
**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): October 19, 2006

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))
-
-

Item 1.01. Entry into a Material Definitive Agreement.

At a meeting of the board of directors of Donegal Group Inc. (“DGI”) held on October 19, 2006, DGI’s board of directors considered and approved an amendment and restatement of the Tax Sharing Agreement (the “Agreement”) among DGI and its insurance subsidiaries, Atlantic States Insurance Company, Southern Insurance Company of Virginia, Le Mars Insurance Company, The Peninsula Insurance Company and Peninsula Indemnity Company (each a “Subsidiary”). Following this board action, on October 19, 2006, DGI and each Subsidiary entered into the Agreement.

The Agreement provides for:

- the continued inclusion of each Subsidiary in DGI’s consolidated federal income tax returns in accordance with the applicable provisions of the Internal Revenue Code of 1986;
- payments among DGI and each Subsidiary relating to their respective tax liabilities and the due dates for such payments; and
- other matters relating to adjustments to tax liabilities, filing of tax returns, access to books and records for tax return preparation purposes and resolution of disputes or controversies pertaining to such matters.

The foregoing description summarizes the material provisions of the Agreement, but is subject to, and qualified in its entirety by reference to, the Agreement, which is filed as Exhibit 10.1 to this Form 8-K and incorporated by reference into Item 1.01 of this Form 8-K.

Item 2.02. Results of Operations and Financial Condition.

On October 20, 2006, DGI issued a press release regarding DGI’s financial results for its third quarter ended September 30, 2006. The press release is attached as Exhibit 99.1 to this Form 8-K and is incorporated by reference into this Form 8-K. The information in Item 2.02 of this Form 8-K 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 under the Securities Act of 1933.

Item 9.01. Financial Statements and Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
10.1	Amended and Restated Tax Sharing Agreement dated as of October 19, 2006 between Donegal Group Inc., Atlantic States Insurance Company, Southern Insurance Company of Virginia, Le Mars Insurance Company, The Peninsula Insurance Company and Peninsula Indemnity Company
99.1	Press release issued by Donegal Group Inc. dated October 20, 2006

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: October 23, 2006

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>	<u>Reference</u>
10.1	Amended and Restated Tax Sharing Agreement dated as of October 19, 2006 between Donegal Group Inc., Atlantic States Insurance Company, Southern Insurance Company of Virginia, Le Mars Insurance Company, The Peninsula Insurance Company and Peninsula Indemnity Company	Submitted herewith.
99.1	Press release issued by Donegal Group Inc. dated October 20, 2006	Submitted herewith.

AMENDED AND RESTATED TAX SHARING AGREEMENT

THIS AMENDED AND RESTATED TAX SHARING AGREEMENT (this "Agreement") dated as of October 19, 2006, among Donegal Group Inc., a Delaware corporation ("DGI"), Atlantic States Insurance Company, a Pennsylvania stock casualty insurance company ("Atlantic"), Southern Insurance Company of Virginia, a Virginia stock casualty insurance company ("Southern"), Le Mars Insurance Company, an Iowa stock casualty insurance company ("Le Mars"), The Peninsula Insurance Company, a Maryland stock casualty insurance company ("Peninsula") and Peninsula Indemnity Company, a Maryland stock casualty insurance company ("PIC"). Atlantic, Southern, Le Mars, Peninsula and PIC are each referred to herein as the "Subsidiary."

WHEREAS, each Subsidiary is a member of an affiliated group (the "Group") within the meaning of section 1504(a) of the Internal Revenue Code of 1986, as amended (the "Code") of which DGI is the common parent corporation and each Subsidiary has been a party to a separate tax-sharing agreement with DGI;

WHEREAS, DGI will continue to include each Subsidiary in its consolidated federal income tax returns in accordance with Code sections 1501 and 1502 and wishes to enter into this Agreement so that DGI and each Subsidiary are all parties to the same tax-sharing agreement;

WHEREAS, the parties hereto deem it equitable that, with respect to each taxable year for which a consolidated return is filed on behalf of the Group, each Subsidiary shall pay DGI an amount equal to its Separate Company Tax Liability (as hereinafter defined); and

WHEREAS, the parties wish to provide for the treatment of various other matters that may arise as a result of the filing of consolidated returns, and the parties wish to set forth in this Agreement the agreement between DGI and each Subsidiary with respect to the allocation and settlement of the federal, state and local taxes of the Group with respect to each taxable period ending on or after the date hereof during which such Subsidiary is included in the affiliated group of which DGI is the common parent (the "Affiliation Periods").

NOW, THEREFORE, in consideration of the mutual covenants contained herein and intending to be legally bound hereby, the parties agree as follows:

1. Filing of Returns. With respect to each Affiliation Period, DGI shall file, and each Subsidiary shall agree to join in the filing of, consolidated federal income tax returns on behalf of the Group. Each Subsidiary shall execute and file such consents, elections and other

documents as DGI reasonably requests with respect to the filing of the Group's consolidated federal income tax returns, and shall, consistently with Section 4, timely provide to DGI such information as may be necessary for the filing of such returns or for the determination of amounts due under this Agreement. Each Subsidiary acknowledges and agrees that the rights conferred upon DGI in connection with the filing of the Group's returns include, without limitation, the right to reasonably determine the allocation of income or loss of DGI and any other subsidiary between the last Affiliation Period and the next taxable period. Each Subsidiary shall file all federal, state, local and foreign tax returns with respect to all periods for which such Subsidiary does not join DGI in filing a consolidated return and the Subsidiary shall be responsible for the payment of all taxes in connection therewith. The Subsidiary shall file any such tax returns in a manner consistent with the manner in which DGI filed its returns for Affiliation Periods except as required by law or to the extent any inconsistency would not adversely affect the tax returns of the Group.

2. Tax Payments.

(a) Due Dates. Except as otherwise provided in this Agreement: (i) each Subsidiary will pay to DGI the amount due DGI, as determined under Section 2(b), no later than the due date for the filing of any federal income tax return of the Group that includes such Subsidiary, and (ii) DGI will pay to each Subsidiary the amount due such Subsidiary, as determined under Section 2(c), no later than the due date for the filing of any federal income tax return of the Group that includes such Subsidiary; provided, however, that no later than each estimated federal income tax payment date of the Group for which the Group actually incurs a federal income tax liability with respect to an Affiliation Period, each Subsidiary shall pay to DGI the greater of (i) the minimum amount required to be paid to avoid the imposition of any penalties or additions to tax under the Code, determined on the same basis as the total amount due for an Affiliation Period under Section 2(b) or (ii) one-fourth of the amount estimated to be payable by such Subsidiary for such taxable year under Section 2(b). The amount of any overpayment or underpayment pursuant to this Section 2(a) shall be credited against, or added to, as the case may be, the amount otherwise required to be paid for the period within which the amount of such overpayment or underpayment first becomes reasonably ascertainable. The settlements may be satisfied by check, wire transfer or through intercompany accounts as the parties may mutually agree.

(b) Amount Due to DGI. Each Subsidiary shall pay DGI in the time and manner described in Section 2(a) an amount equal to any Separate Company Tax Liability of that Subsidiary. The "Separate Company Tax Liability" for any Affiliation Period shall be the amount, if any, of the federal income tax liability, including, without limitation, liability for any penalty, fine, additions to tax, interest, minimum tax, alternative minimum tax and other items applicable to that Subsidiary in connection with the determination of the Subsidiary's tax liability, which the Subsidiary would have incurred had it filed a separate federal income tax return for such Affiliation Period, computed in the manner prescribed in Income Tax

Regulation section 1.1552-1(a)(2)(ii), except that no carryforward or carryback of losses or credits shall be allowed.

The Separate Company Tax Liability for a Subsidiary shall be determined by DGI, with the cooperation and assistance of the Subsidiary, in a manner consistent with (i) general tax accounting principles, (ii) the Code and regulations thereunder and (iii) so long as a reasonable legal basis exists therefor, prior custom and practice. In addition, transactions or items between DGI and a Subsidiary that are deferred under the federal income tax return shall also be deferred for purposes of this Agreement until such time as they are restored or otherwise triggered into income under the Code or regulations.

(c) Amount due to a Subsidiary. In the event a Subsidiary does not have Separate Company Tax Liability for an Affiliation Period, but instead either incurs net losses or credits for such period, DGI shall pay the Subsidiary in the time and manner prescribed in Section 2(a) the amount by which the Group's federal income tax liability for such period is actually reduced by reason of the actual use of such losses or credits attributable to the Subsidiary in the Group's federal income tax return.

In the event a Subsidiary incurs any tax losses or tax credits that, as permitted under the Code and the regulations, are carried back or forward to one or more Affiliation Periods, DGI shall pay that Subsidiary an amount equal to the amount by which the Group's federal income tax liability is actually reduced by reason of the actual use of such carried over losses or credits in the Group's federal income tax return. Any payment from DGI to the Subsidiary required on account of such carryover shall be paid within 15 days of the date the benefit of the carryover is realized by DGI by reason of the receipt of a refund or credit of taxes.

(d) Paying Agent. DGI agrees to make all required payments to the Internal Revenue Service ("IRS") of the consolidated federal income tax liability, if any, of the Group.

3. Adjustments to Tax Liability.

(a) Adjustment-Related Payments. If the consolidated federal income tax liability of the Group or any of its members is adjusted for any taxable period for any reason other than a loss or credit carryback to the extent already provided for in Section 2(c), whether by means of an amended return, judicial decision, claim for refund or tax audit by the IRS, the Separate Company Tax Liability or the amount of tax benefits realized by the Group by reason of the use of a Subsidiary's losses or credit shall be recomputed to give effect to such adjustment, and the amount of any payments due under Section 2 shall be appropriately adjusted. Any additional payment between DGI and a Subsidiary required by reason of such recomputed Separate Company Tax Liability or Group tax refund or credit shall include an allocable share of any refunded interest received from the IRS, if applicable, or deficiency interest, penalties and additions to tax, if applicable, such allocable share of

refunded interest or deficiency interest, penalties and additions to tax shall be paid or charged, respectively, to a Subsidiary to the extent such amount relates to (i) reduced Group tax liability due to decreased Separate Company Tax Liability or increased Group tax refund or credit resulting from increased use of a Subsidiary's losses or credits, on the one hand, or (ii) increased Group tax liability due to increased Separate Company Tax Liability or decreased Group tax benefits arising from decreased use of a Subsidiary's losses or credits, on the other hand.

(b) Timing of Payments. Any payments to be paid to or by a Subsidiary under this Section 3 shall be made on or before the earliest to occur of (i) a decision by a court of competent jurisdiction that is not subject to further judicial review by appeal or otherwise and that has become final, (ii) the expiration of the time for (A) filing a claim for refund or (B) instituting suit in respect to a claim for refund disallowed in whole or in part by the IRS or for which the IRS took no action, (iii) the execution of a closing agreement under section 7121 of the Code or the acceptance by the IRS or its counsel of an offer in compromise under section 7122 of the Code or any successor provisions, (iv) the expiration of 30 days after (A) IRS acceptance of a Waiver of Restrictions on Assessment and Collection of Deficiency in Tax on Overassessment on Internal Revenue Form 870 or 870-AD or any successor or comparable form, or (B) the expiration of the ninety-day period after receipt of the statutory notice of deficiency resulting in immediate assessment, unless within such 30 days DGI notifies the Subsidiary of its intent to attempt recovery of any relevant amounts paid under the waiver by filing a timely claim for refund, (v) the expiration of the statute of limitations with respect to the relevant period or (vi) any other event the parties reasonably agree is a final determination of the tax liability at issue.

4. Books and Records. DGI and each Subsidiary agree that the preparation of the federal income and other tax returns, amended returns, claims for refund or IRS examination or litigation relating to the foregoing may require the use of records and information that is within the exclusive possession and control of either of DGI and the Subsidiary. DGI and each Subsidiary will provide such records, information and assistance, which may include making employees of any of the foregoing entities available to provide additional information and explanation material, as are requested by DGI or the Subsidiary, as the case may be, during regular business hours, in connection with any of the developments described in the preceding sentence; provided, however, that each Subsidiary shall provide DGI with all information necessary to enable DGI to file the Group consolidated federal income tax return for each Affiliation Period as soon as practicable, but in no event later than five months, after the last day of such Affiliation Period, and on the date the Group federal income tax returns that include a Subsidiary are filed DGI shall provide that Subsidiary with those portions of such returns relating to the Subsidiary. Each of the parties agrees that it shall retain, until the expiration of the applicable statute of limitations, including extensions, copies of any tax returns for any Affiliation Periods and for any other periods that might be subject to adjustment under this Agreement, and supporting work schedules and other

records or information, that may be relevant to the tax returns of the parties, and that it will not destroy or otherwise dispose of such records and information without providing the other parties with a reasonable opportunity to review and copy such records and information.

5. Assignment. This Agreement shall not be transferable or assignable by any of the parties without the prior written consent of the other parties. The rights and obligations hereunder of the parties shall be binding upon and inure to the benefit of the parties and their respective permitted successors and assigns. This Agreement shall be binding upon each corporation in which a Subsidiary owns, directly or indirectly, stock meeting the requirements of section 1504(a)(2) of the Code, whether or not the Subsidiary owns stock in such corporation upon the execution of this Agreement or at any time during Affiliation Periods, and the Subsidiary shall cause each such corporation as soon as practicable to assent formally to the terms of this Agreement. Except as herein otherwise specifically provided, nothing in this Agreement shall confer any right or benefit upon any person or entity other than the parties and their respective successors and permitted assigns.

6. Disputes. Any dispute concerning the interpretation of this Agreement or amount of payment due under this Agreement shall be resolved by DGI's regular independent registered public accounting firm for federal income tax matters, whose judgment shall be conclusive and binding on the parties and who shall act in consultation with DGI's tax counsel.

7. Tax Controversies. If any party receives notice of a tax examination, audit or challenge involving amounts subject to this Agreement, such party shall timely notify the other parties of the information and shall provide the other parties a written copy of any relevant letters, forms or schedules received from the IRS or otherwise in its possession and shall provide notice and information relating to all material proceedings in connection therewith. In any audit conference or other proceeding with the IRS or in any judicial proceedings concerning the determination of the federal income tax liabilities of the Group or any of its members, including any Subsidiary, the Group and each of its members shall be represented by persons selected by DGI. Except as otherwise expressly provided in Section 6, the settlement and terms of settlement of any issues relating to such proceeding shall be in the sole discretion of DGI, and each Subsidiary hereby appoints DGI as its agent for the purpose of proposing and concluding any such settlement. Notwithstanding anything to the contrary in this Agreement, in no event shall DGI be obligated to file any amended returns or claims for refund with respect to Affiliation Periods.

8. State and Local Taxes. To the extent appropriate, all provisions of this Agreement shall apply with the same force and effect to any state or local income tax liabilities that are computed on a combined, consolidated or unitary method; provided, however, that appropriate adjustments shall be made to the provisions hereof, including computation of Separate Company Tax Liability, with respect to any period within an

Affiliation Period during which a Subsidiary or a Subsidiary's items were not included on a return of DGI or other members of the Group, or were included on a return of members of the Group other than DGI.

9. Indemnity. If any party to this Agreement other than DGI is required to pay tax to the IRS or any state taxing authority in excess of its Separate Company Tax Liability as determined hereunder, such party shall be entitled to reimbursement of the excess liability payment from the party to whom the excess is properly allocable under this Agreement.

10. Miscellaneous.

(a) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated unless such invalidity or unenforceability would frustrate the essential purposes of the parties in entering into this Agreement. In the event that any such term, provision, covenant or restriction is held to be invalid, void or unenforceable, the parties hereto shall use their best efforts to find and employ an alternate means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction.

(b) Parties in Interest. Except as otherwise specifically provided, nothing in this Agreement expressed or implied is intended to confer any right or benefit upon any person, firm or corporation other than the parties and their respective successors and permitted assigns.

(c) Change of Law. If, due to any change in applicable law or regulations or the interpretation thereof by any court of law or other governing body having jurisdiction subsequent to the date of this Agreement, performance of any provision of this Agreement or any transaction contemplated thereby shall become impracticable or impossible, the parties shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such provision.

(d) Confidentiality. Subject to any contrary requirement of law and the right of each party to enforce its rights hereunder in any legal action, each party agrees that it shall keep strictly confidential, and shall cause its employees and agents to keep strictly confidential, any information which it or any of its agents or employees may acquire pursuant to, or in the course of performing its obligations under, any provision of this Agreement; provided, however, that such obligation to maintain confidentiality shall not apply to information which (i) at the time of disclosure was in the public domain not as a result of acts by the receiving party or (ii) was in the possession of the receiving party at the time of disclosure.

(e) Counterparts. For the convenience of the parties, any number of counterparts of this Agreement may be executed by the parties hereto, and each such executed counterpart shall be, and shall be deemed to be, an original instrument.

(f) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to its conflict of law provisions.

(g) Effect of Agreement. This Agreement shall supersede any other tax sharing arrangement or agreement in effect between the parties. Nothing in this Agreement is intended to change or otherwise affect any election made by or on behalf of the Group with respect to the calculation of earnings and profits under section 1552 of the Code.

(h) Interest. Any payment required to be made hereunder and not made when due shall bear interest at the rate per annum determined, from time to time, by the prevailing average rate earned on the investments of the party required to make payment.

(i) Term of Agreement. This Agreement shall become effective as of the date hereof and shall continue, unless earlier terminated by mutual agreement of the parties, until the expiration of the applicable statute of limitations, including extensions, for the Affiliation Period (the "Final Date"); provided that the provisions of Sections 1, 2 and 3 shall continue to apply after the Final Date only to the extent they deal with matters relevant to tax periods that end on or before such Final Date or that begin prior to and end after such Final Date.

(j) Modifications. This Agreement may be modified or amended only pursuant to an instrument in writing executed by all the parties hereto.

(k) Entire Agreement. This Agreement constitutes the entire agreement among the parties relating to the allocation of the consolidated and combined tax liabilities of the Group between or among the parties.

(l) Notices. All notices, consents, requests, instructions, approvals and other communications provided for herein shall be validly given, made or served, if in writing and delivered personally, by e-mail or reputable national delivery service to:

DGI:

1195 River Road
Marietta, PA 17547
Attention: Chief Executive Officer

Atlantic:

1195 River Road
Marietta, PA 17547
Attention: Chief Executive Officer

Southern:

1195 River Road
Marietta, PA 17547
Attention: Chief Executive Officer

Le Mars:

1195 River Road
Marietta, PA 17547
Attention: Chief Executive Officer

Peninsula:

1195 River Road
Marietta, PA 17547
Attention: Chief Executive Officer

PIC:

1195 River Road
Marietta, PA 17547
Attention: Chief Executive Officer

or to such other address as any party may have furnished to the other parties in writing in accordance with this Section 13(l).

IN WITNESS WHEREOF, the undersigned parties have caused this Agreement to be executed by their duly authorized officers on October 19, 2006.

DONEGAL GROUP INC.

By: /s/ Donald H. Nikolaus
Donald H. Nikolaus, Chief Executive Officer

ATLANTIC STATES INSURANCE COMPANY

By: /s/ Jeffrey D. Miller
Jeffrey D. Miller, Senior Vice President
and Chief Financial Officer

SOUTHERN INSURANCE COMPANY OF VIRGINIA

By: /s/ Donald H. Nikolaus
Donald H. Nikolaus, Chief Executive Officer

LE MARS INSURANCE COMPANY

By: /s/ Daniel J. Wagner
Daniel J. Wagner, Senior Vice President
and Treasurer

THE PENINSULA INSURANCE COMPANY

By: /s/ G. Eric Crouchley, III
G. Eric Crouchley, III, President

PENINSULA INDEMNITY COMPANY

By: /s/ G. Eric Crouchley, III
G. Eric Crouchley, III, President

DONEGAL GROUP INC. ANNOUNCES THIRD QUARTER EARNINGS

Jeffrey D. Miller
Senior Vice President & Chief Financial Officer
Phone (717) 426-1931
Fax (717) 426-7009

For Immediate Release

MARIETTA, Pennsylvania, October 20, 2006 — Donegal Group Inc. (Nasdaq: DGICA and DGICB) today reported that its net income for the third quarter ended September 30, 2006 was \$9,818,301, or \$.38 per share on a diluted basis, compared to the \$9,777,157, or \$.39 per share on a diluted basis, reported for the third quarter of 2005.

The Company's third quarter net income reflected a continuation of the excellent underwriting results and the increased investment income posted by the Company in the first half of the year. The quarterly underwriting results were achieved in spite of an increase in weather-related claims of approximately \$2.0 million in the third quarter of 2006 compared to the third quarter of 2005, primarily related to the increased severe weather activity in the Mid-Atlantic region including the effects of tropical storm Ernesto.

Revenues for the third quarter of 2006 were \$82,619,657, an increase of 2.5% over the third quarter of 2005, with net premiums earned of \$75,705,387, a 1.5% increase over the year-earlier period. Net premiums written for the third quarter of 2006 increased 3.6% over net premiums written for the third quarter of 2005, with personal lines net premiums written increasing 6.5% due to additional writings obtained from increased agent utilization of the Company's WritePro automated underwriting system as well as the Shelby renewal rights agreement.

The Company's combined ratio was 89.5% for the third quarter of 2006, compared to 88.5% in the third quarter of 2005. The Company's loss ratio for the third quarter of 2006 was 56.2%, compared to 55.1% for the third quarter of 2005, reflecting the aforementioned increase in weather-related claims. The Company's expense ratio was 32.6% for the third quarter of 2006, unchanged from the third quarter of 2005.

Net investment income increased to \$5,385,705 for the third quarter of 2006, an increase of 18.4% over the \$4,548,837 reported for the third quarter of 2005. Continuing improvements in the short-term interest rate environment contributed to an increase in the Company's average pre-tax investment yield to 3.8% in the third quarter of 2006, compared to 3.4% in the third quarter of 2005. The Company's continuing shift in asset mix to a greater concentration of tax-exempt municipal bonds resulted in a further decrease in the Company's effective tax rate in the third quarter of 2006 to 27.9%, compared to 28.7% in the third quarter of 2005.

Net income for the nine months ended September 30, 2006 was \$29,169,071, an increase of 7.6% over the \$27,097,520 reported for the nine months ended September 30, 2005. On a diluted basis, net income per share for the nine months ended September 30, 2006 was \$1.14, compared to \$1.10 for the year-earlier period. The Company's combined ratio for the first nine months of 2006 was 89.3%, a slight improvement over the combined ratio of 89.5% for the comparable period in 2005. The Company's loss ratio was 56.2% for the first nine months of 2006, compared to 55.7% for the first nine months of 2005.

"We are pleased with the continuation of solid earnings in the third quarter, and are encouraged that our written premium growth rate increased during the period as a result of several growth initiatives. Although we recognize the competitive challenges inherent in the current market, we are focused on the attainment of quality premium growth, whether organic or by acquisition, to further expand our business," stated Donald H. Nikolaus, President and Chief Executive Officer of Donegal Group Inc.

The Company's book value increased to \$12.39 per common share at September 30, 2006, representing an increase of 12.2% over the Company's book value of \$11.04 per common share at September 30, 2005.

The Company's board of directors yesterday approved a quarterly cash dividend payable November 15, 2006 of \$.0825 per share of Class A common stock and \$.07 per share of Class B common stock to stockholders of record as of the close of business on November 1, 2006.

All 2005 share and per share information has been restated to reflect the effect of 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 Friday, October 20, 2006, beginning at 11:00 A.M. Eastern Daylight Time. You may participate in the conference call by calling 1-866-831-6270 (Passcode 30219488) 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. An instant replay of the conference call will be available until October 27, 2006 by calling 1-888-286-8010 (Passcode 40913118).

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)

	Three Months Ended September 30	
	2006	2005*
Net premiums earned	\$75,705,387	\$74,584,045
Investment income, net of investment expenses	5,385,705	4,548,837
Net realized investment gains	152,694	124,896
Total revenues	82,619,657	80,566,455
Net income	\$ 9,818,301	\$ 9,777,157
Net income per common share:		
Basic	\$ 0.39	\$ 0.41
Diluted	\$ 0.38	\$ 0.39
	Nine Months Ended September 30	
	2006	2005*
Net premiums earned	\$225,280,341	\$219,784,658
Investment income, net of investment expenses	15,424,517	13,312,933
Net realized investment gains	1,034,741	1,235,248
Total revenues	245,763,039	238,137,593
Net income	\$ 29,169,071	\$ 27,097,520
Net income per common share:		
Basic	\$ 1.17	\$ 1.13
Diluted	\$ 1.14	\$ 1.10

* 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 September 30	
	2006	2005*
Net premiums earned	\$ 75,705	\$ 74,584
Investment income, net of investment expenses	5,386	4,549
Net realized investment gains	153	125
Lease income	244	242
Installment payment fees	1,132	1,066
Total revenues	<u>82,620</u>	<u>80,566</u>
Net losses and loss expenses	42,556	41,072
Amortization of deferred policy acquisition costs	12,152	12,069
Other underwriting expenses	12,550	12,270
Other expenses	490	290
Policyholder dividends	520	572
Interest	726	588
Total expenses	<u>68,994</u>	<u>66,861</u>
Income before income tax expense	13,626	13,705
Income tax expense	3,808	3,928
Net income	<u>\$ 9,818</u>	<u>\$ 9,777</u>
Net income per common share:		
Basic	\$ 0.39	\$ 0.41
Diluted	\$ 0.38	\$ 0.39
Supplementary Financial Analysts' Data Weighted average number of shares outstanding:		
Basic	25,125,648	23,990,899
Diluted	<u>25,650,760</u>	<u>24,896,441</u>
Net written premiums	<u>\$ 80,393</u>	<u>\$ 77,565</u>
Book value per common share at end of period	<u>\$ 12.39</u>	<u>\$ 11.04</u>

* 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)

	Nine Months Ended September 30	
	2006	2005*
Net premiums earned	\$ 225,280	\$ 219,785
Investment income, net of investment expenses	15,425	13,313
Net realized investment gains	1,035	1,235
Lease income	728	708
Installment payment fees	3,295	3,097
Total revenues	245,763	238,138
Net losses and loss expenses	126,628	122,417
Amortization of deferred policy acquisition costs	36,020	35,291
Other underwriting expenses	37,566	37,915
Other expenses	1,554	1,179
Policyholder dividends	1,042	1,181
Interest	2,062	1,630
Total expenses	204,872	199,613
Income before income tax expense	40,891	38,525
Income tax expense	11,722	11,427
Net income	<u>\$ 29,169</u>	<u>\$ 27,098</u>
Net income per common share:		
Basic	<u>\$ 1.17</u>	<u>\$ 1.13</u>
Diluted	<u>\$ 1.14</u>	<u>\$ 1.10</u>
Supplementary Financial Analysts' Data Weighted average number of shares outstanding:		
Basic	24,891,516	23,962,408
Diluted	<u>25,513,308</u>	<u>24,747,996</u>
Net written premiums	<u>\$ 236,662</u>	<u>\$ 232,372</u>
Book value per common share at end of period	<u>\$ 12.39</u>	<u>\$ 11.04</u>

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

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

	<u>September 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005*</u>
ASSETS:		
Investments:		
Fixed maturities:		
Held to maturity, at amortized cost	\$ 172,771	\$ 180,182
Available for sale, at fair value	331,250	295,097
Equity securities, at fair value	44,311	33,371
Investments in affiliates	8,319	8,442
Short-term investments, at cost, which approximates fair value	23,680	30,654
Total investments	<u>580,331</u>	<u>547,746</u>
Cash	4,830	3,811
Premiums receivable	50,841	47,124
Reinsurance receivable	101,108	94,137
Accrued investment income	5,409	5,521
Deferred policy acquisition costs	25,222	23,477
Prepaid reinsurance premiums	44,905	40,063
Property and equipment, net	5,040	5,234
Deferred tax asset, net	10,628	11,533
Due from affiliate	356	—
Other assets	4,681	2,776
Total assets	<u>\$ 833,351</u>	<u>\$ 781,422</u>

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

	September 30, 2006	December 31, 2005*
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Losses and loss expenses	\$ 269,609	\$ 265,730
Unearned premiums	202,883	186,660
Accrued expenses	11,050	12,706
Subordinated debentures	30,929	30,929
Due to affiliate	—	728
Other liabilities	7,277	6,773
Total liabilities	521,748	503,526
Stockholders' equity:		
Preferred stock	—	—
Class A common stock	197	192
Class B common stock	56	56
Additional paid-in capital	148,992	141,933
Accumulated other comprehensive income	4,063	2,532
Retained earnings	159,187	134,075
Treasury stock, at cost	(892)	(892)
Total stockholders' equity	311,603	277,896
Total liabilities and stockholders' equity	\$ 833,351	\$ 781,422

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