

DONEGAL GROUP INC
Form DEF 14A
March 18, 2011

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No. __)**

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Donegal Group Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- No fee required.
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NOTICE OF THE ANNUAL MEETING OF STOCKHOLDERS
WE WILL HOLD ON APRIL 21, 2011

To the Stockholders of
DONEGAL GROUP INC.:

We will hold our annual meeting of stockholders at 10:00 a.m., local time, on Thursday, April 21, 2011, at our principal executive offices, 1195 River Road, Marietta, Pennsylvania 17547. At our annual meeting, our stockholders will act on the following matters:

1. Election of the four nominees for Class A directors we name in our accompanying proxy statement, each for a term of three years and until the election of his or her respective successor;
2. Ratification of the selection of KPMG LLP as our independent registered public accounting firm for 2011;
3. Approval, by a non-binding vote of our stockholders, of the compensation of our named executive officers we describe in our accompanying proxy statement;
4. The determination, by a non-binding vote of our stockholders, of the frequency with which we submit to our stockholders for approval the compensation of our named executive officers;
5. Approval of our 2011 employee stock purchase plan so that we may continue to offer an employee stock purchase plan following the expiration of our 2001 employee stock purchase plan;
6. Approval of our 2011 equity incentive plan for employees so that we will have sufficient shares available under our equity incentive plan to continue this incentive compensation plan for our employees; and
7. Approval of our 2011 equity incentive plan for directors so that we will have sufficient shares available under our equity incentive plan to continue this incentive compensation plan for our directors.

No other director nomination or other matter may properly come before our annual meeting because none of our stockholders has timely submitted to us the information our by-laws require regarding any nomination for election as a Class A director or other proposed item of business. Therefore, under applicable law, no stockholder may validly present any such action at our 2011 annual meeting nor will we conduct a vote of our stockholders on any such matter.

Our board of directors has fixed the close of business on March 4, 2011 as the record date for the determination of our stockholders entitled to notice of, and to vote at, our annual meeting.

We include our 2010 annual report to stockholders with this notice of annual meeting and our proxy statement that accompanies this notice of annual meeting.

Please submit your proxy, whether or not you expect to attend our annual meeting in person, by mail, telephone or the internet as we describe in the accompanying proxy materials.

By order of our board of directors,

Donald H. Nikolaus,
President and Chief Executive Officer

March 18, 2011
Marietta, Pennsylvania

**Important Notice Regarding the Availability of Proxy Materials for our Annual Meeting of
Stockholders on April 21, 2011**

You may view the accompanying proxy statement for our 2011 annual meeting of stockholders and our 2010 annual report to stockholders on our website at www.donegalgroup.com. Any other information on our website does not constitute a part of the accompanying proxy statement or our 2010 annual report to stockholders.

DONEGAL GROUP INC.

PROXY STATEMENT

Our proxy statement contains information relating to our annual meeting of stockholders that we will hold on Thursday, April 21, 2011, at 10:00 a.m., local time, at our executive offices, 1195 River Road, Marietta, Pennsylvania 17547. On March 18, 2011, we mailed our proxy statement, the accompanying proxy card and our 2010 annual report to our stockholders of record as of the close of business on March 4, 2011. We will bear all of the costs of preparing and mailing our proxy materials to our stockholders. We will, upon request, reimburse brokers, nominees, fiduciaries, custodians and other record holders for their reasonable expenses in forwarding our proxy materials to the beneficial owners for whom they serve as record holders.

We use the following terms in this proxy statement:

Atlantic States means Atlantic States Insurance Company;

Donegal Mutual means Donegal Mutual Insurance Company;

Le Mars means Le Mars Insurance Company;

MICO means Michigan Insurance Company;

Peninsula means the Peninsula Insurance Group;

Sheboygan means Sheboygan Falls Insurance Company;

Southern means Southern Insurance Company of Virginia;

UNCB means Union National Community Bank;

UNFC means Union National Financial Corporation; and

We, us, our, DGI or the Company mean Donegal Group Inc.

CONTENTS

	Page
<u>OUR ANNUAL MEETING</u>	1
<u>What is the agenda for our annual meeting?</u>	1
<u>What is the effect of our advance notice by-laws?</u>	1
<u>What is a quorum at our annual meeting?</u>	1
<u>What is the order of business at our annual meeting?</u>	2
<u>Who may vote at and attend our annual meeting?</u>	2
<u>What percentage of our outstanding voting power must we receive to constitute approval by our stockholders of the items of business our stockholders will transact at our annual meeting?</u>	2
<u>What are the voting rights of our stockholders?</u>	3

<u>How do I vote my shares?</u>	4
<u>How do I vote shares I hold in street name?</u>	5
<u>How do I vote shares I hold in my 401(k) plan?</u>	5
<u>How does our board of directors recommend that our stockholders vote?</u>	5
<u>May I change my vote before our annual meeting?</u>	6
STOCK OWNERSHIP	6
<u>Our Principal Stockholders</u>	6
<u>Our Directors and Executive Officers</u>	6
<u>Section 16(a) Beneficial Ownership Reporting Compliance of Our Officers and Directors</u>	7

	Page
<u>OUR RELATIONSHIP WITH DONEGAL MUTUAL</u>	8
<u>Introduction</u>	8
<u>The Formation of DGI</u>	8
<u>The Coordinating Committee</u>	10
<u>Our Relationship With Donegal Mutual</u>	11
<u>CORPORATE GOVERNANCE MATTERS</u>	12
<u>The Charters of the Committees of Our Board of Directors</u>	12
<u>The Composition of Our Board of Directors</u>	13
<u>Our Board of Directors – Committee Structure</u>	13
<u>Our Executive Committee</u>	14
<u>Our Audit Committee</u>	14
<u>Our Nominating Committee</u>	15
<u>Our Compensation Committee</u>	15
<u>Our Risk Management Committee</u>	16
<u>Compensation Committee Interlocks and Insider Participation</u>	16
<u>Related Person Transactions</u>	16
<u>Director Compensation</u>	17
<u>Our Code of Business Conduct and Ethics</u>	19
<u>PROPOSAL 1 – ELECTION OF DIRECTORS</u>	20
<u>Introduction</u>	20
<u>Nominations</u>	20
<u>Our Nominating Procedures</u>	20
<u>The Role of Our Nominating Committee</u>	21
<u>Our Nominees for Election as Class A Directors</u>	21
<u>Our Class B and Class C Directors Who Will Continue in Office</u>	22
<u>PROPOSAL 2 – RATIFICATION OF OUR AUDIT COMMITTEE’S SELECTION OF KPMG LLP AS OUR</u>	
<u>INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2011</u>	24
<u>EXECUTIVE COMPENSATION DISCUSSION AND ANALYSIS</u>	24
<u>Executive Summary</u>	24
<u>Summary of the 2010 Compensation of Our Named Executive Officers</u>	25
<u>Evaluation of Executive Performance in 2010 and Executive Compensation</u>	26
<u>Our Compensation Philosophy and Risk Management Considerations</u>	27
<u>Retention of Compensation Consultants</u>	28
<u>COMPENSATION DISCUSSION AND ANALYSIS</u>	28
<u>The Compensation of Our Officers</u>	28
<u>Our Compensation Process</u>	29
<u>Limitations on the Deductibility of Compensation</u>	29
<u>Our Cash Incentive Plan</u>	30
<u>Other Aspects of Our Compensation Philosophy</u>	30
<u>Other Benefits</u>	30
<u>Perquisites</u>	30
<u>Recoupment Policy</u>	30
<u>Summary Compensation Table</u>	31
<u>Grants of Plan-Based Awards</u>	32
<u>Stock Incentive Plans</u>	32
<u>Outstanding Equity Awards at Fiscal Year End</u>	33

	Page
<u>Pension Benefits</u>	33
<u>Non-Qualified Deferred Compensation</u>	33
<u>Limitation of Liability and Indemnification</u>	34
<u>Report of Our Compensation Committee</u>	34
<u>Equity Compensation Plan Information</u>	35
<u>PROPOSAL 3 ADVISORY VOTE TO APPROVE THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS</u>	35
<u>PROPOSAL 4 ADVISORY VOTE TO DETERMINE THE FREQUENCY OF OUR SUBMISSION TO OUR STOCKHOLDERS OF A PROPOSAL TO APPROVE THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS</u>	36
<u>PROPOSAL 5 APPROVAL OF OUR 2011 EMPLOYEE STOCK PURCHASE PLAN</u>	37
<u>Description of Our 2011 Employee Stock Purchase Plan</u>	37
<u>Amendment and Termination</u>	38
<u>Federal Income Tax Consequences</u>	38
<u>PROPOSAL 6 APPROVAL OF OUR 2011 EQUITY INCENTIVE PLAN FOR EMPLOYEES</u>	39
<u>Description of our 2011 Equity Incentive Plan for Employees</u>	39
<u>Purpose</u>	39
<u>Grants</u>	40
<u>Administration</u>	40
<u>Option Agreements</u>	40
<u>Transferability</u>	41
<u>Incentive Options and Non-Qualified Options</u>	41
<u>Amendment and Termination</u>	41
<u>Federal Income Tax Consequences</u>	42
<u>Tax Withholding</u>	42
<u>PROPOSAL 7 APPROVAL OF OUR 2011 EQUITY INCENTIVE PLAN FOR DIRECTORS</u>	42
<u>Description of our 2011 Equity Incentive Plan for Directors</u>	42
<u>Purpose</u>	42
<u>Grants</u>	43
<u>Restricted Stock Awards</u>	43
<u>Non-qualified Stock Options</u>	43
<u>Transferability</u>	44
<u>Amendment and Termination</u>	44
<u>Federal Income Tax Consequences</u>	44
<u>Tax Withholding</u>	44
<u>AUDIT AND NON-AUDIT FEES</u>	45
<u>Report of Our Audit Committee</u>	45
<u>STOCKHOLDER PROPOSALS FOR OUR 2012 ANNUAL MEETING OF STOCKHOLDERS</u>	47
<u>HOUSEHOLDING</u>	48
<u>DIRECTOR STOCKHOLDER COMMUNICATIONS</u>	48
<u>OTHER MATTERS</u>	48
<u>APPENDIX A Donegal Group Inc. 2011 Employee Stock Purchase Plan</u>	A-1
<u>APPENDIX B Donegal Group Inc. 2011 Equity Incentive Plan for Employees</u>	B-1
<u>APPENDIX C Donegal Group Inc. 2011 Equity Incentive Plan for Directors</u>	C-1

Unless we otherwise specify, the information in our proxy statement relates to our 2010 fiscal year. Our 2010 fiscal year began on January 1, 2010 and ended on December 31, 2010.

OUR ANNUAL MEETING

Our board of directors solicits proxies from our stockholders through this proxy statement for use in connection with our 2011 annual meeting of stockholders. We will hold our 2011 annual meeting of stockholders at our principal executive offices at 1195 River Road, Marietta, Pennsylvania 17547 at 10:00 a.m., prevailing time, on April 21, 2011.

What is the agenda for our annual meeting?

At our 2011 annual meeting, our stockholders will act upon:

- the election of the four nominees for Class A directors we name in this proxy statement;
- the ratification of the selection of KPMG LLP as our independent registered public accounting firm for 2011;
- the approval, by a non-binding vote of our stockholders, of the compensation of our named executive officers we describe in this proxy statement;
- the determination, by a non-binding vote of our stockholders, of the frequency with which we submit to our stockholders for approval the compensation of our named executive officers;
- the approval of our 2011 employee stock purchase plan;
- the approval of our 2011 equity incentive plan for employees; and
- the approval of our 2011 equity incentive plan for directors.

What is the effect of our advance notice by-laws?

Like many publicly-owned companies, we have advance notice by-laws. Advance notice by-laws require that a stockholder provide us with prior notice of that stockholder's intention to nominate a candidate for election as director at our 2011 annual meeting or to propose any other item of business for stockholder action at our 2011 annual meeting. The purpose of our advance notice by-laws is to assure that we can include in our proxy statement for the information of all of our stockholders all of the actions we propose to submit to a vote of our stockholders at our annual meeting or that any other stockholder intends to propose.

Because none of our stockholders has nominated a candidate for election as director or proposed any other item of business for transaction at our 2011 annual meeting of stockholders within the time limits our advance notice by-laws specify, no business other than the seven agenda items we list above may properly come before our 2011 annual meeting of stockholders or be submitted to a vote of our stockholders at our 2011 annual meeting other than procedural matters related to the conduct of our 2011 annual meeting.

The Delaware General Corporation Law, or the DGCL, our certificate of incorporation and our by-laws govern the conduct of business at our annual meeting, our relationships with our stockholders and the rights, powers, duties and obligations of our stockholders, directors, officers and employees.

What is a quorum at our annual meeting?

Our by-laws state that the presence in person or by proxy of a majority of the total number of votes the holders of all of our outstanding shares of Class A common stock and Class B common stock as of the record date may cast constitutes a quorum at our annual meeting. Because Donegal Mutual owned approximately 66% of the aggregate voting power of our outstanding Class A common stock and our outstanding Class B common stock on the record date and because Donegal Mutual will attend our annual meeting, the presence of Donegal Mutual at our annual meeting will assure the presence of a quorum at our annual meeting and that our stockholders may conduct the business of our annual meeting.

What is the order of business at our annual meeting?

Our by-laws and applicable provisions of the DGCL govern the organization and conduct of business at our annual meeting of stockholders. At the direction of our board of directors, Donald H. Nikolaus, our President and Chief Executive Officer, will call our annual meeting to order and will chair our annual meeting. As chair of our annual meeting, Mr. Nikolaus will determine, in his reasonable discretion, the order of business our stockholders will conduct at our annual meeting and the procedural manner in which we conduct our annual meeting. We have historically conducted the voting on the proposals we have submitted to our stockholders as the first items of business at our annual meeting. Mr. Nikolaus will then report on our results of operations for 2010 and our outlook for 2011. After Mr. Nikolaus completes his remarks, he will respond to appropriate questions from our stockholders.

Who may vote at and attend our annual meeting?

Our stockholders of record as of the close of business on March 4, 2011, the record date our board of directors designated for our 2011 annual meeting, are our stockholders who may vote at our annual meeting. Stockholders of record, including persons duly appointed as proxies by stockholders of record, may attend and vote at our annual meeting. We reserve the right to request photographic identification, such as a driver's license, before we permit a stockholder or a proxy for a stockholder to attend our annual meeting. Even if you currently plan to attend our annual meeting in person, we recommend that you return your proxy using one of the methods we describe below under *How do I vote my shares?* By doing so, we can then include your vote if you later decide not to attend, or you are unable to attend, our annual meeting of stockholders.

You are a stockholder of record if your name appears on the list of our stockholders as of the record date that our transfer agent prepares for our annual meeting. For example, you are a stockholder of record if you receive dividend checks and proxy materials directly from us. During the ten days that precede our annual meeting, you may, upon proper request, inspect at our principal executive offices in Marietta, Pennsylvania an alphabetical list of the holders of record of our Class A common stock and our Class B common stock during normal business hours for any purpose germane to our annual meeting.

If a bank or broker holds your shares as your nominee, we consider you the beneficial owner of shares held in street name by your bank or broker, and we consider your nominee as the stockholder of record of your shares. Your bank or broker will send you, as the beneficial owner, a separate package describing the procedure for voting your shares. You should follow the instructions your bank or broker provides you on how to vote your shares.

What percentage of our outstanding voting power must we receive to constitute approval by our stockholders of the items of business our stockholders will transact at our annual meeting?

Election of Class A Directors. The four nominees our board of directors nominated for election as Class A directors in accordance with our by-laws, who are the only nominees eligible for election as Class A directors at our annual meeting, and who receive the highest number of ***FOR*** votes cast by the holders of our Class A common stock and our Class B common stock, voting together as a single class, will become Class A directors for a term of three years and until our stockholders elect their successors. If you properly submit your proxy and mark ***Withhold Authority***, the proxies will not vote your shares with respect to the nominee or nominees as to which you so indicate but we will count your shares as present at our annual meeting in determining whether a quorum exists. Our certificate of incorporation and by-laws do not authorize cumulative voting in the election of our directors.

Ratification of the Selection of KPMG LLP. Ratification of the selection of KPMG LLP as our independent registered public accounting firm for 2011 requires the affirmative vote of a majority of the voting power of our outstanding Class A common stock and our Class B common stock present in person or by proxy at our annual meeting.

Approval of the compensation of our named executive officers we describe in this proxy statement. Approval, by a non-binding vote of our stockholders, of the compensation of our named executive officers we

describe in this proxy statement requires the affirmative vote of a majority of the voting power of our outstanding shares of Class A common stock and our outstanding shares of Class B common stock present in person or by proxy at our annual meeting. We identify our named executive officers in the Summary Compensation Table on page 31 in this proxy statement. Although the vote to approve the compensation of our named executive officers we describe in this proxy statement is not binding on us, our board of directors will review the outcome of the voting and take the voting results into account in making future determinations with respect to the compensation of our named executive officers.

Determination of the frequency of our stockholder vote to approve the compensation of our named executive officers. Determination, by a non-binding vote of our stockholders, of the submission to our stockholders for approval once every one year, two years or three years the compensation of our named executive officers. This determination requires the affirmative vote of the holders of a majority of the voting power of our outstanding shares of Class A common stock and our outstanding shares of Class B common stock present in person or by proxy at our annual meeting for either every year, every two years or every three years. Our board of directors recommends that stockholders vote once every three years for the approval of the compensation of our named executive officers. Although the periodic vote to approve the compensation of our named executive officers is not binding on us, our board of directors will review the outcome of the voting and take the voting results into account in making future determinations with respect to the frequency with which we submit the compensation of our named executive officers to our stockholders for approval.

Approval of our 2011 employee stock purchase plan. Approval of our 2011 employee stock purchase plan requires the affirmative vote of a majority of the voting power of our outstanding shares of Class A common stock and our outstanding shares of Class B common stock present in person or by proxy at our annual meeting.

Approval of our 2011 equity incentive plan for employees. Approval of our 2011 equity incentive plan for employees requires the affirmative vote of the holders of a majority of the voting power of our outstanding shares of Class A common stock and our outstanding shares of Class B common stock present in person or by proxy at our annual meeting.

Approval of our 2011 equity incentive plan for directors. Approval of our 2011 equity incentive plan for directors requires the affirmative vote of the holders of a majority of the voting power of our outstanding shares of Class A common stock and our outstanding shares of Class B common stock present in person or by proxy at our annual meeting.

Although we consider abstentions and broker non-votes as outstanding shares entitled to vote at our annual meeting and count those shares in determining the number of votes necessary for a majority, it will not affect the determination of the presence of a quorum, because the presence of Donegal Mutual at the annual meeting assures the presence of a quorum at our annual meeting. Broker non-votes are shares held by brokers or nominees for which we have not received voting instructions from the beneficial owner of, or person otherwise entitled to vote the shares, and as to which the broker or nominee does not have discretionary voting power.

What are the voting rights of our stockholders?

As of March 4, 2011, we had outstanding:

20,013,067 shares of our Class A common stock, each of which entitles its holder to cast one-tenth of a vote with respect to each matter presented for a vote at our annual meeting; and

5,576,775 shares of our Class B common stock, each of which entitles its holder to cast one vote with respect to each matter presented for a vote at our annual meeting.

Therefore, the holders of all of our outstanding Class A common stock may in the aggregate cast a total of 2,001,306 votes on each matter submitted to a vote of our stockholders at our annual meeting, and the holders of all of our outstanding Class B common stock may cast in the aggregate a total of 5,576,775 votes on each matter submitted to a vote of our stockholders at our annual meeting.

As of March 4, 2011, Donegal Mutual owned 8,355,184 shares, or 41.7%, of our outstanding Class A common stock and 4,198,339 shares, or 75.3%, of our outstanding Class B common stock. Donegal Mutual therefore has the right to cast approximately two-thirds of the total number of votes that may be cast at our annual meeting on all matters presented for a vote of our stockholders at our annual meeting.

Donegal Mutual has advised us that it will vote all of its shares of our Class A common stock and our Class B common stock as follows:

for the election of Robert S. Bolinger, Patricia A. Gilmartin, Philip H. Glatfelter and Jack L. Hess as Class A directors;

for the ratification of the selection of KPMG LLP as our independent registered public accounting firm for 2011;

for the approval, by a non-binding vote of our stockholders, of the compensation of our named executive officers we describe in this proxy statement;

for the determination, by a non-binding vote of our stockholders, of every three years as the frequency with which we submit to our stockholders for approval the compensation of our named executive officers;

for the approval of our 2011 employee stock purchase plan;

for the approval of our 2011 equity incentive plan for employees; and

for the approval of our 2011 equity incentive plan for directors.

Therefore, based on the votes Donegal Mutual will cast at our 2011 annual meeting, at our 2011 annual meeting our stockholders will:

elect Robert S. Bolinger, Patricia A. Gilmartin, Philip H. Glatfelter, II and Jack L. Hess as Class A directors;

ratify the selection of KPMG LLP as our independent registered public accounting firm for 2011;

approve, by a non-binding vote of our stockholders, the compensation of our named executive officers we describe in this proxy statement;

determine, by a non-binding vote of our stockholders, every three years as the frequency with which we submit to our stockholders for approval the compensation of our named executive officers;

approve our 2011 employee stock purchase plan;

approve our 2011 equity incentive plan for employees; and

approve our 2011 equity incentive plan for directors.

How do I vote my shares?

If the certified list of the holders of our Class A common stock and Class B common stock as of the record date that our independent transfer agent prepared includes your name, you are a stockholder of record and you may attend our

annual meeting and vote in person or vote by proxy. The proxies our board of directors has named will vote your shares as you direct. If you prefer, you may vote your proxy by telephone, by using the internet or by mail by following the instructions we have set forth on your proxy card. The deadline for stockholders of record to vote telephonically or using the internet is 3:00 p.m., local time, on April 20, 2011. We must receive proxies submitted by mail or by express delivery services by 3:00 p.m., local time, on April 20, 2011.

You may vote by proxy in one of three following ways:

Vote by telephone use any touch-tone telephone to vote your proxy 24 hours a day, 7 days a week. Have your proxy card available when you call. When requested, enter your control numbers listed on your proxy card and then follow the prompts. The telephone number is 1-800-652-VOTE (8683).

Vote through the internet use the internet to vote your proxy 24 hours a day, 7 days a week. Have your proxy card available when you access the web site. When requested, enter your control numbers listed on your proxy card, and then create and submit your ballot over the internet. The website address is www.investorvote.com/DGIC.

Vote by mail mark, sign and date your proxy card and return it in the postage-paid envelope we have provided you.

If a broker, bank, nominee or other holder of record holds your shares, see **How do I vote the shares I hold in street name?** below.

How do I vote shares I hold in street name?

If you are not a stockholder of record, but you are a beneficial owner as of the close of business on March 4, 2011, which means that the list of record stockholders our independent transfer agent prepared as of the close of business on March 4, 2011 does not include your name or the name of the designee you have selected, you must either direct the holder of record of your shares how to vote your shares on the matters our stockholders will consider and vote upon at our annual meeting or you must first obtain a form of proxy from your holder of record that you may then vote as if you were a holder of record. Your broker or nominee may vote your shares only on those proposals as to which your broker or nominee has the discretion to vote your shares. Under the NASDAQ Global Select Market, or NASDAQ, corporate governance rules, your broker or nominee does not have discretion to vote your shares on non-routine matters such as the election of directors or proposals 3, 4, 5, 6 and 7.

How do I vote shares I hold in my 401(k) plan?

If you participate in Donegal Mutual's 401(k) plan, you may vote your shares of Class A common stock and Class B common stock credited to your 401(k) plan account as of the close of business on March 4, 2011 by completing, signing and returning the proxy card that accompanies this proxy statement.

How does our board of directors recommend that our stockholders vote?

Our board of directors unanimously recommends that you vote:

FOR the election of the four nominees for Class A directors we name in this proxy statement;

FOR the ratification of the selection of KPMG LLP as our independent registered public accounting firm for 2011;

FOR the approval, by non-binding vote of our stockholders, of the compensation of our named executive officers we describe that compensation in this proxy statement;

THREE YEARS for the determination, by a non-binding vote of our stockholders, of the frequency with which we submit to our stockholders for approval the compensation of our named executive officers;

FOR the approval of our 2011 employee stock purchase plan;

FOR the approval of our 2011 equity incentive plan for employees; and

FOR the approval of our 2011 equity incentive plan for directors.

Unless you mark your proxy card to the contrary, the proxies our board of directors has appointed will vote your shares as indicated above.

May I change my vote before our annual meeting?

You may revoke your proxy at any time prior to the closing of voting at our annual meeting. If you are a stockholder of record, you may revoke your proxy by:

submitting a written notice of revocation to our corporate secretary;

submitting a later dated proxy by telephone, internet or mail; or

voting in person at our annual meeting if you properly identify yourself to our judges of election.

However, if you attend our annual meeting and do not submit a ballot, our proxies will vote the proxy you most recently submitted.

If a bank, broker, nominee or other person is the holder of record of the shares you own, you should follow the instructions of the bank, broker, nominee or other holder of record regarding the revocation of your proxy.

If you have any questions about our annual meeting or voting your shares, please call Sheri O. Smith, our corporate secretary at (800) 877-0600 or e-mail Ms. Smith at sherismith@donegalgroup.com.

STOCK OWNERSHIP***Our Principal Stockholders***

The table below lists each person whom we believe owns beneficially 5% or more of the outstanding shares of our Class A common stock and 5% or more of the outstanding shares of our Class B common stock as of March 4, 2011, except as otherwise noted.

Name of Individual or Identity of Group	Class A Shares Beneficially Owned	Percent of Class A Common Stock	Class B Shares Beneficially Owned	Percent of Class B Common Stock
Donegal Mutual Insurance Company 1195 River Road Marietta, PA 17547	8,355,184	41.7%	4,198,339	75.3%
Dimensional Fund Advisors LP(1) 1299 Ocean Avenue Santa Monica, CA 90401	1,412,433	7.1		
Gregory M. Shepard(2) 7028 Portmarnock Place Bradenton, FL 34202	3,251,000	16.2	373,366	6.7

(1)

As Dimensional Fund Advisors, LP reported in a Schedule 13G it filed with the Securities and Exchange Commission, or the SEC on February 11, 2011. Dimensional Fund Advisors, LP serves as an investment advisor to four investment companies and as investment manager to certain other commingled group trusts and commingled accounts. Dimensional Fund Advisors LP disclaims beneficial ownership of these shares.

(2) As Mr. Shepard reported in a Schedule 13D he filed with the SEC on December 10, 2010.

Our Directors and Executive Officers

The following table shows the amount and percentage of our outstanding Class A common stock and our outstanding Class B common stock that each of our directors and nominees for director, each of our executive officers named in the Summary Compensation Table and all of our executive officers and directors as a group owned beneficially as of the close of business on March 4, 2011. The total shown for each person includes shares that the person owned jointly, in whole or in part, with the person's spouse, or individually by the person's spouse and shares purchasable upon the exercise of stock options that are currently exercisable or are exercisable within 60 days of March 4, 2011. Ownership is less than 1% unless otherwise indicated. The

business address of each of our officers and directors listed below is c/o Donegal Group Inc., 1195 River Road, Marietta, Pennsylvania 17547.

Name of Individual or Identity of Group	Class A Shares Beneficially Owned	Percent of Class A Common Stock	Class B Shares Beneficially Owned	Percent of Class B Common Stock
Directors and Nominees for Director:				
Donald H. Nikolaus(1)	841,254	4.1%	186,375	3.3%
Robert S. Bolinger	24,343		1,450	
Philip A. Garcia	3,955			
Patricia A. Gilmartin	23,962			
Philip H. Glatfelter, II	28,660		3,276	
Jack L. Hess(2)	4,469			
Kevin M. Kraft, Sr.	21,069			
John J. Lyons	61,739		1,776	
Jon M. Mahan	21,221			
S. Trezevant Moore, Jr.	12,388		1,000	
R. Richard Sherbahn	23,786		677	
Richard D. Wampler, II	22,004			
Executive Officers:				
Cyril J. Greenya	90,658		820	
Jeffrey D. Miller	101,702		582	
Robert G. Shenk	102,870			
Daniel J. Wagner	87,294		166	
All directors and executive officers as a group (16 persons)	1,471,374	7.0%	196,122	3.5%

* Less than 1% unless otherwise indicated.

(1) Includes 159,369 shares of Class A common stock and 3,938 shares of Class B common stock owned as of March 4, 2011 by a family foundation of which Mr. Nikolaus is trustee.

(2) Mr. Hess is a nominee for election as a Class A director at our 2011 annual meeting.

Section 16(a) Beneficial Ownership Reporting Compliance of Our Officers and Directors

Section 16(a) of the Securities Exchange Act of 1934, or the Exchange Act, requires that each of our executive officers, each of our directors and each holder of 10% or more of our Class A common stock or our Class B common stock report his or her ownership of our Class A common stock and our Class B common stock to the SEC. Such persons also must file statements of changes in such ownership with the SEC. Our executive officers and directors have advised us in writing that each of them made all required filings on a timely basis during 2010, although one

director subsequently timely amended his report to correct an error.

Gregory M. Shepard reported on July 12, 2010 on a Schedule 13D that he held beneficially more than 10% of our Class A common stock. However, we have no record that indicates that Mr. Shepard made a timely filing or any filing under Section 16(a) of the Exchange Act reporting his greater than 10% beneficial ownership of our Class A common stock or of any change in that ownership since July 12, 2010.

OUR RELATIONSHIP WITH DONEGAL MUTUAL

Introduction

A group of local residents and business owners in Lancaster County, Pennsylvania formed Donegal Mutual in 1889 to provide property and casualty insurance. Now, 122 years later, Donegal Mutual and we have over \$1.0 billion in assets and over \$500 million in surplus. Donegal Mutual and we now conduct business in 22 Mid-Atlantic, Midwestern, New England and Southern states. An important part of our business culture is to maintain and strengthen our founding principles and values.

Since 1986, Donegal Mutual and the insurance companies subsidiaries of DGI have conducted business together as the Donegal Insurance Group. During 2010, A.M. Best Company reported that the Donegal Insurance Group ranked 116th among property and casualty insurance companies in the United States based on 2009 net premiums written and assigned the Donegal Insurance Group an A.M. Best rating of A (Excellent). The Donegal Insurance Group has also received the Ward's Top 50 award for each of the last six years.

The Formation of DGI

In the mid-1980s, Donegal Mutual recognized the desirability, as a mutual insurance company, of developing additional sources of capital and surplus so it could remain competitive and have the surplus to expand its business and assure its long-term viability. Donegal Mutual determined to implement a downstream holding company structure as one of its strategic responses. Accordingly, in 1986, Donegal Mutual formed us as a downstream holding company. Initially, Donegal Mutual owned all of our outstanding common stock. We in turn formed Atlantic States as our wholly owned property and casualty insurance company subsidiary. We subsequently effected a public offering to provide the surplus necessary to support the business Atlantic States began to receive on October 1, 1986 as its share under a proportional reinsurance agreement, or the pooling agreement, between Donegal Mutual and Atlantic States that became effective on that date.

Under the pooling agreement, Donegal Mutual and Atlantic States pool substantially all of their respective premiums, losses and loss expenses. Donegal Mutual then cedes 80% of the pooled business to Atlantic States. Our insurance subsidiaries pay dividends to us annually. For the year ended December 31, 2010, our insurance subsidiaries paid a total of \$12.0 million in dividends to us, which is a major source of the funds for the dividends we pay to our stockholders. Donegal Mutual received \$5.5 million in dividends from us for the year ended December 31, 2010.

As the capital of Atlantic States and our other insurance subsidiaries has increased, the underwriting capacity of our insurance subsidiaries, including Atlantic States, has increased proportionately. The size of the underwriting pool has increased substantially. Therefore, as we originally planned in the mid-1980s, Atlantic States has successfully raised the capital necessary to support the growth of its direct business as well as accept increases in its allocation of business from the underwriting pool. Atlantic States' allocation of the pooled business has increased from an initial allocation of 35% in 1986 to an 80% allocation since March 1, 2008. We do not anticipate any further changes in the pooling agreement between Atlantic States and Donegal Mutual in the foreseeable future, including any change in the participation of Atlantic States in the underwriting pool.

Since we established Atlantic States in 1986, Donegal Mutual and our insurance subsidiaries have conducted business together, while retaining their separate legal and corporate existences. As such, Donegal Mutual and our insurance subsidiaries share the same business philosophies, the same management, the same employees, the same facilities and we offer the same types of insurance products. We believe Donegal Mutual's majority voting interest in us fosters our

ability to implement our business philosophies, enjoy management continuity, maintain superior employee relations and provide a stable environment within which we can grow our businesses.

In addition, as the Donegal Insurance Group, Donegal Mutual and our insurance subsidiaries share a combined business plan to achieve market penetration and underwriting profitability objectives. The products

Donegal Mutual and our insurance subsidiaries offer are generally complementary, which permits the Donegal Insurance Group to offer a broad range of products in a given market and to expand the Donegal Insurance Group's ability to service an entire personal lines or commercial lines account. Distinctions within the products Donegal Mutual and our insurance subsidiaries offer generally relate to specific risk profiles within similar classes of business, such as preferred tier products versus standard tier products. We and Donegal Mutual do not allocate all of the standard risk gradients to one company. As a result, the underwriting profitability of the business the individual companies write directly will vary. However, since the underwriting pool homogenizes the risk characteristics of all business Donegal Mutual and our insurance subsidiaries write directly, Donegal Mutual and Atlantic States share the underwriting results in proportion to their respective participation in the underwriting pool. We receive 80% of the results of the underwriting pool because Atlantic States has an 80% participation in the pool. The business Atlantic States derives from the pool represents a significant percentage of our total revenues. However, that percentage has gradually decreased over the past few years as we have acquired a number of other companies in other jurisdictions.

In April 2001, we recapitalized. We effected a one-for-three reverse stock split of our common stock and renamed it Class B common stock and issued two shares of our Class A common stock as a stock dividend for each post-reverse stock split share of our Class B common stock. Our Class A common stock has one-tenth of a vote per share and our Class B common stock has one vote per share. As a result of the reverse split and the stock dividend, each of our stockholders as of April 19, 2001 continued to own the same number of shares of our common stock, with one-third of the shares being shares of our Class B common stock and two-thirds of the shares being shares of our Class A common stock. As a result, the relative voting power and equity interest of our then stockholders remained constant, and Donegal Mutual's continued ownership of more than a majority of the voting power of our outstanding common stock better enabled us to maintain our long-term relationship with Donegal Mutual, which our board of directors believes is a central part of our business strategy.

We effected our recapitalization because we believed a capital structure that has more than one class of publicly traded securities offered us a number of benefits. The principal benefit from our recapitalization is our ability to issue our Class A common stock or securities convertible into or exchangeable for our Class A common stock for financing, acquisition and compensation purposes without materially adversely affecting the relative voting power of any of our stockholders, including Donegal Mutual. At the time of our recapitalization, our board of directors recognized that our recapitalization was likely to favor longer-term investors, including Donegal Mutual, and could discourage attempts to acquire us, which our board of directors believed to be remote in any event because Donegal Mutual has owned more than a majority of the voting power of our common stock since our formation in 1986.

Every DGI stockholder has invested in our Class A common stock or our Class B common stock with the prior knowledge that Donegal Mutual has greater than majority voting control of us for the reasons previously discussed, and that Donegal Mutual intends to retain that greater than majority voting control for the long-term future because it believes that greater than majority voting control is in our long-term best interests and the long-term best interests of Donegal Mutual.

We believe our relationships with Donegal Mutual since 1986 have made a substantial contribution to our growth, financial condition and success in the property and casualty insurance industry, and will continue to be a benefit to us, to our stockholders and to the policyholders of our insurance subsidiaries for the long-term future. These relationships provide us and our insurance subsidiaries with many advantages. We believe these advantages include the following:

- enabling our stable management, the consistent underwriting discipline of our insurance subsidiaries, external growth, long-term profitability and financial strength;

- creating operational and expense synergies from the combination of resources and integrated operations of Donegal Mutual and our insurance subsidiaries;

enhancing our opportunities to expand by acquisition because of the ability of Donegal Mutual to affiliate with and acquire control of other mutual insurance companies and, thereafter, demutualize them and combine them with us;

producing more stable and uniform underwriting results for our insurance subsidiaries over extended periods of time than we could achieve without our relationship with Donegal Mutual; and

providing Atlantic States with a significantly larger underwriting capacity because of the underwriting pool Donegal Mutual and Atlantic States have maintained since 1986.

The Coordinating Committee

We and Donegal Mutual have maintained a coordinating committee since our formation in 1986. The coordinating committee consists of two members of our board of directors, neither of whom is a member of Donegal Mutual's board of directors, and two members of Donegal Mutual's board of directors, neither of whom is a member of our board of directors. The purpose of the coordinating committee is to establish and maintain a process for an ongoing evaluation of the transactions between Donegal Mutual, our insurance subsidiaries and us. The coordinating committee considers the fairness of each intercompany transaction to Donegal Mutual and its policyholders and to us and our stockholders. Any change to an agreement between Donegal Mutual and us, or any new agreement between Donegal Mutual and us, is also subject to the applicable provisions of the Pennsylvania Insurance Company Law of 1921, as amended.

The coordinating committee approval process for a new agreement between Donegal Mutual and us or one of our insurance subsidiaries or a change in such an agreement is as follows:

a new agreement and any change to a previously approved agreement must receive coordinating committee approval. The coordinating committee will only approve a new agreement or a change in an existing agreement if:

both of our members on the coordinating committee determine that the new agreement or the change in an existing agreement is fair and equitable to us and in the best interests of our stockholders; and

both of Donegal Mutual's members on the coordinating committee determine that the new agreement or the change in an existing agreement is fair and equitable to Donegal Mutual and in the best interests of Donegal Mutual's policyholders;

the new agreement or the change in an existing agreement must be approved by our board of directors; and

the new agreement or the change in an existing agreement must be approved by the Donegal Mutual board of directors.

The coordinating committee also meets annually to review each existing agreement between Donegal Mutual and us or our insurance subsidiaries, including a number of reinsurance agreements between Donegal Mutual and our insurance subsidiaries. The purpose of this annual review is to examine the results of the reinsurance agreements over the immediately preceding year and for the five preceding years and to determine if the results of the existing agreements between Donegal Mutual and us remain fair and equitable to us and our stockholders and fair and equitable to Donegal Mutual and its policyholders or if Donegal Mutual and we should mutually agree to certain adjustments. In the case of these reinsurance agreements, the adjustments typically relate to the reinsurance premiums, losses and reinstatement premiums. These agreements are ongoing in nature and will continue in effect throughout

2011 in the ordinary course of business.

Robert S. Bolinger and John J. Lyons serve as our members of the coordinating committee. See Proposal 1 Election of Directors for certain information about Messrs. Bolinger and Lyons. Dennis J. Bixenman and John E. Hiestand serve as Donegal Mutual's members of the coordinating committee. Certain information about Mr. Bixenman and Mr. Hiestand is as follows:

Mr. Bixenman, age 64, has been a director of Donegal Mutual since 2006 and is currently a Vice President and Senior Consultant at Williams & Co. Consulting, Inc., an environmental and business consulting

firm with its headquarters in Sioux Falls, South Dakota. Mr. Bixenman is a certified public accountant with extensive experience in auditing and preparing financial statements. Mr. Bixenman beneficially owns 1,555 shares of our Class A common stock and no shares of our Class B common stock. In 2010, Donegal Mutual paid directors and meeting fees of \$34,000 in cash to Mr. Bixenman and granted him a restricted stock award of 311 shares as director compensation.

Mr. Hiestand, age 72, has been a director of Donegal Mutual since 1983 and has been a self-employed provider of insurance administrative services for more than the past five years. Mr. Hiestand beneficially owns 5,901 shares of our Class A common stock and 157 shares of our Class B common stock. In 2010, Donegal Mutual paid directors and meeting fees of \$32,250 in cash to Mr. Hiestand and granted him a restricted stock award of 311 shares as director compensation.

Our Relationship With Donegal Mutual

Donegal Mutual provides facilities, personnel and other services to us and our insurance subsidiaries. Donegal Mutual allocates certain related expenses to Atlantic States in accordance with the relative participation of Donegal Mutual and Atlantic States in the pooling agreement. Our insurance subsidiaries other than Atlantic States reimburse Donegal Mutual for their respective personnel costs and bear their proportionate share of information services costs based on their written insurance premiums compared to the total written insurance premiums of the Donegal Insurance Group. Charges for these services totaled \$64.0 million in 2010.

We lease office equipment and automobiles to Donegal Mutual and Southern. Donegal Mutual and Southern made total lease payments to us of \$922,937 in 2010.

Donegal Mutual and Atlantic States participate in an underwriting pool. Both companies pool substantially all of their respective premiums, losses and loss expenses and receive an allocated percentage of their combined underwriting results. The underwriting pool excludes certain intercompany reinsurance Donegal Mutual assumes from our insurance subsidiaries. Since March 1, 2008, Atlantic States has had an 80% share of the results of the pool and Donegal Mutual has had a 20% share of the results of the pool.

Donegal Mutual and Atlantic States may amend or terminate the pooling agreement at the end of any calendar year by mutual agreement, subject to approval by the boards of directors of Donegal Mutual and Atlantic States and by the coordinating committee. Our 2010 annual report to stockholders contains additional information describing the underwriting pool.

In addition to the underwriting pool and third-party reinsurance agreements, our insurance subsidiaries have various ongoing reinsurance agreements with Donegal Mutual. These agreements include:

Donegal Mutual and Peninsula have a quota-share reinsurance agreement whereby Peninsula transfers to Donegal Mutual 100% of the premiums and losses related to the workers' compensation product line Peninsula writes in certain states. Peninsula offers workers' compensation insurance in those states in order to provide the Donegal Insurance Group with an additional pricing tier where an insurance company may only offer a single pricing tier.

Donegal Mutual and Southern maintain a quota-share reinsurance agreement that transfers to Southern 100% of the premiums and losses related to certain personal lines products Donegal Mutual offers in Virginia through the use of Donegal Mutual's automated policy quoting and policy issuance system.

Donegal Mutual and Le Mars have a quota-share reinsurance agreement whereby Donegal Mutual transfers to Le Mars 100% of the premiums and losses related to certain products Donegal Mutual offers in certain Midwest states. This reinsurance facilitates the offering of additional complementary products to Le Mars commercial accounts.

Donegal Mutual also maintains 100% retrocessional reinsurance agreements with Southern and Le Mars. The original purpose of these agreements was to permit Southern and Le Mars to share Donegal Mutual's A.M. Best rating of A (Excellent). The retrocessional reinsurance agreements do not otherwise provide for pooling or reinsurance with or by Donegal Mutual and do not transfer insurance risk to Donegal Mutual for financial and accounting purposes. In addition, Donegal Mutual and we entered

into a capital support agreement with Sheboygan that permits Sheboygan to share Donegal Mutual's A.M. Best rating of A (Excellent).

Donegal Mutual and MICO maintain a quota-share reinsurance agreement that transfers 25% of MICO's business to Donegal Mutual effective December 1, 2010. The purpose of this reinsurance agreement is to permit the Donegal Insurance Group to retain a portion of MICO's business that MICO had historically reinsured with third parties. This retention is in addition to MICO's historical retention of 25% of its business. Because of the reinsurance pooling agreement between Donegal Mutual and us, DGI will receive an 80% allocation, or 20%, of the MICO business Donegal Mutual reinsures, plus the 25% MICO retains, for a total of 45% in 2011. Over time, we anticipate the Donegal Insurance Group share of the MICO business it reinsures will increase.

The coordinating committee annually reviews each of the agreements and transactions we have previously described between Donegal Mutual and our insurance subsidiaries and the results thereof to each of Donegal Mutual and us for the most recent year and for the past five years. In February 2011, the coordinating committee determined that the terms of such agreements were fair and equitable to us and our stockholders and, fair and equitable to Donegal Mutual and its policyholders. Accordingly, the coordinating committee unanimously approved the terms of such agreements and transactions for 2011.

We refer you to footnote 3 of the notes to our financial statements included in our annual report to stockholders for further information about the reinsurance agreements between Donegal Mutual and our insurance subsidiaries. The intent of these catastrophe and excess of loss reinsurance agreements is to lessen the effects of a single large loss, or an accumulation of smaller losses arising from one event, to levels that are appropriate given each insurance subsidiary's size, underwriting profile and surplus position.

We own 48.2% and Donegal Mutual owns 51.8% of Donegal Financial Services Corporation, or DFSC. DFSC has entered into an agreement to acquire Union National Financial Corporation, or UNFC, and its wholly-owned subsidiary Union National Community Bank, or UNCB. The stockholders of UNFC have approved the acquisition, subject to approval by the Office of Thrift Supervision, or OTS. At December 31, 2010, UNFC had consolidated assets of \$448.0 million. DFSC owns 100% of Province Bank FSB, or Province Bank, a federal savings bank with offices in Marietta, Columbia and Lancaster, Pennsylvania. We and Donegal Mutual conduct banking operations in the ordinary course of business with Province Bank.

Donegal Mutual leases 3,600 square feet in a Donegal Mutual-owned building in Marietta, Pennsylvania to Province Bank. In addition, Province Bank leases 3,000 square feet of space in a building in Lancaster, Pennsylvania from DFSC. Both leases provide for an annual rent based on an independent appraisal. Donegal Mutual and Province Bank are also parties to an administrative services agreement whereby Donegal Mutual provides various human resources services, principally payroll and employee benefits administration, administrative support, facility and equipment maintenance services and purchasing, to Province Bank, subject to the overall limitation that the costs Donegal Mutual charges to Province Bank may not exceed the costs of independent vendors for similar services and further subject to annual maximum cost limitations specified in the administrative services agreement.

CORPORATE GOVERNANCE MATTERS

The Charters of the Committees of Our Board of Directors

Our board of directors has adopted corporate governance guidelines to assist our board committees in the discharge of their respective responsibilities. Each committee of our board has a written charter that sets forth the purposes, goals and responsibilities of the committee as well as qualifications for committee membership, procedures for committee

membership, appointment and removal of committee members, committee structure and operations of committee reporting to our board of directors. The charters of the committees of our board of directors provide our stockholders with a description of the manner in which our board and its committees functions. You may view these charters on our website at <http://www.donegalgroup.com>.

The Composition of Our Board of Directors

The number of members of our board of directors cannot be less than seven nor more than twelve. Our board of directors fixes the size of our board of directors, and may increase or decrease the size of our board of directors from time to time by resolution. Currently, our board of directors has fixed the number of directors at 11. Our board of directors has three classes, with terms expiring at successive annual meetings.

Because Donegal Mutual owns more than a majority of the combined voting power of our outstanding shares of Class A common stock and our outstanding shares of Class B common stock, applicable NASDAQ regulations classify us as a controlled company. As we are a controlled company, we are exempt from a number of NASDAQ corporate governance requirements, including the requirement that a majority of the members of our board of directors be independent.

The composition of our board is, however, subject to the corporate governance rules of the Pennsylvania Insurance Holding Companies Act, or the Holding Companies Act. The Holding Companies Act requires that the board of directors of a Pennsylvania-domiciled insurance company or a company that controls a Pennsylvania-domiciled insurance company, such as we do, maintain a committee or committees that undertake certain corporate governance responsibilities. The Holding Companies Act further requires that the members of the committee or committees be solely directors who are not officers or employees of the Pennsylvania-domiciled insurance company or its holding company and who do not own beneficially a 10% or greater interest in the voting stock of such insurance company or its holding company. We maintain an audit committee, a compensation committee and a nominating committee that comply with the requirements of the Holding Companies Act.

Pursuant to the Holding Companies Act, our committees annually perform the following responsibilities:

- recommend the selection of an independent registered public accounting firm for our insurance company subsidiaries;

- review the financial condition of our insurance company subsidiaries;

- review the scope and results of our insurance company subsidiaries' independent audit and any internal audit;

- nominate candidates for election as directors by stockholders; and

- evaluate the performance of our insurance company subsidiaries' principal officers and recommend to their boards of directors the selection and compensation of the principal officers of our insurance company subsidiaries.

Our Board of Directors' Committee Structure

We expect our directors to attend our board of directors meetings, meetings of board committees on which they serve and our meetings of stockholders. We expect our directors to devote the time necessary to fulfill their responsibilities as directors. During 2010, each of our directors attended 75% or more of the meetings of our board of directors and committees of our board on which that director serves. All of the members of our board of directors attended our 2010 annual meeting of stockholders.

Our board of directors has delegated some of its authority to the following four committees of our board of directors:

the executive committee;

the audit committee;

the nominating committee; and

the compensation committee.

In addition, together with Donegal Mutual, we jointly maintain a coordinating committee. We refer you to Our Relationship with Donegal Mutual The Coordinating Committee.

The following table shows the number of meetings each committee of our board of directors held in 2010 and the attendance of the members of those committees at their meetings. Ms. Gilmartin and Messrs. Kraft and Moore are not currently serving as a member of the committees of our board of directors.

	Executive	Audit	Nominating	Compensation
Number of Meetings Held in 2010	10	10	3	5
Robert S. Bolinger		10		
Philip A. Garcia*		8		
Philip H. Glatfelter, II	10		3	5
John J. Lyons		9		
Jon M. Mahan			3	
Donald H. Nikolaus	10			
S. Richard Sherbahn	10		3	5
Richard D. Wampler, II		10		

* Mr. Garcia attended all of the meetings of the audit committee held subsequent to the date on which our board of directors appointed Mr. Garcia as a member of our audit committee.

Our Executive Committee

Members: Glatfelter, Nikolaus (Chairperson) and Sherbahn. Our executive committee has the authority to take all action that our full board of directors can take, consistent with the DGCL, our certificate of incorporation and our by-laws between meetings of our board of directors.

The responsibilities of our executive committee include the following matters:

exercising all powers and authority of our board of directors between meetings of our board of directors to the extent consistent with the DGCL;

consulting with and advising management on our general business, operational, administrative and legal affairs;

consulting with and advising management on the development of our company policies;

considering other matters which management may bring to the executive committee from time to time; and

performing such other functions as our board of directors may specifically delegate to the executive committee from time to time.

Our executive committee has a written charter. The full text of our executive committee charter may be reviewed on our website at <http://www.donegalgroup.com>. Our executive committee reviews its charter annually.

Our Audit Committee

Members: Bolinger, Garcia, Lyons and Wampler (Chairperson). Each member of our audit committee satisfies the independence requirements of the SEC and NASDAQ and is in compliance with applicable provisions of the Holding Companies Act and the Sarbanes-Oxley Act of 2002. Mr. Wampler, who is a certified public accountant, serves as the financial expert member of our audit committee.

The responsibilities of our audit committee include the following matters:

- selecting our independent registered public accounting firm;

- reviewing the scope and results of our independent registered public accounting firm's audit of our financial statements and any internal audit;

reviewing all of our periodic filings with the SEC and press releases;

reviewing related party transactions other than those transactions subject to review by our coordinating committee; and

reviewing the adequacy of our accounting, financial, internal and operating controls.

Our audit committee has a written charter. The full text of our audit committee's charter may be viewed on our website at <http://www.donegalgroup.com>. Our audit committee reviews its charter annually.

Our Nominating Committee

Members: Glatfelter (Chairperson) and Sherbahn

The responsibilities of our nominating committee include the following matters:

identifying individuals our nominating committee believes are qualified to serve as members of our board of directors;

recommending nominees to stand for election to our board of directors;

considering candidates nominated by other stockholders for election as directors to our board of directors;

evaluating the self-evaluations each of our board committees prepares; and

providing our board of directors with an annual performance evaluation of our nominating committee.

Our nominating committee has a written charter. You may view this charter on our website at <http://www.donegalgroup.com>. Our nominating committee reviews its charter annually.

Our Compensation Committee

Members: Glatfelter and Sherbahn (Chairperson). Because the employees who provide services to us are employees of Donegal Mutual for reasons of efficiency and cost savings and because our insurance subsidiaries are members of the Donegal Insurance Group along with Donegal Mutual and us, our compensation committee and the compensation committee of Donegal Mutual conduct joint meetings from time to time. The members of the Donegal Mutual compensation committee are Frederick W. Dreher, Philip H. Glatfelter, II and R. Richard Sherbahn. Following these joint meetings, our compensation committee meets and makes compensation determinations with respect to our executive officers and other employees.

The responsibilities of our compensation committee include the following matters:

the annual review of the guidelines for compensation increases for all of our employees;

the annual review of the compensation of our executive officers;

recommendations to our board of directors from time to time as to grants of stock options to employees; and

the oversight of the employee benefit plans we and Donegal Mutual maintain.

Our compensation committee has a written charter. You may view the charter of our compensation committee on our website at <http://www.donegalgroup.com>. Our compensation committee reviews its charter annually.

See Executive Compensation Compensation Discussion and Analysis for further information.

See Our Relationship with Donegal Mutual The Coordinating Committee for a description of our coordinating committee.

Our Risk Management Committee

In addition to the committees our board of directors maintains, we and Donegal Mutual have a risk management committee. Our risk management committee consists of 14 of our and Donegal Mutual's officers, including all of our executive officers. The purpose of our risk management committee is to assess and monitor the major strategic, operational, regulatory, informational and external risks that affect our business and the business of Donegal Mutual and our and Donegal Mutual's internal and external resources for assessing and controlling risk.

Our risk management committee is responsible for:

evaluating the effectiveness of our assessment and management of risks;

developing and recommending policies and procedures relating to risk assessment, risk management and risk reporting;

assessing our risk management, compliance and control activities and the adequacy of such activities in identifying our risks; and

reporting periodically to our board of directors.

Our risk management committee meets quarterly and annually evaluates its performance of its responsibilities.

Compensation Committee Interlocks and Insider Participation

No member of our compensation committee is a former or current officer of Donegal Mutual or DGI, nor does any member of our compensation committee have any other interlocking relationships, based on current SEC rules and regulations.

Related Person Transactions

We have a written related person policy regarding the review, approval or ratification involving certain persons that SEC rules and regulations require us to disclose specified information reporting any related person transactions in our proxy statement and other filings we make with the SEC. This policy applies, in our case, to any transactions with related parties with the exception of those transactions that require the prior approval of our coordinating committee because the parties to the transactions are Donegal Mutual and us. See *Our Relationship with Donegal Mutual* The Coordinating Committee. Our related person policy establishes procedures for the approval of transactions between us and related persons because we recognize that related persons transactions can present a heightened risk of a conflict of interest and can create the appearance of impropriety. Applicable SEC regulations define a related person as including our directors, our executive officers, holders of 5% or more of any class of our common stock and each of their immediate family members. Our policy requires that all proposed related person transactions must receive the approval of our audit committee before we can enter into the transaction. In addition, if the transaction continues for more than one year, our audit committee must annually approve the continuation of the transaction.

Donald H. Nikolaus, our President and one of our directors and the President and a director of Donegal Mutual, is a partner in the law firm of Nikolaus & Hohenadel. Such firm has served as general counsel to Donegal Mutual since 1970 and as our general counsel since 1986, principally in connection with the defense of claims litigation arising in Lancaster, Dauphin and York counties of Pennsylvania. We pay such firm its customary fees for such services. We

paid Nikolaus & Hohenadel legal fees of \$445,231 in 2009 and \$420,760 in 2010.

Patricia A. Gilmartin, one of our directors and a director of Donegal Mutual, is an employee of Associated Donegal Insurance Brokers. That firm has no affiliation with us except that it receives insurance commissions in the ordinary course of business from our insurance subsidiaries and Donegal Mutual in accordance with their standard commission schedules and agency contracts.

Frederick W. Dreher, a director of Donegal Mutual, is a partner in the law firm of Duane Morris LLP, which, since 1986, has represented us, our insurance subsidiaries and Donegal Mutual in certain legal matters. We pay Duane Morris LLP its customary fees for such services. We paid Duane Morris LLP legal fees of \$1,611,823 in 2009 and \$2,555,384 in 2010.

Director Compensation

Our objectives for our director compensation program is to attract highly-qualified individuals to serve on our board of directors and to align the interests of our directors with the interests of our stockholders. Our compensation committee reviews our director compensation program at least annually to confirm that the compensation of the members of our board of directors remains competitive and appropriate and to recommend any changes it proposes to our board of directors.

	Compensation Type	Amount	Form of Payment
Annual Retainer	Base Retainer	\$ 35,000	\$30,000 in cash and an annual grant of 311 restricted shares of Class A common stock (400 shares commencing in 2012) with an estimated value of \$5,000
	Additional retainer amount for each committee meeting attended	\$ 250	Cash
	Additional retainer amount for each audit committee meeting	\$ 500	Cash
Periodic Equity Grant	When we from time to time grant options to our executive personnel, we typically also grant options to purchase shares of Class A common stock to our directors exercisable for five years at the closing market price on the date of grant		Non-qualified stock options

Under our equity incentive plan for directors, each of our directors and each director of Donegal Mutual who is not also one of our directors receives an annual restricted stock award of 311 shares of our Class A common stock as of the first business day of each year, provided the director served as a member of our board of directors or the board of directors of Donegal Mutual during any portion of the preceding year. Effective for 2012, we have increased the number of shares comprising the annual restricted stock award from 311 shares to 400 shares. Each of our directors and each of the directors of Donegal Mutual is also eligible to receive non-qualified options to purchase shares of our Class A common stock in an amount our board of directors determines from time to time. Donegal Mutual reimburses us for the restricted stock awards granted to those directors of Donegal Mutual who are not also members of our board of directors.

The following table sets forth a summary of the compensation we paid to our non-officer directors during 2010.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Total (\$)
Robert S. Bolinger	36,750	4,503	12,600	53,853
Philip A. Garcia	35,500	4,503	12,600	52,603
Patricia A. Gilmartin	31,500	4,503	12,600	48,603
Philip H. Glatfelter, II	85,750	4,503	12,600	102,853
Kevin M. Kraft, Sr.	34,000	4,503	12,600	51,103
John J. Lyons	36,250	4,503	12,600	53,353
John M. Mahan	31,500	4,503	12,600	48,603
S. Trezevant Moore, Jr.	31,500	4,503	12,600	48,603
R. Richard Sherbahn	33,750			