
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 22, 2005

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

N/A

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- 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 Operation.

On February 22, 2005, the Registrant issued a press release regarding the Company's financial results for its fourth quarter and year ended December 31, 2004. The press release is exhibit 99.1 to this Form 8-K. The information in this report shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference in any filing under the Security Act of 1933.

Item 9.01. Financial Statements and Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
99.1*	Press Release issued by Donegal Group Inc., dated February 22, 2005.

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

Date: February 22, 2005

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>	<u>Reference</u>
99.1*	Press Release issued by Donegal Group Inc., dated February 22, 2005.	Submitted herewith.

* This press release shall not be deemed to be filed for the purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference in any filing under the Securities Act of 1933.

DONEGAL GROUP INC. ANNOUNCES EARNINGS FOR FOURTH QUARTER

Ralph G. Spontak
Senior Vice President and Chief Financial Officer
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For Immediate Release

MARIETTA, Pennsylvania, February 22, 2005 – Donegal Group Inc. (Nasdaq: DGICA and DGICB) today reported net income for the fourth quarter and year ended December 31, 2004.

Net income for the quarter ended December 31, 2004 was \$7,224,890, compared to \$5,179,206 for the fourth quarter of 2003, an increase of 39.5%. On a fully diluted per share basis net income for the fourth quarter of 2004 was \$.53 per share, based on 13,751,938 weighted average shares outstanding, compared to \$.47 per share, based on 11,065,320 weighted shares outstanding, for the fourth quarter of 2003. The Company's December 2003 public offering of 3,450,000 shares of Class A Common Stock was the principal reason for the increase in the weighted average number of shares outstanding.

Net income for the year ended December 31, 2004 was a historic high of \$31,614,269, compared to \$18,293,976, for the year ended December 31, 2003, an increase of 72.8%. On a fully diluted per share basis net income for 2004 was \$2.32 per share, based on 13,635,172 weighted average shares outstanding, compared to \$1.85 per share, based on 9,894,844 weighted average shares outstanding for the year ended December 31, 2003. Net income for 2004 includes an extraordinary gain of \$5,445,670, or \$.40 per share on a diluted basis, related to an acquisition in the first quarter of 2004.

The Company continued to achieve excellent underwriting results, posting a combined ratio of 92.7% for the fourth quarter of 2004 compared to a combined ratio of 93.8% for the comparable period in 2003. The Company's combined ratio for the full year 2004 was 93.1% compared to a combined ratio of 95.0% for 2003. The Company's loss ratio for the full year 2004 improved to 61.7% compared to 64.2% for 2003. The Company's expense ratio increased slightly to 30.9% for all of 2004 compared to 30.2% for 2003.

“Solid premium growth and excellent underwriting results, from both our historic insurance subsidiaries and our 2004 acquisitions, combined to achieve the highest levels of profitability in the Company’s history” stated Donald H. Nikolaus, President and Chief Executive Officer of the Donegal Companies.

Revenues for the fourth quarter of 2004 were \$75,480,902, an increase of 35.5% over a year earlier, with premiums earned for the fourth quarter of \$69,682,332, a 37.4% increase over the fourth quarter of 2003. Premiums earned in the fourth quarter of 2004, excluding premiums earned by the companies we acquired in January 2004, increased \$5.0 million, or 9.8%, to \$55,676,742.

Investment income for the fourth quarter of 2004 was \$4,266,222, an increase of \$248,307, or 6.2%, over investment income in the third quarter of 2004. This increase was accomplished despite the shift towards tax-exempt investment income, with tax-exempt interest representing 46.7% of total investment income in the fourth quarter of 2004 compared to 41.3% in the fourth quarter of 2003.

These results helped the Company increase its book value per common share to \$18.04 per share as of December 31, 2004, compared to \$16.29 per share at December 31, 2003.

The extraordinary gain of \$5,445,670 in the first quarter of 2004 resulted from GAAP purchase accounting for unallocated negative goodwill from the Le Mars Insurance Company acquisition completed in early January 2004. The acquisitions of Le Mars Insurance Company, The Peninsula Insurance Company and Peninsula Indemnity Company were effective January 1, 2004.

The Company previously reported that its Board of Directors approved a four-for-three split of its Class A Common Stock and Class B Common Stock to be effective in the form of a 33-1/3% stock dividend to stockholders of record at the close of business on March 1, 2005 and payable on March 25, 2005, which the Company has changed to March 28, 2005.

The Company will hold a conference call on Tuesday February 22, 2005, beginning at 11:00 A. M. Eastern Time. You may participate in the conference call by calling 1-800-573-4754 (Passcode 51101444). An instant replay of the conference call will be available until March 4, 2005 by calling 1-888-286-8010 (Passcode 13138424).

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

All statements contained in this press release that are not historic facts are based on current expectations. Such statements are forward-looking (as defined in the Private Securities Litigation Reform Act of 1995) in nature and necessarily involve a number of risks and uncertainties. Actual results could vary materially. The factors that could cause actual results to vary materially include, but are not limited to, the ability of the Company to maintain profitable operations, the adequacy of the Company's reserves for losses and loss adjustment expenses, business and economic conditions in the areas in which the Company operates, competition from various insurance and non-insurance businesses, terrorism, legal and judicial developments, changes in regulatory requirements and other risks that are described from time to time in the Company's filings with the Securities and Exchange Commission. The Company disclaims any obligation to update such statements or to announce publicly the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

(Tables Follow)

	Three Months Ended December 31,	
	2004	2003
Net premiums earned	\$ 69,682,332	\$ 50,710,542
Investment income, net of investment expenses	4,266,222	3,309,105
Realized investment gains	373,855	873,268
Total revenues	75,480,902	55,694,338
Net income	\$ 7,224,890	\$ 5,179,206

Net income per common share

Basic	\$ 0.54	\$ 0.49
Diluted	\$ 0.53	\$ 0.47

	Year Ended December 31,	
	2004	2003
Net premiums earned	\$ 265,838,594	\$ 196,792,696
Investment income, net of investment expenses	15,906,728	13,315,936
Realized investment gains	1,466,220	1,368,031
Total revenues	287,788,638	214,992,328
Net income before extraordinary item	\$ 26,168,599	\$ 18,293,976
Net income after extraordinary item	\$ 31,614,269	\$ 18,293,976

Net income per common share before extraordinary item

Basic	\$ 1.99	\$ 1.91
Diluted	\$ 1.92	\$ 1.85

Net income per common share after extraordinary item

Basic	\$ 2.40	\$ 1.91
Diluted	\$ 2.32	\$ 1.85

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

	Quarter Ended December 31,	
	2004	2003
Net premiums earned	\$ 69,682	\$ 50,711
Investment income, net of investment expenses	4,266	3,309
Realized investment gains	374	873
Lease income	228	216
Service charge income	931	585
Total revenues	<u>75,481</u>	<u>55,694</u>
Losses and loss expenses	41,524	31,975
Amortization of deferred policy acquisition costs	11,186	7,978
Other underwriting expenses	11,446	7,155
Other expenses	237	360
Policyholder dividends	435	443
Interest	499	408
Total expenses	<u>65,327</u>	<u>48,319</u>
Income before income taxes	10,154	7,375
Income tax expense	2,929	2,196
Net income	<u>\$ 7,225</u>	<u>\$ 5,179</u>
Net income per common share		
Basic	<u>\$ 0.54</u>	<u>\$ 0.49</u>
Diluted	<u>\$ 0.53</u>	<u>\$ 0.47</u>
Supplementary Financial Analysts' Data		
Weighted average number of shares outstanding		
Basic	13,377,551	10,477,603
Diluted	<u>13,751,938</u>	<u>11,065,320</u>
Net written premiums	<u>\$ 70,012</u>	<u>\$ 50,448</u>
Book value per common share	<u>\$ 18.04</u>	<u>\$ 16.29</u>

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

	Year Ended December 31,	
	2004	2003
Net premiums earned	\$ 265,838	\$ 196,793
Investment income, net of investment expenses	15,907	13,316
Realized investment gains	1,466	1,368
Lease income	890	845
Service fees	3,687	2,464
Other income	—	206
Total revenues	287,788	214,992
Losses and loss expenses	164,141	126,243
Amortization of deferred policy acquisition costs	39,434	30,839
Other underwriting expenses	42,544	28,687
Other expenses	1,700	1,345
Dividends	1,301	1,155
Interest	1,614	1,287
Total expenses	250,734	189,556
Income before income taxes and extraordinary item	37,054	25,436
Income tax expense	10,885	7,142
Net income before extraordinary item	26,169	18,294
Extraordinary item	5,445	—
Net income after extraordinary item	\$ 31,614	\$ 18,294
Net income per common share before extraordinary item		
Basic	\$ 1.99	\$ 1.91
Diluted	\$ 1.92	\$ 1.85
Net income per common share after extraordinary item		
Basic	\$ 2.40	\$ 1.91
Diluted	\$ 2.32	\$ 1.85
Supplementary Financial Analysts' Data		
Weighted average number of shares outstanding		
Basic	13,159,435	9,570,872
Diluted	13,635,172	9,894,844
Net written premiums	\$ 283,282	\$ 206,981

Consolidated Balance Sheet
(unaudited; in thousands)

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
ASSETS		
Investments:		
Fixed maturities:		
Held to maturity, at amortized cost	\$ 182,574	\$ 113,051
Available for sale, at fair value	226,757	198,433
Equity securities, at fair value	42,370	31,448
Short-term investments, at cost, which approximates fair value	47,368	78,344
Total investments	499,069	421,276
Cash	7,350	5,909
Premiums in course of collection	44,267	29,017
Reinsurance receivable	98,479	81,009
Accrued investment income	4,961	3,752
Deferred policy acquisition costs	22,258	16,224
Prepaid reinsurance premiums	35,907	30,692
Property and equipment, net	5,509	4,152
Deferred income taxes	10,922	7,032
Other assets	6,693	2,973
Total assets	\$ 735,415	\$ 602,036
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss settlement expenses	\$ 267,190	\$ 217,914
Unearned premiums	174,458	134,028
Accounts payable and accrued expenses	13,414	7,770
Debt	30,929	25,774
Due to affiliates	—	904
Other liabilities	6,720	6,997
Total liabilities	492,711	393,387
Shareholders' equity:		
Preferred stock		
Class A common stock	104	99
Class B common stock	32	30
Additional paid-in capital	131,980	122,745
Accumulated other comprehensive income	4,750	5,291
Retained earnings	106,730	81,376
Treasury stock, at cost	(892)	(892)
Total shareholders' equity	242,704	208,649
Total liabilities and shareholders' equity	\$ 735,415	\$ 602,036