
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): April 21, 2006

Donegal Group Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other
jurisdiction of
incorporation)

0-15341
(Commission file
number)

23-2424711
(IRS employer
identification no.)

1195 River Road, Marietta, Pennsylvania
(Address of principal executive offices)

17547
(Zip code)

Registrant's telephone number, including area code: (717) 426-1931

N/A

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2 below):

- Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition.

On April 21, 2006, Donegal Group Inc. (the "Company") issued a press release regarding the Company's financial results for its first quarter ended March 31, 2006. The press release is attached as Exhibit 99.1 to this Form 8-K and is incorporated by reference into this Form 8-K. The information in this report shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference in any filing under the Securities Act of 1933.

Item 9.01. Financial Statements and Exhibits

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|--|
| 99.1 | Press release issued by the Company dated April 21, 2006 |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DONEGAL GROUP INC.

Date: April 21, 2006

By: /s/ Jeffrey D. Miller
Jeffrey D. Miller, Senior Vice President
and Chief Financial Officer

EXHIBIT INDEX

| <u>Exhibit Number</u> | <u>Description</u> |
|---------------------------|---|
| 99.1 | Press release dated April 21, 2006 issued by the Company. |

DONEGAL GROUP INC. ANNOUNCES FIRST QUARTER EARNINGS

Jeffrey D. Miller
Senior Vice President & Chief Financial Officer
Phone (717) 426-1931
Fax (717) 426-7009

For Immediate Release

MARIETTA, Pennsylvania, April 21, 2006 – Donegal Group Inc. (Nasdaq: DGICA and DGICB) today reported net income for the first quarter ended March 31, 2006.

All 2006 and 2005 share and per share information included below has been restated to reflect the effect of the previously announced declaration of a 4-for-3 stock split to be effected in the form of a 33 1/3% stock dividend payable on April 26, 2006 to stockholders of record at the close of business on April 17, 2006.

Net income for the first quarter of 2006 increased 8.5% to \$9,130,187, or \$.36 per share on a diluted basis, compared to \$8,417,088, or \$.34 per share on a diluted basis, for the first quarter of 2005. The Company's first quarter earnings reflected continued excellent underwriting results, which were achieved in spite of an increase in weather-related claims of approximately \$1.1 million in the first quarter of 2006 compared to the first quarter of 2005. Revenues for the first quarter of 2006 were \$81,282,895, an increase of 4.1% over the year earlier period, with net premiums earned of \$74,513,849, a 3.8% increase over the first quarter of 2005. Net premiums earned in the first quarter of 2006 were impacted by an increase in the Company's reinsurance costs, primarily due to increases in reinsurance rates and the purchase of additional reinsurance coverages that are expected to reduce losses retained by the Company.

Net investment income increased to \$4,984,528 for the first quarter of 2006, an increase of 13.1% over the \$4,407,468 reported for the first quarter of 2005. Improvements in the short-term interest rate environment contributed to an increase in the Company's average pre-tax investment yield to 3.6% in the first quarter of 2006, compared to 3.5% in the first quarter of 2005. The Company's shift in asset mix to tax-exempt municipal bonds over the past year impacted the average investment yield in the current quarter. However, this shift allowed the Company to lower its effective tax rate in the first quarter of 2006 to 28.7%, compared to 30.6% in the first quarter of 2005, notwithstanding an increase in income before income tax expense in the 2006 quarter.

The Company's combined ratio was 90.5% for the first quarter of 2006, comparable to the 90.6% posted for the first quarter of 2005. The Company's loss ratio for the first quarter of 2006 was 58.1%, relatively unchanged from the loss ratio of 57.9% posted for the first quarter of 2005, with the modest increase reflecting increased weather-related claim activity in the 2006 quarter. The Company's expense ratio decreased slightly to 31.9% for the first quarter of 2006, compared to 32.2% for the first quarter of 2005.

"We are pleased to report a continuation of profitable operating results in the first quarter. We remain focused on maintaining rate adequacy and attracting quality premium growth in a competitive marketplace. Our WritePro and WriteBiz automated underwriting and policy issuance systems for personal lines and commercial lines, respectively, continue to be implemented throughout our operating regions, and we are optimistic that these systems will contribute to additional premium growth as the year progresses," stated Donald H. Nikolaus, President and Chief Executive Officer of Donegal Group Inc.

The excellent operating results for the first quarter of 2006 contributed to an increase in the Company's book value to \$11.62 per common share at March 31, 2006, compared to \$11.30 per common share at December 31, 2005.

The Company's board of directors yesterday approved a quarterly cash dividend payable May 15, 2006 of \$.0825 per share of Class A common stock and \$.07 per share of its Class B common stock to stockholders of record as of May 1, 2006. These dividends represent a percentage increase of 10% for the Class A common stock and 9.8% for the Class B common stock compared to the previous quarterly cash dividend when adjusted for the stock split.

The Company will hold a conference call and webcast on Friday, April 21, 2006, beginning at 11:00 A.M. Eastern Time. You may participate in the conference call by calling 1-866-362-5158 (Passcode 22282309) or listen via Internet by accessing the "Earnings Release Webcast" link in the Investor Relations area of the Company's web site at www.donegalgroup.com. An instant replay of the conference call will be available until April 28, 2006 by calling 1-888-286-8010 (Passcode 86200878).

Donegal Group Inc. is an insurance holding company whose insurance subsidiaries offer personal and commercial property and casualty lines of insurance in five Mid-Atlantic states (Delaware, Maryland, New Hampshire, New York and Pennsylvania), eight Southeastern states (Alabama, Georgia, Louisiana, North Carolina, South Carolina, Tennessee, Virginia and West Virginia) and five Midwestern states (Iowa, Nebraska, Ohio, Oklahoma and South Dakota).

All statements contained in this press release that are not historic facts are based on current expectations. Such statements are forward-looking (as defined in the Private Securities Litigation Reform Act of 1995) in nature and necessarily involve a number of

risks and uncertainties. Actual results could vary materially. The factors that could cause actual results to vary materially include, but are not limited to, the ability of the Company to maintain profitable operations, the adequacy of the Company's reserves for losses and loss adjustment expenses, business and economic conditions in the areas in which the Company operates, severe weather events, competition from various insurance and non-insurance businesses, terrorism, legal and judicial developments, changes in regulatory requirements and other risks that are described from time to time in the Company's filings with the Securities and Exchange Commission. The Company disclaims any obligation to update such statements or to announce publicly the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

(Tables Follow)

| | Quarter Ended March 31 | |
|---|------------------------|---------------------|
| | 2006 | 2005* |
| Net premiums earned | \$74,513,849 | \$71,762,523 |
| Investment income, net of investment expenses | 4,984,528 | 4,407,468 |
| Net realized investment gains | 474,799 | 690,291 |
| Total revenues | 81,282,895 | 78,079,058 |
| Net income | \$ 9,130,187 | \$ 8,417,088 |
| Net income per common share: | | |
| Basic | \$ 0.37 | \$ 0.35 |
| Diluted | \$ 0.36 | \$ 0.34 |

* Per share information restated for 4-for-3 stock split

Consolidated Statements of Income
(unaudited; in thousands, except share and per share data)

| | Quarter Ended March 31, | |
|---|-------------------------|-------------------|
| | 2006 | 2005* |
| Net premiums earned | \$ 74,514 | \$ 71,763 |
| Investment income, net of investment expenses | 4,985 | 4,407 |
| Net realized investment gains | 475 | 690 |
| Lease income | 242 | 229 |
| Installment payment fees | 1,067 | 990 |
| Total revenues | <u>81,283</u> | <u>78,079</u> |
| Net losses and loss expenses | 43,289 | 41,538 |
| Amortization of deferred policy acquisition costs | 11,886 | 11,486 |
| Other underwriting expenses | 11,901 | 11,654 |
| Other expenses | 393 | 430 |
| Policyholder dividends | 372 | 351 |
| Interest expense | 644 | 499 |
| Total expenses | <u>68,485</u> | <u>65,958</u> |
| Income before income tax expense | 12,798 | 12,121 |
| Income tax expense | 3,668 | 3,704 |
| Net income | <u>\$ 9,130</u> | <u>\$ 8,417</u> |
| Net income per common share: | | |
| Basic | \$ 0.37 | \$ 0.35 |
| Diluted | \$ 0.36 | \$ 0.34 |
| Supplementary Financial Analysts' Data | | |
| Weighted average number of shares outstanding: | | |
| Basic | 24,642,295 | 23,929,220 |
| Diluted | <u>25,334,265</u> | <u>24,630,779</u> |
| Net written premiums | \$ 76,179 | \$ 74,498 |
| Book value per common share | <u>\$ 11.62</u> | <u>\$ 10.36</u> |

* Shares outstanding and per share information restated for 4-for-3 stock split

Consolidated Balance Sheets
(unaudited; in thousands)

| | March 31, 2006 | December 31, 2005* |
|--|-------------------|-----------------------|
| ASSETS: | | |
| Investments: | | |
| Fixed maturities: | | |
| Held to maturity, at amortized cost | \$ 179,383 | \$ 180,182 |
| Available for sale, at fair value | 293,568 | 295,097 |
| Equity securities, at fair value | 40,965 | 33,371 |
| Investments in affiliates | 8,248 | 8,442 |
| Short-term investments, at cost, which approximates fair value | 27,997 | 30,654 |
| Total investments | 550,161 | 547,746 |
| Cash | 3,879 | 3,811 |
| Premiums receivable | 47,644 | 47,124 |
| Reinsurance receivable | 104,525 | 94,137 |
| Accrued investment income | 5,139 | 5,521 |
| Deferred policy acquisition costs | 23,557 | 23,477 |
| Prepaid reinsurance premiums | 41,278 | 40,063 |
| Property and equipment, net | 5,212 | 5,234 |
| Deferred tax asset, net | 12,108 | 11,533 |
| Due from affiliate | 4,306 | — |
| Other assets | 5,029 | 2,776 |
| Total assets | <u>\$ 802,838</u> | <u>\$ 781,422</u> |

Consolidated Balance Sheets (continued)
(unaudited; in thousands)

| | March 31, 2006 | December 31, 2005* |
|---|-------------------|-----------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Losses and loss expenses | \$ 275,978 | \$ 265,730 |
| Unearned premiums | 189,540 | 186,660 |
| Accrued expenses | 9,310 | 12,706 |
| Subordinated debentures | 30,929 | 30,929 |
| Federal income taxes payable | 2,600 | — |
| Due to affiliate | — | 728 |
| Other liabilities | 6,049 | 6,773 |
| Total liabilities | <u>514,406</u> | <u>503,526</u> |
| Stockholders' equity: | | |
| Preferred stock | — | — |
| Class A common stock | 194 | 192 |
| Class B common stock | 56 | 56 |
| Additional paid-in capital | 144,701 | 141,933 |
| Accumulated other comprehensive income | 1,209 | 2,532 |
| Retained earnings | 143,164 | 134,075 |
| Treasury stock, at cost | (892) | (892) |
| Total stockholders' equity | <u>288,432</u> | <u>277,896</u> |
| Total liabilities and stockholders' equity | <u>\$ 802,838</u> | <u>\$ 781,422</u> |

* Capital accounts restated for 4-for-3 stock split