SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

[x] Quarterly Report Pursuant to Section 13 of the Securities Exchange Act of 1934 For the Quarterly Period Ended September 30, 2001

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _________________ to ___________________.

Commission File No. 0-15341

DONEGAL GROUP INC.
(Exact name of registrant as specified in its charter)

DELAWARE	23-2424711
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1195 RIVER ROAD, P.O. BOX 302, MARIETTA, PA 17547-0302
(Address of principal executive offices, including zip code)

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

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x . No .

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes __. No __.

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 5,992,602 shares of Class A Common Stock and 2,980,537 shares of Class B Common Stock, $0.01 par value, outstanding on October 31, 2001.

Part 1. Financial Information

Item 1. Financial Statements.

DONEGAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	Sept. 30, 2001	Dec. 31, 2000 *
ASSETS		
Investments		
Fixed maturities		
Held to maturity, at amortized cost	$ 90,949,775	$ 143,181,718
Available for sale, at market value	179,863,548	114,611,183
Equity securities, available for sale at market	16,908,532	12,112,236
Short-term investments, at cost, which approximates market	16,809,436	19,439,505
Total investments	304,531,291	289,344,642
Cash	3,428,640	5,182,988
Accrued investment income	3,691,298	4,002,464
Premiums receivable	28,861,845	21,758,502
Reinsurance receivable	64,200,319	54,543,884
Deferred policy acquisition costs	13,839,361	12,284,214
Federal income tax receivable	--	259,962
Deferred federal income taxes	6,282,061	7,690,886
Prepaid reinsurance premiums	31,424,599	24,712,384

Property and equipment, net	4,736,932	5,236,483
Accounts receivable - securities	--	234,817
Other	648,950	757,554
Total assets	$ 461,645,296	$ 426,008,780

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities		
Losses and loss expenses	$ 171,615,749	$ 156,476,124
Unearned premiums	117,191,350	99,940,381
Accrued expenses	5,919,747	5,877,475
Reinsurance balances payable	1,274,636	1,634,975
Federal income taxes payable	93,483	--
Cash dividend declared to stockholders	--	797,282
Line of credit	28,200,000	40,000,000
Accounts payable - securities	7,566,092	959,652
Due to affiliate	4,268,643	4,528,996
Other	1,442,635	1,664,304
Total liabilities	337,572,335	311,879,189
STOCKHOLDERS' EQUITY		
Preferred stock, $1.00 par value, authorized 2,000,000 shares; none issued		
Common stock, $1.00 par value, authorized none and 20,000,000 shares, issued none and 8,980,977 shares and outstanding none and 8,858,689 shares	--	8,980,977
Class A common stock, $.01 par value, authorized 30,000,000 shares, issued 6,074,126 and 0 shares and outstanding 5,992,602 and 0 shares	60,741	--
Class B common stock, $.01 par value, authorized 10,000,000 shares, issued 3,021,299 and 0 shares and outstanding 2,980,537 and 0 shares	30,213	--
Additional paid-in capital	57,017,352	46,969,840
Accumulated other comprehensive income (loss)	3,641,004	(199,063)
Retained earnings	64,215,399	59,269,593
Treasury stock	(891,748)	(891,756)
Total stockholders' equity	124,072,961	114,129,591
Total liabilities and stockholders' equity	$ 461,645,296	$ 426,008,780

* Restated - See note 9.

See accompanying notes to consolidated financial statements.

DONEGAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Nine Months Ended September 30, 2001	2000 *
REVENUES:		
Net premiums earned	$ 124,291,595	$ 111,684,838
Investment income, net of investment expenses	11,988,347	12,009,023
Net realized investment gains (losses)	(448,462)	442,927
Lease income	599,564	625,070
Service charge income	1,223,937	1,157,898
Total revenues	137,654,981	125,919,756
EXPENSES:		
Net losses and loss expenses	84,116,321	77,568,493
Amortization of deferred policy acquisition costs	20,168,000	19,055,000
Other underwriting expenses	20,144,001	16,772,418
Policy dividends	1,182,481	957,319
Interest	1,857,727	2,394,889
Other expenses	1,417,586	852,754
Total expenses	128,886,116	117,600,873
Income before income taxes	8,768,865	8,318,883
Income taxes	2,093,579	2,086,727
Net income	$ 6,675,286	$ 6,232,156
Earnings per common share		
Basic	$ 0.75	$ 0.72
Diluted	$ 0.74	$ 0.72

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Nine Months Ended September 30, 2001	2000 *
Net income	$ 6,675,286	$ 6,232,156
Other comprehensive income, net of income tax		
Unrealized gains on securities:		
Unrealized holding gain during the period, net of income tax	3,544,082	901,414
Reclassification adjustment, net of income tax	295,985	(292,332)
Other comprehensive income	3,840,067	609,082
Comprehensive income	$10,515,353	$ 6,841,238

* Restated - see note 9.

See accompanying notes to consolidated financial statements.

DONEGAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30, 2001	2000 *
REVENUES:		
Net premiums earned	$ 42,598,703	$ 39,149,006
Investment income, net of investment expenses	3,710,452	4,127,896
Net realized investment gains (losses)	(562,301)	333,720
Lease income	199,948	210,076
Service charge income	419,184	408,362
Total revenues	46,365,986	44,229,060
EXPENSES:		
Net losses and loss expenses	30,026,448	26,795,640
Amortization of deferred policy acquisition costs	6,997,000	6,679,000
Other underwriting expenses	6,944,584	5,820,077
Policy dividends	465,779	370,084
Interest	465,726	813,901
Other expenses	339,871	284,747
Total expenses	45,239,408	40,763,449
Income before income taxes	1,126,578	3,465,611
Income taxes	103,156	898,636
Net income	$ 1,023,422	$ 2,566,975
Earnings per common share		
Basic	$ 0.11	$ 0.29
Diluted	$ 0.11	$ 0.29

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30, 2001	2000 *
Net income	$ 1,023,422	$ 2,566,975
Other comprehensive income, net of income tax		
Unrealized gains on securities:		
Unrealized holding gain during the period, net of income tax	2,172,740	889,579
Reclassification adjustment, net of income tax	371,119	(220,255)
Other comprehensive income	2,543,859	669,324
Comprehensive income	$ 3,567,281	$ 3,236,299

* Restated - see note 9.

See accompanying notes to consolidated financial statements.

DONEGAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
For the Nine Months Ended September 30, 2001

	Common Stock				
	Prior Shares	Class A Shares	Class B Shares	Prior Amount	Class A Amount
Balance, December 31, 2000 *	8,980,977			$ 8,980,977	$ --
Issuance of common stock	61,830	39,039	3,758	61,830	390
Recapitalization	(9,042,807)	6,027,975	3,013,987	(9,042,807)	60,280
Net income					
Cash dividends					
Grant of stock options					
Exercise of stock options		7,112	3,554		71
Other comprehensive income					
Balance, September 30, 2001	--	6,074,126	3,021,299	$ --	$ 60,741

[restubbed table]

	Class B Amount	Paid-In Capital	Accumulated Additional Comprehensive Income (Loss)	Other Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2000 *	$ --	$ 46,969,840	$ (199,063)	$ 59,269,593	$ (891,756)	$ 114,129,591
Issuance of common stock	38	995,485				1,057,743
Recapitalization	30,140	8,949,361			8	(3,018)
Net income				6,675,286		6,675,286
Cash dividends				(1,729,480)		(1,729,480)
Grant of stock options						--
Exercise of stock options	35	102,666				102,772
Other comprehensive income			3,840,067			3,840,067
Balance, September 30, 2001	$ 30,213	$ 57,017,352	$ 3,641,004	$ 64,215,399	$ (891,748)	$ 124,072,961

See accompanying notes to consolidated financial statements.

* Restated - see note 9.

DONEGAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30, 2001	2000 *
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,675,286	$ 6,232,156
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	839,380	799,723
Realized investment gain	448,462	(442,927)
Changes in assets and liabilities:		
Losses and loss expenses	15,139,625	8,415,628
Unearned premiums	17,250,969	15,019,978
Premiums receivable	(7,103,343)	(4,380,245)
Deferred policy acquisition costs	(1,555,147)	(1,788,273)
Deferred income taxes	(569,391)	162,627
Reinsurance receivable	(9,656,435)	(4,278,936)
Prepaid reinsurance premiums	(6,712,215)	(4,393,859)
Accrued investment income	311,166	(520,900)
Due to affiliate	(260,353)	138,078
Reinsurance balances payable	(360,339)	67,621
Current income taxes	353,445	550,176
Other, net	(116,544)	(605,458)
Net adjustments	8,009,280	8,743,233
Net cash provided by operating activities	14,684,566	14,975,389
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed maturities		
Held to maturity	(36,895,097)	(11,725,356)
Available for sale	(53,380,298)	(21,232,004)
Purchase of equity securities, available for sale	(10,046,952)	(23,163,599)
Maturity of fixed maturities		
Held to maturity	40,209,398	10,860,429
Available for sale	36,307,020	6,576,600
Sale of fixed maturities, available for sale	12,275,464	1,490,469
Sale of equity securities, available for sale	5,770,980	14,318,432
Net purchase of property and equipment	(140,233)	(194,001)
Net sales of short-term investments	2,630,069	4,411,044
Net cash used in investing activities	(3,269,649)	(18,657,986)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(2,526,762)	(2,333,081)
Issuance of common stock	1,157,497	2,308,227
Line of credit, net	(11,800,000)	3,000,000
Net cash provided by (used in) financing activities	(13,169,265)	2,975,146
Net decrease in cash	(1,754,348)	(707,451)
Cash at beginning of period	5,182,988	4,500,570
Cash at end of period	$ 3,428,640	$ 3,793,119
Cash paid during period - Interest	$ 2,426,292	$ 2,214,867
Net cash paid during period - Taxes	$ 2,325,000	$ 1,374,777

* Restated - see note 9.

See accompanying notes to consolidated financial statements.

1 - ORGANIZATION

Donegal Group Inc. (the "Company") was organized as a regional insurance holding company by Donegal Mutual Insurance Company (the "Mutual Company") on August 26, 1986 and operates in the Mid-Atlantic and Southern states through its wholly-owned stock insurance companies, Atlantic States Insurance Company ("Atlantic States"), Southern Heritage Insurance Company ("Southern Heritage"), Southern Insurance Company of Virginia ("Southern"), Pioneer Insurance Company - New York ("Pioneer - New York") and Pioneer Insurance Company - Ohio ("Pioneer - Ohio") (collectively "Insurance Subsidiaries"). The Company has three operating segments: the investment function, the personal lines of insurance and the commercial lines of insurance. Products offered in the personal lines of insurance consist primarily of homeowners and private passenger automobile policies. Products offered in the commercial lines of insurance consist primarily of commercial automobile, commercial multiple peril and workers' compensation policies. The Insurance Subsidiaries are subject to regulation by Insurance Departments in those states in which they operate and undergo periodic examinations by those departments. The Insurance Subsidiaries are also subject to competition from other insurance companies in their operating areas. Atlantic States participates in an inter-company pooling arrangement with the Mutual Company and assumes 70% of the pooled business (65% prior to July 1, 2000). Southern cedes 50% of its business to the Mutual Company. At September 30, 2001, the Mutual Company held 62% of the outstanding common stock of the Company.

During 2000, the Company acquired 45% of the outstanding stock of Donegal Financial Services Corporation ("DFSC"), a bank holding company, for $3,042,000 in cash. The remaining 55% of the outstanding stock of DFSC is owned by the Mutual Company.

Effective January 1, 2001, Southern Heritage entered into an agreement with Mutual Company, under which Southern Heritage cedes, and then reassumes back, 100% of their business net of reinsurance. The primary purpose of this agreement is to provide Southern Heritage with the same A.M. Best rating (currently "A") as the Mutual Company, which Southern Heritage could not achieve without this contract in place. This agreement does not transfer insurance risk. While this subsidiary ceded and reassumed premiums of $4,008,652 and $12,139,925 and losses and loss expenses of $1,610,080 and 5,654,699 under this agreement for the three and nine months ended September 30, 2001, respectively, the amounts are not reflected in the consolidated financial statements. The aggregate unearned premiums and unpaid losses and loss expenses ceded and reassumed under this agreement were $7,598,626 and $8,583,613 at September 30, 2001.

The Company has announced plans to streamline its corporate structure by merging a number of its subsidiaries together. Pending regulatory approval, Southern Heritage Insurance Company will be merged into Southern Insurance Company of Virginia. Regulatory approvals have been received for the mergers of Delaware Atlantic Insurance Company and Pioneer - New York into Atlantic States Insurance Company and these mergers are effective August 1, 2001 and October 1, 2001 respectively. These mergers are not anticipated to have a material impact on the Company.

On April 19, 2001 the Company's stockholders approved an amendment to the Company's Certificate of Incorporation. Among other things, the amendment reclassified the Company's common stock as Class B common stock and effected a one-for-three reverse split of the Company's Class B common stock effective April 19, 2001. The amendment also authorized a new class of common stock with one-tenth of a vote per share designated as Class A common stock. The Company's Board also approved a dividend of two shares of Class A common stock for each share of Class B common stock, after the one-for-three reverse split, held of record at the close of business April 19, 2001. The effect of the reverse split and the stock dividend taken together is that the Company will have the same total number of shares outstanding after the reverse split and the stock dividend as it did before the reverse split and the stock dividend. Therefore, there is no change in the historical earnings per share of the Class A common stock and the Class B common stock after the reverse split and the stock dividend compared to before the reverse split and the stock dividend.

Each share of Class A common stock outstanding at the time of the declaration of any dividend or other distribution payable in cash upon the shares of Class B common stock is entitled to a dividend or distribution payable at the same time and to stockholders of record on the same date in an amount at least 10% greater than any dividend declared upon each share of Class B common stock. In the event of a merger or consolidation of the Company with or into another entity, the holders of Class A common stock and the holders of Class B common stock are entitled to receive the same per share consideration in such merger or consolidation. In the event of any liquidation, dissolution or winding-up of the Company, any assets available to common stockholders will be distributed pro-rata to the holders of Class A and Class B common stock.

2 - BASIS OF PRESENTATION

The financial information for the interim period included herein is unaudited; however, such information reflects all adjustments, consisting only of normal recurring adjustments, which, in the opinion of management, are necessary to a fair presentation of the financial position, results of operations and cash flow for the interim period included herein. The results of operations for the three and nine months ended September 30, 2001, are not necessarily indicative of results of operations to be expected for the twelve months ended December 31, 2001.

These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.

3 - RECLASSIFICATIONS

Certain amounts in these financial statements have been reclassified from those previously presented. Gross and ceded premiums earned and losses and loss adjustment expenses are no longer presented in the statements of income. Reinsurance recoverable, prepaid reinsurance premiums, unearned premiums, and the liabilities for losses and loss adjustment expenses have been reduced in the consolidated balance sheet as they no longer include the amounts ceded and reassumed under agreements between several subsidiaries and the Mutual Company. The primary purpose of the agreements is to provide these subsidiaries with the same A.M. Best rating (currently "A") as the Mutual Company, which these subsidiaries could not achieve without these contracts in place. These agreements do not transfer risk. The consolidated statements of cash flows have been revised to conform to the changes in the consolidated balance sheet. These reclassifications had no effect on total revenues, total expenses, net income, net income per share, cash flows provided by operating activities, or stockholders' equity.

4 - EARNINGS PER SHARE

The computation of basic and diluted earnings per share is as follows:

	Net Income	Weighted Average Shares Outstanding	Earnings Per Share
THREE MONTHS ENDED SEPTEMBER 30:			
2001			
Basic	$1,023,422	8,963,207	$ .11
Effect of stock options	--	172,497	--
Diluted	$1,023,422	9,135,704	$ .11
2000			
Basic	$2,566,975	8,768,751	$ .29
Effect of stock options	--	--	--
Diluted	$2,566,975	8,768,751	$ .29
NINE MONTHS ENDED SEPTEMBER 30:			
2001			
Basic	$6,675,286	8,927,446	$ .75
Effect of stock options	--	146,295	.01
Diluted	$6,675,286	9,073,741	$ .74
2000			
Basic	$6,232,156	8,674,174	$ .72
Effect of stock options	--	--	--
Diluted	$6,232,156	8,674,174	$ .72

The following options to purchase shares of common stock were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2001	2000	2001	2000
Number of Options	1,042,338	1,425,281	1,042,338	1,425,281

5 - SEGMENT INFORMATION

The Company evaluates the performance of the personal lines and commercial lines based upon underwriting results as determined under statutory accounting practices (SAP), which is used by management to measure performance for the total business of the Company. Financial data by segment is as follows:

	Three Months Ended September 30	
	2001	2000
	($ in thousands)	
Revenues:		
Premiums earned:		
Commercial lines	$ 16,078	$ 14,183
Personal lines	26,521	24,966
Total net premiums earned	42,599	39,149
Net investment income	3,710	4,128
Realized investment gains (losses)	(562)	334
Other	619	618
Total revenues	$ 46,366	$ 44,229
Income before income taxes:		
Underwriting income (loss)		
Commercial lines	$(113)	$(141)
Personal lines	(2,394)	(1,638)
SAP underwriting loss	(2,507)	(1,779)
GAAP adjustments	672	1,263
GAAP underwriting loss	(1,835)	(516)
Net investment income	3,710	4,128
Realized investment gains (losses)	(562)	334
Other	(186)	(480)
Income before income taxes	$ 1,127	$ 3,466

	Nine Months Ended September 30 2001	2000
	($ in thousands)	
Revenues:		
Premiums earned:		
Commercial lines	$ 46,661	$ 39,530
Personal lines	77,631	72,155
Total net premiums earned	124,292	111,685
Net investment income	11,988	12,009
Realized investment gains (losses)	(448)	443
Other	1,823	1,783
Total revenues	$ 137,655	$ 125,920
Income before income taxes:		
Underwriting income (loss)		
Commercial lines	$ (543)	$ 317
Personal lines	(2,343)	(4,903)
SAP underwriting loss	(2,886)	(4,586)
GAAP adjustments	1,567	1,917
GAAP underwriting loss	(1,319)	(2,669)
Net investment income	(1,988)	12,009
Realized investment gains (losses)	(448)	443
Other	(1,452)	(1,464)
Income before income taxes	$ 8,769	$ 8,319

6 - RESTRUCTURING CHARGE

On September 29, 1999, the Company announced a plan to consolidate certain subsidiary support functions into its Marietta, Pennsylvania office. As a result of this consolidation, the Company recorded a restructuring charge in 1999 of $2,044,000 for employee termination benefits, occupancy charges, lease cancellation costs and asset impairments. The charge was included in other underwriting expenses. The consolidation has been completed.

Employee termination benefits include severance payments, which were paid either in a lump sum or over a defined period, and related benefits for approximately 60 employees. Of the terminated employees, approximately 50% were from subsidiary support functions and approximately 50% were from the Marietta, Pennsylvania office. By December 31, 1999, all of the terminated employees had left the employment of the Company.

Included in occupancy charges are future lease obligations, less anticipated sublease benefits, for leased space that is no longer being used by the Delaware Atlantic and Southern Heritage subsidiary support functions.

Also included in the restructuring charges were contract cancellation costs that represented the estimated cost to buy out of the remaining term on printer, copier, and computer processing contracts that provided no future benefits to the Company as a result of the restructuring. By December 31, 1999, all such assets had been taken out of service.

Asset impairments, which were a direct result of the consolidation of subsidiary functions, amounted to $407,000. They consisted of capitalized programming and data center costs, voice systems, and leasehold and office improvements. These assets were written-down to zero in 1999. By December 31, 1999, all such assets were taken out of service.

Activity in the restructuring accrual is as follows:

	Employee Termination Benefits	Occupancy	Contract Cancellations	Totals
RESTRUCTURING CHARGE	$782,000	$488,000	$529,000	$1,799,000
CASH PAYMENT	(343,000)	(47,000)	(365,000)	(755,000)
REVERSAL OF PRIOR ACCRUAL	(71,000)	-	(91,000)	(162,000)
BALANCE AT DECEMBER 31, 1999	$368,000	$441,000	$ 73,000	$ 882,000
CASH PAYMENTS	(339,000)	(155,000)	(73,000)	(567,000)
ACCRUAL ADJUSTMENT	-	12,000	-	12,000
BALANCE AT DECEMBER 31, 2000	$ 29,000	$298,000	$ -	$ 327,000
CASH PAYMENTS	(8,000)	(74,000)	-	(82,000)
BALANCE AT SEPTEMBER 30, 2001	$ 21,000	$224,000	$ -	$ 245,000

7 - RECENT ACCOUNTING STANDARDS -
ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company has no derivative instruments or hedging activities as defined in accordance with the Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," and SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No 133", which statements became effective January 1, 2001. On January 1, 2001, the Company transferred investments with an amortized cost of $51,640,154 and fair value of $52,444,675 from the held to maturity classification to the available for sale classification under the provisions of SFAS No. 133 and 138. The unrealized holding gain of $804,521 at January 1, 2001 was reported in other comprehensive income. The transfer had no impact on net income.

BUSINESS COMBINATIONS

In July 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires the purchase method of accounting to be used for all future business combinations and contains provisions for the accounting for goodwill and intangible assets. SFAS No. 142 is effective January 1, 2002, and will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead evaluated for impairment.

As of the date of adoption, the Company expects to have unamortized goodwill in the amount of $117,000 which will be subject to the transition provisions of Statements 141 and 142, no unamortized identifiable intangible assets, and no unamortized negative goodwill. Amortization expense related to goodwill was $61,534 and $45,758 for the year ended December 31, 2000 and the nine months ended September 30, 2001, respectively. The impact of adopting these Statements on the Company's financial statements is not expected to be material.

8 - IMPLEMENTATION OF CODIFICATION

The National Association of Insurance Commissioners (NAIC) has adopted the Codification of Statutory Accounting Principles with an effective date of January 1, 2001. The codified principles are intended to provide a basis of accounting recognized and adhered to in the absence of conflict with, or silence of, state statutes and regulations. The impact of the codified principles on the statutory capital and surplus of the Company's Insurance Subsidiaries as of January 1, 2001 is as follows: Atlantic States - $5,922,449 increase; Southern Heritage - $1,083,354 increase; Pioneer-Ohio - $313,638 increase; Delaware Atlantic - $246,293 increase; Southern of Virginia - $1,171,204 increase; and Pioneer - New York - 0.

9 - BUSINESS COMBINATION

In January 2001, the Company acquired all of the outstanding shares of Pioneer - New York from the Mutual Company, which previously owned 100% of Pioneer - New York. The acquisition has been accounted for as a reorganization of entities under common control, similar to a pooling of interests, as both Pioneer - New York and the Company are under the common management and control of the Mutual Company. As such, all financial data prior to January 1, 2001 has been restated to include the results of operations, financial position and cash flows of Pioneer - New York.

The following information presents certain income statement data of the separate companies for the period preceding the merger:

Three and nine months ended September 30, 2000 (unaudited):

Revenues	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2000
Donegal Group, Inc.	$43,630,503	$124,177,637
Pioneer - New York	598,557	1,742,119
Total	$44,229,060	$125,919,756
Net income (loss)		
Donegal Group, Inc.	$ 2,602,045	$ 6,322,679
Pioneer - New York	(35,070)	(90,523)
Total	$ 2,566,975	$ 6,232,156

In connection with the transaction, the Company issued the Mutual Company a $4,441,311 note, which bears a 6% rate and is due in one year. The Company classifies this note in Due to Affiliate. There were no material transactions between Donegal Group Inc. and Pioneer - New York prior to the merger. Pioneer - New York's accounting policies, which were previously based on statutory accounting principles, were conformed to the Company's accounting policies. Such changes did not materially impact Pioneer - New York's net income.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS -THREE MONTHS ENDED SEPTEMBER 30, 2001 TO THREE MONTHS ENDED SEPTEMBER 30, 2000

In January 2001, the Company acquired all of the outstanding shares of Pioneer Insurance Company of New York ("Pioneer - New York") from the Mutual Company, which previously owned 100% of Pioneer-New York. The Acquisition had been accounted for as a reorganization of entities under common control, similar to a pooling of interests, as both Pioneer -New York and the Company are under common management and control of the Mutual Company. As such, all financial data prior to January 1, 2001 has been restated to include the results of operation, financial position and cash flows of Pioneer - New York.

Revenues for the three months ended September 30, 2001 were $46,365,986 an increase of $2,136,926 or 4.8%, over the same period of 2000. An increase in premiums earned of $3,449,697, or 8.8% offset by a decrease in investment income of $417,444, or 10.1%, along with realized losses of $562,301 compared to realized gains of $333,720 in the third quarter of 2000 accounted for most of this change. A decrease in the annualized average return on investments from 5.9% in the third quarter of 2000 to 5.1% in the third quarter of 2001 offset by an increase in average invested assets from $278.2 million in the third quarter of 2000 to $290.5 million in the third quarter of 2001, accounted for most of the investment income change. The realized loss in the third quarter of 2001 included $604,235 in losses, which resulted from declines in the market value of securities that were determined to be other then temporary. The realized gain in the third quarter of 2000 resulted from the normal turnover of the Company's portfolio.

The GAAP combined ratio of insurance operations in the third quarter of 2001 was 104.3% compared to 101.3% for the same period in 2000. The GAAP combined ratio is the sum of the ratios of incurred losses and loss adjusting expenses to premiums earned (loss ratio), policyholders dividends to premiums earned (dividend ratio), and underwriting expenses to premiums earned (expense ratio). The Company's loss ratio in the third quarter of 2001 was 70.5% compared to 68.4% for the same period of 2000. Weather related claims of approximately $250,000 from one storm in August, 2001, an increase in the severity of claims and a worsening loss ratio in the Company's Commercial Automobile line of business accounted for most of the increase in the loss ratio. The expense ratio for the third quarter of 2001 was 32.7% compared to 31.9% for the third quarter of 2000. The change in the expense ratio resulted primarily from expenses related to a travel production incentive for agents in 2001 which added 0.7% to the expense ratio compared to the third quarter of 2000. The dividend ratio increased slightly to 1.1% for the third quarter of 2001 compared to 0.9% for the same period of 2000.

Federal income taxes for the three months ended September 30, 2001 represented 9.2% of the income before income taxes compared to a 25.9% for the same period of 2000 due to tax exempt interest representing a much larger percentage of pretax income in the third quarter of 2001. These rates vary from the expected rate of 34% primarily due to the effect of tax-exempt investment income.

RESULTS OF OPERATIONS -NINE MONTHS ENDED SEPTEMBER 30, 2001
TO NINE MONTHS ENDED SEPTEMBER 30, 2000

In January 2001, the Company acquired all of the outstanding shares of Pioneer Insurance Company of New York ("Pioneer - New York") from the Mutual Company, which previously owned 100% of Pioneer-New York. The Acquisition had been accounted for as a reorganization of entities under common control, similar to a pooling of interests, as both Pioneer -New York and the Company are under common management and control of the Mutual Company. As such, all financial data prior to January 1, 2001 has been restated to include the results of operation, financial position and cash flows of Pioneer - New York.

Revenues for the nine months ended September 30, 2001 were $137,654,981 an increase of $11,735,225 or 9.3%, over the same period of 2000. An increase in premiums earned of $12,606,757, or 11.3% offset by a realized loss of $448,462 compared to a realized gain of $442,927 for the first nine months of 2000 accounted for most of the change. Premiums earned were effected by an increase from 65% to 70% in Atlantic States Insurance Company's share of the pooled business of itself and Donegal Mutual Insurance Company which was effective July 1, 2000. This change accounted for $4,273,297, or 3.8 percentage points of the earned premium increase with the remaining increase coming from normal growth and rate increases. A decrease in the annualized average return on investments from 5.8% for the first nine months of 2000 to 5.3% for the first nine months of 2001 was offset by an increase in average invested assets of approximately $21 million. The realized loss in the first nine months of 2001 included $1,067,970 in losses, which resulted from declines in the market value of securities that were determined to be other then temporary. The realized gains in the nine month period ended September 30, 2000 resulted from the normal turnover of the Company's portfolio.

The GAAP combined ratio of insurance operations in the nine months ended September 30, 2001 was 101.1% compared to 102.4% for the same period in 2000. The GAAP combined ratio is the sum of the ratios of incurred losses and loss adjusting expenses to premiums earned (loss ratio), policyholders dividends to premiums earned (dividend ratio), and underwriting expenses to premiums earned (expense ratio). The Company's loss ratio in the first nine months of 200 was 67.7% compared to 69.5% for the same period of 2000. The Company's expense ratio for the first nine months of 2001 was 32.4% compared to 32.1% for the first nine months of 2000. The dividend ratio remained virtually unchanged at 1.0% for the first nine months of both 2001 compared to 0.9% for the first nine months of 2000.

Federal income taxes for the three months ended September 30, 2001 represented 23.9% of the income before income taxes compared to a 25.1% for the same period of 2000. These rates vary from the expected rate of 34% primarily due to the effect of tax-exempt investment income.

LIQUIDITY AND CAPITAL RESOURCES

The Company generates sufficient funds from its operations and maintains a high degree of liquidity in its investment portfolio. The primary source of funds to meet the demands of claim settlements and operating expenses are premium collections, investment earnings and maturing investments. The Company had no significant commitments for capital expenditures as of September 30, 2001.

In investing funds made available from operations, the Company maintains securities maturities consistent with its projected cash needs for the payment of claims and expenses. The Company maintains a portion of its investment portfolio in relatively short-term and highly liquid assets to ensure the availability of funds.

As of September 30, 2001, pursuant to a credit agreement dated December 29, 1995, with Fleet National Bank of Connecticut, (the " Bank") the Company had unsecured borrowings of $28.2 million. Per the terms of the credit agreement, the Company may borrow up to $32 million at interest rates equal to the bank's then current prime rate or the then current London interbank Eurodollar bank rate plus 1.70%. At September 30, 2001, the interest rates on the outstanding balances were 5.28% on an outstanding eurodollar balance of $13.2 million and 5.01% on an outstanding eurodollar rate balance of $15.0 million. In addition, the Company pays a non-use fee at a rate of 3/10 of 1% per annum on the average daily unused portion of the Bank's commitment. On each July 27, the credit line is reduced by $8 million. Any outstanding loan in excess of the remaining credit line, after such reduction, will then be payable.

The Company's principal source of cash with which to pay stockholder dividends is dividends from Atlantic States, Southern, Pioneer - Ohio, Pioneer - New York, Southern Heritage and Delaware, which are required by law to maintain certain minimum surplus on a statutory basis and are subject to regulations under which payment of dividends from statutory surplus is restricted and may require prior approval of their domiciliary insurance regulatory authorities. Atlantic States, Southern, Pioneer - Ohio, Pioneer - New York, Southern Heritage and Delaware are subject to Risk Based Capital (RBC) requirements effective for 1994. At December 31, 2000, each of the six Companies' capital was substantially above the RBC requirements. At December 31, 2000, amounts available for distribution as dividends to Donegal Group without prior approval of the insurance regulatory authorities are $5,414,419 from Atlantic States, $908,259 from Southern, $581,132 from Pioneer - Ohio, $323,992 from Delaware, $973,796 from Southern Heritage and none from Pioneer - New York.

In June 2000, Delaware made a $3.8 million dividend distribution to Donegal Group, which was approved by the Delaware Insurance Department.

CREDIT RISK

The Company provides property and liability coverages through its subsidiaries' independent agency systems located throughout its operating area. The majority of this business is billed directly to the insured although a portion of Donegal Group's commercial business is billed through its agents who are extended credit in the normal course of business.

The Company's subsidiaries have reinsurance agreements in place with the Mutual Company and with a number of other major authorized reinsurers.

IMPACT OF INFLATION

Property and casualty insurance premiums are established before the amount of losses and loss settlement expenses, or the extent to which inflation may impact such expenses, are known. Consequently, the Company attempts, in establishing rates, to anticipate the potential impact of inflation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On March 30, 2001, an action was filed in the Court of Chancery of the State of Delaware against the Mutual Company, the Company and the directors of the Company. The action was filed derivatively on behalf of the Company and as a class action on behalf of the holders of the Company's common stock other than the Company, the Company's directors, the Mutual Company and their associates and affiliates.

The action challenged the compliance of the Amendment to the Company's Charter, the Reverse Split and the Stock Dividend with certain provisions of the Delaware General Corporation Law and asserted a violation of fiduciary duties by the Mutual Company and the directors of the Company. The action also made certain allegations regarding the grant of stock options to certain persons and the manner in which the Coordinating Committee of the Boards of Directors of the Company and the Mutual Company operates.

The Company, the Mutual Company and the Company's Board of Directors deny the allegations in the action, and believe the actions taken in connection with the Amendment to the Company's Charter, the Reverse Split and the Stock Dividend were appropriate and in the best interest of all of the Company's stockholders.

However, rather than engage in protracted and extensive litigation, the Company, the Mutual Company and the directors of the Company entered into an agreement to settle the litigation. As part of the agreement, the Company agreed to various administrative changes related to the Reverse Spit and Stock Dividend, which were approved by the Company's Stockholders on April 19, 2001. The Company and the Mutual Company paid legal fees and expenses to the plaintiff's counsel of $245,000 as determined by the court.

ITEM 2. CHANGES IN SECURITIES. (None)

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company's market risk generally represents the risk of gain or loss that may result from the potential change in the fair value of the Company's investment portfolio as a result of fluctuations in prices and interest rates and, to a lesser extent, its debt obligations. The Company attempts to manage its interest rate risk by maintaining an appropriate relationship between the average duration of the investment portfolio and the approximate duration of its liabilities, i.e., policy claims and debt obligations.

The Company has maintained approximately the same duration of its investment portfolio to its liabilities from December 31, 2000 to September 30, 2001. In addition, the Company has maintained approximately the investment mix during this period.

There have been no material changes to the Company's quantitative or qualitative market risk exposure from December 31, 2000 through September 30, 2001.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS. (None)

ITEM 5. OTHER INFORMATION. (None)

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) EX -27 Financial Data Schedule
(b) Reports on 8-K:
None

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, thereunto duly authorized.

DONEGAL GROUP INC.

November 10, 2001

By: /s/ Donald H. Nikolaus

Donald H. Nikolaus, President
and Chief Executive Officer

November 10, 2001

By: /s/ Ralph G. Spontak

Ralph G. Spontak, Senior Vice President,
Chief Financial Officer and Secretary