

DONEGAL GROUP INC
Form 10-Q
May 11, 2015
Table of Contents

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 March 31, 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: 21,952,039 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 May 1, 2015.

Table of Contents

DONEGAL GROUP INC.

INDEX TO FORM 10-Q REPORT

	Page
PART I	
<u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	1
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	24
Item 4. <u>Controls and Procedures</u>	25
Item 4T. <u>Controls and Procedures</u>	25
PART II	
<u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	26
Item 1A. <u>Risk Factors</u>	26
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	26
Item 3. <u>Defaults upon Senior Securities</u>	26
Item 4. <u>Removed and Reserved</u>	26
Item 5. <u>Other Information</u>	26
Item 6. <u>Exhibits</u>	27
<u>Signatures</u>	28

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

	March 31, 2015	December 31, 2014
	(Unaudited)	
<u>Assets</u>		
Investments		
Fixed maturities		
Held to maturity, at amortized cost	\$ 305,005,882	\$ 307,391,699
Available for sale, at fair value	460,621,748	435,149,784
Equity securities, available for sale, at fair value	31,441,616	30,822,022
Investments in affiliates	39,433,841	39,283,924
Short-term investments, at cost, which approximates fair value	15,873,206	20,293,648
Total investments	852,376,293	832,941,077
Cash	27,913,112	35,578,509
Accrued investment income	6,475,577	5,751,376
Premiums receivable	143,668,330	133,306,961
Reinsurance receivable	265,967,213	253,635,890
Deferred policy acquisition costs	50,068,460	48,298,608
Deferred tax asset, net	16,712,715	17,146,303
Prepaid reinsurance premiums	116,698,920	115,871,783
Property and equipment, net	7,475,919	7,668,340
Federal income taxes recoverable		581,477
Goodwill	5,625,354	5,625,354
Other intangible assets	958,010	958,010
Other	1,328,972	1,290,956
Total assets	\$ 1,495,268,875	\$ 1,458,654,644
<u>Liabilities and Stockholders Equity</u>		
Liabilities		
Unpaid losses and loss expenses	\$ 557,000,689	\$ 538,258,406
Unearned premiums	419,591,008	408,646,363
Accrued expenses	16,685,393	19,429,627
Reinsurance balances payable	7,742,072	7,841,172
Borrowings under lines of credit	55,000,000	53,500,000
Cash dividends declared		3,467,273
Subordinated debentures	5,000,000	5,000,000

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Accounts payable - securities	1,133,854	
Federal income taxes payable	1,152,359	
Due to affiliate	2,662,207	2,409,347
Drafts payable	1,192,613	1,950,765
Other	2,578,335	2,017,048
Total liabilities	1,069,738,530	1,042,520,001
Stockholders Equity		
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 22,509,452 and 22,389,369 shares and outstanding 21,567,744 and 21,447,661 shares	225,095	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	202,971,367	200,348,783
Accumulated other comprehensive income	5,481,220	5,353,269
Retained earnings	229,897,853	223,253,887
Treasury stock	(13,101,682)	(13,101,682)
Total stockholders equity	425,530,345	416,134,643
Total liabilities and stockholders equity	\$ 1,495,268,875	\$ 1,458,654,644

See accompanying notes to consolidated financial statements.

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

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Revenues:		
Net premiums earned	\$ 146,529,816	\$ 133,548,261
Investment income, net of investment expenses	4,948,953	4,615,776
Net realized investment gains (losses) (includes \$1,046,521 and (\$88,532) accumulated other comprehensive income (loss) reclassifications)	1,046,521	(88,532)
Lease income	200,073	212,790
Installment payment fees	1,520,325	1,641,550
Equity in earnings of Donegal Financial Services Corporation	526,760	409,242
Total revenues	154,772,448	140,339,087
Expenses:		
Net losses and loss expenses	95,939,312	97,632,392
Amortization of deferred policy acquisition costs	24,010,000	21,319,000
Other underwriting expenses	23,833,064	20,458,719
Policyholder dividends	917,837	394,503
Interest	330,538	365,482
Other expenses	726,392	962,207
Total expenses	145,757,143	141,132,303
Income (loss) before income tax expense (benefit)	9,015,305	(793,216)
Income tax expense (benefit) (includes \$366,282 and (\$30,101) income tax expense (benefit) from reclassification items)	2,160,969	(158,802)
Net income (loss)	\$ 6,854,336	\$ (634,414)
Earnings (loss) per common share:		
Class A common stock - basic	\$ 0.26	\$ (0.02)
Class A common stock - diluted	\$ 0.25	\$ (0.02)
Class B common stock - basic and diluted	\$ 0.23	\$ (0.02)

See accompanying notes to consolidated financial statements.

Table of Contents

Donegal Group Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net income (loss)	\$ 6,854,336	\$ (634,414)
Other comprehensive gain, net of tax		
Unrealized gain on securities:		
Unrealized holding income during the period, net of income tax expense of \$435,178 and \$2,258,082	808,190	4,191,051
Reclassification adjustment for (gains) losses included in net income, net of income tax expense (benefit) of \$366,282 and (\$30,101)	(680,239)	58,431
Other comprehensive income	127,951	4,249,482
Comprehensive income	\$ 6,982,287	\$ 3,615,068

See accompanying notes to consolidated financial statements.

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

(Unaudited)

Three Months Ended March 31, 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
Balance, March 31, 2014	22,389,369	5,649,240	\$ 223,894	\$ 56,492	\$ 200,348,783	\$ 5,353,269	\$ 223,253,887	\$ (13,101,682)	\$ 416,134,773
Issuance of common stock									
Share repurchase									
Share-based compensation	120,083		1,201		2,351,182				2,352,586
Net income							6,854,336		6,854,336
Dividends paid							(10,218)		(10,218)
Issuance of stock options					200,152		(200,152)		
Benefit on exercise of options					71,250				71,250
Accumulated other comprehensive income						127,951			127,951
Balance, March 31, 2015	22,509,452	5,649,240	\$ 225,095	\$ 56,492	\$ 202,971,367	\$ 5,481,220	\$ 229,897,853	\$ (13,101,682)	\$ 425,530,852

See accompanying notes to consolidated financial statements.

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

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Cash Flows from Operating Activities:		
Net income (loss)	\$ 6,854,336	\$ (634,414)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,099,355	793,240
Net realized investment (gains) losses	(1,046,521)	88,532
Equity in earnings of Donegal Financial Services Corporation	(526,760)	(409,242)
Changes in assets and liabilities:		
Losses and loss expenses	18,742,283	14,503,090
Unearned premiums	10,944,645	15,062,954
Premiums receivable	(10,361,369)	(9,438,265)
Deferred acquisition costs	(1,769,852)	(1,779,873)
Deferred income taxes	364,693	136,054
Reinsurance receivable	(12,331,323)	(7,840,714)
Prepaid reinsurance premiums	(827,137)	(4,029,194)
Accrued investment income	(724,201)	(1,074,592)
Due to affiliate	252,860	(508,059)
Reinsurance balances payable	(99,100)	(5,438,306)
Current income taxes	1,733,836	(311,031)
Accrued expenses	(2,744,234)	(4,643,285)
Other, net	(234,881)	234,873
Net adjustments	2,472,294	(4,653,818)
Net cash provided by (used in) operating activities	9,326,630	(5,288,232)
Cash Flows from Investing Activities:		
Purchases of fixed maturities, held to maturity	(5,206,151)	(69,863,688)
Purchases of fixed maturities, available for sale	(61,903,285)	(34,438,401)
Purchases of equity securities, available for sale	(2,902,385)	(10,837,100)
Maturity of fixed maturities:		
Held to maturity	7,419,966	13,941,822
Available for sale	17,529,168	9,197,730
Sales of fixed maturities, available for sale	19,916,071	1,235,464
Sales of equity securities, available for sale	2,666,225	2,329,866
Net purchases of property and equipment	(21,805)	(832,686)

Net decrease in investment in affiliates	675,100	
Net sales of short-term investments	4,420,442	83,310,206
Net cash used in investing activities	(17,406,654)	(5,956,787)
Cash Flows from Financing Activities:		
Cash dividends paid	(3,477,491)	(3,302,286)
Issuance of common stock	2,392,118	1,075,959
Purchase of treasury stock		(12,026)
Borrowings under lines of credit	1,500,000	3,000,000
Net cash provided by financing activities	414,627	761,647
Net decrease in cash	(7,665,397)	(10,483,372)
Cash at beginning of period	35,578,509	27,636,416
Cash at end of period	\$ 27,913,112	\$ 17,153,044
Cash paid during period - Interest	\$ 265,366	\$ 299,614
Net cash paid during period - Taxes	\$	\$

See accompanying notes to consolidated financial statements.

Table of Contents

DONEGAL GROUP INC. AND SUBSIDIARIES

(Unaudited)

Notes to Consolidated Financial Statements