

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 24, 2006

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DELPHI FINANCIAL GROUP, INC.

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(Exact name of registrant as specified in its charter)

|   |                             |                                      |
|---|-----------------------------|--------------------------------------|
| Delaware  | 001-11462                   | 13-3427277                           |
| -----   | -----                       | -----                                |
| (State or other jurisdiction<br>of incorporation) | (Commission<br>File Number) | (IRS Employer<br>Identification No.) |

|   |            |
|---|------------|
| 1105 North Market Street, Suite 1230, P.O. Box 8985, Wilmington, DE 19899 |            |
| -----   | -----      |
| (Address of principal executive offices)                                  | (ZIP Code) |

Registrant's telephone number, including area code 302-478-5142

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Not Applicable

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(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

On October 24, 2006, the Registrant issued a press release, a copy of which is attached as Exhibit 99.1 to this Current Report on Form 8-K and incorporated by reference herein.

Note: The information in this report (including the exhibit) is furnished pursuant to "Item 2.02. Results of Operations and Financial Condition" and shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933, unless incorporated by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits

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

| Exhibit Number | Description of Exhibits                      |
|----------------|--|
| -----          | -----  |
| 99.1           | Registrant's October 24, 2006 press release. |

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 hereunto duly authorized.

DELPHI FINANCIAL GROUP, INC.

/s/ ROBERT ROSENKRANZ

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

Date: October 24, 2006



# News

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## For Immediate Release

Contact: Bernard J. Kilkelly  
Vice President, Investor Relations  
Phone : 212-303-4349  
E-mail: [bernie-kilkelly@dlfi.com](mailto:bernie-kilkelly@dlfi.com)

### **Delphi Financial Reports 16% Increase in Third Quarter Operating EPS to \$0.71; Net Income Per Share Reaches \$0.71**

Wilmington, Delaware – October 24, 2006 – Delphi Financial Group, Inc. (NYSE: DFG) announced today that net income in the third quarter of 2006 was \$36.2 million or \$0.71 per share, compared to \$22.0 million or \$0.44 per share in the third quarter of 2005. In the third quarter of 2005, net income per share included after-tax realized investment gains of \$0.04 and losses from discontinued operations of \$(0.21). Prior period per share amounts have been restated to reflect the 3-for-2 common stock split effected on June 1, 2006.

Operating earnings<sup>(1)</sup> in the third quarter of 2006 increased 19% to \$36.4 million from \$30.6 million in the third quarter of 2005. Operating earnings per share rose 16% to \$0.71 from \$0.61 a year ago. Operating earnings for the first nine months of 2006 increased 21% to \$106.0 million compared to \$87.5 million a year ago, while operating earnings per share grew 19% to \$2.09 per share from \$1.75 per share in the first nine months of 2005.

For the first nine months of 2006, net income was \$101.9 million or \$2.00 per share, compared with \$84.1 million or \$1.68 per share in the first nine months of 2005. Net income in the first nine months of 2006 included after-tax realized investment losses of \$(1.2) million or \$(0.03) per share and losses from discontinued operations of \$(2.9) million or \$(0.06) per share. Net income in the first nine months of 2005 included after-tax realized investment gains of \$5.5 million or \$0.11 per share and losses from discontinued operations of \$(9.0) million or \$(0.18) per share.

Core group employee benefit premiums in the third quarter of 2006 grew 18% from the third quarter a year ago, reaching \$280 million. This growth was driven by a 21% increase in premiums from excess workers' compensation insurance at Delphi's Safety National subsidiary and a 20% increase in group disability premiums at Delphi's Reliance Standard Life (RSL) subsidiary. The combined ratio for the Company's group employee benefit products in the third quarter of 2006 was 93.3%, which was unchanged from the third quarter of 2005 and down from 94.1% for full-year 2005.

Robert Rosenkranz, Chairman and Chief Executive Officer, commented, "Delphi's excellent financial results reflect continued growth and improved margins in our insurance operations and strong investment performance in the quarter. Our premium growth continued to benefit from strategic initiatives implemented over the past two years to expand our distribution and strengthen our market leadership positions. The CDS division of RSL, established in April to lead RSL's expansion in the

attractive turnkey group disability market, made a strong contribution to our premium growth in the third quarter. Safety National's solid growth in excess workers' compensation production was boosted by renewals of former excess workers' compensation clients of Employers Re, for which we purchased renewal rights in July 2005."

Mr. Rosenkranz added, "We are continuing to capitalize on positive market trends in our insurance businesses, including the ongoing hard market for excess workers' compensation and the favorable climate for our small-case niche at Reliance Standard. As a result, we remain confident in our outlook for strong earnings growth in the remainder of 2006 and heading into next year."

Delphi's net investment income in the third quarter of 2006 was \$66.2 million, a gain of 23% from \$53.8 million in the same quarter a year ago. Invested assets at September 30, 2006 were \$4.3 billion, an increase of 13% from \$3.8 billion at September 30, 2005. The pre-tax equivalent yield on the Company's investment portfolio in the third quarter of 2006 was 6.6% compared to 5.9% for the third quarter of 2005. Delphi's shareholders' equity was \$1.1 billion at the end of the third quarter, and book value per share before accumulated other comprehensive income <sup>(2)</sup> rose to \$22.52 at September 30, 2006 compared with \$20.59 at December 31, 2005.

#### **Conference Call**

On October 25, 2006 at 11:00 AM (Eastern time), Delphi will broadcast the Company's third quarter 2006 earnings teleconference live on the Internet, hosted by Robert Rosenkranz, Chairman and Chief Executive Officer. Investors can access the broadcast at [www.delphifin.com](http://www.delphifin.com) by clicking on the webcast icon on the home page. It is advisable to register at least 15 minutes prior to the call to download and install any necessary audio software. The online replay will be available on Delphi's website for one week beginning at approximately 1:00 PM (Eastern time) on October 25, 2006. Investors can also download Delphi's third quarter 2006 statistical supplement from the Company's website at [www.delphifin.com](http://www.delphifin.com).

In connection with, and because it desires to take advantage of, the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, Delphi cautions readers regarding certain forward-looking statements in the foregoing discussion and in any other statements made by, or on behalf of, Delphi, 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 Delphi'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 Delphi'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 Delphi's investment strategy,

acquisitions of companies or blocks of business, and ratings by major rating organizations of Delphi 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, Delphi. Delphi disclaims any obligation to update forward-looking information.

Delphi Financial Group, Inc. is an integrated employee benefit services company. Delphi is a leader in managing all aspects of employee absence to enhance the productivity of its clients and provides the related insurance coverages: group life, long-term and short-term disability, excess workers' compensation for self-insured employers, travel accident and dental. Delphi's asset accumulation business emphasizes individual fixed annuity products. Delphi's common stock is listed on the New York Stock Exchange under the symbol DFG and its corporate website address is [www.delphifin.com](http://www.delphifin.com).

<sup>(1)</sup> Operating earnings, which is a non-GAAP financial measure, consist of income from continuing operations excluding after-tax realized investment gains and losses, as applicable. After-tax net realized investment (losses) gains were \$(0.2) million and \$2.2 million, or \$0.00 per share and \$0.04 per share, for the third quarter of 2006 and 2005, respectively, and \$(1.2) million and \$5.5 million, or \$(0.03) per share and \$0.11 per share for the first nine months of 2006 and 2005, respectively. After-tax income (loss) from discontinued operations was \$1,000 and \$(10.8) million, or \$0.00 per share and \$(0.21) per share, for the third quarter of 2006 and 2005, respectively, and \$(2.9) million and \$(9.0) million, or \$(0.06) per share and \$(0.18) per share for the first nine months of 2006 and 2005, respectively. The Company believes that because realized investment gains and losses and discontinued operations arise from events that, to a significant extent, are within management's discretion and can fluctuate significantly, thus distorting comparisons between periods, a measure excluding their impact is useful in analyzing the Company's operating trends. Investment gains or losses may be realized based on management's decision to dispose of an investment, and investment losses may be realized based on management's judgment that a decline in the market value of an investment is other than temporary. Discontinued operations occur based on management's decision to exit or sell a particular business. Thus, realized investment gains and losses and results from discontinued operations are not reflective of the Company's ongoing earnings capacity, and trends in the earnings of the Company's underlying insurance operations can be more clearly identified without the effects of these items. For these reasons, management uses the measure of operating earnings to assess performance and make operating plans and decisions, and analysts and investors typically utilize measures of this type when evaluating the financial performance of insurers. However, gains and losses of these types, particularly as to investments, occur frequently and should not be considered as nonrecurring items. Further, operating earnings should not be considered a substitute for net income, the most directly comparable GAAP measure, as an indication of the Company's overall financial performance and may not be calculated in the same manner as similarly titled captions in other companies' financial statements. All per share amounts are on a diluted basis.

<sup>(2)</sup> Diluted book value per share before accumulated other comprehensive income, which is a non-GAAP financial measure, is based on shareholders' equity excluding the effect of accumulated other comprehensive income. The Company believes that, because accumulated other comprehensive income fluctuates from period to period primarily due to changes in the value of its assets resulting from variations in market interest rates, while the values of its liabilities are not similarly marked to market under GAAP, this non-GAAP measure is useful in analyzing the Company's operating trends.

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**DELPHI FINANCIAL GROUP, INC.**  
**Non-GAAP Financial Measures**  
**Reconciliation to GAAP**  
(Unaudited; in thousands, except per share data)

|  | <u>Three Months Ended</u> |                   | <u>Nine Months Ended</u> |                     |
|--|---------------------------|-------------------|--------------------------|---------------------|
|  | <u>09/30/2006</u>         | <u>09/30/2005</u> | <u>09/30/2006</u>        | <u>09/30/2005</u>   |
| <b><u>Income Statement Data</u></b>  |                           |                   |                          |                     |
| <b>Operating earnings (Non-GAAP measure)</b>   | \$ 36,386                 | \$ 30,630         | \$ 106,046               | \$ 87,528           |
| Net realized investment (losses) gains, net of taxes   | <u>(218)</u>              | <u>2,208</u>      | <u>(1,222)</u>           | <u>5,547</u>        |
| Income from continuing operations  | 36,168                    | 32,838            | 104,824                  | 93,075              |
| Discontinued operations, net of taxes  | <u>1</u>                  | <u>(10,806)</u>   | <u>(2,932)</u>           | <u>(8,959)</u>      |
| <b>Net income (GAAP measure)</b>   | <u>\$ 36,169</u>          | <u>\$ 22,032</u>  | <u>\$ 101,892</u>        | <u>\$ 84,116</u>    |
| <b>Diluted results per share of common stock:</b>  |                           |                   |                          |                     |
| <b>Operating earnings (Non-GAAP measure)</b>   | \$ 0.71                   | \$ 0.61           | \$ 2.09                  | \$ 1.75             |
| Net realized investment (losses) gains, net of taxes   | <u>-</u>                  | <u>0.04</u>       | <u>(0.03)</u>            | <u>0.11</u>         |
| Income from continuing operations  | 0.71                      | 0.65              | 2.06                     | 1.86                |
| Discontinued operations, net of taxes  | <u>-</u>                  | <u>(0.21)</u>     | <u>(0.06)</u>            | <u>(0.18)</u>       |
| <b>Net income (GAAP measure)</b>   | <u>\$ 0.71</u>            | <u>\$ 0.44</u>    | <u>\$ 2.00</u>           | <u>\$ 1.68</u>      |
| <b><u>Balance Sheet Data</u></b>   |                           |                   |                          |                     |
|  |                           |                   | <u>09/30/2006</u>        | <u>12/31/2005</u>   |
| <b>Shareholders' equity, excluding accumulated other comprehensive income (Non-GAAP measure)</b>                         |                           |                   | \$ 1,115,502             | \$ 1,012,775        |
| Add: Accumulated other comprehensive income  |                           |                   | <u>17,001</u>            | <u>20,264</u>       |
| <b>Shareholders' equity (GAAP measure)</b>   |                           |                   | <u>\$ 1,132,503</u>      | <u>\$ 1,033,039</u> |
| <b>Diluted book value per share of common stock, excluding accumulated other comprehensive income (Non-GAAP measure)</b> |                           |                   | \$ 22.52                 | \$ 20.59            |
| Add: Accumulated other comprehensive income  |                           |                   | <u>0.32</u>              | <u>0.38</u>         |
| <b>Diluted book value per share of common stock (GAAP measure)</b>   |                           |                   | <u>\$ 22.84</u>          | <u>\$ 20.97</u>     |

Please see note 1 of the press release for a discussion regarding the usefulness of the non-GAAP financial measure "operating earnings." The Company believes that the non-GAAP financial measure "diluted book value per share excluding accumulated other comprehensive income" provides useful supplemental information because accumulated other comprehensive income fluctuates from period to period primarily due to changes in the value of its assets resulting from variations in market interest rates, while the values of its liabilities are not similarly marked to market under GAAP.

NOTE: Prior period results have been restated for discontinued operations attributable to assumed property reinsurance. Prior period results per share and applicable share amounts have been restated to reflect the 3-for-2 common stock split effected in the form of a 50% stock dividend distributed on June 1, 2006.

**DELPHI FINANCIAL GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited; in thousands, except per share data)

|   | Three Months Ended |            | Nine Months Ended |            |
|---|--------------------|------------|-------------------|------------|
|   | 09/30/2006         | 09/30/2005 | 09/30/2006        | 09/30/2005 |
| Revenue:  |                    |            |                   |            |
| Premium and fee income                                  | \$ 295,190         | \$ 250,649 | \$ 838,419        | \$ 732,603 |
| Net investment income                                   | 66,159             | 53,843     | 185,974           | 162,293    |
| Net realized investment (losses) gains                  | (335)              | 3,397      | (1,880)           | 8,534      |
|   | 361,014            | 307,889    | 1,022,513         | 903,430    |
| Benefits and expenses:                                  |                    |            |                   |            |
| Benefits, claims and interest credited to policyholders | 217,322            | 180,644    | 612,961           | 541,157    |
| Commissions and expenses                                | 85,314             | 74,790     | 239,954           | 212,053    |
|   | 302,636            | 255,434    | 852,915           | 753,210    |
| Operating income  | 58,378             | 52,455     | 169,598           | 150,220    |
| Interest expense:                                       |                    |            |                   |            |
| Corporate debt  | 5,250              | 3,781      | 15,029            | 11,712     |
| Junior subordinated deferrable interest debentures      | 1,319              | 1,229      | 3,887             | 3,599      |
| Income tax expense                                      | 15,641             | 14,607     | 45,858            | 41,834     |
|   | 36,168             | 32,838     | 104,824           | 93,075     |
| Discontinued operations, net of taxes                   | 1                  | (10,806)   | (2,932)           | (8,959)    |
| Net income  | \$ 36,169          | \$ 22,032  | \$ 101,892        | \$ 84,116  |
| Basic results per share of common stock:                |                    |            |                   |            |
| Income from continuing operations                       | \$ 0.73            | \$ 0.67    | \$ 2.12           | \$ 1.91    |
| Discontinued operations                                 | -                  | (0.22)     | (0.06)            | (0.19)     |
| Net income  | 0.73               | 0.45       | 2.06              | 1.72       |
| Weighted average shares outstanding                     | 49,652             | 49,350     | 49,531            | 48,818     |
| Diluted results per share of common stock:              |                    |            |                   |            |
| Income from continuing operations                       | \$ 0.71            | \$ 0.65    | \$ 2.06           | \$ 1.86    |
| Discontinued operations                                 | -                  | (0.21)     | (0.06)            | (0.18)     |
| Net income  | 0.71               | 0.44       | 2.00              | 1.68       |
| Weighted average shares outstanding                     | 50,926             | 50,564     | 50,824            | 50,138     |
| Dividends paid per share of common stock                | \$ 0.08            | \$ 0.06    | \$ 0.23           | \$ 0.18    |

NOTE: Prior period results have been restated for discontinued operations attributable to assumed property reinsurance. Prior period results per share and applicable share amounts have been restated to reflect the 3-for-2 common stock split effected in the form of a 50% stock dividend distributed on June 1, 2006.

**DELPHI FINANCIAL GROUP, INC.**  
**SUMMARIZED CONSOLIDATED BALANCE SHEETS**  
(Unaudited; in thousands)

|   | <u>09/30/2006</u>         | <u>12/31/2005</u>         |
|---|---------------------------|---------------------------|
| Assets:   |                           |                           |
| Investments:  |                           |                           |
| Fixed maturity securities, available for sale   | \$3,329,065               | \$3,244,764               |
| Short-term investments  | 297,276                   | 94,308                    |
| Other investments   | <u>695,147</u>            | <u>573,532</u>            |
|   | 4,321,488                 | 3,912,604                 |
| Cash  | 45,496                    | 28,493                    |
| Cost of business acquired   | 269,179                   | 248,138                   |
| Reinsurance receivables   | 404,970                   | 413,113                   |
| Goodwill  | 93,929                    | 93,929                    |
| Securities lending collateral   | 250,379                   | 244,821                   |
| Other assets  | 263,778                   | 235,644                   |
| Assets held in separate account   | <u>107,334</u>            | <u>99,428</u>             |
| Total assets  | <u><u>\$5,756,553</u></u> | <u><u>\$5,276,170</u></u> |
| Liabilities and Shareholders' Equity:   |                           |                           |
| Policy liabilities and accruals   | \$2,021,813               | \$1,862,872               |
| Policyholder account balances   | 1,126,273                 | 1,039,610                 |
| Corporate debt  | 263,750                   | 234,750                   |
| Junior subordinated deferrable interest debentures underlying<br>company-obligated mandatorily redeemable capital securities<br>issued by unconsolidated subsidiaries | 59,762                    | 59,762                    |
| Securities lending payable  | 250,379                   | 244,821                   |
| Other liabilities and policyholder funds  | 794,739                   | 701,888                   |
| Liabilities related to separate account   | <u>107,334</u>            | <u>99,428</u>             |
| Total liabilities   | 4,624,050                 | 4,243,131                 |
| Shareholders' equity:   |                           |                           |
| Class A Common Stock  | 479                       | 313                       |
| Class B Common Stock  | 57                        | 39                        |
| Additional paid-in capital  | 470,797                   | 442,531                   |
| Accumulated other comprehensive income  | 17,001                    | 20,264                    |
| Retained earnings   | 727,139                   | 636,285                   |
| Treasury stock, at cost   | <u>(82,970)</u>           | <u>(66,393)</u>           |
| Total liabilities and shareholders' equity  | <u><u>\$5,756,553</u></u> | <u><u>\$5,276,170</u></u> |

**DELPHI FINANCIAL GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited; in thousands)

|  | Nine Months Ended |             |
|--|-------------------|-------------|
|  | 09/30/2006        | 09/30/2005  |
| Operating activities:  |                   |             |
| Net income   | \$ 101,892        | \$ 84,116   |
| Adjustments to reconcile net income to net cash provided<br>by operating activities: |                   |             |
| Change in policy liabilities and policyholder accounts                               | 197,987           | 196,872     |
| Net change in reinsurance receivables and payables                                   | 3,523             | 10,608      |
| Amortization, principally the cost of business acquired and investments              | 50,397            | 46,571      |
| Deferred costs of business acquired  | (77,473)          | (69,739)    |
| Net realized losses (gains) on investments   | 1,880             | (8,534)     |
| Net change in federal income tax liability   | 12,193            | 8,614       |
| Other  | (38,463)          | (59,614)    |
| Net cash provided by operating activities  | 251,936           | 208,894     |
| Investing activities:  |                   |             |
| Purchases of investments and loans made  | (898,282)         | (1,460,493) |
| Sales of investments and receipts from repayment of loans                            | 597,301           | 1,142,110   |
| Maturities of investments  | 168,327           | 134,023     |
| Net change in short-term investments   | (202,886)         | (44,566)    |
| Change in deposit in separate account  | (2,234)           | (3,033)     |
| Net cash used by investing activities  | (337,774)         | (231,959)   |
| Financing activities:  |                   |             |
| Deposits to policyholder accounts  | 178,231           | 80,229      |
| Withdrawals from policyholder accounts   | (98,778)          | (76,031)    |
| Borrowings under revolving credit facility   | 31,000            | 32,000      |
| Principal payments under revolving credit facility                                   | (2,000)           | (11,000)    |
| Change in liability for Federal Home Loan Bank advances                              | -                 | (15,000)    |
| Other financing activities   | (5,612)           | 14,499      |
| Net cash provided by financing activities  | 102,841           | 24,697      |
| Increase in cash   | 17,003            | 1,632       |
| Cash at beginning of period  | 28,493            | 24,324      |
| Cash at end of period  | \$ 45,496         | \$ 25,956   |