

Edgar Filing: DONEGAL GROUP INC - Form 424B3

DONEGAL GROUP INC
Form 424B3
May 23, 2002

Filed pursuant to Rules 424(b)(3) and 424(c)
Registration No. 333-63102

DONEGAL GROUP INC.

2001 AGENCY STOCK PURCHASE PLAN

PROSPECTUS SUPPLEMENT
TO PROSPECTUS DATED APRIL 12, 2002

On May 15, 2002, Donegal Group Inc. (the "Company") filed with the Securities and Exchange Commission a Form 10-Q Quarterly Report for the quarter ended March 31, 2002, a copy of which, without exhibits, is attached to this Prospectus Supplement.

This Prospectus Supplement should be read in conjunction with the Company's Prospectus dated April 12, 2002.

The date of this Prospectus Supplement is May 22, 2002.

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

(Mark One)

Quarterly Report Pursuant to Section 13 of the Securities Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

or

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

For the transition period from _____ to _____.

Commission File No. 0-15341

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DONEGAL GROUP INC.

(Exact name of registrant as specified in its charter)

DELAWARE

23-2424711

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

1195 RIVER ROAD, P.O. BOX 302, MARIETTA, PA 17547-0302

(Address of principal executive offices, including zip code)

(717) 426-1931

(Registrant's telephone number, including area code)

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 6,066,351 shares of Class A Common Stock and 2,982,314 shares of Class B Common Stock, \$0.01 par value, outstanding on April 30, 2002.

Part 1. Financial Information

Item 1. Financial Statements.

DONEGAL GROUP INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	MARCH 31, 2002	DEC. 31, 2001
	-----	-----
ASSETS	(Unaudited)	

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Investments

Fixed maturities		
Held to maturity, at amortized cost	\$ 83,419,732	\$ 85,322,965
Available for sale, at market value	181,871,320	173,718,844
Equity securities, available for sale at market	18,123,670	17,517,346
Short-term investments, at cost, which approximates market	24,018,948	24,074,200
	-----	-----
Total investments	307,433,670	300,633,355
Cash	3,316,649	4,075,288
Accrued investment income	3,602,959	3,765,076
Premiums receivable	25,722,734	24,143,531
Reinsurance receivable	69,198,183	67,853,174
Deferred policy acquisition costs	14,315,421	13,604,215
Federal income tax receivable	--	292,618
Deferred federal income taxes	8,272,412	7,474,730
Prepaid reinsurance premiums	23,138,184	29,593,467
Property and equipment, net	4,492,361	4,568,652
Accounts receivable - securities	480,244	50,023
Other	562,021	578,243
	-----	-----
Total assets	\$ 460,534,838	\$ 456,632,372
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Losses and loss expenses	\$ 185,985,000	\$ 179,839,905
Unearned premiums	110,486,640	114,079,264
Accrued expenses	5,960,616	7,186,107
Reinsurance balances payable	671,106	839,156
Federal income taxes payable	971,472	--
Cash dividend declared to stockholders	--	869,877
Line of credit	27,600,000	27,600,000
Accounts payable - securities	2,500,000	--
Due to affiliate	2,686,594	4,015,074
Other	1,421,540	1,274,640
	-----	-----
Total liabilities	338,282,968	335,704,023
	-----	-----

STOCKHOLDERS' EQUITY

Preferred stock, \$1.00 par value, authorized 2,000,000 shares; none issued		
Class A common stock, \$.01 par value, authorized 30,000,000 shares, issued 6,146,986 and 6,097,214 shares and outstanding 6,065,462 and 6,015,690 shares	61,470	60,972
Class B common stock, \$.01 par value, authorized 10,000,000 shares, issued 3,022,632 and 3,021,965 shares and outstanding 2,981,870 and 2,981,203 shares	30,226	30,220
Additional paid-in capital	59,378,923	58,887,715
Accumulated other comprehensive income	1,534,676	2,861,765
Retained earnings	62,138,323	59,979,425
Treasury stock, at cost	(891,748)	(891,748)
	-----	-----
Total stockholders' equity	122,251,870	120,928,349
	-----	-----
Total liabilities and stockholders' equity	\$ 460,534,838	\$ 456,632,372
	=====	=====

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See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
	-----	-----
REVENUES:		
Net premiums earned	\$ 45,452,260	\$ 40,040,902
Investment income, net of investment expenses	3,730,304	4,041,186
Realized investment gain	126,778	120,807
Lease income	194,962	200,691
Service charge income	529,742	388,440
	-----	-----
Total revenues	50,034,046	44,792,026
	-----	-----
EXPENSES:		
Net losses and loss expenses	31,297,569	26,158,684
Amortization of deferred policy acquisition costs	7,385,000	6,503,000
Other underwriting expenses	7,112,250	6,505,029
Policy dividends	466,179	399,380
Interest	324,824	812,614
Other expenses	502,423	395,337
	-----	-----
Total expenses	47,088,245	40,774,044
	-----	-----
Income before income taxes	2,945,801	4,017,982
Income taxes	765,085	1,063,387
	-----	-----
Net income	\$ 2,180,716	\$ 2,954,595
	=====	=====
Earnings per common share		
Basic	\$ 0.24	\$ 0.33
	=====	=====
Diluted	\$ 0.24	\$ 0.33
	=====	=====

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
	-----	-----
Net income	\$ 2,180,716	\$ 2,954,595
Other comprehensive income (loss), net of tax		
Unrealized gains (losses) on securities:		

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Unrealized holding gain (loss) during the period, net of income tax	(1,243,416)	1,915,155
Reclassification adjustment, net of income tax	(83,673)	(79,733)
	-----	-----
Other comprehensive income (loss)	(1,327,089)	1,835,422
	-----	-----
Comprehensive income	\$ 853,627	\$ 4,790,017
	=====	=====

See accompanying notes to consolidated financial statements.

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DONEGAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS'
(Unaudited)
FOR THE THREE MONTHS ENDED MARCH 31,

	Class A Shares	Class B Shares	Class A Amount	Class B Amount
	-----	-----	-----	-----
Balance, December 31, 2001	6,097,214	3,021,965	\$ 60,972	\$ 30,220
Issuance of common stock	48,439		484	
Net income				
Cash dividends				
Grant of employee options				
Exercise of stock options	1,333	667	14	6
Other comprehensive loss				
	-----	-----	-----	-----
Balance, March 31, 2002	6,146,986	3,022,632	\$ 61,470	\$ 30,226
	=====	=====	=====	=====

Total

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	Retained Earnings -----	Treasury Stock -----	Stockholders' Equity -----
Balance, December 31, 2001	\$ 59,979,425	\$ (891,748)	\$ 120,928,349
Issuance of common stock			454,018
Net income	2,180,716		2,180,716
Cash dividends	(1,761)		(1,761)
Grant of employee options	(20,057)		--
Exercise of stock options			17,637
Other comprehensive loss			(1,327,089)

Balance, March 31, 2002	\$ 62,138,323	\$ (891,748)	\$ 122,251,870
	=====		

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED MARCH 31, 2002 -----	2001 -----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,180,716	\$ 2,954,595

Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	280,731	301,873
Realized investment gain	(126,778)	(120,807)
Changes in assets and liabilities:		
Losses and loss expenses	6,145,095	447,967
Unearned premiums	(3,592,624)	954,412
Premiums receivable	(1,579,203)	(2,061,652)
Deferred policy acquisition costs	(711,206)	98,524
Deferred income taxes	(114,030)	32,535
Reinsurance receivable	(1,345,009)	(1,230,895)
Prepaid reinsurance premiums	6,455,283	(738,882)

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Accrued investment income	162,117	(39,702)
Due to affiliate	(1,328,480)	750,807
Reinsurance balances payable	(168,050)	(494,370)
Current income taxes	1,264,090	1,320,852
Other, net	(1,062,366)	(634,248)
	-----	-----
Net adjustments	4,279,570	(1,413,586)
	-----	-----
Net cash provided by operating activities	6,460,286	1,541,009
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed maturities		
Held to maturity	(7,215,618)	(8,450,000)
Available for sale	(20,985,876)	(14,808,595)
Purchase of equity securities, available for sale	(1,312,500)	(4,496,258)
Maturity of fixed maturities		
Held to maturity	8,627,033	8,478,904
Available for sale	12,728,932	10,411,789
Sale of fixed maturities		
Held to maturity	415,000	--
Available for sale	461,965	--
Sale of equity securities	514,021	2,989,473
Net purchase of property and equipment	(107,151)	(37,522)
Net sales of short-term investments	55,252	10,415,234
	-----	-----
Net cash provided by (used in) investing activities	(6,818,942)	4,503,025
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(871,638)	(798,937)
Issuance of common stock	471,655	370,072
Line of credit, net	--	(3,000,000)
	-----	-----
Net cash used in financing activities	(399,983)	(3,428,865)
	-----	-----
Net increase (decrease) in cash	(758,639)	2,615,169
Cash at beginning of period	4,075,288	5,182,988
	-----	-----
Cash at end of period	\$ 3,316,649	\$ 7,798,157
	=====	=====
Cash paid during period - Interest	\$ 92,823	\$ 1,442,784
Net cash paid (received) during period - Taxes	\$ 380,000	\$ (290,000)

See accompanying notes to consolidated financial statements.

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Donegal Group Inc. (the "Company") was organized as a regional insurance holding company by Donegal Mutual Insurance Company (the "Mutual Company") on August 26, 1986 and operates in the Mid-Atlantic and Southern states through its wholly-owned stock insurance companies, Atlantic States Insurance Company ("Atlantic States"), Southern Heritage Insurance Company ("Southern Heritage"), Southern Insurance Company of Virginia ("Southern") and Pioneer Insurance Company - Ohio ("Pioneer - Ohio") (collectively "Insurance Subsidiaries"). The Company has three operating segments: the investment function, the personal lines of insurance and the commercial lines of insurance. Products offered in the personal lines of insurance consist primarily of homeowners and private passenger automobile policies. Products offered in the commercial lines of insurance consist primarily of commercial automobile, commercial multiple peril and workers' compensation policies. The Insurance Subsidiaries are subject to regulation by Insurance Departments in those states in which they operate and undergo periodic examinations by those departments. The Insurance Subsidiaries are also subject to competition from other insurance companies in their operating areas. Atlantic States participates in an inter-company pooling arrangement with the Mutual Company and assumes 70% of the pooled business. Prior to 2002 Southern ceded 50% of its business to the Mutual Company. At March 31, 2001, the Mutual Company held 63% of the outstanding common stock of the Company.

On January 1, 2002, the Mutual Company and Southern terminated their quota share agreement, under which Southern ceded 50% of its direct business, less reinsurance, to the Mutual Company. As a result of this termination, the Company's prepaid reinsurance premiums decreased \$7,310,471, unearned premiums decreased \$5,117,330, and deferred policy acquisition costs increased \$714,853. The Mutual Company will transfer \$1,478,288 in cash to the Company related to this termination. The Company did not recognize a gain or loss on this transaction.

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

The Company has announced plans to streamline its corporate structure by merging a number of its subsidiaries together. Delaware Atlantic Insurance Company ("Delaware"), and Pioneer Insurance Company, New York, (Pioneer-New York) previously wholly owned subsidiaries, were merged into Atlantic States on August 1, 2001 and September 30, 2001, respectively. The mergers were accounted for as statutory mergers and had no financial impact on the consolidated entity. Pending regulatory approval, Southern Heritage will be merged into Southern Insurance and Pioneer-Ohio will be merged into Atlantic States Insurance Company. These mergers are not anticipated to have a material impact on the Company.

Southern, Pioneer-Ohio and Southern Heritage (and Delaware and Pioneer-New York prior to merging into Atlantic States) each have agreements with the Mutual Company under which they cede, and then reassume back, 100% of their business net of reinsurance. The primary purpose of the agreements is to provide these subsidiaries with the same A. M. Best rating (currently "A") as the Mutual Company, which these subsidiaries could not achieve without these contracts in place. These agreements do not transfer insurance risk. While these subsidiaries ceded and reassumed amounts received from policyholders of \$20,541,417 and \$17,037,440 and claims of \$7,559,925 and \$5,615,685 under these agreements in the three months ended March 31, 2002 and 2001, respectively, the amounts are not reflected in the consolidated financial statements. The aggregate liabilities ceded and reassumed under these agreements were \$45,657,568 and \$36,494,487 at March 31, 2002 and December 31, 2001, respectively.

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The financial information for the interim period included herein is unaudited; however, such information reflects all adjustments, consisting only of normal recurring adjustments, which, in the opinion of management, are necessary to a fair presentation of the financial position, results of operations and cash flow for the interim period included herein. The results of operations for the three months ended March 31, 2002, are not necessarily indicative of results of operations to be expected for the twelve months ended December 31, 2002.

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These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001.

3 - EARNINGS PER SHARE

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

	NET INCOME	WEIGHTED AVERAGE SHARES OUTSTANDING	EARNINGS PER SHARE
THREE MONTHS ENDED MARCH 31:	-----	-----	-----
2002			

Basic	\$2,180,716	9,030,160	\$.24
Effect of stock options	--	94,365	--
	-----	-----	-----
Diluted	\$2,180,716	9,124,525	\$.24
	-----	-----	-----
2001			

Basic	\$2,954,595	8,890,314	\$.33
Effect of stock options	--	98,433	--
	-----	-----	-----
Diluted	\$2,954,595	8,988,747	\$.33
	-----	-----	-----

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

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2002	2001
	-----	-----
Number of Options	942,834	1,042,338
	=====	=====

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4 - SEGMENT INFORMATION

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

	THREE MONTHS ENDED MARCH 31	
	2002	2001

(\$ in thousands)		

Revenues:		
Premiums earned:		
Commercial lines	\$16,494	\$15,009
Personal lines	28,958	25,032

Total net premiums earned	45,452	40,041

Net investment income	3,730	4,041
Realized investment		
Gain	127	121
Other	725	589

Total revenues	\$50,034	\$44,792
=====		

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Income before income taxes:		
Underwriting income (loss)		
Commercial lines	\$ 1,130	\$ 330
Personal lines	(2,517)	160

SAP underwriting income (loss)	(1,387)	490
GAAP adjustments	579	(15)

GAAP underwriting income (loss)	(808)	475
Net investment income	3,730	4,041
Realized investment gain	127	121
Other	(103)	(619)

Income before income taxes	\$ 2,946	\$ 4,018
=====		

5 - INVESTMENTS

During the first quarter of 2002, the Company sold Halliburton Company bonds that had been classified as held to maturity due to significant deterioration in the issuer's credit worthiness. These bonds had an amortized cost of \$488,901, and the sale resulted in a realized loss of \$73,901. There were no other sales or transfers from the held to maturity portfolio.

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

RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 2002 TO THREE MONTHS ENDED MARCH 31, 2001

Total revenues for the three months ended March 31, 2002 were \$50,034,046, which were \$5,242,020, or 11.7%, greater than the same period in 2001. Net premiums earned increased to \$45,452,260, an increase of \$5,411,358, or 13.5%, over the first quarter of 2001. Direct premiums written of the combined pool of Atlantic States and Donegal Mutual increased \$6,743,369, or 14.9%. A 5.9% increase in the direct premiums written of Southern, a 44.6% increase in the direct premiums written of Pioneer-Ohio and a 16.5% increase in the direct premiums written of Southern Heritage accounted for the majority of the increase. The Company reported net realized investment gains of \$126,778 in the first quarter of 2002 compared to a gain of \$120,807 for the same period of 2001. The realized gain in 2002 was net of realized losses of \$60,078 which resulted from changes in the market value of securities that were determined to be other than temporary. The realized gain in 2001 resulted from the normal turnover of the Company's portfolio. Investment income was \$3,730,304, a decrease of \$310,882, or 7.7%, from the first quarter of 2001. An increase in average invested assets from \$288.3 million in the first quarter of 2001 to \$304.0 million in the first quarter of 2002 offset by a decrease in the annualized average return on investments from 5.6% in the first quarter of 2001 to 4.9% in the first quarter of 2002 accounted for the change.

The GAAP combined ratio of insurance operations in the first quarter of 2002 was 101.8% compared to 98.8% for the same period in 2001. The GAAP combined ratio is the sum of the ratios of incurred losses and loss adjusting expenses to premiums earned (loss ratio), policyholders' dividends to premiums earned (dividend ratio), and underwriting expenses to premiums earned (expense ratio). The Company's loss ratio in the first quarter of 2002 was 68.9% compared to 65.3% in the first quarter of 2001. The increase in loss ratio was due to higher losses in personal lines. The Company's expense ratio for the first quarter of 2002 was 31.9% compared to 32.5% for the first quarter of 2001. The dividend ratio remained unchanged at 1.0%.

Federal income taxes for the first quarter of 2002 represented 26.0% of the income before income taxes compared to 26.5% for the same period of 2001. These rates vary from the expected rate of 34% primarily due to the effect of tax-exempt investment income.

LIQUIDITY AND CAPITAL RESOURCES

The Company generates sufficient funds from its operations and maintains a high degree of liquidity in its investment portfolio. The primary source of funds to meet the demands of claim settlements and operating expenses are premium collections, investment earnings and maturing investments. The Company had no significant commitments for capital expenditures as of March 31, 2002.

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

As of March 31, 2002, pursuant to a credit agreement dated December 29, 1995, and amended as of July 27, 1998, with Fleet National Bank of Connecticut,

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(the "Bank") the Company had unsecured borrowings of \$27.6 million. Per the terms of the credit agreement, the Company may borrow up to \$32 million at interest rates equal to the bank's then current prime rate or the then current London interbank Eurodollar bank rate plus 1.70%. At March 31, 2002, the interest rates on the outstanding balances were 3.6625% on an outstanding eurodollar balance of \$12.6 million and 3.6375% on an outstanding eurodollar rate balance of \$15.0 million. In addition, the Company pays a non-use fee at a rate of 3/10 of 1% per annum on the average daily unused portion of the Bank's commitment. On each July 27, commencing July 27, 2001, the credit line is reduced by \$8 million. Any outstanding loan in excess of the remaining credit line, after such reduction, will then be payable.

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The Company's principal source of cash with which to pay stockholder dividends is dividends from Atlantic States, Southern, Pioneer - Ohio and Southern Heritage which are required by law to maintain certain minimum surplus on a statutory basis and are subject to regulations under which payment of dividends from statutory surplus is restricted and may require prior approval of their domiciliary insurance regulatory authorities. Atlantic States, Southern, Pioneer - Ohio and Southern Heritage are subject to Risk Based Capital (RBC) requirements. At December 31, 2001, each of the Companies' capital was substantially above the RBC requirements. In 2002 amounts available for distribution as dividends to Donegal Group without prior approval of the insurance regulatory authorities are \$8,612,490 from Atlantic States, \$1,086,348 from Southern, \$552,447 from Pioneer - Ohio and \$3,514,487 from Southern Heritage.

CREDIT RISK

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

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

IMPACT OF INFLATION

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

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS. (NONE)

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ITEM 2. CHANGES IN SECURITIES. (NONE)

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK -----

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

The Company has maintained approximately the same duration of its investment portfolio to its liabilities from December 31, 2001 to March 31, 2002. In addition, the Company has maintained approximately the same investment mix during this period.

There have been no material changes to the Company's quantitative or qualitative market risk exposure from December 31, 2001 through March 31, 2002.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Annual Stockholders meeting held April 18, 2002.

Directors elected at meeting:

Robert S. Bolinger	
Votes for	3,191,615
Votes withheld	22,527
Patricia A. Gilmartin	
Votes for	3,191,615
Votes withheld	22,527
Philip H. Glatfelter, II	
Votes for	3,191,760
Votes withheld	22,382

Directors Continuing:

Thomas J. Finley, Jr.
C. Edwin Ireland
John J. Lyons
Donald H. Nikolaus
R. Richard Sherbahn

Election of KPMG LLP as Auditors for 2002:

Votes for	3,196,611
Against	16,565
Abstain	968

ITEM 5. OTHER INFORMATION.

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None.

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

- (a) EX-27 Financial Data Schedule
- (b) Reports on 8-K:
No reports on Form 8-K were filed by the Company during the quarter ended March 31, 2002.

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SIGNATURES

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

DONEGAL GROUP INC.

MAY 15, 2002

BY:/s/ Donald H. Nikolaus

Donald H. Nikolaus, President
and Chief Executive Officer

MAY 15, 2002

BY:/s/ Ralph G. Spontak

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

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