

DONEGAL GROUP INC
Form 10-Q
November 07, 2016
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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 September 30, 2016

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: 21,231,379 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 October 31, 2016.

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

	September 30, 2016	December 31, 2015
	(Unaudited)	
<u>Assets</u>		
Investments		
Fixed maturities		
Held to maturity, at amortized cost	\$ 332,272,969	\$ 310,258,704
Available for sale, at fair value	515,821,393	501,393,559
Equity securities, available for sale, at fair value	46,311,943	37,260,821
Investment in affiliate	40,145,067	38,476,708
Short-term investments, at cost, which approximates fair value	9,251,153	13,432,482
Total investments	943,802,525	900,822,274
Cash	32,130,534	28,139,144
Accrued investment income	6,817,760	5,991,197
Premiums receivable	165,761,900	141,267,411
Reinsurance receivable	259,428,626	259,728,113
Deferred policy acquisition costs	57,404,289	52,108,388
Deferred tax asset, net	14,721,101	19,443,807
Prepaid reinsurance premiums	127,431,503	113,522,505
Property and equipment, net	6,705,671	7,027,143
Federal income taxes receivable	1,823,273	1,487,656
Goodwill	5,625,354	5,625,354
Other intangible assets	958,010	958,010
Other	1,453,864	1,713,413
Total assets	\$ 1,624,064,410	\$ 1,537,834,415
<u>Liabilities and Stockholders Equity</u>		
Liabilities		
Unpaid losses and loss expenses	\$ 594,267,943	\$ 578,205,109
Unearned premiums	476,432,783	429,493,203
Accrued expenses	21,067,170	22,460,475
Reinsurance balances payable	3,058,225	3,480,406
Borrowings under lines of credit	74,000,000	81,000,000
Cash dividends declared		3,511,881
Subordinated debentures	5,000,000	5,000,000

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Accounts payable - securities	540,311	582,560
Due to affiliate	3,978,958	3,557,177
Other	1,710,209	2,155,036
Total liabilities	1,180,055,599	1,129,445,847
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 24,189,133 and 23,501,805 shares and outstanding 21,186,545 and 20,499,217 shares	241,892	235,018
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	231,885,764	219,525,301
Accumulated other comprehensive income	6,340,292	773,744
Retained earnings	246,710,728	229,024,370
Treasury stock, at cost	(41,226,357)	(41,226,357)
Total stockholders equity	444,008,811	408,388,568
Total liabilities and stockholders equity	\$ 1,624,064,410	\$ 1,537,834,415

See accompanying notes to consolidated financial statements.

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

(Unaudited)

	Three Months Ended September 30,	
	2016	2015
Revenues:		
Net premiums earned	\$ 166,809,851	\$ 153,096,075
Investment income, net of investment expenses	5,581,238	5,399,080
Net realized investment gains (losses) (includes \$1,018,415 and (\$754,050) accumulated other comprehensive income (loss) reclassifications)	1,018,415	(754,050)
Lease income	163,779	178,827
Installment payment fees	1,380,024	1,473,447
Equity in earnings of Donegal Financial Services Corporation	357,956	408,405
Total revenues	175,311,263	159,801,784
Expenses:		
Net losses and loss expenses	111,174,963	102,233,708
Amortization of deferred policy acquisition costs	27,524,000	25,036,000
Other underwriting expenses	28,340,135	24,155,566
Policyholder dividends	1,143,026	886,210
Interest	473,917	188,000
Other expenses	226,183	301,367
Total expenses	168,882,224	152,800,851
Income before income tax expense	6,429,039	7,000,933
Income tax expense (includes \$356,446 and (\$263,918) income tax expense (benefit) from reclassification items)	1,615,635	1,314,102
Net income	\$ 4,813,404	\$ 5,686,831
Earnings per common share:		
Class A common stock - basic	\$ 0.19	\$ 0.21
Class A common stock - diluted	\$ 0.18	\$ 0.21
Class B common stock - basic and diluted	\$ 0.16	\$ 0.18

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

(Unaudited)

	Three Months Ended September 30,	
	2016	2015
Net income	\$ 4,813,404	\$ 5,686,831
Other comprehensive (loss) income, net of tax		
Unrealized (loss) gain on securities:		
Unrealized holding (loss) gain during the period, net of income tax (benefit) expense of (\$595,724) and 463,221	(1,106,346)	860,268
Reclassification adjustment for (gains) losses included in net income, net of income tax expense (benefit) of \$356,446 and (\$263,918)	(661,969)	490,132
Other comprehensive (loss) income	(1,768,315)	1,350,400
Comprehensive income	\$ 3,045,089	\$ 7,037,231

See accompanying notes to consolidated financial statements.

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

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Revenues:		
Net premiums earned	\$ 487,227,767	\$ 450,083,676
Investment income, net of investment expenses	16,471,630	15,505,429
Net realized investment gains (includes \$2,204,533 and \$682,932 accumulated other comprehensive income reclassifications)	2,204,533	682,932
Lease income	514,768	568,552
Installment payment fees	4,109,550	4,473,905
Equity in earnings of Donegal Financial Services Corporation	698,658	1,276,692
Total revenues	511,226,906	472,591,186
Expenses:		
Net losses and loss expenses	309,946,943	296,012,311
Amortization of deferred policy acquisition costs	80,034,000	73,872,000
Other underwriting expenses	81,557,159	73,192,072
Policyholder dividends	2,729,595	2,491,919
Interest	1,286,279	908,615
Other expenses	1,179,660	1,704,680
Total expenses	476,733,636	448,181,597
Income before income tax expense	34,493,270	24,409,589
Income tax expense (includes \$771,587 and \$239,026 income tax expense from reclassification items)	9,246,299	5,403,395
Net income	\$ 25,246,971	\$ 19,006,194
Earnings per common share:		
Class A common stock - basic	\$ 0.98	\$ 0.71
Class A common stock - diluted	\$ 0.95	\$ 0.69
Class B common stock - basic and diluted	\$ 0.88	\$ 0.63

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

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Net income	\$ 25,246,971	\$ 19,006,194
Other comprehensive income (loss), net of tax		
Unrealized gain (loss) on securities:		
Unrealized holding gain (loss) during the period, net of income tax expense (benefit) of \$3,768,959 and (\$1,141,726)	6,999,494	(2,120,347)
Reclassification adjustment for gains included in net income, net of income tax expense of \$771,587 and \$239,026	(1,432,946)	(443,906)
Other comprehensive income (loss)	5,566,548	(2,564,253)
Comprehensive income	\$ 30,813,519	\$ 16,441,941

See accompanying notes to consolidated financial statements.

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

(Unaudited)

Nine Months Ended September 30, 2016

	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, September 30, 2015	23,501,805	5,649,240	\$ 235,018	\$ 56,492	\$ 219,525,301	\$ 773,744	\$ 229,024,370	\$ (41,226,357)	\$ 408,388,813
Issuance of common stock	104,271		1,043		1,389,022				1,391,316
Share-based compensation	583,057		5,831		10,396,351				10,402,019
Net income							25,246,971		25,246,971
Dividends paid							(6,985,523)		(6,985,523)
Repurchase of stock					575,090		(575,090)		
Change in comprehensive income						5,566,548			5,566,548
Balance, September 30, 2016	24,189,133	5,649,240	\$ 241,892	\$ 56,492	\$ 231,885,764	\$ 6,340,292	\$ 246,710,728	\$ (41,226,357)	\$ 444,008,813