

AUROR CAPITAL CORP
Form 10QSB
July 13, 2007

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

FORM 10-QSB

Quarterly Report Under Section 13 or 15(D) of the Securities Exchange Act of 1934

for the quarterly period ended **April 30, 2007**

Transition Report Under Section 13 or 15(D) of the Securities Exchange Act of 1934

for the transition period from _____ to _____

Commission File Number: **000-52664**

AUROR CAPITAL CORP.

(Name of small business issuer as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation or
organization)

98-0534436

(IRS Employer Identification No.)

2466 West 12th Avenue

Vancouver, British Columbia V6K 2P1

(Address of principal executive offices)

604-787-4860

Issuer's telephone number

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. **7,112,500 shares of common stock as of June 30, 2007.**

Transitional Small Business Disclosure Format (check one): Yes No

AUROR CAPITAL CORP.**Quarterly Report On Form 10-QSB
For The Quarterly Period Ended
April 30, 2007****INDEX**

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FORWARD-LOOKING STATEMENTS

This quarterly report contains forward-looking statements that involve risks and uncertainties, including statements regarding our capital needs, business plans and expectations. Such forward-looking statements involve risks and uncertainties regarding the market price of gold and copper, availability of funds, government regulations, operating costs, exploration costs, outcomes of exploration programs and other factors. Forward-looking statements are made, without limitation, in relation to operating plans, property exploration and development, availability of funds, environmental reclamation, operating costs and permit acquisition. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential" or "continue", the negative of such terms or other comparable terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors, including the risks outlined in this quarterly report. These factors may cause our actual results to differ materially from any forward-looking statement. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding our business plans, our actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein. We do not intend to update any of the forward-looking statements to conform these statements to actual results, except as required by applicable law, including the securities laws of the United States.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

The following interim financial statements of Auror Capital Corp. (the Company) are included in this Quarterly Report on Form 10-QSB:

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<u>Balance Sheets as at April 30, 2007 (unaudited) and October 31, 2006 (audited)</u>	<u>F-1</u>
<u>Statement of Operations and Statement of Comprehensive Loss for the three and six months ended April 30, 2007 and for the period from incorporation (March 16, 2006) to April 30, 2007 (unaudited)</u>	<u>F-2</u>
<u>Statement of Cash Flows for the three and six months ended April 30, 2007 and for the period from incorporation (March 16, 2006) to April 30, 2007 (unaudited)</u>	<u>F-3</u>
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AUROR CAPITAL CORP.
(An Exploration Stage Company)

SECOND QUARTER INTERIM FINANCIAL STATEMENTS

APRIL 30, 2007
(Unaudited)
(Stated in U.S. Dollars)

AUROR CAPITAL CORP.
(An Exploration Stage Company)

BALANCE SHEETS
(Unaudited)
(Stated in U.S. Dollars)

	APRIL 30	OCTOBER
	2007	31
		2006
ASSETS		
Current		
Cash	\$ 83,518	\$ 68,003
Prepaid expenses	4,270	-
	87,788	68,003
Mineral Property Acquisition Costs	4,582	4,582
	\$ 92,370	\$ 72,585
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 2,258	\$ 7,139
STOCKHOLDERS EQUITY		
Share Capital		
Authorized:		
100,000,000 common voting stock with a par value of		
\$0.001 per share		
5,000,000 preferred stock with a par value of \$0.001		
per share		
Issued:		
7,112,500 common shares at April 30, 2007		
6,750,000 common shares at October 31, 2006	7,112	6,750
Additional Paid-In Capital	104,138	68,250
Share Subscriptions Received	-	3,000
Accumulated Other Comprehensive Gain (Loss)	1,751	(262)
Accumulated Deficit During The Exploration Stage	(22,889)	(12,292)
	90,112	65,446
	\$ 92,370	\$ 72,585

The accompanying notes are an integral part of these financial statements.

AUROR CAPITAL CORP.
(An Exploration Stage Company)

STATEMENT OF OPERATIONS
(Unaudited)
(Stated in U.S. Dollars)

	THREE MONTHS ENDED APRIL 30 2007	SIX MONTHS ENDED APRIL 30 2007	CUMULATIVE PERIOD FROM INCEPTION MARCH 16 2006 TO APRIL 30 2007
Revenue	\$ -	\$ -	\$ -
Expenses			
Consulting fees	-	3,591	6,905
General and administrative	75	613	1,541
Professional fees	1,144	6,392	14,443
Net Loss For The Period	\$ (1,219)	\$ (10,596)	\$ (22,889)
Basic And Diluted Loss Per Share	\$ (0.00)	\$ (0.00)	
Weighted Average Number Of Common Shares Outstanding	7,105,886	6,999,214	

STATEMENT OF COMPREHENSIVE LOSS

PERIOD FROM INCEPTION, MARCH 16, 2006, TO APRIL 30, 2007
(Unaudited)
(Stated in U.S. Dollars)

	THREE MONTHS ENDED APRIL 30 2007	SIX MONTHS ENDED APRIL 30 2007	CUMULATIVE PERIOD FROM INCEPTION MARCH 16 2006 TO APRIL 30 2007
Other Comprehensive Loss			
Net loss for the period	\$ (1,219)	\$ (10,596)	\$ (22,889)
Foreign currency translation adjustment	5,060	(2,013)	1,751
Total Comprehensive Loss	\$ 3,841	\$ (12,609)	\$ (21,138)

Prior year comparative figures are not presented because the Company was incorporated on March 16, 2006.

The accompanying notes are an integral part of these financial statements.

AUROR CAPITAL CORP.
(An Exploration Stage Company)

STATEMENT OF CASH FLOWS
(Unaudited)
(Stated in U.S. Dollars)

	THREE MONTHS ENDED APRIL 30 2007	SIX MONTHS ENDED APRIL 30 2007	CUMULATIVE PERIOD FROM INCEPTION MARCH 16 2006 TO APRIL 30 2007
Cash (Used In) Operating Activities			
Net loss for the period	\$ (1,219)	\$ (10,596)	\$ (22,889)
Changes in non-cash operating working capital item:			
Accounts payable and accrued liabilities	(214)	(4,880)	2,258
Prepaid expenses	(4,270)	(4,270)	(4,270)
	(5,703)	(19,746)	(24,901)
Cash Provided By Investing Activity			
Mineral property acquisition costs	-	-	(4,582)
Cash Provided By Financing Activity			
Issuance of common stock	6,200	33,250	111,250
Foreign Exchange Effect On Cash	5,060	2,013	1,751
Increase In Cash	5,557	15,515	83,518
Cash, Beginning Of Period	77,961	68,003	-
Cash, End Of Period	\$ 83,518	\$ 83,518	\$ 83,518

**Supplemental Disclosure Of Cash Flow
Information**

Cash paid during the period for:

Interest	\$ -	\$ -	\$ -
Income taxes	\$ -	\$ -	\$ -

Prior year comparative figures are not presented because the Company was incorporated on March 16, 2006.

The accompanying notes are an integral part of these financial statements.

AUROR CAPITAL CORP.
(An Exploration Stage Company)

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2007
(Unaudited)
(Stated in U.S. Dollars)

1. BASIS OF PRESENTATION AND NATURE OF OPERATIONS

The unaudited financial information furnished herein reflects all adjustments which, in the opinion of management, are necessary to fairly state the Company's financial position and the results of its operations for the periods presented. These second quarter financial statements should be read in conjunction with the Company's financial statements and notes thereto included for the fiscal year ended October 31, 2006. The Company assumes that the users of the interim financial information herein have read, or have access to, the audited financial statements for the preceding fiscal year, and that the adequacy of additional disclosure needed for a fair presentation may be determined in that context. Accordingly, footnote disclosure, which would substantially duplicate the disclosure contained in the Company's financial statements for the fiscal year ended October 31, 2006, has been omitted. The results of operations for the six month period ended April 30, 2007 are not necessarily indicative of results for the entire year ending October 31, 2007.

Organization

Auror Capital Corp. (the Company) was incorporated in the State of Nevada, U.S.A., on March 16, 2006. The Company's principal executive offices are in Vancouver, British Columbia, Canada.

Exploration Stage Activities

The Company has been in the exploration stage since its formation and has not yet realized any revenues from its planned operations. The Company was formed for the purpose of acquiring exploration and development stage natural resource properties. The Company has not commenced business operations. The Company is an exploration stage company as defined in the Securities and Exchange Commission (S.E.C.) Industry Guide No. 7.

Going Concern

The accompanying financial statements have been prepared assuming the Company will continue as a going concern.

As shown in the accompanying financial statements, the Company has incurred a net loss of \$21,744 for the period from March 16, 2006 (inception) to April 30, 2007, and has no sales. The future of the Company is dependent upon its ability to obtain financing and upon future profitable operations from the development of its natural resource properties. Management has plans to seek additional capital through a private placement and public offering of its common stock. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts of and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

AUROR CAPITAL CORP.
(An Exploration Stage Company)

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2007
(Unaudited)
(Stated in U.S. Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement.

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) **Organization and Start-up Costs**

Costs of start up activities, including organizational costs, are expensed as incurred.

b) **Mineral Property Interests**

The Company is an exploration stage mining company and has not yet realized any revenue from its operations. It is primarily engaged in the acquisition, exploration and development of mining properties. Exploration costs are expensed as incurred regardless of the stage of development or existence of reserves. Costs of acquisition are capitalized subject to impairment testing, in accordance with Financial Accounting Standards 144 (FAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets , when facts and circumstances indicate impairment may exist.

The Company regularly performs evaluations of any investment in mineral properties to assess the recoverability and/or the residual value of its investments in these assets. All long-lived assets are reviewed for impairment whenever events or circumstances change which indicate the carrying amount of an asset may not be recoverable.

Management periodically reviews the carrying value of its investments in mineral leases and claims with internal and external mining related professionals. A decision to abandon, reduce or expand a specific project is based upon many factors including general and specific assessments of mineral deposits, anticipated future mineral prices, anticipated future costs of exploring, developing and operating a production mine, the expiration term and ongoing expenses of maintaining mineral properties and the general likelihood that the Company will continue exploration on such project. The Company does not set a pre-determined holding period for properties with unproven deposits, however, properties which have not demonstrated suitable metal concentrations at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted, whether there has been any impairment in value and that their carrying values are appropriate.

AUROR CAPITAL CORP.
(An Exploration Stage Company)

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2007
(Unaudited)
(Stated in U.S. Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Mineral Property Interests (Continued)

If an area of interest is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the year of abandonment or determination of value. The amounts recorded as mineral leases and claims represent costs to date and do not necessarily reflect present or future values.

The Company's exploration activities and proposed mine development are subject to various laws and regulations governing the protection of the environment. These laws are continually changing, generally becoming more restrictive. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

The accumulated costs of properties that are developed on the stage of commercial production will be amortized to operations through unit-of-production depletion.

c) Financial Instruments

The Company's financial instruments consist of cash, and accounts payable and accrued liabilities.

Unless otherwise noted, it is management's opinion that this Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

d) Basic and Diluted Loss Per Share

In accordance with Statement of Financial Accounting Standards No. 128 (SFAS 128), Earnings Per Share, the basic loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding. Diluted loss per common share is computed similar to basic loss per common share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. At April 30, 2007, the Company has no common stock equivalents that were anti-dilutive and excluded in the earnings per share computation.

AUROR CAPITAL CORP.
(An Exploration Stage Company)

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2007
(Unaudited)
(Stated in U.S. Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Foreign Currency Translation

The Company's functional currency is the Canadian dollar. Transactions in Canadian currency are translated into U.S. dollars as follows:

- i) monetary items at the exchange rate prevailing at the balance sheet date;
- ii) non-monetary items at the historical exchange rate;
- iii) revenue and expense at the average rate in effect during the applicable accounting period.

Translation adjustments resulting from this process are recorded in Stockholders' Equity as a component of Accumulated Other Comprehensive Income (Loss).

Gains and losses arising on translation or settlement of foreign currency denominated transactions or balances are recorded in the Statement of Operations.

AUROR CAPITAL CORP.
(An Exploration Stage Company)

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2007
(Unaudited)
(Stated in U.S. Dollars)

4. SHARE CAPITAL (Continued)

On December 12, 2006, pursuant to a private placement, the Company sold 265,500 shares of its common stock at \$0.10 per share for cash.

On February 7, 2007, pursuant to a private placement, the Company issued 97,000 common shares at \$0.10 per share for cash.

The Company has no stock option plan, warrants or other dilutive securities.

Item 2. Management's Discussion and Analysis

The following discussion of our financial condition, changes in financial condition and results of operations for the three and six months ended April 30, 2007 should be read in conjunction with our unaudited interim financial statements and related notes for the three and six months ended April 30, 2007.

Overview of Our Business

We are an exploration stage company engaged in the acquisition and exploration of mineral properties. We are the owner of the Katrina mineral claim which is located in the Kamloops Mining Division of the Province of British Columbia. We believe that the Katrina mineral claim may be prospective for commercially exploitable deposits of gold. The Katrina mineral claim does not contain any substantiated mineral deposits or reserves of minerals. Minimal exploration has been carried out on our Katrina mineral claim. Accordingly, additional exploration of our Katrina mineral claim is required before any determination as to whether any commercially viable mineral deposit may exist on our Katrina mineral claim. Our plan of operations is to carry out preliminary exploration work on our Katrina mineral claim in order to ascertain whether our mineral claim warrants advanced exploration to determine whether they possess commercially exploitable deposits of gold, silver, copper and/or zinc. We will not be able to determine whether or not our mineral claim contains a commercially exploitable mineral deposit, or reserve, until appropriate exploratory work is done and an economic evaluation based on that work concludes economic viability.

We acquired the Katrina mineral claims on April 28, 2006. We have obtained a geological report on our Katrina mineral claim that has recommended a five phase exploration program on our property. We have completed an initial phase and the first stage of the second phase of this recommended exploration program. We have determined to proceed with the second stage of the second phase of this recommended exploration program. We plan to complete the second stage of the second phase in the third quarter of our current fiscal year and we plan to complete the third phase of the exploration program by the end of our current fiscal year, subject to our determination to proceed with this phase based on the results of the second phase of the exploration program. We plan to continue exploration of our mineral claims for so long as the results of the geological exploration that we complete indicate the further exploration of our mineral claims is recommended and we have sufficient financing.

The estimated cost of this five phase exploration program is \$91,000. At April 30, 2007, we had cash of \$83,518 and working capital of \$81,260. Based on these financial resources, we have sufficient funds to enable us to complete the initial four phases of our exploration program. We will, however, require additional financing in order to complete the fifth phase of exploration of our mineral claims and any additional exploration required to determine whether any mineral deposit exists on our minerals claims. Even if we determine that a mineral deposit exists on our mineral claims, an economic evaluation must be completed before the economic viability of commercial exploitation of our mineral claims could be completed. Both advanced exploration and an economic determination will be contingent upon the results of our preliminary exploration programs and our ability to raise additional financing in order to proceed with advanced exploration and an economic evaluation. There is no assurance that we will be able to obtain any additional financing to fund our exploration activities.

We are considered an exploration or exploratory stage company as we are involved in the examination and investigation of land that we believe may contain valuable minerals, for the purpose of discovering the presence of ore, if any, and its extent. Since we are an exploration stage company, there is no assurance that a commercially viable mineral deposit exists on any of our properties, and a great deal of further exploration will be required before a final evaluation as to the economic and legal feasibility for

our future exploration is determined. We have no known reserves of any type of mineral. To date, we have not discovered an economically viable mineral deposit on the mineral property, and there is no assurance that we will discover one.

We have no revenues, have achieved losses since inception, have been issued a going concern opinion by our auditors and rely upon the sale of our securities to fund operations. We will not generate revenues even if our exploration program indicates that a mineral deposit may exist on our mineral claims. Accordingly, we will dependent on future additional financing in order to maintain our operations and continue our exploration activities.

We were incorporated as Auror Capital Corp. under the laws of Nevada on March 16, 2006. Our principal offices are located at 2466 West 12th Avenue, Vancouver, British Columbia. Our telephone number is 604-787-4860.

Plan of Operations

We have not earned revenues to date. Our plan of operations is as described below:

1. We plan to complete the second stage of phase two of our recommended exploration program on our Katrina mineral claim. The second stage of phase two will consist of a detailed field examination of potential exploration sites and will include localized geophysical surveys. This second stage of phase two is estimated to cost approximately \$5,000. We have commenced this phase of our exploration program and anticipate completing this phase in the third quarter of fiscal 2007.

2. We plan to complete phase three of our recommended exploration program on our Katrina mineral claim. Phase three will consist of a two stage general and detailed examination of potential exploration sites and is estimated to cost approximately \$10,000. We expect to commence the first stage of the third phase of our exploration program in the fall of 2007, depending on the availability of our consulting geologist.

3. If warranted by the results of phase three, we intend to proceed with phase four of our recommended exploration program. We anticipate that we will have sufficient funding in order to conduct the phase four drilling program.

4. We anticipate spending approximately \$1,000 in ongoing general and administrative expenses per month for the next twelve months, for a total anticipated expenditure of \$12,000 over the next twelve months. The general and administrative expenses for the year will consist primarily of professional fees for the audit and legal work relating to our regulatory filings throughout the year, as well as transfer agent fees, annual mineral claim fees and general office expenses.

5. We anticipate spending approximately \$40,000 in complying with our obligations as a reporting company under the *Securities Exchange Act of 1934*. These expenses will consist primarily of professional fees relating to the preparation of our financial statements and completing our annual report, quarterly report, current report and proxy statement filings with the SEC.

As at April 30, 2007, we had cash reserves of \$83,518 and working capital of \$81,260. We anticipate that our cash and working capital will be sufficient to enable us to complete phases two, three and four of our exploration program, to pay for the professional fees relating to our obligations as a reporting company under the *Securities Act of 1934* and our general and administrative expenses for the next twelve months. However, our ability to complete phase five of the recommended work program will be subject to us obtaining additional financing as these expenditures will exceed our cash reserves.

During the twelve month period following the date of this quarterly report, we anticipate that we will not generate any revenue. Accordingly, we will be required to obtain additional financing in order to continue our plan of operations. We believe that debt financing will not be an alternative for funding additional phases of exploration as we do not have tangible assets to secure any debt financing. We anticipate that additional funding will be in the form of equity financing from the sale of our common stock. However, we do not have any financing arranged and we cannot provide investors with any assurance that we will be able to raise sufficient funding from the sale of our common stock to fund phase two of our exploration program. In the absence of such financing, we will not be able to continue exploration of our mineral claims and our business plan will fail. Even if we are successful in obtaining equity financing to fund phase five of our exploration program, there is no assurance that we will obtain the funding necessary to pursue any advanced exploration of our mineral claims following the completion of phase five. If we do not continue to obtain additional financing, we will be forced to abandon our mineral claims and our plan of operations

We may consider entering into a joint venture arrangement to provide the required funding to develop the mineral claims. We have not undertaken any efforts to locate a joint venture partner for the mineral claims. Even if we determined to pursue a joint venture partner, there is no assurance that any third party would enter into a joint venture agreement with us in order to fund exploration of our mineral claims. If we entered into a joint venture arrangement, we would likely have to assign a percentage of our interest in our mineral claims to the joint venture partner.

Critical Accounting Policies

Going Concern

As shown in the accompanying financial statements, we have incurred a net loss of \$22,889 for the period from March 16, 2006 (inception) to April 30, 2007, and has no sales. Our future is dependent upon our ability to obtain financing and upon future profitable operations from the development of its natural resource properties. Management has plans to seek additional capital through a private placement and public offering of its common stock. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts of and classification of liabilities that might be necessary in the event we cannot continue in existence.

Exploration Stage Activities

We have been in the exploration stage since its formation and have not yet realized any revenues from its planned operations. We are an exploration stage company as defined in the SEC Industry Guide No. 7.

Results Of Operations Three and Six Months Ended April 30, 2007

References to the discussion below to fiscal 2007 are to our current fiscal year which will end on October 31, 2007. References to fiscal 2006 are to our fiscal year ended October 31, 2006.

	Three months Ended April 30, 2007 (Unaudited)	Six months Ended April 30, 2007 (Unaudited)	Cumulative Period from Inception March 16, 2006 to April 30, 2007 (Unaudited)
Revenue	\$ -	\$ -	\$ -

Expenses

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	Three months Ended April 30, 2007 (Unaudited)	Six months Ended April 30, 2007 (Unaudited)	Cumulative Period from Inception March 16, 2006 to April 30, 2007 (Unaudited)
Consulting fees	-	3,591	6,905
General and administrative	75	613	1,541
Professional fees	1,144	6,392	14,443
Net Loss For The Period	\$ (1,219)	\$ (10,596)	\$ (22,889)

Revenues

We have had no operating revenues since our inception on March 16, 2006 through to the period ended April 30, 2007. We anticipate that we will not generate any revenues for so long as we are an exploration stage company.

Consulting Fees

Consulting fees include amounts that we pay to our consulting geologist, Mr. Sookochoff, in connection with the completion of exploration activities carried out on our mineral claim.

General and Administrative

We incurred a total of \$1,541 in general and administrative expenses from the period from March 16, 2006 (date of incorporation) through to the period ended April 30, 2007.

Professional Fees

Professional fees include our accounting and auditing expenses incurred in connection with the preparation and audit of our financial statements and professional fees that we pay to our legal counsel. Our accounting and auditing expenses were incurred in connection with the preparation of our audited financial statements and unaudited interim financial statements and our preparation and filing of a registration statement with the SEC. Our legal expenses represent amounts paid to legal counsel in connection with our corporate organization. Legal expenses will be ongoing during fiscal 2007 as we are subject to the reporting obligations of the Securities Exchange Act of 1934.

Liquidity And Capital Resources

We had cash of \$83,518 and working capital of \$81,260 as at April 30, 2007, compared to cash of \$68,003 and a working capital of \$60,864 as at October 31, 2006.

Plan Of Operations

We estimate that our total expenditures over the next twelve months will be approximately \$70,000, as outlined above under the heading *Plan of Operations*. We anticipate that our cash and working capital will be sufficient to enable us to complete phases two, three and four of our exploration program, to pay for the professional fees relating to our obligations as a reporting company under the *Securities Act of 1934* and our general and administrative expenses for the next twelve months. However, our ability to complete phase five of the recommended work program will be

subject to us obtaining additional financing as these expenditures will exceed our cash reserves. We anticipate that our cash and working

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capital will be sufficient to enable us to sustain our operations for the next twelve months, provided that we do not complete phase five during this period. If we determine to proceed with phase five during the next twelve months, then we will require additional financing.

Cash Used In Operating Activities

We used cash in operating activities in the amount of \$5,153 during the period from our inception on March 16, 2006 through to October 31, 2006 and \$19,746 during the six months ended April 30, 2007. Cash used in operating activities was funded by cash from financing activities.

Cash From Investing Activities

We used cash in investing activities in the amount of \$4,582 during the period from our inception on March 16, 2006 through to October 31, 2006, which amount was attributable to our purchase of the Katrina mineral claim, and \$nil during the six months ended April 30, 2007.

Cash from Financing Activities

We generated cash from financing activities in the amount of \$78,000 during the period from our inception on March 16, 2006 through to October 31, 2006 and \$33,250 during the six months ended April 30, 2007. Cash generated by financing activities is attributable to the private placement financings of our common stock that we have completed since our incorporation.

Going Concern

We have not attained profitable operations and are dependent upon obtaining financing to pursue any extensive business activities. For these reasons our auditors stated in their report that they have substantial doubt we will be able to continue as a going concern.

Future Financings

We anticipate continuing to rely on equity sales of our common shares in order to continue to fund our business operations. Issuances of additional shares will result in dilution to our existing stockholders. There is no assurance that we will achieve any additional sales of our equity securities or arrange for debt or other financing to fund our planned activities.

Off-Balance Sheet Arrangements

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to stockholders.

Item 3. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the Exchange Act), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of April 30, 2007, being the date of our most recently completed quarter. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, Mr. Ian McBean. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the

rules and forms of the Securities and Exchange Commission (the SEC).

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure.

During the fiscal quarter ended April 30, 2007, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to affect, our internal control over financial reporting during the quarter ended April 30, 2007.

The term "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the registrant's principal executive and principal financial officers, or persons performing similar functions, and effected by the registrant's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- (a) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the registrant;
- (b) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the registrant are being made only in accordance with authorizations of management and directors of the registrant; and
- (c) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the registrant's assets that could have a material effect on the financial statements.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

We currently are not a party to any material legal proceedings and to our knowledge, no such proceedings are threatened or contemplated.

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

We did not complete any sales of securities without registration under the Securities Act of 1933 (the "Securities Act") during the three months ended April 30, 2007.

Item 3. Defaults Upon Senior Securities

None.

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

No matters were submitted to our security holders for a vote during the three months ended April 30, 2007.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are included with this Quarterly Report on Form 10-QSB:

Exhibit Number	Description of Exhibit
3.1	Articles of Incorporation (1)
3.2	By-Laws (1)
<u>3.3</u>	<u>Amended and Restated By-Laws (2)</u>
5.1	Opinion of Lang Michener LLP, with consent to use, regarding the legality of the securities being registered (1)
10.1	Bill of Sale dated April 28, 2006 between Auror Capital Corp. and Laurence Sookochoff (1)
<u>31.1</u>	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act (2)</u>
<u>32.1</u>	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (2)</u>

(1) Filed as an exhibit to our registration statement on Form SB-2 filed with the SEC on May 14, 2007

(2) Filed as an exhibit to this Quarterly Report on Form 10-QSB.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AUROR CAPITAL CORP.

By: */s/ Ian McBean*

Ian McBean

Chief Executive Officer and Chief Financial
Officer

Date: July 12, 2007

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Balance, January 1, 2012

\$568 \$63 \$705,036 \$107,529 \$1,165,756 \$(206,931) \$1,772,021 \$7,862 \$1,779,883

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Net income (loss)

34,940 34,940 (1,842) 33,098

Change in other comprehensive income

88,319 88,319 88,319

Change in noncontrolling interest ownership

231 231

Issuance of deferred and restricted shares and exercise of stock options

16 62,281 62,297 62,297

Stock-based compensation

(7,337) (7,337) (7,337)

Cash dividends

(6,728) (6,728) (6,728)

Balance, March 31, 2012

\$584	\$63	\$759,980	\$195,848	\$1,193,968	\$(206,931)	\$1,943,512	\$6,251	\$1,949,763
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See notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2012	2011
Operating activities:		
Net income attributable to shareholders	\$ 34,940	\$ 50,224
Adjustments to reconcile net income attributable to shareholders to net cash provided by operating activities:		
Change in policy liabilities and policyholder accounts	161,289	123,648
Net change in reinsurance receivables and payables	1,232	1,017
Net change in premiums receivable	(38,685)	(33,471)
Amortization, principally the cost of business acquired and investments	8,808	13,912
Deferred costs of business acquired	(29,364)	(26,032)
Net realized (gains) losses on investments	(1,031)	1,972
Net change in federal income taxes	(1,250)	23,875
Other operating activities	(41,909)	(37,706)
 Net cash provided by operating activities	 94,030	 117,439
 Investing activities:		
Purchases of investments and loans made	(1,482,137)	(826,996)
Sales of investments and receipts from repayment of loans	1,052,706	592,455
Maturities of investments	114,336	71,970
Net change in short-term investments	136,031	66,826
 Net cash used by investing activities	 (179,064)	 (95,745)
 Financing activities:		
Deposits to policyholder accounts	89,101	99,076
Withdrawals from policyholder accounts	(29,590)	(97,028)
Proceeds from the issuance of common stock under share-based compensation plans	43,301	3,907
Cash dividends paid on common stock	(6,728)	(6,158)
Other financing activities	4,232	(1,272)
 Net cash provided (used) by financing activities	 100,316	 (1,475)
 Increase in cash	 15,282	 20,219
Cash at beginning of year	93,898	72,806
 Cash at end of period	 \$ 109,180	 \$ 93,025

See notes to consolidated financial statements.

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DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note A Significant Accounting Policies

The financial statements of Delphi Financial Group, Inc. (the Company, which term includes the Company and its consolidated subsidiaries unless the context indicates otherwise) included herein were prepared in conformity with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The information furnished includes all adjustments and accruals of a normal recurring nature which, in the opinion of management, are necessary for a fair presentation of results for the interim periods. Certain reclassifications have been made in the March 31, 2011 consolidated financial statements to conform to the March 31, 2012 presentation. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ended December 31, 2012. For further information refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2011, as amended by Amendment No. 1 on Form 10-K/A (the 2011 Form 10-K). Capitalized terms used herein without definition have the meanings ascribed to them in the 2011 Form 10-K.

Accounting Changes

On January 1, 2012, the Company adopted new guidance issued by the FASB regarding fair value measurements in order to have a common fair value measurement and disclosure requirement for purposes of both GAAP and International Financial Reporting Standards. This guidance further elaborates upon techniques used in measuring fair value. It does not require additional fair value measurements and is not intended to establish valuation standards or affect valuation practices. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this guidance did not have any effect on the Company's consolidated financial position or results of operations.

On January 1, 2012, the Company adopted new guidance issued by the FASB regarding the presentation of comprehensive income. This guidance eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and requires that all changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance does not change the items that must be reported in other comprehensive income or the calculation or presentation of earnings per share. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this guidance did not have any effect on the Company's consolidated financial position or results of operations.

On January 1, 2012, the Company adopted new guidance issued by the FASB addressing the valuation process for goodwill. This guidance provides the ability to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this guidance, an entity will no longer be required to calculate the fair value of a reporting unit unless it determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this guidance did not have any impact on the Company's consolidated financial position or results of operations.

Note B Investments

At March 31, 2012, the Company had fixed maturity securities available for sale with a carrying value and a fair value of \$6,827.2 million and an amortized cost of \$6,468.1 million. At December 31, 2011, the Company had fixed maturity securities available for sale with a carrying value and a fair value of \$6,489.6 million and an amortized cost of \$6,274.6 million. Declines in market value relative to such securities' amortized cost which are determined to be other than temporary pursuant to the Company's methodology for such determinations and to represent credit losses are reflected as reductions in the amortized cost of such securities, as further discussed below.

Table of Contents**DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note B Investments (Continued)**

The amortized cost and fair value of investments in fixed maturity securities available for sale are as follows:

	\$6,274,590	\$6,274,590	\$6,274,590	\$6,274,590	\$6,274,590
			March 31, 2012 Gross Unrealized		
	Amortized Cost	Gains	Losses	Other Than Temporary Impairments	Fair Value
	(dollars in thousands)				
Agency residential mortgage-backed securities	\$ 520,634	\$ 54,259	\$ (68)	\$	\$ 574,825
Non-agency residential mortgage-backed securities	957,752	66,292	(14,435)	(17,439)	992,170
Commercial mortgage-backed securities	190,530	11,172	(3,466)	(39)	198,197
Corporate securities	1,738,458	102,003	(14,889)	(378)	1,825,194
Collateralized debt obligations	289,437	12,744	(19,088)	(22)	283,071
Foreign government securities	137,802	11,083	(2,861)		146,024
U.S. Treasury and other U.S. Government guaranteed securities	119,478	5,586	(606)		124,458
U.S. Government-sponsored enterprise securities	38,089	106	(249)		37,946
Obligations of U.S. states, municipalities and political subdivisions	2,475,876	174,828	(5,420)		2,645,284
Total fixed maturity securities	\$ 6,468,056	\$ 438,073	\$ (61,082)	\$ (17,878)	\$ 6,827,169
	\$6,274,590	\$6,274,590	\$6,274,590	\$6,274,590	\$6,274,590
			December 31, 2011 Gross Unrealized		
	Amortized Cost	Gains	Losses	Other Than Temporary Impairments	Fair Value
	(dollars in thousands)				
Agency residential mortgage-backed securities	\$ 606,678	\$ 61,928	\$ (22)	\$	\$ 668,584
Non-agency residential mortgage-backed securities	819,027	50,256	(27,009)	(21,637)	820,637
Commercial mortgage-backed securities	96,251	2,135	(1,665)	(38)	96,683
Corporate securities	1,668,160	82,377	(42,269)	(771)	1,707,497
Collateralized debt obligations	284,667	6,582	(31,368)	(1,810)	258,071
Foreign government securities	258,578	12,557	(13,854)		257,281
	96,281	8,043	(487)		103,837

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U.S. Treasury and other U.S. Government guaranteed securities					
U.S. Government-sponsored enterprise securities	42,229	156	(6)		42,379
Obligations of U.S. states, municipalities and political subdivisions	2,402,719	140,851	(8,902)		2,534,668
Total fixed maturity securities	\$ 6,274,590	\$ 364,885	\$ (125,582)	\$ (24,256)	\$ 6,489,637

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Table of Contents**DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note B Investments (Continued)**

The amortized cost and fair value of fixed maturity securities available for sale at March 31, 2012, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations, with or without prepayment penalties.

	Amortized Cost (dollars in thousands)	Fair Value
Agency residential mortgage-backed securities	\$ 520,634	\$ 574,825
Non-agency residential mortgage-backed securities	957,752	992,170
Commercial mortgage-backed securities	190,530	198,197
Other fixed maturity securities:		
One year or less	79,904	77,358
Greater than 1, up to 5 years	684,167	707,749
Greater than 5, up to 10 years	1,210,076	1,251,704
Greater than 10 years	2,824,993	3,025,166
Total	\$ 6,468,056	\$ 6,827,169

Net investment income was attributable to the following:

	Three Months Ended March 31,	
	2012	2011
	(dollars in thousands)	
Gross investment income:		
Fixed maturity securities, available for sale	\$ 96,264	\$ 86,112
Mortgage loans	1,031	233
Other	18,903	14,210
	116,198	100,555
Less: Investment expenses	(10,418)	(8,261)
	\$ 105,780	\$ 92,294

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Net realized investment gains (losses) arose from the following:

	Three Months Ended March 31,	
	2012	2011
	(dollars in thousands)	
Credit related other than temporary impairment losses:		
Fixed maturity securities, available for sale	\$ (6,423)	\$ (9,018)
Other net realized investment gains:		
Fixed maturity securities, available for sale	\$ 6,814	\$ 6,799
Other investments	640	247
	7,454	7,046
Total	\$ 1,031	\$ (1,972)

Proceeds from sales of fixed maturity securities during the first three months of 2012 and 2011 were \$806.1 million and \$520.0 million, respectively. Gross gains of \$25.7 million and gross losses of \$18.9 million were realized on the 2012 sales and gross gains of \$10.6 million and gross losses of \$3.8 million were realized on the 2011 sales. Net realized investment gains and losses on investment sales are determined under the specific identification method and are included in income. The change in unrealized appreciation and depreciation on investments, primarily relating to fixed maturity securities, is included as a component of accumulated other comprehensive income or loss.

Table of Contents**DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note B Investments (Continued)**

The gross unrealized losses and fair value of fixed maturity securities available for sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	\$1,067,809	\$1,067,809	\$1,067,809	\$1,067,809	\$1,067,809	\$1,067,809
	Less Than 12 Months		March 31, 2012 12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(dollars in thousands)					
Agency residential mortgage-backed securities	\$ 7,489	\$ (41)	\$ 194	\$ (27)	\$ 7,683	\$ (68)
Non-agency residential mortgage-backed securities	141,479	(5,295)	167,360	(26,579)	308,839	(31,874)
Commercial mortgage-backed securities	45,937	(3,466)	5	(39)	45,942	(3,505)
Corporate securities	298,662	(8,855)	40,417	(6,412)	339,079	(15,267)
Collateralized debt obligations	82,953	(3,115)	76,582	(15,995)	159,535	(19,110)
Foreign government securities	60,391	(2,861)			60,391	(2,861)
U.S. Treasury and other U.S. Government guaranteed securities	30,384	(206)	7,281	(400)	37,665	(606)
U.S. Government-sponsored enterprise securities	28,199	(249)			28,199	(249)
Obligations of U.S. states, municipalities and political subdivisions	88,668	(1,578)	24,259	(3,842)	112,927	(5,420)
Total fixed maturity securities	\$ 784,162	\$ (25,666)	\$ 316,098	\$ (53,294)	\$ 1,100,260	\$ (78,960)

	\$1,067,809	\$1,067,809	\$1,067,809	\$1,067,809	\$1,067,809	\$1,067,809
	Less Than 12 Months		December 31, 2011 12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(dollars in thousands)					
Agency residential mortgage-backed securities	\$ 2,489	\$ (7)	\$ 217	\$ (15)	\$ 2,706	\$ (22)
Non-agency residential mortgage-backed securities	236,953	(10,510)	165,137	(38,136)	402,090	(48,646)

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Commercial mortgage-backed securities	23,116	(1,480)	4,829	(223)	27,945	(1,703)
Corporate securities	440,672	(23,617)	69,933	(19,423)	510,605	(43,040)
Collateralized debt obligations	132,496	(9,397)	64,410	(23,781)	196,906	(33,178)
Foreign government securities	160,615	(13,854)			160,615	(13,854)
U.S. Treasury and other U.S. Government guaranteed securities	15,178	(487)			15,178	(487)
U.S. Government-sponsored enterprise securities	8,232	(6)			8,232	(6)
Obligations of U.S. states, municipalities and political subdivisions	48,058	(2,766)	82,220	(6,136)	130,278	(8,902)
Total fixed maturity securities	\$ 1,067,809	\$ (62,124)	\$ 386,746	\$ (87,714)	\$ 1,454,555	\$ (149,838)

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Table of Contents**DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note B Investments (Continued)**

The following table contains information, as of March 31, 2012, regarding the portions of the Company's investments in non-agency residential mortgage-backed securities (RMBS) represented by securities whose underlying mortgage loans are categorized as prime, Alt-A and sub-prime, respectively, and the distributions of the securities within these categories by the years in which they were issued (vintages) and the highest of their ratings from Standard & Poor's, Moody's and Fitch. All dollar amounts in this table are based upon the fair values of these securities as of March 31, 2012. As of this date, based upon the most recently available data regarding the concentrations by state of the mortgage loans underlying these securities, the states having loan concentrations in excess of 5% were as follows: California (38.8%), New York (8.0%) and Florida (6.7%).

Vintage	Non-Agency Prime RMBS				Fair Value	
	AAA	AA	A	BBB	BB and Below ⁽¹⁾	Total
	(dollars in thousands)					
2001 and prior	\$	\$ 1,121	\$	\$	\$ 207	\$ 1,328
2002	5,579		2,269		1,375	9,223
2003	69,764	1,235		2,084	10,739	83,822
2004	19,876	8,354	17,184	9,103	6,312	60,829
2005	5,327	85	6,387		117,464	129,263
2006	13,737				59,169	72,906
2007	4,106				118,476	122,582
2008		687			366	1,053
Total	\$ 118,389	\$ 11,482	\$ 25,840	\$ 11,187	\$ 314,108	\$ 481,006

⁽¹⁾ The securities enumerated in this column include securities having a total of \$277.6 million in fair value that have received the equivalent of an investment grade rating from the National Association of Insurance Commissioners (the NAIC) under its process which takes into account, among other things, the discounts at which the Company originally purchased the securities and modeling of the potential losses with respect to the securities' underlying loans.

Vintage	Non-Agency Alt-A RMBS				Fair Value	
	AAA	AA	A	BBB	BB and Below ⁽¹⁾	Total
	(dollars in thousands)					
2001 and prior	\$	\$	\$	\$ 1,525	\$	\$ 1,525
2002	184		1,249			1,433
2003	39,060				747	39,807

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2004	13,514	3,473	665	1,149	5,323	24,124
2005	1,934		4,412		85,346	91,692
2006	7,430		38		83,540	91,008
2007	224				138,663	138,887
2010			3,960			3,960
Total	\$ 62,346	\$ 3,473	\$ 10,324	\$ 2,674	\$ 313,619	\$ 392,436

- (1) The securities enumerated in this column include securities having a total of \$279.5 million in fair value that have received the equivalent of an investment grade rating from the NAIC under its process which takes into account, among other things, the discounts at which the Company originally purchased the securities and modeling of the potential losses with respect to the securities underlying loans.

Table of Contents**DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note B Investments (Continued)**

Vintage	Non-Agency Subprime RMBS				Fair Value	Total
	AAA	AA	A	BBB	BB and Below ⁽¹⁾	
	(dollars in thousands)					
2003	\$ 9,235	\$	\$ 885	\$	\$	\$ 10,120
2004	8,768				2,665	11,433
2005	10,771	1,143	6,276		25,677	43,867
2006			456	1,171	45,301	46,928
2007					6,380	6,380
Total	\$ 28,774	\$ 1,143	\$ 7,617	\$ 1,171	\$ 80,023	\$ 118,728

(1) The securities enumerated in this column include securities having a total of \$77.3 million in fair value that have received the equivalent of an investment grade rating from the NAIC under its process which takes into account, among other things, the discounts at which the Company originally purchased the securities and modeling of the potential losses with respect to the securities underlying loans. The Company regularly evaluates its investment portfolio utilizing its established methodology to determine whether declines in the fair values of its investments below the Company's amortized cost are other than temporary. Under this methodology, management evaluates whether and when the Company will recover an investment's amortized cost, taking into account, among other things, the financial position and prospects of the issuer, conditions in the issuer's industry and geographic area, liquidity of the investment, the expected amount and timing of future cash flows from the investment, recent changes in credit ratings of the issuer by nationally recognized rating agencies and the length of time and extent to which the fair value of the investment has been lower than its amortized cost to determine if and when a decline in the fair value of an investment below amortized cost is other than temporary. In the case of structured securities such as RMBS, commercial mortgage-backed securities and collateralized debt obligations, the most significant factor in these evaluations is the expected amount and timing of the future cash flows from the investment. In the case of fixed maturity securities, in instances where management determines that a security's amortized cost will be recovered during its remaining term to maturity, an additional component of this methodology is the Company's evaluation of whether it intends to, or will more likely than not be required to, sell the security before such anticipated recovery.

If the fair value of a fixed maturity security declines in value below the Company's amortized cost and the Company intends to sell, or determines that it will more likely than not be required to sell, the security before recovery of its amortized cost basis, management considers the security to be other than temporarily impaired and reports its decline in fair value as a realized investment loss in the income statement. If, however, the Company does not intend to sell the security and determines that it is not more likely than not that it will be required to do so, a decline in its fair value that is considered in the judgment of management to be other than temporary is separated into the amount representing credit loss and the amount related to other factors. Amounts representing credit losses are reported as realized investment losses in the income statement and amounts related to other factors are included as a component of accumulated other comprehensive income or loss, net of the related income tax benefit and the related adjustment to cost of business acquired. Declines in the fair value of all other investments below the Company's amortized cost that are considered in the judgment of management to be other than temporary are reported as realized investment losses in the income statement.

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In the case of structured securities such as RMBS, commercial mortgage-backed securities and collateralized debt obligations as to which a decline in fair value is judged to be other than temporary, the amount of the credit loss arising from the impairment of the security is determined by discounting such security's expected cash flows at its effective interest rate, taking into account the security's purchase price. The key inputs relating to such expected cash flows consist of the future scheduled payments on the underlying loans and the estimated frequency and severity of future defaults on these loans. For those securities as to which the Company recognized credit losses in 2012 as a result of determinations that such securities were other than temporarily impaired, representative default frequency estimates ranged from 2.6% to 4.5% and representative default severity estimates ranged from 43.3% to 60.1%.

In the case of corporate securities as to which a decline in fair value is determined to be other than temporary, the key input utilized to establish the amount of credit loss arising from the impairment of the security is the market price for such security. For each such security, the Company obtains such market price from a single independent nationally recognized pricing

Table of Contents**DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note B Investments (Continued)**

service. The Company has not in any instance adjusted the market price so obtained; however, management reviews these prices for reasonableness, taking into account both security-specific factors and its knowledge and understanding of the pricing methodologies used by the service. The credit loss for such security is determined to be equal to the excess of the Company's amortized cost over such market price, as measured at the time of the impairment; as such, the entirety of the depreciation in market value is deemed to be reflective of credit loss.

During the first three months of 2012, the Company recognized \$4.4 million of after-tax other than temporary impairment losses, of which \$4.2 million was recognized as after-tax realized investment losses in the income statement related to credit losses and \$0.2 million was recognized, net of the related income tax benefit, as a component of accumulated other comprehensive income on the balance sheet related to noncredit losses.

The following table provides a reconciliation of the beginning and ending balances of other than temporary impairments on fixed maturity securities held by the Company for which a portion of the other than temporary impairment was recognized in accumulated other comprehensive income or loss (dollars in thousands):

	Three Months Ended	
	March 31	
	2012	2011
Balance at the beginning of the period	\$ 76,623	\$ 79,602
Increases attributable to credit losses on securities for which an other than temporary impairment was not previously recognized	484	732
Increases attributable to credit losses on securities for which an other than temporary impairment was previously recognized	4,066	7,666
Reductions due to sales, maturities, pay downs or prepayments of securities for which an other than temporary impairment was previously recognized	(5,398)	(7,826)
Balance at the end of the period	\$ 75,775	\$ 80,174

The gross unrealized losses at March 31, 2012 are attributable to 604 fixed maturity security positions, with the largest unrealized loss associated with any one security equal to \$4.1 million. At March 31, 2012, approximately 29.0% of these aggregate gross unrealized losses were attributable to fixed maturity security positions as to which the unrealized loss represented 10.0% or less of the amortized cost for such security. Unrealized losses attributable to fixed maturity securities having investment grade ratings by a nationally recognized statistical rating organization comprised 35.0% of the aggregate gross unrealized losses at March 31, 2012, with the remainder of such losses being attributable to non-investment grade fixed maturity securities.

At March 31, 2012, the Company held approximately \$883.2 million of insured municipal fixed maturity securities, which represented approximately 11.2% of the Company's total invested assets. Based upon the highest of the ratings assigned to the respective securities by nationally recognized statistical rating organizations, these securities had a weighted average credit rating of **A** at March 31, 2012. Credit enhancements provided by the insurance did not impact the weighted average credit rating at such date by such organizations. Insurers of significant portions of the municipal fixed maturity securities held by the Company at March 31, 2012 included Assured Guaranty (\$304.8

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million), National Public Finance Guarantee Corp. (\$298.6 million), Ambac Financial Group, Inc. (\$153.4 million), Texas Permanent School Fund (\$53.8 million) and Radian (\$25.0 million). At March 31, 2012, the Company did not have significant holdings of credit enhanced asset-backed or mortgage-backed securities, nor did it have any significant direct investments in the guarantors of the municipal fixed maturity securities held by the Company.

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DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note C Fair Value Measurements

The Company measures its assets and liabilities recorded at fair value in the consolidated balance sheet based on the framework set forth in the GAAP fair value accounting guidance. This framework establishes a fair value hierarchy of three levels based upon the transparency and availability of information used in measuring the fair value of assets or liabilities as of the measurement date. The levels are categorized as follows:

Level 1 Valuation is based upon quoted prices for identical assets or liabilities in active markets. Level 1 fair value is not subject to valuation adjustments or block discounts.

Level 2 Valuation is based upon quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar instruments in markets that are not active. In addition, a company may use various valuation techniques or pricing models that use observable inputs to measure fair value.

Level 3 Valuation is generated from techniques in which one or more of the significant inputs for valuing such assets or liabilities are not observable. These inputs may reflect the Company's best estimates of the various assumptions that market participants would use in valuing the financial assets and financial liabilities.

For these purposes, the Company determines the existence of an active market for an asset or liability based on its judgment as to whether transactions for the asset or liability occur in such market with sufficient frequency and volume to provide reliable pricing information. If the Company concludes that there has been a significant decrease in the volume and level of activity for an investment in relation to normal market activity for such investment, adjustments to transactions and quoted prices are made to estimate fair value.

The inputs used in the valuation techniques employed by the Company are provided by nationally recognized pricing services, external investment managers and internal resources. To assess these inputs, the Company's review process includes, but is not limited to, quantitative analysis including benchmarking, initial and ongoing evaluations of methodologies used by external parties to calculate fair value, and ongoing evaluations of fair value estimates based on the Company's knowledge and monitoring of market conditions.

The Company, from time-to-time, surveys its external pricing service providers to better understand the process performed in determining fair value. The Company administers meetings with these external parties, speaking directly with the individuals who are involved in the valuation process. Certain pricing service providers also have policies in place, along with committees, that evaluate the reasonability of its valuations given the information available. The Company requests to understand these policies and the involvement of the committees to determine the process in arriving at fair value.

The assumptions underlying the valuations from external service providers, including unobservable inputs, is generally not readily available as this information is often deemed proprietary. Accordingly, the Company is unable to obtain comprehensive results of these assumptions and methodologies.

The Company's investments in fixed maturity securities available for sale, equity securities available for sale, trading account securities, assets held in the separate account and its liabilities for securities sold, not yet purchased are carried at fair value. The methodologies and valuation techniques used by the Company to value its assets and liabilities measured at fair value are described below.

Instruments included in fixed maturity securities available for sale include mortgage-backed and corporate securities, U.S. Treasury and other U.S. government guaranteed securities, securities issued by U.S. government-sponsored enterprises, securities issued by foreign governments and obligations of U.S. states, municipalities and political subdivisions. The market liquidity of each security is taken into consideration in the valuation technique used to value such security. For securities where market transactions involving identical or comparable assets generate sufficient relevant information, the Company employs a market approach to valuation. If sufficient information is not generated from market

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transactions involving identical or comparable assets, the Company uses an income approach to valuation. If sufficient information is not generated from market transactions involving identical or comparable assets, the Company uses an income approach to valuation. The majority of the instruments included in fixed maturity securities available for sale are valued utilizing observable inputs; accordingly, they are categorized in either Level 1 or Level 2 of the fair value hierarchy described above. However, in instances where significant inputs utilized are unobservable, the securities are categorized in Level 3 of the fair value hierarchy.

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DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note C Fair Value Measurements (Continued)

The Company uses various valuation techniques and pricing models to measure the fair value of its investments in residential mortgage-backed securities and commercial mortgage-backed securities, including option-adjusted spread models, volatility-driven multi-dimensional single cash flow stream models and matrix correlation to comparable securities. Residential mortgage-backed securities include U.S. agency securities and collateralized mortgage obligations. Inputs utilized in connection with the valuation techniques relating to this class of securities include monthly payment and performance information with respect to the underlying loans, including prepayments, default severity, delinquencies, market indices and the amounts of the tranches in the particular structure which are senior or subordinate, as applicable, to the tranche represented by the Company's investment. A portion of the Company's investments in mortgage-backed securities are valued using observable inputs and therefore categorized in Level 2 of the fair value hierarchy. The remaining mortgage-backed securities are valued using non-binding broker quotes. These methodologies rely on unobservable inputs and thus these securities are categorized in Level 3 of the fair value hierarchy.

Corporate securities primarily include fixed rate corporate bonds, floating and variable rate notes and securities acquired through private placements. Inputs utilized in connection with the Company's valuation techniques relating to this class of securities include recently executed transactions, market price quotations, benchmark yields, issuer spreads and, in the case of private placement corporate securities, cash flow models. These cash flow models utilize yield curves, issuer-provided information and material events as key inputs. Corporate securities are categorized in Level 2 of the fair value hierarchy, other than securities acquired through private placements, which are categorized in Level 3 of the fair value hierarchy.

Collateralized debt obligations consist of collateralized loan obligations. The Company's valuation techniques relating to this class of securities utilize non-binding broker quotes as the key input. As this input is generally unobservable, collateralized debt obligations are categorized in Level 3 of the fair value hierarchy.

Foreign government securities consist of bonds that are issued by a foreign government. Inputs utilized in connection with the Company's valuation techniques relating to this class of securities include recently executed transactions, interest rate yield curves, maturity dates, foreign currency exchange rates, and market price quotations relating to similar instruments. These inputs are generally observable and accordingly, these securities are generally categorized in Level 2 of the fair value hierarchy.

U.S. Treasury and other U.S. government guaranteed securities include U.S. Treasury bonds and notes, Treasury Inflation Protected Securities (TIPS) and other U.S. government guaranteed securities. The fair values of the U.S. Treasury securities and TIPS are based on quoted prices in active markets and are generally categorized in Level 1 of the fair value hierarchy.

Inputs utilized in connection with the Company's valuation techniques relating to its investments in other U.S. government guaranteed securities, as well as its investments in U.S. government-sponsored enterprise securities, which consist of medium term notes issued by these enterprises, include recently executed transactions, interest rate yield curves, maturity dates, market price quotations and credit spreads relating to similar instruments. These inputs are generally observable and accordingly, these securities are generally categorized in Level 2 of the fair value hierarchy.

Obligations of U.S. states, municipalities and political subdivisions primarily include bonds or notes issued by U.S. municipalities. Inputs utilized in connection with the Company's valuation techniques relating to this class of securities include recently executed transactions and other market data, spreads, benchmark curves including treasury and other benchmarks, trustee reports, material event notices, new issue data, and issuer financial statements. These inputs are generally observable and these securities are generally categorized in Level 2 of the fair value hierarchy.

Other investments held at fair value primarily consist of equity securities available for sale and trading account securities are primarily valued at quoted active market prices and are therefore categorized in Level 1 of the fair value hierarchy. For private equity investments, since quoted market prices are not available, the transaction price is used as the best estimate of fair value at inception. When evidence is believed to support

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a change to the carrying value from the transaction price, adjustments are made to reflect expected exit values. Ongoing reviews by Company management are based on assessments of each underlying investment and the inputs utilized in these reviews include, among other things, the evaluation of financing and sale transactions with third parties, expected cash flows, material events and market-based information. These investments are included in Level 3 of the fair value hierarchy.

Assets held in the separate account represent funds invested in a separately administered variable life insurance product for which the policyholder, rather than the Company, bears the investment risk. These assets are invested in interests in a limited

Table of Contents**DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note C Fair Value Measurements (Continued)**

liability company that invests in funds which trade in various financial instruments. This limited liability company, all of whose interests are owned by the Company's separate account, utilizes the financial statements furnished by the funds to determine the values of its investments in such funds and the carrying value of each such investment, which is based on its proportionate interest in the relevant fund as of the balance sheet date. As such, these funds' financial statements constitute the key input in the Company's valuation of its investment in this limited liability company. The Company concluded that the value calculated using the equity method of accounting on its investment in this limited liability company was reflective of the fair market value of such investment. The investment portfolios of the funds in which the fund investments are maintained vary from fund to fund, but are generally comprised of liquid, publicly traded securities that have readily determinable market values and which are carried at fair value on the financial statements of such funds, substantially all of which are audited annually. The amount that an investor is entitled to receive upon the redemption of its investment from the applicable fund is determined by reference to such security values. These investments are included in Level 3 of the fair value hierarchy.

Other liabilities measured at fair value consist of securities sold, not yet purchased. These securities are valued using the quoted active market prices of the securities sold and are categorized in Level 1 of the fair value hierarchy.

Assets and liabilities measured at fair value in the consolidated balance sheet on a recurring basis are summarized below:

	Total	March 31, 2012		Level 3
		Level 1	Level 2	
(dollars in thousands)				
Assets:				
Fixed maturity securities, available for sale:				
Agency residential mortgage-backed securities	\$ 574,825	\$	\$ 557,509	\$ 17,316
Non-agency residential mortgage-backed securities	992,170		968,336	23,834
Commercial mortgage-backed securities	198,197		190,849	7,348
Corporate securities	1,825,194		1,646,088	179,106
Collateralized debt obligations	283,071		126	282,945
Foreign government securities	146,024		144,813	1,211
U.S. Treasury and other U.S. Government guaranteed securities	124,458	93,222	18,624	12,612
U.S. Government-sponsored enterprise securities	37,946		37,946	
Obligations of U.S. states, municipalities and political subdivisions	2,645,284		2,637,957	7,327
Other investments	542,143	517,072	10,193	14,878
Assets held in separate account	124,068			124,068
Total	\$ 7,493,380	\$ 610,294	\$ 6,212,441	\$ 670,645
Liabilities:				
Other liabilities	\$ 84,933	\$ 84,933	\$	\$

Table of Contents**DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note C Fair Value Measurements (Continued)**

	Total	December 31, 2011 Level 1 Level 2		Level 3
		(dollars in thousands)		
Assets:				
Fixed maturity securities, available for sale:				
Agency residential mortgage-backed securities	\$ 668,584	\$	\$ 660,632	\$ 7,952
Non-agency residential mortgage-backed securities	820,637		796,243	24,394
Commercial mortgage-backed securities	96,683		95,981	702
Corporate securities	1,707,497		1,539,274	168,223
Collateralized debt obligations	258,071		157	257,914
Foreign government securities	257,281		256,015	1,266
U.S. Treasury and other U.S. Government guaranteed securities	103,837	69,867	26,330	7,640
U.S. Government-sponsored enterprise securities	42,379		40,531	1,848
Obligations of U.S. states, municipalities and political subdivisions	2,534,668		2,527,370	7,298
Other investments	359,624	353,729		5,895
Assets held in separate account	117,365			117,365
Total	\$ 6,966,626	\$ 423,596	\$ 5,942,533	\$ 600,497
Liabilities:				
Other liabilities	\$ 85,123	\$ 85,123	\$	\$

The following table provides reconciliations for Level 3 assets measured at fair value on a recurring basis. Transfers into and out of Level 3 are recognized as of the end of the quarter in which they occur.

	Three Months Ended March 31, 2012							Balance End of the Period	
	Balance at Beginning of Year	Total Gains (Losses) Included in Earnings	Total Gains (Losses) Included in Other Comprehensive Income ⁽²⁾	Purchases	Issuances	Settlements	Transfers Into Level 3 ⁽³⁾		Transfers Out of Level 3 ⁽⁴⁾
Agency residential mortgage-backed securities	\$ 7,952	\$ (18)	\$ (27)	\$ 10,366	\$	\$ (957)	\$	\$ 17,316	
Non-agency residential mortgage-backed securities	24,394	74	381			(1,015)		23,834	
Commercial mortgage-backed securities	702	22	555	6,222		(153)		7,348	
Corporate securities	168,223	184	3,435	22,911		(8,185)	411	(7,873)	179,106

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Collateralized debt obligations	257,914	(2,001)	20,229	17,610	(10,807)		282,945
Foreign government securities	1,266	19		1,171	(1,245)		1,211
U.S. Treasury and other U.S. Government guaranteed securities	7,640	(3)	77	254	(99)	4,743	12,612
U.S. Government-sponsored enterprise securities	1,848	10	(8)		(1,850)		
Obligations of U.S. states, municipalities and political subdivisions	7,298	5	24				7,327
Other investments	5,895	159	2	9,561	(739)		14,878
Assets held in separate account ⁽¹⁾	117,365	7,299		15,891	(16,487)		124,068
Total	\$ 600,497	\$ 5,750	\$ 24,668	\$ 83,986	\$ (41,537)	\$ 5,154	\$ (7,873) \$ 670,645

- (1) Because the positive or negative investment performance of these assets accrues to policyholders, who bear the investment risk of these assets, net investment income and capital gains and losses arising from these assets are not included in the Company's consolidated investment earnings. In addition, purchases and settlements relating to the separate account are not included in the Company's consolidated statements of cash flows.
- (2) Other comprehensive income includes \$14.8 million, net of an income tax expense of \$8.1 million, in increases to net unrealized appreciation on investments and \$1.2 million, net of an income tax expense of \$0.6 million, in decreases in other than temporary impairments.
- (3) In the case of each transfer into Level 3 for the period, an independent service dropped coverage of pricing the security and such pricing was replaced with broker quotes.

Table of Contents**DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note C Fair Value Measurements (Continued)**

(4) In the case of each transfer out of Level 3 for the period, an independent pricing service initiated coverage in pricing the security and such pricing replaced broker quotes.

The carrying values and estimated fair values of certain of the Company's financial instruments not recorded at fair value in the consolidated balance sheets are shown below. Because fair values for all balance sheet items are not required to be disclosed, the aggregate fair value amounts presented below are not reflective of the underlying value of the Company.

	Carrying Value	March 31, 2012		Fair Value Level 3
		Fair Value Total	Fair Value Level 2	
(dollars in thousands)				
Assets:				
Short-term investments	\$ 141,521	\$ 141,521	\$ 141,521	\$
Investment accounts receivable	77,189	77,189		77,189
Other investments	331,650	331,650		331,650
Liabilities:				
Policyholder account balances	\$ 2,092,555	\$ 2,170,052	\$	\$ 2,170,052
Corporate debt	375,000	418,808	418,808	
Junior subordinated debentures	175,000	173,390	173,390	
Advances from Federal Home Loan Bank	55,342	74,365	74,365	
Investment accounts payable	85,627	85,627		85,627
Liabilities related to separate account	124,068	124,068		124,068

	December 31, 2011	
	Carrying Value	Fair Value
(dollars in thousands)		
Assets:		
Short-term investments	\$ 277,552	\$ 277,552
Investment accounts receivable	24,406	24,406
Other investments	318,509	318,509
Liabilities:		
Policyholder account balances	\$ 2,008,285	\$ 2,066,609
Corporate debt	375,000	415,310
Junior subordinated debentures	175,000	166,617
Advances from Federal Home Loan Bank	55,342	75,352
Investment accounts payable	41,719	41,719

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Liabilities related to separate account	117,365	117,365
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The carrying values for short-term investments approximate fair values based on the nature of the investments. The carrying values of investment accounts receivable and investment accounts payable approximate fair values based on the short-term nature of the expected cash receipt. Other investments primarily include investment funds organized as limited partnerships and limited liability companies and real estate investment held by limited liability companies, which are reflected in the Company's financial statements under the equity method of accounting. In determining the fair value of such investments for purposes of this footnote disclosure, the Company concluded that the value calculated using the equity method of accounting was reflective of the fair market value of such investments. The investment portfolios of the funds in which the fund investments are maintained vary from fund to fund, but are generally comprised of liquid, publicly traded securities that have readily determinable market values and are carried at fair value on the financial statements of such funds, substantially all of which are audited annually. The amount that an investor is entitled to receive upon the redemption of its investment from the applicable fund is determined by reference to such security values. The Company utilizes the financial statements furnished by the funds to determine the values of its investments in such funds and the carrying value of each such investment, which is based on its

Table of Contents**DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note C Fair Value Measurements (Continued)**

proportionate interest in the relevant fund as of the balance sheet date. The carrying values of all other invested assets and separate account liabilities approximate their fair value.

The fair values of policyholder account balances are net of reinsurance receivables and the carrying values have been decreased for related acquisition costs of \$73.1 million and \$87.1 million at March 31, 2012 and December 31, 2011, respectively. Fair values for policyholder account balances were determined by estimating future cash flows discounted at a current market rate.

The Company believes the fair value of its variable rate long-term debt is equal to its carrying value, since the variable rates of interest on this debt are reflective of market conditions in effect from time to time. The fair values of the 7.875% Senior Notes due 2020 (2020 Senior Notes), the outstanding borrowings under the Company's Credit Agreement with Bank of America, N.A., as administrative agent, and a group of lenders and the 7.376% fixed-to-floating rate junior subordinated debentures due 2067 (2007 Junior Debentures) are based on the expected cash flows discounted to net present value. The fair values for fixed rate advances from the FHLB were calculated using discounted cash flow analyses based on the interest rates for the advances at the balance sheet date.

Note D Segment Information

	Three Months Ended March 31,	
	2012	2011
	(dollars in thousands)	
Revenues:		
Group employee benefit products	\$ 470,013	\$ 421,293
Asset accumulation products	42,360	34,112
Other ⁽¹⁾	11,792	13,288
	524,165	468,693
Net realized investment gains (losses)	1,031	(1,972)
	\$ 525,196	\$ 466,721
Operating income (loss):		
Group employee benefit products	\$ 79,127	\$ 76,078
Asset accumulation products	15,300	9,703
Other ⁽¹⁾	(42,065)	(7,791)
	52,362	77,990
Net realized investment gains (losses)	1,031	(1,972)

- (1) Primarily consists of operations from integrated disability and absence management services and certain corporate activities. Operating income results for the three months ended March 31, 2012 includes \$30.7 million of merger-related corporate expenses.

Table of Contents**DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note E Stock-Based Compensation**

The Company recognized stock-based compensation expenses of \$4.1 million and \$2.2 million in the first quarters of 2012 and 2011, respectively.

The Company did not grant any options during the first quarter of 2012. The fair values of options granted during the first quarter of 2011 were calculated at the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected volatility	43.9%
Expected dividends	1.4%
Expected lives of options (in years)	6.0
Risk-free rate	2.6%

The expected volatility reflects the Company's past monthly stock price volatility. The dividend yield is based on the Company's historical dividend payments. The Company used the historical average period from the Company's issuance of an option to its exercise or cancellation and the average remaining years until expiration for the Company's outstanding options to estimate the expected life of options granted in 2011 for which the Company had sufficient historical exercise data. The Company used the simplified method to estimate the expected life of certain options granted in 2011 for which sufficient historical data was not available. The risk-free rate is derived from public data sources at the time of each option grant. Compensation cost is recognized over the requisite service period of the option using the straight-line method.

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

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000)
Options				
Outstanding at January 1, 2012	4,256,785	\$ 29.61		
Exercised	(276,220)	30.09		
Expired	(2,225)	35.16		
Outstanding at March 31, 2012	3,978,340	29.57	6.0	\$ 60,475
Exercisable at March 31, 2012	2,685,333	\$ 30.60	5.2	\$ 38,064

The weighted average grant date fair value of options granted during the first quarter of 2011 was \$12.19. The cash proceeds from stock options exercised were \$42.2 million and \$2.8 million in the first quarters of 2012 and 2011, respectively. The total intrinsic value of options exercised during the first quarters of 2012 and 2011 was \$27.1 million and \$0.8 million, respectively. The Company's actual benefits from the tax deductions realized in excess of recognized compensation cost were \$5.7 million and \$0.2 million in the first quarters of 2012 and 2011,

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respectively, and are included as a component of additional paid in capital.

At March 31, 2012, 3,018,000 performance-contingent incentive options were outstanding with a weighted average exercise price of \$25.12, a weighted average contractual term of 3.5 years and an intrinsic value of \$59.3 million. 2,325,000 of such options with a weighted average exercise price of \$24.68, a weighted average contractual term of 2.5 years and an intrinsic value of \$46.7 million were exercisable at March 31, 2012. At March 31, 2012, a total of 251,035 performance-contingent restricted shares were outstanding.

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Table of Contents**DELPHI FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note F Computation of Results per Share**

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

	Three Months Ended March 31,	
	2012	2011
Numerator:		
Net income attributable to shareholders	\$ 34,940	\$ 50,224
Denominator:		
Weighted average common shares outstanding	56,543	55,921
Effect of dilutive securities	2,017	813
Weighted average common shares outstanding, assuming dilution	58,560	56,734
Basic results per share of common stock:		
Net income attributable to shareholders	\$ 0.62	\$ 0.90
Diluted results per share of common stock:		
Net income attributable to shareholders	\$ 0.60	\$ 0.89

Note G Merger Agreement

On December 21, 2011, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") among the Company, Tokio Marine Holdings, Inc., a Japanese corporation ("Tokio Marine"), and TM Investment (Delaware) Inc., a Delaware corporation and wholly owned subsidiary of Tokio Marine ("TM Sub"). The Merger Agreement provides that at the effective time of the merger, TM Sub will be merged with and into the Company, with the Company continuing as the surviving corporation and becoming an indirect wholly owned subsidiary of Tokio Marine. Pursuant to the Merger Agreement, at the effective time of the merger (1) each share of the Company's Class A Common Stock (other than (a) shares of our Class A Common Stock owned by the Company, Tokio Marine or any of their respective wholly owned subsidiaries, in each case not held on behalf of third parties, and (b) shares in respect of which appraisal rights have been properly demanded and those demands not effectively withdrawn) will be converted into the right to receive \$43.875 in cash, without interest and less any applicable withholding taxes, and (2) each share of the Company's Class B Common Stock (other than (a) shares of the Company's Class B Common Stock owned by the Company, Tokio Marine or any of their respective wholly owned subsidiaries, in each case not held on behalf of third parties, and (b) shares in respect of which appraisal rights have been properly demanded and those demands not effectively withdrawn) will be converted into the right to receive \$52.875 in cash, without interest and less any applicable withholding taxes. In addition, the Merger Agreement provides that record holders of common stock immediately prior to the effective time of the merger will be entitled to receive a special dividend of \$1.00 in cash per share that is contingent upon the completion of the merger and will be paid shortly after closing. The acquisition has been approved by the Company's stockholders and by the relevant regulatory authorities in Japan and in the U.S. The closing of the merger, which remains subject to the satisfaction of other customary closing conditions, is expected to occur on or about May 15, 2012.

On February 21, 2012, the Company filed a definitive proxy statement with the Securities and Exchange Commission which contains detailed information about the merger and the board and special committee process conducted in connection with the merger.

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DELPHI FINANCIAL GROUP, INC.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The Company, through its subsidiaries, underwrites a diverse portfolio of group employee benefit products, primarily long-term and short-term disability, life, excess workers' compensation insurance for self-insured employers, large casualty programs including large deductible workers' compensation, workers' compensation and casualty treaty reinsurance, travel accident, dental and limited benefit health insurance. Revenues from this group of products are primarily comprised of earned premiums and investment income. The profitability of group employee benefit products is affected by, among other things, differences between actual and projected claims experience, the retention of existing customers, product mix and the Company's ability to attract new customers, change premium rates and contract terms 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. Accordingly, the profitability of the Company's group employee benefit products is affected by the amount, cost and terms of reinsurance it obtains. The profitability of those group employee benefit products for which reserves are discounted, in particular, the Company's disability and excess workers' compensation products, is also significantly affected by the difference between the yield achieved on invested assets and the discount rate used to calculate the related reserves.

In recent years, the Company has benefited from the stable market conditions which prevailed for its excess workers' compensation products as to pricing and other contract terms and has enhanced its leadership position in the market for these products. However, because pricing in the primary workers' compensation market has been increasingly competitive, the demand for excess workers' compensation products has not significantly increased. In addition, the downward pressure on employment and wage levels exerted by the recent recession and its aftereffects has negatively affected premium levels for insurance products which are based upon employers' payrolls, such as the Company's excess workers' compensation products. This effect has been ameliorated by the Company's emphasis on municipalities, hospitals and schools; sectors whose payroll levels generally have been less adversely affected by the recent recession. The Company has enhanced its focus on its sales and marketing function for these products. During the first three months of 2012, the Company achieved improvements in pricing for these products.

For its other group employee benefit products, the Company is continuing to experience challenging market conditions from a competitive standpoint, particularly as to pricing. These conditions, in addition to the continuing effects of the recent recession on employment and wage levels have, in recent years, adversely impacted the Company's ability to achieve higher levels of new business production and growth in premiums for these products. For these products, the Company is continuing to enhance its focus on the small case niche (insured groups of 10 to 500 individuals), including employers which are first-time providers of these employee benefits, which the Company believes to offer opportunities for superior profitability. The Company is also emphasizing its suite of voluntary group insurance products, which includes, among others, its group limited benefit health insurance product. The Company is generally marketing this product with a fixed indemnity benefit structure that is exempt from certain of the requirements of the federal health care reform legislation; however, it is uncertain whether this product's coverage will not satisfy these requirements. The Company markets its other group 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. This 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 other group employee benefit products to large employers.

The Company also operates an asset accumulation business that focuses primarily on offering fixed annuities to individuals. Beginning in the second half of 2010, the Company has experienced particularly advantageous conditions in the fixed annuity marketplace resulting from various competitors having terminated their marketing of comparable fixed annuity products and, in some cases, having experienced ratings downgrades. From time to time, the Company acquires blocks of existing SPDA and FPA policies from other insurers through indemnity assumed reinsurance transactions and issues funding agreements. The Company believes that annuity reinsurance arrangements and funding agreements enhance the Company's asset accumulation business by providing alternative sources of funds for this business. The Company's liabilities for its annuity reinsurance arrangements and funding agreements are recorded in policyholder account balances. Deposits from the Company's asset accumulation business are recorded as liabilities rather than as premiums. The profitability of asset accumulation products is primarily dependent on the spread achieved between the return on investments and the interest credited with respect to these products. The Company sets the crediting rates offered on its asset accumulation products in an effort to achieve its targeted

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interest rate spreads on these products, and is willing to accept lower levels of sales on these products when market conditions make these targeted spreads more difficult to achieve.

The management of the Company's investment portfolio is an important component of its profitability. In recent years, the Company has repositioned its investment portfolio reducing its investment funds organized as limited partnerships and limited liability companies and trading account securities. As part of this effort, the Company has increased its investments in more traditional sectors of the fixed income market such as mortgage-backed securities and municipal bonds. In addition, while in recent years the Company has been maintaining a significant portion of its portfolio in short-term investments, which totaled \$277.6 million at December 31, 2011, the Company has made progress in its recent efforts to deploy a portion of these investments into longer-term fixed maturity securities which offer more attractive yields. At March 31, 2012, the Company's short-term investments had decreased to \$141.5 million.

The Company continued to achieve improved levels of investment income in its repositioned investment portfolio during the first quarter of 2012. However, in light of the continuing volatility in financial market conditions, significant fluctuations in the Company's net investment income, and as a result, in its results of operations may occur. Accordingly, there can be no assurance as to the impact of the Company's investment repositioning on the level or variability of its future net investment income. In addition, while the levels of the Company's realized investment losses from declines in market value relative to the amortized cost of various securities that it determined to be other than temporary decreased significantly in the first quarter of 2012 as compared to the same period of 2011, investment losses may recur in the future and it is not possible to predict the timing or magnitude of such losses.

The following discussion and analysis of the results of operations and financial condition of the Company should be read in conjunction with the Consolidated Financial Statements and related notes included in this document, as well as the Company's annual report on Form 10-K for the year ended December 31, 2011, as amended by Amendment No. 1 on Form 10-K/A (the 2011 Form 10-K). Capitalized terms used herein without definition have the meanings ascribed to them in the 2011 Form 10-K. The preparation of financial statements in conformity with GAAP requires management, in some instances, to make judgments about the application of these principles. The amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period could differ materially from the amounts reported if different conditions existed or different judgments were utilized. A discussion of how management applies certain critical accounting policies and makes certain estimates is contained in the 2011 Form 10-K in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates" and should be read in conjunction with the following discussion and analysis of results of operations and financial condition of the Company. In addition, a discussion of uncertainties and contingencies which can affect actual results and could cause future results to differ materially from those expressed in certain forward-looking statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations can be found below under the caption "Forward-Looking Statements And Cautionary Statements Regarding Certain Factors That May Affect Future Results," in Part I, Item 1A of the 2011 Form 10-K, "Risk Factors."

Recent Developments

On December 21, 2011, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") among the Company, Tokio Marine Holdings, Inc., a Japanese corporation ("Tokio Marine"), and TM Investment (Delaware) Inc., a Delaware corporation and wholly owned subsidiary of Tokio Marine ("TM Sub"). The Merger Agreement provides that at the effective time of the merger, TM Sub will be merged with and into the Company, with the Company continuing as the surviving corporation and becoming an indirect wholly owned subsidiary of Tokio Marine. Pursuant to the Merger Agreement, at the effective time of the merger (1) each share of the Company's Class A Common Stock (other than (a) shares of the Company's Class A Common Stock owned by the Company, Tokio Marine or any of their respective wholly owned subsidiaries, in each case not held on behalf of third parties, and (b) shares in respect of which appraisal rights have been properly demanded and those demands not effectively withdrawn) will be converted into the right to receive \$43.875 in cash, without interest and less any applicable withholding taxes, and (2) each share of the Company's Class B Common Stock (other than (a) shares of the Company's Class B Common Stock owned by the Company, Tokio Marine or any of their respective wholly owned subsidiaries, in each case not held on behalf of third parties, and (b) shares in respect of which appraisal rights have been properly demanded and those demands not effectively withdrawn) will be converted into the right to receive \$52.875 in cash, without interest and less any applicable withholding taxes. In addition, the Merger Agreement provides that record holders of common stock immediately prior to the effective time of the merger will be entitled to receive a special dividend of \$1.00 in cash per share that is contingent upon the completion of the merger and will be paid shortly after closing. The acquisition has been approved by the Company's stockholders and by the relevant regulatory authorities in Japan and in the U.S. The closing of the merger, which remains subject to the satisfaction of other customary closing conditions, is expected to occur on or about May 15, 2012.

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On February 21, 2012, the Company filed a definitive proxy statement with the Securities and Exchange Commission which contains detailed information about the merger and the board and special committee process conducted in connection with the merger.

Results of Operations

Three Months Ended March 31, 2012 Compared to

Three Months Ended March 31, 2011

Summary of Results. Net income attributable to shareholders was \$34.9 million, or \$0.60 per diluted share, for the first quarter of 2012 as compared to \$50.2 million, or \$0.89 per diluted share, for the first quarter of 2011. Net income in the first quarter of 2012 compared to the first quarter of 2011 benefited from an increase in net investment income, a decreased level of realized investment losses and growth in income from the Company's core group employee benefit products. Net income in the first quarter of 2012 was adversely impacted by merger-related corporate expenses, net of related income tax, of \$23.0 million or \$0.39 per diluted share. Net income in the first quarter of 2012 and 2011 included net realized investment gains (losses), net of the related income tax (expense) benefits, of \$0.7 million, or \$0.01 per diluted share, and \$(1.3) million, or \$(0.02) per diluted share, respectively. Net realized investment losses in the first quarter of 2012 and 2011 included losses, net of the related income tax benefit, of \$4.2 million, or \$0.07 per diluted share, and \$5.9 million, or \$0.10 per diluted share, respectively, due to credit loss-related impairments in the values of certain investments.

The Company believes the non-GAAP financial measure of operating earnings is informative when analyzing the trends relating to the Company's insurance operations. Operating earnings consist of net income attributable to shareholders excluding after-tax realized investment gains and losses, losses on early retirement of senior notes and junior subordinated deferrable interest debentures, merger-related corporate expenses and results from discontinued operations, as applicable. The Company believes that because these excluded items arise from events that are largely within management's discretion and whose fluctuations can distort comparisons between periods, a measure excluding their impact is useful in analyzing the Company's operating trends. Investment gains or losses are realized based on management's decision to dispose of an investment, and investment losses are realized based on management's judgment that a decline in the market value of an investment is other than temporary. Early retirement of senior notes occurs based on management's decision to redeem or repurchase these notes prior to maturity. Merger-related corporate expenses represent costs incurred during the first quarter of 2012 relating to the pending merger with Tokio Marine. Discontinued operations results from management's decision to exit or sell a particular business. Thus, these excluded items are not reflective of the Company's ongoing earnings capacity, and trends in the earnings of the Company's underlying insurance operations can be more clearly identified without the effects. For these reasons, management uses the measure of operating earnings to assess performance and make operating plans and decisions, and the Company believes that analysts and investors typically utilize measures of this type as one element of their evaluations of insurers' financial performance. However, gains or losses from the excluded items, particularly as to investments, can occur frequently and should not be considered as nonrecurring items. Further, operating earnings should not be considered a substitute for net income attributable to shareholders, the most directly comparable GAAP measure, as an indication of the Company's overall financial performance and may not be calculated in the same manner as similarly titled measures utilized by other companies.

Operating earnings were \$57.2 million, or \$0.98 per diluted share, in the first quarter of 2012 compared to \$51.5 million, or \$0.91 per diluted share, in the first quarter of 2011.

The following table reconciles the amount of operating earnings to the corresponding amount of net income attributable to shareholders for the indicated periods:

	Three Months Ended	
	March 31,	
	2012	2011
Operating earnings	\$ 57,237	\$ 51,506
Net realized investment gains (losses), net of taxes ^(A)	670	(1,282)
Merger-related corporate expenses, net of taxes ^(B)	(22,967)	
Net income attributable to shareholders	\$ 34,940	\$ 50,224
Diluted results per share of common stock		

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Operating earnings	\$ 0.98	\$ 0.91
Net realized investment gains (losses), net of taxes ^(A)	0.01	(0.02)
Merger-related corporate expenses, net of taxes ^(B)	(0.39)	
Net income attributable to shareholders	\$ 0.60	\$ 0.89

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- (A) Net of an income tax (expense) benefit of \$(0.4) million and \$0.7 million, or \$(0.01) per diluted share and \$0.01 per diluted share, for the three months ended March 31, 2012 and 2011, respectively. The tax effect is calculated using the Company's statutory tax rate of 35%.
- (B) Net of an income tax benefit of \$7.7 million or \$0.13 per diluted share for the three months ended March 31, 2012. These expenses are included in the "Other Operating Expenses" line of the Consolidated Statements of Income.

Premium and Fee Income. Premium and fee income for the first quarter of 2012 was \$418.4 million as compared to \$376.4 million for the first quarter of 2011, an increase of 11%. Premiums from core group employee benefit products, which include disability, life, excess workers compensation, travel accident and dental insurance and workers compensation and casualty treaty reinsurance, increased 11% to \$399.0 million for the first quarter of 2012 from \$359.4 million for the first quarter of 2011, reflecting new business production, price increases and improved persistency. New business production for the Company's core group employee benefit products was \$80.0 million and \$82.5 million in the first quarter of 2012 and 2011, respectively. Premiums from excess workers compensation insurance for self-insured employers increased 20% to \$89.7 million in the first quarter of 2012 from \$74.9 million in the first quarter of 2011. Excess workers compensation new business production, which represents the annualized amount of new premium sold, was \$16.9 million in the first quarter of 2012 as compared to \$19.1 million in the first quarter of 2011. Premiums from workers compensation and casualty treaty reinsurance increased 27% to \$21.9 million in the first quarter of 2012 from \$17.3 million in the first quarter of 2011. Workers compensation and casualty treaty reinsurance production was \$14.3 million in the first quarter of 2012 as compared to \$7.3 million in the first quarter of 2011, an increase of 96%. SNCC's retention of its existing excess workers compensation customers remained strong in the first quarter of 2012.

Premiums from the Company's other core group employee benefit products increased 8% to \$287.4 million in the first quarter of 2012 as compared to \$267.2 million in the first quarter of 2011. Premiums from the Company's group disability products increased 10% to \$154.5 million in the first quarter of 2012 from \$140.8 million in the first quarter of 2011. Premiums from the Company's turnkey disability business were \$15.1 million during the first quarter of 2012 as compared to \$12.2 million during the first quarter of 2011. Premiums from the Company's group life products increased 5% to \$108.4 million in the first quarter of 2012 from \$103.4 million in the first quarter of 2011. New business production for the Company's other core group employee benefit products was \$48.8 million in the first quarter of 2012 as compared to \$56.1 million in the first quarters of 2011. The Company continues to implement price increases for certain group disability and group life insurance customers; in particular, where warranted in particular instances due to adverse claims experience. The payments received by the Company in connection with LPTs, which are episodic in nature and are recorded as liabilities rather than as premiums, were \$27.7 million in the first quarter of 2012 as compared to \$25.0 million in the first quarter of 2011.

Deposits from the Company's asset accumulation products were \$87.5 million in the first quarter of 2012 as compared to \$97.6 million in the first quarter of 2011. Deposits from the Company's asset accumulation products, consisting of new annuity sales and issuances of funding agreements, are recorded as liabilities rather than as premiums. The Company is continuing to maintain its discipline in setting the crediting rates offered on its asset accumulation products in 2012 in an effort to achieve its targeted interest rate spreads on these products. The Company's funds under management increased 24% to \$2,144.4 million at March 31, 2012 from \$1,728.4 million at March 31, 2011.

Net Investment Income. Net investment income in the first quarter of 2012 was \$105.8 million as compared to \$92.3 million in the first quarter of 2011, an increase of 15%. This increase reflects a 16% increase in average invested assets to \$7,637.6 million in 2012 from \$6,598.3 million in 2011 and a higher level of investment income from the Company's fixed maturity security portfolio. The tax equivalent weighted average annualized yield on invested assets was 6.0% for the first quarters of both 2012 and 2011.

Net Realized Investment Gains (Losses). Net realized investment gains were \$1.0 million in the first quarter of 2012 as compared to net realized investment losses of \$(2.0) million in the first quarter of 2011. The Company monitors its investments on an ongoing basis. When the fair value of an available for sale security declines below its amortized cost, the decline is included as a component of accumulated other comprehensive income or loss, net of the related income tax benefit and adjustment to cost of business acquired, on the Company's balance sheet. In the case of a fixed maturity security, if management judges the decline to be other than temporary, the portion of the decline representing credit loss is recognized as a realized investment loss in the Company's income statement and the remaining portion of the decline continues to be included as a component of accumulated other comprehensive income or loss. For all other types of investments, the entire amount of the decline is recognized as a realized investment loss. During the first quarter of 2012, the Company recognized \$6.8 million of losses due to the other than temporary declines in the fair values of certain fixed maturity securities available for sale and other investments, of which \$6.4 million was recognized as credit-related realized investment losses and \$0.4 million remained as a component of accumulated other comprehensive income. The Company recognized \$7.5 million of credit losses in the first quarter of 2011 due to the other than temporary declines in the fair values of certain fixed maturity securities available for sale.

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and other investments. In total, \$9.0 million of impairment losses were recognized, including an additional \$1.5 million of losses previously recognized as a component of accumulated other comprehensive income on the balance sheet that became credit losses during the first three months of 2011. The Company's investment strategy results in periodic sales of securities and, therefore, the recognition of realized investment gains and losses. During the first quarters of 2012 and 2011, the Company recognized \$7.5 million and \$7.0 million, respectively, of net gains on sales of securities.

The Company may continue to recognize losses due to other than temporary declines in security fair values in the future, and such losses may be significant. The extent of such losses will depend on, among other things, future developments in the United States and global economies, financial and credit markets, credit spreads, interest rates, foreign currency exchange rates, expected future cash flows from structured securities, the outlook for the performance by the security issuers of their obligations and changes in security values. The Company continuously monitors its investments in securities whose fair values are below the Company's amortized cost pursuant to its procedures for evaluation for other than temporary impairment in valuation. See Note B to the Consolidated Financial Statements and the section in the 2011 Form 10-K entitled

Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates for a description of these procedures, which take into account a number of factors. It is not possible to predict the extent of any future changes in value, positive or negative, or the results of the future application of these procedures, with respect to these securities. For further information concerning the Company's investment portfolio, see Liquidity and Capital Resources Investments.

Benefits and Expenses. Policyholder benefits and expenses were \$471.8 million in the first quarter of 2012 as compared to \$390.7 million in the first quarter of 2011. This increase reflects an increase in premiums from the Company's group employee benefit products discussed above, and does not reflect significant additions to reserves for prior years' claims and claim expenses. However, there can be no assurance that future periods will not include additions to reserves of this type, which will depend on the Company's future loss development. If the Company were to experience significant adverse loss development in the future, the Company's results of operations could be materially adversely affected. This increase also reflects \$30.7 million of merger-related corporate expenses incurred during the first quarter of 2012 relating to the pending merger with Tokio Marine. The combined ratio (loss ratio plus expense ratio) for group employee benefit products was 96.7% and 95.2% in the first quarters of 2012 and 2011, respectively. The weighted average annualized crediting rate on the Company's asset accumulation products was 4.0% in the first quarters of 2012 and 2011.

Interest Expense. Interest expense was \$9.4 million and \$9.3 million in the first quarters of 2012 and 2011, respectively.

Income Tax Expense. Income tax expense was \$10.9 million in the first quarter of 2012 as compared to \$16.4 million in the first quarter of 2011. This decrease primarily reflects a lower level of operating income during the first quarter of 2012. The Company's effective tax rate was 23.8% in the first quarter of 2012 as compared to 24.6% in the first quarter of 2011, primarily due to the higher proportion of net investment income represented by tax-exempt interest income.

Liquidity and Capital Resources

General. The Company's current liquidity needs include principal and interest payments on outstanding borrowings under its bank credit facility and interest payments on the 2020 Senior Notes and 2007 Junior Debentures, as well as funding its operating expenses and dividends to stockholders. The 2007 Junior Debentures will become due on May 15, 2037, but only to the extent that the Company has received sufficient net proceeds from the sale of certain specified qualifying capital securities. Any remaining outstanding principal amount will be due on May 1, 2067. The 2020 Senior Notes and 2007 Junior Debentures are not subject to any sinking fund requirements and contain certain provisions permitting their early redemption by the Company. For descriptions of these provisions, see Notes E and H to the Consolidated Financial Statements included in the 2011 Form 10-K. The Company announced on April 27, 2012 that it plans to voluntarily delist from the New York Stock Exchange the 2007 Junior Debentures and to terminate the registration of 2007 Junior Debentures and the 2020 Senior Notes and its reporting obligations with respect to the 2007 Junior Debentures and the 2020 Senior Notes under the Securities Exchange Act of 1934, as amended. If the closing of the merger with Tokio Marine does not occur, the Company does not expect to proceed with such delisting and deregistration.

The Company entered into a Credit Agreement with Bank of America, N.A. as administrative agent and a group of banking institutions (the Credit Agreement) providing for a revolving loan facility of \$205.0 million which matures on December 22, 2013 and a term loan facility of \$125.0 million which matures on December 22, 2015. Interest on borrowings under the Credit Agreement is payable, at the Company's election, either at a floating rate based on LIBOR plus a specified margin which varies based upon the specified ratings of the Company's senior unsecured debt, as in effect from time to time, or a base rate equal to the highest of Bank of America's prime rate, LIBOR plus a specified margin or the federal funds rate plus a specified margin. The Credit Agreement contains various financial and other affirmative and negative covenants, along with various representations and warranties. The covenants include, among others, a maximum Company consolidated debt to capital ratio, a minimum Company consolidated net worth, minimum statutory risk-based capital requirements for RSLIC and SNCC, and

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certain limitations on subsidiary indebtedness. As of March 31, 2012, the Company was in compliance in all material respects with the financial and various other affirmative and negative covenants in the Credit Agreement. At March 31, 2012, the Company had \$125.0 million of outstanding borrowings and \$205.0 million of borrowings remaining available under the Credit Agreement.

As a holding company that does not conduct business operations in its own right, substantially all of the assets of the Company are comprised of its ownership interests in its insurance subsidiaries. In addition, the Company had approximately \$169.8 million of financial resources available at the holding company level at March 31, 2012, primarily comprised of short-term investments, equity securities and investments in investment subsidiaries whose assets are primarily invested in investment funds organized as limited partnerships and limited liability companies. Other sources of liquidity at the holding company level include dividends paid from subsidiaries, primarily generated from operating cash flows and investments, and borrowings under the Credit Agreement. During 2012, the Company's insurance subsidiaries will be permitted, without prior regulatory approval, to make dividend payments totaling \$91.1 million, in addition to the dividend payments of \$58.0 million made during the first three months of 2012. However, the level of dividends that could be paid consistent with maintaining the insurance subsidiaries' RBC and other measures of capital adequacy at levels consistent with its current claims-paying and financial strength ratings from rating agencies is likely to be substantially lower than such amount. In general, dividends from the Company's non-insurance subsidiaries are not subject to regulatory or other restrictions. In addition, the Company is presently categorized as a well-known seasoned issuer under Rule 405 of the Securities Act. As such, the Company has the ability to file automatically effective shelf registration statements for unspecified amounts of different securities, allowing for immediate, on-demand offerings.

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

Investments. The Company's overall investment strategy emphasizes safety and liquidity, while seeking the best available return, by focusing on, among other things, managing the Company's interest-sensitive assets and liabilities and seeking to minimize the Company's exposure to fluctuations in interest rates. The Company's investment portfolio, which totaled \$7,919.7 million at March 31, 2012, consists primarily of investments in fixed maturity securities available for sale, short-term investments, mortgage loans and equity securities. The Company's investment portfolio also includes investments in investment funds organized as limited partnerships and limited liability companies and trading account securities which collectively totaled \$321.9 million at March 31, 2012.

During the first three months of 2012, the fair value of the Company's available for sale fixed maturity investment portfolio, in relation to its amortized cost, increased by \$150.6 million from year-end 2011, before the related decrease in the cost of business acquired of \$15.6 million and a decrease in the federal income tax provision of \$47.3 million. At March 31, 2012, gross unrealized appreciation and gross unrealized depreciation, before the related income tax expense or benefit and the related adjustment to cost of business acquired, with respect to the available for sale fixed maturity securities in the Company's portfolio totaled \$438.1 million (of which \$367.6 million was attributable to investment grade securities) and \$79.0 million (of which \$27.6 million was attributable to investment grade securities), respectively. During the first three months of 2012, the Company recognized pre-tax net investment gains of \$1.0 million. The weighted average credit rating of the securities in the Company's fixed maturity portfolio having ratings by nationally recognized statistical rating organizations, based upon the highest of the ratings assigned to the respective securities, was A at March 31, 2012. While ratings of this type are intended to address credit risk, they do not address other risks, such as prepayment and extension risks.

See Forward-Looking Statements and Cautionary Statements Regarding Certain Factors That May Affect Future Results, and Part I, Item 1A of the 2010 Form 10-K, Risk Factors, for a discussion of various risks relating to the Company's investment portfolio.

Cash Flows. Operating activities increased cash by \$94.0 million and \$117.4 million in the first three months of 2012 and 2011, respectively. Net investing activities used \$179.1 million and \$95.7 million of cash during the first three months of 2012 and 2011, respectively, primarily for the purchase of securities. Financing activities provided \$100.3 million of cash during the first three months of 2012, principally from deposits to policyholder accounts. During the first three months of 2011, financing activities used \$1.5 million of cash, reflecting, among other things, the repayment of \$65.0 million in aggregate principal amount of fixed rate funding agreements at their maturity.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the Company's exposure to market risk or its management of such risk since December 31, 2011.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in the rules and regulations of the Securities and Exchange Commission). Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective. There were no changes in the Company's internal control over financial reporting during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Forward-Looking Statements And Cautionary Statements Regarding Certain Factors That May Affect Future Results

In connection with, and because it desires to take advantage of, the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions readers regarding certain forward-looking statements in the above Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Form 10-Q and in any other statement made by, or on behalf of, the Company, whether in future filings with the Securities and Exchange Commission or otherwise. Forward-looking statements are statements not based on historical information and which relate to future operations, strategies, financial results, prospects, outlooks or other developments. Some forward-looking statements may be identified by the use of terms such as "expects," "believes," "anticipates," "intends," "judgment," "outlook," "attempt," "achieve," "project" or other similar expressions. Forward-looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic, competitive and other uncertainties and contingencies, many of which are beyond the Company's control and many of which, with respect to future business decisions, are subject to change. Examples of such uncertainties and contingencies include, among other important factors, those affecting the insurance industry generally, such as the economic and interest rate environment, federal and state legislative and regulatory developments, including but not limited to changes in financial services, employee benefit and tax laws and regulations, changes in accounting rules and interpretations thereof, market pricing and competitive trends relating to insurance products and services, acts of terrorism or war, and the availability and cost of reinsurance, and those relating specifically to the Company's business, such as the level of its insurance premiums and fee income, the claims experience, persistency and other factors affecting the profitability of its insurance products, the performance of its investment portfolio and changes in the Company's investment strategy, acquisitions of companies or blocks of business, and ratings by major rating organizations of the Company and its insurance subsidiaries. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company. Certain of these uncertainties and contingencies are described in more detail in Part I, Item 1A of the 2011 Form 10-K, "Risk Factors". The Company disclaims any obligation to update forward-looking information.

Table of Contents**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

The Company, Mr. Rosenkranz, certain other members of the Company's management, members of the Company's board of directors, Tokio Marine and TM Sub have been named as defendants in four lawsuits brought by and on behalf of the Company's stockholders in the Court of Chancery of the State of Delaware (the Court) challenging certain aspects of the merger. These lawsuits have been consolidated by the Court into a single action known as *In re Delphi Financial Group Shareholder Litigation*, Consolidated C.A. No. 7144-VCG. On February 16, 2012, plaintiffs filed a second amended complaint in the consolidated action, which alleges, among other things, that Mr. Rosenkranz has breached his fiduciary duties by (1) engaging in improper related-party transactions and using the Company's resources to run a competing business, and (2) appropriating for himself a disproportionate amount of the merger consideration through (a) an incremental premium being paid to Class B stockholders and (b) an alleged agreement with Tokio Marine to compensate Mr. Rosenkranz in connection with the related-party transactions referred to above. The second amended complaint further alleges that the Company's directors have breached their fiduciary duties by (1) approving the merger agreement, which the plaintiffs allege to be unfair to the Company's public stockholders, (2) approving the payment of additional consideration to the Class B stockholders, and (3) structuring the vote on a proposed amendment to the Company's certificate of incorporation in an improperly coercive manner. In addition, the complaint alleges that members of the Company's management breached their fiduciary duties to the Company's public stockholders by aiding Mr. Rosenkranz in seeking additional merger consideration. The complaint alleges that Mr. Rosenkranz and the Company breached the implied covenant of good faith allegedly inherent in the Company's certificate of incorporation. The second amended complaint also alleges that Tokio Marine and TM Sub aided and abetted these alleged breaches. Finally, the second amended complaint alleges that the preliminary proxy statement omitted material information and provided materially misleading information. Based on these allegations, the second amended complaint in the consolidated action seeks, among other relief, certain injunctive relief, including enjoining the merger, and damages. It also purports to seek recovery of the costs of the actions, including attorneys' fees.

In a memorandum opinion, issued March 6, 2012, the Court denied plaintiffs' motion for a preliminary injunction in the consolidated action.

On April 9, 2012, the Company announced that a settlement in principle had been reached, contingent on, among other things, definitive documentation and Court approval. If the settlement is finalized and approved, Delphi's Class A stockholders and certain option holders as of the effective time of the merger, other than the defendants to the consolidated action and their affiliates, will receive a payment equal to \$49 million less plaintiffs' counsel fees and expenses, which have not yet been determined, and less other administrative expenses such as the costs of providing notice to stockholders and option holders. The payment will be made after and subject to approval of the settlement by the Court. A hearing to consider the settlement is expected to occur subsequent to the closing of the merger. The amount of plaintiffs' counsel fees and expenses will be determined at or after the time the Court decides whether to approve the settlement agreement.

The settlement is contingent upon, among other things, completion of the merger and approval by the Court. In the event the court does not approve the settlement or the other conditions are not satisfied, the Delphi defendants will continue to vigorously defend all claims. The payment described above is separate and distinct from the merger consideration payable to Delphi's Class A stockholders.

On April 24, 2012, pursuant to a stipulation among the parties to the action, Harold F. Ilg, a former director of the Company, was dismissed as a defendant from the action with prejudice.

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

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Item 1A. Risk Factors

The following discussion, which supplements the significant factors that may affect our business and operations described in Part I, Item 1A of the 2011.

Form 10-K, Risk Factors, updates and supersedes the discussion contained therein relating to this risk factor.

Certain risks and uncertainties are associated with the pending merger with Tokio Marine.

On December 21, 2011, the Company entered into a merger agreement with Tokio Marine and TM Sub pursuant to which all of the Company's outstanding shares will be acquired by Tokio Marine. While the Company expects that the merger with Tokio Marine will close on or about May 15, 2012, certain risks and uncertainties remain associated with the merger. For example, the merger may not be consummated in the time frame or manner currently anticipated or at all, as a result of several factors, including, among other things, the failure of one or more of the merger agreement's closing conditions to be satisfied. There can be no assurance that the closing conditions will be satisfied or, to the extent permitted, waived or that other events will not intervene to delay or result in the termination of the merger. If the merger is not completed, the price of the Company's Class A Common Stock may decrease to the extent that the current market price of such stock reflects an assumption that the merger will be consummated. Pending the closing of the merger, the merger agreement also restricts the Company from engaging in certain actions without Tokio Marine's consent, which could prevent the Company from pursuing opportunities that may arise prior to the closing of the merger. Any delay in closing or a failure to close could have a negative impact on the Company's business and the Company's stock price as well as the relationships of the Company's subsidiaries with customers or employees, as well as a negative impact on the Company's ability to pursue alternative strategic transactions and/or the Company's ability to implement alternative business plans. In addition, if the merger agreement is terminated under certain circumstances, the Company would be required to pay a termination fee of \$82 million to Tokio Marine.

The Company's business could be adversely impacted as a result of uncertainty related to the pending merger.

The pending merger with Tokio Marine could cause disruptions to the Company's business or business relationships, which could have an adverse impact on the Company's results of operations, liquidity and financial condition. For example, the attention of the Company's management may be directed to merger-related considerations; the Company's employees may experience uncertainty about their future roles with the Company, which may adversely affect the Company's ability to hire and retain key personnel; and parties with which the Company has business relationships may experience uncertainty as to the future of such relationships and seek alternative relationships with third parties or seek to alter their present business relationships with the Company. In addition, the Company has incurred, and will continue to incur, significant costs, expenses and fees for professional services and other transaction costs in connection with the merger, and many of these fees and costs are payable regardless of whether or not the merger is consummated.

Item 6. Exhibits

- 11.1 Computation of Results per Share of Common Stock (incorporated by reference to Note F to the Consolidated Financial Statements included elsewhere herein)
- 31.1 Certification by the Chairman of the Board and Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) or 15d-14(a)
- 31.2 Certification by the Executive Vice President and Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) or 15d-14(a)
- 32.1 Certification of Periodic Report Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101. The following financial information from the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2012, formatted in XBRL: (i) Consolidated Statements of Income for the three months ended March 31, 2012 and 2011; (ii) Consolidated Statements of Other Comprehensive Income for the three months ended March 31, 2012 and 2011 (iii) Consolidated Balance Sheets at March 31, 2012 and December 31, 2011; (iv) Consolidated Statement of Equity for the three months ended March 31, 2012 and 2011; (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011; and (vi) Notes to Consolidated Financial Statements.

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SIGNATURES

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

DELPHI FINANCIAL GROUP, INC.

/s/ ROBERT ROSENKRANZ
Robert Rosenkranz

Chairman of the Board and Chief Executive Officer

(Principal Executive Officer)

/s/ STEPHAN KIRATSOUS
Stephan Kiratsous

Executive Vice President and Chief Financial Officer

Date: May 09, 2012