

DONEGAL GROUP INC
Form 10-Q
August 07, 2012
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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, 2012

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)

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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 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: 20,059,385 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, 2012.

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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**

	June 30, 2012 (Unaudited)	December 31, 2011
<u>Assets</u>		
Investments		
Fixed maturities		
Held to maturity, at amortized cost	\$ 49,448,966	\$ 58,489,619
Available for sale, at fair value	665,847,829	646,598,178
Equity securities, available for sale, at fair value	2,950,617	7,437,538
Investments in affiliates	34,594,028	32,322,246
Short-term investments, at cost, which approximates fair value	41,088,503	40,461,410
Total investments	793,929,943	785,308,991
Cash	18,037,133	13,245,378
Accrued investment income	6,406,209	6,713,038
Premiums receivable	118,158,334	104,715,327
Reinsurance receivable	209,598,422	209,823,907
Deferred policy acquisition costs	39,635,087	36,424,955
Deferred tax asset, net	7,094,275	9,919,720
Prepaid reinsurance premiums	114,170,422	106,450,018
Property and equipment, net	5,686,845	6,154,383
Accounts receivable - securities	641,925	1,507,500
Federal income taxes recoverable	4,093,731	2,661,808
Due from affiliate	1,308,463	
Goodwill	5,625,354	5,625,354
Other intangible assets	958,010	958,010
Other	1,307,524	1,285,089
Total assets	\$ 1,326,651,677	\$ 1,290,793,478
<u>Liabilities and Stockholders' Equity</u>		
Liabilities		
Unpaid losses and loss expenses	\$ 448,779,688	\$ 442,407,615
Unearned premiums	364,853,741	336,937,261
Accrued expenses	17,207,809	20,956,549
Reinsurance balances payable	17,042,324	20,039,339
Borrowings under line of credit	54,905,499	54,500,000
Cash dividends declared to stockholders		2,996,076
Subordinated debentures	20,465,000	20,465,000
Accounts payable - securities	6,334,969	
Due to affiliate		5,386,391
Drafts payable	1,640,718	1,548,953
Other	1,843,221	2,104,702
Total liabilities	933,072,969	907,341,886

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Stockholders' Equity

Preferred stock, \$1.00 par value, authorized 2,000,000 shares; none issued		
Class A common stock, \$.01 par value, authorized 30,000,000 shares, issued 20,867,676 and 20,752,999 shares and outstanding 20,040,354 and 19,971,441 shares	208,677	207,530
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	172,664,412	170,836,943
Accumulated other comprehensive income	23,785,808	23,533,447
Retained earnings	208,332,800	199,604,700
Treasury stock	(11,469,481)	(10,787,520)
Total stockholders' equity	393,578,708	383,451,592
Total liabilities and stockholders' equity	\$ 1,326,651,677	\$ 1,290,793,478

See accompanying notes to consolidated financial statements.

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

(Unaudited)

	Three Months Ended June 30,	
	2012	2011
Revenues:		
Net premiums earned	\$ 117,569,122	\$ 104,991,401
Investment income, net of investment expenses	4,919,288	5,420,992
Net realized investment gains	1,528,333	4,316,021
Lease income	244,606	234,861
Installment payment fees	1,927,585	1,872,672
Equity in earnings of Donegal Financial Services Corporation	1,110,256	218,551
Total revenues	127,299,190	117,054,498
Expenses:		
Net losses and loss expenses	86,385,353	84,195,796
Amortization of deferred policy acquisition costs	18,235,000	16,628,000
Other underwriting expenses	19,239,744	17,092,478
Policyholder dividends	109,160	98,915
Interest	630,455	558,842
Other expenses	584,396	552,066
Total expenses	125,184,108	119,126,097
Income (loss) before income tax expense (benefit)	2,115,082	(2,071,599)
Income tax expense (benefit)	92,015	(377,610)
Net income (loss)	\$ 2,023,067	\$ (1,693,989)
Earnings (loss) per common share:		
Class A common stock - basic and diluted	\$ 0.08	\$ (0.07)
Class B common stock - basic and diluted	\$ 0.07	\$ (0.06)

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

(Unaudited)

	Three Months Ended June 30,	
	2012	2011
Net income (loss)	\$ 2,023,067	\$ (1,693,989)
Other comprehensive income, net of tax		
Unrealized gain on securities:		
Unrealized holding income during the period, net of income tax of \$2,198,375 and \$4,075,744	4,126,365	7,692,542
	(1,008,700)	(2,848,574)

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Reclassification adjustment for gains included in net income (loss), net of income tax of \$519,633 and \$1,467,447

Other comprehensive income	3,117,665	4,843,968
Comprehensive income	\$ 5,140,732	\$ 3,149,979

See accompanying notes to consolidated financial statements.

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

(Unaudited)

	Six Months Ended June 30,	
	2012	2011
Revenues:		
Net premiums earned	\$ 232,260,913	\$ 208,786,680
Investment income, net of investment expenses	10,009,010	10,651,136
Net realized investment gains	3,838,313	4,689,094
Lease income	491,971	466,543
Installment payment fees	3,762,370	3,706,536
Equity in earnings of Donegal Financial Services Corporation	2,284,775	337,951
Total revenues	252,647,352	228,637,940
Expenses:		
Net losses and loss expenses	162,994,572	157,275,361
Amortization of deferred policy acquisition costs	36,116,000	33,620,000
Other underwriting expenses	38,486,563	34,539,390
Policyholder dividends	398,484	305,929
Interest	1,200,999	1,002,312
Other expenses	1,487,918	1,370,412
Total expenses	240,684,536	228,113,404
Income before income tax expense	11,962,816	524,536
Income tax expense	1,929,602	12,589
Net income	\$ 10,033,214	\$ 511,947
Earnings per common share:		
Class A common stock - basic	\$ 0.40	\$ 0.02
Class A common stock - diluted	\$ 0.39	\$ 0.02
Class B common stock - basic and diluted	\$ 0.36	\$ 0.02

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

(Unaudited)

	Six Months Ended June 30,	
	2012	2011
Net income	\$ 10,033,214	\$ 511,947
Other comprehensive income, net of tax		

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Unrealized gain on securities:		
Unrealized holding income during the period, net of income tax of \$2,401,239 and \$4,318,234	4,569,105	8,153,543
Reclassification adjustment for gains included in net income, net of income tax of \$1,305,026 and \$1,594,292	(2,533,287)	(3,094,802)
Other comprehensive income	2,035,818	5,058,741
Comprehensive income	\$ 12,069,032	\$ 5,570,688

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, 2012

	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, December 31, 2011	20,752,999	5,649,240	\$ 207,530	\$ 56,492	\$ 170,836,943	\$ 23,533,447	\$ 199,604,700	\$ (10,787,520)	\$ 383,451,592
Issuance of common stock (stock compensation plans)	114,677		1,147		1,770,415				1,771,562
Net income							10,033,214		10,033,214
Cash dividends declared							(3,070,559)		(3,070,559)
Grant of stock options					18,012		(18,012)		
Tax benefit on exercise of stock options					39,042				39,042
Repurchase of treasury stock								(681,961)	(681,961)
Other comprehensive income						2,035,818			2,035,818
Other						(1,783,457)	1,783,457		
Balance, June 30, 2012	20,867,676	5,649,240	\$ 208,677	\$ 56,492	\$ 172,664,412	\$ 23,785,808	\$ 208,332,800	\$ (11,469,481)	\$ 393,578,708

See accompanying notes to consolidated financial statements.

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

(Unaudited)

	Six Months Ended June 30,	
	2012	2011
Cash Flows from Operating Activities:		
Net income	\$ 10,033,214	\$ 511,947
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,206,268	1,925,467
Net realized investment gains	(3,838,313)	(4,689,094)
Equity in earnings of Donegal Financial Services Corporation	(2,284,775)	(337,951)
Changes in assets and liabilities:		
Losses and loss expenses	6,372,073	19,423,230
Unearned premiums	27,916,480	38,365,576
Premiums receivable	(13,443,007)	(10,632,371)
Deferred acquisition costs	(3,210,132)	(1,914,685)
Deferred income taxes	1,729,232	(1,251,607)
Reinsurance receivable	225,485	(16,138,989)
Prepaid reinsurance premiums	(7,720,404)	(17,016,539)
Accrued investment income	306,829	326,491
Due to affiliate	(6,694,854)	(284,289)
Reinsurance balances payable	(2,997,015)	1,940,914
Current income taxes	(1,431,923)	28,099
Accrued expenses	(3,748,740)	144,152
Other, net	(192,153)	(894,038)
Net adjustments	(6,804,949)	8,994,366
Net cash provided by operating activities	3,228,265	9,506,313
Cash Flows from Investing Activities:		
Purchases of fixed maturities, available for sale	(108,961,804)	(71,799,322)
Purchases of equity securities, available for sale	(2,778,594)	(14,261,819)
Maturity of fixed maturities:		
Held to maturity	8,871,191	1,709,495
Available for sale	59,262,963	26,504,947
Sales of fixed maturities, available for sale	43,190,385	32,233,706
Sales of equity securities, available for sale	7,160,201	11,007,627
Purchase of Michigan Insurance Company		(7,207,471)
Net purchases of property and equipment	(21,266)	
Net increase in investment in affiliates		(20,570,000)
Net (purchases) sales of short-term investments	(627,093)	7,215,751
Net cash provided by (used in) investing activities	6,095,983	(35,167,086)
Cash Flows from Financing Activities:		
Cash dividends paid	(6,066,635)	(5,877,789)
Issuance of common stock	1,810,604	675,631
Purchase of treasury stock	(681,961)	(674,505)
Payments on line of credit		(3,617,371)

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Borrowings under line of credit	405,499	22,500,000
Net cash (used in) provided by financing activities	(4,532,493)	13,005,966
Net increase (decrease) in cash	4,791,755	(12,654,807)
Cash at beginning of period	13,245,378	16,342,212
Cash at end of period	\$ 18,037,133	\$ 3,687,405
Cash paid during period - Interest	\$ 1,081,482	\$ 788,976
Net cash paid (received) during period - Taxes	\$ 1,626,965	\$ (1,110,000)

See accompanying notes to consolidated financial statements.

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DONEGAL GROUP INC. AND SUBSIDIARIES

(Unaudited)

Notes to Consolidated Financial Statements

1 - Organization

Donegal Mutual Insurance Company (Donegal Mutual) organized us as an insurance holding company on August 26, 1986. Our insurance subsidiaries, Atlantic States Insurance Company (Atlantic States), Southern Insurance Company of Virginia (Southern), Le Mars Insurance Company (Le Mars), the Peninsula Insurance Group (Peninsula), which consists of Peninsula Indemnity Company and The Peninsula Insurance Company, Sheboygan Falls Insurance Company (Sheboygan) and Michigan Insurance Company (MICO), write personal and commercial lines of property and casualty insurance exclusively through a network of independent insurance agents in certain Mid-Atlantic, Midwestern, New England and Southern states. We have three operating segments: our investment function, our personal lines of insurance and our commercial lines of insurance. The personal lines products of our insurance subsidiaries consist primarily of homeowners and private passenger automobile policies. The commercial lines products of our insurance subsidiaries consist primarily of commercial automobile, commercial multi-peril and workers' compensation policies. We also own 48.2% of the outstanding stock of Donegal Financial Services Corporation (DFSC), a grandfathered unitary savings and loan holding company that owns Union Community Bank FSB (UCB). Donegal Mutual owns the remaining 51.8% of the outstanding stock of DFSC.

At June 30, 2012, Donegal Mutual held approximately 39% of our outstanding Class A common stock and approximately 75% of our outstanding Class B common stock. This ownership provides Donegal Mutual with approximately two-thirds of the total voting power of our outstanding common stock. Our insurance subsidiaries and Donegal Mutual have interrelated operations. While each company maintains its separate corporate existence, our insurance subsidiaries and Donegal Mutual conduct business together as the Donegal Insurance Group. As such, Donegal Mutual and our insurance subsidiaries share the same business philosophy, the same management, the same employees and the same facilities and offer the same types of insurance products.

Atlantic States, our largest subsidiary, participates in a pooling agreement with Donegal Mutual. Under the pooling agreement, the two companies pool their insurance business, and each company receives an allocated percentage of the pooled business. Atlantic States has an 80% share of the results of the pooled business, and Donegal Mutual has a 20% share of the results of the pooled business.

On February 23, 2009, our board of directors authorized a share repurchase program pursuant to which we may purchase up to 300,000 shares of our Class A common stock at prices prevailing from time to time in the open market subject to the provisions of applicable rules of the Securities and Exchange Commission (SEC) and in privately negotiated transactions. We purchased 45,764 and 50,058 shares of our Class A common stock under this program during the six months ended June 30, 2012 and 2011, respectively. We have purchased a total of 182,392 shares of our Class A common stock under this program from its inception through June 30, 2012.

2 - Basis of Presentation

Our financial information for the interim periods included in this Form 10-Q Report is unaudited; however, such information reflects all adjustments, consisting only of normal recurring adjustments that, in the opinion of our management, are necessary for a fair presentation of our financial position, results of operations and cash flows for those interim periods. Our results of operations for the six months ended June 30, 2012 are not necessarily indicative of the results of operations we expect for the year ending December 31, 2012.

You should read these interim financial statements in conjunction with the financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2011.

During the second quarter of 2012, we recorded an entry that reduced Accumulated Other Comprehensive Income and increased Retained Earnings by \$1.8 million to correct an immaterial error related to prior years.

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We have two classes of common stock, which we refer to as our Class A common stock and our Class B common stock. Our certificate of incorporation provides that whenever our board of directors declares a dividend on our Class B common stock, our board of directors must also declare a dividend on our Class A common stock that is payable at the same time to holders as of the same record date at a rate that is at least 10% greater than the rate at which our board of directors declared a dividend on our Class B common stock. Accordingly, we use the two-class method to compute our earnings per common share. The two-class method is an earnings allocation formula that determines earnings per share separately for each class of common stock based on dividends we have declared and an allocation of our remaining undistributed earnings using a participation percentage that reflects the dividend rights of each class. The table below presents for the periods indicated a reconciliation of the numerators and denominators we used to compute basic and diluted net income per share for each class of our common stock:

		2012	Three Months Ended June 30,		2011
	Class A		Class B	Class A	Class B
			(in thousands, except per share data)		
Basic and diluted net income (loss) per share:					
Numerator:					
Allocation of net income (loss)	\$	1,621	\$	(1,344)	\$ (350)
Denominator:					
Weighted-average shares outstanding		20,041,887		20,026,238	5,576,775
Basic net income (loss) per share	\$	0.08	\$	(0.07)	\$ (0.06)
Diluted net income (loss) per share:					
Numerator:					
Allocation of net income (loss)	\$	1,621	\$	(1,344)	\$ (350)
Denominator:					
Number of shares used in basic computation		20,041,887		20,026,238	5,576,775
Weighted-average shares effect of dilutive securities					
Add: Director and employee stock options		297,501			
Number of shares used in per share computations		20,339,388		20,026,238	5,576,775
Diluted net (loss) income per share	\$	0.08	\$	(0.07)	\$ (0.06)

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	Six Months Ended June 30,			
	2012			2011
	Class A	Class B	Class A	Class B
	(in thousands, except per share data)			
Basic and diluted net income per share:				
Numerator:				
Allocation of net income	\$ 8,013	\$ 2,020	\$ 417	\$ 95
Denominator:				
Weighted-average shares outstanding	20,019,086	5,576,775	20,019,481	5,576,775
Basic net income per share	\$ 0.40	\$ 0.36	\$ 0.02	\$ 0.02
Diluted net income per share:				
Numerator:				
Allocation of net income	\$ 8,013	\$ 2,020	\$ 417	\$ 95
Denominator:				
Number of shares used in basic computation	20,019,086	5,576,775	20,019,481	5,576,775
Weighted-average shares effect of dilutive securities				
Add: Director and employee stock options	331,169			
Number of shares used in per share computations	20,350,255	5,576,775	20,019,481	5,576,775
Diluted net income per share	\$ 0.39	\$ 0.36	\$ 0.02	\$ 0.02

We did not include outstanding options to purchase the following number of shares of Class A common stock in our computation of diluted earnings per share because the exercise price of the options was greater than the average market price of our Class A common stock during the period:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Number of shares excluded	1,229,500	4,021,667	1,226,500	4,021,667

4 - Reinsurance

Atlantic States and Donegal Mutual have participated in a pooling agreement since 1986 under which each company places all of its direct written business into the pool, and Atlantic States and Donegal Mutual then share the underwriting results of the pool in accordance with the terms of the pooling agreement. Atlantic States has an 80% share of the results of the pool, and Donegal Mutual has a 20% share of the results of the pool.

Our insurance subsidiaries and Donegal Mutual purchase certain third-party reinsurance on a combined basis. Le Mars, MICO, Peninsula and Sheboygan also purchase separate third-party reinsurance that provides coverage that is commensurate with their relative size and exposures. Our insurance subsidiaries use several different reinsurers, all of which, consistent with requirements of our insurance subsidiaries and Donegal Mutual, have an A.M. Best rating of A- (Excellent) or better or, with respect to foreign reinsurers, have a financial condition that, in the opinion of our management, is equivalent to a company with at least an A- rating from A.M. Best. The following information describes the external reinsurance our insurance subsidiaries have in place at June 30, 2012:

excess of loss reinsurance, under which losses are automatically reinsured, through a series of reinsurance agreements, over a set retention (generally \$1.0 million), and

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catastrophe reinsurance, under which Donegal Mutual, Atlantic States and Southern recover, through a series of reinsurance agreements, 90% to 100% of an accumulation of many losses resulting from a single event, including natural disasters, over a set retention (generally \$5.0 million).

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Through June 7, 2012, our insurance subsidiaries and Donegal Mutual had property catastrophe coverage through a series of layered treaties up to aggregate losses of \$130.0 million per occurrence over the set retention. From and after June 8, 2012, our insurance subsidiaries and Donegal Mutual increased their coverage to \$145.0 million per occurrence over the set retention.

Our insurance subsidiaries and Donegal Mutual also purchase facultative reinsurance to cover exposures from losses that exceed the limits provided by their third-party reinsurance agreements.

MICO maintains a quota-share reinsurance agreement with third-party reinsurers to reduce its net exposures. Effective from December 1, 2010 to December 31, 2011, the quota-share reinsurance percentage was 50%. Effective January 1, 2012, MICO reduced the quota-share reinsurance percentage from 50% to 40%.

In addition to the pooling agreement and third-party reinsurance, our insurance subsidiaries have various reinsurance agreements with Donegal Mutual.

Other than the changes we discuss above, we made no significant changes to our third-party reinsurance or the reinsurance agreements between our insurance subsidiaries and Donegal Mutual during the six months ended June 30, 2012.

5 - Investments

The amortized cost and estimated fair values of our fixed maturities and equity securities at June 30, 2012 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Held to Maturity				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 1,000	\$ 33	\$	\$ 1,033
Obligations of states and political subdivisions	47,987	2,148		50,135
Corporate securities	250	1		251
Residential mortgage-backed securities	212	15		227
Totals	\$ 49,449	\$ 2,197	\$	\$ 51,646

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Available for Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 72,105	\$ 1,287	\$ 174	\$ 73,218
Obligations of states and political subdivisions	374,212	28,563	252	402,523
Corporate securities	70,642	2,665	344	72,963
Residential mortgage-backed securities	113,352	3,819	27	117,144
Fixed maturities	630,311	36,334	797	665,848
Equity securities	2,844	143	36	2,951
Totals	\$ 633,155	\$ 36,477	\$ 833	\$ 668,799

At June 30, 2012, our holdings of obligations of states and political subdivisions included general obligation bonds with an aggregate fair value of \$354.4 million and an amortized cost of \$330.2 million. Our holdings also included special revenue bonds with an aggregate fair value of \$98.3 million and an amortized cost of \$92.0 million. With respect to both categories of these bonds, we held no securities of any issuer that comprised more than 10% of the category at June 30, 2012. Education bonds and water and sewer utility bonds represented 54% and 14%,

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respectively, of our total investments in special revenue bonds based on their carrying values at June 30, 2012. Many of the issuers of the special revenue bonds we held at June 30, 2012 have the authority to impose ad valorem taxes. In that respect, many of the special revenue bonds we held were similar to general obligation bonds.

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The amortized cost and estimated fair values of our fixed maturities and equity securities at December 31, 2011 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Held to Maturity				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 1,000	\$ 54	\$	\$ 1,054
Obligations of states and political subdivisions	56,966	2,857		59,823
Corporate securities	250	3		253
Residential mortgage-backed securities	274	19	1	292
Totals	\$ 58,490	\$ 2,933	\$ 1	\$ 61,422

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Available for Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 59,432	\$ 1,546	\$	\$ 60,978
Obligations of states and political subdivisions	372,663	26,252	39	398,876
Corporate securities	62,837	1,805	528	64,114
Residential mortgage-backed securities	119,367	3,307	44	122,630
Fixed maturities	614,299	32,910	611	646,598
Equity securities	7,239	606	407	7,438
Totals	\$ 621,538	\$ 33,516	\$ 1,018	\$ 654,036

At December 31, 2011, our holdings of obligations of states and political subdivisions included general obligation bonds with an aggregate fair value of \$372.2 million and an amortized cost of \$348.4 million. Our holdings also included special revenue bonds with an aggregate fair value of \$86.5 million and an amortized cost of \$81.0 million. With respect to both categories of these bonds, we held no securities of any issuer that comprised more than 10% of the category at December 31, 2011. Education bonds and water and sewer utility bonds represented 59% and 17%, respectively, of our total investments in special revenue bonds based on their carrying values at December 31, 2011. Many of the issuers of the special revenue bonds we held at December 31, 2011 have the authority to impose ad valorem taxes. In that respect, many of the special revenue bonds we held were similar to general obligation bonds.

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We show below the amortized cost and estimated fair value of our fixed maturities at June 30, 2012 by contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

We show below the amortized cost and estimated fair value of our fixed maturities at June 30, 2012 by contractual maturity.

	Amortized Cost	Estimated Fair Value
	(in thousands)	
Held to maturity		
Due in one year or less	\$ 2,000	\$ 2,036
Due after one year through five years	38,096	39,744
Due after five years through ten years	9,141	9,639
Due after ten years		
Residential mortgage-backed securities	212	227
Total held to maturity	\$ 49,449	\$ 51,646
Available for sale		
Due in one year or less	\$ 18,063	\$ 18,251
Due after one year through five years	65,705	67,745
Due after five years through ten years	188,906	199,407
Due after ten years	244,285	263,301
Residential mortgage-backed securities	113,352	117,144
Total available for sale	\$ 630,311	\$ 665,848

Gross realized gains and losses from investments before applicable income taxes were as follows:

	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
	(in thousands)			
Gross realized gains:				
Fixed maturities	\$ 2,199	\$	\$ 3,695	\$ 441
Equity securities	(41)	4,416	788	4,505
	2,158	4,416	4,483	4,946
Gross realized losses:				
Fixed maturities	2		7	102
Equity securities	628	100	638	155
	630	100	645	257