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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 19, 2007

**Donegal Group Inc.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction  
of incorporation)

0-15341

(Commission  
file number)

23-02424711

(I.R.S. 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

Not Applicable

(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 April 20, 2007, we issued a press release regarding our financial results for our first quarter ended March 31, 2007. The press release is attached as Exhibit 99.1 to this Form 8-K and is incorporated by reference into this Form 8-K report. The information in Item 2.02 of this Form 8-K report and Exhibit 99.1 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 we make under the Securities Act of 1933.

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

At our annual meeting of stockholders held April 19, 2007, our stockholders approved our 2007 equity incentive plan for employees and our 2007 equity incentive plan for directors. We incorporate by reference the description of these two plans included in our proxy statement for our 2007 annual meeting of stockholders under the captions "Proposal to Approve Our 2007 Employee Incentive Plan" and "Proposal to Approve Our 2007 Director Incentive Plan," which we filed with the Securities and Exchange Commission on March 16, 2007.

Item 5.03. Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year.

On April 19, 2007, our board of directors approved an amendment to Section 4.4 of our by-laws to clarify that our president, in the exercise of his duties and subject to the limitations of Delaware law, our charter, our by-laws and actions of our board of directors, has the authority to appoint, suspend and discharge officers, employees and agents. A copy of our by-laws, as amended and restated on April 19, 2007, is included as an exhibit to this Form 8-K report.

Item 9.01. Financial Statements and Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
3.2	Amended and Restated By-laws of Donegal Group Inc.
10.1	Donegal Group Inc. 2007 Equity Incentive Plan for Employees
10.2	Donegal Group Inc. 2007 Equity Incentive Plan for Directors
99.1	Press release issued by Donegal Group Inc. dated April 20, 2007

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.

By: /s/ Jeffrey D. Miller

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

Date: April 20, 2007

EXHIBIT INDEX

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AMENDED AND RESTATED  
BY-LAWS  
of  
DONEGAL GROUP INC.

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Adopted April 19, 2007

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Article 1

CORPORATION OFFICE

Section 1.1. Registered Office. The registered office of the Corporation shall be Capitol Corporate Services, Inc., 32 Loockerman Square, Suite 109, Dover, Delaware 19904.

Section 1.2. Principal Office. The principal office of the Corporation shall be in Marietta, Pennsylvania.

Section 1.3. Other Offices. The Corporation may also have offices at such other places as the Board of Directors may from time to time designate or the business of the Corporation may from time to time require.

Article 2

STOCKHOLDERS

Section 2.1. Place and Time of Meetings. All meetings of the stockholders shall be held at such time and place as may be fixed from time to time by the Board of Directors and stated in the notice of meeting.

Section 2.2. Annual Meeting.

(a) The annual meeting of the stockholders shall be held on the third Thursday in April in each year, if not a legal holiday, and, if a legal holiday, then on the next succeeding business day, at the Corporation's principal office or at such other place, date and time as shall be designated from time to time by the Board of Directors and stated in the notice of meeting.

(b) At each annual meeting, the stockholders shall elect successors to the directors whose terms shall expire that year to serve for the following three years and until their

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successors shall have been duly elected or until their earlier death, resignation or removal. The stockholders also shall transact such other business as may properly be brought before the annual meeting and is in compliance with the provisions of these By-laws.

Section 2.3. Stockholder Proposals.

(a) Nominations of persons for election to the Board of Directors (“Stockholder Nominations”) and proposals of business to be transacted by the stockholders (“Stockholder Proposals”) may be made at an annual meeting of stockholders (i) pursuant to the Corporation’s notice to stockholders with respect to such annual meeting, (ii) by or at the direction of the Board of Directors of the Corporation or (iii) by any stockholder of record of the Corporation who (A) was a stockholder of record at the time of the giving of the notice provided in paragraph (b) of this Section 2.3, (B) who is entitled to vote at the meeting and (C) who has complied with the prior notice procedures in paragraph (b) of this Section 2.3.

(b) For Stockholder Nominations or Stockholder Proposals to be brought properly before an annual meeting by a stockholder pursuant to clause (a)(iii) of this Section 2.3, (i) the stockholder must have given timely notice (a “Proposing Stockholder’s Notice”) in writing of the nomination or item of proposed business to the Secretary of the Corporation and (ii) such business must be a proper matter for stockholder action under the General Corporation Law of the State of Delaware (the “DGCL”). To be timely, a Proposing Stockholder’s Notice must be received by the Secretary of the Corporation at the principal executive offices of the Corporation not less than 90 calendar days nor more than 120 calendar days prior to the first anniversary of the date on which the Corporation first mailed its proxy statement to stockholders for its annual meeting of stockholders in the immediately preceding year; provided, however, that in the case of an annual meeting of stockholders that is called for a date that is not within 30 calendar days before or 30 calendar days after the first anniversary of the annual meeting of stockholders in the immediately preceding year, the Proposing Stockholder’s Notice, to be timely, must be received by the Secretary of the Corporation not later than the close of business on the later of (x) the 90<sup>th</sup> day prior to such annual meeting or (y) the 10<sup>th</sup> day following the day on which a Public Announcement, as defined in Section 2.3(e) of these By-laws, of the date of such annual meeting is first made.

(c) The Proposing Stockholder’s Notice shall set forth (i) as to each person whom the Proposing Stockholder nominates for election or reelection as a director all information relating to such person as would be required to be disclosed in a solicitation of proxies for the election of such nominees as directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the written consent of each such person to serve as a director if elected; (ii) as to any other business that the Proposing Stockholder intends to bring before the annual meeting, a brief description of such business, the Proposing Stockholder’s reasons for presenting such business at the annual meeting and any material interest of the Proposing Stockholder in such business; (iii) as to the Proposing Stockholder (A) the name and address of the Proposing Stockholder, as the same appears on

the Corporation's books, (B) the number of shares of the Corporation's Class A Common Stock and Class B Common Stock that are owned beneficially within the meaning of Securities and Exchange Commission ("SEC") Rule 13d-3 and of record by the Proposing Stockholder; (C) the principal occupation or employment of each person whose nomination is so proposed during the five-year period preceding the date of the Proposing Stockholder's Notice and (D) a description of any arrangement or understanding between each person whose nomination is proposed and the Proposing Stockholder with respect to such person's nomination and election as a director and actions to be proposed or taken by such person if elected as a director.

(d) Only persons nominated in accordance with the procedures set forth in this Section 2.3 shall be eligible for election as directors of the Corporation and only such business shall be conducted at an annual meeting of stockholders as shall have been brought before such annual meeting in accordance with the procedures set forth in this Section 2.3. The chairman of the annual meeting shall determine in his discretion whether a nomination or an item of business has been proposed in accordance with the procedures set forth in this Section 2.3. If any Stockholder Nomination or Stockholder Proposal has not been made in compliance with these By-laws, the chairman of the meeting shall declare that the improperly proposed Stockholder Nomination or improperly proposed Stockholder Proposal has not been properly presented for stockholder action at the annual meeting and such Stockholder Nomination or Stockholder Proposal shall not be considered or acted upon at the annual meeting.

(e) For purposes of these By-laws, "Public Announcement" shall mean disclosure by the Corporation in a press release reported by the Dow Jones News Service, the Associated Press or a comparable national news service or in a document filed by the Corporation with the SEC pursuant to the Exchange Act.

(f) Notwithstanding the foregoing provisions of this Section 2.3, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.3. Nothing in this Section 2.3 shall affect any rights of stockholders to request inclusion of proposals in a proxy statement of the Corporation pursuant to Rule 14a-8 under the Exchange Act.

#### Section 2.4. Special Meetings.

(a) Special meetings of the stockholders may be called at any time by the President of the Corporation and shall be called by the Secretary of the Corporation at the request in writing of the Board of Directors acting pursuant to a resolution adopted by a majority of the Whole Board or by stockholders owning at least one-fifth of the voting power of the entire outstanding capital stock of the Corporation entitled to vote thereat. For purposes of these By-laws, the term "Whole Board" shall mean the number of directors then in office notwithstanding that the number of directors then in office is less than the number of

directors determined by the Board of Directors pursuant to Section 3.2 of these By-laws. The Board of Directors may, in its discretion, postpone or reschedule any previously scheduled special meeting of the stockholders.

(b) Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. If the Corporation's notice of the special meeting provides for the election of directors, the only persons who may be nominated for such election are candidates who are nominated pursuant to (i) the Corporation's notice of meeting (ii) by or at the discretion of the Board of Directors of the Corporation or (iii) by any stockholder of record of the Corporation (A) who is a stockholder of record at the time of giving of notice provided for in this Section 2.4 (b), (B) who shall be entitled to vote at the special meeting and (C) who furnishes all of the information with respect to nominees and the Proposing Stockholder set forth in Section 2.3(c) of these By-laws within the time limits set forth in Section 2.4(c) of these By-laws.

(c) Nominations by stockholders of candidates for election to the Board of Directors of the Corporation may be made at a special meeting of stockholders if timely notice in writing of such nominations is given to the Secretary of the Corporation. To be timely, such notice must be received by the Secretary of the Corporation at the principal executive offices of the Corporation not later than the close of business on the later of (x) the 90<sup>th</sup> day prior to the special meeting of the stockholders or (y) the 10<sup>th</sup> day following the day on which a Public Announcement of the date of such special meeting is first made.

Section 2.5. Notice of Meetings. Written notice of all meetings of stockholders other than adjourned, postponed or continued meetings of stockholders, stating the place, date and hour, and, in the case of special meetings of stockholders, the purpose or purposes thereof, shall be served upon or mailed, postage prepaid, or telegraphed, charges prepaid, not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote thereat at such address as appears on the books of the Corporation. Such notices may be given at the discretion of, or in the name of, the Board of Directors, the President, any Vice President, the Secretary or any Assistant Secretary. When a meeting is adjourned, postponed or continued, it shall not be necessary to give any notice of the adjourned, postponed or continued meeting or of the business to be transacted at the adjourned, postponed or continued meeting, other than by announcement at the meeting at which such adjournment, postponement or continuation is taken, provided, however, that if the date of any adjourned meeting is more than 30 days after the date for which the meeting was originally noticed, or if a new record date is fixed for the adjourned meeting, notice of the place, date and time of the adjourned meeting shall be given in conformity with this Section 2.5. At any adjourned meeting, any business may be transacted that might have been transacted at the originally noticed meeting.

Section 2.6. Quorum of and Action by Stockholders. The presence, in person or by proxy, of the holders of a majority of the voting power of all of the shares of stock which all

stockholders are entitled to cast on the particular matter shall constitute a quorum for purposes of considering such matter, and, unless otherwise specifically provided by the DGCL, the acts of such stockholders at a duly organized meeting shall be the acts of stockholders with respect to such matter. If, however, such quorum shall not be present at any meeting of the stockholders, the stockholders entitled to vote present in person or by proxy at the meeting may, except as otherwise provided by the DGCL, adjourn, postpone or continue the meeting from time to time to such time, date and place as they may determine, without notice other than an announcement at the meeting, except as otherwise provided in Section 2.5 of these By-laws, until a quorum shall be present in person or by proxy.

At any adjourned, postponed or continued meeting at which a quorum had been present, stockholders present in person or by proxy at a duly organized and constituted meeting, can continue to do business with respect to any matter properly submitted to the meeting until adjournment, postponement or continuation thereof notwithstanding the withdrawal of enough stockholders to leave less than a quorum for the purposes of considering any particular such matter.

Section 2.7. Organization and Conduct of Business at Meetings of Stockholders.

(a) Such person as the Board of Directors may have designated or, in the absence of such a designation, the President of the Corporation or, in the absence of the President, such person as may be chosen by the holders of a majority of the voting power of the shares of the Corporation's stock entitled to vote who are present, in person or by proxy, shall call to order any meeting of stockholders and serve as chairman of the meeting. In the absence of the Secretary of the Corporation, the chairman of the meeting shall appoint the Secretary of the meeting.

(b) The chairman of the meeting of stockholders shall determine the order of the business and the procedure at such meeting, including such regulation of the manner of voting and the conduct of discussion as the chairman of the meeting determines, in his sole discretion, to be in order. The chairman of the meeting shall have the power to adjourn the meeting to another place, date and time. The time of the opening and closing of the polls for each matter upon which the stockholders will vote at the meeting shall be announced at the meeting.

Section 2.8. Voting. Except as may be otherwise provided by the DGCL or by the Certificate of Incorporation, at every meeting of the stockholders, every holder of Class A Common Stock entitled to vote thereat shall have the right to one-tenth of one vote for every share of Class A Common Stock standing in such stockholder's name on the stock transfer books of the Corporation on the record date fixed for the meeting and every holder of Class B Common Stock entitled to vote thereat shall have the right to one vote for every share of Class B Common Stock standing in such stockholder's name on the stock transfer books of the Corporation on the record date fixed for the meeting.

When a quorum exists at any meeting, the vote of the holders of Class A Common Stock and Class B Common Stock having a majority of the voting power present at such meeting in person or by proxy, shall decide any question brought before such meeting, unless the question is one for which, by express provision of the DGCL or of the Certificate of Incorporation or of these By-laws, a different vote is required. At any election of directors, the election shall be by ballot, and the inspector or inspectors of election or, if none, the Secretary of the meeting, shall tabulate the ballots and certify the results of such vote.

Section 2.9. Voting by Proxy. At any meeting of stockholders, every stockholder entitled to vote may vote in person or by proxy authorized by an instrument in writing or by a transmission permitted by the DGCL filed in accordance with the procedure established for the meeting. Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to this Section 2.9 may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission. Every proxy shall be filed with the Secretary of the Corporation. A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any other agreement or any provision in the proxy to the contrary, but the revocation of a proxy shall not be effective until written notice thereof has been given to the Secretary of the Corporation. A proxy shall not be revoked by the death or incapacity of the maker, unless, before the vote is counted or the authority is exercised, written notice of such death or incapacity is given to the Secretary of the Corporation.

Section 2.10. Record Date. The Board of Directors may fix a time, not more than sixty nor less than ten days prior to the date of any meeting of the stockholders, or the date fixed for the payment of any dividend or distribution, or the date for the allotment of rights or the date when any change or conversion or exchange of shares will be made or go into effect, as the record date for the determination of the stockholders entitled to notice of, or to vote at, such meeting, or to receive any such allotment of rights or to exercise the rights in respect to any such change or conversion or exchange of shares. In such case, only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to notice of, or to vote at, such meeting or to receive payment of such dividend, or to receive such allotment of rights or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after any record date fixed as aforesaid.

Section 2.11. Stockholders List. The officer or agent having charge of the stock transfer books for shares of the Corporation shall make, at least ten days before each meeting of the stockholders, a complete alphabetical list of the holders of each class of stock entitled to vote at the meeting, with their addresses and the number and class of shares held by each, which list shall be kept on file either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting or, if not so specified, at the place

where the meeting is to be held and shall be subject to inspection by any stockholder for any purpose germane to the meeting during usual business hours for a period of at least 10 days prior to the meeting. Such list shall be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present. The original stock transfer books of the Corporation shall be prima facie evidence as to who are the stockholders entitled to exercise the rights of a stockholder.

Section 2.12. Inspectors of Election. In advance of any meeting of the stockholders, the Board of Directors shall appoint one or more inspectors of election, who need not be stockholders, to act at such meeting or any adjournment, postponement or continuation thereof. Each inspector of election, before conducting his duties, shall take and sign an oath of office to execute faithfully the duties of inspector with strict impartiality and to the best of his ability. The number of inspectors of election shall be one or three. If no inspector of election so appointed is able to act at a meeting of stockholders, the chairman of any such meeting shall make such appointment at the meeting. No person who is a candidate for office shall act as an inspector of election.

All elections shall be determined by a plurality of the votes cast, and, except as otherwise provided by the DGCL, all other matters shall be determined by a majority of the voting power of the shares cast affirmatively or negatively.

The inspectors of election shall do all such acts as may be proper to conduct the election or vote and such other duties as may be prescribed by the DGCL with fairness to all stockholders, and shall make a written report of any matter determined by them and execute a certificate as to any fact found by them. If there is more than one inspector of election, the decision, act or certificate of a majority shall be the decision, act or certificate of all.

Section 2.13. Action by Majority Consent of the Stockholders. Any action required to be taken at an annual or special meeting of stockholders, or of a class thereof, or any action which may be taken at any annual or special meeting of such stockholders, or of a class thereof, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing setting forth the action so taken shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the Secretary of the Corporation at its principal place of business as specified in Section 1.2.

Article 3

DIRECTORS

Section 3.1. Powers.

(a) General Powers. The Board of Directors shall have all the power and authority granted by law to the Board of Directors, including all powers necessary or appropriate to the management of the business and affairs of the Corporation.

(b) Specific Powers. Without limiting the general powers conferred by the last preceding clause and the powers conferred by the Certificate of Incorporation and the By-laws of the Corporation, it is hereby expressly declared that the Board of Directors shall have the following powers:

(i) To appoint any person, firm or corporation to accept and hold in trust for the Corporation any property belonging to the Corporation or in which it is interested, and to authorize any such person, firm or corporation to execute any documents and perform any duties that may be requisite in relation to any such trust;

(ii) To appoint a person or persons to vote shares of another corporation held and owned by the Corporation and, in the absence of any such appointment, the Board of Directors of the Corporation shall have the authority to vote any such shares;

(iii) By resolution adopted by a majority of the Whole Board, to designate one or more committees, each committee to consist of two or more of the directors of the Corporation. To the extent provided in any such resolution, and to the extent permitted by law, a committee so designated shall have and may exercise the authority of the Board of Directors in the management of the business and affairs of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. If specifically granted this power by the Board of Directors in its resolution establishing the committee, in the absence or disqualification of any member and all designated alternates of such committee or committees or if the Whole Board has failed to designate alternate members, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another director to act at the meeting in the place of any such absent or disqualified member;

(iv) To fix the place, time and purpose of meetings of the stockholders;

(v) To appoint or terminate officers of the Corporation and to fix the compensation of officers for their services as set forth in Article 4 of these By-laws; and

(vi) To fix the compensation of directors for their services.

Section 3.2. Number and Terms of Directors. The number of directors which shall constitute the whole Board of Directors shall be not less than seven nor more than twelve. Directors shall be natural persons of full age and need not be residents of Delaware or stockholders of the Corporation. Within the limits above specified, the number of directors shall be as determined from time to time by resolution of the Board of Directors. Except as hereinafter provided in the case of vacancies, each director shall be elected by the affirmative vote of a plurality of the votes cast by the holders of Class A Common Stock and of Class B Common Stock voting together as a single class for a term of three years and until his successor has been elected.

Section 3.3. Classes. The Board of Directors shall be divided into three classes: Class A, Class B and Class C. At each annual meeting of the stockholders, the successors to the directors of the class whose term shall expire in that year shall be elected for a term of three years so that the term of office of one class of directors shall expire in each year. The number of directors in each class shall be as nearly equal as possible so that, except for temporary vacancies, the number in any class shall not exceed the number in any other class by more than one.

Section 3.4. Powers and Duties of the Chairman of the Board of Directors. The Board of Directors shall appoint one of their number as the Chairman of the Board who shall preside at all meetings of the Board of Directors and who shall have such other powers and duties as may be assigned to him from time to time by the Board of Directors.

Section 3.5. Powers and Duties of the Vice Chairman of the Board of Directors. The Board of Directors may, in its discretion, appoint one of its number as a Vice Chairman of the Board of Directors. In the absence of the Chairman of the Board of Directors, the Vice Chairman of the Board of Directors shall preside at all meetings of the Board of Directors. In addition, the Vice Chairman of the Board of Directors shall have such other powers and duties as may be assigned to him from time to time by the Board of Directors.

Section 3.6. Vacancies. Vacancies on the Board of Directors, including vacancies resulting from an increase in the number of directors or resulting from a death, resignation, retirement, removal from office or other cause, shall be filled by a majority of the remaining members of the Board of Directors, though less than a quorum (and not by stockholders) , or by the sole remaining director, as the case may be, irrespective of whether holders of any class or series of stock or other voting securities of the Corporation are entitled to elect one or more directors to fill such vacancies or newly created directorships at the next annual meeting of the stockholders. Each person so elected shall be a director until his successor is elected by the stockholders at the annual meeting of the stockholders at which the class of directors to which he was elected is up for election. No decrease in the number of authorized directors shall shorten the term of any incumbent director.

Section 3.7. Organization Meetings. The organization meeting of each newly elected Board of Directors shall be held immediately following each annual meeting of the stockholders at which directors were elected without the necessity of notice to such directors to constitute a legally convened meeting or at such time and place as may be fixed by a notice, or a waiver of notice, or a consent signed by all of such directors. At such meeting, the Board of Directors shall elect officers of the Corporation and may also choose an Executive Committee consisting of two members of the Board of Directors in addition to the President.

Section 3.8. Regular Meetings. The Board of Directors shall have the power to fix by resolution the place, date and hour of regular meetings of the Board of Directors. A notice of each regular meeting shall not be required.

Section 3.9. Special Meetings. Special meetings of the Board of Directors may be called by the President of the Corporation on one day's notice to each director, either personally or by mail, telephone or electronic mail. Special meetings of the Board of Directors shall be called by the President or the Secretary of the Corporation in like manner and on like notice upon the written request of any five directors. Unless otherwise indicated in the notice thereof, any and all business may be transacted at a special meeting.

Section 3.10. Notices of Meetings. All meetings of the Board of Directors may be held at such times and places as may be specified in the notice of meeting or in a duly executed waiver of notice thereof. One or more directors may participate in any meeting of the Board of Directors, or of any committee thereof, by means of a conference telephone or similar communications equipment which enables all persons participating in the meeting to hear one another, and such participation in a meeting shall constitute presence in person at the meeting.

Section 3.11. Quorum. At all meetings of the Board of Directors, the presence, in person or by telephonic or similar communications equipment, of a majority of the members of the Whole Board shall constitute a quorum for the transaction of business and the acts of a majority of the directors present at a duly convened meeting at which a quorum is present shall be the acts of the Board of Directors, except as may be otherwise specifically provided by the DGCL, by the Certificate of Incorporation of the Corporation or by these By-laws. If a quorum shall not be present, in person or by telephonic or similar communications equipment, at any meeting of the Board of Directors, the directors present may adjourn, postpone or continue the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be so present.

Section 3.12. Action by Unanimous Written Consent. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board of Directors or a committee

thereof, as the case may be, consent thereto in writing, and such consent is filed with the minutes of proceedings of the Board of Directors or committee.

Section 3.13. Compensation. Directors, as such, may receive a stated salary for their services, or a fixed sum and expenses for attendance at regular or special meetings of the Board of Directors, or any committee thereof, or any combination of the foregoing as may be determined from time to time by resolution of the Board of Directors, and nothing contained herein shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 3.14. Coordinating Committee. The Coordinating Committee shall consist of two members of the Corporation's Board of Directors, each of whom is not a member of the Board of Directors or an officer of Donegal Mutual Insurance Company ("Donegal Mutual"), and two members of the Board of Directors of Donegal Mutual, each of whom is not a member of the Board of Directors or an officer of the Corporation. The Coordinating Committee shall review and either approve or disapprove all contracts and other matters involving actual or potential conflicts of interest between the Corporation and Donegal Mutual, including any proposed amendment to this Section 3.14. Whenever any new contract between the Corporation and Donegal Mutual is proposed, any change is proposed in any existing contract between the Corporation and Donegal Mutual, any amendment is proposed to this Section 3.14 or any other matter arises that presents an actual or potential conflict of interest between the Corporation and Donegal Mutual, such new contract, change in an existing contract, proposed amendment to this Section 3.14 or other matter shall (i) first be submitted to the Coordinating Committee for its consideration thereof and only if (A) both of the Corporation's members of the Coordinating Committee conclude that such new contract, change in an existing contract, amendment to this Section 3.14 or other matter is fair and equitable to the Corporation and its stockholders and (B) both of Donegal Mutual's members of the Coordinating Committee conclude that such new contract, change in an existing contract, amendment to this Section 3.14 or other matter is fair and equitable to Donegal Mutual and its policyholders and (ii) if conditions (A) and (B) have been satisfied, such proposed new contract, change in an existing contract, amendment to this Section 3.14 or other matter shall be submitted for approval to the respective Boards of Directors of the Corporation and Donegal Mutual. For purposes of this Section 3.14, the term "the Corporation" shall mean Donegal Group Inc. and its direct and indirect wholly owned subsidiaries and the term "Donegal Mutual" shall mean Donegal Mutual Insurance Company and its direct and indirect wholly owned subsidiaries.

Section 3.15. Executive Committee. There shall be an Executive Committee that shall have and exercise all power and authority of the Board of Directors between meetings of the Board of Directors to the extent consistent with the DGCL. The Executive Committee shall consist of not fewer than three members of the Board of Directors, one of whom shall be the Chief Executive Officer of the Corporation and who shall be Chairman of the Executive

Committee, unless another member shall be designated by resolution of the Board of Directors. The members of the Executive Committee shall be designated from time to time by resolution of the Board of Directors. Not less than one-third of the members of the Executive Committee must be directors who are not officers or employees of the Corporation or of any entity controlling, controlled by or under common control with the Corporation and who are not beneficial owners of a controlling interest in the voting securities of the Corporation. The Executive Committee shall meet at any time and place designated upon not fewer than six hours oral or written notice given by or on behalf of the Chairman of the Executive Committee. The Executive Committee shall report promptly to the entire Board of Directors the substance of any action taken by the Executive Committee.

Section 3.16. Audit Committee. The Board of Directors shall appoint annually an Audit Committee that shall consist of not fewer than three directors who satisfy applicable independence requirements, are not officers or employees of the Corporation or of any entity controlling, controlled by or under common control with the Corporation and who are not beneficial owners of a controlling interest in the voting securities of the Corporation. The Audit Committee shall operate in accordance with its written charter adopted by the Board of Directors on March 19, 2004 as the same may be amended from time to time and shall have responsibility for the selection of the Corporation's independent registered public accounting firm, reviewing the scope and results of the audit and reviewing the adequacy of the Corporation's accounting, financial, internal and operating controls.

Section 3.17. Nominating Committee. The Board of Directors shall appoint annually a Nominating Committee which shall consist of not fewer than two directors who satisfy applicable independence requirements, are not officers or employees of the Corporation or of any entity controlling, controlled by or under common control with the Corporation and who are not beneficial owners of a controlling interest in the voting securities of the Corporation. The Nominating Committee shall operate in accordance with its written charter, as adopted by the Board of Directors on March 19, 2004, as the same may be amended from time to time, and shall have responsibility for identification of individuals believed to be qualified to become members of the Board of Directors and to recommend to the Board of Directors nominees to stand for election as directors, identification of members of the Board of Directors qualified to serve on the various committees of the Board of Directors, evaluation of the procedures and processes by which the committees of the Board of Directors conduct a self-evaluation of their performance and provision to the Board of Directors of an annual performance evaluation of the Nominating Committee.

Section 3.18. Compensation Committee. The Board of Directors shall appoint annually a Compensation Committee that shall consist of not fewer than two directors who satisfy applicable independence requirements, are not officers or employees of the Corporation or of any entity controlling, controlled by or under common control with the Corporation and who are not beneficial owners of a controlling interest in the voting

securities of the Corporation. The Compensation Committee shall be responsible for the annual review of the compensation of the Corporation's executive officers, the provision of annual compensation recommendations to the Board of Directors for all of the Corporation's employees, including its executive officers, the determination of employees who participate in the Corporation's employee stock option plans and the provision of recommendations to the Board of Directors as to individual stock option grants, the review of the Corporation's employee benefit plans and the performance of such other responsibilities as may be assigned to it by the Board of Directors.

Section 3.19. Conduct of Business by Committees. Each committee of the Board of Directors of the Corporation may determine the procedural rules for meeting and conducting its business and shall act in accordance therewith, except as otherwise provided in these By-laws or the DGCL. Adequate provision shall be made for notice to members of all Committee meetings.

#### Article 4

#### OFFICERS

Section 4.1. Election and Office. The officers of the Corporation shall be elected annually by the Board of Directors at its organization meeting and shall consist of a President, a Secretary and a Treasurer. The Board of Directors may also elect one or more Vice Presidents and such other officers and appoint such agents as it shall deem necessary. Each officer of the Corporation shall hold office for such term, have such authority and perform such duties as set forth in these By-laws or as may from time to time be prescribed by the Board of Directors in consultation with the President. Any two or more offices may be held by the same person.

Section 4.2. Salaries. The salaries of all officers of the Corporation shall be fixed by the Board of Directors.

Section 4.3. Removal and Vacancies. The Board of Directors may remove any officer or agent elected or appointed at any time and within the period, if any, for which such person was elected or employed whenever in the judgment of the Board of Directors it is in the best interests of the Corporation, and all persons shall be elected and employed subject to the provisions hereof. If the office of any officer becomes vacant for any reason, the vacancy shall be filled by the Board of Directors.

Section 4.4. Powers and Duties of the President. Unless otherwise determined by the Board of Directors, the President shall have the usual duties of a chief executive officer with general supervision over and direction of the affairs of the Corporation. In the exercise of these duties and subject to the limitations of the DGCL or any other applicable law, the

Amended and Restated Certificate of Incorporation, these By-laws and the actions of the Board of Directors, he may appoint, suspend and discharge officers, employees and agents, may fix the compensation of all officers and assistant officers, shall preside at all meetings of the stockholders at which he shall be present, and, unless there is a Chairman of the Board of Directors, shall preside at all meetings of the Board of Directors and shall be a member of all committees. He shall also do and perform such other duties as from time to time may be assigned to him by the Board of Directors.

Unless otherwise determined by the Board of Directors, the President shall have full power and authority on behalf of the Corporation to attend and to act and to vote at any meeting of the stockholders of any corporation in which the Corporation may hold stock, and, at any such meeting, shall possess and may exercise any and all the rights and powers incident to the ownership of such stock and which, as the owner thereof, the Corporation might have possessed and exercised.

Section 4.5. Powers and Duties of Vice Presidents. Each Vice President shall have such duties as may be assigned to him from time to time by the Board of Directors, the Executive Committee or the President. In the event of a temporary absence of the President on vacation or business, the President may designate a Vice President or Vice Presidents who will perform the duties of the President in such absence. In the event of a prolonged absence of the President due to illness or disability or for any other reason, the Board of Directors shall designate a Vice President or Vice Presidents who will perform the duties of the President during such absence.

Section 4.6. Powers and Duties of the Secretary. The Secretary of the Corporation shall attend all meetings of the Board of Directors and of the stockholders and shall keep accurate records thereof in one or more minute books kept for that purpose, shall give, or cause to be given, the required notice of all meetings of the stockholders and of the Board of Directors, shall keep in safe custody the corporate seal of the Corporation and affix the same to any instrument requiring it, and when so affixed, it shall be attested by his signature or by the signature of the Treasurer or any Assistant Secretary or Assistant Treasurer of the Corporation. The Secretary also shall keep, or cause to be kept, the stock certificate books, stock transfer books and stock ledgers of the Corporation, in which shall be recorded all stock issues, transfers, the dates of same, the names and addresses of all stockholders and the number of shares held by each, shall, when necessary, for holders of certificated shares, prepare new certificates upon the transfer of shares and the surrender of the old certificates, shall cancel such surrendered certificates and shall perform such other duties as may be assigned to him by the President.

Section 4.7. Powers and Duties of the Treasurer. The Treasurer of the Corporation shall have the custody of the Corporation's funds and securities, shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation, shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such

depositories as shall be designated by the President, shall disburse the funds of the Corporation as may be ordered by the President or the Board of Directors, taking proper vouchers for such disbursements, shall render to the President and the Board of Directors, at the regular meetings of the Board of Directors or whenever they may require it, an account of all his transactions as Treasurer and of the financial condition of the Corporation and shall have the right to affix the seal of the Corporation to any instrument requiring it, and to attest to the same by his signature and, if so required by the Board of Directors, he shall give bond in such sum and with such surety as the Board of Directors may from time to time direct.

Section 4.8. Designation of a Chief Financial Officer. The Board of Directors shall have the power to designate from among the President, any Vice President or the Treasurer of the Corporation a Chief Financial Officer who shall be deemed the principal financial and accounting officer.

## Article 5

### INDEMNIFICATION

Section 5.1. Indemnification. The Corporation shall indemnify any director or officer of the Corporation and any director or officer of its subsidiaries against expenses, including legal fees, judgments, fines and amounts paid in settlement, actually and reasonably incurred by him to the fullest extent now or hereafter permitted by law in connection with any threatened, pending or completed action, suit, investigation or proceeding, whether derivative or nonderivative, and whether civil, criminal, administrative or investigative, brought or threatened to be brought against him by reason of his performance or status as a director or officer of the Corporation, any of its subsidiaries or any other entity in which he was serving at the request of the Corporation or in any other capacity on behalf of the Corporation, its parent or any of its subsidiaries if such officer or director acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Notwithstanding the foregoing, in the case of any threatened, pending or completed action or suit by or in the right of the Corporation, no indemnification shall be made in respect of any claim, issue or matter as to which such officer or director shall have been adjudged to be liable to the Corporation unless and only to the extent the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper.

The Board of Directors by resolution adopted in each specific instance may similarly indemnify any person other than a director or officer of the Corporation for liabilities

incurred by him in connection with services rendered by him for or at the request of the Corporation or any of its subsidiaries.

The provisions of this Section 5.1 shall be applicable to all actions, suits, investigations or proceedings commenced after its adoption, whether such arise out of acts or omissions which occurred prior or subsequent to such adoption and shall continue as to a person who has ceased to be a director or officer or to render services for or at the request of the Corporation and shall inure to the benefit of the heirs, executors and administrators of such a person. The rights of indemnification provided for herein shall not be deemed the exclusive rights to which any such director, officer or other person may be entitled.

Section 5.2. Authorization and Determination of Indemnification. Any indemnification under this Article 5, unless ordered by a court, shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer or other person is proper in the circumstances because he has met the applicable standard of conduct as specified in Section 5.1 of this Article 5. A person shall be deemed to have met such applicable standard of conduct if his action is based in good faith on the records or books of account of the Corporation or another enterprise, or on information supplied to him by the officers of the Corporation or another enterprise in the course of their duties, or on the advice of legal counsel for the Corporation or another enterprise or on information or records given or reports made to the Corporation or another enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Corporation or another enterprise.

Such determination shall be made (i) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (ii) if such a quorum is not obtainable, or, even if obtainable, a majority vote of a quorum of disinterested directors so directs, by independent legal counsel in a written opinion or (iii) by the stockholders. To the extent, however, that a director, officer or other person has been successful on the merits or otherwise in defense of any action, suit or proceeding described above, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses, including attorneys' fees, actually and reasonably incurred by him in connection therewith, without the necessity of authorization in the specific case.

The provisions of this Section 5.2 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met such applicable standard of conduct.

Section 5.3. Advances. Expenses incurred in defending or investigating a threatened or pending action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director, officer or other person to repay such amount if it shall ultimately be

determined that he is not entitled to be indemnified by the Corporation as authorized in this Article 5.

Section 5.4. Scope and Alteration of Indemnification Provisions. The indemnification and advancement of expenses provided by, or granted pursuant to, the other sections of this Article 5 shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any By-law, agreement, contract, vote of the stockholders or disinterested directors or pursuant to the direction, howsoever embodied, of any court of competent jurisdiction or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, it being the policy of the Corporation that indemnification of, and advancement of expenses to, the persons specified in Section 5.1 of this Article 5 shall be made to the fullest extent permitted by the DGCL.

To this end, the provisions of this Article 5 shall be deemed to have been amended for the benefit of such persons effective immediately upon any modification of the DGCL which expands or enlarges the power or obligation of corporations organized under such law to indemnify, or advance expenses to, such persons. The provisions of this Article 5 shall not be deemed to preclude the indemnification of, or advancement of expenses to, any person who is not specified in this Section 5.4 or Section 5.1 of this Article 5 but whom the Corporation has the power or obligation to indemnify, or to advance expenses for, under the provisions of the DGCL.

Section 5.5. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer or employee of the Corporation, or is or was serving at the request of the Corporation as a director, officer or employee of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power or the obligation to indemnify him against such liability under the provisions of this Article 5.

Section 5.6. Definitions. For purposes of this Article 5, references to the "Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer or employee of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer or employee of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article 5 with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

The term “another enterprise” as used in this Article 5 shall mean any other corporation or any partnership, joint venture, trust or other entity of which such person is or was serving at the request of the Corporation as a director, officer, employee or agent and shall include employee benefit plans.

Section 5.7. Nature of Rights to Indemnification. The rights of indemnification conferred upon directors and officers of the Corporation in this Article 5 shall be contract rights. Any amendment, alteration or repeal of this Article 5 that adversely affects any right of a person indemnified under this Article 5 shall be prospective only and shall not limit or eliminate any such right with respect to any proceeding involving any occurrence or alleged occurrence of any action or omission to act that took place prior to such amendment, alteration or repeal.

## Article 6

### CAPITAL STOCK

#### Section 6.1. Certificated or Uncertificated Shares.

(a) Shares of any or all of the Corporation’s classes or series of capital stock may be evidenced by certificates for shares of stock, in such form as the Board of Directors may from time to time prescribe, or may be issued in uncertificated form. The issuance of shares in uncertificated form shall not affect shares already represented by a certificate until the certificate is surrendered to the Corporation. Except as expressly provided by law, there shall be no differences in the rights and obligations of stockholders based on whether or not their shares are represented by certificates. The Corporation shall issue to any holder who so requests share certificates representing shares registered in the holder’s name.

(b) Each certificate for shares of the Corporation’s capital stock shall be numbered and registered in a share register as it is issued, shall bear the name of the registered holder, the number and class of shares represented thereby and the par value of each share represented by the certificate or a statement that such shares are without par value, as the case may be, shall be signed by the President or any Vice President of the Corporation and the Secretary, any Assistant Secretary or the Treasurer of the Corporation or any other person properly authorized by the Board of Directors and shall bear the seal of the Corporation, which seal may be a facsimile engraved or printed. Where the certificate is signed by a transfer agent or a registrar, the signature of any corporate officer on such certificate may be a facsimile engraved or printed. In case any officer who has signed, or whose facsimile signature has been placed on, any share certificate shall have ceased to be such officer because of death, resignation or otherwise before the certificate is issued, the certificate may nevertheless be issued by the Corporation with the same effect as if the officer had not ceased to be such at the date of its issue.

(c) Within a reasonable time after the issuance or transfer of uncertificated shares, the Corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on stock certificates pursuant to the DGCL or a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Section 6.2. Transfers. Transfers of shares of capital stock of the Corporation shall be made only on the stock record of the Corporation by the holder of record thereof or by his attorney thereunto authorized by the power of attorney duly executed and filed with the Secretary of the Corporation or the transfer agent thereof, and (i) in the case of certificated shares, only on surrender of the certificate or certificates representing such shares, properly endorsed or accompanied by a duly executed stock transfer power, or (ii) in the case of uncertificated shares, upon receipt of proper transfer instructions from the registered owner of such uncertificated shares, or from a duly authorized attorney or from an individual presenting proper evidence of succession, assignment or authority to transfer the shares. The Board of Directors may make such additional rules and regulations as it may deem expedient concerning the issue and transfer of certificates representing shares of capital stock of the Corporation.

Section 6.3. Lost Certificates. Should any stockholder of the Corporation allege the loss, theft or destruction of one or more certificates for shares of the Corporation and request the issuance by the Corporation of a substitute certificate or uncertificated shares therefor, the Board of Directors may direct that a new certificate of the same tenor and for the same number of shares or uncertificated shares be issued to such person upon such person's making of an affidavit in form satisfactory to the Board of Directors setting forth the facts in connection therewith, provided that prior to the receipt of such request the Corporation shall not have either registered a transfer of such certificate or received notice that such certificate has been acquired by a bona fide purchaser. When authorizing such issuance of a new certificate or uncertificated shares, the Board of Directors may, in its discretion and as a condition precedent to the issuance of such certificate or uncertificated shares, require the owner of such lost, stolen or destroyed certificate, or his heirs or legal representatives, as the case may be, to advertise the same in such manner as the Board of Directors shall require and/or to give the Corporation a bond in such form and for such sum and with such surety or sureties, with fixed or open penalty, as shall be satisfactory to the Board of Directors, as indemnity for any liability or expense that it may incur by reason of the original certificate remaining outstanding.

Section 6.4. Dividends. The Board of Directors may, from time to time, at any duly convened regular or special meeting or by unanimous consent, declare and pay dividends

upon the outstanding shares of capital stock of the Corporation in cash, property or shares of the Corporation.

Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, shall deem proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation or for such other purposes as the Board of Directors shall believe to be in the best interests of the Corporation, and the Board of Directors may reduce or abolish any such reserve in the manner in which it was created.

Article 7

FINANCIAL REPORT TO STOCKHOLDERS

The President of the Corporation and the Board of Directors shall present at each annual meeting of the stockholders a full and complete statement of the business and affairs of the Corporation for the preceding year. Such statement shall be prepared and presented in whatever manner the Board of Directors shall deem advisable and need not be verified by a certified public accountant or sent to the stockholders of the Corporation.

Article 8

CHECKS AND NOTES

All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors or the President may from time to time designate.

Article 9

FISCAL YEAR

The fiscal year of the Corporation shall be as determined from time to time by resolution of the Board of Directors.

Article 10

SEAL

The seal of the Corporation shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware." Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any manner reproduced.

Article 11

NOTICES; COMPUTING TIME PERIODS

Section 11.1. Method and Contents of Notice. Whenever, under the provisions of the DGCL or of the Certificate of Incorporation or of these By-laws, written notice is required to be given to any person, it may be given to such person either personally or by sending a copy thereof through the mail, postage prepaid or by electronic mail, to his address appearing on the books of the Corporation or supplied by him to the Corporation for the purpose of notice. If the notice is sent by mail, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail. Such notice shall specify the place, day and hour of the meeting, if any, and, in the case of a special meeting of the stockholders, the general nature of the business to be transacted.

Section 11.2. Waiver of Notice. Any written notice required to be given to any person may be waived in a writing signed by the person entitled to such notice whether before or after the time stated therein. Attendance of any person entitled to notice, whether in person or by proxy, at any meeting shall constitute a waiver of notice of such meeting, except where any person attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened. Where written notice is required for any meeting, the waiver thereof must specify the purpose only if it is for a special meeting of the stockholders.

Section 11.3. Computing Time Periods. In computing the number of days for purposes of these By-laws, all days shall be counted, including Saturdays, Sundays or holidays; provided, however, that if the final day of any time period falls on a Saturday, Sunday or holiday, then the final day shall be deemed to be the next day which is not a Saturday, Sunday or holiday. In computing the number of days for the purpose of giving notice of any meeting, the date upon which the notice is given shall be counted but the day set for the meeting shall not be counted.

Article 12

AMENDMENTS

These By-laws may be altered, amended or repealed by an affirmative vote of holders of a majority of the voting power of the shares of common stock of the Corporation entitled to vote thereon at any annual or special meeting duly convened after notice to the stockholders of that purpose or by a majority vote of the members of the Board of Directors at any regular or special meeting of the Board of Directors duly convened after notice to the Board of Directors of that purpose, subject always to the power of the stockholders to change such action of the Board of Directors.

Article 13

INTERPRETATION OF BY-LAWS

All words, terms and provisions of these By-laws shall be interpreted and defined by and in accordance with the DGCL and as the same may be amended from time to time hereafter.

Last Amended April 19, 2007

## DONEGAL GROUP INC.

**2007 EQUITY INCENTIVE PLAN FOR EMPLOYEES**

1. *Purpose.* The purpose this Plan is to encourage the employees of Donegal Group Inc., or the Company, and its subsidiaries to acquire a proprietary interest in the growth and performance of the Company, and continuing to align the interests of those employees with the interests of the Company's stockholders to generate an increased incentive for such person to contribute to the future success and prosperity of the Company and the member companies of the Donegal Insurance Group, or the Group. To accomplish these purposes, this Plan provides a means whereby employees may receive stock options, stock appreciation rights, stock awards and other stock-based awards that are based on, or measured by, or payable in shares of the Company's Class A Common Stock.

2. *Administration by the Board of Directors and Role of the Committee.*

(a) *Administration by the Board of Directors.* The Board of Directors, or the Board, shall administer this Plan. The Board of the Company shall appoint a committee, which initially shall be the Compensation Committee. The Committee, with the advice of the Company's chief executive officer, shall recommend to the Board the employees to whom awards will be granted and the type, size and terms of each grant. The Board has the authority to make all other determinations necessary or advisable for the administration of this Plan. All decisions, determinations and interpretations of the Board shall be final and binding on all grantees and all other holders of awards granted under this Plan.

(b) *Composition and Role of the Committee.* The Committee shall be comprised of two or more members of the Board, each of whom shall be a "non-employee director" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, or the Exchange Act. In addition, each member of the Committee shall be an "outside director" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code. Subject to the foregoing, from time to time the Board may increase or decrease the size of the Committee, appoint additional members, remove members, with or without cause, appoint new members, fill vacancies or remove all members of the Committee and thereafter directly administer this Plan. The Committee shall have those duties and responsibilities assigned to it under this Plan, and the Board may assign to the Committee the authority to make certain other determinations and interpretations under this Plan. All decisions, determinations and interpretations of the Committee in such cases shall be final and binding on all grantees and all other holders of awards granted under this Plan.

3. *Shares Subject to this Plan.*

(a) *Shares Authorized.* The total aggregate number of shares of Class A Common Stock that may be issued under this Plan is 3,500,000 shares, subject to adjustment as described below. Each of the shares authorized under this Plan may be issued pursuant to incentive stock options awards within the meaning of Section 422 of the Code. The shares may be authorized but unissued shares or reacquired shares for purposes of this Plan.

(b) *Share Counting.* For administrative purposes, when the Board approves an award payable in shares of Class A Common Stock, the Board shall reserve, and count against the share limit, shares equal to the maximum number of shares that may be issued under the award. If and to the extent options or stock appreciation rights granted under this Plan terminate, expire or are canceled, forfeited, exchanged or surrendered without having been exercised, and if and to the extent that any restricted stock awards are forfeited or terminated, or otherwise are not paid in full, the shares reserved for such awards shall again be available for purposes of this Plan. If stock appreciation rights are granted, the full number of shares subject to the stock appreciation right shall be considered issued under this Plan, without regard to the number of shares issued upon settlement of the stock appreciation rights.

(c) *Individual Limits.* All awards under this Plan shall be expressed in shares of Class A Common Stock. The maximum number of shares of Class A Common Stock with respect to all awards that may be

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made to any individual under this Plan during any calendar year shall be 200,000 shares, subject to adjustment as described below.

(d) Adjustments. If any change in the number or kind of shares of Class A Common Stock outstanding occurs by reason of:

- a stock dividend, spinoff, recapitalization, stock split or combination or exchange of shares;
- a merger, reorganization or consolidation;
- a reclassification or change in par value; or
- any other extraordinary or unusual event affecting the outstanding Class A Common Stock as a class without the Company's receipt of consideration, or if the value of outstanding shares of Class A Common Stock is substantially reduced as a result of a spinoff or the Company's payment of any extraordinary dividend or distribution,

the maximum number of shares of Class A Common Stock available for issuance under this Plan, the maximum number of shares of Class A Common Stock for which any individual may receive grants in any year, the kind and number of shares covered by outstanding awards, the kind and number of shares to be issued or issuable under this Plan and the price per share or applicable market value of such grants shall be automatically equitably adjusted to reflect any increase or decrease in the number of, or change in the kind or value of, issued shares of Class A Common Stock to preclude, to the extent practicable, the enlargement or dilution of rights and benefits under this Plan and such outstanding grants. Any fractional shares resulting from such adjustment shall be eliminated. Any adjustments to outstanding awards shall be consistent with Section 409A of the Code, to the extent applicable.

4. Eligibility for Participation. All employees of the Company and its subsidiaries and the member companies of the Group, including employees who are officers or members of the Board of any of the foregoing companies, shall be eligible to participate in this Plan. The Committee shall recommend to the Board the employees to receive awards and the number of shares of Class A Common Stock subject to each award.

5. Awards. Awards under this Plan may consist of stock options as described in Section 7, stock appreciation rights as described in Section 8, stock awards as described in Section 9 and other stock-based awards as described in Section 10. The Committee shall specify the terms and conditions of the award granted to the grantee in an agreement. The award shall be conditioned upon the grantee's signed agreement to accept the award and to acknowledge that all decisions and determinations of the Committee and the Board shall be final and binding on the grantee, his or her beneficiaries and any other person having or claiming an interest under the award. Awards under this Plan need not be uniform as among the grantees. The Board may grant awards that are contingent on, and subject to, stockholder approval of this Plan or an amendment to this Plan.

6. Definition of Fair Market Value. For purposes of this Plan, "fair market value" shall mean the last sales price of a share of Class A Common Stock on the NASDAQ Stock Market, or Nasdaq, on the day on which fair market value is being determined, as reported by Nasdaq. In the event that there are no transactions in shares of Class A Common Stock on Nasdaq on such day, the fair market value will be determined as of the immediately preceding day on which there were transactions in shares of Class A Common Stock on that exchange. If shares of Common Stock are not listed by Nasdaq, the Board shall determine the fair market value pursuant to Section 422 of the Code.

7. Stock Options. The Committee may recommend to the Board the grant of stock options to an employee upon such terms and conditions as the Committee deems appropriate under this Section 7.

(a) Number of Shares. The Committee shall recommend the number of shares of Class A Common Stock that will be subject to each grant of stock options.

(b) Type of Stock Option, Price and Term. The Committee may recommend to the Board the grant of stock options to purchase Class A Common Stock that are intended to qualify as incentive stock options within the meaning of Section 422 of the Code, or incentive stock options, or stock options that are not intended to

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so qualify, or nonqualified stock options. The Committee shall recommend the exercise price of shares of Class A Common Stock subject to a stock option, which shall be equal to or greater than the fair market value of a share of Class A Common Stock on the date of grant.

(c) *Exercisability of Stock Options.* Each stock option agreement shall specify the period or periods of time within which a grantee may exercise a stock option, in whole or in part, as determined by the Board. No grantee may exercise a stock option after ten years from the grant date of the stock option. The Board may accelerate the exercisability of any or all outstanding stock options at any time for any reason.

(d) *Termination of Employment.* Except as provided in the stock option agreement, a grantee may only exercise a stock option while the grantee is employed by the Company or any of its subsidiaries or by Donegal Mutual or any of its subsidiaries. The Board shall specify in the option agreement under what circumstances and during what time periods a grantee may exercise a stock option after employment terminates. If the term of an incentive stock option continues for more than three months after employment terminates due to retirement or more than one year after termination of employment due to death or disability, the stock option shall lose its status as an incentive stock option and shall be treated as a nonqualified stock option.

(e) *Exercise of Stock Options.* A grantee may exercise a stock option that has become exercisable, in whole or in part, by delivering a notice of exercise to the Company. The grantee shall pay the exercise price for the stock option:

- in cash;
- by delivery of shares of Class A Common Stock at fair market value, shares of Class B Common Stock at fair market value, or a combination of those shares, as the Committee or the Board may determine from time to time and subject to the terms and conditions as the Committee or the Board may prescribe;
- by payment through a brokerage firm of national standing whereby the grantee will simultaneously exercise the stock option and sell the shares acquired upon exercise through the brokerage firm and the brokerage firm shall remit to the Company from the proceeds of the sale of the shares the exercise price as to which the option has been exercised in accordance with the procedures permitted by Regulation T of the Federal Reserve Board; or
- by any other method authorized by the Committee or the Board.

The Company must receive payment for the shares acquired upon exercise of the stock option, and any required withholding taxes and related amounts, by the time specified by the Committee depending on the type of payment being made, but in all cases prior to the issuance of the shares.

(f) *Incentive Stock Options.* The Committee shall recommend other terms and conditions of an incentive stock option as shall be necessary or desirable in order to qualify such stock option as an incentive stock option under Section 422 of the Code, including the following provisions, which may be omitted or modified if no longer required under that section:

- As determined as of the grant date, the aggregate fair market value of shares subject to incentive stock options that first become exercisable by a grantee during any calendar year, under all plans of the Company, shall not exceed \$100,000;
  - The exercise price of any incentive stock option granted to an individual who owns stock having more than 10% of the total combined voting power of all classes of stock of the Company must be at least 110% of the fair market value of the shares subject to the incentive stock option on the grant date, and the individual may not exercise the incentive stock option after the expiration of five years from the date of grant; and
  - The grantee may not exercise the incentive stock option more than three months, or one year in the case of death or disability within the meaning of the applicable Code provisions, after termination of employment.
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8. Stock Appreciation Rights. The Committee may recommend to the Board the grant of stock appreciation rights to an employee separately or in tandem with any stock option, for all or a portion of the applicable stock option, under this Section 8.

(a) Number of Shares, Term and Base Amount. The Committee shall recommend the number of shares, the term and the base amount of the stock appreciation right at the time it grants the stock appreciation right. The term of a stock appreciation right shall not exceed ten years from the grant date. The Committee shall recommend the base price of the stock appreciation right, which shall be equal to or greater than the fair market value of a share of Class A Common Stock on the date of grant.

(b) Exercisability. Each stock appreciation right agreement shall specify the period or periods of time within which a grantee may exercise the stock appreciation right, in whole or in part, as determined by the Board. The Board may accelerate the exercisability of any or all outstanding stock appreciation rights at any time for any reason. A tandem stock appreciation right shall be exercisable only during the period in which the stock option to which it is related is also exercisable.

(c) Termination of Employment. Except as provided in the stock appreciation right agreement, a grantee may exercise a stock appreciation right only while the grantee is employed by the Company or any of its subsidiaries or by Donegal Mutual or any of its subsidiaries. The Board shall specify in the stock appreciation right agreement under what circumstances and during what time periods a grantee may exercise a stock appreciation right after employment terminates.

(d) Exercise of Stock Appreciation Right. When a grantee exercises a stock appreciation right, the grantee shall receive in settlement of the stock appreciation right an amount equal to the value of the appreciation in the Class A Common Stock for the number of stock appreciation rights exercised. The appreciation in the Class A Common Stock shall be the amount by which the fair market value of the underlying shares of Class A Common Stock on the date of exercise of the stock appreciation right exceeds the base amount of the stock appreciation right as specified in the stock appreciation right agreement. The Company may pay the appreciation amount in shares of Class A Common Stock, cash or any combination of the two, as determined by the Board in the stock appreciation right agreement.

9. Stock Awards. The Committee may recommend to the Board the issuance of shares of Class A Common Stock to an employee upon such terms and conditions as the Committee deems appropriate under this Section 9. The Committee may recommend to the Board the issuance of shares of Class A Common Stock for cash consideration or for no cash consideration, and subject to restrictions or no restrictions. The Committee may recommend conditions under which restrictions on stock awards shall lapse over a period of time or according to other criteria as the Committee deems appropriate, including restrictions based upon the achievement of specific performance goals.

(a) Number of Shares. The Committee shall recommend the number of shares of Class A Common stock to be issued pursuant to a stock award and any restrictions applicable to the stock award.

(b) Requirement of Employment. The Board shall specify in the stock award agreement under what circumstances a grantee may retain stock awards after termination of the grantee's employment and the circumstances under which the stock awards may be forfeited.

(c) Restrictions on Transfer. During the period that the stock award is subject to restrictions, a grantee may not sell, assign, transfer, pledge or otherwise dispose of the shares of the stock award except upon death as described in Section 13. Each certificate representing a share of Class A Common Stock issued under the stock award shall contain a legend giving appropriate notice of the restrictions on the stock award. The grantee shall be entitled to have the legend removed when all restrictions on the shares subject to the stock award have lapsed. The Company may maintain possession of any certificates representing shares subject to the stock award until all restrictions on the shares subject to the stock award have lapsed.

(d) Right To Vote and To Receive Dividends. The Committee shall recommend to what extent, and under what conditions, the grantee shall have the right to vote the shares subject to the stock award and to receive any dividends or other distributions paid on the shares during the restriction period.

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10. Other Stock-Based Awards. The Committee may recommend to the Board the grant of other awards that are based on, measured by or payable in Class A Common Stock to an employee on such terms and conditions as the Committee deems appropriate under this Section 10. The Committee may recommend to the Board the grant of other stock-based awards subject to achievement of performance goals or other conditions and may be payable in shares of Class A Common Stock or cash, or a combination of cash and shares, as recommended by the Committee in the stock-based award agreement.

11. Date of Grant. The grant date of an award under this Plan shall be the date of the Board of Director's approval or such later date as may be determined by the Board at the time it authorizes the award. The Board may not make retroactive grants of awards under this Plan. The Company shall provide notice of the award to the grantee within a reasonable time after the grant date.

12. Withholding. All grants under this Plan shall be subject to applicable federal, including FICA, state and local tax withholding requirements. The Company may require that the grantee or other person receiving or exercising a grant pay to the Company the amount of any federal, state or local taxes that the Company is required to withhold with respect to the grant, or the Company may deduct from other wages paid to the grantee the amount of any withholding taxes due with respect to the grants. The Board or the Committee may permit a grantee to elect to satisfy the Company's tax withholding obligations with respect to grants paid in shares of Class A Common Stock by having shares of Class A Common Stock withheld, at the time such grants become taxable, up to an amount that does not exceed the minimum applicable withholding tax rate for federal, including FICA, state and local tax liabilities. Any shares so withheld will be valued by the Board or the Committee as of the date the grants become taxable.

13. Transferability of Grants. Only the grantee of an award may exercise rights under the award grant during the grantee's lifetime, and a grantee may not transfer those rights except by will or by the laws of descent and distribution. When a grantee dies, the personal representative or other person entitled to succeed to the rights of the grantee may exercise those rights. Any successor to a grantee must furnish proof satisfactory to the Company of his or her right to receive the award under the grantee's will or under the applicable laws of descent and distribution.

14. Requirements for Issuance of Shares. The Company will not issue shares of Class A Common Stock in connection with any award under this Plan until all legal requirements applicable to the issuance of the shares have been complied with to the satisfaction of the Board. The Board shall have the right to condition any award made to any employee hereunder on the employee's undertaking in writing to comply with the restrictions on his or her subsequent disposition of shares subject to the award as the Board shall deem necessary or advisable, and certificates representing those shares may be legended to reflect any such restrictions. Certificates representing shares of Class A Common Stock issued under this Plan will be subject to such stop-transfer orders and other restrictions as may be required by applicable laws, regulations and interpretations, including any requirement that a legend be placed thereon. No grantee shall have any right as a stockholder with respect to shares of Class A Common Stock covered by an award until shares have been issued to the grantee.

15. Amendment and Termination of this Plan.

(a) Amendments. The Board may amend or terminate this Plan at any time, except that the Board shall not amend this Plan without approval of the stockholders of the Company if such approval is required in order to comply with the Code or applicable laws, or to comply with applicable stock exchange requirements. The Board may not, without the consent of the grantee, negatively affect the rights of a grantee under any award previously granted under this Plan.

(b) No Repricing Without Stockholder Approval. The Board may not reprice stock options or stock appreciation rights, nor may the Board amend this Plan to permit repricing of options or stock appreciation rights unless the stockholders of the Company provide prior approval for the repricing.

(c) Termination. This Plan shall terminate on April 19, 2017, unless the Board earlier terminates this Plan or the term is extended with the approval of the stockholders of the Company. The termination of this

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Plan shall not impair the power and authority of the Board or the Committee with respect to an outstanding award.

16. Grants in Connection with Corporate Transactions and Otherwise. Nothing contained in this Plan shall be construed to:

- limit the right of the Board to grant awards under this Plan in connection with the acquisition, by purchase, lease, merger, consolidation or otherwise, of the business or assets of any corporation, firm or association, including awards to employees of those entities who become employees, or for other proper corporate purposes, or
- limit the right of the Company to grant stock options or make other stock-based awards outside of this Plan.

Without limiting the foregoing, the Board may grant an award to an employee of another corporation or other entity who becomes an employee by reason of a corporate merger, consolidation, acquisition of stock or property, reorganization or liquidation involving the Company in substitution for a grant made by that corporation or other entity. The terms and conditions of the awards may vary from the terms and conditions required by this Plan and from those of the substituted stock awards, as determined by the Board.

17. Right to Terminate Employment. Nothing contained in this Plan or in any award agreement entered into pursuant to this Plan shall confer upon any grantee the right to continue in the employment of the Company or any of its subsidiaries or the Group or affect any right that the Company or any of its subsidiaries or the Group may have to terminate the employment of the grantee.

18. Reservation of Shares. The Company, during the term of this Plan, shall at all times reserve and keep available the number of shares of Class A Common Stock needed to satisfy the requirements of this Plan. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares hereunder, shall relieve the Company of any liability for the failure to issue or sell any shares as to which the requisite authority shall not have been obtained.

19. Effect on Other Plans. Participation in this Plan shall not affect an employee's eligibility to participate in any other benefit or incentive plan of the Company or any of its subsidiaries or the Group. Any awards granted pursuant to this Plan shall not be used in determining the benefits provided under any other plan unless specifically provided.

20. Forfeiture for Dishonesty. Notwithstanding anything to the contrary in this Plan, if the Board finds, by a majority vote, after full consideration of the facts presented on behalf of both the Company and any grantee, that the grantee has been engaged in fraud, embezzlement, theft, commission of a felony or dishonest conduct in the course of his employment that damaged the Company or any of its subsidiaries or the Group or that the grantee has disclosed confidential information of the Company or any of its subsidiaries or the Group, the grantee shall forfeit all unexercised or unvested awards and all exercised or vested awards under which the Company has not yet delivered the certificates or cash payments therefor. The decision of the Board in interpreting and applying the provisions of this Section 20 shall be final. No decision of the Board, however, shall affect the finality of the discharge or termination of the grantee.

21. No Prohibition on Corporate Action. No provision of this Plan shall be construed to prevent the Company or any officer or director thereof from taking any action deemed by the Company or such officer or director to be appropriate or in the Company's best interest, whether or not such action could have an adverse effect on this Plan or any awards granted under this Plan, and no grantee or grantee's estate, personal representative or beneficiary shall have any claim against the Company or any officer or director thereof as a result of the taking of the action.

22. Indemnification. With respect to the administration of this Plan, the Company shall indemnify each present and future member of the Committee and the Board against, and each member of the Committee and the Board shall be entitled without further action on such member's part to indemnity from the Company for, all expenses, including the amount of judgments and the amount of approved settlements made with a view to

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the curtailment of costs of litigation, other than amounts paid to the Company itself, reasonably incurred by him or her in connection with or arising out of, any action, suit or proceeding in which he or she may be involved by reason of being or having been a member of the Committee or the Board, whether or not he or she continues to be such member at the time of incurring such expenses; provided, however, that this indemnity shall not include any expenses incurred by any such member of the Committee or the Board (i) in respect of matters as to which he or she shall be finally adjudged in any such action, suit or proceeding to have been guilty of gross negligence or willful misconduct in the performance of his or her duty as such member of the Committee or the Board; or (ii) in respect of any matter in which any settlement is effected for an amount in excess of the amount approved by the Company on the advice of its legal counsel; and provided further that no right of indemnification under the provisions set forth in this Section 22 shall be available to or enforceable by any such member of the Committee or the Board unless, within 60 days after institution of any such action, suit or proceeding, he or she shall have offered the Company in writing the opportunity to handle and defend same at its own expense. The foregoing right of indemnification shall inure to the benefit of the heirs, executors or administrators of each such member of the Committee or the Board and shall be in addition to all other rights to which such member may be entitled as a matter of law, contract or otherwise.

23. Miscellaneous Provisions.

(a) Compliance with Plan Provisions. No grantee or other person shall have any right with respect to this Plan, the Class A Common Stock reserved for issuance under this Plan or in any award until a written agreement shall have been executed by the Company and the grantee and all the terms, conditions and provisions of this Plan and the award applicable to the grantee have been met.

(b) Approval of Counsel. In the discretion of the Board, no shares of Class A Common Stock, other securities or property of the Company or other forms of payment shall be issued hereunder with respect to any award unless counsel for the Company shall be satisfied that such issuance will be in compliance with applicable federal, state, local and foreign legal, securities exchange and other applicable requirements.

(c) Compliance with Rule 16b-3. To the extent that Rule 16b-3 under the Exchange Act applies to this Plan or to awards granted under this Plan, it is the intention of the Company that this Plan comply in all respects with the requirements of Rule 16b-3, that any ambiguities or inconsistencies in construction of this Plan be interpreted to give effect to such intention and that, if this Plan shall not so comply, whether on the date of adoption or by reason of any later amendment to or interpretation of Rule 16b-3, the provisions of this Plan shall be deemed to be automatically amended so as to bring them into full compliance with such rule.

(d) Section 409A Compliance. This Plan is intended to comply with the requirements of Section 409A of the Code and the regulations issued thereunder. To the extent of any inconsistencies with the requirements of Section 409A, this Plan shall be interpreted and amended in order to meet the requirements of Section 409A. Notwithstanding anything contained in this Plan to the contrary, it is the intent of the Company to have this Plan interpreted and construed to comply with any and all provisions Section 409A including any subsequent amendments, rulings or interpretations from appropriate governmental agencies.

(e) Effects of Acceptance of the Award. By accepting any award or other benefit under this Plan, each grantee and each person claiming under or through the grantee shall be conclusively deemed to have indicated his acceptance and ratification of, and consent to, any action taken under this Plan by the Company, the Board or the Committee or its delegates.

## DONEGAL GROUP INC.

**2007 EQUITY INCENTIVE PLAN FOR DIRECTORS**

1. *Purpose.* The purpose this Plan is to enhance the ability of Donegal Group Inc., or the Company, and its subsidiaries and the member companies of the Donegal Insurance Group, or the Group, to attract and retain highly qualified directors, to establish a basis for providing a portion of director compensation in the form of equity and, in doing so, to strengthen the alignment of the interest of directors of the Company and the members of the Group with the interests of the Company's stockholders.

2. *Administration.*

(a) *Administration by the Board.* The Board of Directors of the Company, or the Board, shall administer this Plan.

(b) *Duty and Powers of the Board.* The Board shall have the power to interpret this Plan and the awards granted under this Plan and to adopt rules for the administration, interpretation and application of this Plan. The Board shall have the discretion to determine who will be granted stock options and to determine the number of stock options to be granted to any director, the timing of the grant and the terms of exercise. The Board shall not have any discretion to determine who will be granted restricted stock awards under this Plan.

(c) *Compensation; Professional Assistance; Good Faith Actions.* Members of the Board shall not receive any compensation for their services in administering this Plan. The Company shall pay all expenses and liabilities incurred in connection with the administration of this Plan. The Company may employ attorneys, consultants, accountants or other experts. The Board, the Company and the officers and directors of the Company shall be entitled to rely upon the advice, opinions or valuations of any such experts. All actions taken and all interpretations and determinations made by the Board in good faith shall be final and binding upon all grantees, the Company and all other interested persons. No member of the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to this Plan, and all members of the Board shall be fully protected and indemnified by the Company in respect to any such action, determination or interpretation.

3. *Shares Subject to this Plan.*

(a) *Shares Authorized.* The shares of stock issuable pursuant to awards shall be shares of Class A Common Stock. The total aggregate number of shares of Class A Common Stock that may be issued under this Plan is 400,000 shares, subject to adjustment as described below. The shares may be authorized but unissued shares or reacquired shares for purposes of this Plan.

(b) *Share Counting.* For administrative purposes, when the Board approves an award payable in shares of Class A Common Stock, the Board shall reserve, and count against the share limit, shares equal to the maximum number of shares that may be issued under the award. If and to the extent options granted under this Plan terminate, expire or are canceled, forfeited, exchanged or surrendered without having been exercised, and if and to the extent that any restricted stock awards are forfeited or terminated, or otherwise are not paid in full, the shares reserved for such awards shall again be available for purposes of this Plan.

(c) *Adjustments.* If any change in the number or kind of shares of Class A Common Stock outstanding occurs by reason of:

- a stock dividend, spinoff, recapitalization, stock split or combination or exchange of shares;
  - a merger, reorganization or consolidation;
  - a reclassification or change in par value; or
  - any other extraordinary or unusual event affecting the outstanding Class A Common Stock as a class without the Company's receipt of consideration, or if the value of outstanding shares of Class A Common Stock is substantially reduced as a result of a spinoff or the Company's payment of any extraordinary dividend or distribution,
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the maximum number of shares of Class A Common Stock available for issuance under this Plan, the maximum number of shares of Class A Common Stock for which any individual may receive grants in any year, the kind and number of shares covered by outstanding awards, the kind and number of shares to be issued or issuable under this Plan and the price per share or applicable market value of such grants shall automatically be equitably adjusted to reflect any increase or decrease in the number of, or change in the kind or value of, issued shares of Class A Common Stock to preclude, to the extent practicable, the enlargement or dilution of rights and benefits under this Plan and such outstanding grants. Any fractional shares resulting from such adjustment shall be eliminated. Any adjustments to outstanding awards shall be consistent with Section 409A of the Internal Revenue Code of 1986, as amended, or the Code, to the extent applicable.

4. Eligibility for Participation. Each director of the Company and each director of a member of the Group who is not eligible to receive stock options under the Company's Equity Incentive Plan for Employees shall be eligible to receive stock options under this Plan. Each director of the Company and each director of the member companies of the Group shall be eligible to receive restricted stock awards under this Plan.

5. Awards. Awards under this Plan may consist of stock options as described in Section 7 and restricted stock awards as described in Section 8. Each award shall be evidenced by a written agreement.

6. Definition of Fair Market Value. For purposes of this Plan, "fair market value" shall mean the last sales price of a share of Class A Common Stock on the NASDAQ Stock Market, or Nasdaq, on the day on which fair market value is being determined, as reported by Nasdaq. In the event that there are no transactions in shares of Class A Common Stock on Nasdaq on such day, the fair market value will be determined as of the immediately preceding day on which there were transactions in shares of Class A Common Stock on that exchange. If shares of Class A Common Stock are not listed by Nasdaq, the Board shall determine the fair market value pursuant to Section 422 of the Code.

7. Stock Options.

(a) Granting of Stock Options. The Board may grant stock options to an outside director upon such terms as the Board deems appropriate under this Section 7.

(b) Type of Stock Option and Price. The Board may grant stock options to purchase Class A Common Stock that are not intended to qualify as incentive stock options within the meaning of Section 422 of the Code. The Board shall determine the exercise price of shares of Class A Common Stock subject to a stock option, which shall be equal to or greater than the fair market value of a share of Class A Common Stock on the date of grant.

(c) Exercisability of Stock Options. Each stock option agreement shall specify the period or periods of time within which a grantee may exercise a stock option, in whole or in part, as determined by the Board. No grantee may exercise a stock option after ten years from the grant date of the stock option. The Board may accelerate the exercisability of any or all outstanding stock options at any time for any reason.

(d) Rights upon Termination of Service. Upon an grantee's termination of service as an outside director, as a result of resignation, failure to be re-elected, removal for cause or any reason other than death, the grantee shall have the right to exercise the stock option during its term within a period of three years after such termination to the extent that the stock option was exercisable at the time of termination, or within such other period, and subject to such terms and conditions, as may be specified by the Board. In the event that a grantee dies prior to the expiration of his or her stock option and without having fully exercised his or her stock option, the grantee's representative or successor shall have the right to exercise the stock option during its term within a period of one year after the grantee's death to the extent that the stock option was exercisable at the time of death, or within such other period, and subject to such terms and conditions, as may be specified by the Board.

(e) Exercise of Stock Options. A grantee may exercise a stock option that has become exercisable, in whole or in part, by delivering a notice of exercise to the Company. The grantee shall pay the exercise price for the stock option:

- in cash;
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- by delivery of shares of Class A Common Stock at fair market value, shares of Class B Common Stock at fair market value, or a combination of those shares, as the Board may determine from time to time and subject to the terms and conditions as the Board may prescribe;
- by payment through a brokerage firm of national standing whereby the grantee will simultaneously exercise the stock option and sell the shares acquired upon exercise through the brokerage firm and the brokerage firm shall remit to the Company from the proceeds of the sale of the shares the exercise price as to which the option has been exercised in accordance with the procedures permitted by Regulation T of the Federal Reserve Board; or
- by any other method authorized by the Board.

The Company must receive payment for the shares acquired upon exercise of the stock option, and any required withholding taxes and related amounts, by the time specified by the Board depending on the type of payment being made, but in all cases prior to the issuance of the shares.

#### 8. Restricted Stock Awards.

(a) Granting of Awards. Each director of the Company and each director of Donegal Mutual shall be granted an annual restricted stock award consisting of 311 shares of Class A Common Stock, except that a person who serves as a director on both boards shall receive only one annual grant. The restricted stock awards shall be made on the first business day of January in each year, commencing January 2, 2008, provided that the director served as a member of the Board or of the board of directors of a member of the Group during any portion of the preceding calendar year.

(b) Terms of Restricted Stock Awards. Each restricted stock award agreement shall contain such restrictions, terms and conditions as are required by this Plan:

- The shares of Class A Common Stock comprising the restricted stock awards may not be sold or otherwise transferred by the grantee until one year after the date of grant. Although the shares of Class A Common Stock comprising each restricted stock award shall be registered in the name of the grantee, the Company reserves the right to place a restrictive legend on the stock certificate. None of such shares of Class A Common Stock shall be subject to forfeiture.
- Subject to the restrictions on transfer set forth in this Section 8(b), a grantee shall have all the rights of a stockholder with respect to the shares of Class A Common Stock issued pursuant to restricted stock awards made under this Plan, including the right to vote the shares and receive all dividends and other distributions paid or made with respect to the shares.
- In the event of changes in the capital stock of the Company by reason of stock dividends, split-ups or combinations of shares, reclassifications, mergers, consolidations, reorganizations or liquidations while the shares comprising a restricted stock award shall be subject to restrictions on transfer, any and all new, substituted or additional securities to which the grantee shall be entitled by reason of the ownership of a restricted stock award shall be subject immediately to the terms, conditions and restrictions of this Plan.
- If a grantee receives rights or warrants with respect to any shares comprising a restricted stock award, such rights or warrants or any shares or other securities acquired by the exercise of such rights or warrants may be held, exercised, sold or otherwise disposed of by the grantee free and clear of the restrictions and obligations set forth in this Plan.

9. Date of Grant. The grant date of a stock option under this Plan shall be the date of the Board's approval or such later date as may be determined by the Board at the time it authorizes the grant. The Board may not make retroactive grants of stock options under this Plan. The Company shall provide notice of the grant to the grantee within a reasonable time after the grant date.

10. Requirements for Issuance of Shares. The Company will not issue shares of Class A Common Stock in connection with any award under this Plan until all legal requirements applicable to the issuance of the shares have been complied with to the satisfaction of the Board. The Board shall have the right to condition any award made to any director on the director's undertaking in writing to comply with the restrictions on his

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or her subsequent disposition of shares subject to the award as the Board shall deem necessary or advisable, and certificates representing those shares may be legended to reflect any such restrictions. Certificates representing shares of Class A Common Stock issued under this Plan will be subject to such stop-transfer orders and other restrictions as may be required by applicable laws, regulations and interpretations, including any requirement that a legend be placed on the certificate.

11. *Withholding.* The Company shall have the right to require the grantee to remit to the Company an amount sufficient to satisfy any federal, state or local withholding tax requirements prior to the delivery of any certificate for shares of Class A Common Stock. If and to the extent authorized by the Board, in its sole discretion, a grantee may make an election, by means of a form of election to be prescribed by the Board, to have shares of Class A Common Stock that are acquired upon exercise of a stock option withheld by the Company or to tender other shares of Class A Common Stock or other securities of the Company owned by the grantee to the Company at the time of exercise of a stock option to pay the amount of tax that would otherwise be required by law to be withheld by the Company. Any such election shall be irrevocable and shall be subject to termination by the Board, in its sole discretion, at any time. Any securities so withheld or tendered will be valued by the Board as of the date of exercise.

12. *Transferability of Awards.* Only the grantee of an award may exercise rights under the award grant during the grantee's lifetime, and a grantee may not transfer those rights except by will or by the laws of descent and distribution. When a grantee dies, the personal representative or other person entitled to succeed to the rights of the grantee may exercise those rights. Any successor to a grantee must furnish proof satisfactory to the Company of his or her right to receive the award under the grantee's will or under the applicable laws of descent and distribution. Except as stated in this Section 12, no stock option or interest therein and, for a period of one year after the date of grant, no restricted stock award or any interest therein, shall be subject to the debts, contracts or engagements of the grantee or his or her successors in interest, nor shall they be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means, whether such disposition is voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings, including bankruptcy, and any attempted disposition thereof shall be null and void and of no effect.

13. *Amendment and Termination of this Plan.*

(a) *Amendments.* The Board may amend or terminate this Plan at any time, except that the Board shall not amend this Plan without approval of the stockholders of the Company if such approval is required in order to comply with the Code or applicable laws, or to comply with applicable stock exchange requirements. The Board may not, without the consent of the grantee, negatively affect the rights of a grantee under any award previously granted under this Plan.

(b) *No Repricing Without Stockholder Approval.* The Board may not reprice stock options, nor may the Board amend this Plan to permit repricing of stock options unless the stockholders of the Company provide prior approval for the repricing.

(c) *Termination.* This Plan shall terminate on April 19, 2017, unless the Board earlier terminates this Plan or the term is extended with the approval of the stockholders of the Company. The termination of this Plan shall not impair the power and authority of the Board with respect to an outstanding award.

14. *Reservation of Shares.* The Company, during the term of this Plan, shall at all times reserve and keep available the number of shares of Class A Common Stock needed to satisfy the requirements of this Plan. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares hereunder, shall relieve the Company of any liability for the failure to issue or sell any shares as to which the requisite authority shall not have been obtained.

15. *No Prohibition on Corporate Action.* No provision of this Plan shall be construed to prevent the Company or any officer or director of the Company from taking any action deemed by the Company or such officer or director to be appropriate or in the Company's best interest, whether or not such action could have an adverse effect on this Plan or any awards granted under this Plan, and no grantee or grantee's estate, personal representative or beneficiary shall have any claim against the Company or any officer or director thereof as a result of the taking of the action.

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16. *Indemnification.* With respect to the administration of this Plan, the Company shall indemnify each present and future member of the Board against, and each member of the Board shall be entitled without further action on such member's part to indemnity from the Company for, all expenses, including the amount of judgments and the amount of approved settlements made with a view to the curtailment of costs of litigation, other than amounts paid to the Company itself, reasonably incurred by him or her in connection with or arising out of, any action, suit or proceeding in which he or she may be involved by reason of being or having been a member of the Board, whether or not he or she continues to be such member at the time of incurring such expenses; provided, however, that this indemnity shall not include any expenses incurred by any such member of the Board (i) in respect of matters as to which he or she shall be finally adjudged in any such action, suit or proceeding to have been guilty of gross negligence or willful misconduct in the performance of his or her duty as such member of the Board or (ii) in respect of any matter in which any settlement is effected for an amount in excess of the amount approved by the Company on the advice of its legal counsel; and provided further that no right of indemnification under the provisions set forth in this Section 16 shall be available to or enforceable by any such member of the Board unless, within 60 days after institution of any such action, suit or proceeding, he or she shall have offered the Company in writing the opportunity to handle and defend same at its own expense. The foregoing right of indemnification shall inure to the benefit of the heirs, executors or administrators of each such member of the Board and shall be in addition to all other rights to which such member may be entitled as a matter of law, contract or otherwise.

17. *Miscellaneous Plan Provisions.*

(a) *Compliance with Plan Provisions.* No grantee or other person shall have any right with respect to this Plan, the Class A Common Stock reserved for issuance under this Plan or in any award until a written agreement shall have been executed by the Company and the grantee and all the terms, conditions and provisions of this Plan and award applicable to the grantee have been met.

(b) *Approval of Counsel.* In the discretion of the Board, no shares of Class A Common Stock, other securities or property of the Company or other forms of payment shall be issued hereunder with respect to any award unless counsel for the Company shall be satisfied that such issuance will be in compliance with applicable federal, state, local and foreign legal, securities exchange and other applicable requirements.

(c) *Compliance with Rule 16b-3.* To the extent that Rule 16b-3 under the Securities Exchange Act of 1934, as amended, applies to awards granted under this Plan, it is the intention of the Company that this Plan comply in all respects with the requirements of Rule 16b-3, that any ambiguities or inconsistencies in construction of this Plan be interpreted to give effect to such intention and that if this Plan shall not so comply, whether on the date of adoption or by reason of any later amendment to or interpretation of Rule 16b-3, the provisions of this Plan shall be deemed to be automatically amended so as to bring them into full compliance with that rule.

(d) *Section 409A Compliance.* This Plan is intended to comply with the requirements of Section 409A of the Code and the regulations issued thereunder. To the extent of any inconsistencies with the requirements of Section 409A, this Plan shall be interpreted and amended in order to meet the requirements of Section 409A. Notwithstanding anything contained in this Plan to the contrary, it is the intent of the Company to have this Plan interpreted and construed to comply with any and all provisions Section 409A including any subsequent amendments, rulings or interpretations from appropriate governmental agencies.

(e) *Effects of Acceptance of the Award.* By accepting any award or other benefit under this Plan, each grantee and each person claiming under or through the grantee shall be conclusively deemed to have indicated his acceptance and ratification of, and consent to, any action taken under this Plan by the Company, the Board or its delegates.

**DONEGAL GROUP INC. ANNOUNCES FIRST QUARTER EARNINGS**

Jeffrey D. Miller  
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For Immediate Release

MARIETTA, Pennsylvania, April 20, 2007 — Donegal Group Inc. (NASDAQ: DGICA and DGICB) today reported net income for the first quarter ended March 31, 2007.

Increased claim activity attributable to harsh winter weather conditions in the Company's operating areas adversely impacted the Company's operating results, with net income for the first quarter of 2007 of \$5,489,938, or \$.21 per share on a diluted basis, compared to \$9,130,187, or \$.36 per share on a diluted basis, for the first quarter of 2006.

Revenues for the first quarter of 2007 were \$83,682,016, an increase of 3.0% over the year earlier period, with net premiums earned of \$76,697,819, representing a 2.9% increase over the first quarter of 2006. Net premiums written in the first quarter of 2007 grew by 4.9% to \$79,919,075 as a result of increases in both personal and commercial premium writings during the quarter. The net premiums written growth rate for the first quarter of 2007 benefited from the renewal of the Company's 2007 reinsurance program at rates relatively comparable to its 2006 reinsurance rate levels in contrast to the increase in reinsurance costs in 2006 that slowed premium growth throughout the year.

Net investment income increased to \$5,504,059 for the first quarter of 2007, an increase of 10.4% over the \$4,984,528 reported for the first quarter of 2006. Improvements in the short-term interest rate environment contributed to an increase in the Company's average pre-tax investment yield compared to the year earlier period. The increased yield was partially offset by the Company's continued investment in tax-exempt municipal bonds and slower growth in invested assets as a result of increased claim payment activity during the first quarter of 2007.

The Company's combined ratio was 98.4% for the first quarter of 2007, compared to 90.5% achieved for the first quarter of 2006. The Company's loss ratio for the first quarter of 2007 was 66.0%, increasing significantly from the loss ratio of 58.1% posted for the first quarter of 2006, with the increase reflecting the previously noted increased weather-related claim activity in the 2007 quarter. The Company's prior accident year reserve development in the first quarter of 2007 continued to show favorable trends

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comparable to those experienced in the first quarter of 2006. The Company's expense ratio increased slightly to 32.1% for the first quarter of 2007, compared to 31.9% for the first quarter of 2006, attributable to modest increases within the Company's expense base in order to support the Company's long-term growth plans. Reductions in underwriting-based incentive costs in the first quarter of 2007 compared to the year earlier period partially offset these increases.

"Although we are disappointed by the impact of winter weather on our first quarter results, we have not identified any loss trends that would indicate deterioration in the underlying quality of our book of business. We are pleased to report a solid increase in premium writings during the quarter. Considering the very competitive insurance market conditions, we are encouraged by increased quoting and issuance activity through our automated underwriting systems and are anticipating continued quality premium growth as the year progresses," stated Donald H. Nikolaus, President and Chief Executive Officer of Donegal Group Inc.

The operating results for the first quarter of 2007 contributed to an increase in the Company's book value to \$12.93 per common share at March 31, 2007, compared to \$12.70 per common share at December 31, 2006.

The Company's board of directors yesterday approved a quarterly cash dividend payable May 15, 2007 of \$.09 per share of its Class A common stock and \$.0775 per share of its Class B common stock to stockholders of record as of the close of business on May 1, 2007. These dividends represent percentage increases of 9.1% for the Company's Class A common stock and 10.7% for the Company's Class B common stock compared to the previous quarterly cash dividend.

The Company will hold a conference call and webcast on Friday, April 20, 2007, beginning at 11:00 A.M. Eastern Time. You may participate in the conference call by calling 1-866-202-3048 (Passcode 47509835) 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](http://www.donegalgroup.com). An instant replay of the conference call will be available until April 27, 2007 by calling 1-888-286-8010 (Passcode 51446225).

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 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, 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.

(Tables Follow)

Donegal Group Inc.  
Financial Highlights  
(unaudited)

	Quarter Months Ended March 31	
	2007	2006
Net premiums earned	\$76,697,819	\$74,513,849
Investment income, net of investment expenses	5,504,059	4,984,528
Net realized investment gains	104,785	474,799
Total revenues	83,682,016	81,282,895
Net income	\$ 5,489,938	\$ 9,130,187
Net income per common share:		
Basic	\$ 0.22	\$ 0.37
Diluted	\$ 0.21	\$ 0.36

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

	Quarter Ended March 31	
	2007	2006
Net premiums earned	\$ 76,698	\$ 74,514
Investment income, net of investment expenses	5,504	4,985
Net realized investment gains	105	475
Lease income	261	242
Installment payment fees	1,114	1,067
Total revenues	<u>83,682</u>	<u>81,283</u>
Net losses and loss expenses	50,595	43,289
Amortization of deferred policy acquisition costs	12,418	11,886
Other underwriting expenses	12,186	11,901
Other expenses	492	393
Policyholder dividends	248	372
Interest	709	644
Total expenses	<u>76,648</u>	<u>68,485</u>
Income before income tax expense	7,034	12,798
Income tax expense	1,545	3,668
Net income	<u>\$ 5,489</u>	<u>\$ 9,130</u>
Net income per common share:		
Basic	<u>\$ 0.22</u>	<u>\$ 0.37</u>
Diluted	<u>\$ 0.21</u>	<u>\$ 0.36</u>
Supplementary Financial Analysts' Data		
Weighted average number of shares outstanding:		
Basic	25,288,975	24,642,295
Diluted	<u>25,693,000</u>	<u>25,334,265</u>
Net written premiums	<u>\$ 79,919</u>	<u>\$ 76,179</u>
Book value per common share at end of period	<u>\$ 12.93</u>	<u>\$ 11.62</u>

Donegal Group Inc.  
Consolidated Balance Sheets  
(unaudited in 2007; in thousands)

	<u>March 31,</u> 2007	<u>December 31,</u> 2006
<b>ASSETS:</b>		
Investments:		
Fixed maturities:		
Held to maturity, at amortized cost	\$ 165,189	\$ 169,178
Available for sale, at fair value	340,928	331,670
Equity securities, at fair value	43,616	40,542
Investments in affiliates	8,487	8,463
Short-term investments, at cost, which approximates fair value	34,263	41,485
Total investments	<u>592,483</u>	<u>591,338</u>
Cash	1,899	532
Premiums receivable	53,356	49,948
Reinsurance receivable	96,628	97,677
Accrued investment income	5,459	5,769
Deferred policy acquisition costs	25,172	24,739
Prepaid reinsurance premiums	46,824	44,377
Property and equipment, net	5,115	5,146
Deferred tax asset, net	8,966	9,086
Due from affiliate	262	—
Other assets	1,804	3,086
Total assets	<u>\$ 837,968</u>	<u>\$ 831,698</u>

Donegal Group Inc.  
Consolidated Balance Sheets (continued)  
(unaudited in 2007; in thousands)

	March 31, 2007	December 31, 2006
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Losses and loss expenses	\$ 258,272	\$ 259,022
Unearned premiums	202,572	196,903
Accrued expenses	9,788	12,754
Subordinated debentures	30,929	30,929
Due to affiliate	—	1,567
Other liabilities	9,431	9,721
<b>Total liabilities</b>	<b>510,992</b>	<b>510,896</b>
Stockholders' equity:		
Preferred stock	—	—
Class A common stock	199	198
Class B common stock	56	56
Additional paid-in capital	152,895	152,392
Accumulated other comprehensive income	5,372	5,061
Retained earnings	169,443	163,987
Treasury stock, at cost	(989)	(892)
<b>Total stockholders' equity</b>	<b>326,976</b>	<b>320,802</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 837,968</b>	<b>\$ 831,698</b>