

DONEGAL GROUP INC
Form 10-Q
August 08, 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 June 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: 21,020,113 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 August 1, 2016.

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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, 2016	December 31, 2015
	(Unaudited)	
<u>Assets</u>		
Investments		
Fixed maturities		
Held to maturity, at amortized cost	\$ 328,166,897	\$ 310,258,704
Available for sale, at fair value	510,108,845	501,393,559
Equity securities, available for sale, at fair value	44,607,308	37,260,821
Investment in affiliate	39,868,460	38,476,708
Short-term investments, at cost, which approximates fair value	9,389,010	13,432,482
Total investments	932,140,520	900,822,274
Cash	29,696,651	28,139,144
Accrued investment income	5,957,652	5,991,197
Premiums receivable	159,990,851	141,267,411
Reinsurance receivable	258,139,997	259,728,113
Deferred policy acquisition costs	56,344,044	52,108,388
Deferred tax asset, net	14,125,549	19,443,807
Prepaid reinsurance premiums	127,155,034	113,522,505
Property and equipment, net	6,790,478	7,027,143
Federal income taxes receivable	645,637	1,487,656
Goodwill	5,625,354	5,625,354
Other intangible assets	958,010	958,010
Other	2,680,629	1,713,413
Total assets	\$ 1,600,250,406	\$ 1,537,834,415
<u>Liabilities and Stockholders Equity</u>		
Liabilities		
Unpaid losses and loss expenses	\$ 577,165,003	\$ 578,205,109
Unearned premiums	471,017,880	429,493,203
Accrued expenses	19,167,782	22,460,475
Reinsurance balances payable	3,918,764	3,480,406
Borrowings under lines of credit	77,500,000	81,000,000
Cash dividends declared		3,511,881

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Subordinated debentures	5,000,000	5,000,000
Accounts payable - securities		582,560
Due to affiliate	4,966,071	3,557,177
Drafts payable	136,579	439,282
Other	1,511,713	1,715,754
Total liabilities	1,160,383,792	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 23,897,207 and 23,501,805 shares and outstanding 20,894,619 and 20,499,217 shares	238,972	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	227,074,132	219,525,301
Accumulated other comprehensive income	8,108,607	773,744
Retained earnings	245,614,768	229,024,370
Treasury stock, at cost	(41,226,357)	(41,226,357)
Total stockholders equity	439,866,614	408,388,568
Total liabilities and stockholders equity	\$ 1,600,250,406	\$ 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 June 30,	
	2016	2015
Revenues:		
Net premiums earned	\$ 161,942,637	\$ 150,457,785
Investment income, net of investment expenses	5,343,883	5,157,396
Net realized investment gains (includes \$715,177 and \$390,461 accumulated other comprehensive income reclassifications)	715,177	390,461
Lease income	172,629	189,652
Installment payment fees	1,367,066	1,480,133
Equity in earnings of Donegal Financial Services Corporation	305,475	341,527
Total revenues	169,846,867	158,016,954
Expenses:		
Net losses and loss expenses	103,193,915	97,839,291
Amortization of deferred policy acquisition costs	26,554,000	24,826,000
Other underwriting expenses	26,578,997	25,203,442
Policyholder dividends	754,682	687,872
Interest	403,882	390,077
Other expenses	315,699	676,921
Total expenses	157,801,175	149,623,603
Income before income tax expense	12,045,692	8,393,351
Income tax expense (includes \$250,312 and \$136,662 income tax expense from reclassification items)	3,461,038	1,928,324
Net income	\$ 8,584,654	\$ 6,465,027
Earnings per common share:		
Class A common stock - basic	\$ 0.33	\$ 0.24
Class A common stock - diluted	\$ 0.32	\$ 0.24
Class B common stock - basic and diluted	\$ 0.30	\$ 0.21

Donegal Group Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended June 30,	
	2016	2015
Net income	\$ 8,584,654	\$ 6,465,027
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 \$2,068,136 and (\$2,040,125)	3,840,822	(3,788,805)
Reclassification adjustment for gains included in net income, net of income tax expense of \$250,312 and \$136,662	(464,865)	(253,799)
Other comprehensive income (loss)	3,375,957	(4,042,604)
Comprehensive income	\$ 11,960,611	\$ 2,422,423

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,	
	2016	2015
Revenues:		
Net premiums earned	\$ 320,417,916	\$ 296,987,601
Investment income, net of investment expenses	10,890,392	10,106,349
Net realized investment gains (includes \$1,186,118 and \$1,436,982 accumulated other comprehensive income reclassifications)	1,186,118	1,436,982
Lease income	350,989	389,725
Installment payment fees	2,729,526	3,000,458
Equity in earnings of Donegal Financial Services Corporation	340,702	868,287
Total revenues	335,915,643	312,789,402
Expenses:		
Net losses and loss expenses	198,771,980	193,778,603
Amortization of deferred policy acquisition costs	52,510,000	48,836,000
Other underwriting expenses	53,217,024	49,036,506
Policyholder dividends	1,586,569	1,605,709
Interest	812,362	720,615
Other expenses	953,477	1,403,313
Total expenses	307,851,412	295,380,746
Income before income tax expense	28,064,231	17,408,656
Income tax expense (includes \$415,141 and \$502,944 income tax expense from reclassification items)	7,630,664	4,089,293
Net income	\$ 20,433,567	\$ 13,319,363
Earnings per common share:		
Class A common stock - basic	\$ 0.79	\$ 0.50
Class A common stock - diluted	\$ 0.78	\$ 0.49
Class B common stock - basic and diluted	\$ 0.72	\$ 0.45

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

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(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Net income	\$ 20,433,567	\$ 13,319,363
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 \$4,364,683 and (\$1,604,947)	8,105,840	(2,980,615)
Reclassification adjustment for gains included in net income, net of income tax expense of \$415,141 and \$502,944	(770,977)	(934,038)
Other comprehensive income (loss)	7,334,863	(3,914,653)
Comprehensive income	\$ 27,768,430	\$ 9,404,710

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, 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	Stock E
31,	23,501,805	5,649,240	\$ 235,018	\$ 56,492	\$ 219,525,301	\$ 773,744	\$ 229,024,370	\$ (41,226,357)	\$ 408
ock	81,853		819		1,123,997				1
d	313,549		3,135		6,007,698		20,433,567		6
on							(3,426,033)		20
e									(3
ends					417,136		(417,136)		
ock						7,334,863			7
sive									
016	23,897,207	5,649,240	\$ 238,972	\$ 56,492	\$ 227,074,132	\$ 8,108,607	\$ 245,614,768	\$ (41,226,357)	\$ 439

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,	
	2016	2015
Cash Flows from Operating Activities:		
Net income	\$ 20,433,567	\$ 13,319,363
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	3,793,569	1,958,122
Net realized investment gains	(1,186,118)	(1,436,982)
Equity in earnings of Donegal Financial Services Corporation	(340,702)	(868,287)
Changes in assets and liabilities:		
Losses and loss expenses	(1,040,106)	26,915,637
Unearned premiums	41,524,677	28,173,097
Premiums receivable	(18,723,440)	(13,952,675)
Deferred acquisition costs	(4,235,656)	(4,546,141)
Deferred income taxes	1,368,719	672,389
Reinsurance receivable	1,588,116	(6,120,846)
Prepaid reinsurance premiums	(13,632,529)	(2,957,752)
Accrued investment income	33,545	(166,378)
Due to affiliate	1,408,894	(924,955)
Reinsurance balances payable	438,358	(2,658,953)
Current income taxes	842,019	(718,461)
Accrued expenses	(3,292,693)	(2,464,329)
Other, net	(1,473,961)	(34,000)
Net adjustments	7,072,692	20,869,486
Net cash provided by operating activities	27,506,259	34,188,849
Cash Flows from Investing Activities:		
Purchases of fixed maturities, held to maturity	(27,292,675)	(11,317,784)
Purchases of fixed maturities, available for sale	(98,008,601)	(98,653,226)
Purchases of equity securities, available for sale	(5,604,316)	(5,362,246)
Maturity of fixed maturities:		
Held to maturity	9,540,543	20,322,215
Available for sale	55,080,426	33,006,624
Sales of fixed maturities, available for sale	40,206,225	22,551,224
Sales of equity securities, available for sale	1,416,252	2,704,425
Net (purchases) sales of property and equipment	(162,153)	6,765
Net decrease in investment in affiliate		675,100

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Net sales of short-term investments	4,043,472	1,127,764
Net cash used in investing activities	(20,780,827)	(34,939,139)
Cash Flows from Financing Activities:		
Cash dividends paid	(6,937,914)	(7,077,712)
Issuance of common stock	5,269,989	16,056,505
Purchase of treasury stock		(904,675)
Payments on lines of credit	(3,500,000)	(7,500,000)
Borrowings under lines of credit		1,500,000
Net cash (used in) provided by financing activities	(5,167,925)	2,074,118
Net increase in cash	1,557,507	1,323,828
Cash at beginning of period	28,139,144	35,578,509
Cash at end of period	\$ 29,696,651	\$ 36,902,337
Cash paid during period - Interest	\$ 648,705	\$ 533,547
Net cash paid during period - Taxes	\$ 6,055,000	\$ 3,700,000

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 coverages exclusively through a network of independent insurance agents in certain Mid-Atlantic, Midwestern, New England and Southern states. 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 (UCB), a state savings bank. Donegal Mutual owns the remaining 51.8% of the outstanding stock of DFSC.

We have four segments: our investment function, our personal lines of insurance, our commercial lines of insurance and our investment in DFSC. 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.

At June 30, 2016, Donegal Mutual held approximately 47% of our outstanding Class A common stock and approximately 83% of our outstanding Class B common stock. This ownership provides Donegal Mutual with approximately 73% of the total voting power of our outstanding common stock. We believe Donegal Mutual's voting control of us benefits us for the reasons we describe in our Annual Reports on Form 10-K and in our proxy statements. Our insurance subsidiaries and Donegal Mutual have interrelated operations due to a pooling agreement and other intercompany agreements and transactions. 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, Donegal Mutual and Atlantic States 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.

The same executive management and underwriting personnel administer products, classes of business underwritten, pricing practices and underwriting standards of Donegal Mutual and our insurance subsidiaries. In addition, as the Donegal Insurance Group, Donegal Mutual and our insurance subsidiaries share a combined business plan to achieve market penetration and underwriting profitability objectives. The products our insurance subsidiaries and Donegal Mutual market are generally complementary, thereby allowing the Donegal Insurance Group to offer a broader range of products to a given market and to expand the Donegal Insurance Group's ability to service an entire personal lines or commercial lines account. Distinctions within the products Donegal Mutual and our insurance subsidiaries offer relate generally to specific risk profiles targeted within similar classes of business, such as preferred tier products

versus standard tier products, but we do not allocate all of the standard risk gradients to one company. Therefore, the underwriting profitability of the business the individual companies write directly will vary. However, as the risk characteristics of all business Donegal Mutual and Atlantic States write directly are homogenized within the underwriting pool, Donegal Mutual and Atlantic States share the underwriting results in proportion to their respective participation in the pool. Pooled business represents the predominant percentage of the net underwriting activity of both Donegal Mutual and Atlantic States.

On July 18, 2013, our board of directors authorized a share repurchase program pursuant to which we have the authority to purchase up to 500,000 additional 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 SEC and in privately negotiated transactions. We did not purchase any shares of our Class A common stock under this program during the six months ended June 30, 2016. We purchased 57,658 shares of our Class A common stock under this program during the six months ended June 30, 2015. We have purchased a total of 57,658 shares of our Class A common stock under this program from its inception through June 30, 2016.

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Our financial information for the interim periods included in this Form 10-Q Report is unaudited; however, our financial information we include in this Form 10-Q Report 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, 2016 are not necessarily indicative of the results of operations we expect for the year ending December 31, 2016.

You should read the interim financial statements we include in this Form 10-Q Report in conjunction with the financial statements and the notes to our financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2015.

3 - Earnings Per Share

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 shall simultaneously declare a dividend on our Class A common stock that is payable to the holders of our Class A common stock at the same time and 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:

	Three Months Ended June 30,			
	2016		2015	
	Class A	Class B	Class A	Class B
	(in thousands, except per share data)			
Basic net income per share:				
Numerator:				
Allocation of net income	\$ 6,919	\$ 1,666	\$ 5,273	\$ 1,192
Denominator:				
Weighted-average shares outstanding	20,746	5,577	22,002	5,577
Basic net income per share	\$ 0.33	\$ 0.30	\$ 0.24	\$ 0.21
Diluted net income per share:				
Numerator:				
Allocation of net income	\$ 6,919	\$ 1,666	\$ 5,273	\$ 1,192
Denominator:				

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Number of shares used in basic computation	20,746	5,577	22,002	5,577
Weighted-average shares effect of dilutive securities				
Add: Director and employee stock options	576		376	
Number of shares used in diluted computation	21,322	5,577	22,378	5,577
Diluted net income per share	\$ 0.32	\$ 0.30	\$ 0.24	\$ 0.21

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	Six Months Ended June 30,			
	2016		2015	
	Class A	Class B	Class A	Class B
	(in thousands, except per share data)			
Basic net income per share:				
Numerator:				
Allocation of net income	\$ 16,412	\$ 4,022	\$ 10,830	\$ 2,489
Denominator:				
Weighted-average shares outstanding	20,645	5,577	21,769	5,577
Basic net income per share	\$ 0.79	\$ 0.72	\$ 0.50	\$ 0.45
Diluted net income per share:				
Numerator:				
Allocation of net income	\$ 16,412	\$ 4,022	\$ 10,830	\$ 2,489
Denominator:				
Number of shares used in basic computation	20,645	5,577	21,769	5,577
Weighted-average shares effect of dilutive securities				
Add: Director and employee stock options	424		478	
Number of shares used in diluted computation	21,069	5,577	22,247	5,577
Diluted net income per share	\$ 0.78	\$ 0.72	\$ 0.49	\$ 0.45

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 exceeded the average market price of our Class A common stock during the applicable periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Number of options to purchase Class A shares excluded		4,030,833		

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 premiums into the pool the pooling agreement established, 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 we believe is commensurate with their relative size and risk exposures. Our insurance subsidiaries use several different reinsurers, all of which, consistent with the 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 for 2016:

excess of loss reinsurance, under which Donegal Mutual and our insurance subsidiaries recover, through a series of reinsurance agreements, losses over a set retention (generally \$1.0 million), and

catastrophe reinsurance, under which Donegal Mutual and our insurance subsidiaries recover, through a series of reinsurance agreements, 100% of an accumulation of many losses resulting from a single event, including natural disasters, over a set retention (generally \$5.0 million) and after exceeding an annual aggregate deductible (generally \$1.0 million) up to aggregate losses of \$170.0 million per occurrence.

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Our insurance subsidiaries and Donegal Mutual also purchase facultative reinsurance to cover exposures in excess of the covered limits of their third-party reinsurance agreements.

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

We have 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, 2016.

5 - Investments

The amortized cost and estimated fair values of our fixed maturities and equity securities at June 30, 2016 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	\$ 58,132	\$ 3,669	\$	\$ 61,801
Obligations of states and political subdivisions	121,105	15,831		136,936
Corporate securities	80,673	3,181	654	83,200
Mortgage-backed securities	68,257	2,670		70,927
Totals	\$ 328,167	\$ 25,351	\$ 654	\$ 352,864

	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	\$ 36,652	\$ 518	\$	\$ 37,170
Obligations of states and political subdivisions	188,653	12,320	21	200,952
Corporate securities	85,167	1,930	100	86,997
Mortgage-backed securities	181,222	3,778	10	184,990
Fixed maturities	491,694	18,546	131	510,109
Equity securities	39,557	5,707	657	44,607
Totals	\$ 531,251	\$ 24,253	\$ 788	\$ 554,716

At June 30, 2016, our holdings of obligations of states and political subdivisions included general obligation bonds with an aggregate fair value of \$234.3 million and an amortized cost of \$215.7 million. Our holdings at June 30, 2016 also included special revenue bonds with an aggregate fair value of \$103.6 million and an amortized cost of \$94.0 million. With respect to both categories of those bonds at June 30, 2016, we held no securities of any issuer that constituted more than 10% of our holdings of either bond category. Education bonds and water and sewer utility bonds represented 60% and 24%, respectively, of our total investments in special revenue bonds based on the carrying values of these investments at June 30, 2016. Many of the issuers of the special revenue bonds we held at June 30, 2016 have the authority to impose ad valorem taxes. In that respect, many of the special revenue bonds we held at June 30, 2016 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, 2015 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	\$ 51,194	\$ 1,544	\$	\$ 52,738
Obligations of states and political subdivisions	119,115	10,828	119	129,824
Corporate securities	65,307	816	1,561	64,562
Mortgage-backed securities	74,643	1,181	149	75,675
Totals	\$ 310,259	\$ 14,369	\$ 1,829	\$ 322,799

	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	\$ 37,080	\$ 160	\$ 51	\$ 37,189
Obligations of states and political subdivisions	223,769	13,151	364	236,556
Corporate securities	73,474	350	1,012	72,812
Mortgage-backed securities	154,687	1,045	896	154,836
Fixed maturities	489,010	14,706	2,323	501,393
Equity securities	35,765	2,269	773	37,261
Totals	\$ 524,775	\$ 16,975	\$ 3,096	\$ 538,654

At December 31, 2015, our holdings of obligations of states and political subdivisions included general obligation bonds with an aggregate fair value of \$256.9 million and an amortized cost of \$241.1 million. Our holdings also included special revenue bonds with an aggregate fair value of \$109.5 million and an amortized cost of \$101.8 million. With respect to both categories of bonds, we held no securities of any issuer that comprised more than 10% of that category at December 31, 2015. Education bonds and water and sewer utility bonds represented 57% and 26%, respectively, of our total investments in special revenue bonds based on their carrying values at December 31, 2015. Many of the issuers of the special revenue bonds we held at December 31, 2015 have the authority to impose ad valorem taxes. In that respect, many of the special revenue bonds we held are similar to general obligation bonds.

We made reclassifications from available for sale to held to maturity of certain fixed maturities at fair value on November 30, 2013. We segregated within accumulated other comprehensive income the net unrealized losses of

\$15.1 million arising prior to the November 30, 2013 reclassification date for fixed maturities we reclassified from available for sale to held to maturity. We are amortizing this balance over the remaining life of the related securities as an adjustment to yield in a manner consistent with the accretion of discount on the same fixed maturities. We recorded amortization of \$694,613 and \$615,376 in accumulated other comprehensive income during the six months ended June 30, 2016 and 2015, respectively. At June 30, 2016 and December 31, 2015, net unrealized losses of \$11.6 million and \$12.3 million, respectively, remained within accumulated other comprehensive income.

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We show below the amortized cost and estimated fair value of our fixed maturities at June 30, 2016 by contractual maturity. Expected maturities may differ from contractual maturities because issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	(in thousands)	
Held to maturity		
Due in one year or less	\$ 9,703	\$ 9,733
Due after one year through five years	42,968	44,547
Due after five years through ten years	85,940	92,360
Due after ten years	121,299	135,297
Mortgage-backed securities	68,257	70,927
Total held to maturity	\$ 328,167	\$ 352,864
Available for sale		
Due in one year or less	\$ 40,729	\$ 41,748
Due after one year through five years	100,924	105,002
Due after five years through ten years	108,579	113,634
Due after ten years	60,240	64,735
Mortgage-backed securities	181,222	184,990
Total available for sale	\$ 491,694	\$ 510,109

Gross realized gains and losses from investments before applicable income taxes for the three and six months ended June 30, 2016 and 2015 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Gross realized gains:				
Fixed maturities	\$ 675	\$ 144	\$ 1,840	\$ 967
Equity securities	56	246	56	703
	731	390	1,896	1,670
Gross realized losses:				
Fixed maturities	3		258	78
Equity securities	13		452	155
	16		710	233

Net realized gains	\$	715	\$	390	\$	1,186	\$	1,437
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We held fixed maturities and equity securities with unrealized losses representing declines that we considered temporary at June 30, 2016 as follows:

	Less Than 12 Months		More Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)			
Obligations of states and political subdivisions	1,572	1	986	20
Corporate securities	16,039	167	6,302	587
Mortgage-backed securities	2,931	5	1,530	5
Equity securities	3,036	652	95	5
Totals	\$ 23,578	\$ 825	\$ 8,913	\$ 617

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We held fixed maturities and equity securities with unrealized losses representing declines that we considered temporary at December 31, 2015 as follows:

	Less Than 12 Months		More Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 10,168	\$ 51	\$	\$
Obligations of states and political subdivisions	19,437	483		
Corporate securities	69,482	1,615	11,324	958
Mortgage-backed securities	105,300	876	7,538	168
Equity securities	9,245	773		
Totals	\$ 213,632	\$ 3,798	\$ 18,862	\$ 1,126

We make estimates concerning the valuation of our investments and the recognition of other-than-temporary declines in the value of our investments. For equity securities, we write down the investment to its fair value, and we reflect the amount of the write-down as a realized loss in our results of operations when we consider the decline in value of an individual equity security investment to be other than temporary. We monitor all investments individually for other-than-temporary declines in value. Generally, we assume there has been an other-than-temporary decline in value if an individual equity security has depreciated in value by more than 20% of our original cost and has been in such an unrealized loss position for more than six months. We held nine equity securities that were in an unrealized loss position at June 30, 2016. Based upon our analysis of general market conditions and underlying factors impacting these equity securities, we considered these declines in value to be temporary. With respect to a debt security that is in an unrealized loss position, we first assess if we intend to sell the debt security. If we determine we intend to sell the debt security, we recognize the impairment loss in our results of operations. If we do not intend to sell the debt security, we determine whether it is more likely than not that we will be required to sell the debt security prior to recovery. If we determine it is more likely than not that we will be required to sell the debt security prior to recovery, we recognize an impairment loss in our results of operations. If we determine it is more likely than not that we will not be required to sell the debt security prior to recovery, we then evaluate whether a credit loss has occurred. We determine whether a credit loss has occurred by comparing the amortized cost of the debt security to the present value of the cash flows we expect to collect. If we expect a cash flow shortfall, we consider that a credit loss has occurred. If we determine that a credit loss has occurred, we consider the impairment to be other than temporary. We then recognize the amount of the impairment loss related to the credit loss in our results of operations, and we recognize the remaining portion of the impairment loss in our other comprehensive income, net of applicable taxes. In addition, we may write down securities in an unrealized loss position based on a number of other factors, including when the fair value of an investment is significantly below its cost, when the financial condition of the issuer of a security has deteriorated, the occurrence of industry, issuer or geographic events that have negatively impacted the value of a security and rating agency downgrades. We held 40 debt securities that were in an unrealized loss position at June 30, 2016. Based upon our analysis of general market conditions and underlying factors impacting these debt securities, we considered these declines in value to be temporary.

We amortize premiums and discounts on debt securities over the life of the security as an adjustment to yield using the effective interest method. We compute realized investment gains and losses using the specific identification method.

We amortize premiums and discounts on mortgage-backed debt securities using anticipated prepayments.

We account for our investment in affiliate using the equity method of accounting. Under this method, we record our investment at cost, with adjustments for our share of our affiliate's earnings and losses as well as changes in the equity of our affiliate due to unrealized gains and losses. Our investment in affiliate represents our 48.2% ownership interest in DFSC. We include our share of DFSC's net income in our results of operations. We have compiled the following summary financial information for DFSC at June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016 and 2015, respectively, from the financial statements of DFSC. The financial information of DFSC at June 30, 2016 and 2015 and for the three and six months then ended is unaudited.

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	June 30, 2016	December 31, 2015
	(in thousands)	
Balance sheets:		
Total assets	\$ 508,768	\$ 507,139
Total liabilities	\$ 426,166	\$ 427,423
Stockholders equity	82,602	79,716
Total liabilities and stockholders equity	\$ 508,768	\$ 507,139

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Income statements:				
Net income	\$ 634	\$ 709	\$ 707	\$ 1,525

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We evaluate the performance of our personal lines and commercial lines segments based upon the underwriting results of our insurance subsidiaries using statutory accounting principles (SAP) that various state insurance departments prescribe or permit. Our management uses SAP to measure the performance of our insurance subsidiaries instead of United States generally accepted accounting principles (GAAP). Financial data by segment for the three and six months ended June 30, 2016 and 2015 is as follows:

	Three Months Ended June 30,	
	2016	2015
	(in thousands)	
Revenues:		
Premiums earned		
Commercial lines	\$ 72,962	\$ 64,253
Personal lines	88,981	86,205
GAAP premiums earned	161,943	150,458
Net investment income	5,344	5,157
Realized investment gains	715	390
Equity in earnings of DFSC	305	342
Other	1,540	1,670
Total revenues	\$ 169,847	\$ 158,017
Income before income taxes:		
Underwriting income (loss):		
Commercial lines	\$ 5,577	\$ 2,171
Personal lines	(3,767)	(2,898)
SAP underwriting income (loss)	1,810	(727)
GAAP adjustments	3,051	2,628
GAAP underwriting income	4,861	1,901
Net investment income	5,344	5,157
Realized investment gains	715	390
Equity in earnings of DFSC	305	342
Other	821	603
Income before income taxes	\$ 12,046	\$ 8,393

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	Six Months Ended June 30,	
	2016	2015
	(in thousands)	
Revenues:		
Premiums earned		
Commercial lines	\$ 142,834	\$ 126,580
Personal lines	177,584	170,408
GAAP premiums earned	320,418	296,988
Net investment income	10,890	10,106
Realized investment gains	1,186	1,437
Equity in earnings of DFSC	341	868
Other	3,081	3,390
Total revenues	\$ 335,916	\$ 312,789
Income before income taxes:		
Underwriting income (loss):		
Commercial lines	\$ 10,417	\$ 2,002
Personal lines	(1,092)	(2,772)
SAP underwriting income (loss)	9,325	(770)
GAAP adjustments	5,007	