

DONEGAL GROUP INC  
Form 10-Q  
November 09, 2018  
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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, 2018**

**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**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**23-2424711**  
**(I.R.S. Employer**  
**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 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, a smaller reporting company or an emerging growth company. See definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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: 22,788,003 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, 2018.

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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>September 30, 2018</b>	<b>December 31, 2017</b>
	(Unaudited)	
<b><u>Assets</u></b>		
Investments		
Fixed maturities		
Held to maturity, at amortized cost	\$ 400,233,054	\$ 366,655,077
Available for sale, at fair value	525,027,434	538,946,050
Equity securities, at fair value	57,972,976	50,445,243
Investment in affiliate	39,960,649	38,773,420
Short-term investments, at cost, which approximates fair value	5,096,047	11,049,915
Total investments	1,028,290,160	1,005,869,705
Cash	55,258,656	37,833,435
Accrued investment income	7,166,660	6,553,121
Premiums receivable	160,318,764	160,406,432
Reinsurance receivable	322,467,746	298,342,563
Deferred policy acquisition costs	64,566,885	60,289,860
Deferred tax asset, net	10,059,549	7,128,843
Prepaid reinsurance premiums	141,536,708	135,032,641
Property and equipment, net	4,825,788	7,280,415
Accounts receivable securities	1,101,615	180,525
Federal income taxes receivable	19,595,519	10,935,105
Goodwill	5,625,354	5,625,354
Other intangible assets	958,010	958,010
Other	2,475,943	1,483,769
Total assets	\$ 1,824,247,357	\$ 1,737,919,778
<b><u>Liabilities and Stockholders Equity</u></b>		
<b><u>Liabilities</u></b>		
Unpaid losses and loss expenses	\$ 779,979,677	\$ 676,671,727
Unearned premiums	530,543,671	503,456,541
Accrued expenses	24,381,505	28,033,776
Reinsurance balances payable	3,191,746	4,116,159
Borrowings under lines of credit	60,000,000	59,000,000
Cash dividends declared to stockholders		3,841,820

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Subordinated debentures	5,000,000	5,000,000
Due to affiliate	3,737,282	7,314,368
Other	1,873,448	1,789,283
<b>Total liabilities</b>	<b>1,408,707,329</b>	<b>1,289,223,674</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 25,733,219 and 25,564,481 shares and outstanding 22,730,631 and 22,561,893 shares	257,333	255,645
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	259,667,062	255,401,558
Accumulated other comprehensive loss	(18,943,910)	(2,684,275)
Retained earnings	215,729,408	236,893,041
Treasury stock, at cost	(41,226,357)	(41,226,357)
<b>Total stockholders equity</b>	<b>415,540,028</b>	<b>448,696,104</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 1,824,247,357</b>	<b>\$ 1,737,919,778</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 September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Revenues:</b>		
Net premiums earned	\$ 187,661,705	\$ 177,283,816
Investment income, net of investment expenses	6,620,491	5,979,834
Net realized investment gains (includes (\$20,512) and \$561,429 accumulated other comprehensive income reclassifications)	3,463,504	561,429
Lease income	119,934	113,409
Installment payment fees	1,305,778	1,373,892
Equity in earnings of Donegal Financial Services Corporation	732,768	403,647
<b>Total revenues</b>	<b>199,904,180</b>	<b>185,716,027</b>
<b>Expenses:</b>		
Net losses and loss expenses	140,726,106	114,386,379
Amortization of deferred policy acquisition costs	31,110,000	29,008,000
Other underwriting expenses	24,528,860	31,790,251
Policyholder dividends	1,050,200	1,376,115
Interest	651,768	466,262
Other expenses, net	560,260	176,970
<b>Total expenses</b>	<b>198,627,194</b>	<b>177,203,977</b>
<b>Income before income tax expense</b>	<b>1,276,986</b>	<b>8,512,050</b>
Income tax expense (includes (\$4,308) and \$196,500 income tax (benefit) expense from reclassification items)	70,630	1,403,476
<b>Net income</b>	<b>\$ 1,206,356</b>	<b>\$ 7,108,574</b>
Income per common share:		
Class A common stock basic	\$ 0.04	\$ 0.27
Class A common stock diluted	\$ 0.04	\$ 0.26
Class B common stock basic and diluted	\$ 0.04	\$ 0.24

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

(Unaudited)

	<b>Three Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Net income	\$ 1,206,356	\$ 7,108,574
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 (\$609,572) and \$561,247	(2,293,154)	1,042,317
Reclassification adjustment for losses (gains) included in net income, net of income tax (benefit) expense of (\$4,308) and \$196,500	16,204	(364,929)
Other comprehensive (loss) income	(2,276,950)	677,388
Comprehensive (loss) income	\$ (1,070,594)	\$ 7,785,962



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

(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Revenues:</b>		
Net premiums earned	\$ 555,140,395	\$ 521,454,835
Investment income, net of investment expenses	19,341,012	17,385,103
Net realized investment gains (includes (\$52,828) and \$4,207,710 accumulated other comprehensive income reclassifications)	4,062,475	4,207,710
Lease income	365,930	383,183
Installment payment fees	3,959,936	3,813,663
Equity in earnings of Donegal Financial Services Corporation	2,152,738	1,023,212
<b>Total revenues</b>	<b>585,022,486</b>	<b>548,267,706</b>
<b>Expenses:</b>		
Net losses and loss expenses	433,063,019	356,825,751
Amortization of deferred policy acquisition costs	91,354,000	85,391,000
Other underwriting expenses	82,343,932	88,538,755
Policyholder dividends	3,565,971	3,422,672
Interest	1,682,200	1,212,895
Other expenses, net	1,604,595	1,036,223
<b>Total expenses</b>	<b>613,613,717</b>	<b>536,427,296</b>
(Loss) income before income tax (benefit) expense	(28,591,231)	11,840,410
Income tax (benefit) expense (includes (\$11,094) and \$1,472,698 income tax (benefit) expense from reclassification items)	(10,829,654)	1,945,666
<b>Net (loss) income</b>	<b>\$ (17,761,577)</b>	<b>\$ 9,894,744</b>
(Loss) earnings per common share:		
Class A common stock basic	\$ (0.64)	\$ 0.37
Class A common stock diluted	\$ (0.64)	\$ 0.36
Class B common stock basic and diluted	\$ (0.59)	\$ 0.33

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

(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Net (loss) income	\$ (17,761,577)	\$ 9,894,744
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 (\$3,025,784) and \$2,215,869	(11,382,714)	4,115,189
Reclassification adjustment for losses (gains) included in net (loss) income, net of income tax (benefit) expense of (\$11,094) and \$1,472,698	41,734	(2,735,012)
Other comprehensive (loss) income	(11,340,980)	1,380,177
<b>Comprehensive (loss) income</b>	<b>\$ (29,102,557)</b>	<b>\$ 11,274,921</b>

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, 2018**

	<b>Class A Shares</b>	<b>Class B Shares</b>	<b>Class A Amount</b>	<b>Class B Amount</b>	<b>Additional Paid-In Capital</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Retained Earnings</b>	<b>Treasury Stock</b>	<b>Total Stockholders' Equity</b>
Balance, September 30, 2017	25,564,481	5,649,240	\$ 255,645	\$ 56,492	\$ 255,401,558	\$ (2,684,275)	\$ 236,893,041	\$ (41,226,357)	\$ 448,696,000
Issuance of common stock	120,394		1,204		1,703,806				1,705,204
Share-based compensation	48,344		484		2,113,728				2,114,516
Dividend loss							(17,761,577)		(17,761,577)
Dividends paid							(7,872,741)		(7,872,741)
Repurchase of stock									
Share repurchases					447,970		(447,970)		
Classification of equity									
Realized gains									