

DONEGAL GROUP INC
Form 10-Q
May 08, 2014
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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 March 31, 2014

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: 20,937,567 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, 2014.

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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**

	March 31, 2014	December 31, 2013
	(Unaudited)	
<u>Assets</u>		
Investments		
Fixed maturities		
Held to maturity, at amortized cost	\$ 296,360,179	\$ 240,370,277
Available for sale, at fair value	431,527,749	403,651,965
Equity securities, available for sale, at fair value	22,297,723	12,422,837
Investments in affiliates	37,117,118	35,685,433
Short-term investments, at cost, which approximates fair value	16,367,589	99,677,795
Total investments	803,670,358	791,808,307
Cash	17,153,044	27,636,416
Accrued investment income	6,498,123	5,423,531
Premiums receivable	133,342,894	123,904,629
Reinsurance receivable	252,079,827	244,239,113
Deferred policy acquisition costs	45,407,383	43,627,510
Deferred tax asset, net	17,886,321	20,310,558
Prepaid reinsurance premiums	116,693,136	112,663,942
Property and equipment, net	7,053,122	6,424,703
Accounts receivable - securities		1,187,866
Federal income taxes recoverable	731,983	420,952
Goodwill	5,625,354	5,625,354
Other intangible assets	958,010	958,010
Other	1,225,194	1,179,611
Total assets	\$ 1,408,324,749	\$ 1,385,410,502
<u>Liabilities and Stockholders Equity</u>		
<u>Liabilities</u>		
Unpaid losses and loss expenses	\$ 510,122,359	\$ 495,619,269
Unearned premiums	397,797,596	382,734,642
Accrued expenses	14,621,812	19,265,097
Reinsurance balances payable	12,510,502	17,948,808
Borrowings under lines of credit	61,000,000	58,000,000
Cash dividends declared to stockholders		3,299,182

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Subordinated debentures	5,000,000	5,000,000
Accounts payable - securities		751,641
Due to affiliate	1,662,166	2,170,225
Drafts payable	1,083,987	1,386,285
Other	2,940,998	2,358,242
Total liabilities	1,006,739,420	988,533,391
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 21,825,877 and 21,786,765 shares and outstanding 20,884,169 and 20,845,903 shares	218,259	217,868
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	190,342,555	189,116,410
Accumulated other comprehensive income (loss)	1,936,592	(2,312,890)
Retained earnings	222,133,113	222,888,887
Treasury stock	(13,101,682)	(13,089,656)
Total stockholders equity	401,585,329	396,877,111
Total liabilities and stockholders equity	\$ 1,408,324,749	\$ 1,385,410,502

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,	
	2014	2013
Revenues:		
Net premiums earned	\$ 133,548,261	\$ 124,702,041
Investment income, net of investment expenses	4,615,776	4,815,443
Net realized investment (losses) gains (includes (\$88,532) and \$1,340,564 accumulated other comprehensive (loss) income reclassifications)	(88,532)	1,340,564
Lease income	212,790	215,397
Installment payment fees	1,641,550	1,710,241
Equity in earnings of Donegal Financial Services Corporation	409,242	1,088,906
Total revenues	140,339,087	133,872,592
Expenses:		
Net losses and loss expenses	97,632,392	85,533,016
Amortization of deferred policy acquisition costs	21,319,000	19,560,000
Other underwriting expenses	20,458,719	18,751,511
Policyholder dividends	394,503	475,273
Interest	365,482	487,149
Other expenses	962,207	982,354
Total expenses	141,132,303	125,789,303
(Loss) income before income tax (benefit) expense	(793,216)	8,083,289
Income tax (benefit) expense (includes (\$30,101) and \$455,792 income tax (benefit) expense from reclassification items)	(158,802)	1,607,853
Net (loss) income	\$ (634,414)	\$ 6,475,436
(Loss) earnings per common share:		
Class A common stock - basic	\$ (0.02)	\$ 0.26
Class A common stock - diluted	\$ (0.02)	\$ 0.25
Class B common stock - basic and diluted	\$ (0.02)	\$ 0.23

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

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(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Net (loss) income	\$ (634,414)	\$ 6,475,436
Other comprehensive income (loss), net of tax		
Unrealized gain (loss) on securities:		
Unrealized holding income (loss) during the period, net of income tax (benefit) expense of \$2,258,082 and (\$1,725,094)	4,191,051	(3,165,445)
Reclassification adjustment for (losses) gains included in net income, net of income tax (benefit) expense of (\$30,101) and \$455,792	58,431	(884,772)
Other comprehensive income (loss)	4,249,482	(4,050,217)
Comprehensive income	\$ 3,615,068	\$ 2,425,219

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, 2014

	Class A Shares	Class B Shares	Class A Amount	Class B Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance, December 31,	21,786,765	5,649,240	\$ 217,868	\$ 56,492	\$ 189,116,410	\$ (2,312,890)	\$ 222,888,887	\$ (13,089,656)	\$ 396,877,917
Issuance of common stock									
Repurchase of common stock	39,112		391		1,096,374		(634,414)		1,096,374
Dividends paid							(3,104)		(3,104)
Change in value of stock options					118,256		(118,256)		
Benefit on exercise of stock options					11,515				11,515
Change in value of treasury shares								(12,026)	(12,026)
Accumulated other comprehensive income						4,249,482			4,249,482
Balance, March 31, 2014	21,825,877	5,649,240	\$ 218,259	\$ 56,492	\$ 190,342,555	\$ 1,936,592	\$ 222,133,113	\$ (13,101,682)	\$ 401,585,274

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,	
	2014	2013
Cash Flows from Operating Activities:		
Net (loss) income	\$ (634,414)	\$ 6,475,436
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	793,240	901,111
Net realized investment losses (gains)	88,532	(1,340,564)
Equity in earnings of Donegal Financial Services Corporation	(409,242)	(1,088,906)
Changes in assets and liabilities:		
Losses and loss expenses	14,503,090	11,728,371
Unearned premiums	15,062,954	11,296,320
Premiums receivable	(9,438,265)	(10,425,418)
Deferred acquisition costs	(1,779,873)	(1,064,350)
Deferred income taxes	136,054	1,631,380
Reinsurance receivable	(7,840,714)	(4,659,893)
Prepaid reinsurance premiums	(4,029,194)	(3,532,303)
Accrued investment income	(1,074,592)	(224,912)
Due to affiliate	(508,059)	(5,061,688)
Reinsurance balances payable	(5,438,306)	1,035,868
Current income taxes	(311,031)	(774,316)
Accrued expenses	(4,643,285)	(2,689,827)
Other, net	234,873	(288,302)
Net adjustments	(4,653,818)	(4,557,429)
Net cash (used in) provided by operating activities	(5,288,232)	1,918,007
Cash Flows from Investing Activities:		
Purchases of fixed maturities, held to maturity	(69,863,688)	
Purchases of fixed maturities, available for sale	(34,438,401)	(37,561,696)
Purchases of equity securities, available for sale	(10,837,100)	(3,497,597)
Maturity of fixed maturities:		
Held to maturity	13,941,822	1,610,591
Available for sale	9,197,730	14,853,225
Sales of fixed maturities, available for sale	1,235,464	17,791,110
Sales of equity securities, available for sale	2,329,866	2,829,224
Net purchases of property and equipment	(832,686)	(48,498)
Net decrease in investment in affiliates		465,000

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Net sales of short-term investments	83,310,206	12,562,837
Net cash (used in) provided by investing activities	(5,956,787)	9,004,196
Cash Flows from Financing Activities:		
Cash dividends paid	(3,302,286)	(3,069,386)
Issuance of common stock	1,075,959	2,239,693
Purchase of treasury stock	(12,026)	
Payments on subordinated debentures		(15,465,000)
Payments on line of credit		(9,000,000)
Borrowings under lines of credit	3,000,000	18,500,000
Net cash provided by (used in) financing activities	761,647	(6,794,693)
Net (decrease) increase in cash	(10,483,372)	4,127,510
Cash at beginning of period	27,636,416	19,801,290
Cash at end of period	\$ 17,153,044	\$ 23,928,800
Cash paid during period - Interest	\$ 299,614	\$ 517,823
Net cash paid during period - Taxes	\$	\$ 650,000

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. UCB has 13 banking offices, all of which are located in Lancaster County, Pennsylvania. 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 March 31, 2014, Donegal Mutual held approximately 37% of our outstanding Class A common stock and approximately 76% of our outstanding Class B common stock. This ownership provides Donegal Mutual with approximately 65% of the total voting power of our common stock. 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, 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.

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 of Donegal Mutual and our insurance subsidiaries generally relate to specific risk profiles targeted within similar classes of business, such as preferred tier 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 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 (the SEC) and in privately negotiated transactions. We purchased 846 shares of our Class A common stock under this program during the three months ended March 31, 2014. We did not purchase any shares under this program during the three-month period ended March 31, 2013. We have purchased a total of 296,778 shares of our Class A common stock under this program from its inception through March 31, 2014.

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 three-month period ended March 31, 2014.

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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 three months ended March 31, 2014 are not necessarily indicative of the results of operations we expect for the year ending December 31, 2014.

You should read these interim financial statements 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, 2013.

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 must also 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 March 31, 2014		2013	
	Class A	Class B	Class A	Class B
	(in thousands, except per share data)			
Basic and diluted net (loss) income per share:				
Numerator:				
Allocation of net (loss) income	\$ (510)	\$ (124)	\$ 5,170	\$ 1,305
Denominator:				
Weighted-average shares outstanding	20,873,043	5,576,775	20,066,755	5,576,775
Basic net (loss) income per share	\$ (0.02)	\$ (0.02)	\$ 0.26	\$ 0.23
Diluted net (loss) income per share:				
Numerator:				
Allocation of net (loss) income	\$ (510)	\$ (124)	\$ 5,170	\$ 1,305
Denominator:				
	20,873,043	5,576,775	20,066,755	5,576,775

Number of shares used in basic computation				
Weighted-average shares effect of dilutive securities				
Add: Director and employee stock options	380,186		291,477	
Number of shares used in per share computations	21,253,229	5,576,775	20,358,232	5,576,775
Diluted net (loss) income per share	\$ (0.02)	\$ (0.02)	\$ 0.25	\$ 0.23

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 applicable period:

	Three Months Ended March 31,	
	2014	2013
Number of options to purchase Class A shares excluded	2,548,500	1,212,000

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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 March 31, 2014:

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

catastrophe reinsurance, under which Donegal Mutual, Atlantic States and Southern 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 \$1.5 million) up to aggregate losses of \$145.0 million per occurrence.

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

MICO maintains a quota-share reinsurance agreement with third-party reinsurers to reduce its net exposures. Effective January 1, 2014, the quota-share reinsurance percentage was 20%.

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 have made no significant changes to our third-party reinsurance or the reinsurance agreements between our insurance subsidiaries and Donegal Mutual during the three months ended March 31, 2014.

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The amortized cost and estimated fair values of our fixed maturities and equity securities at March 31, 2014 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	\$ 48,379	\$ 193	\$ 77	\$ 48,495
Obligations of states and political subdivisions	96,477	4,638		\$ 101,115
Corporate securities	51,570	287	152	\$ 51,705
Mortgage-backed securities	99,934	337	261	100,010
Totals	\$ 296,360	\$ 5,455	\$ 490	\$ 301,325

	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	\$ 12,888	\$ 128	\$ 29	\$ 12,987
Obligations of states and political subdivisions	262,754	15,960	5	278,709
Corporate securities	61,521	1,150	54	62,617
Mortgage-backed securities	76,018	1,235	38	77,215
Fixed maturities	413,181	18,473	126	431,528
Equity securities	21,752	592	46	22,298
Totals	\$ 434,933	\$ 19,065	\$ 172	\$ 453,826

At March 31, 2014, our holdings of obligations of states and political subdivisions included general obligation bonds with an aggregate fair value of \$285.2 million and an amortized cost of \$270.3 million. Our holdings at March 31, 2014 also included special revenue bonds with an aggregate fair value of \$94.6 million and an amortized cost of \$88.9 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 March 31, 2014. Education bonds and water and sewer utility bonds represented 57% and 21%, respectively, of our total investments in special revenue bonds based on their carrying values at March 31, 2014. Many of the issuers of the special revenue bonds we held at March 31, 2014 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.

The amortized cost and estimated fair values of our fixed maturities and equity securities at December 31, 2013 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	\$ 47,946	\$	\$ 870	\$ 47,076
Obligations of states and political subdivisions	108,435	465	446	108,454
Corporate securities	14,875	17	112	14,780
Mortgage-backed securities	69,114	33	667	68,480
Totals	\$ 240,370	\$ 515	\$ 2,095	\$ 238,790

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	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				
	\$ 14,272	\$ 118	\$ 57	\$ 14,333
Obligations of states and political subdivisions	265,783	11,779	15	277,547
Corporate securities	39,940	775	43	40,672
Mortgage-backed securities	70,259	923	82	71,100
Fixed maturities	390,254	13,595	197	403,652
Equity securities	12,168	348	93	12,423
Totals	\$ 402,422	\$ 13,943	\$ 290	\$ 416,075

At December 31, 2013, our holdings of obligations of states and political subdivisions included general obligation bonds with an aggregate fair value of \$294.1 million and an amortized cost of \$284.9 million. Our holdings also included special revenue bonds with an aggregate fair value of \$91.9 million and an amortized cost of \$89.3 million. With respect to both categories, we held no securities of any issuer that comprised more than 10% of the category at December 31, 2013. Education bonds and water and sewer utility bonds represented 56% and 23%, respectively, of our total investments in special revenue bonds based on their carrying values at December 31, 2013. Many of the issuers of the special revenue bonds we held at December 31, 2013 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 fixed maturities at fair value on November 30, 2013. The following table summarizes the reclassifications by type of securities at November 30, 2013:

	Amortized Cost	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies		
	\$ 50,627,225	\$ 47,914,311
Obligations of states and political subdivisions	88,456,842	79,866,801
Corporate securities	15,745,976	14,879,294
Mortgage-backed securities	72,465,250	69,567,883
Totals	\$ 227,295,293	\$ 212,228,289

We have 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 reclassified from available for sale to held to maturity. We will amortize 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. At March 31, 2014 and December 31, 2013, net unrealized losses of \$14.7 million and \$14.9 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 March 31, 2014 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.

	Amortized Cost	Estimated Fair Value
	(in thousands)	
Held to maturity		
Due in one year or less	\$ 3,659	\$ 3,693
Due after one year through five years	38,127	38,340
Due after five years through ten years	76,922	77,392
Due after ten years	77,718	81,890
Mortgage-backed securities	99,934	100,010
Total held to maturity	\$ 296,360	\$ 301,325
Available for sale		
Due in one year or less	\$ 14,415	\$ 14,541
Due after one year through five years	66,282	68,033
Due after five years through ten years	126,254	133,077
Due after ten years	130,212	138,662
Mortgage-backed securities	76,018	77,215
Total available for sale	\$ 413,181	\$ 431,528

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

	Three Months Ended March 31,	
	2014	2013
	(in thousands)	
Gross realized gains:		
Fixed maturities	\$ 23	\$ 951
Equity securities	24	474
	47	1,425
Gross realized losses:		
Fixed maturities	1	14
Equity securities	135	70
	136	84

Net realized (losses) gains	\$ (89)	\$ 1,341
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We held fixed maturities and equity securities with unrealized losses representing declines that we considered temporary at March 31, 2014 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	\$ 15,647	\$ 76	\$ 4,973	\$ 30
Obligations of states and political subdivisions	1,588	5		
Corporate securities	40,874	172	3,259	34
Mortgage-backed securities	40,344	164	13,408	135
Equity securities	1,536	46		
Totals	\$ 99,989	\$ 463	\$ 21,640	\$ 199

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We held fixed maturities and equity securities with unrealized losses representing declines that we considered temporary at December 31, 2013 as follows:

	Less Than 12 Months	More Than 12 Months
Fair Value	Unrealized Losses	Fair Value