

**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) **February 20, 2007**

---

**Donegal Group Inc.**

(Exact name of registrant as specified in its charter)

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

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

**23-0242471**  
(IRS Employer Identification No.)

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

**17547**  
(Zip Code)

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

---

(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(b) 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))

---

**Item 2.02 Results of Operations and Financial Condition**

On February 20, 2007 the Registrant issued a press release, a copy of which is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

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

Exhibit 99.1. Press release dated February 20, 2007

---

**SIGNATURE**

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

**Donegal Group Inc.**

---

(Registrant)

**February 20, 2007**

**/s/ JEFFREY D. MILLER**

---

(Date)

---

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

---

## **Exhibit Index**

99.1 Press release dated February 20, 2007

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

MARIETTA, Pa., Feb. 20, 2007 (PRIME NEWSWIRE) -- Donegal Group Inc. (Nasdaq:DGICA) (Nasdaq:DGICB) today reported net income for the fourth quarter and year ended December 31, 2006.

Net income for the fourth quarter of 2006 was a record \$11,045,651, or \$.43 per share on a diluted basis, an increase of 12.1% over the \$9,851,977, or \$.39 per share on a diluted basis, reported for the fourth quarter of 2005. The Company's fourth quarter earnings represented a continuation of the excellent underwriting results achieved throughout 2006. Revenues for the fourth quarter of 2006 were \$84,203,995, an increase of 3.1% over a year earlier, with premiums earned of \$76,197,821, a 2.0% increase over the fourth quarter of 2005.

Net investment income increased 14.3% to \$5,895,564 for the fourth quarter of 2006, compared to \$5,159,030 for the fourth quarter of 2005. The increase is attributable to an increase in invested assets and a modest increase in the Company's average investment yield throughout 2006.

The Company's combined ratio improved to 88.2% for the fourth quarter of 2006, compared to 89.4% for the fourth quarter of 2005. The Company's loss ratio for the fourth quarter of 2006 was 54.9%, improving significantly from the loss ratio of 60.4% reported for the fourth quarter of 2005. The improvement in the loss ratio for the fourth quarter of 2006 is attributable to lower claims frequency and favorable loss development during the quarter. The Company's expense ratio was 32.8% for the fourth quarter of 2006, reflecting a slight increase over its expense ratio of 32.7% for the first nine months of 2006. The Company's expense ratio of 28.4% for the fourth quarter of 2005 benefited from a \$2.0 million reduction of estimated guaranty fund assessments.

Net income for the year ended December 31, 2006 increased 8.8% to a record \$40,214,722, or \$1.57 per share on a diluted basis, compared to \$36,949,497, or \$1.49 per share on a diluted basis, for the year ended December 31, 2005.

The Company's combined ratio for the full year 2006 was 89.0%, compared to a combined ratio of 89.5% for 2005. The Company's loss ratio for the full year 2006 improved to 55.8%, compared to 56.9% for 2005.

"We are pleased to report record earnings for the fourth quarter and are especially pleased to report the achievement of five consecutive years of record annual earnings. We are maintaining our focus on underwriting discipline as we continue to pursue opportunities to grow profitably in competitive market conditions," stated Donald H. Nikolaus, President and Chief Executive Officer of Donegal Group Inc.

The excellent operating results throughout 2006 contributed to an increase in the Company's book value to \$12.70 per common share at December 31, 2006, compared to \$11.30 per common share at December 31, 2005.

All 2005 per share information has been restated to reflect a 4-for-3 stock split effected in the form of a 33 1/3% stock dividend on April 26, 2006.

The Company will hold a conference call and webcast on Tuesday, February 20, 2007, beginning at 11:00 A.M. Eastern Time. You may participate in the conference call by calling 1-800-599-9795 (Passcode 75303920) or listen via the 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 February 27, 2007 by calling 1-888-286-8010 (Passcode 70305856).

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.

Donegal Group Inc.  
Financial Highlights  
(unaudited)

Three Months Ended December 31  
-----

	2006	2005*
	-----	-----
Net premiums earned	\$ 76,197,821	\$ 74,713,365
Investment income, net of investment expenses	5,895,564	5,159,030
Net realized investment gains	794,798	567,561
Total revenues	84,203,995	81,709,601
Net income	\$ 11,045,651	\$ 9,851,977
Net income per common share:		
Basic	\$ 0.44	\$ 0.41
Diluted	\$ 0.43	\$ 0.39

	Year Ended December 31	
	-----	-----
	2006	2005*
	-----	-----
Net premiums earned	\$301,478,162	\$294,498,023
Investment income, net of investment expenses	21,320,081	18,471,963
Net realized investment gains	1,829,539	1,802,809
Total revenues	329,967,034	319,847,194
Net income	\$ 40,214,722	\$ 36,949,497
Net income per common share:		
Basic	\$ 1.61	\$ 1.54
Diluted	\$ 1.57	\$ 1.49

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

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

	Quarter Ended December 31	
	-----	-----
	2006	2005*
	-----	-----
Net premiums earned	\$ 76,198	\$ 74,713
Investment income, net of investment expenses	5,895	5,159
Net realized investment gains	795	568
Lease income	254	243
Installment payment fees	1,062	1,027
Total revenues	84,204	81,710
Net losses and loss expenses	41,793	45,125
Amortization of deferred policy acquisition costs	12,575	11,943
Other underwriting expenses	12,404	9,249
Other expenses	564	496
Policyholder dividends	396	440
Interest	740	636
Total expenses	68,472	67,889
Income before income tax expense	15,732	13,821
Income tax expense	4,686	3,969
Net income	\$ 11,046	\$ 9,852
Net income per common share:		
Basic	\$ 0.44	\$ 0.41
Diluted	\$ 0.43	\$ 0.39

Supplementary Financial Analysts' Data

Weighted average number of shares outstanding:		
Basic	25,195,027	24,344,565
Diluted	25,746,193	25,087,196

Net written premiums	\$ 70,745	\$ 70,172
Book value per common share at end of period	\$ 12.70	\$ 11.30

\* Share and per share information restated for 4-for-3 stock split

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

	Year Ended December 31	
	2006	2005*
Net premiums earned	\$ 301,478	\$ 294,498
Investment income, net of investment expenses	21,320	18,472
Net realized investment gains	1,830	1,803
Lease income	982	951
Installment payment fees	4,357	4,123
<b>Total revenues</b>	<b>329,967</b>	<b>319,847</b>
Net losses and loss expenses	168,421	167,542
Amortization of deferred policy acquisition costs	48,595	47,234
Other underwriting expenses	49,971	47,163
Other expenses	2,118	1,676
Policyholder dividends	1,438	1,621
Interest	2,802	2,266
<b>Total expenses</b>	<b>273,345</b>	<b>267,502</b>
Income before income tax expense	56,622	52,345
Income tax expense	16,407	15,396
<b>Net income</b>	<b>\$ 40,215</b>	<b>\$ 36,949</b>
Net income per common share:		
Basic	\$ 1.61	\$ 1.54
Diluted	\$ 1.57	\$ 1.49

Supplementary Financial Analysts' Data

Weighted average number of shares outstanding:		
Basic	24,968,439	24,058,732
Diluted	25,572,481	24,833,580
Net written premiums	\$ 307,407	\$ 302,544
Book value per common share at end of period	\$ 12.70	\$ 11.30

\* Share and per share information restated for 4-for-3 stock split

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

	December 31,	
	2006	2005*
ASSETS:		
Investments:		

Fixed maturities:		
Held to maturity, at amortized cost	\$169,178	\$180,182
Available for sale, at fair value	331,670	295,097
Equity securities, at fair value	40,542	33,371
Investments in affiliates	8,463	8,442
Short-term investments, at cost, which approximates fair value	41,485	30,654
	-----	-----
Total investments	591,338	547,746
Cash	532	3,811
Premiums receivable	49,948	47,124
Reinsurance receivable	97,677	94,137
Accrued investment income	5,769	5,521
Deferred policy acquisition costs	24,739	23,477
Prepaid reinsurance premiums	44,377	40,063
Property and equipment, net	5,146	5,234
Deferred tax asset, net	9,086	11,533
Other assets	3,086	2,776
	-----	-----
Total assets	\$831,698	\$781,422
	=====	=====

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

	December 31,	
	2006	2005*
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Losses and loss expenses	\$ 259,022	\$ 265,730
Unearned premiums	196,903	186,660
Accrued expenses	12,754	12,706
Subordinated debentures	30,929	30,929
Due to affiliate	1,567	728
Other liabilities	9,721	6,773
	-----	-----
Total liabilities	510,896	503,526
	-----	-----
Stockholders' equity:		
Preferred stock	--	--
Class A common stock	198	192
Class B common stock	56	56
Additional paid-in capital	152,392	141,933
Accumulated other comprehensive income	5,061	2,532
Retained earnings	163,987	134,075
Treasury stock, at cost	(892)	(892)
	-----	-----
Total stockholders' equity	320,802	277,896
	-----	-----
Total liabilities and stockholders' equity	\$ 831,698	\$ 781,422
	=====	=====

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

CONTACT: Donegal Group Inc.  
Jeffrey D. Miller, Senior Vice President  
& Chief Financial Officer  
(717) 426-1931  
Fax: (717) 426-7009