DELPHI FINANCIAL GROUP INC/DE
Form 10-K
February 28, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2006

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

For the transition period from ______________ to _________________

Commission File Number 001-11462

DELPHI FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

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 Identification Number)

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

Securities registered pursuant to Section 12(b) of the Act:

Class A Common Stock, $.01 par value	New York Stock Exchange
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [ ] No [X]

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 [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer[X] Accelerated filer[ ] Non-accelerated filer[ ]

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

Yes [ ] No [X]

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2006 was $1,557,402,790.

As of February 15, 2007, the Registrant had 43,475,980 shares of Class A Common Stock and 5,671,744 shares of Class B Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant's 2007 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

DELPHI FINANCIAL GROUP, INC.
ANNUAL REPORT ON FORM 10-K
FOR FISCAL YEAR ENDED DECEMBER 31, 2006

TABLE OF CONTENTS

This document contains certain forward-looking statements as defined in the Securities Exchange Act of 1934, some of which may be identified by the use of terms such as "expects," "believes," "anticipates," "intends," "judgment," "outlook" or other similar expressions. These statements are subject to various uncertainties and contingencies, which could cause actual results to differ materially from those expressed in such statements. See "Forward-Looking Statements and Cautionary Statements Regarding Certain Factors That May Affect Future Results" in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

PART I

ITEM 1. BUSINESS

Delphi Financial Group, Inc. (the "Company" or "Delphi," which term includes the Company and its consolidated subsidiaries unless the context indicates otherwise), is a holding company whose subsidiaries provide integrated employee benefit services. The Company was organized as a Delaware corporation in 1987 and completed the initial public offering of its Class A common stock in 1990. The Company manages all aspects of employee absence to enhance the productivity of its clients and provides the related insurance coverages: long-term and short-term disability, excess and primary workers' compensation, group life, travel accident and dental. The Company's asset accumulation business emphasizes individual fixed annuity products. The Company offers its products and services in all fifty states, the District of Columbia and Canada. The Company's two reportable segments are group employee benefit products and asset accumulation products. See Notes A and Q to the Consolidated Financial Statements included in this Form 10-K for additional information regarding the Company's segments.

The Company makes available free of charge on its website at www.delphifin.com/financial/secfilings.html its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports as soon as reasonably possible after such material has been filed with or furnished to the Securities and Exchange Commission. Additional copies of the Company's annual reports on Form 10-K may be obtained without charge by submitting a written request to the Investor Relations Department, Delphi Financial Group, Inc., 1105 North Market Street, Suite 1230, Wilmington, Delaware 19899.

OPERATING STRATEGY

The Company's 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 its customers and which provide the Company the opportunity to achieve superior operating earnings growth and returns on capital.

The Company has concentrated its efforts within certain niche insurance markets, primarily group employee benefits for small to mid-sized employers, where data from the Bureau of Labor Statistics indicate nearly all of the employment growth in the American economy has occurred in recent years. The Company also markets its group employee benefit products and services to large employers, emphasizing unique programs that integrate both employee benefit insurance coverages and absence management services. The Company also operates an asset accumulation business that focuses primarily on offering fixed annuities to individuals planning for retirement as well as the issuance of funding agreements in connection with the offering of funding agreement-backed notes to institutional investors.

The Company's primary operating subsidiaries are as follows:

Reliance Standard Life Insurance Company ("RSLIC"), founded in 1907 and having administrative offices in Philadelphia, Pennsylvania, and its subsidiary, First Reliance Standard Life Insurance Company ("FRSLIC"), underwrite a diverse portfolio of group life, disability and accident insurance products targeted principally to the employee benefits market. RSLIC also markets asset accumulation products, primarily fixed annuities, to individuals and groups. The financial strength rating of RSLIC as of February 2007 as assigned by A.M. Best was A (Excellent). Financial strength ratings are based upon factors relevant to the Company's insurance subsidiary policyholders and are not directed toward protection of investors in the Company. The Company, through Reliance Standard Life Insurance Company of Texas ("RSLIC-Texas"), acquired RSLIC and FRSLIC in 1987.

Safety National Casualty Corporation ("SNCC") focuses primarily on providing excess workers' compensation insurance to the self-insured market. Founded in 1942 and located in St. Louis, Missouri, SNCC is one of the oldest continuous writers of excess workers' compensation insurance in the United States. The financial strength rating of SNCC as of February 2007 as assigned by A.M. Best was A (Excellent). The Company, through SIG Holdings, Inc. ("SIG"), acquired

SNCC in 1996. In 2001, SNCC formed an insurance subsidiary, Safety First Insurance Company, which also focuses on selling excess workers' compensation products to the self-insured market.

Matrix Absence Management, Inc. ("Matrix"), founded in 1987, provides integrated disability and absence management services to the employee benefits market across the United States. Headquartered in San Jose, California, Matrix was acquired by the Company in 1998.

GROUP EMPLOYEE BENEFIT PRODUCTS

The Company is a leading provider of group life, disability and excess workers' compensation insurance products to small and mid-sized employers, with more than 25,000 policies in force. The Company also offers travel accident, voluntary accidental death and dismemberment and group dental insurance. The Company markets its group products to employer-employee groups and associations in a variety of industries. The Company insures groups ranging from 2 to more than 5,000 individuals, although the size of an insured group generally ranges from 10 to 1,000 individuals. The Company markets its employee benefit products on an unbundled basis and as part of an Integrated Employee Benefit program that combines employee benefit insurance coverages and absence management services. The Integrated Employee Benefit program, which the Company believes helps to differentiate itself from competitors by offering clients improved productivity from reduced employee absence, has enhanced the Company's ability to market its group employee benefit products to large employers. In 2003, the Company introduced a suite of voluntary group life, disability and accidental death and dismemberment insurance products that are sold to employees on an elective basis at their worksite. This suite of voluntary benefits allows the employees of the Company's clients to choose, within specified parameters, the type and amount of insurance coverage, the premiums for which are collected through payroll deductions. The Company also offers a group limited benefit health insurance product which provides employee-paid coverage for hourly, part-time or other employees with seasonal or other irregular work schedules who would generally not be eligible for other employer-provided health insurance plans. In underwriting its group employee benefit products, the Company attempts to avoid concentrations of business in any particular industry segment or geographic area; however, no assurance can be given that such efforts will be successful.

The Company's group employee benefit products are sold to employers and groups primarily through independent brokers and agents. The Company's products are marketed to brokers and agents by 139 sales representatives and managers. RSLIC had 125 sales representatives and managers located in 26 sales offices nationwide at December 31, 2006, up 7% from 117 sales representatives and managers at the end of 2005. At December 31, 2006, SNCC had 13 sales representatives and managers. The Company's four administrative offices and 26 sales offices also service existing business.

The following table sets forth for the periods indicated selected financial data concerning the Company's group employee benefit products:

	Year Ended Dece		
	2006		2005
			(dollars in th
Insurance premiums:			
Core Products:			
Disability income	$ 458,130	42.4%	$ 392,959

Life	316,360	29.2	281,915
Excess workers' compensation	260,031	24.0	220,312
Travel accident, dental and other	47,150	4.4	41,058
	$1,081,671	100.0%	$ 936,244
Non-Core Products:			
Loss portfolio transfers	20,911		10,377
Other	21,544		14,541
	42,455		24,918
Total insurance premiums	$1,124,126		$ 961,162
Sales (new annualized gross premiums):			
Core Products:			
Disability income	$ 114,622	40.9%	$ 103,515
Life	88,578	31.6	72,814
Excess workers' compensation	57,217	20.4	46,044
Travel accident, dental and other	19,699	7.1	21,728
	$ 280,116	100.0%	$ 244,101
Non-Core Products:			
Loss portfolio transfers	19,758		10,377
Other	11,561		9,448
	31,319		19,825
Total sales	$ 311,435		$ 263,926

The profitability of group employee benefit products is affected by, among other things, differences between actual and projected claims experience, the retention of existing customers, product mix and the Company's ability to attract new customers, change premium rates and contract terms for existing customers and control administrative expenses. The Company transfers its exposure to a portion of its group employee benefit risks through reinsurance ceded arrangements with other insurance and reinsurance companies. Under these arrangements, another insurer assumes a specified portion of the Company's losses and loss adjustment expenses in exchange for a specified portion of policy premiums. See "Reinsurance." Accordingly, the profitability of group employee benefit products is affected by the amount, cost and terms of reinsurance obtained by the Company. The profitability of those group employee benefit products for which reserves are discounted is also affected by the difference between the yield achieved on invested assets and the discount rate used to calculate the related reserves.

The table below shows the loss and expense ratios as a percent of premium income for the Company's group employee benefit products for the periods indicated.

	Year Ended December 31,		
	2006	2005	2004

Loss ratio.................	70.6%	70.1%	70.3%
Expense ratio..............	22.6	24.0	24.7
Combined ratio.......	93.2%	94.1%	95.0%

The loss and expense ratios are affected by, among other things, claims development related to insurance policies written in prior years and the results with respect to the Company's non-core group employee benefit products. Such ratios can also be affected by changes in the Company's mix of products, such as the level of premium from loss portfolio transfers ("LPTs"), from year to year. LPTs, which are classified as a non-core product due to the episodic nature of sales, carry a higher loss ratio and a significantly lower expense ratio as compared to the Company's other group employee benefit products.

-5-

Group disability insurance products offered by the Company, principally long-term disability insurance, generally provide a specified level of periodic benefits for a specified term, typically to the insured's normal retirement age, to a member of the insured group who, because of a medical condition or injury, is unable to work. The Company's group long-term disability coverages are spread across many industries. Typically, long-term disability benefits are paid monthly and are limited for any one insured to two-thirds of the insured's earned income up to a specified maximum benefit. Long-term disability benefits are usually offset by income the claimant receives from other sources, primarily Social Security disability benefits. The Company actively manages its disability claims, working with claimants in an effort to assist them in returning to work as quickly as possible. When claimants' disabilities prevent them from returning to their original occupations, the Company, in appropriate cases, may provide assistance in developing new productive skills for an alternative career. Following the initial premium rate guarantee period for a new policy, typically two years in length, premium rates are generally re-determined annually for disability insurance and are based upon expected morbidity and mortality and the insured group's emerging experience, as well as assumptions regarding operating expenses and future interest rates. In April 2006, RSLIC purchased substantially all of the assets of a third-party administrator which had previously been administering business for RSLIC and contributed them to a newly established division of RSLIC, Custom Disability Solutions ("CDS"). In addition, RSLIC hired approximately 100 former employees of the third-party administrator in connection with the asset acquisition. CDS, the operations of which are based in South Portland, Maine, is focused on expanding the Company's presence in the turnkey group disability reinsurance market, while also continuing to service existing clients from an indemnity reinsurance arrangement. Turnkey group disability reinsurance is typically provided to other insurance companies that would not otherwise have the capability of providing to their clients a group disability insurance product to complement their other product offerings. Under these reinsurance arrangements, RSLIC typically assumes through reinsurance, on a quota share basis, a substantial majority in proportionate amount of the risk associated with the group disability insurance policies issued by such other insurers. CDS provides pricing, underwriting and claims management services relating to such policies, utilizing the same policies and procedures as are applied with respect to RSLIC's directly written group disability insurance policies. Effective October 1, 2003 for new policies and, for policies that were in effect on such date, the earlier of the next policy anniversary date or October 1, 2004, the Company cedes through indemnity reinsurance risks in excess of $7,500 (compared to $2,500 previously) in long-term disability benefits per individual per month. See "Reinsurance" and "Liquidity and Capital Resources -- Reinsurance." in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Company's group life insurance products provide for the payment of a stated amount upon the death of a member of the insured group. Following the initial premium rate guarantee period for a new policy, typically two years in length, premium rates are generally re-determined annually for group life insurance policies and are based upon expected mortality and morbidity and the insured group's emerging experience, as well as assumptions regarding operating expenses and future interest rates. Accidental death and dismemberment insurance, which provides for the payment of a stated amount upon the accidental death or dismemberment of a member of the insured group, is frequently sold in conjunction with group life insurance policies and is included in premiums charged for group life insurance. The Company reinsures risks in excess of $100,000 per individual for voluntary group term life insurance policies. Effective January 1, 2007, the Company cedes through indemnity reinsurance risks in excess of $200,000 (compared to $150,000 previously) per individual and type of coverage for employer-paid group life insurance policies. See "Reinsurance."

Excess workers' compensation insurance products provide coverage against workers' compensation risks to employers and groups who self-insure such risks. The coverage applies to losses in excess of the applicable self-insured retentions ("SIRs" or deductibles) of employers and groups, whose workers' compensation claims are generally handled by third-party administrators ("TPAs"). These products are principally targeted to mid-sized companies and other employers, particularly small municipalities, hospitals and schools. These employers are believed to be less prone to catastrophic workers' compensation exposures and less price sensitive than larger account business. Because claim payments under the Company's excess workers' compensation products do not begin until after the self-insured's total loss payments equal the SIR, the period from when the claim is incurred to the time the Company's claim payments begin averages 15 years. At that point, the payments are primarily for wage replacement, similar to the benefit provided under long-term disability coverage, and any medical payments tend to be relatively more stable and predictable in nature than at the inception of the workers' compensation claim. This family of products also includes large deductible workers' compensation insurance, which provides coverage similar to excess workers' compensation insurance, and a complementary product, workers' compensation self-insurance bonds.

The pricing environment and demand for excess workers' compensation insurance has improved substantially since 2000 due to high primary workers' compensation rates and disruption in the excess workers' compensation marketplace resulting from difficulties experienced by some competitors, particularly during 2000. These trends accelerated during the second half of 2001 as sharply higher primary workers' compensation rates and rising reinsurance costs due to the

-6-

September 11th terrorist attacks increased the demand for alternatives to primary workers' compensation. As a result, the demand for excess workers' compensation insurance products and the rates for such products continued to increase significantly through 2004. The cumulative effect of these rate increases during 2002 through 2004 was an increase of 57%. SNCC was able to maintain its pricing in its renewals of insurance coverage during 2005 and 2006 and also obtained significant improvements in contract terms in new and renewal policies written in those years, in particular higher SIR levels. On average, SIRs increased 8% in each of 2004 and 2005 and 6% in 2006. SNCC has substantially maintained its pricing on its 2007 renewals and SIR levels on average are up modestly in 2007 new and renewal policies, excluding the Canadian policies referenced below. New business production, which represents the amount of new annualized premium sold, for excess workers' compensation products was $28.4 million in 2004, $46.0 million in 2005 and $57.2 million in 2006 and the retention of existing customers remains strong. New business production for 2005 and 2006 benefited from a renewal rights agreement into which SNCC entered in July 2005. Under the agreement, SNCC acquired, among other things, the right to offer renewal quotes to expiring excess workers' compensation policies of a former competitor. Excess workers' compensation new business production for the important January renewal season increased 20% to $11.2 million in 2007 from $9.3 million in 2006, excluding production of $11.0 million relating to policies written under the renewal rights agreement during 2006. The January 2007 new business production total includes $2.9 million related to policies written in Canada under such renewal rights agreement. During 2003, the Company replaced certain of its existing reinsurance arrangements for its excess workers' compensation insurance products. Under the replacement arrangements, the Company cedes through indemnity reinsurance excess workers' compensation risks between $5.0 million (compared to $3.0 million previously) and $50.0 million, and a substantial majority in proportionate amount of the risks between $50.0 million and $100.0 million, per occurrence. During 2005, the Company entered into a reinsurance arrangement under which the Company ceded 30% of its excess workers' compensation risks between $100.0 million and $150.0 million, per occurrence. During 2006, the Company entered into a reinsurance arrangement under which the Company cedes a substantial majority in proportionate amount of the risks between $100.0 million and $150.0 million, per occurrence. See "Reinsurance" and "Liquidity and Capital Resources -- Reinsurance." in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

As a result of the September 11th terrorist attacks, a number of the Company's reinsurers have excluded coverage for losses resulting from terrorism. In November 2002, the Terrorism Risk Insurance Act of 2002 (the "Terrorism Act") was enacted. The Terrorism Act established a program under which the federal government will share with the insurance industry the risk of loss from covered acts of international terrorism. In December 2005, Congress passed the Terrorism Risk Insurance Extension Act of 2005 extending, with certain modifications, the Terrorism Act, which otherwise would have expired at the end of 2005, for an additional two-year term through December 31, 2007. The Terrorism Act applies to lines of property and casualty insurance directly written by SNCC (as opposed to business assumed by SNCC through reinsurance), including excess workers' compensation. SNCC's surety line of business is not covered under the Terrorism Act after December 31, 2005. The federal government would pay 85% of each covered loss in 2007 and the insurer would pay the remaining 15%, respectively. Each insurer has a separate deductible before federal assistance becomes available for a covered act of terrorism. The deductible is based on a percentage of the insurer's direct earned premiums from the previous calendar year. Such percentage will be 20% in 2007. The maximum after-tax loss to the Company for 2007 within the Terrorism Act deductible from property and casualty products is approximately 3.1% of the Company's shareholders' equity as of December 31, 2006. Any payments made by the federal government under the Terrorism Act would be subject to recoupment via surcharges to policyholders when future premiums are billed. The Terrorism Act does not apply to the lines of insurance written by the Company's life insurance subsidiaries.

Business travel accident and voluntary accidental death and dismemberment group insurance policies pay a stated amount based on a predetermined schedule in the event of the accidental death or dismemberment of a member of the insured group. The Company cedes through indemnity reinsurance risks in excess of $150,000 per individual and type of coverage. Group dental insurance provides coverage for preventive, restorative and specialized dentistry up to a stated maximum benefit per individual per year. Under a reinsurance arrangement, the Company ceded 50% of its risk under dental policies with effective dates prior to 2003, ceded 100% of its risk under dental policies with effective dates in 2003 through June 30, 2004 and cedes 75% of its risk under dental policies with effective dates after June 30, 2004. See "Reinsurance."

The Company's suite of voluntary group life, disability and accidental death and dismemberment insurance products are sold to employees on an elective basis at the worksite. Trends in the U.S. employment market, particularly the increasing cost of employer-provided medical benefits, are leading an increasing number of employers to offer new or additional benefits on a voluntary basis. The Company's suite of voluntary products allows the employees of the Company's clients to choose, within specified parameters, the type and amount of insurance coverage, the premiums for which are collected through payroll deductions. The Company also offers a group limited benefit health insurance product which provides

employee-paid coverage for hourly, part-time or other employees with seasonal or other irregular work schedules who would generally not be eligible for other employer-provided health insurance plans. Because these products are convenient to purchase and maintain, the Company believes that they are appealing to employees who might have little opportunity or inclination to purchase similar coverage on an individual basis. The Company believes that these products complement the Company's core group employee benefit products and represent a significant growth opportunity.

Non-core group employee benefit products include certain products that have been discontinued, such as reinsurance facilities and excess casualty insurance, newer products which have not demonstrated their financial potential, products which are not expected to comprise a significant percentage of earned premiums and products for which sales are episodic in nature, such as LPTs. Pursuant to an LPT, the Company, in exchange for a specified one-time premium payment to the Company, assumes responsibility for making ongoing payments with respect to an existing block of disability or self-insured workers' compensation claims that are in the course of being paid over time. These products are typically marketed to the same types of clients who have historically purchased the Company's disability and excess workers' compensation products. Non-core group employee benefit products also include primary workers' compensation insurance products, for which the Company primarily receives fee income since a significant portion of the risks relating to these products is ceded by the Company to third parties through indemnity reinsurance. Excess casualty insurance consists of a discontinued excess umbrella liability program. This program entails exposure to excess of loss liability claims from past years, including environmental and asbestos-related claims. Net incurred losses and loss adjustment expenses relating to this program totaled $8.0 million, $6.5 million and $8.0 million in 2006, 2005 and 2004, respectively. In addition, non-core group employee benefit products include bail bond insurance and workers' compensation assumed reinsurance. See "Reinsurance."

ASSET ACCUMULATION PRODUCTS

The Company's asset accumulation products consist mainly of fixed annuities, primarily single premium deferred annuities ("SPDAs") and flexible premium annuities ("FPAs"). An SPDA provides for a single payment by an annuity holder to the Company and the crediting of interest by the Company on the annuity contract at the applicable crediting rate. An FPA provides for periodic payments by an annuity holder to the Company, the timing and amount of which are at the discretion of the annuity holder, and the crediting of interest by the Company 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. The crediting rate may be increased or decreased by the Company subject to specified guaranteed minimum crediting rates, which currently range from 2.3% to 5.5%. For most of the Company's fixed annuity products, the crediting rate may be reset by the Company annually, typically on the policy anniversary. The Company's fixed 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. At December 31, 2006, the weighted average crediting rate on the Company's fixed annuity products as a group was 4.33%, which includes the effects of the first year crediting rate bonus on certain newly issued products. Withdrawals may be made by the annuity holder at any time, but withdrawals during the applicable surrender charge period will result in the assessment of surrender charges, and withdrawals may also result in taxes and/or tax penalties to the holder on the withdrawn amount. In addition, for annuity products containing a market value adjustment ("MVA") provision, the accumulated value of the annuity may be increased or decreased under such provision if it is surrendered during the surrender charge period. Under this provision, the accumulated value is guaranteed to be at least equal to the annuity premium paid, plus credited interest at the specified minimum guaranteed crediting rate. The Company does not market variable annuity products.

These fixed annuity products are sold predominantly to individuals through networks of independent agents. In 2006, the Company's SPDA products accounted for $71.1 million of asset accumulation product deposits, of which $62.1 million was attributable to the MVA annuity product, and $16.2 million was attributable to FPA products, of which $15.7 million had an MVA feature. Two networks of independent agents accounted for approximately 25% of the deposits from these SPDA and FPA products during 2006, with no other network of independent agents accounting for more than 10% of these deposits. The Company believes that it has a good relationship with these networks.

During the first quarter of 2006, the Company issued $100.0 million in aggregate principal amount of fixed and floating rate funding agreements with maturities of three to five years in connection with the issuance by an unconsolidated special purpose vehicle of funding agreement-backed notes in a corresponding principal amount. The Company believes that the funding agreement program enhances the Company's asset accumulation business by providing an alternative source of distribution for this business. The Company's liability for the funding agreements is recorded in policyholder account balances.

The following table sets forth for the periods indicated selected financial data concerning the Company's asset accumulation products:

	Year Ended December	
	2006	2005
	(dollars in thou	
Asset accumulation product deposits (sales):		
Fixed annuities......................................	$ 90,741	$ 95,021
Funding agreements...................................	100,000	-
Funds under management (at period end)......................	1,089,051	1,008,787

At December 31, 2006, funds under management consisted of $843.4 million of SPDA liabilities, $144.4 million of FPA liabilities and $101.2 million of funding agreements. Of the SPDA and FPA liabilities, $656.6 million were subject to surrender charges averaging 6.15% at December 31, 2006, with the balance of these liabilities not subject to surrender charges having been in force, on average, for 20 years. The Company's funding agreements cannot be redeemed prior to maturity.

The Company prices its annuity products based on assumptions concerning prevailing and expected interest rates and other factors that it believes will permit it to achieve a positive spread between its expected return on investments and the crediting rate. The Company attempts to achieve this spread by active portfolio management focusing on matching invested assets and related liabilities to minimize the exposure to fluctuations in market interest rates and by the adjustment of the crediting rate on its fixed annuity products. In response to changes in interest rates, the Company increases or decreases the crediting rates on its fixed annuity products.

In light of the annuity holder's ability to withdraw funds and the volatility of market interest rates, it is difficult to predict the timing of the Company's payment obligations under its SPDAs and FPAs. Consequently, the Company maintains a portfolio of investments which are readily marketable and expected to be sufficient to satisfy liquidity requirements. See "Investments."

OTHER PRODUCTS AND SERVICES

The Company provides integrated disability and absence management services on a nationwide basis through Matrix, which was acquired in 1998. The Company's 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. The Company offers services including event reporting, leave of absence management, claims and case management and return to work management. These services' goal is to enhance employee productivity and provide more efficient benefit delivery and enhanced cost containment. The Company provides these services on an unbundled basis or in a unique Integrated Employee Benefit program that combines these services with various group employee benefit insurance coverages. The Company believes that these integrated disability and absence management services complement the Company's core group employee benefit products, enhancing the Company's ability to market these core products and providing the Company with a competitive advantage in the market for these products.

In 1991, the Company introduced a variable flexible premium universal life insurance policy under which the related assets are segregated in a separate account not subject to claims of general creditors of the Company. Policyholders may elect to deposit amounts in the account from time to time, subject to underwriting limits and a minimum initial deposit of $1.0 million. Both the cash values and death benefits of these policies fluctuate according to the investment experience of the assets in the separate account; accordingly, the investment risk with respect to these assets is borne by the policyholders. The Company earns fee income from the separate account in the form of charges for management and other administrative fees. The Company is not presently actively marketing this product. The Company reinsures risks in excess of $200,000 per individual under indemnity reinsurance arrangements with various reinsurance companies. See "Reinsurance."

UNDERWRITING PROCEDURES

Premiums charged on insurance products are based in part on assumptions about the incidence, severity and timing of insurance claims. The Company has adopted and follows detailed underwriting procedures designed to assess and qualify insurance risks before issuing its policies. To implement these procedures, the Company employs a professional underwriting staff.

In underwriting group coverage, the Company focuses on the overall risk characteristics of the group to be insured and the geographic concentration of its new and renewal business. A prospective group client is evaluated with particular attention paid to the claims experience of the group with prior carriers, if any, the occupations of the insureds, the nature of the business of the client, the current economic outlook of the client in relation to others in its industry and of the industry as a whole, the appropriateness of the benefits or SIR applied for and income from other sources during disability. The Company's products generally afford it the flexibility to seek, on an annual basis, following any initial premium rate guarantee period, to adjust premiums charged to its policyholders in order to reflect emerging mortality or morbidity experience.

INVESTMENTS

The Company's management of its investment portfolio is an important component of its profitability since a substantial portion of its operating income is generated from the difference between the yield achieved on invested assets and, in the case of asset accumulation products, the interest credited on policyholder funds and, in the case of the Company's other products for which reserves are discounted, the discount rate used to calculate the related reserves. The Company's overall investment strategy to achieve its objectives of safety and liquidity, while seeking the best available return, focuses on, among other things, matching of the Company's interest-sensitive assets and liabilities and seeking to minimize the Company's exposure to fluctuations in interest rates.

For information regarding the composition and diversification of the Company's investment portfolio and asset/liability management, see "Liquidity and Capital Resources" in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes A, B and H to the Consolidated Financial Statements.

The following table sets forth for the periods indicated the Company's pretax investment results:

	Year Ended December 31,		
	2006	2005	2004
	(dollars in thousands)		
Average invested assets (1)	$4,038,658	$ 3,621,608	$3,272,97
Net investment income (2)	255,871	223,569	202,44
Tax equivalent weighted average annual yield (3)	6.6%	6.4%	6.

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(1) Average invested assets are computed by dividing the total of invested assets as reported on the balance sheet at the beginning of each year plus the individual quarter-end balances by five and deducting one-half of net investment income.

(2) Consists principally of interest and dividend income less investment expenses.

(3) The tax equivalent weighted average annual yield on the Company's

investment portfolio for each period is computed by dividing net investment income, increased, in the case of tax exempt interest income, to reflect the level of the tax benefit associated with such income, by average invested assets for the period. See "Results of Operations" in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

REINSURANCE

The Company participates in various reinsurance arrangements both in ceding insurance risks to third parties and in assuming insurance risks from third parties. Arrangements in which the Company is the ceding insurer afford various levels of protection against loss by assisting the Company in diversifying its risks and by limiting its maximum loss on risks that exceed retention limits. Under indemnity reinsurance transactions in which the Company is the ceding insurer, the Company remains liable for policy claims whether or not the assuming company meets its obligations to the Company. In an effort to manage this risk, the Company monitors the financial position of its reinsurers, including, among other things, the companies' financial ratings, and in certain cases receives collateral security from the reinsurer. Also, certain of the Company's reinsurance agreements require the reinsurer to set up security arrangements for the Company's benefit

-10-

in the event of certain ratings downgrades. In addition, the U.S. federal government presently provides certain protections for insurers who issue certain property and casualty insurance coverages, including SNCC. See "Group Employee Benefit Products."

The Company cedes portions of the risks relating to its group employee benefit and variable life insurance products under indemnity reinsurance agreements with various unaffiliated reinsurers. The terms of these agreements, which management believes are typical for agreements of this type, provide, among other things, for the automatic acceptance by the reinsurer of ceded risks in excess of the Company's retention limits stated in the agreements. The Company pays reinsurance premiums to these reinsurers which are, in general, based upon percentages of premiums received by the Company on the business reinsured less, in certain cases, ceding commissions and experience refunds paid by the reinsurer to the Company. These agreements are generally terminable as to new risks by either the Company or the reinsurer on appropriate notice; however, termination does not affect risks ceded during the term of the agreement, for which the reinsurer generally remains liable. See "Group Employee Benefit Products" and Note O to the Consolidated Financial Statements. As a result of the terrorist attacks on the World Trade Center, a number of the Company's reinsurers have excluded coverage for losses resulting from terrorism. See "The Company's ability to reduce its exposure to risks depends on the availability and cost of reinsurance." in Item 1A - Risk Factors. The Company assumes certain workers' compensation risks through reinsurance. In these arrangements, the Company provides coverage for losses in excess of specified amounts, subject to specified maximums. Coverage for losses as a result of terrorism is generally excluded from these reinsurance treaties. The loss amounts at which the Company's payment obligations attach under these arrangements range from $250,000 to $1.4 billion, with an average attachment point of $33 million. Aggregate exposures assumed under individual workers' compensation reinsurance treaties generally range from $250,000 to $5 million, with the average net exposure pursuant to any such treaty equal to $1.9 million. The Company underwrites workers' compensation reinsurance assumed pursuant to procedures similar to those utilized in connection with its excess workers' compensation products.

During the fourth quarter of 2005, the Company decided to exit its non-core property catastrophe reinsurance business, due to the volatility associated with such business and other strategic considerations, and has not thereafter entered into or renewed any assumed property reinsurance contracts. All of the remaining reinsurance contracts expired prior to the end of the third quarter of 2006; however, the Company remains liable for certain risks assumed under such contracts prior to their expiration. The Company has classified the operating results of this business as discontinued operations. See "Other Transactions" and Note R to the Consolidated Financial Statements.

In the fourth quarter of 2004, the Company entered into an indemnity reinsurance arrangement under which it assumed certain newly issued group disability insurance policies on an ongoing basis. Under this arrangement, the Company was responsible for underwriting and claims management with respect to the reinsured business. The Company provided coverage primarily on a quota share basis up to a maximum Company share of $7,500 in benefits per individual per month. In April 2006, RSLIC purchased substantially all of the assets of a third-party administrator which had previously been administering business for RSLIC and contributed them to a newly established division of RSLIC, CDS. In addition, RSLIC hired approximately 100 former employees of the third-party administrator in connection with the asset acquisition. CDS, the operations of which are based in South Portland, Maine, is focused on expanding the Company's presence in the turnkey group disability reinsurance market while also continuing to service existing clients from the indemnity reinsurance arrangement. Turnkey group disability reinsurance is typically provided to other insurance companies that would not otherwise have the capability of providing to their clients a group disability insurance product to complement their other product offerings. Under these reinsurance arrangements, RSLIC typically assumes through reinsurance, on a quota share basis, a substantial majority in proportionate amount of the risk associated with the group disability insurance policies issued by such other insurers. CDS provides pricing, underwriting and claims management services relating to such policies, utilizing the same policies and procedures as are applied with respect to RSLIC's directly written group disability insurance policies. Premium income and fees from the Company's turnkey disability business and the arrangement was $54.3 million, $37.9 million and $0 in 2006, 2005 and 2004, respectively, and incurred losses were $41.6 million, $32.3 million and $0 in 2006, 2005 and 2004, respectively.

The Company had in the past participated as an assuming insurer in a number of reinsurance facilities. These reinsurance facilities generally are administered by TPAs or managing underwriters who underwrite risks, coordinate premiums charged and process claims. During 1999 and 2000, the Company terminated, on a prospective basis, its participations in all of these reinsurance facilities. However, the terms of such facilities provide for the continued assumption of risks by, and payments of premiums to, facility participants with respect to business written in the periods during which they participated in such facilities. Premiums from all reinsurance facilities was $(90,000), $0.3 million and $0.1 million in 2006, 2005 and 2004, respectively, and incurred losses from these facilities were $4.4 million, $3.8 million and $5.5 million in 2006, 2005 and 2004, respectively.

LIFE, ANNUITY, DISABILITY AND ACCIDENT RESERVES

The Company carries as liabilities actuarially determined reserves for its life, annuity, disability and accident policy and contract obligations. These reserves, together with premiums to be received on policies in force and interest thereon at certain assumed rates, are calculated and established at levels believed to be sufficient to satisfy policy and contract obligations. The Company performs periodic studies to compare current experience for mortality, morbidity, interest and lapse rates with the anticipated experience reflected in the reserve assumptions to determine future policy benefit reserves for these products. Reserves for future policy benefits and unpaid claims and claim expenses are estimated based on individual loss data, historical loss data and industry averages and indices and include amounts determined on the basis of individual and actuarially determined estimates of future losses. Therefore, the Company's ultimate liability for future policy benefits and unpaid claims and claim expenses could deviate from the amounts of the reserves currently reflected in the Consolidated Financial Statements, and such deviation could be significant. Under United States generally accepted accounting principles ("GAAP"), the Company's policy and claim reserves are permitted to be discounted to reflect the time value of money, since the payments to which such reserves relate will be made in future periods. Such reserve discounting, which is common industry practice, is based on interest rate assumptions reflecting projected portfolio yield rates for the assets supporting the liabilities. See "Critical Accounting Policies and Estimates - Future Policy Benefits and Unpaid Claims and Claim Expenses" in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and Note A to the Consolidated Financial Statements for certain additional information regarding assumptions made by the Company in connection with the establishment of its insurance reserves. The assets selected to support the Company's insurance liabilities produce cash flows that are intended to match the timing and amount of anticipated claim and claim expense payments. Differences between actual and expected claims experience are reflected currently in earnings for each period.

The life, annuity, disability and accident reserves carried in the Consolidated Financial Statements are calculated based on GAAP and differ from those reported by the Company for statutory financial statement purposes. These differences arise primarily from the use of different mortality and morbidity tables and interest assumptions.

PROPERTY AND CASUALTY INSURANCE RESERVES

The Company carries as liabilities actuarially determined reserves for anticipated claims and claim expenses for its excess workers' compensation insurance and other casualty and property insurance products. Reserves for claim expenses represent the estimated costs of investigating those claims and, when necessary, defending lawsuits in connection with those claims. Reserves for claims and claim expenses are estimated based on individual loss data in the case of reported claims, historical loss data and industry averages and indices and include amounts determined on the basis of individual and actuarially determined estimates of future losses. Therefore, the Company's ultimate liability could deviate from the amounts of the reserves currently reflected in the Consolidated Financial Statements, and such deviation could be significant.

Reserving practices under GAAP allow discounting of claim reserves related to excess workers' compensation losses to reflect the time value of money. Reserve discounting for these types of claims is common industry practice, and the discount factors used are less than the annual tax-equivalent investment yield earned by the Company on its invested assets. The discount factors utilized by the Company are based on the expected duration and payment pattern of the claims at the time the claims are settled and the risk free rate of return for U.S. government securities with a comparable duration. The Company does not discount its reserves for claim expenses.

The following table provides a reconciliation of beginning and ending unpaid claims and claim expenses for the periods indicated:

	Year
	2006
	(dolla
Unpaid claims and claim expenses, net of reinsurance, beginning of period	$643,465
Add provision for claims and claim expenses incurred, net of reinsurance, occurring during:	
Current year	136,134
Prior years	70,060
Incurred claims and claim expenses, net of reinsurance, during the current year	206,194
Deduct claims and claim expense payments, net of reinsurance, occurring during:	
Current year	4,524
Prior years	92,760
Total paid	97,284
Unpaid claims and claim expenses, net of reinsurance, end of period	752,375
Reinsurance receivables, end of period	105,287
Unpaid claims and claim expenses, gross of reinsurance, end of period (1)	$857,662

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(1) All years include the results from the Company's discontinued non-core property catastrophe reinsurance business. See "Other Transactions" and Note R to the Consolidated Financial Statements.

Provisions for claims and claim expenses incurred in prior years, as reflected in the above table, reflect the periodic accretion of the discount amounts previously established with respect to the claims reserves relating to the Company's excess workers' compensation line of business. During 2006, 2005 and 2004, $29.4 million, $21.1 million and $18.1 million, respectively, of such discount was accreted. Accordingly, of the Company's provisions for prior years' claims and claim expenses incurred, net of reinsurance, in 2006, 2005 and 2004, $40.7 million, $35.6 million and $12.8 million, respectively, of such provisions were made based on new loss experience data that emerged during the respective years. In each of such years, the additional provisions arose primarily from adverse loss experience in the Company's excess workers' compensation line, principally due to moderately increased claim frequency, relative to prior periods. In 2006, such adverse loss experience, related to policies written during the 1997 to 2003 years. In 2005, such experience related to policies written during the 1997 to 2001 years. In 2004, such experience related to policies written during the 1997 to 2000 years. These additional provisions did not result from specific changes in the Company's key assumptions used to estimate the reserves since the preceding period end. Rather, in each year, they resulted from the Company's application of the same estimating processes it has historically utilized to emerging experience data, including premium, loss and expense information, and the impact of these factors on inception-to-date experience. In each period, the Company makes its best estimate of reserves based on all of the information available to it at that time, which necessarily takes into account new experience emerging during the period. See "Critical Accounting Policies and Estimates - Future Policy Benefits and Unpaid Claims and Claim Expenses." in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

The effects of the amortization and accrual, as applicable, of discount to reflect the time value of money have been removed from the amounts set forth in the loss development table which follows in order to present the gross loss development, net of reinsurance. During 2006, 2005 and 2004, $29.4 million, $21.1 million and $18.1 million, respectively, of previous years' discount was amortized, and $84.8 million, $77.5 million and $64.9 million, respectively, of new discount was accrued.

-13-

The loss development table below illustrates the development of reserves and is net of reinsurance.

	December 31,			
	1996	1997	1998	1999
	(dollars in thousands)			
Reserve for unpaid claims and claim expenses, net of reinsurance	$ 532,923	$ 541,280	$422,159	$434,513
Cumulative amount of liability paid:				
One year later	28,162	98,365	40,815	40,660
Two years later	125,020	127,481	74,571	4,020
Three years later	152,842	156,119	33,429	54,846
Four years later	179,705	111,253	78,981	94,899
Five years later	133,228	150,772	114,295	139,949
Six years later	170,405	182,281	154,101	187,952
Seven years later	197,318	217,649	196,599	223,920
Eight years later	230,278	256,444	230,025	
Nine years later	266,087	285,715		
Ten years later	293,348			
Liability reestimated as of:				
One year later	513,402	523,430	410,875	424,187
Two years later	500,964	511,602	404,559	420,420
Three years later	488,432	503,906	401,475	417,869
Four years later	487,195	500,514	396,403	423,426
Five years later	478,206	492,280	399,311	466,975
Six years later	468,142	493,586	437,913	522,592
Seven years later	472,492	531,603	488,849	582,364
Eight years later	507,670	580,714	546,607	
Nine years later	554,029	636,451		
Ten years later	603,876			
Cumulative deficiency(1)	$ (70,953)	$ (95,171)	$(124,448)	$(147,851)

	December 31,			
	2001	2002	2003	2004
			(dollars in thousands)	
Reserve for unpaid claims and claim expenses, net of reinsurance	$ 638,191	$ 680,835	$ 744,760	$ 853,515
Cumulative amount of liability paid:				
One year later	61,954	57,235	64,170	81,847
Two years later	112,639	118,685	134,981	149,983
Three years later	169,890	187,303	198,133	
Four years later	231,870	247,487		
Five years later	283,783			
Six years later				
Seven years later				
Eight years later				
Nine years later				
Ten years later				
Liability reestimated as of:				
One year later	636,125	678,535	766,886	908,162
Two years later	634,578	714,303	838,458	1,007,198
Three years later	678,009	790,941	939,254	
Four years later	754,717	881,073		
Five years later	832,968			
Six years later				
Seven years later				
Eight years later				
Nine years later				
Ten years later				
Cumulative deficiency(1)	$(194,777)	$(200,238)	$(194,494)	$ (153,683)

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(1) Full years 2000 through 2006 include the results from the Company's discontinued non-core property catastrophe reinsurance business. See "Other Transactions" and Note R to the Consolidated Financial Statements.

The "Reserve for unpaid claims and claim expenses, net of reinsurance" line in the table above shows the estimated reserve for unpaid claims and claim expenses recorded at the end of each of the periods indicated. These net liabilities represent the estimated amount of losses and expenses for claims arising in the current year and all prior years that are unpaid at the end of each period. The "Cumulative amount of liability paid" lines of the table represent the cumulative amounts paid with respect to the liability previously recorded as of the end of each succeeding period. The "Liability reestimated" lines of the table show the reestimated amount relating to the previously recorded liability and is based upon experience as of the end of each succeeding period. This estimate may be either increased or decreased as additional information about the frequency and severity of claims for each succeeding period becomes available and is reviewed. The Company periodically reviews the estimated reserves for claims and claim expenses and any changes are reflected currently in earnings for each period. See "Critical Accounting Policies and Estimates -- Future Policy Benefits and Unpaid Claims and Claim Expenses." in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations. The "Cumulative deficiency" line in the table represents the aggregate change in the net estimated claim reserve liabilities from the dates indicated through December 31, 2006.

The table below is gross of reinsurance and illustrates the effects of the discount to reflect the time value of money that was removed from the amounts set forth in the loss development table above.

	December 31,			
	1996	1997	1998	1999
			(dollars in thousan	
Reserve for unpaid claims and claim expenses before discount:				
Net of reinsurance	$ 532,923	$ 541,280	$ 422,159	$ 434,513
Add reinsurance recoverable	16,730	23,454	164,825	179,180
Deduct discount for time value of money	168,827	176,683	180,770	192,220
Unpaid claims and claim expenses as reported on balance sheets	380,826	388,051	406,214	421,473
Reestimated unpaid claims and claim expenses, gross of reinsurance, net of discount, as of December 31, 2006	562,891	588,784	619,644	669,611
Discounted cumulative deficiency, gross of reinsurance	(182,065)	(200,733)	(213,430)	(248,138)
Add accretion of discount and change in reinsurance recoverable	111,112	105,562	88,982	100,287
Cumulative deficiency, before discount, net of reinsurance (1)	$ (70,953)	$ (95,171)	$(124,448)	$(147,851)

	December 31,			
	2002	2003	2004	2005

(dollars in thousands)

Reserve for unpaid claims and claim expenses before discount:				
Net of reinsurance	$ 680,835	$ 744,760	$ 853,515	$ 1,011,69
Add reinsurance recoverable	95,709	93,030	104,266	103,01
Deduct discount for time value of money	241,688	265,100	311,833	368,23
Unpaid claims and claim expenses as reported on balance sheets	534,856	572,690	645,948	746,47
Reestimated unpaid claims and claim expenses, gross of reinsurance, net of discount, as of December 31, 2006	813,446	807,497	814,731	826,32
Discounted cumulative deficiency, gross of reinsurance	(278,590)	(234,807)	(168,783)	(79,84
Add accretion of discount and change in reinsurance recoverable	78,352	40,313	15,100	18,55
Cumulative deficiency, before discount, net of reinsurance (1)	$(200,238)	$(194,494)	$ (153,683)	$ (61,29

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(1) Full years 2000 through 2006 include the results from the Company's discontinued non-core property catastrophe reinsurance business. See "Other Transactions" and Note R to the Consolidated Financial Statements.

The excess workers' compensation insurance reserves carried in the Consolidated Financial Statements are calculated in accordance with GAAP and, net of reinsurance, are approximately $186.4 million less than those reported by the Company for statutory financial statement purposes at December 31, 2006. This difference is primarily due to the use of different discount factors as between GAAP and statutory accounting principles and differences in the bases against which such discount factors are applied. See "Critical Accounting Policies and Estimates - Future Policy Benefits and Unpaid Claims and Claim Expenses." in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and Note A to the Consolidated Financial Statements for certain additional information regarding reserve assumptions under GAAP.

COMPETITION

The financial services industry is highly competitive. The Company competes with numerous other insurance and financial services companies both in connection with sales of insurance and asset accumulation products and integrated disability and absence management services and in acquiring blocks of business and companies. Many of these organizations have substantially greater asset bases, higher ratings from ratings agencies, larger and more diversified portfolios of insurance products and larger sales operations. Competition in asset accumulation product markets is also encountered from banks, securities brokerage firms and other financial intermediaries marketing alternative savings products, such as mutual funds, traditional bank investment products and retirement funding alternatives.

The Company believes that its reputation in the marketplace, quality of service, unique programs which integrate employee benefit products and absence management services and investment returns have enabled it to compete effectively for new business in its targeted markets. The Company reacts to changes in the marketplace generally by focusing on products believed to provide adequate margins and attempting to avoid those with low margins. The Company believes that its smaller size, relative to some of its competitors, enables it to more easily tailor its products to the demands of customers.

REGULATION

The Company's insurance subsidiaries are regulated by state insurance authorities in the states in which they are domiciled and the states in which they conduct business. These regulations, among other things, limit the amount of dividends and other payments that can be made by the Company's insurance subsidiaries without prior regulatory approval and impose restrictions on the amount and type of investments these subsidiaries may have. These regulations also affect many other aspects of the Company's insurance subsidiaries' business, including, for example, risk-based capital ("RBC") requirements, various reserve requirements, the terms, conditions and manner of sale and marketing of insurance products, claims-handling practices and the form and content of required financial statements. These regulations are intended to protect policyholders rather than investors. The Company's insurance subsidiaries are required under these regulations to file detailed annual financial reports with the supervisory agencies in the various states in which they do business, and their business and accounts are subject to examination at any time by these agencies. To date, no examinations have produced any significant adverse findings or adjustments. The ability of the Company's insurance subsidiaries to continue to conduct their businesses is dependent upon the maintenance of their licenses in these various states.

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

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

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

The NAIC's RBC requirements for insurance companies take into account asset risks, insurance risks, interest rate risks and other relevant risks with respect to the insurer's business and specify varying degrees of regulatory action to occur to the extent that an insurer does not meet the specified RBC thresholds, with increasing degrees of regulatory scrutiny or intervention provided for companies in categories of lesser RBC compliance. The Company believes that its insurance subsidiaries are adequately capitalized under the RBC requirements and that the thresholds will not have any significant regulatory effect on the Company. However, were the insurance subsidiaries' RBC position to materially decline in the future, the insurance subsidiaries' continued ability to pay dividends and the degree of regulatory supervision or control to which they are subjected may be affected.

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

These assessments may be deferred or forgiven under most solvency or guaranty laws if they would threaten an insurer's financial strength and, in most instances, may be offset against future state premium taxes. SNCC did not recognize any expense in 2006 or 2005 and recognized $0.8 million in 2004 for these types of assessments. None of the Company's life insurance subsidiaries has ever incurred any significant costs of this nature.

EMPLOYEES

The Company and its subsidiaries employed approximately 1,410 persons at December 31, 2006. The Company believes that it enjoys good relations with its employees.

OTHER SUBSIDIARIES

The Company conducts certain of its investment management activities through its wholly-owned subsidiary, Delphi Capital Management, Inc. ("DCM"), and makes certain investments through other wholly-owned non-insurance subsidiaries.

OTHER TRANSACTIONS

In May 2003, the Company issued $143.8 million in principal amount of 8.00% Senior Notes due 2033 (the "2033 Senior Notes") in a public offering. The proceeds from the 2033 Senior Notes were used to repay the outstanding borrowings under the Company's revolving credit facility and to repay in full the principal amount of $66.5 million of its 8% Senior Notes which matured in October 2003 (the "Matured Senior Notes"). The 2033 Senior Notes, which were issued at par value, will mature on May 15, 2033 and are redeemable at par at the option of the Company, in whole or in part, at any time on or after May 15, 2008. The 2033 Senior Notes are not redeemable at the option of any holder of the notes prior to maturity nor are they subject to any sinking fund requirements. Interest on the 2033 Senior Notes is payable quarterly on February 15, May 15, August 15 and November 15 of each year. The 2033 Senior Notes are senior unsecured obligations of the Company and, as such, are effectively subordinated to all claims of secured creditors of the Company and its subsidiaries and to claims of unsecured creditors of the Company's subsidiaries, including the insurance subsidiaries' obligations to policyholders. The 2033 Senior Notes were issued in denominations of $25 and multiples of $25 and are listed on the New York Stock Exchange. See Note D to the Consolidated Financial Statements.

In May 2003, Delphi Financial Statutory Trust I (the "Trust"), a subsidiary of the Company, issued $20.0 million liquidation amount of Floating Rate Capital Securities (the "2003 Capital Securities") in a private placement. In connection with the issuance of the 2003 Capital Securities and the related purchase by the Company of all of the common securities of the Trust (the "2003 Common Securities" and, collectively with the 2003 Capital Securities, the "Trust Securities"), the Company issued $20.6 million principal amount of floating rate junior subordinated deferrable interest debentures, due 2033 (the "2003 Junior Debentures"). Interest on the 2003 Junior Debentures is payable quarterly on February 15, May 15, August 15 and November 15 of each year. The interest rate on the 2003 Junior Debentures resets quarterly to a rate equal to the London interbank offered interest rate ("LIBOR") for three-month U.S. dollar deposits, plus 4.10% (not to exceed 12.50%). The weighted average interest rates on the 2003 Junior Debentures were 9.15%, 7.40% and 5.56% for the years ended December 31, 2006, 2005 and 2004, respectively. The distribution and other payment dates on the Trust Securities correspond to the interest and other payment dates on the 2003 Junior Debentures. The 2003 Junior Debentures are unsecured and subordinated in right of payment to all of the Company's existing and future senior indebtedness. Beginning in May 2008, the Company will have the right to redeem the 2003 Junior Debentures, in whole or in part, at a price equal to 100% of the principal amount of the debentures, plus accrued and unpaid interest to the date of redemption.

During the fourth quarter of 2005, the Company decided to exit its non-core property catastrophe reinsurance business, due to the volatility associated with such business and other strategic considerations, and has not thereafter entered into or renewed any assumed property reinsurance contracts. A substantial majority of these reinsurance contracts expired on or before December 31, 2005 and all of the remaining contracts expired during the third quarter of 2006; however, the Company remains liable for certain risks assumed under such contracts prior to their expiration. The Company has classified the operating results of this business as discontinued operations. See Note R to the

Consolidated Financial Statements. For the years ended December 31, 2006, 2005 and 2004, the Company recognized premium income of $1.2 million, $17.4 million, and $9.5 million, respectively, and incurred losses of $5.8 million, $37.9 million, and $4.7 million,

respectively, from this line of business. For the years ended December 31, 2006, 2005 and 2004, the Company recognized operating (loss) income of $(2.9) million, $(13.4) million, and $2.1 million, respectively, net of income tax (benefit) expense of $(1.6) million, $(7.2) million, and $1.2 million, respectively, from this business. The assets and liabilities related to the property catastrophe reinsurance business were not material to the Company's consolidated financial position.

On May 4, 2006, the Company's Board of Directors declared a 3-for-2 common stock split effected in the form of a 50% stock dividend, which was distributed on June 1, 2006 to stockholders of record on May 18, 2006. A total of 17,737,749 shares of common stock were issued in connection with the split, and the aggregate amount of $0.2 million, equal to the par value of the common stock issued, was reclassified from additional paid-in capital to common stock. The stated par value of each share remained at $0.01. Results per share and applicable share amounts for prior periods have been restated to reflect the stock split.

On October 25, 2006, the Company entered into an Amended and Restated Credit Agreement with Bank of America, N.A. as administrative agent and a group of major banking institutions (the "Amended Credit Agreement"). The Amended Credit Agreement amended and restated the Company's $200 million revolving credit facility dated as of May 26, 2005. The Amended Credit Agreement provides for a revolving credit facility in an amount of $250 million with a maturity date of October 25, 2011. At the Company's request, the amount of such facility may be increased to a maximum of $350 million at any time during the five-year term to the extent that additional lender funding commitments are obtained. The Company had outstanding borrowings of $120.0 million under the Amended Credit Agreement at December 31, 2006 and $91.0 million of outstanding borrowings at December 31, 2005 under the prior version of the Amended Credit Agreement. Interest on borrowings under the Amended Credit Agreement is payable, at the Company's election, either at a floating rate based on LIBOR plus a specified margin which varies depending on the level of the specified rating agencies' ratings of the Company's senior unsecured debt, as in effect from time to time, or at Bank of America's prime rate. Certain commitment and utilization fees are also payable under the Amended Credit Agreement. The Amended Credit Agreement contains various financial and other affirmative and negative covenants, along with various representations and warranties, considered ordinary for this type of credit agreement. The covenants include, among others, the maintenance by the Company of a specified consolidated debt to capital ratio, a minimum consolidated net worth for the Company, minimum statutory risk-based capital requirements for RSLIC and SNCC, and certain limitations on investments and subsidiary indebtedness. As of December 31, 2006, the Company was in compliance in all material respects with the financial and various other affirmative and negative covenants in the Amended Credit Agreement.

ITEM 1A. RISK FACTORS.

RESERVES ESTABLISHED FOR FUTURE POLICY BENEFITS AND CLAIMS MAY PROVE INADEQUATE.

The Company's reserves for future policy benefits and unpaid claims and claim expenses are estimates that entail various assumptions and judgments. See

"Critical Accounting Policies and Estimates -- Future Policy Benefits and Unpaid Claims and Claim Expenses." in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations for a description of the most significant assumptions used in the estimation process. These estimates are subject to variability, since the factors and events affecting the ultimate liability for claims have not all taken place, and thus cannot be evaluated with certainty. Moreover, under the Company's actuarial methodologies, these estimates are subject to reevaluation based on developing trends with respect to the Company's loss experience. Such trends may emerge over longer periods of time, and changes in such trends cannot necessarily be identified or predicted at any given time by reference to current claims experience, whether favorable or unfavorable. If the Company's actual loss experience from its current or discontinued products is less favorable than the Company's assumptions or estimates, the Company's reserves could be inadequate. In such event, the Company's results of operations, in addition to its liquidity and financial condition, could be materially adversely affected.

THE MARKET VALUES OF THE COMPANY'S INVESTMENTS FLUCTUATE.

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

Declines in the fair value of investments that are considered in the judgment of management to be other than temporary are reported as realized investment losses. See "Critical Accounting Policies and Estimates -- Investments." in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations, for a description of management's evaluation process. The Company has experienced and may in the future experience losses from other than temporary declines in security values. Such losses are recorded as realized investment losses in the income statement. See "Results of Operations - 2006 Compared to 2005" in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations. In addition, the Company invests in certain limited partnerships and limited liability companies that invest in various financial instruments. These investments are reflected in the Company's financial statements under the equity method; accordingly, positive or negative changes in the value of the investees' financial instruments are included in net investment income. Thus, the Company's results of operations, in addition to its liquidity and financial condition, could be materially adversely affected if these entities were to experience significant losses in the values of their financial assets.

THE COMPANY'S INVESTMENT STRATEGY EXPOSES THE COMPANY TO DEFAULT AND OTHER RISKS.

The management of the Company's investment portfolio is an important component of the Company's profitability since a substantial portion of the Company's operating income is generated from the difference between the yield achieved on invested assets and, in the case of asset accumulation products, the interest credited on policyholder funds and, in the case of the Company's other products for which reserves are discounted, the discount rate used to calculate the related reserves. See "Liquidity and Capital Resources -- Investments." in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations, for a description of the Company's investment portfolio and strategy.

The Company is subject to the risk, among others, that the issuers of the fixed maturity securities and mortgage loans the Company owns will default on principal or interest payments. A major economic downturn or any of the various other factors that affect issuers' abilities to pay could result in issuer defaults. Because the Company's investments consist primarily of fixed maturity securities, mortgage loans and short-term investments, such defaults could materially adversely affect the Company's results of operations, liquidity or financial condition. The Company continually monitors its investment portfolio and attempts to ensure that the risks associated with concentrations of investments in either a particular sector of the market or a single entity are limited; however, there can be no assurance that such efforts will be successful.

THE COMPANY'S FINANCIAL POSITION EXPOSES THE COMPANY TO INTEREST RATE RISKS.

Because the Company's primary assets and liabilities are financial in nature, the Company's consolidated financial position and earnings are subject to risks resulting from changes in interest rates. The Company seeks to manage this risk through active portfolio management focusing on minimizing its exposure to fluctuations in interest rates by matching its invested assets and related liabilities and by periodically adjusting the crediting rates on its annuity products. See "Liquidity and Capital Resources -- Asset/Liability Management and Market Risk." in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations. The profitability of group employee benefit products for which the reserves are discounted is also affected by the difference between the yield achieved on invested assets and the discount rate used to calculate the related reserves. The Company manages this risk by seeking to adjust the prices charged for these products.

THE COMPANY'S ABILITY TO REDUCE ITS EXPOSURE TO RISKS DEPENDS ON THE AVAILABILITY AND COST OF REINSURANCE.

The Company transfers its exposure to some risks through reinsurance ceded arrangements with other insurance and reinsurance companies. Under the Company's reinsurance ceded arrangements, another insurer assumes a specified portion of the Company's risks under certain of its insurance policies in exchange for a specified portion of the premiums received by the Company under such policies. At December 31, 2006 and 2005, the Company had reinsurance receivables of $410.6 million and $413.1 million, respectively. The availability, amount, cost and terms of reinsurance may vary significantly based on market conditions. Any decrease in the amount of the Company's reinsurance ceded will increase the Company's risk of loss and premium income, and any increase in the cost of such reinsurance will, absent a decrease in the reinsurance amount, reduce the Company's premium income. Furthermore, the Company is subject to credit risk with respect to reinsurance. The Company's reinsurance ceded arrangements generally consist of indemnity reinsurance transactions in which the Company is liable for the transferred risks whether or not the reinsurers meet their financial obligations to the Company. Such failures could materially affect the Company's results of operations, in addition to its liquidity and financial condition.

Following the terrorist events of September 11, 2001, due to various factors, higher prices and less favorable terms and conditions have been offered in the reinsurance market. These market conditions are reflected in the terms of the replacement reinsurance arrangements entered into during 2003 and remaining in effect for the Company's excess workers' compensation and long-term disability products. See "Liquidity and Capital Resources -- Reinsurance." in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations. In the future, the Company's reinsurers may continue to seek price increases or other unfavorable modifications to the terms, conditions or amounts of their reinsurance coverages, although the extent of any such actions cannot currently be predicted. Also, there has been significantly reduced availability of reinsurance covering risks such as terrorist and catastrophic events. Accordingly, substantially all of the Company's coverages of this nature were discontinued during 2002, which would result in the Company bearing a higher portion of losses from such events if they occur. The Company has not been able to replace such coverages on acceptable terms due to present market conditions, and there can be no assurance that the Company will be able to do so in the future. However, under the Terrorism Act, which terminates on December 31, 2007, the federal government will pay 85% of the Company's covered losses during 2007, relating to acts of international terrorism from property and casualty products directly written by SNCC above the Company's annual deductible. See "Group Employee Benefit Products" in Item 1 - Business. The occurrence of a significant terrorist or catastrophic event could have a material adverse effect on the Company's results of operations, in addition to its liquidity and financial condition.

THE INSURANCE BUSINESS IS A HEAVILY REGULATED INDUSTRY.

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

In April 2004, the New York Attorney General ("NYAG") initiated an investigation into certain insurance broker compensation arrangements and other aspects of dealings between insurance brokers and insurance companies, and, in connection therewith, filed a civil complaint in October 2004 against a major insurance brokerage firm based on certain of

such firm's compensation arrangements with insurers and alleged misconduct in connection with the placement of insurance business. Other state regulators subsequently announced the commencement of similar investigations and reviews. The Company received administrative subpoenas or similar requests for information from the Illinois Division of Insurance, the Missouri Department of Insurance, the NYAG's office, the North Carolina Department of Insurance and the Ohio Department of Insurance in connection with their investigations. Additional regulatory inquiries may be received by the Company's insurance subsidiaries in the future. The Company has fully cooperated with inquiries it has received to date, and it intends to fully cooperate with any future inquiries of this type.

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

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

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

THE COMPANY'S FINANCIAL POSITION AND RESULTS OF OPERATIONS MAY BE ADVERSELY IMPACTED BY CHANGES IN ACCOUNTING RULES AND IN THE INTERPRETATIONS OF SUCH RULES.

The Company's financial position and results of operations are reported in accordance with GAAP, in the case of the Company, and in accordance with statutory accounting principles, in the case of the statutory financial statements of its insurance subsidiaries. Changes in the applicable GAAP or statutory accounting rules, or in the interpretations of such rules, may adversely affect the Company's and such subsidiaries' reported financial condition and results of operations. In September 2005, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 05-1, "Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts." SOP 05-1 provides GAAP accounting guidance for deferred policy acquisition costs associated with internal replacements of insurance and investment contracts not addressed by previous accounting guidance, including group insurance products. It defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement or rider to a contract, or by the election of a feature or coverage within a contract. The provisions of SOP 05-1 are effective for internal replacements occurring in fiscal years beginning after December 15, 2006. The Company is in the process of implementing the changes required by its adoption of SOP 05-1 and evaluating the impact the statement will have on its consolidated financial position and results of operations. Based on the Company's evaluation to date, the Company preliminarily estimates that the after-tax charge that will result from the cumulative adjustment to the Company's beginning retained earnings balance at January 1, 2007 will be in the range of $75 million to $90 million, net of the related tax benefit. This preliminary estimate is based on the Company's interpretation of SOP 05-1 and the manner of its implementation with respect to deferred policy acquisition costs relating to the Company's group employee benefit products. However, these matters involve a significant degree of interpretive judgment, and the Company's interpretation is subject to future change due to the issuance of further accounting guidance regarding SOP 05-1 or its application by the accounting industry. It is therefore possible that such charge will be adjusted, either upward or downward, in the event of such a change and thus be outside the Company's presently estimated range. An upward adjustment could materially adversely affect the Company's consolidated financial position; in addition, changes required by future accounting guidance regarding SOP 05-1 or its implementation could materially adversely affect the Company's results of operations.

THE FINANCIAL SERVICES INDUSTRY IS HIGHLY COMPETITIVE.

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

THE COMPANY MAY BE ADVERSELY IMPACTED BY A DECLINE IN THE RATINGS OF ITS INSURANCE SUBSIDIARIES OR ITS OWN CREDIT RATINGS.

Ratings with respect to claims-paying ability and financial strength have become an increasingly important factor impacting the competitive position of insurance companies. The financial strength ratings of RSLIC as of February 2007 as assigned by A.M. Best, Fitch, Moody's and Standard & Poor's were A (Excellent), A (Strong), A3 (Good) and A (Strong), respectively. The financial strength ratings of SNCC as of February 2007 as assigned by A.M. Best, Fitch and Standard & Poor's were A (Excellent), A (Strong) and A (Strong), respectively. Each of the rating agencies reviews its ratings of companies periodically and there can be no assurance that current ratings will be maintained or improved in the future. Claims-paying and financial strength ratings are based upon factors relevant to the Company's insurance subsidiary policyholders and are not directed toward protection of investors in the Company. Downgrades in the ratings of the Company's insurance subsidiaries could adversely affect sales of their products and policyholder withdrawals and could have a material adverse effect on the results of the Company's operations. In addition, downgrades in the Company's credit ratings could materially adversely affect its ability to access the capital markets. The Company's senior unsecured debt ratings as of February 2007 from A.M. Best, Fitch, Moody's and Standard & Poor's were bbb, BBB, Baa3 and BBB, respectively. The ratings for RSLIC's funding agreements as of February 2007 from A.M. Best, Moody's and Standard & Poor's were a, A3, and A, respectively.

ALMOST HALF OF THE VOTING POWER OF DELPHI IS CONTROLLED BY ROBERT ROSENKRANZ, WHOSE INTERESTS MAY DIFFER FROM THOSE OF OTHER SECURITYHOLDERS.

Each share of Delphi's Class A Common Stock entitles the holder to one vote and each share of Delphi's Class B Common Stock entitles the holder to a number of votes per share equal to the lesser of (1) the number of votes such that the aggregate of all outstanding shares of Class B Common Stock will be entitled to cast 49.9% of all of the votes represented by the aggregate of all outstanding shares of Class A Common Stock and Class B Common Stock or (2) ten votes. Each share of Class B Common Stock is convertible at any time into one share of Class A Common Stock. The holders of the Class A Common Stock vote as a separate class to elect one director of Delphi. As of February 15, 2007, Mr. Robert Rosenkranz, our Chairman and Chief Executive Officer, by means of beneficial ownership of the general partner of Rosenkranz & Company, L.P. and direct or beneficial ownership, had the power to vote all of the outstanding shares of Class B Common Stock, which as of such date represented 49.9% of the aggregate voting power of the Common Stock. Holders of a majority of the combined voting power of our stockholders have the power to elect all of the members of our Board of Directors (other than the director elected by the holders of Class A Common Stock) and to determine the outcome of fundamental corporate transactions, including mergers and acquisitions, consolidations and sales of all or substantially all of our assets. The Company is a party to consulting and other arrangements with certain affiliates of Mr. Rosenkranz under which various fees are paid to such affiliates, and which are expected to continue in accordance with their terms.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES

The Company leases its principal executive office at 1105 North Market Street, Suite 1230, Wilmington, Delaware under an operating lease expiring in October 2009. RSLIC leases its administrative office at 2001 Market Street, Suite 1500, Philadelphia, Pennsylvania, under an operating lease expiring in December 2015. SNCC owns its home office building at 2043 Woodland Parkway, Suite 200, St. Louis, Missouri, which consists of approximately 58,000 square feet. SNCC also owns a neighboring office building located at 2029 Woodland Parkway, St. Louis, Missouri. The building consists of approximately 17,000 square feet and is largely occupied by SNCC with a small portion leased to third parties. During 2005, SNCC bought land with the intended use for construction of a new home office which will consist of approximately

140,000 square feet. It is located at 1832 Schuetz Road, St. Louis, Missouri. During 2005, DCM and FRSLIC relocated their offices to the 29th and 30th floors of 590 Madison Avenue, New York, New York and are under an operating lease expiring in November 2010, at which time a direct lease expiring in November 2016 relating to such space will commence. The former office space that DCM and FRSLIC leases at 153 East 53rd Street, 49th Floor, New York, New York under an operating lease expiring in July 2008, has been sublet to third parties. Matrix leases its principal office at 5225 Hellyer Avenue, Suite 210, San Jose, California under an operating lease expiring in December 2010. The Company also maintains sales and administrative offices throughout the country to provide nationwide sales support and service existing business.

ITEM 3. LEGAL PROCEEDINGS

In the course of its business, the Company is a party to litigation and other proceedings, primarily involving its insurance operations. In some cases, these proceedings entail claims against the Company for punitive damages and similar types of relief. The ultimate disposition of such pending litigation and proceedings is not expected to have a material adverse effect on the Company's results of operations, liquidity or financial position.

-23-

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Executive Officers of the Company

The table below presents certain information concerning each of the executive officers of the Company:

Name	Age	Position
Robert Rosenkranz	64	Director of the Company; Chairman of the Board and Chief Exe Company; Chairman of the Board of RSLIC
Donald A. Sherman	56	Director and President and Chief Operating Officer of the Co
Robert M. Smith, Jr.	55	Director and Executive Vice President of the Company
Chad W. Coulter	44	Senior Vice President, Secretary and General Counsel of the General Counsel and Assistant Secretary of RSLIC
Thomas W. Burghart	48	Vice President and Treasurer of the Company and RSLIC
Lawrence E. Daurelle	55	Director of the Company and President and Chief Executive Of
Harold F. Ilg	59	Director of the Company and Chairman of the Board of SNCC

Mr. Rosenkranz has served as the President of the Company from May 1987 to April 2006, Chief Executive Officer of the Company since May 1987 and has served as Chairman of the Board of Directors of the Company since April 1989. He also serves as Chairman of the Board or as a Director of the Company's principal subsidiaries. Mr. Rosenkranz, by means of beneficial ownership of the general partner of Rosenkranz & Company, L.P. and direct or beneficial ownership, has the power to vote all of the outstanding shares of Class B Common Stock, which represent 49.9% of the aggregate voting power of the Company's common stock as of February 15, 2007.

Mr. Sherman has served as the President and Chief Operating Officer of the Company since April 2006 and has served as a Director of the Company since August 2002. Mr. Sherman served as Chairman and Chief Executive Officer of Waterfield Mortgage Company, Inc. ("Waterfield") since 1999 and as President of Waterfield from 1989 to 1999. Prior to his service at Waterfield, Mr. Sherman served as President of Hyponex Corporation and was previously a partner in the public accounting firm of Coopers and Lybrand. Mr. Sherman also serves as a Director of the Company's principal subsidiaries.

Mr. Smith has served as Executive Vice President of the Company and DCM since November 1999 and as a Director of the Company since January 1995. He has also served as the Chief Investment Officer of RSLIC and FRSLIC since April 2001. From July 1994 to November 1999, he served as Vice President of the Company and DCM. Mr. Smith also serves as a Director of the Company's principal subsidiaries.

Mr. Coulter has served as Senior Vice President and General Counsel of the Company since February 2007. He served as Vice President and General Counsel of the Company from January 1998 to February 2007, and has served as Secretary of the Company since May 2003. He has served as Vice President, General Counsel and Assistant Secretary of RSLIC, FRSLIC and RSLIC-Texas since January 1998, and has served as Secretary of the Company since May 2003. He also served for RSLIC in similar capacities from February 1994 to August 1997, and in various capacities from January 1991 to February 1994. From August 1997 to December 1997, Mr. Coulter was Vice President and General Counsel of National Life of Vermont.

Mr. Burghart has served as Vice President and Treasurer of the Company since April 2001 and as Vice President and Treasurer of RSLIC, FRSLIC and RSLIC-Texas since October 2000. From March 1992 to September 2000, he served as the Second Vice President, of RSLIC.

Mr. Daurelle has served as a Director of the Company since August 2002. He also has served as President and Chief Executive Officer of RSLIC, FRSLIC and RSLIC-Texas since October 2000. He served as Vice President and Treasurer of the Company from August 1998 to April 2001. He also serves on the Board of Directors of RSLIC, FRSLIC and RSLIC-Texas. From May 1995 to October 2000, Mr. Daurelle was Vice President and Treasurer of RSLIC, FRSLIC and RSLIC-Texas.

Mr. Ilg has served as a Director of the Company since August 2002. He also has served as Chairman of the Board of SNCC since January 1999, as well as the President and a Director of Safety National Re since 1997. He serves on the Board of Directors of RSLIC, FRSLIC and RSLIC-Texas. From April 1999 until October 2000, he served as President and Chief Executive Officer of RSLIC, FRSLIC, and RSLIC-Texas. Prior to January 1999, he served as Vice Chairman of the Board of SNCC, where he has been employed in various capacities since 1978.

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

The closing price of the Company's Class A Common Stock was $41.32 on February 15, 2007. There were approximately 4,200 holders of record of the Company's Class A Common Stock as of February 15, 2007.

The Company's Class A Common Stock is listed on the New York Stock Exchange under the symbol DFG. The following table sets forth the high and low sales prices for the Company's Class A Common Stock and the cash dividends paid per share for the Company's Class A and Class B Common Stock. Prior periods have been restated to reflect the 3-for-2 common stock split distributed in the form of a stock dividend on June 1, 2006.

		High	Low	Dividends
2005:	First Quarter	$31.40	$27.09	$0.06
	Second Quarter	29.93	26.04	0.06
	Third Quarter	32.99	29.30	0.06
	Fourth Quarter	32.71	28.65	0.06
2006:	First Quarter	$35.43	$30.41	$0.07
	Second Quarter	36.48	33.29	0.08
	Third Quarter	41.67	33.78	0.08
	Fourth Quarter	41.98	38.42	0.08

In 2001, the Company's Board of Directors approved the initiation of a quarterly cash dividend payable on the Company's Class A Common Stock and Class B Common Stock. The quarterly cash dividend was $0.06 per share during 2005. During 2006, the Company's Board of Directors increased the cash dividend by 33%, which represents the combined increase approved during the first and second quarters, to $0.08 per share compared to the 2005 level. In the first quarter of 2007, the cash dividend declared by the Company's Board of Directors was $0.08 per share, and will be paid on the Company's Class A Common Stock and Class B Common Stock on March 7, 2007. The Company intends to continue to pay a quarterly dividend at this level. However, the declaration and payment of such dividends, including the amount and frequency of such dividends, is at the discretion of the Board and depends upon many factors, including the Company's consolidated financial position, liquidity requirements, operating results and such other factors as the Board may deem relevant. Cash dividend payments are permitted under the respective terms of the Company's $250.0 million revolving credit facility and the 2033 Senior Notes.

In addition, dividend payments by the Company's insurance subsidiaries to the Company are subject to certain regulatory restrictions. See "Liquidity and Capital Resources" in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and "Regulation" in Part I, Item 1 - Business.

Performance Graph

In order to assist stockholders in analyzing the performance of Company's cumulative return on Class A Common Stock, a graph comparing the total return on the Company's Class A Common Stock to the total return on the common stock of the companies included in the Standard & Poor's 500 Index ("S&P 500 Index") and the Standard & Poor's 500 Insurance Index ("S&P Insurance Index") has been provided. The S&P 500 Insurance Index includes companies in the life/health, multi-line and property-casualty insurance businesses, and insurance brokers. The graph reflects a $100 investment in the Company's Class A Common Stock and the indices reflected there in as of December 31, 2001, and reflects the value of that investment on various dates through December 31, 2006. The historical information set forth below is not necessarily indicative of future performance.

[PERFORMANCE GRAPH]

	2001	2002	2003	2004	2005	2006
Delphi	100	115	165	213	214	284
S&P 500 Index	100	78	100	111	117	135
S&P Insurance Index	100	79	96	103	117	130