

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 8-K**

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**CURRENT REPORT**

**Pursuant to Section 13 OR 15(d) of  
The Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported) **February 18, 2009**

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**Donegal Group Inc.**

(Exact name of registrant as specified in its charter)

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

**0-15341**  
(Commission File Number)

**23-2424711**  
(IRS Employer Identification No.)

**1195 RIVER RD MARIETTA, PA**  
(Address of principal executive offices)

**17547**  
(Zip Code)

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

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(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:

- Written communications 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 February 18, 2009 the Registrant issued a press release, a copy of which is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

**Item 9.01. Financial Statements and Exhibits.**

Exhibit 99.1. Press release dated February 18, 2009

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**SIGNATURE**

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

**Donegal Group Inc.**

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(Registrant)

**February 18, 2009**

/s/ **JEFFREY D. MILLER**

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(Date)

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Jeffrey D. Miller  
*Senior Vice President and Chief Financial Officer*

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## **Exhibit Index**

99.1 Press release dated February 18, 2009

## Donegal Group Inc. Announces Fourth Quarter and Full Year Earnings

MARIETTA, Pa., Feb. 18, 2009 (GLOBE NEWSWIRE) -- Donegal Group Inc. (Nasdaq:DGICA) (Nasdaq:DGICB) today reported that its net income for the fourth quarter ended December 31, 2008 was \$6,394,297, or \$.26 per share of Class A common stock on a diluted basis, compared to \$10,796,583, or \$.43 per share of Class A common stock on a diluted basis, for the fourth quarter of 2007. The Company's net income for the fourth quarter of 2008 reflected increased claim activity and lower net investment income due to the Company's conservative short-term investment strategy during the quarter.

Revenues for the fourth quarter of 2008 were \$95,840,537, an increase of 10.3% over the fourth quarter of 2007, with net premiums earned of \$89,067,548, a 13.9% increase over the year-earlier period. Net premiums written for the fourth quarter of 2008 were \$78,600,201, an increase of 11.0% over net premiums written for the fourth quarter of 2007. Net premiums written in the fourth quarter of 2008 reflected an increased allocation of approximately \$6.4 million related to the pooling agreement change effective March 1, 2008, as well as reinsurance savings that were largely due to the Company's decision to increase its per loss retention effective January 1, 2008. Exclusive of the impact of the pooling change, fourth quarter of 2008 personal lines net premiums written increased 7.1% and commercial lines net premiums written decreased 8.2%, netting to a quarterly increase of 2.0% in total net premiums written.

The Company's combined ratio was 98.0% for the fourth quarter of 2008, compared to 90.5% for the fourth quarter of 2007. The Company's loss ratio for the fourth quarter of 2008 was 66.8%, compared to 58.4% for the fourth quarter of 2007. The Company's expense ratio was 30.9% for the fourth quarter of 2008, compared to 31.6% for the fourth quarter of 2007, reflecting the benefit of increased net premiums written during the quarter and decreased underwriting-based incentive compensation costs. The expense ratio for the fourth quarter of 2008 decreased in spite of a severance charge of approximately \$1.3 million related to personnel reductions, which were part of the Company's ongoing expense reduction program. The Company expects that the personnel reductions will result in expense savings of approximately \$2.3 million in 2009 and subsequent years.

Net investment income was \$5,468,308 for the fourth quarter of 2008, compared to \$5,906,339 for the fourth quarter of 2007, reflecting reduced investment income due to increased holdings of short-term U.S. Treasury investments during the fourth quarter of 2008 and the use of invested assets to redeem \$15.5 million of subordinated debentures in August 2008. Interest expense on subordinated debentures decreased by \$448,623 during the fourth quarter of 2008 compared to the comparable period in 2007, with this decrease in expense more than offsetting the related decrease in investment income.

The Company reported net realized investment losses of \$181,181, or \$0.01 per Class A share on an after-tax basis, for the fourth quarter of 2008. The Company did not recognize any other than temporary impairments in the fourth quarter of 2008. Equity securities represented less than 1% of the Company's investment portfolio at December 31, 2008.

As a result of the previously announced acquisition of Sheboygan Falls Insurance Company on December 1, 2008, the Company's fourth quarter of 2008 financial statements include the results of Sheboygan Falls for the month of December 2008. The impact of the acquisition on fourth quarter results was not material.

Net income for the year ended December 31, 2008 was \$25,541,978, compared to \$38,279,905 reported for the year ended December 31, 2007. On a diluted basis, net income per share of Class A common stock for the year ended December 31, 2008 was \$1.02, compared to \$1.53 for the prior year. The Company's net premiums written increased 16.3% during 2008 to \$364,941,055, largely due to the change in the pooling agreement with Donegal Mutual Insurance Company effective March 1, 2008. The Company's combined ratio for the full year 2008 was 97.2%, compared to its combined ratio of 91.3% for the full year 2007. The Company's loss ratio was 64.7% for the full year 2008, compared to 57.4% for the full year 2007, with the increase reflecting increased weather-related claim activity and less favorable prior-accident-year reserve development. The Company's expense ratio was 32.1% for the full year 2008, compared to 33.5% for the full year 2007.

The Company will adjust its financial statements for the first three quarters of 2008 to correct immaterial errors. Because of these errors, the Company overstated its reported net income for the nine months ended September 30, 2008 by approximately \$1.7 million, or approximately \$.07 per Class A share. The Company will include additional details related to this adjustment in its Annual Report on Form 10-K for the year ended December 31, 2008.

The Company's total stockholders' equity, or book value, increased to \$363,583,865, a per common share amount of \$14.29, at December 31, 2008, compared to \$352,690,191, a per common share amount of \$13.92, at December 31, 2007.

"We are pleased to be among a select few companies reporting an increase in book value for the year. This accomplishment can be attributed to our conservative investment philosophy as well as our achievement of underwriting profitability and solid investment returns in a difficult environment. We are operating from a position of financial strength and are continuing to follow our conservative business strategy in today's challenging insurance and investment markets," stated Donald H. Nikolaus, President and Chief Executive Officer of Donegal Group Inc.

The Company will hold a conference call and webcast on Wednesday, February 18, 2009, beginning at 11:00 A.M. Eastern Time. You may listen via the Internet by accessing the webcast link in the Investors area of the Company's web site at [www.donegalgroup.com](http://www.donegalgroup.com). A replay of the conference call will also be available via the Company's web site.

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 six Midwestern states (Iowa, Nebraska, Ohio, Oklahoma, South Dakota and Wisconsin).

All statements contained in this press release that are not historic facts are based on current expectations. Such statements are forward-looking in nature (as defined in the Private Securities Litigation Reform Act of 1995) and necessarily involve 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, conditions resulting from the ongoing recession in the United States, severe weather events, competition from various insurance and non-insurance businesses, terrorism, the availability and cost of reinsurance, 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.

Donegal Group Inc.  
Financial Highlights  
(unaudited)

	Quarter Ended December 31	
	----- 2008	2007 -----
Net premiums earned	\$ 89,067,548	\$ 78,188,948
Investment income, net of investment expenses	5,468,308	5,906,339
Net realized investment (losses) gains	(181,181)	1,397,394
Total revenues	95,840,537	86,890,271
 Net income	 \$ 6,394,297	 \$ 10,796,583
Net income per common share:		
Class A common stock - basic	\$ 0.26	\$ 0.44
Class A common stock - diluted	\$ 0.26	\$ 0.43
Class B common stock - basic and diluted	\$ 0.23	\$ 0.39

	Year Ended December 31	
	----- 2008	2007 -----
Net premiums earned	\$346,575,266	\$310,071,534
Investment income, net of investment expenses	22,755,784	22,785,252
Net realized investment (losses) gains	(2,970,716)	2,051,050
Total revenues	372,312,162	340,618,294
 Net income	 \$ 25,541,978	 \$ 38,279,905
Net income per common share:		
Class A common stock - basic	\$ 1.03	\$ 1.55
Class A common stock - diluted	\$ 1.02	\$ 1.53
Class B common stock - basic and diluted	\$ 0.92	\$ 1.39

Donegal Group Inc.  
Consolidated Statements of Income  
(unaudited; in thousands, except share data)

	Quarter Ended December 31	
	----- 2008	2007 -----
Net premiums earned	\$ 89,068	\$ 78,189
Investment income, net of investment		

expenses	5,468	5,906
Net realized investment (losses) gains	(181)	1,397
Lease income	221	269
Installment payment fees	1,264	1,129
	-----	-----
Total revenues	95,840	86,890
	-----	-----
Net losses and loss expenses	59,451	45,628
Amortization of deferred policy acquisition costs	15,141	13,315
Other underwriting expenses	12,397	11,397
Other expenses	352	400
Policyholder dividends	251	405
Interest	276	724
	-----	-----
Total expenses	87,868	71,869
	-----	-----
Income before income tax expense	7,972	15,021
Income tax expense	1,578	4,225
	-----	-----
Net income	\$ 6,394	\$ 10,796
	=====	=====
Net income per common share:		
Class A common stock - basic	\$ 0.26	\$ 0.44
	-----	-----
Class A common stock - diluted	\$ 0.26	\$ 0.43
	-----	-----
Class B common stock - basic and diluted	\$ 0.23	\$ 0.39
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#### Supplementary Financial Analysts' Data

Weighted-average number of shares outstanding:		
Class A common stock - basic	19,914,130	19,717,747
	-----	-----
Class A common stock - diluted	19,918,941	19,949,711
	-----	-----
Class B common stock - basic and diluted	5,576,775	5,576,775
	-----	-----
Net written premiums	\$ 78,600	\$ 70,781
	-----	-----
Book value per common share at end of period	\$ 14.29	\$ 13.92
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Donegal Group Inc.  
Consolidated Statements of Income  
(unaudited; in thousands, except share data)

	Year Ended December 31	
	2008	2007
	-----	-----
Net premiums earned	\$ 346,575	\$ 310,072
Investment income, net of investment expenses	22,756	22,785
Net realized investment (losses) gains	(2,971)	2,051
Lease income	927	1,060
Installment payment fees	5,025	4,650
	-----	-----
Total revenues	372,312	340,618
	-----	-----
Net losses and loss expenses	224,301	177,784
Amortization of deferred policy acquisition costs	58,250	51,205
Other underwriting expenses	53,108	52,726
Other expenses	1,564	1,896
Policyholder dividends	1,176	1,273
Interest	1,821	2,885
	-----	-----
Total expenses	340,220	287,769

Income before income tax expense	32,092	52,849
Income tax expense	6,550	14,569
Net income	\$ 25,542	\$ 38,280
Net income per common share:		
Class A common stock - basic	\$ 1.03	\$ 1.55
Class A common stock - diluted	\$ 1.02	\$ 1.53
Class B common stock - basic and diluted	\$ 0.92	\$ 1.39
Supplementary Financial Analysts' Data		
Weighted-average number of shares outstanding:		
Class A common stock - basic	19,866,099	19,685,674
Class A common stock - diluted	19,955,518	19,962,858
Class B common stock - basic and diluted	5,576,775	5,576,775
Net written premiums	\$ 364,941	\$ 313,690
Book value per common share at end of period	\$ 14.29	\$ 13.92

Donegal Group Inc.  
Consolidated Balance Sheets  
(in thousands)

	December 31,	
	2008	2007
	(unaudited)	
ASSETS		
Investments:		
Fixed maturities:		
Held to maturity, at amortized cost	\$ 99,878	\$ 154,290
Available for sale, at fair value	445,816	336,318
Equity securities, at fair value	5,895	36,361
Investments in affiliates	8,594	8,649
Short-term investments, at cost	71,953	70,252
Total investments	632,136	605,870
Cash	1,831	4,289
Premiums receivable	55,337	51,038
Reinsurance receivable	79,953	78,897
Accrued investment income	6,656	5,875
Deferred policy acquisition costs	29,541	26,235
Prepaid reinsurance premiums	51,436	47,286
Property and equipment, net	6,687	5,608
Deferred tax asset, net	10,995	7,026
Other assets	5,537	1,972
Total assets	\$ 880,109	\$ 834,096
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Losses and loss expenses	\$ 239,809	\$ 226,432
Unearned premiums	229,014	203,431
Accrued expenses	14,150	12,313
Subordinated debentures	15,465	30,929
Due to affiliate	3,148	242
Accounts payable - securities	1,821	--
Other liabilities	13,118	8,059
Total liabilities	516,525	481,406

Stockholders' equity:

Preferred stock	--	--
Class A common stock	205	202
Class B common stock	56	56
Additional paid-in capital	163,137	156,851
Accumulated other comprehensive income	1,714	6,974
Retained earnings	207,182	193,807
Treasury stock, at cost	(8,710)	(5,200)
	-----	-----
Total stockholders' equity	363,584	352,690
	-----	-----
Total liabilities and stockholders' equity	\$ 880,109	\$ 834,096
	=====	=====

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