DELPHI FINANCIAL GROUP INC/DE
Form 424B5
May 15, 2003

Filed Pursuant to Rule 424B
Registration No. 333-86666

PROSPECTUS SUPPLEMENT
(To Prospectus Dated May 6, 2002)

$125,000,000

8.00% Senior Notes due 2033

Delphi Financial Group, Inc. is offering $125,000,000 of 8.00% senior notes due 2033. We will pay interest on the notes quarterly on February 15, May 15, August 15 and November 15 of each year, beginning August 15, 2003. The notes mature on May 15, 2033. We may not redeem the notes prior to May 15, 2008. On or after May 15, 2008, we may redeem the notes, in whole or in part, at 100% of their principal amount, plus accrued interest to the date of redemption. We will issue the notes only in denominations of $25 and multiples of $25. The notes will be our senior unsecured obligations and will rank equally with all of our existing and future other unsecured and unsubordinated indebtedness.

We have applied to list the notes on the New York Stock Exchange. We expect trading of the notes to begin within a 30-day period after the initial delivery of the notes. The notes are expected to trade flat. This means that purchasers will not pay and sellers will not receive any accrued and unpaid interest on the notes that is not included in the trading price.

The underwriters will have the option, within 30 days, to purchase an additional $18,750,000 aggregate principal amount of notes.

See Risk Factors beginning on page S-11 of this prospectus supplement and page 4 of the accompanying prospectus for certain information relevant to an investment in the notes.

	Per Note	Total
Public Offering Price	100.00%	$125,000,000
Underwriting Discount	3.15%	$ 3,937,500
Proceeds, Before Expenses, to Delphi	96.85%	$121,062,500

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the notes in book-entry form only through the facilities of The Depository Trust Company on or about May 20, 2003.

Joint Book-Running Managers

LEHMAN BROTHERS

WACHOVIA SECURITIES

STIFEL, NICOLAUS & COMPANY INCORPORATED

U.S. BANCORP PIPER JAFFRAY

Co-Managers

ADVEST, INC.

BANC OF AMERICA SECURITIES LLC

ING FINANCIAL MARKETS LLC

KEEFE, BRUYETTE *&* WOODS, INC.

PUTNAM LOVELL NBF SECURITIES INC.

QUICK *&* REILLY

SANDLER O NEILL *&* PARTNERS, L.P.

MAY 13, 2003

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PROSPECTUS SUPPLEMENT

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus, as well as information we previously filed with the Securities and Exchange Commission and incorporated by reference, is accurate as of the date on the front of this prospectus supplement only. Our business, financial condition, results of operations and prospects may have changed since that date.

Cautionary Note Regarding Forward-Looking Statements

In connection with, and because we desire to take advantage of, the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we caution readers regarding certain forward-looking statements in this prospectus supplement or the accompanying prospectus and in any other statement made by us, or on our behalf, whether in future filings with the SEC or elsewhere. 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 or other sim 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 our 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, 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 our business, such as the level of our insurance premiums and fee income, the claims experience, persistency and other factors affecting the profitability of our insurance products, the performance of our investment portfolio and changes in our investment strategy, acquisitions of companies or blocks of business, and ratings by major rating organizations of our 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 us, or on our behalf.

PROSPECTUS SUPPLEMENT SUMMARY

The following summary contains basic information about this offering. This summary may not contain all of the information that is important to you. You should carefully read this entire prospectus supplement, the accompanying prospectus, the documents incorporated by reference and the other documents to which we refer for a more complete understanding of this offering. In this prospectus supplement and in the accompanying prospectus, unless the context requires otherwise, we, us, our and the Company refer to Delphi Financial Group, Inc. and its subsidiaries, and Delphi refers to Delphi Financial Group, Inc. only and not any of its subsidiaries.

Delphi Financial Group, Inc.

Delphi is a holding company, organized as a Delaware corporation in 1987, whose subsidiaries provide integrated employee benefit services. We manage all aspects of employee absence to enhance the productivity of our clients and provide the related insurance coverages: long-term and short-term disability, excess and primary workers compensation, group life and travel accident. Our asset accumulation business emphasizes fixed annuity products. We offer our products and services in all fifty states and the District of Columbia.

As of March 31, 2003, we had assets of $3.9 billion and shareholders equity of $691.8 million. For the year ended December 31, 2002, we had total premium and fee income of $627.9 million and operating income, excluding realized investment losses of $28.5 million and loss on extinguishment of debt of $0.3 million, of $127.5 million. Operating income, calculated in accordance with Generally Accepted Accounting Principles (GAAP), includes realized investment losses and loss on extinguishment of debt and was $98.7 million for the year ended December 31, 2002. Delphi has senior debt ratings of BBB from Standard & Poor s, a division of The McGraw-Hill Companies, Inc. (Standard & Poor s) and Fitch, Inc. (Fitch) and Ba1 from Moody s Investor Service, Inc. (Moody s). Our insurance subsidiaries have financial strength ratings of A from Standard & Poor s and Fitch, A (in the case of Safety National Casualty Corporation (Safety National)) and A- (in the case o Reliance Standard Life Insurance Company (Reliance Standard Life)) from A.M. Best Company (A.M. Best) and Reliance Standard Life has a Baa1 rating from Moody s.

Strategy

Our operating strategy is to offer financial products and services which have the potential for significant growth, which require specialized expertise to meet the individual needs of our customers and which provide us the opportunity to achieve superior operating earnings growth and returns on our shareholders capital.

We have concentrated our efforts within certain niche insurance markets. Our primary focus is on group employee benefits for small to mid-sized employers. This target market segment consists of companies with 10 to 500 employees. This segment of the market, which we believe is underserved, has witnessed a significant amount of the employment growth in the American economy over the last few years. In addition to valuing our relationship approach to the business, we believe the smaller-sized employer market also tends to be less price-competitive.

We also market our group employee benefit products and services to large employers with more than 1,000 employees, where we emphasize a unique program that combines both employee benefit insurance coverages and absence management (back-to-work) services. We believe this program, which we call the Integrated Employee Benefit Program, affords us a competitive advantage in the marketplace.

Operating Segments

Our two reportable operating segments are group employee benefit products and asset accumulation products.

Group Employee Benefit Products

We emphasize the origination of specialty insurance products directed to the employee benefits market, primarily group life, disability, excess workers compensation and travel accident insurance. We also offer voluntary accidental death and dismemberment and group dental insurance. For the year ended 2002, these products (which we refer to as our core products) accounted for $559.2 million of our total group employee benefit premiums of $608.5 million. Our new product premiums (sales) totaled $241.1 million on an annualized basis in 2002, with 83% of that amount attributable to the core products. Premiums earned on core group employee benefit products grew at a compounded annual rate of 18% from 2000 to 2002 and 26% from the first quarter of 2002 to the first quarter of 2003.

Group life insurance products provide for the payment of a stated amount upon the death of a member of the insured group. This segment accounted for 35% of our 2002 total group insurance premiums.

The group disability products we offer, principally long-term disability insurance, generally provide a specified level of periodic benefits to persons who, because of sickness or injury, are unable to work for a specified period of time. Our disability coverages are spread across many industries. This segment accounted for 32% of our 2002 total group insurance premiums.

We believe we are a market share leader in excess workers compensation. These products provide coverage to employers and groups who self-insure their workers compensation risks. Our claim payments do not begin until after the self-insured s loss payments exceed its self-insured retention (which we refer to as an SIR or deductible), which occurs, on average, 15 years after the date of the claim. Sales are targeted to groups that tend to be less accident prone and as to which the insurance market is less price-competitive (such as small municipalities, hospitals and schools). This product line accounted for 17% of our 2002 total group insurance premiums. We were able to achieve additional 15% price increases for this product during the 2003 renewal season on top of the 25% price increases achieved in 2002. Annualized premiums for new business increased 70% in 2002 to $30.8 million. This increase resulted primarily from increased demand for this product due to higher primary workers compensation rates which led to growth in self-insurance programs.

Travel accident insurance products pay a stated amount in the event of a travel-related accidental death of a member of the insured group. This segment combined with voluntary accidental death and dismemberment and group dental accounted for 8% of our 2002 total group insurance premiums.

We market our group products to employer-employee groups and associations in a variety of industries. We insure groups ranging from 2 to more than 5,000 individuals, although the typical size of insured groups currently ranges from 10 to 500 individuals. We market unbundled employee benefit products and absence management services as well as our Integrated Employee Benefit Program that, as discussed above, combines both employee benefit insurance coverages and absence management services. This Integrated Employee Benefit Program has enabled us to market our group employee benefit products on a differentiated basis to large employers. In underwriting our group employee benefit products, we attempt to avoid concentrations of business in any industry segment or geographic area. Operating income for the group employee benefit products segment totaled $122.7 million in 2002.

Our group employee benefit products are sold to employer groups primarily through independent brokers and agents. Our three administrative offices and 25 sales offices located throughout the country provide nationwide sales support and service existing business. We believe our national sales network minimizes expenses traditionally associated with large insurance company captive marketing systems.

Asset Accumulation Products

Our asset accumulation products consist of fixed annuities, primarily single premium deferred annuities (which we refer to as SPDAs) and flexible premium annuities (which we refer to as FPAs). An SPDA provides for a single payment by an annuity holder to us, and the crediting of interest by us on the annuity contract at the applicable crediting rate. An FPA provides for periodic payments by an annuity holder to us, the timing and amount of which are at the discretion of the annuity holder, and the crediting of interest by us on the annuity contract at the applicable crediting rate. Interest credited on SPDAs and FPAs is not paid currently to the annuity holder but instead accumulates and is added to the annuity contract s account value. This accumulation is tax deferred. We may increase or decrease the crediting rate subject to specified guaranteed minimum crediting rates, which currently range from 3.0% to 5.5%. For most of our annuity products, we may reset the crediting rate annually, typically on the policy anniversary. A small portion of our annuity products also include multi-year interest guarantee products, in which the crediting rate is fixed at a stated rate for a specified period of years, such periods ranging from three to eight years. Withdrawals may be made by the annuity holder at any time, but some withdrawals may result in the assessment of surrender charges, taxes, and/or tax penalties on the withdrawn amount. In addition, the accumulated value of the annuity may be increased or decreased under a market value adjustment provision if it is surrendered during the surrender charge period. We do not market variable annuity products.

Asset accumulation products are sold predominantly to individuals through networks of independent agents. Annual asset growth has averaged 11% for the last three years. As of December 31, 2002, this segment had $878.8 million in funds under management, which included $803.0 million of SPDA liabilities and $75.8 million of FPA liabilities. Product deposits (sales) in 2002 were $135.0 million, of which $119.3 million was attributable to SPDA products and $13.0 million to FPA products. Segment premium and fee income totaled $2.6 million in 2002 and operating income was $10.1 million.

Other Products and Services

Our comprehensive disability and absence management services are designed to assist clients in identifying and minimizing lost productivity and benefit payment costs resulting from employee absence due to illness, injury or personal leave. Services that we offer include event reporting, leave of absence management, claims and case management and return to work management. The goal of these services is to enhance employee productivity and provide more efficient benefit delivery and enhanced cost containment. We provide these services on an unbundled basis or through our Integrated Employee Benefit Program. We believe that these integrated disability and absence management services complement our core group employee benefit products, enhancing our ability to market these core products and providing us with a competitive advantage in the market for these products.

These other products and service segments accounted for $16.7 million in premium and fee income and generated, together with certain corporate activities, a net operating loss of $5.4 million in 2002.

We are incorporated in the State of Delaware. Our principal executive offices are located at 1105 North Market Street, Suite 1230, Wilmington, Delaware 19899. Our telephone number is (302) 478-5142. Our website is www.delphifin.com. The information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus.

The Offering

The summary below describes the principal terms of the notes. Some of the terms and conditions described below are subject to important limitations and exceptions. The Description of the Notes section of this prospectus supplement contains a more detailed description of the terms and conditions of the notes.

Issuer	Delphi Financial Group, Inc.
Securities Offered	$125,000,000 aggregate principal amount ($143,750,000 if the underwriters exercise their option to purchase additional notes in full) of 8.00% Senior Notes due 2033.
Maturity Date	May 15, 2033.
Interest Payment Dates	8.00% per annum payable quarterly on February 15, May 15, August 15 and November 15 of each year, beginning on August 15, 2003. Interest will accrue from the issue date of the notes.
Ranking	The notes will be senior unsecured obligations of Delphi and will rank equally with all of our existing and future unsecured and unsubordinated indebtedness and senior to our subordinated indebtedness. As of March 31, 2003, we had $47.0 million of secured indebtedness and $66.5 million of senior indebtedness outstanding. Under the terms of our revolving credit facility, upon our issuing at least $75 million in aggregate principal amount of unsecured senior or subordinated debt obligations, the collateral for such facility, consisting of a security interest in the common stock of our subsidiaries, will be released by the lenders. Accordingly, upon issuance of the notes, such collateral will be released. The maximum amount of available borrowings under the revolving credit facility will also be reduced at that time from $150 million to $100 million.
Optional Redemption	Delphi may not redeem the notes prior to May 15, 2008. On or after May 15, 2008, Delphi may from time to time redeem the notes, in whole or in part, at a redemption price equal to 100% of their principal amount, plus accrued interest to the date of redemption.
Ratings	It is anticipated that the notes will be rated BBB by Standard & Poor s BBB by Fitch and Ba1 by Moody s.
Form and Denomination	The notes will be issued in fully registered book-entry form, in denominations of $25 and integral multiples thereof. The notes will be represented by one or more global certificates registered in the name of The Depository Trust Company or its nominee. This means that holders will not receive a certificate for their notes and the notes will not be registered in their names. Beneficial ownership of the notes will be shown on, and transfers will be effected only through, records maintained by participants in The Depository Trust Company.
Use of Proceeds	To repay up to approximately $120.8 million, in the aggregate, of the obligations outstanding under our revolving credit facility and Delphi s 8% Senior Notes due 2003.

Summary Financial Information

The following is a summary of certain financial information taken or derived from our audited and unaudited financial statements included in the documents incorporated by reference into this prospectus supplement. You should read this information carefully in conjunction with the financial statements and other information included in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference.

	Three Months Ended March 31,	
	2003	**2002**
	(dollars in thousands, except per share data)	
Income Statement Data:		
Insurance premiums and fee income	$171,761	$156,827
Net investment income	45,705	41,064
Net realized investment gains(1)	1,215	95
Total revenue	218,681	197,986
Operating income(2)(3)	35,235	31,832
Net income(2)(4)	22,496	19,570
Basic Results Per Share(2):		
Net income	$ 1.08	$ 0.95
Weighted average shares outstanding	20,823	20,688
Diluted Results Per Share(2):		
Net income	$ 1.06	$ 0.93
Weighted average shares outstanding	21,214	21,153
Cash Dividends Paid Per Share(5)	$ 0.08	$ 0.07
Other Data(6):		
Operating income excluding realized investment gains	$ 34,020	$ 31,737
Operating earnings(4)	21,706	19,508

	March 31, 2003	March 31, 2002
Balance Sheet Data:		
Total investments	$2,900,907	$2,549,587
Total assets	3,875,409	3,489,590
Long-term debt	128,133	120,654
Capital Securities	36,050	36,050
Shareholders equity	691,756	586,338

	Year Ended December 31,				
	2002	2001	2000	1999	1998
	(dollars in thousands, except per share data)				
Income Statement Data:					
Insurance premiums and fee income:					
Core group employee benefit products	$559,174	$452,158	$ 400,405	$357,541	$326,770
Non-core group employee benefit products(7)	49,325	35,836	47,285	110,381	89,641
Asset accumulation products	2,645	3,088	2,551	2,126	2,583
Other(8)	16,713	16,122	16,116	15,220	7,880
	627,857	507,204	466,357	485,268	426,874
Net investment income(9)	162,036	157,509	184,576	180,945	168,692
Net realized investment gains (losses)(1)	(28,469)	(70,289)	(138,047)	(25,720)	8,060
(Loss) gain on extinguishment of debt(9)	(332)	11,456			
Total revenue	761,092	605,880	512,886	640,493	603,626
Operating income(2)(3)	98,664	22,819	19,324	119,275	133,020
Income (loss) from continuing operations(2)	60,652	6,505	(3,293)	64,132	73,802
Net income (loss)(2)(4)(10)	60,652	6,505	(3,293)	50,285	87,035
Basic Results Per Share(2)(10)(11):					
Income (loss) from continuing operations	$ 2.92	$ 0.32	$ (0.16)	$ 3.06	$ 3.50
Net income (loss)	2.92	0.32	(0.16)	2.40	4.13
Weighted average shares outstanding	20,759	20,565	20,388	20,979	21,095
Diluted Results Per Share(2)(10)(11):					
Income (loss) from continuing operations	$ 2.85	$ 0.31	$ (0.16)	$ 2.96	$ 3.37
Net income (loss)	2.85	0.31	(0.16)	2.32	3.97
Weighted average shares outstanding	21,258	21,086	20,388	21,674	21,920
Cash Dividends Paid Per Share(5)	$ 0.29	$ 0.28	$	$	$
Other Data(6):					
Operating income excluding realized investment (losses) gains and (loss) gain on extinguishment of debt(3)	$127,465	$ 81,652	$ 157,371	$144,995	$124,960
Operating earnings(4)	79,373	44,747	86,438	80,850	68,564
Diluted book value per share(12)	$ 32.75	$ 28.50	$ 26.87	$ 24.52	$ 26.59

	Year Ended December 31,				
	2002	2001	2000	1999	1998
	(dollars in thousands)				
Balance Sheet Data:					
Total investments	$2,816,051	$2,427,214	$2,475,945	$2,527,763	$2,511,387
Total assets	3,734,942	3,336,146	3,440,010	3,395,688	3,287,057
Long-term debt(9)	118,139	125,675	267,770	283,938	265,165
Capital Securities(9)	36,050	36,050	100,000	100,000	100,000
Shareholders equity	681,655	581,994	538,193	501,417	566,440
Debt to total capitalization ratio(13)	14.1%	16.9%	29.6%	32.1%	28.5%

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(1) In the first quarters of 2003 and 2002 and the full years of 2002 and 2001, the Company recognized losses of $5.1 million, $3.6 million, $54.1 million and $79.3 million, respectively, due to the other than temporary declines in the market values of certain securities, which are reported as net realized investment losses. In the full year of 2000, the Company realized losses of $72.5 million related to the liquidation of a substantial majority of the investments of its investment subsidiaries and $58.5 million on closed U.S. Treasury futures and option contracts.

(2) Results for 2001 include a charge of $1.40 per share or $28.8 million, net of taxes of $15.5 million and reinsurance coverages of $21.8 million, for reserve strengthening primarily related to an unusually high number of large losses in the Company s excess workers compensation business. Included in this charge, on a pre-tax basis, is an addition to excess workers compensation case reserves of $9.0 million and reserves for losses incurred but not reported (which we call IBNR reserves) of $24.0 million. This charge also includes reported workers compensation losses of $6.3 million and a $5.0 million addition to long-term disability IBNR reserves attributable to the terrorist attacks on the World Trade Center. The Company experienced one large loss in its excess workers compensation business in 2002.

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 145, Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 rescinds SFAS No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. Accordingly, gains or losses from extinguishment of debt are classified as income or loss from continuing operations in the income statement unless the extinguishment qualifies as an extraordinary item under the provisions of Accounting Principles Board Opinion (APB) No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. Events or transactions that are both unusual in nature or infrequent in occurrence are classified as extraordinary items under APB No. 30. Upon adoption, any gain or loss on extinguishment of debt previously classified as an extraordinary item in prior periods presented that does not meet the criteria of APB No. 30 for such classification was reclassified as required by SFAS No. 145. For the years ended December 31, 2002 and 2001, the Company had an extraordinary (loss) gain, net of the related income tax effect, of $(0.2) million, or $(0.01) per diluted share, and $7.4 million, or $0.35 per diluted share, respectively, that was reclassified to ongoing operations upon the adoption of SFAS No. 145. In addition, in computing the diluted earnings per share amounts for 2001, equivalent shares attributable to in-the-money stock options, which totaled $0.5 million, were considered in the calculation of these per share amounts since the reclassification of the gain on extinguishment of debt resulted in income from continuing operations.

Income (loss) from continuing operations and net income (loss) include realized investment gains (losses), net of federal income tax expense (benefit) and the (loss) gain on extinguishment of debt, net of federal income tax (benefit) expense, as follows:

	Three Months Ended March 31,		Year Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
	(dollars in thousands, except per share data)						
Realized investment gains (losses), net of income tax expense (benefit)	$ 790	$ 62	$(18,505)	$(45,688)	$(89,731)	$(16,718)	$5,238
Basic per share amount	0.04		(0.89)	(2.22)	(4.40)	(0.79)	0.25
Diluted per share amount	0.04		(0.87)	(2.16)	(4.40)	(0.77)	0.24
(Loss) gain on extinguishment of debt, net of income tax (benefit) expense			(216				