DELPHI FINANCIAL GROUP INC/DE
Form 10-Q
August 14, 2001
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2001

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

For the transition period from _________ to __________

Commission File Number 001-11462

DELPHI FINANCIAL GROUP, INC.
(Exact name of registrant as specified in its charter)

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

1105 North Market Street, Suite 1230, P.O. Box 8985, Wilmington, Delaware	19899
(Address of principal executive offices)	(Zip Code)

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

Yes X No ___

As of July 31, 2001, the Registrant had 16,093,664 shares of Class A Common Stock and 4,237,522 shares of Class B Common Stock outstanding.

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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 June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000

Revenue:				
Premium and fee income	$ 122,513	$ 112,123	$ 245,818	$ 224,88
Net investment income	39,433	46,536	78,499	97,21
Net realized investment gains (losses)	225	(5)	676	(1,55
	162,171	158,654	324,993	320,54
Benefits and expenses:				
Benefits, claims and interest credited to policyholders	90,170	81,904	179,869	167,67
Commissions	10,531	9,967	19,966	19,23
Amortization of cost of business acquired	7,759	7,308	16,375	13,48
Other operating expenses	22,390	18,886	45,406	40,88
	130,850	118,065	261,616	241,28
Operating income	31,321	40,589	63,377	79,26
Interest expense	2,665	5,380	6,474	10,73
Income before income tax expense, dividends on Capital Securities of Delphi Funding L.L.C. and extraordinary gain	28,656	35,209	56,903	68,52
Income tax expense	9,282	10,788	18,421	21,29
Income before dividends on Capital Securities of Delphi Funding L.L.C. and extraordinary gain	19,374	24,421	38,482	47,22
Dividends on Capital Securities of Delphi Funding L.L.C.	902	1,513	2,382	3,02
Income before extraordinary gain	18,472	22,908	36,100	44,20
Extraordinary gain, net of income taxes	3,196	-	6,213	
Net income	$ 21,668	$ 22,908	$ 42,313	$ 44,20
Basic results per share of common stock:				
Income before extraordinary gain excluding net realized investment gains (losses)	$ 0.89	$ 1.13	$ 1.74	$ 2.2
Income before extraordinary gain	0.90	1.13	1.76	2.1
Net income	1.06	1.13	2.06	2.1
Diluted results per share of common stock:				
Income before extraordinary gain excluding net realized investment gains (losses)	$ 0.87	$ 1.09	$ 1.69	$ 2.1
Income before extraordinary gain	0.88	1.09	1.71	2.1
Net income	1.03	1.09	2.01	2.1
Dividend paid per share of common stock	$ 0.07	$ -	$ 0.14	$

See notes to consolidated financial statements.

DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	June 30, 2001	December 31, 2000
Assets:		
Investments:		
Fixed maturity securities, available for sale	$2,034,183	$2,010,634
Cash and cash equivalents	127,077	56,093
Other investments	140,798	421,562
	2,302,058	2,488,289
Cost of business acquired	163,790	156,556
Reinsurance receivables	452,289	437,844
Other assets	283,220	289,433
Assets held in separate account	72,777	67,888
Total assets	$3,274,134	$3,440,010
Liabilities and Shareholders' Equity:		
Future policy benefits	$ 542,486	$ 523,911
Unpaid claims and claim expenses	656,245	646,233
Policyholder account balances	792,886	782,452
Corporate debt	100,717	267,770
Advances from Federal Home Loan Bank	142,862	149,409
Other liabilities and policyholder funds	343,629	374,292
Liabilities related to separate account	62,324	57,750
Total liabilities	2,641,149	2,801,817
Company-obligated mandatorily redeemable Capital Securities of Delphi Funding L.L.C. holding solely junior subordinated deferrable interest debentures of the Company	46,050	100,000
Shareholders' equity:		
Preferred Stock, $.01 par; 10,000,000 shares authorized	-	-
Class A Common Stock, $.01 par; 40,000,000 shares authorized; 17,494,157 and 16,844,982 shares issued and outstanding, respectively	175	168
Class B Common Stock, $.01 par; 20,000,000 shares authorized; 4,237,522 and 4,839,072 shares issued and outstanding, respectively	42	48
Additional paid-in capital	367,607	366,834

Net unrealized depreciation on investments....................	(45,126)	(53,622)
Retained earnings...	313,532	274,060
Treasury stock, at cost; 1,435,390 shares of Class A Common Stock	(49,295)	(49,295)
Total shareholders' equity................................	586,935	538,193
Total liabilities and shareholders' equity...............	$3,274,134	$3,440,010

See notes to consolidated financial statements.

DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Net Unrealized Depreciation on Investments	Retained Earnings
Balance, January 1, 2000......	$ 163	$ 52	$364,390	$(101,465)	$277,353
Net income....................	-	-	-	-	44,202
Increase in net unrealized depreciation on investments.	-	-	-	(42,221)	-
Comprehensive income..........					
Issuance of stock, exercise of stock options and share conversions.................	-	-	704	-	-
Acquisition of treasury stock.	-	-	-	-	-
Balance, June 30, 2000........	$ 163	$ 52	$365,094	$(143,686)	$321,555
Balance, January 1, 2001......	$ 168	$ 48	$366,834	$ (53,622)	$274,060
Net income....................	-	-	-	-	42,313
Decrease in net unrealized depreciation on investments.	-	-	-	8,496	-
Comprehensive income..........					

Issuance of stock, exercise of stock options and share conversions................	7	(6)	773	-	-
Dividends paid on common stock	-	-	-	-	(2,841)
Balance, June 30, 2001........	$ 175	$ 42	$367,607	$ (45,126)	$313,532

See notes to consolidated financial statements.

DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	Six Months Ended June 30,	
	2001	2000
Operating activities:		
Net income..	$ 42,313	$ 44,202
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Change in policy liabilities and policyholder accounts...........	29,342	36,234
Net change in reinsurance receivables and payables...............	(13,361)	(90,975)
Amortization, principally the cost of business acquired and investments	7,119	(1,605)
Deferred costs of business acquired.............................	(23,584)	(23,998)
Net realized (gains) losses on investments......................	(676)	1,552
Net change in trading account securities........................	28,832	(4,352)
Net change in federal income tax liability......................	26,050	20,429
Extraordinary gain..	(6,213)	-
Other...	401	(26,334)
Net cash provided (used) by operating activities..............	90,223	(44,847)
Investing activities:		
Purchases of investments and loans made...........................	(327,967)	(749,206)
Sales of investments and receipts from repayment of loans..........	487,500	266,421
Maturities of investments..	34,168	13,420
Sale of real estate..	-	16,656
Change in deposit in separate account.............................	(315)	(475)
Net cash provided (used) by investing activities..............	193,386	(453,184)
Financing activities:		
Deposits to policyholder accounts..................................	43,186	79,565
Withdrawals from policyholder accounts.............................	(34,930)	(43,117)

Proceeds from issuance of common stock and exercise of stock options	774	704
Dividends paid on common stock	(2,841)	-
Acquisition of treasury stock	-	(10,219)
Borrowings under the Credit Agreements	-	19,000
Principal payments under the Credit Agreements	(150,000)	(19,000)
Principal payment under SIG Senior Notes	(9,000)	(9,000)
Change in liability for Federal Home Loan Bank advances	(6,500)	61,500
Repurchase of Capital Securities	(43,379)	-
Change in liability for securities loaned or sold under agreements to repurchase	(9,935)	103,496
Net cash (used) provided by financing activities	(212,625)	182,929
Increase (decrease) in cash and cash equivalents	70,984	(315,102)
Cash and cash equivalents at beginning of period	56,093	357,692
Cash and cash equivalents at end of period	$ 127,077	$ 42,590

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 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. Such principles were applied on a basis consistent with those reflected in the Company's report on Form 10-K for the year ended December 31, 2000. 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. Operating results for the six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. Certain reclassifications have been made in the 2000 financial statements to conform to the 2001 presentation. For further information refer to the consolidated financial statements and footnotes thereto included in the Company's report on Form 10-K for the year ended December 31, 2000. Capitalized terms used herein without definition have the meanings ascribed to them in the Company's report on Form 10-K for the year ended December 31, 2000.

Recently Adopted Accounting Standards. In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") SFAS

No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 is required to be adopted for fiscal years beginning after December 15, 2001. Under SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized over a pre-determined period, but are required to be periodically reviewed for impairment. Other intangible assets with finite lives will continue to be amortized over their useful lives. An impairment loss resulting from the adoption of SFAS No. 142 would be accounted for as a cumulative effect of a change in accounting principle and recognized in the entity's first interim period financial statements regardless of the interim period in which the measurement is completed. Any subsequent impairment losses would be reflected within operating results in the income statement. The Company has not yet determined what the effect of SFAS No. 142 will be on the earnings and financial position of the Company.

NOTE B - INVESTMENTS

At June 30, 2001, the Company had fixed maturity securities available for sale with a carrying value and a fair value of $2,034.2 million and an amortized cost of $2,115.8 million. At December 31, 2000, the Company had fixed maturity securities available for sale with a carrying value and a fair value of $2,010.6 million and an amortized cost of $2,103.2 million.

NOTE C - SEGMENT INFORMATION

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	(dollars in thousands)			
Revenues excluding net realized investment gains (losses):				
Group employee benefit products.................	$138,507	$132,470	$277,490	$269,29
Asset accumulation products.....................	18,305	20,741	36,525	41,88
Other (1).......................................	5,134	5,448	10,302	10,92
	$161,946	$158,659	$324,317	$322,09
Operating income (2):				
Group employee benefit products.................	$ 28,943	$ 33,766	$ 58,478	$ 67,43
Asset accumulation products.....................	3,359	6,852	6,721	15,32
Other (1).......................................	(1,206)	(24)	(2,498)	(1,94
	$ 31,096	$ 40,594	$ 62,701	$ 80,81

(1) Consists of operations that do not meet the quantitative thresholds for determining reportable segments and includes integrated disability and absence management services and certain corporate activities.

(2) Income excluding net realized investment gains (losses) and before interest and income tax expense, dividends on Capital Securities of Delphi Funding L.L.C. and extraordinary gain.

DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

NOTE D - REPURCHASE OF SENIOR NOTES AND CAPITAL SECURITIES OF DELPHI FUNDING L.L.C.

In June 2001, the Company repurchased $8.0 million par value of the 8.0% Senior Notes due in October 2003. This transaction settled in July 2001. The Company also repurchased $54.0 million liquidation amount of the 9.31% Capital Securities, Series A, due in March 2027, during the first half of 2001. The Company recognized an extraordinary gain of $6.2 million, net of income tax expense of $3.3 million, in connection with these repurchases.

NOTE E - COMPUTATION OF RESULTS PER SHARE

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

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
	(dollars in thousands, except per share data)			
Numerator:				
Income before extraordinary gain excluding net realized investment gains (losses)	$ 18,326	$22,911	$35,661	$45,211
Realized investment gains (losses), net of taxes.	146	(3)	439	(1,009)
Income before extraordinary gain	18,472	22,908	36,100	44,202
Extraordinary gain, net of taxes	3,196	-	6,213	-
Net income	$ 21,668	$22,908	$42,313	$44,202
Denominator:				
Weighted average common shares outstanding	20,534	20,323	20,531	20,355
Effect of dilutive securities	544	645	553	627
Weighted average common shares outstanding, assuming dilution	21,078	20,968	21,084	20,982
Basic results per share of common stock:				
Income before extraordinary gain excluding net realized investment gains (losses)	$ 0.89	$ 1.13	$ 1.74	$ 2.22
Realized investment gains (losses), net of taxes.	0.01	-	0.02	(0.05)
Income before extraordinary gain	0.90	1.13	1.76	2.17
Extraordinary gain, net of taxes	0.16	-	0.30	-
Net income	$ 1.06	$ 1.13	$ 2.06	$ 2.17

Diluted results per share of common stock:

Income before extraordinary gain excluding net realized investment gains (losses)............	$ 0.87	$ 1.09	$ 1.69	$ 2.15
Realized investment gains (losses), net of taxes.	0.01	-	0.02	(0.04)
Income before extraordinary gain...........	0.88	1.09	1.71	2.11
Extraordinary gain, net of taxes................	0.15	-	0.30	-
Net income...............................	$ 1.03	$ 1.09	$ 2.01	$ 2.11

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

GENERAL

The following is an analysis of the results of operations and financial condition of Delphi Financial Group, Inc. (the "Company," which term includes the Company and its consolidated subsidiaries unless the context indicates otherwise). This analysis should be read in conjunction with the Consolidated Financial Statements and related notes included in this document, as well as the Company's report on Form 10-K for the year ended December 31, 2000. Capitalized terms used herein without definition have the meanings ascribed to them in the Company's report on Form 10-K for the year ended December 31, 2000.

RESULTS OF OPERATIONS

Six Months Ended June 30, 2001 Compared to
Six Months Ended June 30, 2000

Premium and Fee Income. Premium and fee income was $245.8 million for the first half of 2001 as compared to $224.9 million in the 2000 period, an increase of 9%. Premiums from core group employee benefit products increased 13% to $219.1 million in the first half of 2001 from $193.2 million in the comparable period of 2000. This increase reflects strong production of new business and normal growth in employment and salary levels for the Company's existing customer base. Core group employee benefit products include group life, disability, excess and large deductible workers' compensation, travel accident and dental insurance and self-insurance workers' compensation bonds. Excess workers' compensation premiums increased 32% to $34.4 million in the first half of 2001 from $26.1 million in the comparable period of 2000. This increase reflects improvements in the pricing environment in this market sector and increased demand due to higher primary workers' compensation rates. Disruption in the excess workers' compensation marketplace due to difficulties experienced by some competitors created opportunities for SNCC, which contributed to high levels of new production, particularly during 2000. Non-core group employee benefit products include reinsurance pools, loss portfolio transfers ("LPTs"), primary workers' compensation, commercial automobile liability and bail bond insurance, and property reinsurance. Premiums from non-core group employee benefit products decreased to $18.1 million in the first half of 2001 from $22.4 million in the comparable period of 2000 primarily due to a lower level of premium from LPTs, which are episodic in nature. Deposits from the Company's asset accumulation products were $42.1 million for the first half of 2001 as compared to $78.7

million for the first half of 2000. Deposits for these products, which are long-term in nature, are not recorded as premiums; instead, the deposits are recorded as a liability. During the first half of 2001, market interest rates and the resulting interest rate spreads available to the Company on these products declined. The Company maintained its disciplined approach to establishing crediting rates offered on its asset accumulation products, in contrast to some of its competitors who did not react quickly to the declining interest rates. Accordingly, the Company experienced a lower level of production from its asset accumulation products during the first half of 2001 as compared to the first half of 2000.

Net Investment Income. Net investment income for the first half of 2001 was $78.5 as compared to $97.2 million for the 2000 period. The tax equivalent weighted average annualized yield (1) on invested assets was 6.9% on average invested assets(2) of $2,353.1 million for the first half of 2001 and 7.7% on average invested assets(2) of $2,594.6 million for the first half of 2000. The decrease in investment income reflects the Company's liquidation during the fourth quarter of 2000 of a substantial majority of its holding company investments. The proceeds from these sales were used to repay in full the $150.0 million of outstanding borrowings under the Company's $150.0 million revolving credit facility and to repurchase $54.0 million liquidation amount of the Capital Securities during the first half of 2001.

Benefits and Expenses. Policyholder benefits and expenses for the first half of 2001 were $261.6 million as compared to $241.3 million for the 2000 period, an increase of 8%. This increase primarily reflects the increase in

(1) The tax equivalent weighted average annualized yield on the Company's investment portfolio for each period is computed by dividing net investment income, increased by the tax savings generated from tax exempt interest income and the dividends received deduction, by average invested assets for the period.

(2) Average invested assets are computed by dividing the total of invested assets as reported on the Company's balance sheet at the beginning of each period plus the individual quarter-end balances by the total number of periods and deducting one-half of net investment income, including tax savings.

premiums from the Company's core group employee benefit products discussed above. The combined ratio (loss ratio plus expense ratio) for the Company's group employee benefits segment decreased from 93.6% in the first half of 2000 to 92.3% for the 2001 period. Certain non-core group employee benefit products expose the Company to the possibility of episodic losses, which could cause the combined ratio to differ materially from current trends. Benefits and interest credited on asset accumulation products increased by $2.6 million in the first half of 2001 principally due to an increase in average funds under management from $648.6 million in the first half of 2000 to $740.6 million in the 2001 period. Also contributing to this increase was an increase in the weighted average annualized crediting rate on asset accumulation products from 5.5% in the first half of 2000 to 5.7% in the 2001 period.

Interest Expense. Interest expense was $6.5 million in the first half of 2001 as compared to $10.7 million in the 2000 period, a decrease of $4.2 million. This decrease was primarily a result of the Company's repayment in full of the $150.0 million of outstanding borrowings under the Company's $150.0 million revolving credit facility during the first half of 2001.

Extraordinary Gain. During the first half of 2001, the Company repurchased $54.0 million liquidation amount of the Capital Securities in the open market. In addition, the Company repurchased $8.0 million par value of the 8.0% Senior Notes in June 2001. The Company recognized an extraordinary gain of $6.2 million, net of income tax expense of $3.3 million, in connection with these repurchases. The reduction in dividends from the Capital Securities for the 2001 period does not fully reflect the future reduction in dividends since these repurchases occurred on various dates during the first half of 2001.

Three Months Ended June 30, 2001 Compared to
Three Months Ended June 30, 2000

Premium and Fee Income. Premium and fee income for the second quarter of 2001 was $122.5 million as compared to $112.1 million for the 2000 period, an increase of 9%. Premiums from core group employee benefit products increased 13% to $109.4 million in the second quarter of 2001 from $97.2 million in the comparable period of 2000. This increase reflects strong production of new business and normal growth in employment and salary levels for the Company's existing customer base. Core group employee benefit products include group life, disability, excess and large deductible workers' compensation, travel accident and dental insurance and self-insurance workers' compensation bonds. Excess workers' compensation premiums increased 22% to $16.0 million from $13.1 million in the comparable period of 2000. This increase reflects improvements in the pricing environment in this market sector and increased demand due to higher primary workers' compensation rates. Disruption in the excess workers' compensation marketplace due to difficulties experienced by some competitors created opportunities for SNCC, which contributed to high levels of new production, particularly during 2000. Non-core group employee benefit products include reinsurance pools, loss portfolio transfers ("LPTs"), primary workers' compensation, commercial automobile liability and bail bond insurance, and property reinsurance. Premiums from non-core group employee benefit products decreased to $8.8 million in the second quarter of 2001 from $10.0 million in the comparable period of 2000 primarily due to a lower level of premium from LPTs, which are episodic in nature. Deposits from the Company's asset accumulation products were $13.4 million for the second quarter of 2001 as compared to $45.5 million for the second quarter of 2000. Deposits for these products, which are long-term in nature, are not recorded as premiums; instead, the deposits are recorded as a liability. This decrease was primarily due to the Company maintaining its disciplined approach to establishing crediting rates offered on its asset accumulation products in a declining interest rate environment during the second quarter of 2001.

Net Investment Income. Net investment income for the second quarter of 2001 was $39.4 million as compared to $46.5 million in the second quarter of 2000. The tax equivalent weighted average annualized yield(1) on invested assets was 7.0% on average invested assets(2) of $2,325.8 million for the second quarter of 2001 and 7.2% on average invested assets(2) of $2,675.4 million for the second quarter of 2000. The decrease in investment income reflects the

(1) The tax equivalent weighted average annualized yield on the Company's investment portfolio for each period is computed by dividing net investment income, increased by the tax savings generated from tax exempt interest income and the dividends received deduction, by average invested assets for the period.

(2) Average invested assets are computed by dividing the total of invested assets as reported on the Company's balance sheet at the beginning of each period plus the individual quarter-end balances by the total number of periods and deducting one-half of net investment income, including tax savings.

Company's liquidation during the fourth quarter of 2000 of a substantial majority of its holding company investments. The proceeds from these sales were used to repay in full the $150.0 million of outstanding borrowings under the Company's $150.0 million revolving credit facility and to repurchase $54.0 million liquidation amount of the Capital Securities during the first half of 2001.

Benefits and Expenses. Policyholder benefits and expenses for the second quarter of 2001 were $130.9 million as compared to $118.1 million for the second quarter of 2000, an increase of 11%. This increase primarily reflects the increase in premiums from the Company's core group employee benefit products discussed above. The combined ratio (loss ratio plus expense ratio) for the Company's group employee benefits segment was 92.7% in the second quarter of 2001 as compared to 92.1% for the 2000 period. Certain non-core group employee benefit products expose the Company to the possibility of episodic losses, which could cause the combined ratio to differ materially from current trends. Benefits and interest credited on asset accumulation products increased by $0.6 million in the second quarter of 2001 principally due to an increase in average funds under management from $659.1 million in the second quarter of 2000 to $744.3 million in the 2001 period. Also contributing to this increase was an increase in the weighted average annualized crediting rate on asset accumulation products from 5.5% in the second quarter of 2000 to 5.7% in the second quarter of 2001.

Interest Expense. Interest expense was $2.7 million for the second quarter of 2001 as compared to $5.4 million in the second quarter of 2000, a decrease of $2.7 million. This decrease was primarily a result of the Company's repayment in full of $150.0 million of outstanding borrowings under the Company's $150.0 million revolving credit facility during the first half of 2001.

Extraordinary Gain. During the second quarter of 2001, the Company repurchased $32.7 million liquidation amount of the Capital Securities in the open market. In addition, the Company repurchased $8.0 million par value of the 8.0% Senior Notes in June 2001. The Company recognized an extraordinary gain of $3.2 million, net of income tax expense of $1.7 million, in connection with these repurchases. The reduction in dividends from the Capital Securities for the second quarter of 2001 does not fully reflect the future reduction in dividends since these repurchases occurred at various dates during the 2001 period.

LIQUIDITY AND CAPITAL RESOURCES

General. The Company had $71.3 million of financial resources available at the holding company level at June 30, 2001, which was primarily comprised of fixed maturity securities and investments in the common stock of its investment subsidiaries. The assets of the investment subsidiaries are primarily invested in fixed maturity securities. Financial resources available at the holding company level have decreased $195.6 million since December 31, 2000 primarily due to the liquidation of a substantial majority of the investments of its investment subsidiaries. The Company used the proceeds from these sales to repay in full the $150.0 million of outstanding borrowings under the Credit Agreements and to repurchase $54.0 million liquidation amount of the Capital Securities during the first six months of 2001. In addition, the Company repurchased $8.0 million par value of the 8% Senior Notes in June 2001. The maximum amount of borrowings available under the Credit Agreements, which mature in April 2003, is currently $230.0 million and will reduce to $190.0 million in October 2001 and $140.0 million in October 2002. A shelf registration is also in effect under which up to $49.2 million in securities may be issued by the Company.

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 or other approval, to make dividend payments of $77.8 million during 2001, of which $20.0 million has been paid during the first half of 2001. In general, dividends from the Company's non-insurance subsidiaries are not subject to regulatory or other restrictions.

The Company's current liquidity needs, in addition to funding operating expenses, include principal and interest payments on the Senior Notes, the SIG Senior Notes and the Subordinated Notes and distributions on the Capital Securities. The Senior Notes mature in their entirety in October 2003 and are not subject to any sinking fund requirements nor are they redeemable prior to maturity. The SIG Senior Notes mature in $9.0 million annual installments, with the next installment payable in May 2002 and the Subordinated Notes mature in their entirety in June 2003. The junior subordinated debentures underlying the Capital Securities are not redeemable prior to March 25, 2007.

Operating activities, which include $28.8 million of cash provided by trading account activity, increased cash and cash equivalents by $90.2 million in the first half of 2001. Operating activities during the first half of 2000 increased

cash and cash equivalents by $33.0 million, excluding $58.1 million of funds related to a rescinded reinsurance transaction that were returned to the ceding company during the first quarter of 2000 and a net cash payment of $19.7 million related to the cession by the Company of group employee benefit product reserves in the second quarter of 2000. During the first half of 2001, proceeds from investment sales were primarily used to repay in full the $150.0 million of outstanding borrowings under the $150.0 million revolving credit facility and repurchase $54.0 million liquidation amount of the Capital Securities. Sources of liquidity available to the Company and its subsidiaries are expected to exceed their current and long-term cash requirements.

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, 2000.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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 or other developments. Some forward-looking statements may be identified by the use of terms such as "expects," "believes," "anticipates," "intends," "judgment" 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 and tax laws and regulations, and market pricing and competitive trends relating to insurance products and services, and those relating specifically to the Company's business, such as the level of its insurance premiums and fee income, the claims experience 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 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. The Company disclaims any obligation to update forward-looking information.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its Annual Meeting of Stockholders on May 23, 2001. The directors elected at the meeting will serve for a term ending on the date of the 2002 Annual Meeting of Stockholders. The directors elected at the meeting were Thomas L. Rhodes, Robert Rosenkranz, Edward A. Fox, Charles P. O'Brien, Lewis S. Ranieri, Robert M. Smith, Jr., and B.K. Werner. One director is voted upon by the Class A stockholders, voting separately as a class. At the 2001 Annual Meeting that director was Mr. Rhodes.

The voting results for all matters at the meeting were as follows:

1) Election of Directors

	VOTES	
	For	Withhold Authority
Class A Director:		
Thomas L. Rhodes	12,493,219	1,441,495
Directors:		
Robert Rosenkranz	26,208,000	2,723,373
Edward A. Fox	27,481,522	1,449,851
Charles P. O'Brien	27,462,145	1,469,228
Lewis S. Ranieri	27,460,445	1,470,928
Robert M. Smith, Jr.	26,238,119	2,693,254
B.K. Werner	28,251,277	680,096

2) All Other Matters - The proposal to amend the Company's Second Amended and Restated Employee Stock Option Plan received 24,862,809 votes for

approval, 4,052,863 votes against approval and 15,701 votes abstaining. The proposal to amend the Company's Amended and Restated Directors Stock Option Plan received 24,829,824 votes for approval, 4,081,895 votes against approval and 19,654 votes abstaining. The proposal with regard to transacting such other business that properly comes before the meeting or any adjournment thereof received 24,584,807 votes for approval, 4,067,308 votes against approval and 279,258 votes abstaining; however, no such other business came before the meeting.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 - Delphi Financial Group, Inc. Second Amended and Restated Employee Nonqualified Stock Option Plan, as amended

10.2 - Delphi Financial Group, Inc. Amended and Restated Directors Stock Option Plan, as amended

(b) Reports on Form 8-K

None.

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, President and Chief Executive Officer
(Principal Executive Officer)

/s/ THOMAS W. BURGHART

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

Date: August 14, 2001