteed securities.....	14,680	(4)	-	-	14,680	(4)
U.S. Government-sponsored enterprise securities	17,773	(38)	-	-	17,773	(38)
Obligations of U.S. states, municipalities and political subdivisions	<u>36,257</u>	<u>(280)</u>	<u>77,896</u>	<u>(5,262)</u>	<u>114,153</u>	<u>(5,542)</u>
Total fixed maturity securities	<u>\$ 162,170</u>	<u>\$ (4,303)</u>	<u>\$ 555,474</u>	<u>\$ (133,327)</u>	<u>\$ 717,644</u>	<u>\$ (137,630)</u>

	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)					
Agency residential mortgage-backed securities	\$ 126,097	\$ (2,573)	\$ 269	\$ (52)	\$ 126,366	\$ (2,625)
Non-agency residential mortgage-backed securities	109,508	(4,210)	312,491	(87,644)	421,999	(91,854)
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 guaranteed securities.....	56,693	(344)	-	-	56,693	(344)
U.S. Government-sponsored enterprise securities	9,769	(231)	-	-	9,769	(231)
Obligations of U.S. states, municipalities and political subdivisions	<u>331,027</u>	<u>(5,128)</u>	<u>160,359</u>	<u>(15,698)</u>	<u>491,386</u>	<u>(20,826)</u>
Total fixed maturity securities	<u>\$ 757,331</u>	<u>\$ (20,421)</u>	<u>\$ 787,422</u>	<u>\$ (232,072)</u>	<u>\$1,544,753</u>	<u>\$ (252,493)</u>

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

Note B – Investments – (Continued)

Net investment income was attributable to the following:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
	(dollars in thousands)			
Gross investment income:				
Fixed maturity securities, available for sale	\$ 82,926	\$ 77,648	\$ 244,109	\$ 226,702
Mortgage loans.....	630	1,121	3,948	2,527
Short-term investments.....	32	26	69	348
Other	<u>10,130</u>	<u>16,510</u>	<u>21,477</u>	<u>37,238</u>
	93,718	95,305	269,603	266,815
Less: Investment expenses.....	<u>(6,832)</u>	<u>(6,623)</u>	<u>(20,433)</u>	<u>(23,255)</u>
	<u>\$ 86,886</u>	<u>\$ 88,682</u>	<u>\$ 249,170</u>	<u>\$ 243,560</u>

Net realized investment gains (losses) arose from the following:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
	(dollars in thousands)			
Credit related other than temporary impairment losses:				
Fixed maturity securities, available for sale..	\$ (5,840)	\$ (44,411)	\$ (32,802)	\$ (79,468)
Mortgage loans.....	(57)	(3,202)	(15,159)	(5,220)
Other investments	<u>(491)</u>	<u>(4,410)</u>	<u>(2,258)</u>	<u>(9,852)</u>
	<u>(6,388)</u>	<u>(52,023)</u>	<u>(50,219)</u>	<u>(94,540)</u>
Other net realized investment gains (losses):				
Fixed maturity securities, available for sale..	7,544	680	19,290	(8,273)
Mortgage loans.....	(1)	503	418	503
Other investments	<u>37</u>	<u>381</u>	<u>2,723</u>	<u>2,381</u>
	<u>7,580</u>	<u>1,564</u>	<u>22,431</u>	<u>(5,389)</u>
Total	<u>\$ 1,192</u>	<u>\$ (50,459)</u>	<u>\$ (27,788)</u>	<u>\$ (99,929)</u>

Proceeds from sales of fixed maturity securities during the first nine months of 2010 and 2009 were \$357.5 million and \$394.2 million, respectively. Gross gains of \$24.8 million and gross losses of \$(5.5) million were realized on the 2010 sales and gross gains of \$17.4 million and gross losses of \$(25.6) million were realized on the 2009 sales. Proceeds from sales of fixed maturity securities during the third quarters of 2010 and 2009 were \$100.0 million and \$76.2 million, respectively. Gross gains of \$8.5 million and gross losses of \$(1.0) million were realized on sales during the third quarter of 2010 and \$3.7 million of gross gains and gross losses of \$(3.0) million were realized on sales during the third quarter of 2009. Net realized investment gains and losses on investment sales are determined under the specific identification method and are included in income. 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 below the Company's amortized cost are other than temporary. Under this methodology, management evaluates whether and when the Company will recover an investment's amortized cost, taking into account, among other things, the financial position and prospects of the issuer, conditions in the issuer's industry and geographic area, liquidity of the investment, the expected amount and timing of future cash flows from the investment, recent changes in credit ratings of the issuer by nationally recognized rating agencies and the length of time and extent to which the fair value of the investment has been lower than its amortized cost to determine if and when a decline in the fair value of an investment below amortized cost is other than temporary. In the case of structured securities such as RMBS, commercial mortgage-backed securities and collateralized debt obligations, the most significant factor in these evaluations is the expected amount and timing

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

Note B – Investments – (Continued)

of the future cash flows from the investment. In the case of fixed maturity securities, in instances where management determines that a security's amortized cost will be recovered during its remaining term to maturity, an additional component of this methodology is the Company's evaluation of whether it intends to, or will more likely than not be required to, sell the security before such anticipated recovery.

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 in the income statement. 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, a decline in its fair value that is considered in the judgment of management to be other than temporary is separated into the amount representing credit loss and the amount 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. Declines in the fair value of all other investments below the Company's amortized cost that are considered in the judgment of management to be other than temporary are reported as realized investment losses in the income statement.

In the case of structured securities such as RMBS, commercial mortgage-backed securities and collateralized debt obligations as to which a decline in fair value is judged to be other than temporary, the amount of the credit loss arising from the impairment of the security is determined by discounting such security's expected cash flows at its effective interest rate, taking into account the security's purchase price. The key inputs relating to such expected cash flows consist of the future scheduled payments on the underlying loans and the estimated frequency and severity of future defaults on these loans. For those securities as to which the Company recognized credit losses in 2010 as a result of determinations that such securities were other than temporarily impaired, representative default frequency estimates ranged from 2.3% to 6.9% and representative default severity estimates ranged from 37.6% to 60.0%.

In the case of corporate securities as to which a decline in fair value is determined to be other than temporary, the key input utilized to establish the amount of credit loss arising from the impairment of the security is the market price for such security. For each such security, the Company obtains such market price from a single independent nationally recognized pricing service. The Company has not in any instance adjusted the market price so obtained; however, management reviews these prices for reasonableness, taking into account both security-specific factors and its knowledge and understanding of pricing methodologies used by the service. The credit loss is determined to be equal to the excess of the Company's amortized cost over such market price for such security, as measured at the time of the impairment; as such, the entirety of the market depreciation in value is deemed to be reflective of credit loss.

At September 30, 2010, the total amortized cost of the Company's holdings of collateralized debt obligations was \$208.0 million and their total fair value was \$163.4 million. These holdings consist of a highly diversified portfolio of fifty-one different collateralized loan obligation ("CLO") investments, substantially all of which are within senior tranches in the CLO structure and a substantial majority of which were issued in the 2004-2007 time frame. Substantially all of these CLOs are collateralized by an actively managed, highly diversified portfolio of floating rate senior secured loans to numerous public and private corporate borrowers. The 2008-2009 global financial crisis resulted in significant and ongoing dislocations in the market for securities of this type, resulting in the cessation of new issuances of such securities and decreased market liquidity for existing issues, such as those held by the Company, as well as widespread and significant declines in their market values. However, the effects of the financial crisis on the Company's CLO holdings have diminished over time; moreover, these securities have performed in accordance with their contractual payment terms since their acquisition by the Company (with the exception of four securities, which management has determined to be other than temporarily impaired). Further, despite the extraordinarily challenging environment that has prevailed in recent years due to the such crisis, the defaults having occurred on the loans underlying these CLOs since their issuances, taking into account their incidence and severity, have been at levels at which losses to the holders of the CLOs would be borne solely by the securities in the subordinated tranches. Based upon this actual experience and upon the Company's estimates of the future cash flows with respect to these CLOs, which take into account the estimated frequency and severity of future defaults on the underlying loans, as well as the senior positions of the individual CLOs in their securitization structures and the sizes of the subordinate tranches in these structures that would first absorb losses arising from such defaults, and taking into account that the Company does not intend to sell any of these securities and that it is not more likely than not that it will be required to do so before recovery of the security's amortized cost

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

Note B – Investments – (Continued)

basis in any instance, the Company concluded that the declines in the fair values of these securities did not represent other than temporary impairments. During the quarter ended September 30, 2010, the Company elected to utilize an independent pricing service as the key valuation input in place of the internal discounted cash flow methodologies previously utilized for these securities. See Note C to the Consolidated Financial Statements. The Company will continue to conduct evaluations of these securities for other than temporary impairment in future periods, and since the results of these evaluations will depend upon future developments; for example, the future performance of the loans underlying these securities, no assurance can be given as to the outcome of such evaluations.

During the first nine months of 2010, the Company recognized \$40.8 million of after-tax other than temporary impairment losses, of which \$32.6 million was recognized as after-tax realized investment losses in the income statement related to credit losses and \$8.2 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.

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(dollars in thousands)			
Balance at the beginning of the period.....	\$ 83,156	\$ 59,420	\$ 89,658	\$ -
Increases attributable to credit losses on securities for which an other than temporary impairment was not previously recognized	1,995	17,775	12,359	77,384
Increases attributable to credit losses on securities for which an other than temporary impairment was previously recognized	3,548	2,332	16,759	2,143
Reductions due to sales, maturities, pay downs or prepayments of securities for which an other than temporary impairment was previously recognized	<u>(7,997)</u>	<u>(9,454)</u>	<u>(38,074)</u>	<u>(9,454)</u>
Balance at the end of the period.....	<u>\$ 80,702</u>	<u>\$ 70,073</u>	<u>\$ 80,702</u>	<u>\$ 70,073</u>

The gross unrealized losses at September 30, 2010 are attributable to 451 different fixed maturity security positions, with the largest unrealized loss associated with any one security equal to \$3.6 million. Unrealized losses attributable to fixed maturity securities having investment grade ratings by a nationally recognized statistical rating organization comprised 31.4% of the aggregate gross unrealized losses at September 30, 2010, with the remainder of such losses being attributable to non-investment grade fixed maturity securities.

At September 30, 2010, the Company held approximately \$813.1 million of insured municipal fixed maturity securities, which represented approximately 12.4% of the Company's total invested assets. Based upon the highest of the ratings assigned to the respective securities by Standard & Poor's, Moody's and Fitch, the securities had a weighted average credit rating of "A" at September 30, 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 \$764.8 million at September 30, 2010, this weighted average credit rating at such date was "AA". Insurers of significant portions of the municipal fixed maturity securities held by the Company at September 30, 2010 included National Public Finance Guarantee Corp. (\$309.2 million), Assured Guaranty (\$230.7 million), Ambac Financial Group, Inc. (\$151.1 million), Financial Guaranty Insurance Company (\$37.2 million) and Radian (\$31.3 million). At September 30, 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.

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 1 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.

Various valuation techniques and pricing models are utilized in connection with the measurement of the fair value of the Company's 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. Inputs utilized in connection with the valuation techniques relating to this class of securities include monthly payment and performance information with respect to the underlying loans, including prepayments, default severity, delinquencies, market indices and the amounts of the tranches in the particular structure which are senior or subordinate, as applicable, to the tranche represented by the Company's investment. 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 non-binding broker quotes.

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

Note C – Fair Value Measurements – (Continued)

These methodologies rely on unobservable inputs and thus these securities are categorized in Level 3 of the fair value hierarchy.

During the quarter ended September 30, 2010, the Company elected to utilize a pricing service or, in instances where such service did not provide a price for a particular security, non-binding broker quotes as the key input in place of the internal discounted cash flow methodologies previously utilized in its valuation techniques for certain of its investments in RMBS, commercial mortgage-backed securities, asset-backed securities, and collateralized debt obligations. In each instance, the Company obtained the market price from a single independent nationally recognized pricing service or, where applicable, obtained a quote from a single broker believed to be knowledgeable regarding market conditions for the particular security. The Company did not in any instance adjust any market price or broker quote so obtained; however, management reviews these prices and quotes for reasonableness, taking into account both security-specific factors and its knowledge and understanding of the pricing methodologies used by the service or broker, as applicable. This change was made based on the Company's determination that, based upon the increased levels of orderly market trading activity, new issuances or both with respect to these securities arising from the ongoing improvements in capital and financial market conditions, that the markets for these investments had ceased to be inactive. The Company recategorized investments having a total of \$96.2 million in fair value from Level 3 to Level 2 during the quarter ended September 30, 2010 as a result of this change.

Corporate securities primarily include fixed rate corporate bonds, floating and variable rate notes and securities acquired through private placements. Inputs utilized in connection with the Company's valuation techniques relating to this class of securities include recently executed transactions, market price quotations, benchmark yields, issuer spreads and, in the case of private placement corporate securities, cash flow models. These cash flow models utilize yield curves, issuer-provided information and material events as key inputs. Corporate securities are categorized in Level 2 of the fair value hierarchy, other than securities acquired through private placements, which are categorized in Level 3 of the fair value hierarchy.

Collateralized debt obligations consist of collateralized loan obligations, which are described in more detail in Note B to the Consolidated Financial Statements. The Company's valuation techniques relating to this class of securities utilize non-binding broker quotes as their key input. As this input is generally unobservable, collateralized debt obligations 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.

Inputs utilized in connection with the Company's valuation techniques relating to its investments in other U.S. government guaranteed securities, as well as its investments in U.S. government-sponsored enterprise securities, which consist of medium term notes issued by these enterprises, include recently executed transactions, interest rate yield curves, maturity dates, market price quotations and credit spreads relating to similar instruments. These inputs are generally observable and accordingly, these securities are generally categorized in Level 2 of the fair value hierarchy.

Obligations of U.S. states, municipalities and political subdivisions primarily include bonds or notes issued by U.S. municipalities. Inputs utilized in connection with the Company's valuation techniques relating to this class of securities include recently executed transactions and other market data, spreads, benchmark curves including treasury and other benchmarks, trustee reports, material event notices, new issue data, and issuer financial statements. 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, and the inputs utilized in these reviews include, 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.

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

Note C – Fair Value Measurements – (Continued)

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 interests in a limited liability company that invests in funds which trade in various financial instruments. This limited liability company, all of whose interests are owned by the Company's separate account, 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. As such, these funds' financial statements constitute the key input in the Company's valuation of its investment in this limited liability company. The Company concluded that the value calculated using the equity method of accounting on its investment in this limited liability company was reflective of the fair market value of such investment. 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. These investments are included in Level 3 of the fair value hierarchy.

Other liabilities measured at fair value include 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.

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

	September 30, 2010			
	Total	Level 1	Level 2	Level 3
	(dollars in thousands)			
Assets:				
Fixed maturity securities, available for sale:				
Agency residential mortgage-backed securities	\$ 810,143	\$ -	\$ 759,615	\$ 50,528
Non-agency residential mortgage-backed securities.....	828,154	-	787,958	40,196
Commercial mortgage-backed securities.....	32,492	-	25,654	6,838
Corporate securities.....	1,436,120	-	1,370,383	65,737
Collateralized debt obligations.....	163,388	-	-	163,388
U.S. Treasury and other U.S. Government guaranteed securities	223,646	151,031	63,540	9,075
U.S. Government-sponsored enterprise securities	107,259	-	107,259	-
Obligations of U.S. states, municipalities and political subdivisions.....	2,122,959	13,565	2,109,394	-
Other investments	126,658	119,331	-	7,327
Assets held in separate account.....	117,321	-	-	117,321
Total	<u>\$ 5,968,140</u>	<u>\$ 283,927</u>	<u>\$ 5,223,803</u>	<u>\$ 460,410</u>
Liabilities:				
Other liabilities	<u>\$ 70,490</u>	<u>\$ 70,490</u>	<u>\$ -</u>	<u>\$ -</u>

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

Note C – Fair Value Measurements – (Continued)

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 September 30, 2010						
	Balance at Beginning of Quarter	Included in Earnings	Included in Other Comprehensive Income	Purchases Issuances and Settlements	Transfers Into Level 3	Transfers Out Level 3	Balance at End of the Period
(dollars in thousands)							
Agency residential mortgage-backed securities	\$ 37,282	\$ (51)	\$ 406	\$ 12,891	\$ -	\$ -	\$ 50,528
Non-agency residential mortgage-backed securities	111,257	(2,204)	(10,755)	(6,146)	-	(51,956)	40,196
Commercial mortgage-backed securities	27,130	(500)	(2,748)	5,224	-	(22,268)	6,838
Corporate securities	67,779	2,500	5,539	10,050	1,800	(21,931)	65,737
Collateralized debt obligations	119,892	1,212	44,566	(2,282)	-	-	163,388
U.S. Treasury and other U.S. Government guaranteed securities	11,445	(15)	622	(2,977)	-	-	9,075
U.S. Government-sponsored enterprise securities	13,794	32	(25)	(13,801)	-	-	-
Other Investments	6,190	64	65	1,008	-	-	7,327
Assets held in separate account	113,532	-	-	3,789	-	-	117,321
Total	<u>\$ 508,301</u>	<u>\$ 1,038</u>	<u>\$ 37,670</u>	<u>\$ 7,756</u>	<u>\$ 1,800</u>	<u>\$ (96,155)</u>	<u>\$ 460,410</u>

Net losses for the period included in earnings attributable to the net change in unrealized losses of assets measured at fair value using unobservable inputs and held at September 30, 2010 included corporate securities (\$0.2 million) and other investments (\$0.1 million). In the third quarter of 2010, net gain (losses) of \$0.1 million and \$(0.2) million were reported in the consolidated statements of income under the captions “net investment income” and “net realized investment gains (losses)”, respectively.

	Nine Months Ended September 30, 2010						
	Balance at Beginning of Year	Included in Earnings	Included in Other Comprehensive Income	Purchases Issuances and Settlements	Transfers Into Level 3	Transfers Out Level 3	Balance at End of the Period
(dollars in thousands)							
Agency residential mortgage-backed securities	\$ 13,187	\$ (248)	\$ 1,530	\$ 36,059	\$ -	\$ -	\$ 50,528
Non-agency residential mortgage-backed securities	130,326	(16,346)	(7,407)	(14,286)	-	(52,091)	40,196
Commercial mortgage-backed securities	26,009	(1,885)	460	4,522	-	(22,268)	6,838
Corporate securities	95,920	(1,058)	5,747	(6,994)	5,625	(33,503)	65,737
Collateralized debt obligations	114,444	(889)	56,240	(6,407)	-	-	163,388
U.S. Treasury and other U.S. Government guaranteed securities	11,367	(39)	290	(2,543)	-	-	9,075
U.S. Government-sponsored enterprise securities	-	35	-	(35)	-	-	-
Other investments	9,707	530	(294)	(2,616)	-	-	7,327
Assets held in separate account	113,488	-	-	3,833	-	-	117,321
Total	<u>\$ 514,448</u>	<u>\$ (19,900)</u>	<u>\$ 56,566</u>	<u>\$ 11,533</u>	<u>\$ 5,625</u>	<u>\$ (107,862)</u>	<u>\$ 460,410</u>

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

Note C – Fair Value Measurements – (Continued)

Net losses for the period included in earnings attributable to the net change in unrealized losses of assets measured at fair value using unobservable inputs and held at September 30, 2010 included non-agency residential mortgage-backed securities (\$14.2 million), commercial mortgage-backed securities (\$1.4 million), corporate securities (\$4.8 million), collateralized debt obligations (\$2.2 million) and other investments (\$0.1 million). In the first nine months of 2010, net losses of \$(0.1) million and \$(22.6) million were reported in the consolidated statements of income under the captions “net investment income” and “net realized investment gains (losses)”, respectively.

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.

	September 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(dollars in thousands)			
Assets:				
Short-term investments.....	360,415	360,415	406,782	406,782
Other investments.....	349,778	349,778	370,565	370,565
Liabilities:				
Policyholder account balances	1,573,093	1,750,623	1,351,565	1,471,669
Corporate debt.....	368,750	402,546	365,750	361,754
Junior subordinated debentures.....	175,000	161,205	175,000	124,600
Advances from Federal Home Loan Bank	55,342	75,639	55,342	68,320
Liabilities related to separate account	117,321	117,321	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 values of policyholder account balances are net of reinsurance receivables and the carrying values have been decreased for related acquisition costs of \$79.8 million and \$94.0 million at September 30, 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.

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 is paid semi-annually in arrears on January 31 and July 31. 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.

During the second quarter of 2010, the Company repurchased \$5.0 million principal amount of the 2033 Senior Notes. During the third quarter of 2010, the Company effected two partial redemptions of the 2033 Senior Notes relating to a total of \$70.0 million in aggregate principal amount of such notes, \$20.0 million in aggregate principal amount on July 14, 2010 and \$50.0 million in aggregate principal amount on September 21, 2010. The Company recognized a loss of \$2.6 million, net of an income tax benefit of \$1.4 million during the first nine months of 2010 from the early retirement of such notes pursuant to these transactions. In addition, the September 2010 redemption resulted in the redesignation of the series of covered debt benefiting from the replacement capital covenant into which the Company entered in connection with the issuance of its Junior Subordinated Debentures. Accordingly, the 2033 Senior Notes ceased being the covered debt under such covenant and the 2020 Senior Notes became the covered debt under such covenant. At September 30, 2010, \$68.8 million in aggregate principal amount of the 2033 Senior Notes remained outstanding. On November 8, 2010, the Company gave notice of redemption of all of the outstanding 2033 Senior Notes. Such redemption will occur on December 23, 2010.

Note E – Segment Information

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(dollars in thousands)			
Revenues:				
Group employee benefit products.....	\$ 399,976	\$ 385,809	\$ 1,173,139	\$ 1,163,866
Asset accumulation products	32,020	32,775	94,107	95,740
Other ⁽¹⁾	<u>11,909</u>	<u>12,708</u>	<u>39,272</u>	<u>36,730</u>
	443,905	431,292	1,306,518	1,296,336
Net realized investment gains (losses).....	1,192	(50,459)	(27,788)	(99,929)
Loss on early retirement of senior notes.....	<u>(3,760)</u>	<u>-</u>	<u>(3,972)</u>	<u>-</u>
	<u>\$ 441,337</u>	<u>\$ 380,833</u>	<u>\$ 1,274,758</u>	<u>\$ 1,196,407</u>
Operating income:				
Group employee benefit products.....	\$ 73,071	\$ 74,678	\$ 212,746	\$ 212,284
Asset accumulation products	10,596	13,792	32,324	35,497
Other ⁽¹⁾	<u>(7,914)</u>	<u>(7,703)</u>	<u>(22,214)</u>	<u>(24,656)</u>
	75,753	80,767	222,856	223,125
Net realized investment gains (losses).....	1,192	(50,459)	(27,788)	(99,929)
Loss on early retirement of senior notes.....	<u>(3,760)</u>	<u>-</u>	<u>(3,972)</u>	<u>-</u>
	<u>\$ 73,185</u>	<u>\$ 30,308</u>	<u>\$ 191,096</u>	<u>\$ 123,196</u>

(1) Primarily consists of operations from integrated disability and absence management services and certain corporate activities.

Note F – Comprehensive Income (Loss)

Total comprehensive income (loss) attributable to common shareholders is comprised of net income and other comprehensive income (loss), 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. Total comprehensive income attributable to common shareholders was \$292.9 million and

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

Note F – Comprehensive Income (Loss) – (Continued)

\$390.1 million for the first nine months of 2010 and 2009, respectively, and \$151.1 million and \$207.3 million for the third quarters of 2010 and 2009, respectively. Net unrealized losses on securities available for sale decreased \$170.3 million in the first nine months of 2010 and \$103.7 million in the third quarter of 2010.

Note G – Stock-Based Compensation

The Company recognized stock-based compensation expenses of \$6.5 million and \$7.7 million in the first nine months of 2010 and 2009, respectively, of which \$2.1 million and \$2.8 million was recognized in the third quarter of 2010 and 2009, respectively. The remaining unrecognized compensation expense related to unvested awards at September 30, 2010 was \$18.3 million and the weighted average period of time over which this expense will be recognized is 3.1 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 nine months of 2010: expected volatility – 43.0%, expected dividends – 1.83%, 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 nine months of 2009: expected volatility – 39.4%, expected dividends – 1.82%, expected lives of the options – 7.3 years, and the risk free rate – 3.0%.

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	553,470	21.73		
Exercised	(239,860)	13.84		
Forfeited	(188,775)	28.82		
Expired	<u>(20,323)</u>	29.27		
Outstanding at September 30, 2010.....	<u>4,032,270</u>	29.01	6.7	\$ 6,362
Exercisable at September 30, 2010.....	2,216,015	\$ 30.47	5.7	\$ 2,385

The weighted average grant date fair value of options granted during the first nine months of 2010 and 2009 was \$8.22 and \$8.89, respectively, and during the third quarter of 2010 and 2009 was \$0 and \$9.81, respectively. The cash proceeds from stock options exercised were \$1.8 million and \$4.2 million in the first nine months of 2010 and 2009, respectively, and \$0.5 million and \$2.0 million for the third quarter of 2010 and 2009, respectively. The total intrinsic value of options exercised during the first nine months of 2010 and 2009 was \$2.5 million and \$2.8 million, respectively.

At September 30, 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 5.5 years and an intrinsic value of \$7.8 million. Of such options, 3,208,250 options with a weighted average exercise price of \$24.84, a weighted average contractual term of 3.5 years and an intrinsic value of \$7.7 million were exercisable at September 30, 2010.

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

Note H – Computation of Results per Share

The following table sets forth the calculation of basic and diluted results per share:

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(amounts in thousands, except per share data)			
Numerator:				
Net income attributable shareholders	<u>\$ 46,137</u>	<u>\$ 20,823</u>	<u>\$120,751</u>	<u>\$ 82,314</u>
Denominator:				
Weighted average common shares outstanding	55,404	52,947	55,284	50,376
Effect of dilutive securities	<u>396</u>	<u>438</u>	<u>390</u>	<u>241</u>
Weighted average common shares outstanding, assuming dilution...	<u><u>55,800</u></u>	<u><u>53,385</u></u>	<u><u>55,674</u></u>	<u><u>50,617</u></u>
Basic results per share of common stock:				
Net income attributable to shareholders	<u>\$ 0.83</u>	<u>\$ 0.39</u>	<u>\$ 2.18</u>	<u>\$ 1.63</u>
Diluted results per share of common stock:				
Net income attributable to shareholders	<u>\$ 0.83</u>	<u>\$ 0.39</u>	<u>\$ 2.17</u>	<u>\$ 1.63</u>

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 been achieving 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 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. In response to the recently adopted federal health care reform legislation, the Company, effective in September 2010, is issuing all of its new and renewal limited benefit health policies under a fixed indemnity benefit structure that will be exempt from certain of the requirements of the legislation that will then become effective. However, it is uncertain whether this product can be effectively marketed once the minimum medical coverage requirements of the legislation become effective in 2014, since this product's coverage will not satisfy these requirements. 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. From time to time, the Company acquires blocks of existing SPDA and FPA policies from other insurers through indemnity assumed reinsurance transactions. 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. Beginning in the second half of 2007, 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 \$360.4 million and \$406.8 million at September 30, 2010 and December 31, 2009, respectively. The Company has recently been 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, especially since the recent market environment, in which low interest rates and tight credit spreads have been prevailing, has made it particularly challenging to make new investments on terms which the Company deems attractive, 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 nine months of 2010, during which more favorable market conditions emerged, as compared to 2008. However, market conditions may continue to be volatile 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 fair 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 significantly during the first nine months of 2010 and in the third quarter of 2010, the Company had net realized investment gains. However, in light of the continuing effects of the market conditions discussed above, investment losses may recur 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

*Nine Months Ended September 30, 2010 Compared to
Nine Months Ended September 30, 2009*

Summary of Results. Net income attributable to shareholders was \$120.8 million, or \$2.17 per diluted share, in the first nine months of 2010 as compared to \$82.3 million, or \$1.63 per diluted share, in the first nine months of 2009. Net income in the first nine months of 2010 and 2009 included net realized investment losses, net of the related income tax benefit, of \$18.1 million, or \$0.32 per diluted share, and \$65.0 million, or \$1.28 per diluted share, respectively. Net income in the first nine months of 2010 as compared to the first nine months of 2009 benefited from an increase in net investment income and a decrease in the level of realized investment losses, 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 nine months of 2010, which increased 2% from the first nine months of 2009, reflects a 20% increase in average invested assets, partially offset by a decrease in the tax equivalent weighted average annualized yield to 6.0% from 7.0%. Net realized investment losses in the first nine months of 2010 and 2009 included losses, net of the related income tax benefit, of \$32.6 million, or \$0.59 per diluted share, and \$61.5 million, or \$1.21 per diluted share, respectively, due to the other than temporary declines in the fair values of certain fixed maturity securities and other investments.

Operating earnings, which is a non-GAAP financial measure, consist of net income attributable to shareholders excluding after-tax realized investment gains and losses, losses on early retirement of senior notes and junior subordinated deferrable interest debentures and results from discontinued operations, as applicable. The Company believes that because these excluded items arise from events that are largely within management's discretion and whose fluctuations can distort comparisons between periods, a measure excluding their impact is useful in analyzing the Company's operating trends. Investment gains or losses are realized based on management's decision to dispose of an investment, and investment losses are realized based on management's judgment that a decline in the fair value of an investment is other than temporary. Early retirement of senior notes and junior subordinated deferrable interest debentures occurs based on management's decision to redeem or repurchase these notes and debentures. Discontinued operations result from management's decision to exit or sell a particular business. Thus, these excluded items 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 without their effects. For these reasons, management uses the measure of operating earnings to assess performance and make operating plans and decisions, and the Company believes that analysts and investors typically utilize measures of this type as one element of their evaluations of insurers' financial performance. However, gains or losses from the excluded items, particularly as to investments, can occur frequently and should not be considered as nonrecurring items. Further, operating earnings should not be considered a substitute for net income attributable to shareholders, 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 were \$141.4 million, or \$2.54 per diluted share, in the first nine months of 2010 as compared to \$147.3 million, or \$2.91 per diluted share in the first nine months of 2009, primarily due to the interest paid on the 2020 Senior Notes, which were issued in the first quarter of 2010, and, on a per share basis, the impact of the Company's two Class A Common Stock offerings completed during 2009.

The following table reconciles the amount of operating earnings to the corresponding amount of net income attributable to shareholders for the indicated periods:

	Nine Months Ended September 30,	
	2010	2009
Operating earnings.....	\$ 141,395	\$147,268
Net realized investment losses, net of taxes ^(A)	(18,062)	(64,954)
Loss on early retirement of senior notes ^(B)	<u>(2,582)</u>	<u>-</u>
Net income attributable to shareholders	<u>\$ 120,751</u>	<u>\$ 82,314</u>
Diluted results per share of common stock:		
Operating earnings.....	\$ 2.54	\$ 2.91
Net realized investment losses, net of taxes ^(A)	(0.32)	(1.28)
Loss on early retirement of senior notes ^(B)	<u>(0.05)</u>	<u>-</u>
Net income attributable to shareholders	<u>\$ 2.17</u>	<u>\$ 1.63</u>

- (A) Net of an income tax benefit of \$9.7 million and \$35.0 million, or \$0.17 per diluted share and \$0.69 per diluted share, for the nine months ended September 30, 2010 and 2009, respectively. The tax effect is calculated using the Company's statutory tax rate of 35%.
- (B) Net of an income tax benefit of \$1.4 million or \$0.02 per diluted share for the nine months ended September 30, 2010. 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 nine months of 2010 was \$1,057.3 million as compared to \$1,052.8 million in the first nine months of 2009. Premiums from core group employee benefit products, which include short-term and long-term disability, life, excess workers' compensation, travel accident and dental insurance, assumed workers' compensation and casualty reinsurance and limited benefit medical insurance, were \$1,012.6 million and \$1,013.4 million in first nine months of 2010 and 2009, respectively. Premiums from excess workers' compensation insurance for self-insured employers increased 4% to \$213.3 million in the first nine months of 2010 from \$205.5 million in the first nine months of 2009. New business production, which represents the annualized amount of new premium sold, for excess workers' compensation was \$39.0 million and \$41.0 million in the first nine months of 2010 and 2009, respectively. Premiums from assumed workers' compensation and casualty reinsurance increased 45% to \$36.8 million in the first nine months of 2010 from \$25.4 million in the first nine months of 2009. Assumed workers' compensation and casualty reinsurance production was \$12.2 million in the first nine months of 2010 compared to \$16.4 million in the first nine months of 2009. Retention of existing excess workers' compensation customers in the first nine months of 2010 remained strong.

Premiums from the Company's other core group employee benefit products was \$762.5 million in the first nine months of 2010 compared to \$782.5 million in the first nine months of 2009. During the first nine months of 2010 and 2009, premiums from the Company's group life products were \$291.8 million and \$300.1 million, respectively, and premiums from the Company's group disability products were \$406.2 million and \$422.8 million, respectively. Premiums from the Company's turnkey disability business were \$37.2 million in the first nine months of 2010 compared to \$41.0 million in the first nine months of 2009. New business production for the Company's other core group employee benefit products was \$141.6 million and \$141.0 million in the first nine months of 2010 and 2009, respectively. The level of production achieved from these products reflects, among other things, 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 episodic in nature and are recorded as liabilities rather than as premiums, were \$11.4 million in the first nine months of 2010 as compared to \$30.9 million in the first nine months of 2009.

Deposits from the Company's asset accumulation products increased 16% to \$270.4 million in the first nine months of 2010 from \$232.2 million in the first nine months 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 nine months of 2010 was \$249.2 million as compared to \$243.6 million in the first nine months of 2009. This increase reflects 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 nine months of 2010 also reflects a 20% increase in average invested assets to \$5,960.7 million in 2010 from \$4,962.3 million in the first nine months of 2009, partially offset by a decrease in the tax equivalent weighted average annualized yield to 6.0% from 7.0%.

Net Realized Investment Gains (Losses). Net realized investment losses were \$(27.8) million in the first nine months of 2010 compared to \$(99.9) million in the first nine months of 2009. The Company monitors its investments on an ongoing basis. When the fair value of a security declines below its amortized 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. In the case of a fixed maturity security, if management judges the decline to be other than temporary, the portion of the decline representing credit loss 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. For all other types of investments, the entire amount of the decline is recognized as a realized investment loss. Due to the continuing effects of the adverse market conditions for financial assets described above, the Company recognized \$(62.8) million and \$(137.0) million of losses in the first nine months of 2010 and 2009, respectively, due to the other than temporary declines in the fair values of certain fixed maturity securities and other investments, of which \$(50.2) million and \$(94.5) million was recognized as credit-related realized investment losses and \$(12.6) million and \$(42.5) million remained as a component of accumulated other comprehensive income, respectively. 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 nine months of 2010 and 2009, the Company recognized \$22.4 million and \$(5.4) 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 fair 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, expected future cash flows from structured securities, the outlook for the performance by the security issuers of their obligations 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 \$1,083.7 million in the first nine months of 2010 as compared to \$1,073.2 million in the first nine months of 2009. This increase does not reflect significant 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 group employee benefit products was 94.2% and 93.3% in the first nine months of 2010 and 2009, respectively. The increase in the combined ratio in the first nine months of 2010 resulted from a higher level of commissions at RSLIC resulting from changes in its product mix, a lower level of premiums from the Company's group employee benefit products, and increased expenses associated with new product development at SNCC. The weighted average annualized crediting rate on the Company's asset accumulation products was 3.8% and 4.3% in the first nine months of 2010 and 2009, respectively.

Interest Expense. Interest expense was \$33.1 million in the first nine months of 2010 as compared to \$21.4 million in the first nine months 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 \$37.1 million in the first nine months of 2010 as compared to \$19.3 million in the first nine months of 2009, primarily due to the decrease in the income tax benefit resulting from realized investment losses. The Company's effective tax rate was 23.5% in the first nine months of 2010 compared to 18.9% in the first nine months of 2009.

*Three Months Ended September 30, 2010 Compared to
Three Months Ended September 30, 2009*

Summary of Results. Net income attributable to shareholders was \$46.1 million, or \$0.83 per diluted share, for the third quarter of 2010 as compared to \$20.8 million, or \$0.39 per diluted share, for the third quarter of 2009. Net income in the third quarter of 2010 and 2009 included net realized investment gains (losses), net of the related income tax expense (benefit), of \$0.8 million, or \$0.01 per diluted share, and \$(32.8) million, or \$(0.61) per diluted share, respectively. Net income in the third quarter of 2010 benefited from a decrease in the level of realized investment losses and was adversely impacted by a decrease in net investment income, primarily attributable to performance of the Company's investments in investment funds organized as limited partnerships and limited liability companies that was below the particularly strong performance of these investments in the prior year's quarter and a loss on the early retirement of the 2033 Senior Notes. Net realized investment gains (losses) in the third quarter of 2010 and 2009 included losses, net of the related income tax benefit, of \$(4.2) million, or \$(0.07) per diluted share, and \$(33.8) million, or \$(0.63) per diluted share, respectively, due to credit loss-related impairments in the values of certain investments.

Operating earnings, which is a non-GAAP financial measure, consist of net income attributable to shareholders excluding after-tax realized investment gains and losses, losses on early retirement of senior notes and junior subordinated deferrable interest debentures and results from discontinued operations, as applicable. The Company believes that because these excluded items arise from events that are largely within management's discretion and whose fluctuations can distort comparisons between periods, a measure excluding their impact is useful in analyzing the Company's operating trends. Investment gains or losses are realized based on management's decision to dispose of an investment, and investment losses are realized based on management's judgment that a decline in the fair value of an investment is other than temporary. Early

retirement of senior notes and junior subordinated deferrable interest debentures occurs based on management's decision to redeem or repurchase these notes and debentures. Discontinued operations result from management's decision to exit or sell a particular business. Thus, these excluded items 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 without their effects. For these reasons, management uses the measure of operating earnings to assess performance and make operating plans and decisions, and the Company believes that analysts and investors typically utilize measures of this type as one element of their evaluations of insurers' financial performance. However, gains or losses from the excluded items, particularly as to investments, can occur frequently and should not be considered as nonrecurring items. Further, operating earnings should not be considered a substitute for net income attributable to shareholders, 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 were \$47.8 million in the third quarter of 2010 compared to \$53.6 million in the third quarter of 2009. Operating earnings were \$0.86 per diluted share in the third quarter of 2010 compared to \$1.00 per diluted share in the third quarter of 2009, primarily due to the interest paid on the 2020 Senior Notes, which were issued in the first quarter of 2010 and, on a per share basis, the impact of the Company's two Class A Common Stock offerings completed during 2009.

The following table reconciles the amount of operating earnings to the corresponding amount of net income attributable to shareholders for the indicated periods:

	Three Months Ended September 30,	
	<u>2010</u>	<u>2009</u>
Operating earnings.....	\$ 47,806	\$ 53,621
Net realized investment gains (losses), net of taxes ^(A)	775	(32,798)
Loss on early retirement of senior notes ^(B)	<u>(2,444)</u>	<u>-</u>
Net income attributable to shareholders	<u>\$ 46,137</u>	<u>\$ 20,823</u>
Diluted results per share of common stock		
Operating earnings.....	\$ 0.86	\$ 1.00
Net realized investment gains (losses), net of taxes ^(A)	0.01	(0.61)
Loss on early retirement of senior notes ^(B)	<u>(0.04)</u>	<u>-</u>
Net income attributable to shareholders	<u>\$ 0.83</u>	<u>\$ 0.39</u>

(A) Net of an income tax expense (benefit) of \$0.4 million and \$(17.7) million, or \$0.01 per diluted share and \$(0.33) per diluted share, for the three months ended September 30, 2010 and 2009, respectively. The tax effect is calculated using the Company's statutory tax rate of 35%.

(B) Net of an income tax benefit of \$1.3 million or \$0.02 per diluted share for the three months ended September 30, 2010. The tax effect is calculated using the Company's statutory tax rate of 35%.

Premium and Fee Income. Premium and fee income for the third quarter of 2010 was \$357.0 million as compared to \$342.6 million for the third quarter of 2009, an increase of 4%. Premiums from core group employee benefit products increased 4% to \$341.6 million for the third quarter of 2010 from \$329.8 million for the third quarter of 2009. This increase reflects new business production and improved persistency. Premiums from excess workers' compensation insurance for self-insured employers increased 8% to \$74.4 million in the third quarter of 2010 from \$68.7 million in the third quarter of 2009. Excess workers' compensation new business production, which represents the annualized amount of new premium sold, was \$19.3 million in the third quarter of 2010 as compared to \$15.7 million in the third quarter of 2009, an increase of 23%. Premiums from assumed workers' compensation and casualty reinsurance increased 29% to \$13.4 million in the third quarter of 2010 from \$10.4 million in the third quarter of 2009. Assumed workers' compensation and casualty reinsurance production was \$3.7 million in the third quarter of 2010 as compared to \$7.7 million in the third quarter of 2009. Average rates decreased less than 1% on third quarter 2010 excess workers' compensation renewals and self-insured retentions are on average up modestly in third quarter 2010 on new and renewal policies. Retention of existing excess workers' compensation customers in the third quarter of 2010 remained strong.

During the third quarter of 2010, premiums from the Company's other core group employee benefit products increased to \$253.8 million from \$250.7 million during the third quarter of 2009. Premiums from the Company's group life products increased to \$97.9 million in the third quarter of 2010 from \$95.8 million in the third quarter of 2009. Premiums from the Company's group disability products were \$135.1 million and \$135.6 million in the third quarters of 2010 and 2009,

respectively. Premiums from the Company's turnkey disability business were \$12.0 million during the third quarter of 2010 compared to \$13.0 million during the third quarter of 2009. New business production for the Company's other core group employee benefit products was \$49.1 million and \$48.8 million in the third quarters of 2010 and 2009, respectively. 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).

Deposits from the Company's asset accumulation products were \$153.6 million in the third quarter of 2010 as compared to \$57.5 million in the third quarter of 2009, an increase of 167%. The increase in deposits is attributable to, among other things, particularly advantageous conditions for the Company in the fixed annuity marketplace having resulted from various competitors having either terminated their marketing of comparable fixed annuity products or experienced ratings downgrades. 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 third quarter of 2010 was \$86.9 million as compared to \$88.7 million in the third quarter of 2009. This decrease reflects a decrease in the tax equivalent weighted average annualized yield on invested assets to 6.0% for the third quarter of 2010 from 7.0% for the third quarter of 2009, primarily attributable to a lower level of net investment income from the Company's investments in investment funds organized as limited partnerships and limited liability companies, whose performance in the prior year's quarter was particularly strong. This decrease was partially offset by a higher level of investment income from the Company's fixed maturity security portfolio resulting from the portfolio repositioning discussed above and a 16% increase in average invested assets to \$6,283.9 million in the third quarter of 2010 from \$5,417.7 million in the third quarter of 2009.

Net Realized Investment Gains (Losses). Net realized investment gains (losses) were \$1.2 million in the third quarter of 2010 as compared to \$(50.5) million in the third quarter of 2009. The Company monitors its investments on an ongoing basis. When the fair value of a security declines below its amortized 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. In the case of a fixed maturity security, if management judges the decline to be other than temporary, the portion of the decline related to credit loss 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 additional other comprehensive income or loss. For all other types of investments, the entire amount of the decline is recognized as a realized investment loss. The Company recognized \$(13.9) million of losses in the third quarter of 2010 due to the other than temporary declines in the fair values of certain fixed maturity securities and other investments, of which \$(6.4) million was recognized as realized investment losses related to credit losses and \$(7.5) million remained as a component of accumulated other comprehensive income on the balance sheet related to non-credit losses. During the third quarter of 2009, the Company recognized \$(73.8) million of losses due to the other than temporary declines in the fair values of certain fixed maturity securities and other investments, of which \$(52.0) million was recognized as realized investment losses related to credit losses and \$(21.7) million remained as a component of accumulated other comprehensive income on the balance sheet related to non-credit losses. The Company's investment strategy results in periodic sales of securities and, therefore, the recognition of realized investment gains and losses. During the third quarters of 2010 and 2009, the Company recognized \$7.6 million and \$1.6 million, respectively, of net gains on sales of securities.

The Company may recognize additional losses due to other than temporary declines in security values in the future, and such losses may be significant. See "Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009 – Net Realized Investment Gains (Losses)."

Benefits and Expenses. Policyholder benefits and expenses were \$368.2 million in the third quarter of 2010 as compared to \$350.5 million in the third quarter of 2009. This increase primarily reflects the increase in premiums from the Company's group employee benefit products discussed above, and does not reflect significant 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 group employee benefit products was 94.9% and 93.7% in the third quarters of 2010 and 2009, respectively. The increase in the combined ratio in the third quarter of 2010 resulted primarily from a higher level of commissions at RSLIC, which followed changes in its product mix, as well as, increased expenses associated with new product development at SNCC. The weighted average annualized crediting rate on the Company's asset accumulation products was 3.7% and 4.5% in the third quarters of 2010 and 2009, respectively.

Interest Expense. Interest expense was \$11.0 million in the third quarter of 2010 as compared to \$7.1 million in the third 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 \$16.0 million in the third quarter of 2010 as compared to \$2.3 million in the third quarter of 2009. This increase primarily reflects the decrease in the income tax benefit resulting from realized investment losses, as well as a higher level of operating income. The Company's effective tax rates were 25.7% and 10.0% in the third quarter of 2010 and 2009, respectively.

Liquidity and Capital Resources

General. The Company's current liquidity needs include principal and interest payments on any outstanding borrowings under the 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. During the second quarter of 2010, the Company repurchased \$5.0 million in aggregate principal amount of the 2033 Senior Notes. During the third quarter of 2010, the Company effected two partial redemptions of the 2033 Senior Notes relating to a total of \$70.0 million in aggregate principal amount of such notes, \$20.0 million in aggregate principal amount on July 14, 2010 and \$50.0 million in aggregate principal amount on September 21, 2010. The Company recognized a loss of \$2.6 million, net of an income tax benefit of \$1.4 million, during the first nine months of 2010 from the early retirement of such notes pursuant to these transactions. In addition, the September 2010 redemption resulted in the redesignation of the series of covered debt benefiting from the replacement capital covenant into which the Company entered in connection with the issuance of its Junior Subordinated Debentures. Accordingly, the 2033 Senior Notes ceased being the covered debt under such covenant and the 2020 Senior Notes became the covered debt under such covenant. At September 30, 2010, \$68.8 million in aggregate principal amount of the 2033 Senior Notes remained outstanding. On November 8, 2010, the Company gave notice of redemption of all of the outstanding 2033 Senior Notes. Such redemption will occur on December 23, 2010. 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, which commenced 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 \$70.5 million of financial resources available at the holding company level at September 30, 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 \$3.6 million has been paid to the Company during the first nine 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 \$350.0 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 September 30, 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 September 30, 2010, the Company had \$50.0 million of outstanding borrowings and \$300.0 million of borrowings remaining 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. At September 30, 2010 and 2009, the Company's reserves related to the funding agreements were \$65.2 million.

On November 4, 2010, the Company's Board of Directors declared a cash dividend of \$0.11 per share, which will be paid on the Company's Class A Common Stock and Class B Common Stock on December 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 \$6,561.0 million at September 30, 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 \$296.5 million at September 30, 2010. At September 30, 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 \$40.2 million.

During the first nine months of 2010, the market value of the Company's available for sale investment portfolio, in relation to its amortized cost, increased by \$285.5 million from year-end 2009, before the related decrease in the cost of business acquired of \$23.5 million and an increase in the federal income tax provision of \$91.7 million. At September 30, 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 Company's fixed maturity security holdings totaled \$363.7 million (of which \$319.0 million was attributable to investment grade securities) and \$137.6 million (of which \$43.3 million was attributable to investment grade securities), respectively. During the first nine months of 2010, the Company recognized pre-tax net investment losses of \$27.8 million. The weighted average credit rating of the securities in the Company's fixed maturity portfolio, based upon the highest of the ratings assigned to the respective securities by Standard & Poor's, Moody's and Fitch, was "A" at September 30, 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, 100% of its excess workers' compensation risks between \$100.0 million and \$150.0 million per occurrence, and 15% of its excess workers' compensation risks between \$200.0 million and \$250.0 million, per occurrence. Effective in July 2010, the Company entered into a reinsurance agreement under which it cedes 100% (compared to 85% previously) of its excess workers' compensation risks between \$50.0 million and \$100.0 million, per occurrence, and 65% (compared to 50% previously) of its excess workers' compensation risks between \$150.0 million and \$200.0 million per occurrence.

In addition, effective in March 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.

Cash Flows. Operating activities increased cash by \$253.0 million and \$336.1 million in the first nine months of 2010 and 2009, respectively. Net investing activities used \$425.1 million and \$557.4 million of cash during the first nine months of 2010 and 2009, respectively, primarily for the purchase of securities. Financing activities provided \$183.9 million of cash during the first nine months of 2010, principally from deposits to policyholder accounts and the issuance of the 2020 Senior Notes, partially offset by the full repayment of the then outstanding borrowings under the Amended Credit Agreement and the early retirement of \$75.0 million in principal amount of the 2033 Senior Notes. During the first nine months of 2009, financing activities provided \$239.8 million of cash, principally from deposits to policyholder accounts and proceeds from the issuance of 6.5 million shares of its Class A Common Stock in two separate public offerings, partially offset by the repayment of \$35.0 million in aggregate principal amount of floating rate funding agreements at their maturity.

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. Forward-looking 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, the performance of financial markets, prevailing levels of credit spreads, federal and state legislative and regulatory developments, including but not limited to changes in financial services, employee benefit, health care 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.

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 results of operations, liquidity or 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

The following discussion, which supplements 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," updates and supersedes the discussion contained therein under the heading "The Company may be adversely impacted by a decline in the ratings of its insurance subsidiaries or its own credit ratings":

The Company may be adversely impacted by a decline in the ratings of its insurance subsidiaries or its own credit ratings.

Ratings with respect to claims-paying ability and financial strength have become an increasingly important factor impacting the competitive position of insurance companies. The financial strength ratings of RSLIC as of October 2010 as assigned by A.M. Best, Fitch, Moody's and Standard & Poor's were A (Excellent), A- (Strong), A3 (Good) and A (Strong), respectively. The financial strength ratings of SNCC as of October 2010 as assigned by A.M. Best, Fitch, Moody's and Standard & Poor's were A (Excellent), A- (Strong), A3 (Good) and A (Strong), respectively. These ratings are significantly influenced by the risk-based capital ratios and levels of statutory capital and surplus of these subsidiaries. In addition, these rating agencies may implement changes to their internal models that have the effect of increasing or decreasing the amount of capital these subsidiaries must hold in order to maintain these ratings. Each of the rating agencies reviews its ratings of companies periodically and there can be no assurance that current ratings will be maintained in the future. In September 2010, Standard & Poor's revised the outlook on its ratings relating to RSLIC, SNCC and the Company to stable from negative. In December 2009, A.M. Best revised the outlook on its rating relating to SNCC to stable from negative. In June 2010, Moody's revised the outlook on its ratings relating to RSLIC, SNCC and the Company to stable from negative. In April 2009, Fitch Ratings downgraded its ratings relating to RSLIC and SNCC to A- (Good) from A (Good). In December 2008, A.M. Best revised the outlook on its ratings relating to RSLIC, SNCC and the Company to negative from stable. Claims-paying and financial strength ratings relating to the Company's insurance subsidiaries are based upon factors relevant to the policyholders of such subsidiaries and are not directed toward protection of investors in the Company. Downgrades in the ratings of the Company's insurance subsidiaries could adversely affect sales of their products, increase policyholder withdrawals and could have a material adverse effect on the results of the Company's operations. In addition, downgrades in the Company's credit ratings, which are based on factors similar to those considered by the rating agencies in their evaluations of its insurance subsidiaries, could materially adversely affect its ability to access the capital markets and could increase the cost of its borrowings under the Amended Credit Agreement. The Company's senior unsecured debt ratings as of October 2010 from A.M. Best, Fitch, Moody's and Standard & Poor's were bbb, BBB-, Baa3 and BBB, respectively. The ratings for the Company's 2007 Junior Debentures as of October 2010 from A.M. Best, Fitch, Moody's and Standard & Poor's were bb+, BB, Ba1 and BB+, respectively. The ratings for RSLIC's funding agreements as of October 2010 from A.M. Best, Moody's and Standard & Poor's were a, A3, and A, respectively.

Item 6. Exhibits

- 3.1 Amended and Restated By-Laws of Delphi Financial Group, Inc.,
- 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

- 101. The following financial information from the Company's Quarterly Report on Form 10-Q for the nine months ended September 30, 2010, formatted in XBRL: (i) Consolidated Statements of Income for the three and nine months ended September 30, 2010 and 2009; (ii) Consolidated Balance Sheets at September 30, 2010 and December 31, 2009; (iii) Consolidated Statement of Equity for the nine months ended September 30, 2010 and 2009; (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009; and (v) Notes to Consolidated Financial Statements, tagged as blocks of text.

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: November 9, 2010

Exhibit 3.1

AMENDED AND RESTATED

BY-LAWS

OF

DELPHI FINANCIAL GROUP, INC.

(As adopted November 4, 2010)

ARTICLE I

OFFICES

Section 1. The registered office shall be located in the City of Wilmington, County of New Castle, State of Delaware.

Section 2. The corporation may also have offices at such other places both within and without the State of Delaware as the board of directors of the corporation (the "Board") may from time to time determine or the business of the corporation may require.

ARTICLE II

STOCKHOLDERS

Section 1. All meetings of the stockholders shall be held at such place, within or without the State of Delaware, as shall be designated by the Board and stated in the notice of the meeting.

Section 2. Annual meetings of stockholders, at which they shall elect the Board and transact such other business as may properly be brought before the meeting, shall be held at such time and on such day as shall be designated from time to time by the Board and stated in the notice of the meeting.

Section 3. Written notice of the annual meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote at such meeting not less than 10 nor more than 60 days before the date of the meeting.

Section 4. The officer who has charge of the stock ledger of the corporation shall prepare and make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number and class, if applicable, of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during

ordinary business hours, for a period of at least ten days prior to the meeting, (a) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting or (b) during ordinary business hours, at the principal place of business of the corporation. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 5. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the corporation's Restated Certificate of Incorporation, as in effect from time to time (the "Certificate of Incorporation"), shall be called solely by resolution of the Board, acting by not less than a majority of the entire Board. Such resolution shall state the purpose or purposes of the proposed meeting.

Section 6. Written notice of a special meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called, shall be given not less than 10 or more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting.

Section 7. The holders of stock representing a majority of the voting power of all classes of stock issued and outstanding and entitled to vote at any meeting, present in person or represented by proxy, shall constitute a quorum of the stockholders for the transaction of business except as otherwise provided by statute, the Certificate of Incorporation or these By-laws; provided, however, that where a separate vote by class or classes is required on any matter, the holders of stock representing a majority of the voting power of the class or classes issued and outstanding and entitled to vote on such matters, present in person or represented by proxy, shall constitute a quorum with respect to such matter. If a quorum is present or represented at any meeting with respect to any matter, the vote of the holders of stock representing a majority of the votes which are cast affirmatively or negatively shall decide any question brought before such meeting, unless the question is one upon which by express provision of law, the Certificate of Incorporation or these By-laws a different vote is required, in which case such express provision shall govern and control the decision of such question; provided, however, that the directors shall be elected by a plurality of votes cast. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the chairman of the meeting, if so directed by the Board, may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. If the time and place of the adjourned meeting are announced at the meeting at which an adjournment is taken, then, at such adjourned meeting at which a quorum shall be

present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 8. At each meeting of stockholders, the chairman of the meeting shall announce the opening and the closing of the polls for each matter upon which the stockholders will vote and shall determine the order of business and all other matters of procedure. Except to the extent inconsistent with any rules that are adopted by the Board, the chairman may establish rules to maintain order for the conduct of the meeting, including, without limitation, rules restricting attendance to *bona fide* stockholders of record, their proxies and other persons in attendance at the invitation of the chairman. In establishing rules, the chairman will have absolute discretion and his or her rulings will not be subject to appeal. Rules established by the chairman need not be in writing.

Section 9. To be properly brought before an annual meeting of stockholders, business must be (a) specified in the notice of meeting (including any supplement thereto) given by or at the direction of the Board, (b) otherwise properly brought before the meeting by or at the direction of the Board or (c) otherwise be a proper matter for stockholder action which is properly brought before the meeting by a stockholder of the corporation who is a stockholder of record at the time of the giving of notice as required in this Section 9 and at the time of the meeting and who is entitled to vote at such meeting. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have provided Timely Notice (as defined in the following sentence) thereof in writing to the secretary of the corporation and provide such updates or supplements as are required by this Section 9. For a stockholder's notice to constitute Timely Notice under these By-laws, such notice must be received at the corporation's principal executive offices not later than the close of business on the 90th day, nor earlier than the close of business on the 120th day, prior to the first anniversary of the date on which the prior year's annual meeting of stockholders was held, except that if the date of the annual meeting is advanced by more than 30 days or delayed by more than 70 days from such anniversary date, such notice must be so received not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 70th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by the corporation. In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new

time period (or extend any time period) for the giving of a notice for purposes of the preceding sentence. As to each item of business the stockholder proposes to bring before the annual meeting of stockholders, the stockholder's notice must set forth (i) a description of such business and the reasons supporting the bringing of such business before the annual meeting, (ii) the name and address, as they appear on the corporation's books, of the stockholder proposing such business and the name and address of any Associated Person (as defined in Section 11 of this Article II) on whose behalf the proposal is being made, (iii) any material interest of such stockholder or any Associated Person of such stockholder in such business, (iv) the class and number of shares of the corporation that are owned of record and beneficially owned by each of such stockholder and any Associated Person of such stockholder, and (v) a description of the terms of any hedging, swap or other transactions or series of transactions having been entered into, or of any other agreement, arrangement or understanding (including but not limited to, regardless of the form of settlement thereof, any short or long derivative positions, profit interests, forwards, futures, swaps, options, warrants, convertible securities, stock appreciation or similar rights, hedging transactions and any borrowing or lending of shares of stock) having been made, the effect or intent of which in either case is to increase or mitigate the potential loss to, manage the risk or benefit of stock price changes for, or to increase or decrease the voting power of, the stockholder or any Associated Person of such stockholder with respect to any shares of the corporation.

A stockholder providing notice of business proposed to be brought before an annual meeting pursuant to this Section 9 shall further update and supplement such notice to the extent necessary to cause the information provided or required to be provided in such notice to be true and correct as of the record date for the meeting and as of the date that is 10 business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to, or mailed and received by, the secretary of the corporation at the corporation's principal executive offices not later than 5 business days after the record date for the meeting (in the case of the update and supplement required to be made as of the record date), and not later than 8 business days prior to the date of the meeting or any adjournment or postponement thereof, if practicable, or if not practicable, on the first practicable date prior thereto (in the case of the update and supplement required to be made as of the date that is 10 business days prior to the meeting or any adjournment or postponement thereof).

No business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 9 (other than the nomination and election of directors, to which

Section 10 of this Article II shall apply). If the chairman of the meeting determines that any business has not been properly brought before an annual meeting in accordance with this Section 9, he shall so declare to the meeting and the business shall not be transacted at the meeting.

Notwithstanding anything to the contrary contained herein, a proposal by a stockholder shall be deemed to have been properly brought before a meeting of stockholders if such a proposal is submitted to the corporation in compliance with Rule 14a-8 under the Securities Exchange Act of 1934, as amended, and the rules and regulations hereunder (the "Exchange Act"), and is included in a proxy statement prepared by the corporation to solicit proxies for such meeting.

Section 10. Only those persons who are nominated in accordance with the requirements of this Section 10 shall be eligible for election as directors. Nominations of persons for election to the Board at the annual meeting of stockholders may be made (a) by the Board or (b) a stockholder of the corporation who is a stockholder of record at the time of the giving of notice required by this Section 10 and who is entitled to vote at such meeting. A stockholder's nomination shall be made pursuant to Timely Notice thereof in writing to the secretary of the corporation. Such stockholder's notice must set forth (a) as to each person whom the stockholder proposes to nominate for election or re-election as a director, (i) the name, age, business address and residential address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of capital stock of the corporation, if any, which are beneficially owned by the person and (iv) all other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors, or is otherwise required to be disclosed, pursuant to Regulation 14A under the Exchange Act, and (b) as to the stockholder giving the notice and any Associated Person of such stockholder, the information required by clauses (ii), (iii) and (v) of the fifth sentence of the first paragraph of Section 9 of this Article II. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to assess his or her eligibility to serve as a director of the corporation and whether such service would have any impact on the ability of the corporation to satisfy the applicable legal, regulatory and exchange listing requirements. If the chairman of the meeting determines that a nomination was not in accordance with this Section 10, he shall so declare to the meeting and such nomination shall be disregarded.

Notwithstanding anything in the fourth sentence of the preceding paragraph to the contrary, in the event that the number of directors to be elected to the Board is increased and the

corporation does not make a public announcement naming all of the nominees for director or specifying the size of the increased Board at least 100 days prior to the first anniversary of the date on which the preceding year's annual meeting was held, a stockholder's notice required by such paragraph shall also be considered timely with respect to nominees for any new positions created by such increase if it is received at the corporation's principal place of business not more than 10 days after the day on which such public announcement is first made by the corporation.

Notwithstanding anything to the contrary contained in this Section 10, a nomination by a stockholder of a person for election at a meeting of stockholders shall be deemed to have been made in accordance with the requirements of this Section 10 if such nomination is submitted to the corporation in compliance with Rule 14a-11 under the Exchange Act and is included in a proxy statement prepared by the corporation to solicit proxies for such meeting.

Section 11. For purposes of Sections 9 and 10 of this Article II, as applicable, (a) an "Associated Person" shall mean, with respect to a stockholder, (i) any person (which term shall include, in addition to a natural person, a legal entity or association of any type) directly or indirectly controlling, or acting in concert with, such stockholder, (ii) any beneficial owner of shares of stock of the corporation owned of record or beneficially by such stockholder and (iii) any person controlling, controlled by or under common control with any person of the types described in the preceding clauses (i) and (ii), (b) beneficial ownership shall be determined as provided in Rule 13d-3 under the Exchange Act and, in addition, shall include any financial interest in a derivative instrument which provides the opportunity, directly or indirectly, to profit from or share in any profit derived from any increase in value of any class of shares of the corporation and (c) a public announcement shall include disclosure in a press release reported by the Dow Jones News Service, Associated Press, Reuters, Business Wire or comparable national news service or in a document publicly filed or furnished by the corporation with or to the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

Section 12. In addition to (and without limiting) the requirements of Sections 9 and 10 of this Article II, a stockholder shall comply with the requirements of the Exchange Act and the rules and regulations thereunder and of Delaware law, to the extent applicable to the matters to which such Sections relate.

ARTICLE III

DIRECTORS

Section 1. The Board shall consist of a minimum of five directors and a maximum of 14 directors. The number of directors shall be determined from time to time by resolution of the Board, provided that no decrease in the number of directorships shall shorten the term of any incumbent director. Any change in the number of directors must be authorized by a majority of the whole Board, as constituted immediately prior to such change. The directors shall be elected at the annual meeting of the stockholders, except as provided in Section 2 of this Article III, and each director elected shall hold office until the next annual meeting of stockholders and until his successor is duly elected and qualified or until his earlier death or resignation or removal in accordance with these By-laws. Directors need not be stockholders.

Section 2. Vacancies and newly created directorships resulting from any increase in the number of directors may be filled by a majority of the directors then in office, though less than a quorum, and the directors so chosen shall hold office until the next annual meeting of stockholders and until their successors are duly elected and qualified. A vacancy created by the removal of a director by the stockholders may be filled by the stockholders. If, at the time of filling any vacancy or any newly created directorship, the directors then in office shall constitute less than a majority of the whole Board (as constituted immediately prior to any such increase), the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten percent of the total voting power of all shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chose by the directors then in office.

Section 3. The business of the corporation shall be managed by or under the direction of the Board, which may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the corporation's Restated Certificate of Incorporation, as amended from time to time (the "Certificate of Incorporation"), or by these By-laws directed or required to be exercised or done by the stockholders.

Section 4. The independent members of the Board may, at their discretion, appoint a lead or presiding director to facilitate and coordinate their activities. Any such lead or presiding director shall have such duties and responsibilities as may from time to time be established by the Board.

Section 5. Any director may resign at any time upon written notice to the corporation. Such written resignation shall take effect at the time specified therein, or if no time is specified, at the time of its receipt by the chairman or the secretary. The acceptance of a resignation shall not be necessary to make it effective.

MEETINGS OF THE BOARD OF DIRECTORS

Section 6. The first meeting of each newly elected Board shall be held on the day following the date of the annual meeting of stockholders or such other time as shall be determined by the Board, either within or without the State of Delaware.

Section 7. The Board may hold meetings, both regular and special, either within or without the State of Delaware.

Section 8. Regular meetings of the Board may be held without notice at such time and at such place as shall from time to time be determined by the Board.

Section 9. Special meetings of the Board may be called by the secretary on the request of the chairman or the chief executive officer (a) by written notice mailed to each director first class postage prepaid, not later than the fifth day before the meeting, or (b) by either written or oral notice given personally or by telephone or other means of electronic communication, including without limitation by electronic mail, in which case the meeting may be held as soon after such notice is given as a quorum shall be assembled at the place of the meeting, unless another time shall be specified in the notice. Special meetings shall be called by the chairman, the chief executive officer or the secretary in like manner and on like notice on the written request of any two directors.

Section 10. Attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board need be specified in the notice or waiver of notice of such meeting.

Section 11. At all meetings of the Board a majority of the total number of directors then constituting the whole Board shall constitute a quorum for the transaction of business. The act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board, except as may be otherwise specifically provided by statute or by the Certificate of Incorporation or by these By-laws. If a quorum shall not be present at any meeting of the Board, the directors present thereat

may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 12. Unless otherwise restricted by the Certificate of Incorporation or these By-laws, any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting, if prior to such action all members of the Board or committee, as the case may be, consent thereto in writing, and such written consent or consents are filed with the minutes of proceedings of the Board or committee.

Section 13. Unless otherwise restricted by the Certificate of Incorporation or these By-laws, members of the Board, or any committee designated by the Board, may participate in a meeting of the Board or any committee by means of conference telephone or similar communications equipment so long as all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

COMMITTEES OF DIRECTORS

Section 14. The Board may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of two or more directors. Such committees shall at all times include an audit committee, a compensation committee and a nominating and corporate governance committee. Subject to the foregoing, the Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of such committee.

Any such committee, to the extent provided in the relevant resolution of the Board, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it, but no such committee shall have the power or authority to take action in respect of (a) amending the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board as provided in Section 151(a) of the General Corporation Law of the State of Delaware, fix any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation), (b) adopting an agreement of merger or consolidation, (c) recommending to the stockholders the sale,

lease or exchange of all or substantially all of the corporation's property and assets, (d) recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution, or (d) amending, repealing or replacing these By-laws; (e) the compensation of directors, or (f) unless such resolution or the Certificate of Incorporation expressly so provides, (i) the declaration of a dividend, (ii) the authorization of the issuance of stock of any class or (iii) the adoption of a certificate of ownership and merger. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board.

Section 14. Each committee shall cause the secretary to keep regular minutes of its meetings and report the same to the Board on a regular basis.

COMPENSATION OF DIRECTORS

Section 15. Unless otherwise restricted by the Certificate of Incorporation or these By-laws, the Board shall have the authority to fix the compensation of directors. The directors may be reimbursed for their expenses, if any, of attendance at each meeting of the Board and may be paid a fixed sum for attendance at each meeting of the Board and a stated retainer for service as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of committees of the Board may be allowed like compensation and reimbursement for expenses for attending committee meetings.

REMOVAL OF DIRECTORS

Section 16. Unless otherwise restricted by the Certificate of Incorporation or these By-laws, any director or the entire Board may be removed, with or without cause, by the holders of a majority of the voting power of all shares of the capital stock of the corporation entitled to vote with respect to an election of directors; provided, however, that whenever the holders of any class or series of stock of the corporation are entitled to elect one or more directors by the Certificate of Incorporation, this Section 15 shall apply, with respect to removal without cause of a director or directors so elected, to the vote of the holders of outstanding shares of that class or series and not to the vote of the outstanding shares as a whole.

ARTICLE IV

NOTICES

Section 1. Whenever, under the provisions of statute or of the Certificate of Incorporation or of these By-laws, notice is

required to be given to any director or stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail addressed to such director or stockholder at his address as it appears on the records of the corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same is deposited in the United States mail or when furnished by electronic transmission. For notice given by electronic transmission to a stockholder, such stockholder must have consented to the corporation's giving notice through that particular form of electronic transmission. A stockholder may revoke consent to receive notice by electronic transmission by written notice to the corporation. A stockholder's consent to notice by electronic transmission is automatically revoked if the corporation is unable to deliver two consecutive electronic transmission notices and such inability becomes known to the secretary or any assistant secretary of the corporation, the transfer agent or other person responsible for giving notice; provided, however, that the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action. Notices are deemed given (a) if by facsimile transmission, when transmitted to a number at which the stockholder has consented to receive notice; (b) if by electronic mail, when mailed electronically to an electronic mail address at which the stockholder has consented to receive such notice. Notice to directors may also be given personally, by telephone or other means of electronic communication, including but not limited to electronic mail.

An affidavit of the secretary or an assistant secretary of the corporation or of the transfer agent or other agent of the corporation that a particular notice has been given shall, in the absence of fraud, be prima facie evidence of the giving of such notice.

Section 2. Whenever any notice is required to be given under the provisions of statute or of the Certificate of Incorporation or of these By-laws, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated in such notice, shall be deemed equivalent to the giving of such notice.

ARTICLE V

OFFICERS

Section 1. The officers of the corporation shall be chosen by the Board and shall be a chief executive officer, a president, one or more vice presidents, a secretary and a treasurer. In the discretion of the Board, there may also be a chairman and a vice chairman of the Board. The Board may also choose one or more assistant vice presidents, assistant secretaries and assistant

treasurers and such subordinate officers as may, from time to time, be deemed desirable. Two or more offices may be held by the same person except the offices of president and secretary or the offices of president and treasurer.

Section 2. The Board shall elect officers of the corporation at its first meeting after each annual meeting of stockholders.

Section 3. The Board may appoint such other officers and agents as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board.

Section 4. The officers of the corporation shall hold office until their successors are chosen and qualify. Any officer elected or appointed by the Board may be removed at any time by the affirmative vote of a majority of the members of the Board or may resign at any time upon written notice to the corporation. Any vacancy occurring in any office of the corporation shall be filled by the Board.

THE CHAIRMAN

Section 5. The chairman of the Board, if there be a chairman, shall be chosen from among the directors, shall preside at all meetings of the stockholders and directors at which he or she is present, and shall have such powers and duties as may from time to time be assigned to him by the Board.

THE VICE CHAIRMAN

Section 6. The vice chairman of the Board, if there be a vice chairman, shall be chosen from among the directors, shall preside (in the absence or disability of the chairman) at all meetings of the stockholders and directors, and shall have such powers and duties as may from time to time be assigned to him by the Board.

THE CHIEF EXECUTIVE OFFICER AND THE PRESIDENT

Section 7. The chief executive officer of the corporation, in the absence or disability of the chairman and vice chairman, or if there be no chairman or vice chairman, shall preside at all meetings of the stockholders. The chief executive officer shall have full responsibility for the supervision and direction of the business and affairs of the corporation, subject to the control of the board of directors, and shall see that all resolutions and directives of the Board are carried into effect, and shall perform such duties as from time to time may be assigned by the Board, to which the chief executive officer will directly report.

The president shall be the chief operating officer of the corporation and shall perform such management and other duties in connection with the operations of the corporation as the board of directors or the chief executive officer shall from time to time determine, and shall report directly to the chief executive officer. The president shall, to the extent requested by the chief executive officer, supervise and counsel with one or more other officers of the corporation and shall perform such other duties as may be assigned by the chief executive officer or as the Board may from time to time determine.

VICE PRESIDENTS

Section 8. The several vice presidents, if any, shall perform such duties and have such powers as may from time to time be assigned to them by the Board or the president. In the absence or disability of the president, the duties of the president shall be performed and his powers may be exercised by such vice president as shall be designated by the president or the Board.

THE SECRETARY AND ASSISTANT SECRETARY

Section 9. The secretary shall take minutes of the proceedings of the stockholders, the Board and its committees and record the same in a suitable book for preservation. He shall give notice of all regular and duly called special meetings of the stockholders and the Board. He shall have charge of and keep the seal of the corporation, and affix the seal, attested by his signature, to such instruments as may require the same. Unless the Board shall have appointed a transfer agent, he shall have charge of the certificate books, transfer books and stock ledger, and shall prepare voting lists prior to all meetings of the stockholders. He shall have charge of such other books and papers as the board of directors may direct and shall perform such other duties as may be prescribed from time to time by the Board, the chief executive officer or the president.

Section 10. The assistant secretary, if there shall be one, or if there shall be more than one, the assistant secretaries in the order determined by the Board, shall, in the absence or disability of the secretary, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the Board, the chief executive officer or the president may from time to time prescribe.

THE TREASURER AND ASSISTANT TREASURER

Section 11. The treasurer shall provide for the custody of the funds, securities and other assets of the corporation. He shall cause to be kept a full and accurate record of all receipts

and disbursements of the corporation in books belonging to the corporation, and shall deposit or cause to be deposited in the name of the corporation all monies or other valuable effects in such banks, trust companies, or other depositories as may from time to time be appropriate. He shall have power to make and endorse notes and pay out monies on checks without countersignature and shall perform such other duties as may be prescribed from time to time by the Board, the chief executive officer or the president.

Section 12. The assistant treasurer, if there shall be one, or, if there shall be more than one, the assistant treasurers in the order determined by the Board shall, in the absence or disability of the treasurer, perform the duties and exercise the powers of the treasurer and shall perform such other duties and have such other powers as the Board may from time to time prescribe.

PROXIES

Section 13. The chairman or vice chairman of the Board, acting alone, shall have full power and authority on behalf of the corporation to attend and act at any meeting of stockholders of any corporation in which the corporation may hold stock, and at any such meeting shall possess and exercise any and all rights and powers incident to the ownership of such stock which, as the owner thereof, the corporation might have possessed and exercised if present, and the chairman, vice chairman or president shall have full power to execute on behalf of the corporation any written consent in lieu of a meeting of stockholders of any corporation in which the corporation owns all of the outstanding stock having voting power, where such consent is permitted under the laws of the jurisdiction in which such corporation is organized. The Board, by resolution, may confer like powers upon any person or persons or limit or curtail such power.

ARTICLE VI

CERTIFICATES FOR SHARES

Section 1. Every owner of capital stock of the corporation shall be entitled to have a certificate or certificates in such form as the Board shall prescribe certifying the number of shares of capital stock of the corporation owned by such holder, except as provided below. The certificates shall be signed by hand or by facsimile in the name of the corporation by such officer or officers as the Board shall appoint. The Board may provide by resolution that the capital stock of the corporation shall be uncertificated shares. Notwithstanding the adoption of such a resolution by the Board, every holder of uncertificated shares of capital stock of the corporation shall, upon request, be entitled

to receive a certificate, signed by such officer or officers designated by the corporation and prescribed by statute, representing the number of shares of capital stock of the corporation in registered certificate form. A record shall be kept of the names of the persons owning any such stock, whether certificated or uncertificated, and the number of shares of capital stock of the corporation owned by each such person.

If the corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the corporation shall issue to represent such class or series of stock; provided that, except as otherwise provided by the General Corporation Law of the State of Delaware (the "DGCL"), in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the corporation shall issue to represent such class or series of stock, a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences, and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Within a reasonable time after the issuance or transfer of uncertificated stock, the corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to the DGCL or a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Section 2. Any of or all the signatures on a certificate may be by facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

LOST, STOLEN OR DESTROYED CERTIFICATES

Section 3. The Board may direct a new certificate or certificates or uncertificated shares to be issued in place of any

certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates or uncertificated shares, the Board may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or such owner's legal representative, to advertise the same in such manner as it shall require and/or to give the corporation a bond in such sum as it may direct or an agreement of indemnification satisfactory to the corporation as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

TRANSFER OF STOCK

Section 4. Upon surrender to the corporation, or, if a transfer agent for the corporation has been named by the Board, to the transfer agent, of a certificate representing shares duly endorsed or accompanied by a proper evidence of succession, assignment or authority to transfer, a new certificate shall be issued to the person entitled thereto, and the old certificate cancelled and the transaction recorded upon the books of the corporation. Upon receipt of proper transfer instructions from the registered owner of uncertificated shares, such uncertificated shares shall be cancelled and issuance of new equivalent uncertificated shares or certificated shares shall be made to the person entitled thereto and the transactions shall be recorded upon the books of the corporation.

FIXING RECORD DATE

Section 5. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders, or to receive payment of any dividend or other distribution or allotment of any rights or to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix a record date, which record date shall not precede the date on which a resolution fixing the record date is adopted and which record date shall not be more than sixty (60) nor less than ten (10) days before the date of any meeting of stockholders, nor more than sixty (60) days prior to the time for such other action as hereinbefore described; provided, however, that if no record date is fixed by the Board, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held, and, for determining stockholders

entitled to receive payment of any dividend or other distribution or allotment of rights or to exercise any rights of change, conversion or exchange of stock or for any other purpose, the record date shall be at the close of business on the day on which the Board adopts a resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

REGISTERED STOCKHOLDERS

Section 6. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of capital stock to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares of capital stock on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the DGCL.

SIGNING AUTHORITY

Section 7. Except as provided below and as below and as otherwise required by law, all contracts, assignments, transfers, deeds, stock powers or other instruments of the corporation may be executed and delivered by the chief executive officer, the president or any vice president or by such other officer or officers, or agent or agents, of the corporation as shall be thereunto authorized from time to time either by the Board or by power of attorney executed by any person pursuant to authority granted by the board of directors, and the secretary or any assistant secretary, the treasurer or any assistant treasurer may affix the seal of the corporation thereto and attest same. Certificates representing stock and certificates issued upon request to holders of uncertificated stock shall be signed by (i) the chairman, vice chairman, chief executive officer, president or a vice president, and (ii) the secretary, treasurer, an assistant secretary or an assistant treasurer.

ARTICLE VII GENERAL PROVISIONS

DIVIDENDS

Section 1. Dividends upon the capital stock of the corporation may, subject to the provisions of the Certificate of Incorporation, be declared by the Board at any regular or special

meeting. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation.

Section 2. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the Board from time to time in its absolute discretion thinks proper as a reserve or reserves to meet contingencies or for such other purpose as the Board shall think conducive to the interest of the corporation, and the Board may modify or abolish any such reserve in the manner in which it was created.

CHECKS

Section 3. All checks or demands for money and notes of the corporation shall be signed by such officer or officers or such other person or persons as the Board may from time to time designate.

FISCAL YEAR

Section 4. The fiscal year of the corporation shall be the calendar year unless otherwise fixed by resolution of the Board .

SEAL

Section 5. The corporate seal shall have inscribed thereon the name of the corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any manner reproduced.

FORUM FOR LEGAL ACTIONS

Section 6. The Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of the corporation; (b) any action asserting a claim of breach of fiduciary duty owed by any director or officer of the corporation to the corporation or to the stockholders of the corporation; (c) any action asserting a claim against the corporation arising pursuant to any provision of the DGCL, the Certificate of Incorporation or these By-laws; or (d) any action asserting a claim against the corporation that is governed by the internal affairs doctrine.

INCONSISTENT PROVISIONS; TITLES

Section 7. In the event that any provision of these By-laws

is or becomes inconsistent with any provision of the Certificate of Incorporation, the DGCL or any other applicable law, the provision of these By-laws shall not be given any effect to the extent of such inconsistency but shall otherwise be given full force and effect. The section titles contained in these By-Laws are for convenience only and shall be without substantive meaning or content of any kind whatsoever.

ARTICLE VIII

INSURANCE AND INDEMNIFICATION

Section 1. Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director or an officer of the corporation or any of its subsidiaries or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including but not limited to service with respect to an employee benefit plan (hereinafter an "indemnatee"), whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the corporation to the fullest extent permitted by the DGCL, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than such law permitted the corporation to provide prior to such amendment), against all expense, liability and loss (including but not limited to attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such indemnatee in connection therewith; provided, however, that except as provided in Section 3 of this Article VIII with respect to proceedings to enforce rights to indemnification, the corporation shall indemnify any such indemnatee in connection with a proceeding (or part thereof) initiated by such indemnatee only if such proceeding (or part thereof) was authorized by the Board.

Section 2. Right to Advancement of Expenses. The right to indemnification conferred in Section 1 of this Article VIII shall include the right to be paid by the corporation the expenses incurred in defending any proceeding in advance of its final disposition (hereinafter an "advancement of expenses"); provided, however, that, if the DGCL requires, an advancement of expenses incurred by an indemnatee in his or her capacity as a director or officer of the corporation (and not in any other capacity in which

service was or is rendered by such indemnitee, including but not limited to service to an employee benefit plan) shall be made only upon delivery to the corporation of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter a "final adjudication") that such indemnitee is not entitled to be indemnified for such expenses under this Section 2 or otherwise. The rights to indemnification and to the advancement of expenses conferred in Sections 1 and 2 of this Article VIII shall be contract rights and such rights shall continue as to an indemnitee who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the indemnitee's heirs, executors and administrators.

Section 3. Right of Indemnitee to Bring Suit. If a claim under Section 1 or 2 of this Article VIII is not paid in full by the corporation within sixty (60) days after a written claim has been received by the corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty (20) days, the indemnitee may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. The failure by the indemnitee to have met any applicable standard for indemnification under the DGCL (i) shall constitute a defense to any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) and (ii) shall, upon a final adjudication establishing such failure on the part of the indemnitee, entitle the corporation to recover an advancement of expenses in any suit brought by the corporation seeking such recovery pursuant to the terms of an undertaking. Neither the failure of the corporation (including the Board, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the DGCL, nor an actual determination by the corporation (including the Board, independent legal counsel, or its stockholders) that the indemnitee has not met such applicable standard of conduct, shall either create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or brought by the corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee

is not entitled to be indemnified, or to such advancement of expenses, under this Article VIII or otherwise shall be on the corporation.

Section 4. Non-Exclusivity of Rights. The rights to indemnification and to the advancement of expenses conferred in this Article VIII shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, the Certificate of Incorporation, these By-Laws, any agreement, vote of stockholders or disinterested directors or otherwise.

Section 5. Insurance. The corporation may maintain insurance, at its expense, to protect itself and any present or former director, officer, employee or agent of the corporation or any of its subsidiaries or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the DGCL.

Section 6. Indemnification of Employees and Agents of the Corporation. The corporation may, to the extent authorized from time to time by the Board, grant rights to indemnification and to the advancement of expenses to any employee or agent of the corporation or any of its subsidiaries to the fullest extent of the provisions of this Article VIII with respect to the indemnification and advancement of expenses of directors and officers of the corporation.

ARTICLE IX

AMENDMENTS

Section 1. These By-Laws may be altered, amended or replaced (a) at any regular or special meeting of stockholders at which a quorum is present or represented, provided notice of the proposed alteration, amendment or repeal be contained in the notice of such meeting or (b) at any regular or special meeting of the Board at which a quorum is present.

CERTIFICATION

I, Robert Rosenkranz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Delphi Financial Group, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d. disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 9, 2010

/s/ ROBERT ROSENKRANZ

Robert Rosenkranz
Chairman of the Board and Chief Executive Officer

CERTIFICATION

I, Thomas W. Burghart, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Delphi Financial Group, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d. disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 9, 2010

/s/ THOMAS W. BURGHART

Thomas W. Burghart
Senior Vice President and Treasurer

CERTIFICATION PURSUANT
TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Delphi Financial Group, Inc. (the "Company") on Form 10-Q for the quarter ending September 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officers of the Company certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ROBERT ROSENKRANZ

Robert Rosenkranz
Chairman of the Board and Chief Executive Officer

/s/ THOMAS W. BURGHART

Thomas W. Burghart
Senior Vice President and Treasurer

November 9, 2010