

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

**FORM 10-Q**

(Mark One)

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

For the Quarterly Period Ended March 31, 2006

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><br>(State or other jurisdiction of<br>incorporation or organization) | <u>(302) 478-5142</u><br>(Registrant's telephone number,<br>including area code) | <u>13-3427277</u><br>(I.R.S. Employer Identification<br>Number) |
|--|--|---|

|  |                            |
|--|----------------------------|
| <u>1105 North Market Street, Suite 1230, P.O. Box 8985, Wilmington, Delaware</u><br>(Address of principal executive offices) | <u>19899</u><br>(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 market 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

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 April 30, 2006, the Registrant had 28,581,223 shares of Class A Common Stock and 3,781,163 shares of Class B Common Stock outstanding.

**DELPHI FINANCIAL GROUP, INC.**  
**FORM 10-Q**  
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**AND OTHER INFORMATION**

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**PART I. FINANCIAL INFORMATION**  
**DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Dollars in Thousands, Except Per Share Data)  
(Unaudited)

|   | Three Months Ended<br>March 31, |                  |
|---|---------------------------------|------------------|
|   | 2006                            | 2005             |
| Revenue:  |                                 |                  |
| Premium and fee income.....   | \$ 262,959                      | \$ 235,857       |
| Net investment income.....  | 59,029                          | 53,383           |
| Net realized investment (losses) gains .....  | <u>(1,251)</u>                  | <u>1,817</u>     |
|   | <u>320,737</u>                  | <u>291,057</u>   |
| Benefits and expenses:  |                                 |                  |
| Benefits, claims and interest credited to policyholders .....                         | 191,618                         | 176,601          |
| Commissions.....  | 16,421                          | 15,002           |
| Amortization of cost of business acquired .....                                       | 18,043                          | 15,366           |
| Other operating expenses .....  | <u>41,297</u>                   | <u>36,725</u>    |
|   | <u>267,379</u>                  | <u>243,694</u>   |
| Income from continuing operations before interest and income<br>tax expense .....     | 53,358                          | 47,363           |
| Interest expense:   |                                 |                  |
| Corporate debt.....   | 4,686                           | 3,670            |
| Junior subordinated deferrable interest debentures .....                              | <u>1,271</u>                    | <u>1,171</u>     |
|   | <u>5,957</u>                    | <u>4,841</u>     |
| Income from continuing operations before income tax expense .....                     | 47,401                          | 42,522           |
| Income tax expense.....   | <u>14,569</u>                   | <u>13,275</u>    |
| Income from continuing operations .....   | 32,832                          | 29,247           |
| (Loss) income from discontinued operations, net of income tax (benefit) expense ..... | <u>(10)</u>                     | <u>860</u>       |
| Net income.....   | <u>\$ 32,822</u>                | <u>\$ 30,107</u> |
| Basic results per share of common stock:  |                                 |                  |
| Income from continuing operations.....  | \$ 1.00                         | \$ 0.91          |
| Net income .....  | \$ 1.00                         | \$ 0.93          |
| Diluted results per share of common stock:  |                                 |                  |
| Income from continuing operations.....  | \$ 0.97                         | \$ 0.88          |
| Net income .....  | \$ 0.97                         | \$ 0.91          |
| Dividends paid per share of common stock .....  | \$ 0.10                         | \$ 0.09          |

See notes to consolidated financial statements.

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

|  | <u>March 31,</u><br><u>2006</u> | <u>December 31,</u><br><u>2005</u> |
|--|---------------------------------|------------------------------------|
| Assets:  |                                 |                                    |
| Investments:   |                                 |                                    |
| Fixed maturity securities, available for sale.....   | \$ 3,236,888                    | \$ 3,244,764                       |
| Short-term investments .....   | 275,496                         | 94,308                             |
| Other investments .....  | <u>566,833</u>                  | <u>573,532</u>                     |
|  | 4,079,217                       | 3,912,604                          |
| Cash .....   | 28,613                          | 28,493                             |
| Cost of business acquired.....   | 263,719                         | 248,138                            |
| Reinsurance receivables .....  | 410,163                         | 413,113                            |
| Goodwill .....   | 93,929                          | 93,929                             |
| Securities lending collateral .....  | 248,131                         | 244,821                            |
| Other assets .....   | 250,825                         | 235,644                            |
| Assets held in separate account.....   | <u>105,158</u>                  | <u>99,428</u>                      |
| Total assets .....   | <u>\$ 5,479,755</u>             | <u>\$ 5,276,170</u>                |
| Liabilities and Shareholders' Equity:  |                                 |                                    |
| Future policy benefits:  |                                 |                                    |
| Life .....   | \$ 275,986                      | \$ 273,486                         |
| Disability and accident.....   | 560,549                         | 539,929                            |
| Unpaid claims and claim expenses:  |                                 |                                    |
| Life .....   | 52,666                          | 55,885                             |
| Disability and accident.....   | 254,314                         | 247,093                            |
| Casualty .....   | 752,820                         | 746,479                            |
| Policyholder account balances .....  | 1,137,236                       | 1,039,610                          |
| Corporate debt.....  | 257,750                         | 234,750                            |
| Junior subordinated deferrable interest debentures underlying<br>company-obligated mandatorily redeemable capital<br>securities issued by unconsolidated subsidiaries..... | 59,762                          | 59,762                             |
| Securities lending payable.....  | 248,131                         | 244,821                            |
| Other liabilities and policyholder funds .....   | 740,733                         | 701,888                            |
| Liabilities related to separate account .....  | <u>105,158</u>                  | <u>99,428</u>                      |
| Total liabilities .....  | <u>4,445,105</u>                | <u>4,243,131</u>                   |
| Shareholders' equity:  |                                 |                                    |
| Preferred Stock, \$.01 par; 50,000,000 shares authorized.....  | -                               | -                                  |
| Class A Common Stock, \$.01 par; 150,000,000 shares authorized;<br>31,615,846 and 31,274,166 shares issued and outstanding, respectively .....                             | 316                             | 313                                |
| Class B Common Stock, \$.01 par; 20,000,000 shares authorized;<br>3,781,163 and 3,904,481 shares issued and outstanding, respectively .....                                | 38                              | 39                                 |
| Additional paid-in capital .....   | 453,982                         | 442,531                            |
| Accumulated other comprehensive (loss) income .....  | (2,573)                         | 20,264                             |
| Retained earnings.....   | 665,857                         | 636,285                            |
| Treasury stock, at cost; 3,043,811 and 2,723,211 shares of<br>Class A Common Stock, respectively .....   | <u>(82,970)</u>                 | <u>(66,393)</u>                    |
| Total shareholders' equity .....   | <u>1,034,650</u>                | <u>1,033,039</u>                   |
| Total liabilities and shareholders' equity .....   | <u>\$ 5,479,755</u>             | <u>\$ 5,276,170</u>                |

See notes to consolidated financial statements.

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

|   | Class A<br>Common<br>Stock | Class B<br>Common<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Retained<br>Earnings | Treasury<br>Stock | Total              |
|---|----------------------------|----------------------------|----------------------------------|--|----------------------|-------------------|--------------------|
| Balance, January 1, 2005 .....                                  | \$ 304                     | \$ 39                      | \$406,908                        | \$ 57,371  | \$534,540            | \$(59,314)        | <u>\$939,848</u>   |
| Net income.....   | -                          | -                          | -                                | -  | 30,107               | -                 | 30,107             |
| Other comprehensive income:                                     |                            |                            |                                  |  |                      |                   |                    |
| Decrease in net unrealized<br>appreciation on investments ..... | -                          | -                          | -                                | (33,009)   | -                    | -                 | (33,009)           |
| Decrease in net loss<br>on cash flow hedge .....                | -                          | -                          | -                                | 196  | -                    | -                 | <u>196</u>         |
| Comprehensive loss .....  |                            |                            |                                  |  |                      |                   | (2,706)            |
| Issuance of stock and exercise of<br>stock options .....        | 2                          | -                          | 6,940                            | -  | -                    | -                 | 6,942              |
| Stock based compensation .....                                  | -                          | -                          | 721                              | -  | -                    | -                 | 721                |
| Cash dividends.....   | -                          | -                          | -                                | -  | (2,860)              | -                 | <u>(2,860)</u>     |
| Balance, March 31, 2005 .....                                   | <u>\$ 306</u>              | <u>\$ 39</u>               | <u>\$414,569</u>                 | <u>\$ 24,558</u>                                       | <u>\$561,787</u>     | <u>\$(59,314)</u> | <u>\$ 941,945</u>  |
| Balance, January 1, 2006 .....                                  | \$ 313                     | \$ 39                      | \$442,531                        | \$ 20,264  | \$636,285            | \$(66,393)        | <u>\$1,033,039</u> |
| Net income.....   | -                          | -                          | -                                | -  | 32,822               | -                 | 32,822             |
| Other comprehensive income:                                     |                            |                            |                                  |  |                      |                   |                    |
| Decrease in net unrealized<br>appreciation on investments ..... | -                          | -                          | -                                | (23,033)   | -                    | -                 | (23,033)           |
| Decrease in net loss<br>on cash flow hedge .....                | -                          | -                          | -                                | 196  | -                    | -                 | <u>196</u>         |
| Comprehensive income.....                                       |                            |                            |                                  |  |                      |                   | 9,985              |
| Issuance of stock and exercise of<br>stock options .....        | 3                          | (1)                        | 9,890                            | -  | -                    | -                 | 9,892              |
| Stock based compensation .....                                  | -                          | -                          | 1,561                            | -  | -                    | -                 | 1,561              |
| Acquisition of treasury stock .....                             | -                          | -                          | -                                | -  | -                    | (16,577)          | (16,577)           |
| Cash dividends.....   | -                          | -                          | -                                | -  | (3,250)              | -                 | <u>(3,250)</u>     |
| Balance, March 31, 2006 .....                                   | <u>\$ 316</u>              | <u>\$ 38</u>               | <u>\$453,982</u>                 | <u>\$ (2,573)</u>                                      | <u>\$665,857</u>     | <u>\$(82,970)</u> | <u>\$1,034,650</u> |

See notes to consolidated financial statements.

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

|  | <u>Three Months Ended</u> |                  |
|--|---------------------------|------------------|
|  | <u>March 31,</u>          |                  |
|  | <u>2006</u>               | <u>2005</u>      |
| Operating activities:  |                           |                  |
| Net income .....   | \$ 32,822                 | \$ 30,107        |
| Adjustments to reconcile net income to net cash provided<br>by operating activities: |                           |                  |
| Change in policy liabilities and policyholder accounts .....                         | 71,266                    | 75,043           |
| Net change in reinsurance receivables and payables .....                             | 7,964                     | 11,141           |
| Amortization, principally the cost of business acquired and investments .....        | 16,565                    | 14,328           |
| Deferred costs of business acquired .....  | (29,086)                  | (25,280)         |
| Net realized losses (gains) on investments .....                                     | 1,251                     | (1,817)          |
| Net change in federal income tax liability .....                                     | 9,807                     | 10,640           |
| Other .....  | <u>(26,617)</u>           | <u>(35,870)</u>  |
| Net cash provided by operating activities .....                                      | <u>83,972</u>             | <u>78,292</u>    |
| Investing activities:  |                           |                  |
| Purchases of investments and loans made .....  | (425,779)                 | (505,340)        |
| Sales of investments and receipts from repayment of loans .....                      | 372,965                   | 383,525          |
| Maturities of investments .....  | 45,673                    | 68,474           |
| Net change in short-term investments .....   | (181,132)                 | (42,365)         |
| Change in deposit in separate account .....  | <u>(1,546)</u>            | <u>(2,925)</u>   |
| Net cash used by investing activities .....  | <u>(189,819)</u>          | <u>(98,631)</u>  |
| Financing activities:  |                           |                  |
| Deposits to policyholder accounts .....  | 122,763                   | 23,351           |
| Withdrawals from policyholder accounts .....   | (28,010)                  | (23,545)         |
| Borrowings under revolving credit facility .....                                     | 25,000                    | 26,000           |
| Principal payments under revolving credit facility .....                             | (2,000)                   | (5,000)          |
| Other financing activities .....   | <u>(11,786)</u>           | <u>977</u>       |
| Net cash provided by financing activities .....                                      | <u>105,967</u>            | <u>21,783</u>    |
| Increase in cash .....   | 120                       | 1,444            |
| Cash at beginning of period .....  | <u>28,493</u>             | <u>24,324</u>    |
| Cash at end of period .....  | <u>\$ 28,613</u>          | <u>\$ 25,768</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 are in the opinion of management, necessary for a fair presentation of results for the interim periods. Certain reclassifications have been made in the March 31, 2005 consolidated financial statements to conform to the March 31, 2006 presentation. Operating results for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006. 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, 2005. Capitalized terms used herein without definition have the meanings ascribed to them in the Company’s annual report on Form 10-K for the year ended December 31, 2005.

*Accounting Changes*

*Stock Options.* As of January 1, 2006, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 123 (Revised) (“123R”), “Share-Based Payment,” a revision of SFAS No. 123, which requires all share-based payments to employees, including grants of employee stock options, to be recognized as expense in the income statement based on their fair values and prohibits pro forma disclosure as an alternative. The Company adopted SFAS No. 123R using the modified prospective transition method, under which compensation cost is recognized for all new awards granted after the date of adoption and any unvested awards previously granted for which expenses were not being recognized under SFAS No. 123. Accordingly, since the Company adopted SFAS No. 123 in 2003 using the prospective transition method, compensation cost for unvested awards granted prior to 2003 is required to be recognized under SFAS No. 123R. During the first quarter of 2006, compensation cost recognized for such awards was not material to the results of operations of the Company.

SFAS No. 123R also requires the Company to estimate forfeitures in calculating the expense relating to stock-based compensation as opposed to recognizing these forfeitures and the corresponding reduction in expense only as they occur. In the first quarter of 2006, the Company recorded an adjustment for expected forfeitures as a reduction in stock-based compensation expense, which is included within other operating expenses on the Company’s consolidated income statement. The adjustment was not recorded as a cumulative effect adjustment, net of tax, because the amount was not material to the results of operations of the Company. In addition, the SFAS No. 123R requires the Company to reflect the tax savings resulting from tax deductions in excess of expense as a financing cash flow in its statement of cash flows rather than as an operating cash flow as in prior periods. These cash flows were not material to the Company’s consolidated statements of cash flows.

The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation as of its original effective date (dollars in thousands, except for per share data):

|   | Three Months<br>Ended<br>March 31,<br><u>2005</u> |
|---|---|
| Net income, as reported .....   | \$ 30,107   |
| Add: Stock-based employee compensation expense included<br>in reported net income, net of related tax effects .....                                   | 655   |
| Deduct: Stock-based employee compensation expense<br>determined under the fair value based method for all awards,<br>net of related tax effects ..... | (739)   |
| Pro forma net income.....   | <u>\$ 30,023</u>                                  |
| Earnings per share:   |   |
| Basic, as reported .....  | \$ 0.93   |
| Basic, pro forma .....  | 0.93  |
| Diluted, as reported .....  | \$ 0.91   |
| Diluted, pro forma.....   | 0.90  |

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

**Note A – Significant Accounting Policies - (Continued)**

The Company recognized stock compensation expenses of \$1.8 million and \$0.9 million in the first quarter of 2006 and 2005, respectively. The remaining unrecognized compensation expense related to unvested awards at March 31, 2006 was \$17.7 million and the weighted-average period of time over which this expense will be recognized is 3.0 years.

The fair values of options were estimated at the grant date using the Black-Scholes option pricing model with the following assumptions for the first quarter of 2006: expected volatility - 24.8%, expected dividends - 0.9%, expected lives of the options - 6.5 years and the risk free rate - 4.6%. The following assumptions were used for the first quarter of 2005: expected volatility - 23.8%, expected dividends - 0.8%, expected lives of the options - 5.0 years and the risk free rate - 3.6%.

The expected volatility reflects the Company's past monthly stock price volatility. The expected life of options granted in the first quarter of 2006 was calculated using the "simplified method" in accordance with Staff Accounting Bulletin 107. For options granted in the first quarter of 2005, the Company used a projected expected life based on employees' historical exercise behavior. The dividend yield is based on the Company's historical dividend payments. The risk-free rate is derived from public data sources at the time of the grant. Compensation cost is recognized over the expected life of the option using the straight-line method.

Option activity with respect to the Company's plans excluding the performance-contingent incentive options was as follows:

| Options                             | Number<br>of<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value<br>(\$000) |
|-------------------------------------|-------------------------|--|---|--|
| Outstanding at January 1, 2006..... | 2,565,198               | \$ 26.49                                 |   |  |
| Granted .....                       | 202,000                 | 47.03                                    |   |  |
| Exercised .....                     | (196,849)               | 19.30                                    |   |  |
| Forfeited .....                     | <u>(6,450)</u>          | <u>44.60</u>                             |   |  |
| Outstanding at March 31, 2006.....  | <u>2,563,899</u>        | <u>28.61</u>                             | <u>4.7</u>  | <u>\$ 59,013</u>                           |
| Exercisable at March 31, 2006 ..... | 2,024,863               | 25.14                                    | 3.6   | 53,643                                     |

The weighted average grant date fair value of options granted during the first quarter of 2006 and 2005 was \$15.18 and \$11.31, respectively. The cash proceeds from stock options exercised were \$3.8 million and \$2.3 million for the first quarter of 2006 and 2005, respectively. The total intrinsic value of options exercised during the first quarter of 2006 and 2005 was \$6.3 million and \$2.6 million, respectively.

At March 31, 2006, 2,525,000 performance contingent incentive options were outstanding with a weighted average exercise price of \$36.76, a weighted average contractual term of 7.9 years and an intrinsic value of \$37.6 million. None of the options were exercisable at March 31, 2006.

**Note B – Investments**

At March 31, 2006, the Company had fixed maturity securities available for sale with a carrying value and a fair value of \$3,236.9 million and an amortized cost of \$3,240.4 million. At December 31, 2005, the Company had fixed maturity securities available for sale with a carrying value and a fair value of \$3,244.8 million and an amortized cost of \$3,208.7 million.

The summarized aggregate unaudited net income for the limited partnerships and limited liability companies in which the Company maintained investments was \$1,394.8 million and \$349.7 million for the first three months of 2006 and 2005, respectively.

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

**Note C – Segment Information**

|  | Three Months Ended<br>March 31, |                   |
|--|---------------------------------|-------------------|
|  | <u>2006</u>                     | <u>2005</u>       |
|  | (dollars in thousands)          |                   |
| Revenues:  |                                 |                   |
| Group employee benefit products <sup>(1)</sup> ..... | \$ 290,268                      | \$ 258,336        |
| Asset accumulation products .....                    | 23,107                          | 22,690            |
| Other <sup>(2)</sup> .....                           | <u>8,613</u>                    | <u>8,214</u>      |
|  | 321,988                         | 289,240           |
| Net realized investment (losses) gains .....         | <u>(1,251)</u>                  | <u>1,817</u>      |
|  | <u>\$ 320,737</u>               | <u>\$ 291,057</u> |
| Operating income:                                    |                                 |                   |
| Group employee benefit products <sup>(1)</sup> ..... | \$ 51,056                       | \$ 41,324         |
| Asset accumulation products .....                    | 6,968                           | 6,333             |
| Other <sup>(2)</sup> .....                           | <u>(3,415)</u>                  | <u>(2,111)</u>    |
|  | 54,609                          | 45,546            |
| Net realized investment (losses) gains .....         | <u>(1,251)</u>                  | <u>1,817</u>      |
|  | <u>\$ 53,358</u>                | <u>\$ 47,363</u>  |

(1) During the fourth quarter of 2005, the Company decided to exit its non-core property catastrophe reinsurance business. Prior period information has been restated to conform to the current period presentation.

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

**Note D – Comprehensive Income (Loss)**

Total comprehensive income (loss) is comprised of net income and other comprehensive (loss) income, which includes the change in unrealized gains and losses on securities available for sale and the change in the loss on the cash flow hedge described in the Company's annual report on Form 10-K for the year ended December 31, 2005. Total comprehensive income (loss) was \$10.0 million and \$(2.7) million for the first three months of 2006 and 2005, respectively.

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

**Note E – Computation of Results per Share**

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

|   | Three Months Ended<br>March 31, |                  |
|---|---------------------------------|------------------|
|   | <u>2006</u>                     | <u>2005</u>      |
| Numerator:  |                                 |                  |
| Income from continuing operations.....  | \$ 32,832                       | \$ 29,247        |
| (Loss) income from discontinued operations, net of income tax (benefit) expense ..... | <u>(10)</u>                     | <u>860</u>       |
| Net income .....  | <u>\$ 32,822</u>                | <u>\$ 30,107</u> |
| Denominator:  |                                 |                  |
| Weighted average common shares outstanding.....                                       | 32,986                          | 32,309           |
| Effect of dilutive securities .....   | <u>897</u>                      | <u>953</u>       |
| Weighted average common shares outstanding, assuming dilution .....                   | <u>33,883</u>                   | <u>33,262</u>    |
| Basic results per share of common stock:  |                                 |                  |
| Income from continuing operations.....  | \$ 1.00                         | \$ 0.91          |
| (Loss) income from discontinued operations, net of income tax (benefit) expense ..... | <u>-</u>                        | <u>0.02</u>      |
| Net income .....  | <u>\$ 1.00</u>                  | <u>\$ 0.93</u>   |
| Diluted results per share of common stock:  |                                 |                  |
| Income from continuing operations.....  | \$ 0.97                         | \$ 0.88          |
| (Loss) income from discontinued operations, net of income tax (benefit) expense ..... | <u>-</u>                        | <u>0.03</u>      |
| Net income .....  | <u>\$ 0.97</u>                  | <u>\$ 0.91</u>   |

**DELPHI FINANCIAL GROUP, INC.**  
**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 group life, disability, and excess workers' compensation 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 and control administrative expenses. The Company transfers its exposure to some 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 certain group employee benefit products is also affected by the difference between the yield achieved on invested assets and the discount rate used to calculate the related reserves. The Company is continuing to experience favorable market conditions for its excess workers' compensation products due to high primary workers' compensation rates. For its other group employee benefit products, the Company is continuing to increase the size of its sales force in order 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 it believes to offer opportunities for superior profitability. In the fourth quarter of 2005, the Company decided to exit its non-core property catastrophe reinsurance business, due to the volatility associated with such business and other strategic considerations, and has not thereafter renewed or written any new reinsurance contracts in this business. Accordingly, the Company reclassified the operating results of this business as discontinued operations. Prior period information has been reclassified to conform to the current period presentation.

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 of fixed and floating rate funding agreements with maturities of three to five years in connection with the issuance of funding agreement-backed notes in a corresponding principal amount. The Company believes that the funding agreement program enhances the Company's asset accumulation business by providing an alternative source of distribution for this business. The Company's liability for the funding agreements is 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 to holders of these products. The Company is setting 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 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, 2005 (the "2005 Form 10-K"). Capitalized terms used herein without definition have the meanings ascribed to them in the 2005 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 2005 Form 10-K in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates - Investments" 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" and in "Item 1A. Risk Factors."

## Results of Operations

*Summary of Results.* Net income was \$32.8 million, or \$0.97 per diluted share, in the first quarter of 2006 as compared to \$30.1 million, or \$0.91 per diluted share, in the first quarter of 2005. Net income in the first quarter of 2006 and 2005 included realized investment (losses) gains (net of the related income tax (benefit) expense) of \$(0.8) million, or \$(0.02) per diluted share, and \$1.2 million, or \$0.04 per diluted share, respectively. Net income in the first quarter of 2006 benefited from growth in income from the Company's core group employee benefit products and an increase in net investment income, and was adversely impacted by an increase in interest expense. Core group employee benefit products include group life, disability, excess workers' compensation, travel accident and dental insurance. Premiums from these core group employee benefit products increased 11% in the first quarter of 2006 and the combined ratio (loss ratio plus expense ratio) for these products was modestly lower than in the first quarter of 2005. Net investment income in the first quarter of 2006, which increased 11% from the first quarter of 2005, reflects an 11% increase in average invested assets. The increase in interest expense was primarily due to the increases in the Company's weighted average borrowings and the weighted average borrowing rate due to increases in the levels of the short-term interest indices referenced under the Company's revolving credit facility during first quarter of 2006 as compared to the first quarter of 2005.

*Premium and Fee Income.* Premium and fee income in the first quarter of 2006 was \$263.0 million as compared to \$235.9 million in the first quarter of 2005, an increase of 11%. Premiums from core group employee benefit products increased 11% to \$251.0 million in the first quarter of 2006 from \$225.7 million in the first quarter of 2005. This increase reflects normal growth in employment and salary levels for the Company's existing customer base, price increases and new business production. Premiums from excess workers' compensation insurance for self-insured employers increased 13% to \$58.3 million in the first quarter of 2006 from \$51.7 million in the first quarter of 2005. This increase was primarily due to the demand for this product as a result of high primary workers' compensation rates. In its renewals of insurance coverages during the first quarter of 2006, SNCC continued to obtain higher SIR levels, which are up 8%, while maintaining its pricing. Excess workers' compensation new business production, which represents the amount of new annualized premium sold, increased 106% to \$24.6 million in the first quarter of 2006 from \$12.0 million in the first quarter of 2005 and the retention of existing customers in first quarter of 2006 remained strong. New business production for 2006 benefited from a renewal rights agreement that SNCC entered into in July 2005. Under the agreement, SNCC acquired, among other things, the right to offer renewal quotes to expiring excess workers' compensation policies of a former competitor. Premiums from the Company's other core group employee benefit products increased 11% to \$192.7 million in the first quarter of 2006 from \$174.0 million in the first quarter of 2005, primarily reflecting new business production. New business production for the Company's other core group employee benefit products was \$44.4 million in the first quarter of 2006 and \$45.9 million in the first quarter of 2005. New business production includes only directly written business. 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) which resulted in a 16% increase in production based on the number of cases sold as compared to 2005. The Company continued to implement price increases for certain existing disability and group life customers.

Deposits from the Company's asset accumulation products were \$121.0 million in the first quarter of 2006 as compared to \$21.5 million in the first quarter of 2005. The increase in deposits reflects the issuance of \$100.0 million of fixed and floating rate funding agreements under the Company's new program under which funding agreement-backed notes are issued and sold to institutional investors by an unconsolidated special purpose vehicle which uses the proceeds to purchase from the Company funding agreements having terms substantially similar to those of the notes. Deposits from the Company's asset accumulation products, consisting of new annuity sales and funding agreements, are recorded as liabilities rather than as premiums.

*Net Investment Income.* Net investment income in the first quarter of 2006 was \$59.0 million as compared to \$53.4 million in the first quarter of 2005, an increase of 11%. The level of net investment income in the 2006 period reflects an 11% increase in average invested assets to \$3,965.3 million in the first quarter of 2006 from \$3,564.7 million in the first quarter of 2005. The tax equivalent weighted average annualized yield on invested assets was 6.2% in both periods.

*Net Realized Investment (Losses) Gains.* Net realized investment (losses) gains were \$(1.3) million in the first quarter of 2006 as compared to \$1.8 million in the first quarter of 2005. The Company's investment strategy results in periodic sales of securities and, therefore, the recognition of realized investment gains and losses. During the first quarters of 2006 and 2005, the Company recognized \$(0.6) million and \$2.3 million, respectively, of net (losses) gains on the sales of securities. The Company monitors its investments on an ongoing basis. When the market value of a security declines below its cost, and management judges the decline to be other than temporary, the security is written down to fair value, and the decline is reported as a realized investment loss. In the first quarters of 2006 and 2005, the Company recognized \$0.7 million and \$0.5 million, respectively, of losses due to the other than temporary declines in the market values of certain fixed maturity securities.

The Company may recognize additional losses of this type in the future. The Company anticipates that if certain other existing declines in security values are determined to be other than temporary, it may recognize additional investment losses in the range of \$5 million to \$10 million, on an after-tax basis, with respect to the relevant securities. However, the extent of any such losses

will depend on future market developments and changes in security values, and such losses may be outside this range. The Company continuously monitors the affected securities pursuant to its procedures for evaluation for other than temporary impairment in valuation, which are described in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of operations - Critical Accounting Policies and Estimates - Investments" in the 2005 Form 10-K. 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. There can be no assurance that the Company will realize investment gains in the future in an amount sufficient to offset any such losses.

*Benefits and Expenses.* Policyholder benefits and expenses were \$267.4 million as compared to \$243.7 million in the first quarter 2005, an increase of 10%. This increase primarily reflects the increase in premiums from the Company's group employee benefit products discussed above, and does not reflect any additions to reserves for prior years' claims and claim expenses. However, there can be no assurance that future periods will not include additions to reserves of this type, which will depend on the Company's future loss development. If the Company were to experience significant adverse loss development in the future, the Company's results of operations could be materially adversely affected. The combined ratio (loss ratio plus expense ratio) for the Company's group employee benefits products decreased to 93.7% in the first quarter of 2006 from 94.8% in the first quarter of 2005. The weighted average annualized crediting rate on the Company's asset accumulation products, which reflects the effects of the first year bonus crediting rate on certain newly issued products, was 4.5% and 4.6% in the first quarters of 2006 and 2005, respectively.

*Interest Expense.* Interest expense was \$6.0 million in the first quarter of 2006 as compared to \$4.8 million in the first quarter of 2005, an increase of \$1.2 million. This increase primarily resulted from the increases in the weighted average borrowings and the weighted average borrowing rate due to increases in the levels of short-term interest indices referenced under the Company's revolving credit facility during the first quarter of 2006 as compared to the first quarter of 2005.

*Income Tax Expense.* Income tax expense was \$14.6 million in the first quarter of 2006 as compared to \$13.3 million in the first quarter of 2005. The Company's effective tax rate was 30.7% in the first quarter of 2006 and 31.2% in the first quarter of 2005.

## **Liquidity and Capital Resources**

*General.* The Company had approximately \$113.9 million of financial resources available at the holding company level at March 31, 2006, which was primarily comprised of investments in the common stock of its investment subsidiaries, investments in limited partnerships and limited liability companies and short-term investments. The assets of the investment subsidiaries are primarily invested in 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. The Company's insurance subsidiaries are permitted, without prior regulatory approval, to make dividends payments totaling \$72.5 million during 2006, of which \$0.8 million has been paid to the holding company during the first three months of 2006. In general, dividends from the company's non-insurance subsidiaries are not subject to regulatory or other restrictions. The Company had \$86.0 million of borrowings available to it under its revolving credit facility as of March 31, 2006. A shelf registration statement is also in effect under which securities yielding proceeds of up to \$106.2 million may be issued by the Company.

The Company's current liquidity needs, in addition to funding its operating expenses, include principal and interest payments on outstanding borrowings under its revolving credit facility, interest payments on the 2033 Senior Notes, and distributions on the Capital Securities and the 2003 Capital Securities. The maximum amount of borrowings under the Company's revolving credit facility, which expires in May 2010, is \$200.0 million. The 2033 Senior Notes mature in their entirety in May 2033 and are not subject to any sinking fund requirements but are redeemable by the Company at par at any time on or after May 15, 2008. The junior subordinated deferrable interest debentures underlying the Capital Securities are not redeemable prior to March 25, 2007. The junior subordinated deferrable interest debentures underlying the 2003 Capital Securities are redeemable, in whole or in part, beginning May 15, 2008.

On May 4, 2006, the Company's Board of Directors declared a cash dividend of \$0.12 per share and approved a 3-for-2 common stock split to be effected in the form of a fifty percent stock dividend, with both the cash and stock dividends to be distributed on the Company's Class A Common Stock and Class B Common Stock on June 1, 2006.

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

*Cash Flows.* Operating activities increased cash by \$84.0 million and \$78.3 million in the first quarters of 2006 and 2005, respectively. Net investing activities used \$189.8 million of cash during the first quarter of 2006 primarily for the purchase of securities, and financing activities provided \$106.0 million of cash principally due to the issuance of funding agreements and an increase in borrowings under the Company's revolving credit facility, partially offset by repurchases of the Company's Class A Common Stock having a total cost of \$16.6 million.

*Share Repurchase Program.* The Company's board of directors has authorized a share repurchase program. Share repurchases are effected by the Company in the open market or in negotiated transactions in compliance with the safe harbor provisions of Rule 10b-18 under the Securities Exchange Act of 1934. Execution of the share repurchase program is based on management's assessment of market conditions for its common stock and other potential uses of capital. During the first quarter of 2006, the Company repurchased 320,600 shares of its Class A Common Stock for a total cost of \$16.6 million with a volume weighted average price of \$51.71 per share. At March 31, 2006, the repurchase of approximately 0.6 million shares remained authorized under this program.

*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 \$4.1 billion at March 31, 2006, consists primarily of investments in fixed maturity securities, mortgage loans, investments in limited partnerships and short-term investments. During the first quarter of 2006, the market value of the Company's investment portfolio, in relation to its amortized cost, decreased by \$40.0 million from year-end 2005, before related changes in the cost of business acquired of \$4.5 million and the income tax provision of \$12.4 million. In addition, the Company recognized pre-tax net investment losses of \$1.3 million in the first quarter of 2006. The weighted average credit rating of the Company's fixed maturity portfolio as rated by Standard & Poor's Corporation was "AA" at March 31, 2006. While ratings of this type 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 "Item 1A. 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 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 current market conditions. During 2005, the Company entered into a reinsurance arrangement under which the Company cedes 30% of its excess workers' compensation risks between \$100.0 million and \$150.0 million, per policy per occurrence. This change has increased the reinsurance premiums paid by the Company for these products.

In the fourth quarter of 2005, the Company decided to exit its non-core property catastrophe reinsurance business, due to the volatility associated with such business and other strategic considerations, and has not thereafter renewed or written any new reinsurance contracts in this business. A substantial majority of these reinsurance contracts expired on or before December 31, 2005 and all of the remaining contracts will expire prior to the end of the third quarter of 2006. Although the Company will continue to collect modest amounts of premium and pay losses under the terms of the remaining contracts until their expiration, these amounts are not expected to be material to the Company's results of operations.

## **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, 2005.

## **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 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 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” 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, federal and state legislative and regulatory developments, including but not limited to changes in financial services, employee benefit and tax laws and regulations, 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 “Item 1A. Risk Factors.” The Company disclaims any obligation to update forward-looking information.

## **PART II. OTHER INFORMATION**

### **Item 1A. Risk Factors**

#### **Reserves established for future policy benefits and claims may prove inadequate.**

The Company’s reserves for future policy benefits and unpaid claims and claim expenses are estimates that entail various assumptions and judgments. These estimates are subject to variability, since the factors and events affecting the ultimate liability for claims have not all taken place, and thus cannot be evaluated with certainty. Moreover, under the actuarial methodologies utilized by the Company, these estimates are subject to reevaluation based on developing trends with respect to the Company’s loss experience. Such trends may emerge over longer periods of time, and changes in such trends cannot necessarily be identified or predicted at any given time by reference to current claims experience, whether favorable or unfavorable. If the Company’s actual loss experience from its current or discontinued products is different from the Company’s assumptions or estimates, the Company’s reserves could be inadequate. In such event, the Company’s results of operations, liquidity or financial condition could be materially adversely affected.

#### **The market values of the Company’s investments fluctuate.**

The market values of the Company’s investments vary depending on economic and market conditions, including interest rates, and such values can decline as a result of changes in such conditions. Increasing interest rates or a widening in the spread between interest rates available on U.S. Treasury securities and corporate debt, for example, will typically have an adverse impact on the market values of the fixed maturity securities in the Company’s investment portfolio. If interest rates decline, the Company generally achieves a lower overall rate of return on investments of cash generated from the Company’s operations. In addition, in the event that investments are called or mature in a declining interest rate environment, the Company may be unable to reinvest the proceeds in securities with comparable interest rates. The Company may also in the future be required or determine to sell certain investments, whether to meet contractual obligations to its policyholders, or otherwise, at a price and a time when the market value of such investments is less than the book value of such investments.

Declines in the fair value of investments that are considered in the judgment of management to be other than temporary are reported as realized investment losses. The Company has experienced and may in the future experience losses from other than temporary declines in security values. Such losses are recorded as realized investment losses in the income statement. See “Results of Operations – Net Realized Investment (Losses) Gains.” In addition, the Company invests in certain limited partnerships and limited liability companies that invest in various financial instruments. These investments are reflected in the Company’s financial statements under the equity method; accordingly, positive or negative changes in the value of the investees’ financial instruments are included in net investment income. Thus, the Company’s results of operations, in addition to its liquidity and financial condition, could be materially adversely affected if these entities were to experience significant losses in the values of their financial assets.

#### **The Company’s investment strategy exposes the Company to default and other risks.**

The management of the Company’s investment portfolio is an important component of the Company’s profitability since a substantial portion of the Company’s operating income is generated from the difference between the yield achieved on invested assets and, in the case of asset accumulation products, the interest credited on policyholder funds and, in the case of the Company’s other products for which reserves are discounted, the discount rate used to calculate the related reserves.

The Company is subject to the risk, among others, that the issuers of the fixed maturity securities the Company owns will default on principal and interest payments. A major economic downturn or any of the various other factors that affect issuers' abilities to pay could result in issuer defaults. Because the Company's investments consist primarily of fixed maturity securities and short-term investments, such defaults could materially adversely affect the Company's results of operations, liquidity or financial condition. The Company continually monitors its investment portfolio and attempts to ensure that the risks associated with concentrations of investments in either a particular sector of the market or a single entity are limited.

At March 31, 2006, mortgage-backed securities comprised 22% of the Company's total invested assets. Mortgage-backed securities subject the Company to a degree of interest rate risk, including prepayment and extension risk, which is generally a function of the sensitivity of each security's underlying collateral to prepayments under varying interest rate environments and the repayment priority of the securities in the particular securitization structure. The Company seeks to limit the extent of this risk by emphasizing the more predictable payment classes and securities with stable collateral.

The Company, through its insurance subsidiaries, maintains a program in which investments are financed using advances from various Federal Home Loan Banks. The Company has utilized this program to manage the duration of its liabilities and to earn spread income, which is the difference between the financing cost and the earnings from the investments purchased with those funds. At March 31, 2006, the Company had an outstanding advance of \$55.0 million. The advance was obtained at a fixed rate and has a term to maturity of 14.2 years. In addition, the Company has from time to time utilized reverse repurchase agreements, futures and option contracts and interest rate and credit default swaps in connection with its investment strategy. These transactions may require the Company to maintain securities or cash on deposit with the applicable counterparty as collateral. As the market value of the collateral or contracts changes, the Company may be required to deposit additional collateral or be entitled to have a portion of the collateral returned to it. The Company also maintains a securities lending program under which certain securities from its portfolio are loaned to other institutions for short periods of time. The Company maintains full ownership rights to the securities loaned and continues to earn interest and dividends on them. The collateral received for securities loaned is recorded at the fair value of the collateral, which is generally in an amount in excess of the market value of the securities loaned. The Company's institutional lending agent monitors the market value of the securities loaned and obtains additional collateral as necessary.

The types and amounts of investments made by the Company's insurance subsidiaries are subject to the insurance laws and regulations of their respective states of domicile. Each of these states has comprehensive investment regulations. In addition, the Company's revolving credit facility also contains limitations, with which the Company is currently in compliance in all material respects, on the composition of the Company's investment portfolio. The Company also continually monitors its investment portfolio and attempts to ensure that the risks associated with concentrations of investments in either a particular sector of the market or a single entity are limited.

**The Company's financial position exposes the Company to interest rate risks.**

Because the Company's primary assets and liabilities are financial in nature, the Company's consolidated financial position and earnings are subject to risks resulting from changes in interest rates. The Company manages this risk by active portfolio management focusing on minimizing its exposure to fluctuations in interest rates by matching its invested assets and related liabilities and by periodically adjusting the crediting rates on its annuity products. Profitability of certain group employee benefit products is also affected by the difference between the yield achieved on invested assets and the discount rate used to calculate the related reserves. The Company manages this risk by seeking to adjust the prices charged for these products.

**The Company's ability to reduce its exposure to risks depends on the availability and cost of reinsurance.**

The Company transfers its exposure to some risks through reinsurance arrangements with other insurance and reinsurance companies. Under the Company's reinsurance arrangements, another insurer assumes a specified portion of the Company's losses and loss adjustment expenses in exchange for a specified portion of policy premiums. The availability, amount, cost and terms of reinsurance may vary significantly based on market conditions. Any decrease in the amount of the Company's reinsurance will increase the Company's risk of loss and any increase in the cost of reinsurance will, absent a decrease in the reinsurance amount, reduce the Company's premium income. In either case, the Company's operating results could be adversely affected unless it is able to accordingly adjust the prices or other terms of its insurance policies or successfully implement other operational initiatives, as to which no assurance can be given. Furthermore, the Company is subject to credit risk with respect to reinsurance. The Company obtains reinsurance primarily through indemnity reinsurance transactions in which the Company is still liable for the transferred risks if the reinsurers fail to meet their financial obligations. Such failures could materially affect the Company's results of operations, liquidity or financial condition.

Some reinsurers experienced significant losses related to the terrorist events of September 11, 2001. As a result of this and other market factors, higher prices and less favorable terms and conditions continue to be offered in the reinsurance market. In the future, the Company's reinsurers may continue to seek price increases, although the extent of any such increases cannot currently be predicted. Also, there has been significantly reduced availability of reinsurance covering risks such as terrorist and

catastrophic events. Accordingly, substantially all of the Company's coverages of this nature were discontinued during 2002, which would result in the Company retaining a higher portion of losses from such events if they occur. The Company has not been able to replace such coverages on acceptable terms due to present market conditions, and there can be no assurance that the Company will be able to do so in the future. However, under the Terrorism Act, which terminates on December 31, 2007, the federal government will pay 90% and 85% of the Company's covered losses above the annual deductible during 2006 and 2007, respectively, relating to acts of international terrorism from property and casualty products directly written by SNCC. The occurrence of a significant catastrophic event could have a material adverse effect on the Company's results of operations, liquidity or financial condition.

**The insurance business is a heavily regulated industry.**

The Company's insurance subsidiaries, like other insurance companies, are highly regulated by state insurance authorities in the states in which they are domiciled and the other states in which they conduct business. Such regulations, among other things, limit the amount of dividends and other payments that can be made by such subsidiaries without prior regulatory approval and impose restrictions on the amount and type of investments such subsidiaries may have. These regulations also affect many other aspects of the Company's insurance subsidiaries' businesses, including, for example, RBC requirements, various reserve requirements, the terms, conditions and manner of sale and marketing of insurance products, claims-handling practices and the form and content of required financial statements. These regulations are intended to protect policyholders rather than investors. The ability of the Company's insurance subsidiaries to continue to conduct their businesses is dependent upon the maintenance of their licenses in these various states.

In April 2004, the New York Attorney General ("NYAG") initiated an investigation into certain insurance broker compensation arrangements and other aspects of dealings between insurance brokers and insurance companies, and, in connection therewith, filed a civil complaint in October 2004 against a major insurance brokerage firm based on certain of such firm's compensation arrangements with insurers and alleged misconduct in connection with the placement of insurance business. Other state regulators subsequently announced the commencement of similar investigations and reviews. The Company has received administrative subpoenas or similar requests for information from the Illinois Division of Insurance, the Missouri Department of Insurance, the NYAG's office and the North Carolina Department of Insurance in connection with their investigations. The Company anticipates that additional regulatory inquiries may be received by its insurance subsidiaries as the various investigations continue. The Company has fully cooperated with inquiries it has received to date, and it intends to fully cooperate with any future inquiries of this type.

As also previously disclosed, based on an internal review in 2004 relating to the Company's insurance subsidiaries, the Company had identified certain potential issues concerning past insurance solicitation practices involving SNCC and Marsh & McLennan. The instances that the Company was able to specifically identify in this regard were limited in number and involved modest amounts of premium. The Company reported on these issues to the NYAG's office and to the Missouri Department of Insurance. In 2005, SNCC was the subject of a targeted market conduct examination by the Missouri Department of Insurance relating to these issues, which did not result in any significant adverse findings. The Company will fully cooperate with these and any other regulatory agencies relating to these issues. It is not possible to predict the future impact of this matter on the Company or of the various investigations, or any regulatory changes or litigation resulting from such investigations, on the insurance industry or on the Company and its insurance subsidiaries.

From time to time, increased scrutiny has been placed upon the insurance regulatory framework, and a number of state legislatures have considered or enacted legislative measures that alter, and in many cases increase, state authority to regulate insurance companies. In addition to legislative initiatives of this type, the NAIC and insurance regulators are continuously involved in a process of reexamining existing laws and regulations and their application to insurance companies. Furthermore, while the federal government currently does not directly regulate the insurance business, federal legislation and administrative policies (and court interpretations thereof) in a number of areas, such as employee benefits regulation, age, sex and disability-based discrimination, financial services regulation and federal taxation, can significantly affect the insurance business. It is not possible to predict the future impact of changing regulation on the operations of the Company and those of its insurance subsidiaries.

The Company's insurance subsidiaries can also be required, under solvency or guaranty laws of most states in which they do business, to pay assessments to fund policyholder losses or liabilities of insurance companies that become insolvent.

**The financial services industry is highly competitive.**

The Company competes with numerous other insurance and financial services companies. Many of these organizations have substantially greater assets, higher ratings from rating agencies, larger and more diversified portfolios of insurance products and larger agency sales operations than the Company. Competition in asset accumulation product markets is also encountered from banks, securities brokerage firms and other financial intermediaries marketing alternative savings products, such as mutual funds, traditional bank investments and retirement funding alternatives.

**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 April 2006 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 April 2006 as assigned by A.M. Best, Fitch and Standard & Poor's were A (Excellent), A (Strong) and A (Strong), respectively. Each of the rating agencies reviews its ratings of companies periodically and there can be no assurance that current ratings will be maintained or improved in the future. Claims-paying and financial strength ratings are based upon factors relevant to policyholders and are not directed toward protection of investors. Downgrades in the ratings of the Company's insurance subsidiaries could adversely affect sales of their products and could have a material adverse effect on the results of the Company's operations. In addition, downgrades in the Company's credit ratings could materially adversely affect its ability to access the capital markets. The Company's senior unsecured debt ratings as of April 2006 from A.M. Best, Fitch, Moody's and Standard & Poor's were bbb, BBB, Baa3 and BBB, respectively.

**Almost half of the voting power of Delphi is controlled by Robert Rosenkranz, whose interests may differ from those of other securityholders.**

Each share of our Class A Common Stock entitles the holder to one vote and each share of our Class B Common Stock entitles the holder to a number of votes per share equal to the lesser of (1) the number of votes such that the aggregate of all outstanding shares of Class B Common Stock will be entitled to cast 49.9% of all of the votes represented by the aggregate of all outstanding shares of Class A Common Stock and Class B Common Stock or (2) ten votes. Each share of Class B Common Stock is convertible at any time into one share of Class A Common Stock. The holders of the Class A Common Stock vote as a separate class to elect one director of the Company. As of May 1, 2006, Mr. Robert Rosenkranz, our Chairman and Chief Executive Officer, by means of beneficial ownership of the general partner of Rosenkranz & Company and direct or beneficial ownership, had the power to vote all of the outstanding shares of Class B Common Stock, which as of such date represented 49.9% of the aggregate voting power of the Common Stock. Holders of a majority of the combined voting power of our stockholders have the power to elect all of the members of our Board of Directors (other than the director elected by the holders of Class A Common Stock) and to determine the outcome of fundamental corporate transactions, including mergers and acquisitions, consolidations and sales of all or substantially all of our assets. We are a party to consulting and other agreements with certain affiliates of Mr. Rosenkranz which are expected to continue in accordance with their terms.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

There were no unregistered sales of equity securities during the period covered by this report.

Issuer Purchases of Equity Securities.

The following table shows the purchases of equity securities under the Company's existing repurchase program during the three months ended March 31, 2006:

|                       | <u>Total<br/>Number of<br/>Shares<br/>Purchased</u> | <u>Average<br/>Price Paid<br/>per Share</u> | <u>Total Number<br/>of Shares<br/>Purchased<br/>as Part<br/>of Publicly<br/>Announced<br/>Plans<br/>or Programs<sup>(1)</sup></u> | <u>Maximum<br/>Number of<br/>Shares that<br/>May Yet Be<br/>Purchased Under<br/>the Plans<br/>or Programs<sup>(2)</sup></u> |
|-----------------------|---|---|---|---|
| January 1 – 31, 2006  | -   | -   | -   | -   |
| February 1 – 28, 2006 | 150,000   | \$ 52.02                                    | 150,000   | 793,050   |
| March 1 – 31, 2006    | <u>170,600</u>                                      | \$ 51.43                                    | <u>170,600</u>  | 622,450   |
| Total                 | <u>320,600</u>                                      | \$ 51.71                                    | <u>320,600</u>  | 622,450   |

(1) As of March 31, 2006, the Company had purchased 3,030,635 shares, at a total cost of \$82.6 million in the open market. In addition, during 2004, the Company received 13,176 shares of the Company's Class A Common Stock with an aggregate value of \$0.3 million in liquidation of a partnership interest, which increased the total number of shares of treasury stock outstanding to 3,043,811, as of March 31, 2006.

(2) On August 31, 1998, the Company's Board of Directors authorized the purchase of 1,591,812 outstanding shares of the Company's Class A Common Stock from time to time on the open market. In August 1999 and February 2001, the Board of Directors increased the number of outstanding shares authorized for repurchase by 1,530,000 and 531,273, respectively. The program has no expiration date.

Item 6. Exhibits

- 10.1 Delphi Financial Group, Inc. 2003 Employee Long-Term Incentive and Share Award Plan, as amended.
- 11.1 Computation of Results per Share of Common Stock (incorporated by reference to Note E 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 Vice President and Treasurer of Periodic Report Pursuant to Rule 13a-14(a) or 15d-14(a)
- 32.1 Certification of Periodic Report Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

## SIGNATURES

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

DELPHI FINANCIAL GROUP, INC. (Registrant)

/s/ ROBERT ROSENKRANZ

Robert Rosenkranz  
Chairman of the Board and Chief Executive Officer  
(Principal Executive Officer)

/s/ THOMAS W. BURGHART

Thomas W. Burghart  
Vice President and Treasurer  
(Principal Accounting and Financial Officer)

Date: May 9, 2006

**DELPHI FINANCIAL GROUP, INC.**  
**2003 EMPLOYEE LONG-TERM INCENTIVE AND SHARE AWARD PLAN**

**1. PURPOSES**

The purposes of the 2003 Long-Term Incentive and Share Award Plan are to advance the interests of Delphi Financial Group, Inc. and its shareholders by providing a means to attract, retain, and motivate employees of the Company and its Subsidiaries and Affiliates and other participants upon whose judgment, initiative and efforts the continued success, growth and development of the Company is dependent.

**2. DEFINITIONS**

For purposes of the Plan, the following terms shall be defined as set forth below:

(a) **“Affiliate”** means any entity other than the Company and its Subsidiaries that is designated by the Board or the Committee as a participating employer under the Plan; provided, however, that the Company directly or indirectly owns at least 30% of the combined voting power of all classes of stock of such entity or at least 30% of the ownership interests in such entity.

(b) **“Award”** means any Option, Restricted Share, Restricted Share Unit, or Other Share-Based Award granted to an Eligible Person under the Plan.

(c) **“Award Agreement”** means any written agreement, contract, or other instrument or document evidencing an Award.

(d) **“Board”** means the Board of Directors of the Company.

(e) **“Code”** means the Internal Revenue Code of 1986, as amended from time to time. References to any provision of the Code shall be deemed to include successor provisions thereto and regulations thereunder.

(f) **“Committee”** means the Stock Option and Compensation Committee of the Board, or such other Board committee (which may include the entire Board) as may be designated by the Board to administer the Plan; provided, however, that, unless otherwise determined by the Board, the Committee shall consist of two or more directors of the Company, each of whom is a “non-employee director” within the meaning of Rule 16b-3 under the Exchange Act, to the extent applicable, and each of whom is an “outside director” within the meaning of Section 162(m) of the Code, to the extent applicable; provided, further, that the mere fact that the Committee shall fail to qualify under either of the foregoing requirements shall not invalidate any Award made by the Committee which Award is otherwise validly made under the Plan.

(g) **“Company”** means Delphi Financial Group, Inc., a corporation organized under the laws of Delaware, or any successor corporation.

(h) **“Eligible Person”** means (i) an employee of the Company, a Subsidiary or an Affiliate, including any director who is an employee, or (ii) another individual who, in the Committee’s judgment, can make substantial contributions to the long-term profitability and value of the Company, its Subsidiaries or Affiliates. Notwithstanding any provision of this Plan to the contrary, an Award may be granted to an employee, in connection with his or her hiring, prior to the date the employee first performs services for the Company, a Subsidiary or an Affiliate; provided, however, that any such Award shall not become vested prior to the date the employee first performs such services.

(i) **“Exchange Act”** means the Securities Exchange Act of 1934, as amended from time to time. References to any provision of the Exchange Act shall be deemed to include successor provisions thereto and regulations thereunder.

(j) **“Fair Market Value”** means, with respect to Shares or other property, the fair market value of such Shares or other property determined by such methods or procedures as shall be established from time to time by the Committee. If the Shares are listed on any established stock exchange or a national market system, unless otherwise determined by the Committee in good faith, the Fair Market Value of Shares shall mean the closing price per Share on the applicable date (or, if the Shares were not traded on that day, the next preceding day on which the Shares were traded) on the principal exchange or market system on which the Shares are traded, as such prices are officially reported on such exchange.

(k) **“ISO”** means any Option intended to be and designated as an incentive stock option within the meaning of Section 422 of the Code.

(l) **“NQSO”** means any Option that is not an ISO.

(m) **“Option”** means a right, granted under Section 5(b), to purchase Shares.

(n) **“Other Share-Based Award”** means a right, granted under Section 5(e), that relates to or is valued by reference to Shares.

(o) **“Participant”** means an Eligible Person who has been granted an Award under the Plan.

(p) **“Plan”** means this 2003 Employee Long-Term Incentive and Share Award Plan.

(q) **“Restricted Shares”** means an Award of Shares under Section 5(c) that may be subject to certain restrictions and to a risk of forfeiture.

(r) **“Restricted Share Unit”** means a right, granted under Section 5(d), to receive Shares or cash at the end of a specified deferral period.

(s) **“Rule 16b-3”** means Rule 16b-3, as from time to time in effect and applicable to the Plan and Participants, promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act.

(t) **“Shares”** means Class A common stock, \$.01 par value per share, of the Company.

(u) **“Subsidiary”** means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations (other than the last corporation in the unbroken chain) owns shares possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

### 3. ADMINISTRATION

(a) **Authority of the Committee.** The Plan shall be administered by the Committee, and the Committee shall have full and final authority to take the following actions, in each case subject to and consistent with the provisions of the Plan:

(i) to select Eligible Persons to whom Awards may be granted;

(ii) to designate Affiliates;

(iii) to determine the type and number of Awards to be granted, the number of Shares to which an Award may relate, the terms and conditions of any Award granted under the Plan (including, but not limited to, any exercise price, grant price, or purchase price, any restriction or condition, any schedule for

lapse of restrictions or conditions relating to transferability or forfeiture, exercisability, or settlement of an Award, and waiver or accelerations thereof, and waivers of performance conditions relating to an Award, based in each case on such considerations as the Committee shall determine), and all other matters to be determined in connection with an Award;

(iv) to determine whether, to what extent, and under what circumstances an Award may be settled, or the exercise price of an Award may be paid, in cash, Shares, other Awards, or other property, or an Award may be canceled, forfeited, exchanged, or surrendered;

(v) to determine whether, to what extent, and under what circumstances cash, Shares, other Awards, or other property payable with respect to an Award will be deferred either automatically, at the election of the Committee, or at the election of the Eligible Person;

(vi) to prescribe the form of each Award Agreement, which need not be identical for each Eligible Person;

(vii) to adopt, amend, suspend, waive, and rescind such rules and regulations and appoint such agents as the Committee may deem necessary or advisable to administer the Plan;

(viii) to correct any defect or supply any omission or reconcile any inconsistency in the Plan and to construe and interpret the Plan and any Award, rules and regulations, Award Agreement, or other instrument hereunder;

(ix) to accelerate the exercisability or vesting of all or any portion of any Award or to extend the period during which an Award is exercisable;

(x) to determine whether uncertificated Shares may be used in satisfying Awards and otherwise in connection with the Plan; and

(xi) to make all other decisions and determinations as may be required under the terms of the Plan or as the Committee may deem necessary or advisable for the administration of the Plan.

**(b) Manner of Exercise of Committee Authority.** The Committee shall have sole discretion in exercising its authority under the Plan. Any action of the Committee with respect to the Plan shall be final, conclusive, and binding on all persons, including but not limited to the Company, Subsidiaries, Affiliates, Eligible Persons, any person claiming any rights under the Plan from or through any Eligible Person, and shareholders. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. The Committee may delegate to other members of the Board or officers or employees of the Company or any Subsidiary or Affiliate the authority, subject to such terms as the Committee shall determine, to perform administrative functions.

**(c) Limitation of Liability.** Each member of the Committee shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any officer or employee of the Company or any Subsidiary or Affiliate, the Company's independent certified public accountants, or other professional retained by the Company to assist in the administration of the Plan. No member of the Committee, and no officer or employee of the Company acting on behalf of the Committee, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Committee and any officer or employee of the Company acting on their behalf shall, to the fullest extent permitted by law, be indemnified and protected by the Company with respect to any such action, determination, or interpretation.

**(d) Limitation on Committee's Discretion.** Anything in this Plan to the contrary notwithstanding, in the case of any Award which is intended to qualify as "qualified performance-based compensation" within the meaning of Section 162(m) of the Code, the Committee shall have no discretion to increase the amount

of compensation payable under the Award to the extent such an increase would cause the Award to lose its qualification as such qualified performance-based compensation.

#### 4. SHARES SUBJECT TO THE PLAN

(a) Subject to adjustment as provided in Section 4(c) hereof, the total number of Shares reserved for issuance in connection with Awards under the Plan shall be 3,500,000. No Award may be granted if the number of Shares to which such Award relates, when added to the number of Shares previously issued under the Plan and the number of shares to which outstanding Awards then relate, exceeds the number of Shares reserved under the preceding sentence. If any Awards are forfeited, canceled, terminated, exchanged or surrendered or such Award is settled in cash or otherwise terminates without a distribution of Shares to the Participant, any Shares counted against the number of Shares reserved and available under the Plan with respect to such Award shall, to the extent of any such forfeiture, settlement, termination, cancellation, exchange or surrender, again be available for Awards under the Plan. Upon the exercise of any Award granted in tandem with any other Awards, such related Awards shall be canceled to the extent of the number of Shares as to which the Award is exercised.

(b) Subject to adjustment as provided in Section 4(c) hereof, the maximum number of Shares (i) with respect to which Options may be granted during a calendar year to any Eligible Person under this Plan shall be 750,000 Shares, and (ii) with respect to Restricted Shares, Restricted Share Units or Other Share-Based Awards intended to qualify as qualified performance-based compensation within the meaning of Section 162(m) of the Code, shall be the equivalent of 225,000 Shares during a calendar year to any Eligible Person under this Plan.

(c) In the event that the Committee shall determine that any dividend in Shares, recapitalization, Share split, reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, or share exchange, or other similar corporate transaction or event, affects the Shares or the value thereof such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Eligible Persons under the Plan, then the Committee shall make such equitable changes or adjustments as it deems appropriate, including but not limited to the adjustment, in such manner as it may deem equitable, of any or all of (i) the number and kind of shares which may thereafter be issued under the Plan, (ii) the number and kind of shares, other securities or other consideration issued or issuable in respect of outstanding Awards, and (iii) the exercise price, grant price, or purchase price relating to any Award; provided, however, in each case that, with respect to ISOs, such adjustment shall be made in accordance with Section 424(a) of the Code, unless the Committee determines otherwise. In addition, subject to the limitations set forth in Section 3(d) and Section 7 hereof, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria and performance objectives, if any, included in, Awards in recognition of unusual or non-recurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Subsidiary or Affiliate or the financial statements of the Company or any Subsidiary or Affiliate, or in response to changes in applicable laws, regulations, or accounting principles.

(d) Any Shares distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares or treasury Shares including Shares acquired by purchase in the open market or in private transactions.

#### 5. SPECIFIC TERMS OF AWARDS

(a) **General.** Awards may be granted on the terms and conditions set forth in this Section 5. In addition, the Committee may impose on any Award or the exercise thereof, at the date of grant or thereafter (subject to Section 9(d)), such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine, including terms regarding forfeiture of Awards or continued exercisability of Awards in the event of termination of service by the Eligible Person.

(b) **Options.** The Committee is authorized to grant Options, which may be NQSOs or ISOs, to Eligible Persons on the following terms and conditions:

(i) **Exercise Price.** The exercise price per Share purchasable under an Option shall be determined by the Committee; provided, however, that the exercise price per Share of an Option shall not be less than the Fair Market Value of a Share on the date of grant of the Option. The Committee may, without limitation, set an exercise price that is based upon achievement of performance criteria if deemed appropriate by the Committee.

(ii) **Option Term and Exercise Period.** The term of each Option shall be determined by the Committee; provided, however, that such term shall not be longer than ten years from the date of grant of the Option. The last day of the term of an Option shall be referred to herein as its “Expiration Date.” Subject to Sections 5(b)(iii) through 5(b)(vi), Options may be exercised by a Participant only for so long as such Participant is employed by the Company.

(iii) **Termination of Employment Except by Death, Disability or Discharge for Cause.** Unless otherwise specified in an Award Agreement, in the event that the employment of a Participant by the Company, its Subsidiaries or Affiliates shall terminate for any reason other than death, disability, or discharge for cause, Options may be exercised only within ninety (90) days after such termination of employment or such longer period as may be established by the Committee at the time of grant or thereafter, but (unless otherwise determined by the Committee) only to the extent such Option was exercisable on the last day of employment, and in no event may an Option be exercised after its Expiration Date. Any portion of the Option which was not exercisable on such last day shall expire immediately. Whether an authorized leave of absence or absence for military or governmental service shall constitute termination of employment for purposes of the Plan shall be determined by the Committee, which determination shall be final and conclusive.

(iv) **Death or Disability.** Unless otherwise specified in an Award Agreement, in the event a Participant shall die or become disabled while in the employ of the Company, a Subsidiary or an Affiliate, Options may be exercised at any time within one (1) year after the Participant’s death or disability or such longer period as may be established by the Committee at the time of grant or thereafter, but (unless otherwise determined by the Committee) only to the extent that such Option was exercisable on the last day of employment, and in no event may an Option be exercised after its Expiration Date. During such one-year period, the Option may be exercised by the Participant or a representative, or in the case of death, by the executors or administrators of the Participant or by any person or persons who shall have acquired the Option directly from the Participant by bequest or inheritance. Whether a Participant shall have become disabled for the purposes of the Plan shall be determined by the Committee, which determination shall be final and conclusive.

(v) **Discharge for Cause.** If a Participant is discharged for cause, all unexercised Options shall terminate as of the date of discharge. Whether a Participant is discharged for cause for purposes of the Plan shall be determined by the Committee, which determination shall be final and conclusive.

(vi) **Retirement.** Notwithstanding the provisions of Section 5(b)(iii) hereof, the Committee may, at the time of grant of an Option or thereafter, permit the Participant to exercise Options up to one (1) year following the Participant’s retirement under the Company’s, its Subsidiary’s or its Affiliate’s, as applicable, retirement policy or such longer period as may be established by the Committee at the time of grant or thereafter; provided that in no event may an Option be exercised after its Expiration Date.

(vii) **Non-Employee Optionees.** Section 5(b)(ii) (except for the first sentence thereof) through (vi) shall not apply with respect to Options having been granted to a Participant who is not an employee of the Company, a Subsidiary, or an Affiliate (a “Non-Employee Optionee”). In the case of any such Options, the Award Agreement shall set forth the applicable limitations on the exercisability thereof, and the effect on such exercisability of death, disability and any other events provided for therein, at the time of grant or thereafter.

(viii) **Right of Company.** In the case of a termination of an Optionee’s employment by reason of death, disability, retirement or discharge other than for cause (or, in the case of a Non-Employee Optionee, to the extent provided in the Award Agreement at the time of grant or thereafter) the Company

may, but is not obligated to, purchase unexercised Options held by such Participant and pay such person the amount of cash equal to (i) the aggregate Fair Market Value of the Shares underlying such Option (to the extent that such Options would have been exercisable by the Participant upon termination of employment) as of the date of termination of employment (or, in the case of a Non-Employee Optionee, the date provided in the Award Agreement at the time of grant or thereafter), less (ii) the aggregate exercise price under such option.

(ix) **Time and Method of Exercise.** The Committee shall determine at the date of grant or thereafter the time or times at which an Option may be exercised in whole or in part (including, without limitation, upon achievement of performance criteria if deemed appropriate by the Committee), the methods by which such exercise price may be paid or deemed to be paid (including, without limitation, broker-assisted exercise arrangements), the form of such payment (including, without limitation, cash, Shares, notes or other property), and the methods by which Shares will be delivered or deemed to be delivered to Eligible Persons; provided, however, unless otherwise determined by the Committee that in no event may any portion of the exercise price be paid with Shares acquired either under an Award granted pursuant to this Plan, upon exercise of a stock option granted under another Company plan or as a stock bonus or other stock award granted under another Company plan unless, in any such case, the Shares were acquired and vested more than six months in advance of the date of exercise.

(x) **ISOs.** The terms of any ISO granted under the Plan shall comply in all respects with the provisions of Section 422 of the Code, including but not limited to the requirement that the ISO shall be granted within ten years from the earlier of the date of adoption or shareholder approval of the Plan. ISOs may only be granted to employees of the Company or a Subsidiary.

(c) **Restricted Shares.** The Committee is authorized to grant Restricted Shares to Eligible Persons on the following terms and conditions:

(i) **Issuance and Restrictions.** Restricted Shares shall be subject to such restrictions on transferability and other restrictions, if any, as the Committee may impose at the date of grant or thereafter, which restrictions may lapse separately or in combination at such times, under such circumstances (including, without limitation, upon achievement of performance criteria if deemed appropriate by the Committee), in such installments, or otherwise, as the Committee may determine. Except to the extent restricted under the Award Agreement relating to the Restricted Shares, an Eligible Person granted Restricted Shares shall have all of the rights of a shareholder including, without limitation, the right to vote Restricted Shares and the right to receive dividends thereon. If Restricted Shares are intended to qualify as “qualified performance-based compensation” for purposes of Section 162(m) of the Code, such Restricted Shares shall be issued in accordance with the provisions of Section 7 below.

(ii) **Forfeiture.** Except as otherwise determined by the Committee, at the date of grant or thereafter, upon termination of service during the applicable restriction period, Restricted Shares and any accrued but unpaid dividends that are at that time subject to restrictions shall be forfeited; provided, however, that the Committee may provide, by rule or regulation or in any Award Agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Shares will be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Restricted Shares.

(iii) **Certificates for Shares.** Restricted Shares granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Shares are registered in the name of the Eligible Person, such certificates shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Shares, and the Company shall retain physical possession of the certificate.

(iv) **Dividends.** Dividends paid on Restricted Shares shall be either paid at the dividend payment date, or deferred for payment to such date as determined by the Committee, in cash or in unrestricted Shares having a Fair Market Value equal to the amount of such dividends. Shares distributed in connection with a Share split or dividend in Shares, and other property distributed as a dividend, shall be

subject to restrictions and a risk of forfeiture to the same extent as the Restricted Shares with respect to which such Shares or other property has been distributed.

(d) **Restricted Share Units.** The Committee is authorized to grant Restricted Share Units to Eligible Persons, subject to the following terms and conditions:

(i) **Award and Restrictions.** Delivery of Shares or cash, as the case may be, will occur upon expiration of the deferral period specified for Restricted Share Units by the Committee (or, if permitted by the Committee, as elected by the Eligible Person). In addition, Restricted Share Units shall be subject to such restrictions as the Committee may impose, if any (including, without limitation, the achievement of performance criteria if deemed appropriate by the Committee), at the date of grant or thereafter, which restrictions may lapse at the expiration of the deferral period or at earlier or later specified times, separately or in combination, in installments or otherwise, as the Committee may determine. If Restricted Share Units are intended to qualify as “qualified performance-based compensation” for purposes of Section 162(m) of the Code, such Restricted Share Units shall be issued in accordance with the provisions of Section 7 below.

(ii) **Forfeiture.** Except as otherwise determined by the Committee at date of grant or thereafter, upon termination of service (as determined under criteria established by the Committee) during the applicable deferral period or portion thereof to which forfeiture conditions apply (as provided in the Award Agreement evidencing the Restricted Share Units), or upon failure to satisfy any other conditions precedent to the delivery of Shares or cash to which such Restricted Share Units relate, all Restricted Share Units that are at that time subject to deferral or restriction shall be forfeited; provided, however, that the Committee may provide, by rule or regulation or in any Award Agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Share Units will be waived in whole or in part in the event of termination resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Restricted Share Units.

(e) **Other Share-Based Awards.** The Committee is authorized, subject to limitations under applicable law, to grant to Eligible Persons such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Shares, as deemed by the Committee to be consistent with the purposes of the Plan, including, without limitation, unrestricted shares awarded purely as a “bonus” and not subject to any restrictions or conditions, other rights convertible or exchangeable into Shares, purchase rights for Shares, Awards with value and payment contingent upon performance of the Company or any other factors designated by the Committee, and Awards valued by reference to the performance of specified Subsidiaries or Affiliates. The Committee shall determine the terms and conditions of such Awards at date of grant or thereafter. Shares delivered pursuant to an Award in the nature of a purchase right granted under this Section 5(e) shall be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, cash, Shares, notes or other property, as the Committee shall determine. Cash awards, as an element of or supplement to any other Award under the Plan, shall also be authorized pursuant to this Section 5(e).

## 6. CERTAIN PROVISIONS APPLICABLE TO AWARDS

(a) **Stand-Alone, Additional, Tandem and Substitute Awards.** Awards granted under the Plan may, in the discretion of the Committee, be granted to Eligible Persons either alone or in addition to, in tandem with, or in exchange or substitution for, any other Award granted under the Plan or any award granted under any other plan or agreement of the Company, any Subsidiary or Affiliate, or any business entity to be acquired by the Company or a Subsidiary or Affiliate, or any other right of an Eligible Person to receive payment from the Company or any Subsidiary or Affiliate. Awards may be granted in addition to or in tandem with such other Awards or awards, and may be granted either as of the same time as or a different time from the grant of such other Awards or awards. The per Share exercise price of any Option or purchase price of any other Award conferring a right to purchase Shares which is granted, in connection with the substitution of awards granted under any other plan or agreement of the Company or any Subsidiary or Affiliate or any business entity to be acquired by the Company or any Subsidiary or Affiliate, shall be determined by the Committee, in its discretion.

(b) **Term of Awards.** The term of each Award granted to an Eligible Person shall be for such period as may be determined by the Committee; provided, however, that in no event shall the term of any Option exceed a period of ten years from the date of its grant (or such shorter period as may be applicable under Section 422 of the Code).

(c) **Form of Payment Under Awards.** Subject to the terms of the Plan and any applicable Award Agreement, payments to be made by the Company or a Subsidiary or Affiliate upon the grant, maturation, or exercise of an Award may be made in such forms as the Committee shall determine at the date of grant or thereafter, including, without limitation, cash, Shares, notes or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis. The Committee may make rules relating to installment or deferred payments with respect to Awards, including the rate of interest to be credited with respect to such payments, and the Committee may require deferral of payment under an Award if, in the sole judgment of the Committee, it may be necessary in order to avoid nondeductibility of the payment under Section 162(m) of the Code.

(d) **Nontransferability.** Unless otherwise set forth by the Committee in an Award Agreement, Awards shall not be transferable by an Eligible Person except by will or the laws of descent and distribution and shall be exercisable during the lifetime of an Eligible Person only by such Eligible Person or his guardian or legal representative. An Eligible Person's rights under the Plan may not be pledged, mortgaged, hypothecated, or otherwise encumbered, and shall not be subject to claims of the Eligible Person's creditors.

(e) **Noncompetition.** The Committee may, by way of the Award Agreements or otherwise, establish such other terms, conditions, restrictions and/or limitations, if any, of any Award, provided they are not inconsistent with the Plan, including, without limitation, the requirement that the Participant not engage in competition with the Company.

## 7. PERFORMANCE AWARDS GRANTED TO DESIGNATED PARTICIPANTS

(a) **General.** If the Committee determines that an award of Restricted Shares or Restricted Share Units or an Other Share-Based Award to be granted to a Participant should qualify as "qualified performance-based compensation" for purposes of Section 162(m) of the Code, the grant, vesting and/or settlement of such an Award shall be contingent upon achievement of preestablished performance goals and other terms set forth in this Section 7.

(b) **Performance Goals Generally.** The performance goals for such Awards ("Performance Awards") shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria, as specified by the Committee consistent with this Section 7. Performance goals shall be objective and shall otherwise meet the requirements of Section 162(m) of the Code and regulations thereunder (including Regulation 1.162-27 and successor regulations thereto). The Committee may determine that such Performance Awards shall be granted, vested and/or settled upon achievement of any one performance goal or that two or more of the performance goals must be achieved as a condition to grant, vesting and/or settlement of such Performance Awards. Performance goals may differ for Performance Awards granted to any one Participant or to different Participants.

(c) **Business Criteria.** One or more of the following business criteria for the Company, on a consolidated basis, and/or for specified subsidiaries or business units of the Company (except with respect to the total stockholder return and earnings per share criteria), shall be used by the Committee in establishing performance goals for such Performance Awards: appreciation in value of the Shares; total shareholder return; operating income or earnings; net income; pretax earnings; pretax earnings before interest, depreciation and amortization; pro forma net income; return on equity; return on designated assets; return on capital; economic value added; earnings per share and/or growth thereof; revenues; expenses (including expense ratio); loss ratio; combined ratio; new business production; operating profit margin; operating cash flow; free cash flow; cash flow return on investment; operating margin; or net profit margin; or any of the above criteria as compared to the performance of a published or special index or benchmark deemed applicable by the Committee.

**(d) Performance Period; Timing for Established Performance Goals.** Achievement of performance goals in respect of such Performance Awards shall be measured over a performance period, as specified by the Committee. Performance goals shall be established not later than 90 days after the beginning of any performance period applicable to such Performance Awards, or at such other date as may be required or permitted for “qualified performance-based compensation” under Section 162(m) of the Code.

**(e) Settlement of Performance Awards; Other Terms.** Settlement of such Performance Awards shall be in cash, Shares or other property, in the discretion of the Committee. The Committee may, in its discretion, reduce the amount of a settlement otherwise to be made in connection with such Performance Awards, but may not exercise discretion to increase any such amount payable to the Participant in respect of a Performance Award subject to this Section 7.

**(f) Written Determination.** All determinations by the Committee as to the establishment of performance goals or potential individual Performance Awards and as to the achievement of performance goals relating to Performance Awards under Section 7 shall be made in writing in the case of any award intended to qualify under Section 162(m) of the Code.

## **8. CHANGE OF OWNERSHIP PROVISIONS**

**(a) Acceleration of Exercisability and Lapse of Restrictions.** Unless otherwise provided by the Committee at the time of the Award grant, in the event of a Change of Ownership, (i) all outstanding Awards pursuant to which the Participant may have rights the exercise of which is restricted or limited, shall become fully exercisable at the time of the Change of Ownership, and (ii) unless the right to lapse of restrictions or limitations is waived or deferred by a Participant prior to such lapse, all restrictions or limitations (including risks of forfeiture and deferrals) on outstanding Awards subject to restrictions or limitations under the Plan shall lapse, and all performance criteria and other conditions to payment of Awards under which payments of cash, Shares or other property are subject to conditions shall be deemed to be achieved or fulfilled and shall be waived by the Company at the time of the Change of Ownership.

**(b) Definition of Change of Ownership.** For purposes of this Section 8, a “Change of Ownership” shall be deemed to have occurred (1) if individuals who, as of the effective date of this Plan, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the directors constituting the Board, provided that any person becoming a director subsequent to the effective date of this Plan whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least three-quarters (3/4) of the then directors who are members of the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is (A) in connection with the acquisition by a third person, including a “group” as such term is used in Section 13(d)(3) of the Exchange Act, of beneficial ownership, directly or indirectly, of 20% or more of the combined voting securities ordinarily having the right to vote for the election of directors of the Company (unless such acquisition of beneficial ownership was approved by a majority of the Board who are members of the Incumbent Board), or (B) in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this Plan, considered as though such person were a member of the Incumbent Board; or (2) if the stockholders of the Company approve a merger, consolidation, recapitalization or reorganization of the Company, reverse split of any class of voting securities of the Company, or an acquisition of securities or assets by the Company, or the sale or disposition by the Company of all or substantially all of the Company’s assets, or if any such transaction is consummated without stockholder approval, other than any such transaction in which the holders of outstanding Company voting securities immediately prior to the transaction receive, with respect to such Company voting securities, voting securities of the surviving or transferee entity representing more than 60 percent of the total voting power outstanding immediately after such transaction, with the voting power of each such continuing holder relative to other such continuing holders not substantially altered in the transaction; or (3) if the stockholders of the Company approve a plan of complete liquidation of the Company.

## 9. GENERAL PROVISIONS

(a) **Compliance with Legal and Trading Requirements.** The Plan, the granting and exercising of Awards thereunder, and the other obligations of the Company under the Plan and any Award Agreement, shall be subject to all applicable federal, state and foreign laws, rules and regulations, and to such approvals by any regulatory or governmental agency as may be required. The Company, in its discretion, may postpone the issuance or delivery of Shares under any Award until completion of such stock exchange or market system listing or registration or qualification of such Shares or other required action under any state or federal law, rule or regulation as the Company may consider appropriate, and may require any Participant to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of Shares in compliance with applicable laws, rules and regulations. No provisions of the Plan shall be interpreted or construed to obligate the Company to register any Shares under federal, state or foreign law. The Shares issued under the Plan may be subject to such other restrictions on transfer as determined by the Committee.

(b) **No Right to Continued Employment or Service.** Neither the Plan nor any action taken thereunder shall be construed as giving anyone the right to be retained in the employ or service of the Company or any of its Subsidiaries or Affiliates, nor shall it interfere in any way with the right of the Company or any of its Subsidiaries or Affiliates to terminate anyone's employment or service at any time.

(c) **Taxes.** The Company or any Subsidiary or Affiliate is authorized to withhold from any Award granted, any payment relating to an Award under the Plan, including from a distribution of Shares, or any payroll or other payment to an Eligible Person, amounts of withholding and other taxes due in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Company and Eligible Persons to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This authority shall include authority to withhold or receive Shares or other property and to make cash payments in respect thereof in satisfaction of an Eligible Person's tax obligations; provided, however, that the amount of tax withholding to be satisfied by withholding Shares shall be limited to the minimum amount of taxes, including employment taxes, required to be withheld under applicable Federal, state and local law.

(d) **Changes to the Plan and Awards.** The Board may amend, alter, suspend, discontinue, or terminate the Plan or the Committee's authority to grant Awards under the Plan without the consent of shareholders of the Company or Participants; provided, however, that any such amendment, alteration, suspension, discontinuance or termination shall be subject to the approval of the Company's shareholders (i) if, and to the extent, required under the rules of any stock exchange or automated quotation system on which the Shares may then be listed or quoted, and (ii) as it applies to ISOs, to the extent required under Section 422 of the Code. Notwithstanding the foregoing, without the consent of an affected Participant, no amendment, alteration, suspension, discontinuation, or termination of the Plan may materially and adversely affect the rights of such Participant under any Award theretofore granted to him or her. The Committee may waive any conditions or rights under, amend any terms of, or amend, alter, suspend, discontinue or terminate, any Award theretofore granted, prospectively or retrospectively; provided, however, that, without the consent of a Participant, no amendment, alteration, suspension, discontinuation or termination of any Award may materially and adversely affect the rights of such Participant under any Award theretofore granted to him or her.

(e) **No Rights to Awards; No Shareholder Rights.** No Eligible Person or employee shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Eligible Persons and employees. No Award shall confer on any Eligible Person any of the rights of a shareholder of the Company unless and until Shares are duly issued or transferred to the Eligible Person in accordance with the terms of the Award.

(f) **Unfunded Status of Awards.** The Plan is intended to constitute an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company; provided, however, that the Committee may authorize the creation of

trusts or make other arrangements to meet the Company's obligations under the Plan to deliver cash, Shares, other Awards, or other property pursuant to any Award, which trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the Committee otherwise determines with the consent of each affected Participant.

(g) **Nonexclusivity of the Plan.** Neither the adoption of the Plan by the Board nor its submission to the shareholders of the Company for approval shall be construed as creating any limitations on the power of the Board to adopt or utilize such other incentive arrangements as it may deem desirable, including, without limitation, the granting of options and other awards otherwise than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

(h) **Not Compensation for Benefit Plans.** No Award payable under this Plan shall be deemed salary or compensation for the purpose of computing benefits under any benefit plan or other arrangement of the Company unless the Company, a Subsidiary or Affiliate shall determine otherwise.

(i) **No Fractional Shares.** No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards, or other property shall be issued or paid in lieu of such fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

(j) **Governing Law.** The validity, construction, and effect of the Plan, any rules and regulations relating to the Plan, and any Award Agreement shall be determined in accordance with the laws of Delaware, without giving effect to principles of conflict of laws thereof.

(k) **Effective Date; Plan Termination.** The Plan shall become effective as of April 1, 2003 (the "Effective Date"), subject to approval by the shareholders of the Company. The Plan shall terminate as to future awards on the date which is ten (10) years after the Effective Date.

(l) **Titles and Headings.** The titles and headings of the sections in the Plan are for convenience of reference only. In the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

**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: May 9, 2006

/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: May 9, 2006

/s/ THOMAS W. BURGHART

Thomas W. Burghart  
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 March 31, 2006 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  
Vice President and Treasurer

May 9, 2006