

DONEGAL GROUP INC  
Form 10-Q  
August 07, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2015**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

**Commission file number 0-15341**

**Donegal Group Inc.**

**(Exact name of registrant as specified in its charter)**

**Delaware** **23-2424711**  
**(State or other jurisdiction of** **(I.R.S. Employer**  
**incorporation or organization)** **Identification No.)**  
**1195 River Road, P.O. Box 302, Marietta, PA 17547**  
**(Address of principal executive offices) (Zip code)**  
**(717) 426-1931**  
**(Registrant's telephone number, including area code)**  
**Not applicable**  
**(Former name, former address and former fiscal year, if changed since last report)**

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 22,441,642 shares of Class A Common Stock, par value \$0.01 per share, and 5,576,775 shares of Class B Common Stock, par value \$0.01 per share, outstanding on July 31, 2015.



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DONEGAL GROUP INC.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****Donegal Group Inc. and Subsidiaries****Consolidated Balance Sheets**

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
	(Unaudited)	
<b><u>Assets</u></b>		
Investments		
Fixed maturities		
Held to maturity, at amortized cost	\$ 298,310,713	\$ 307,391,699
Available for sale, at fair value	472,124,900	435,149,784
Equity securities, available for sale, at fair value	33,884,614	30,822,022
Investment in affiliates	39,201,882	39,283,924
Short-term investments, at cost, which approximates fair value	19,165,884	20,293,648
Total investments	862,687,993	832,941,077
Cash	36,902,337	35,578,509
Accrued investment income	5,917,754	5,751,376
Premiums receivable	147,259,636	133,306,961
Reinsurance receivable	259,756,736	253,635,890
Deferred policy acquisition costs	52,844,749	48,298,608
Deferred tax asset, net	18,581,805	17,146,303
Prepaid reinsurance premiums	118,829,535	115,871,783
Property and equipment, net	7,248,538	7,668,340
Federal income taxes recoverable	1,299,938	581,477
Goodwill	5,625,354	5,625,354
Other intangible assets	958,010	958,010
Other	1,532,241	1,290,956
Total assets	\$ 1,519,444,626	\$ 1,458,654,644
<b><u>Liabilities and Stockholders Equity</u></b>		
<b>Liabilities</b>		
Unpaid losses and loss expenses	\$ 565,174,043	\$ 538,258,406
Unearned premiums	436,819,460	408,646,363
Accrued expenses	16,965,298	19,429,627
Reinsurance balances payable	5,182,219	7,841,172
Borrowings under lines of credit	47,500,000	53,500,000
Cash dividends declared		3,467,273
Subordinated debentures	5,000,000	5,000,000

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Due to affiliate	1,484,392	2,409,347
Drafts payable	1,193,590	1,950,765
Other	2,981,503	2,017,048
<b>Total liabilities</b>	<b>1,082,300,505</b>	<b>1,042,520,001</b>
<b>Stockholders Equity</b>		
Preferred stock, \$.01 par value, authorized 2,000,000 shares; none issued		
Class A common stock, \$.01 par value, authorized 40,000,000 shares, issued 23,413,225 and 22,389,369 shares and outstanding 22,410,637 and 21,447,661 shares	234,133	223,894
Class B common stock, \$.01 par value, authorized 10,000,000 shares, issued 5,649,240 shares and outstanding 5,576,775 shares	56,492	56,492
Additional paid-in capital	216,828,293	200,348,783
Accumulated other comprehensive income	1,438,616	5,353,269
Retained earnings	232,592,944	223,253,887
Treasury stock	(14,006,357)	(13,101,682)
<b>Total stockholders equity</b>	<b>437,144,121</b>	<b>416,134,643</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 1,519,444,626</b>	<b>\$ 1,458,654,644</b>

See accompanying notes to consolidated financial statements.

**Table of Contents****Donegal Group Inc. and Subsidiaries****Consolidated Statements of Income**

(Unaudited)

	<b>Three Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Revenues:</b>		
Net premiums earned	\$ 150,457,785	\$ 136,589,156
Investment income, net of investment expenses	5,157,396	4,614,484
Net realized investment gains (includes \$390,461 and \$2,034,172 accumulated other comprehensive income reclassifications)	390,461	2,034,172
Lease income	189,652	213,792
Installment payment fees	1,480,133	1,681,699
Equity in earnings of Donegal Financial Services Corporation	341,527	348,625
<b>Total revenues</b>	<b>158,016,954</b>	<b>145,481,928</b>
<b>Expenses:</b>		
Net losses and loss expenses	97,839,291	97,887,449
Amortization of deferred policy acquisition costs	24,826,000	22,025,000
Other underwriting expenses	25,203,442	21,546,607
Policyholder dividends	687,872	607,247
Interest	390,077	443,135
Other expenses	676,921	652,578
<b>Total expenses</b>	<b>149,623,603</b>	<b>143,162,016</b>
<b>Income before income tax expense</b>	<b>8,393,351</b>	<b>2,319,912</b>
Income tax expense (includes \$136,662 and \$691,619 income tax expense from reclassification items)	1,928,324	381,242
<b>Net income</b>	<b>\$ 6,465,027</b>	<b>\$ 1,938,670</b>
Earnings per common share:		
Class A common stock - basic	\$ 0.24	\$ 0.08
Class A common stock - diluted	\$ 0.24	\$ 0.07
Class B common stock - basic and diluted	\$ 0.21	\$ 0.07

**Donegal Group Inc. and Subsidiaries****Consolidated Statements of Comprehensive Income**

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(Unaudited)

	<b>Three Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
Net income	\$ 6,465,027	\$ 1,938,670
Other comprehensive (loss) income, net of tax		
Unrealized (loss) gain on securities:		
Unrealized holding (loss) income during the period, net of income tax (benefit) expense of (\$2,040,125) and \$2,288,044	(3,788,805)	4,307,342
Reclassification adjustment for gains included in net income, net of income tax expense of \$136,662 and \$691,619	(253,799)	(1,342,553)
Other comprehensive (loss) income	(4,042,604)	2,964,789
Comprehensive income	\$ 2,422,423	\$ 4,903,459

See accompanying notes to consolidated financial statements.



**Table of Contents****Donegal Group Inc. and Subsidiaries****Consolidated Statements of Income**

(Unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Revenues:</b>		
Net premiums earned	\$ 296,987,601	\$ 270,137,417
Investment income, net of investment expenses	10,106,349	9,230,260
Net realized investment gains (includes \$1,436,982 and \$1,945,640 accumulated other comprehensive income reclassifications)	1,436,982	1,945,640
Lease income	389,725	426,582
Installment payment fees	3,000,458	3,323,249
Equity in earnings of Donegal Financial Services Corporation	868,287	757,867
<b>Total revenues</b>	<b>312,789,402</b>	<b>285,821,015</b>
<b>Expenses:</b>		
Net losses and loss expenses	193,778,603	195,519,841
Amortization of deferred policy acquisition costs	48,836,000	43,344,000
Other underwriting expenses	49,036,506	42,005,326
Policyholder dividends	1,605,709	1,001,750
Interest	720,615	808,617
Other expenses	1,403,313	1,614,785
<b>Total expenses</b>	<b>295,380,746</b>	<b>284,294,319</b>
<b>Income before income tax expense</b>	<b>17,408,656</b>	<b>1,526,696</b>
Income tax expense (includes \$502,944 and \$661,518 income tax expense from reclassification items)	4,089,293	222,440
<b>Net income</b>	<b>\$ 13,319,363</b>	<b>\$ 1,304,256</b>
Earnings per common share:		
Class A common stock - basic	\$ 0.50	\$ 0.05
Class A common stock - diluted	\$ 0.49	\$ 0.05
Class B common stock - basic and diluted	\$ 0.45	\$ 0.04

**Donegal Group Inc. and Subsidiaries****Consolidated Statements of Comprehensive Income**

(Unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
Net income	\$ 13,319,363	\$ 1,304,256
Other comprehensive (loss) income, net of tax		
Unrealized (loss) gain on securities:		
Unrealized holding (loss) income during the period, net of income tax (benefit) expense of (\$1,604,947) and \$4,546,126	(2,980,615)	8,498,393
Reclassification adjustment for gains included in net income, net of income tax expense of \$502,944 and \$661,518	(934,038)	(1,284,122)
Other comprehensive (loss) income	(3,914,653)	7,214,271
<b>Comprehensive income</b>	<b>\$ 9,404,710</b>	<b>\$ 8,518,527</b>

See accompanying notes to consolidated financial statements.

**Table of Contents****Donegal Group Inc. and Subsidiaries****Consolidated Statement of Stockholders' Equity**

(Unaudited)

**Six Months Ended June 30, 2015**

	Class A Shares	Class B Shares	Class A Amount	Class B Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Total Stockholders' Equity
December 31,	22,389,369	5,649,240	\$ 223,894	\$ 56,492	\$ 200,348,783	\$ 5,353,269	\$ 223,253,887	\$ (13,101,682)	\$ 416,1
Issuance of stock									
Repurchase of stock	1,023,856		10,239		15,689,908				15,7
Dividends							13,319,363		13,3
Stock							(3,610,439)		(3,6
Profit on sale of stock					369,867		(369,867)		
Gain on sale of stock					419,735				4
Comprehensive								(904,675)	(9
2015	23,413,225	5,649,240	\$ 234,133	\$ 56,492	\$ 216,828,293	\$ 1,438,616	\$ 232,592,944	\$ (14,006,357)	\$ 437,1

See accompanying notes to consolidated financial statements.

**Table of Contents****Donegal Group Inc. and Subsidiaries****Consolidated Statements of Cash Flows**

(Unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 13,319,363	\$ 1,304,256
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	1,958,122	1,690,186