

DONEGAL GROUP INC
Form DEF 14A
March 18, 2013
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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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(1) Amount Previously Paid:

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(3) Filing Party:

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NOTICE OF THE ANNUAL MEETING OF STOCKHOLDERS

WE WILL HOLD ON APRIL 18, 2013

To the Stockholders of

DONEGAL GROUP INC.:

We will hold our 2013 annual meeting of stockholders at 10:00 a.m., local time, on Thursday, April 18, 2013, at the Heritage Hotel Lancaster, 500 Centerville Road, Lancaster, Pennsylvania 17601. At our 2013 annual meeting of stockholders, our stockholders will act on the following items of stockholder business:

The election of the three nominees for Class C directors we name in our accompanying proxy statement, each for a term of three years and until their respective successors take office;

The approval of an amendment to our certificate of incorporation to increase the number of shares of our Class A common stock we have the authority to issue from 30.0 million shares to 40.0 million shares;

The approval of our 2013 equity incentive plan for employees so that we will have sufficient shares available under our equity incentive plans to continue this incentive compensation plan for our employees;

The approval of our 2013 equity incentive plan for directors so that we will have sufficient shares available under our equity incentive plans to continue this incentive compensation plan for our directors; and

The ratification of our audit committee's appointment of KPMG LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2013.

The advance notice by-laws we have had in effect for many years require that our stockholders submit to us before a specific date detailed information regarding any stockholder nomination of a candidate for election as a director or any other item of stockholder business a stockholder wishes to propose for consideration by our stockholders at our annual meetings of stockholders. That date has expired with respect to our 2013 annual meeting of stockholders. Therefore, under applicable law and our by-laws:

no stockholder may validly present a nomination of a candidate for election as a Class C director other than the nominees we name for election as Class C directors in our accompanying proxy statement or propose any other item of stockholder business at our 2013 annual meeting of stockholders other than those items of stockholder business we describe above and in our accompanying proxy statement; and

we will not conduct a vote of our stockholders on any item of stockholder business at our 2013 annual meeting of stockholders other than those items of stockholder business we describe above and in our accompanying proxy statement.

Our board of directors has established the close of business on March 1, 2013 as the record date for the determination of the holders of our Class A common stock and for the determination of the holders of our Class B common stock entitled to notice of, and to vote at, our 2013 annual meeting of stockholders.

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We include our 2012 annual report to stockholders and our proxy statement relating to our 2013 annual meeting of stockholders with this notice of our 2013 annual meeting of stockholders. We also enclose a proxy card for you to sign, date and return in the postage-prepaid envelope we also enclose.

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Please return your completed and duly signed proxy card, whether or not you expect to attend our 2013 annual meeting of stockholders in person, by mail, or vote by telephone or via the internet as we describe on the accompanying proxy card.

By order of our board of directors,

Donald H. Nikolaus,
Chairman and Chief Executive Officer

March 18, 2013

Marietta, Pennsylvania

Important Notice Regarding the Availability of the Proxy Materials for Our Annual Meeting of Stockholders We Will Hold on April 18, 2013

We enclose a printed copy of the proxy statement for our 2013 annual meeting of stockholders and our 2012 annual report to stockholders with this notice of annual meeting. You may also view each of these documents on the internet at www.proxyvote.com. No information on the website other than the proxy statement for our 2013 annual meeting of stockholders and our 2012 annual report to stockholders constitutes a part of our proxy solicitation materials for our 2013 annual meeting of stockholders or part of our 2012 annual report to our stockholders.

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DONEGAL GROUP INC.

PROXY STATEMENT

This proxy statement contains information relating to our 2013 annual meeting of stockholders. We will hold our 2013 annual meeting of stockholders on Thursday, April 18, 2013, at 10:00 a.m., local time, at the Heritage Hotel Lancaster, 500 Centerville Road, Lancaster, Pennsylvania 17601.

On March 18, 2013, we mailed to our stockholders of record at the close of business on March 1, 2013 this proxy statement, an accompanying form of proxy card and our 2012 annual report to stockholders. The mailing also included a postage-prepaid envelope for your convenience in returning your proxy card to us, unless you prefer to vote in person, by telephone or via the internet. We ask stockholders to return their proxy cards to us whether or not they expect to attend our 2013 annual meeting of stockholders in person.

We will bear all of the costs of preparing and mailing our proxy materials to our stockholders for our 2013 annual meeting of stockholders and making those materials available for our stockholders to view on the internet. We will, upon request, reimburse brokers, nominees, fiduciaries, custodians and other record holders for their reasonable expenses in forwarding our proxy materials for our 2013 annual meeting of stockholders to the beneficial owners of our Class A common stock and to the beneficial owners of our Class B common stock for whom such persons serve as record holders.

We use the following defined terms relating to us, our subsidiaries and our affiliates in this proxy statement:

Atlantic States means Atlantic States Insurance Company;

DFSC means Donegal Financial Services Corporation;

DGI, we, us or our mean Donegal Group Inc.;

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; and

UCB means Union Community Bank FSB.

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Unless we otherwise expressly indicate, all of the information we include or incorporate by reference in this proxy statement for our 2013 annual meeting of stockholders relates to our 2012 fiscal year. Our 2012 fiscal year began on January 1, 2012 and ended on December 31, 2012.

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OUR 2013 ANNUAL MEETING OF STOCKHOLDERS

In accordance with this proxy statement, our board of directors solicits proxies from our stockholders for use in connection with our 2013 annual meeting of stockholders and any adjournment or postponement of our 2013 annual meeting of stockholders. We will hold our 2013 annual meeting of stockholders at 10:00 a.m., local time, on April 18, 2013 at the Heritage Hotel Lancaster, 500 Centerville Road, Lancaster, Pennsylvania 17601.

What is the agenda for our 2013 annual meeting of stockholders?

At our 2013 annual meeting of stockholders, our stockholders will act upon the following five items of stockholder business:

a proposal to elect the three nominees for Class C directors we name as the nominees of our board of directors in this proxy statement to serve a term of three years and until their respective successors take office;

a proposal to amend our certificate of incorporation to increase the number of shares of our Class A common stock we have the authority to issue from 30.0 million shares to 40.0 million shares;

a proposal to approve our 2013 equity incentive plan for employees;

a proposal to approve our 2013 equity incentive plan for directors; and

a proposal to ratify our audit committee's appointment of KPMG LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2013.

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

We have had advance notice by-laws in effect for many years as is the case with many other public companies. Our advance notice by-laws, which comply with all applicable laws, require that a stockholder provide us with prior notice of that stockholder's intention to nominate a candidate for election as a Class C director at our 2013 annual meeting of stockholders or to propose any other item of stockholder business for stockholder action at our 2013 annual meeting of stockholders.

Under our advance notice by-laws, as we summarize them each year in our proxy statements for our annual meetings of stockholders, we annually establish a date after which a stockholder may no longer propose a candidate for election as a director at that year's annual meeting of stockholders and may no longer propose any other item of stockholder business for consideration and a vote by our stockholders at that year's annual meeting of stockholders. For our 2013 annual meeting of stockholders, that date was December 19, 2012. For our 2014 annual meeting of stockholders, that date is December 18, 2013. The purpose of our advance notice by-laws is to ensure that we can include in our annual proxy statements, for the information of all of our stockholders, all of the actions we or others propose to present for consideration by our stockholders at each of our annual meetings of stockholders.

No stockholder has nominated a candidate for election as a Class C director at our 2013 annual meeting of stockholders or proposed the transaction of any other item of stockholder business at our 2013 annual meeting of stockholders on or before the date our advance notice by-laws specify. Accordingly, no item of stockholder business other than the five items of stockholder business we describe in our notice of our 2013 annual meeting of stockholders, as well as in this proxy statement, may properly come before our 2013 annual meeting of stockholders or any adjournment or postponement of our 2013 annual meeting of stockholders. As a result, we will not submit any other item of stockholder business, other than procedural matters related to the conduct of our 2013 annual meeting of stockholders, to a vote of our stockholders at our 2013 annual meeting of stockholders.

We are a Delaware corporation. Therefore, the Delaware General Corporation Law, or the DGCL, our certificate of incorporation and our by-laws govern the conduct of business at our annual meetings of stockholders, our relationships with our stockholders and the rights, powers,

duties and obligations of our stockholders, directors, nominees for director, officers and employees.

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What is a quorum for the conduct of business at our 2013 annual meeting of stockholders?

Our by-laws provide that the presence, in person or by proxy, of not less than a majority of the aggregate voting power of our outstanding shares of Class A common stock and our outstanding shares of Class B common stock as of the record date for our 2013 annual meeting will constitute a quorum at our 2013 annual meeting of stockholders. Because Donegal Mutual owns approximately 66% of the aggregate voting power of our Class A common stock and our Class B common stock outstanding on the record date and because Donegal Mutual will vote all of the shares of our Class A common stock and all of the shares of our Class B common stock it owns in person at our 2013 annual meeting of stockholders, the presence in person of the shares Donegal Mutual owns at our 2013 annual meeting of stockholders will ensure the presence of a quorum at our 2013 annual meeting of stockholders. Because of the certainty of the presence of a quorum at our 2013 annual meeting of stockholders, our stockholders will have the legal power and authority to conduct the items of stockholder business at our 2013 annual meeting of stockholders that we describe in our notice of annual meeting of stockholders and in this proxy statement with one exception. That exception is the right of the holders of our Class A common stock to vote as a separate class on the proposed amendment to increase the number of shares of our Class A common stock we have the authority to issue. A quorum for that Class A common stock separate vote is a majority of our outstanding shares of Class A common stock present in person or by proxy at our 2013 annual meeting of stockholders.

What is the order of business at our 2013 annual meeting of stockholders?

Our by-laws and applicable provisions of the DGCL govern the organization and conduct of business at our 2013 annual meeting of stockholders. Our board of directors has designated Donald H. Nikolaus, our chairman and chief executive officer, as the presiding officer of our 2013 annual meeting of stockholders. Mr. Nikolaus will call our 2013 annual meeting of stockholders to order and will preside over the transaction of the items of stockholder business we describe in this proxy statement for our 2013 annual meeting of stockholders. No other matter may properly come before our 2013 annual meeting of stockholders. Mr. Nikolaus will determine, as the presiding officer of our 2013 annual meeting of stockholders, in his discretion, the order of the items of stockholder business our stockholders will conduct at our 2013 annual meeting of stockholders and the procedural manner in which we will conduct the business of our 2013 annual meeting of stockholders.

We have historically conducted the voting on the proposals we submit for stockholder action at our annual meetings of stockholders as the first item of business. We currently intend to follow a substantially similar procedure at our 2013 annual meeting of stockholders. After our stockholders have voted on the five items of stockholder business we describe in this proxy statement, and the judges of election our board of directors has appointed have conducted the voting on those five items of stockholder business, Mr. Nikolaus will then discuss our results of operations for 2012 compared to 2011 and our outlook for 2013. After Mr. Nikolaus completes his remarks, the judges of election will announce the results of the voting on the five items of stockholder business. Then Mr. Nikolaus, in his capacity as the presiding officer of our 2013 annual meeting of stockholders, will recognize stockholders who wish to ask pertinent questions or make comments as Mr. Nikolaus, in his discretion, deems appropriate under then prevailing circumstances.

Who may attend, and who may vote, at our 2013 annual meeting of stockholders?

Our board of directors established the close of business on March 1, 2013 as the record date for the determination of the holders of our Class A common stock and the holders of our Class B common stock who are entitled to notice of, and to vote at, our 2013 annual meeting of stockholders. We refer to those eligible stockholders as stockholders of record in this proxy statement. Stockholders of record, including persons whom a stockholder of record duly and validly appoints as such stockholder of record's proxy, may attend, and vote at, our 2013 annual meeting of stockholders.

We reserve the right to request photographic identification, such as a currently valid driver's license, before we permit a stockholder of record, or a proxy for a stockholder of record, to attend our 2013 annual meeting of

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stockholders. Even if you currently plan to attend our 2013 annual meeting of stockholders and vote in person, we recommend that you vote by proxy using one of the methods we describe in this proxy statement under "How do you vote the DGI shares registered in your name?" By voting in one of those ways, we can then recognize your votes even if you later do not, or cannot, attend our 2013 annual meeting of stockholders in person for any reason.

Our independent transfer agent, Computershare, has prepared and certified a list of all holders of our Class A common stock and all holders of our Class B common stock outstanding as of the close of business on March 1, 2013, the record date for our 2013 annual meeting of stockholders. If your name appears on that certified list of stockholders for our use in connection with our 2013 annual meeting of stockholders, you are a stockholder of record entitled to vote at our 2013 annual meeting of stockholders. For example, you are a stockholder of record if you received the proxy materials for our 2013 annual meeting of stockholders directly from us and not from another person who is the record holder of the shares you own beneficially, such as a bank, a brokerage firm or other fiduciary.

Our by-laws, in accordance with Delaware law, provide a stockholder of record an opportunity, subject to that stockholder of record's prior compliance with certain conditions we describe in this proxy statement, during the ten calendar days preceding the date of our 2013 annual meeting of stockholders, to examine, at our principal executive offices in Marietta, Pennsylvania, an alphabetical list of the holders of record of our Class A common stock and of the holders of record of our Class B common stock. We will grant a stockholder of record's request to make such an examination if:

the stockholder of record makes a written request to make such an examination at our principal executive offices during such 10-day period addressed to Jeffrey D. Miller, our senior vice president and chief financial officer; and

we determine, in our discretion, that the stockholder of record's request to examine our stockholder list is proper and legally relevant to the items of stockholder business we will conduct at our 2013 annual meeting of stockholders.

If a stockholder of record does not make such a written request to inspect our list of stockholders within the specified ten-day period or if we make a discretionary determination that the stockholder of record's request for inspection of our list of stockholders is not proper or not legally relevant to the items of stockholder business we will conduct at our 2013 annual meeting of stockholders, we will not permit that stockholder of record to examine our list of stockholders.

If you are the beneficial owner of shares of our Class A common stock or the beneficial owner of shares of our Class B common stock registered in the name of a bank, broker or other fiduciary, also known as shares held in "street name," we consider you the beneficial owner of the shares your bank, broker or other fiduciary holds for you, and we consider your bank, your broker or your other fiduciary the stockholder of record of your shares. Your bank, your broker or your other fiduciary will send you separately, as the beneficial owner, information describing the procedure for voting your shares. You should follow the instructions your bank, your broker or your other fiduciary provides you on how to vote your shares.

What percentage of the aggregate voting power of our outstanding shares of Class A common stock and our outstanding shares of Class B common stock is necessary to approve the items of stockholder business on which our stockholders will vote at our 2013 annual meeting of stockholders?

Election of Class C Directors. The three nominees our board of directors nominated for election as Class C directors are the only nominees eligible for election as Class C directors at our 2013 annual meeting of stockholders and any adjournment or postponement of our 2013 annual meeting of stockholders. Our certificate of incorporation provides that our shares of Class A common stock and our shares of Class B common stock vote together as a single class in the election of directors. At our 2013 annual meeting of stockholders, our stockholders will elect as Class C

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directors the three nominees for election as Class C directors who receive the highest number of stockholder votes. The persons elected as Class C directors will serve for a term of three years and until their respective successors take office.

If you submit your proxy properly and mark **Withhold Authority**, the proxies will not vote your shares with respect to the nominee or nominees for Class C director as to whom you have withheld authority. We will count your shares as present at our 2013 annual meeting of stockholders for the purposes of determining whether a quorum is present at our 2013 annual meeting of stockholders.

Our certificate of incorporation and our by-laws do not authorize cumulative voting in the election of our directors.

Amendment to Our Certificate of Incorporation to Authorize the Issuance of Additional Shares of Our Class A Common Stock. Approval of the amendment to our certificate of incorporation to increase the number of shares of our Class A common stock we have the authority to issue as our board of directors determines from time to time from 30.0 million shares to 40.0 million shares requires:

the affirmative vote of a majority of our outstanding shares of Class A common stock as of the record date voting as a separate class at our 2013 annual meeting of stockholders; and

the affirmative vote of a majority of the votes of the holders of our shares of Class A common stock and the holders of our shares of Class B common stock as of the record date voting together as a single class at our 2013 annual meeting of stockholders.

Our certificate of incorporation provides that our shares of Class A common stock and our shares of Class B common stock vote together as a single class on all matters submitted to a vote of our stockholders, except that, under the DGCL, our shares of Class A common stock and our shares of Class B common stock each have the right to vote as a separate class on any matter that would uniquely adversely affect the rights of that class.

Approval of our 2013 Equity Incentive Plan for Employees. Approval of our 2013 equity incentive plan for employees requires the affirmative vote of the holders of record 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, voting together as a single class, present in person or by proxy and entitled to vote at our 2013 annual meeting of stockholders.

Approval of our 2013 Equity Incentive Plan for Directors. Approval of our 2013 equity incentive plan for directors requires the affirmative vote of the holders of record 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, voting together as a single class, present in person or by proxy and entitled to vote at our 2013 annual meeting of stockholders.

Ratification of Our Audit Committee's Appointment of KPMG LLP. Ratification of our audit committee's appointment of KPMG LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2013 requires the affirmative vote of a majority of the aggregate voting power of our outstanding shares of Class A common stock and our outstanding shares of Class B common stock, voting together as a single class, present in person or by proxy and entitled to vote at our 2013 annual meeting of stockholders.

We will consider abstentions and broker non-votes as outstanding shares entitled to vote at our 2013 annual meeting of stockholders and will count those shares in determining the number of votes necessary to constitute a quorum at our 2013 annual meeting of stockholders. Under any circumstances, a quorum will be present at our 2013 annual meeting of stockholders because of the presence at our 2013 annual meeting of stockholders of the shares of our Class A common stock and the shares of our Class B common stock Donegal Mutual owns.

Broker non-votes are shares brokers or nominees hold in their name for which such broker or nominee has not received voting instructions from the beneficial owner of, or person otherwise entitled to vote, those shares,

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and as to which shares the broker or nominee does not have discretionary voting power. Broker non-votes will not impact the presence of a quorum at our 2013 annual meeting of stockholders or affect the outcome of any matter we submit to a vote of our stockholders at our 2013 annual meeting of stockholders, except that broker non-votes will count as votes against the proposal to amend our certificate of incorporation.

What voting rights do our stockholders have?

At March 1, 2013, we had outstanding:

20,050,649 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 we submit for a stockholder vote at our 2013 annual meeting of stockholders; 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 we submit for a stockholder vote at our 2013 annual meeting of stockholders.

Therefore, the holders of record of all of our outstanding shares of Class A common stock are entitled to cast a total of 2,005,064 votes on each matter we submit to a vote of the holders of record of our outstanding shares of our Class A common stock at our 2013 annual meeting of stockholders, and the holders of record of all of our outstanding shares of Class B common stock are entitled to cast a total of 5,576,775 votes on each matter we submit to a vote of the holders of record of our outstanding shares of our Class B common stock at our 2013 annual meeting of stockholders. Thus, a total of 7,581,839 votes may be cast at our 2013 annual meeting of stockholders on each item of stockholder business.

At the close of business on March 1, 2013, Donegal Mutual owned 7,755,953 shares, or 38.7%, of our outstanding Class A common stock and 4,217,039 shares, or 75.6%, 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 all of our stockholders may cast at our 2013 annual meeting of stockholders on each matter we submit to a vote of our stockholders at our 2013 annual meeting of stockholders with the exception of the separate vote of the holders of our Class A common stock on the proposal to increase the number of shares of our Class A common stock we are authorized to issue. Because Donegal Mutual holds 38.7% of our outstanding shares of Class A common stock and the board of directors and management of Donegal Mutual and DGI own an additional 3.5% of our outstanding shares of Class A common stock, and each of them has advised us they will vote in favor of the approval of the amendment to our certificate of incorporation, the votes Donegal Mutual and the members of the boards of directors of Donegal Mutual and DGI and their executive officers cast in favor of the amendment will have a substantial influence on the approval of the amendment.

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

for the election of Scott A. Berlucchi, John J. Lyons and S. Trezevant Moore, Jr. as Class C directors to serve for a term of three years and until their respective successors take office;

for the approval of the amendment to our certificate of incorporation to increase the number of shares of our Class A common stock we have the authority to issue from 30.0 million shares to 40.0 million shares;

for the approval of our 2013 equity incentive plan for employees;

for the approval of our 2013 equity incentive plan for directors; and

for the ratification of our audit committee's appointment of KPMG LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2013.

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Therefore, based on the votes Donegal Mutual and the officers and directors of Donegal Mutual and DGI will cast at our 2013 annual meeting of stockholders, we anticipate our stockholders will:

elect Scott A. Berlucchi, John J. Lyons and S. Trezevant Moore, Jr. as Class C directors to serve for a term of three years and until their respective successors take office;

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approve the amendment to our certificate of incorporation to increase the number of shares of Class A common stock we have the authority to issue from 30.0 million shares to 40.0 million shares;

approve our 2013 equity incentive plan for employees;

approve our 2013 equity incentive plan for directors; and

ratify our audit committee's appointment of KPMG LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2013.

How do you vote your DGI shares registered in your name?

If the certified list of the holders of our Class A common stock and the holders of our 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 2013 annual meeting of stockholders and vote in person or by proxy. The proxies our board of directors has appointed will vote your shares as you direct on any proxy card you return by mail, by telephone or over the internet. If you prefer, you may vote your proxy by telephone or via the internet by following the instructions we include on the proxy card we sent to you along with this proxy statement and our annual report to our stockholders for 2012. The deadline for stockholders of record to vote at our 2013 annual meeting of stockholders by telephone or via the internet is 11:59 p.m., local time, on April 17, 2013. The deadline for our receipt of proxies submitted by mail or by express delivery services is 3:00 p.m., local time, on April 17, 2013.

You may vote by proxy by using one of the following three methods:

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 the control numbers your proxy card lists and then follow the prompts. The telephone number is 1-800-690-6903.

Vote by mail mark, sign and date the proxy card we have mailed to you and return it to our independent transfer agent in the postage-prepaid envelope we mailed to you along with this proxy statement and our annual report to stockholders for 2012.

Vote via 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 website. When requested, enter the control numbers your proxy card lists and then create and submit your ballot over the internet. The website address for voting via the internet is www.proxyvote.com.

If a broker, bank or other fiduciary is the holder of record of your shares, see "How do you vote your DGI shares held in street name?" below.

How do you vote your DGI shares held in street name?

If you are not a stockholder of record, but you are a beneficial owner of our Class A common stock or our Class B common stock at the close of business on March 1, 2013, which means that the list of our stockholders of record at the close of business on March 1, 2013 that our independent transfer agent prepared does not include your name but instead the name of the bank, broker or other fiduciary who is the holder of record of your shares, you must either direct the holder of record of your shares to vote your shares on the matters our stockholders will consider and vote upon at our 2013 annual meeting of stockholders or you must obtain a form of proxy from your holder of record that you may then vote as if you were the holder of record. Your broker does not have the discretion to vote your shares on non-routine matters, which includes the election of our Class C directors.

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How does our board of directors recommend our stockholders vote at our 2013 annual meeting of stockholders?

Our board of directors unanimously recommends that each of our stockholders vote as follows:

FOR the election of the three candidates for Class C directors our board of directors has nominated and we name in this proxy statement;

FOR the approval of the amendment to our certificate of incorporation to increase the number of shares of Class A common stock we have the authority to issue from 30.0 million shares to 40.0 million shares;

FOR the approval of our 2013 equity incentive plan for employees;

FOR the approval of our 2013 equity incentive plan for directors; and

FOR the ratification of our audit committee's appointment of KPMG LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2013.

Unless you mark your proxy card to the contrary, the proxies our board of directors has appointed will vote your shares for the election of the three nominees for Class C directors we name in this proxy statement, for the approval of the amendment to our certificate of incorporation to increase the number of shares of our Class A common stock we have the authority to issue from 30.0 million shares to 40.0 million shares, for the approval of our 2013 equity incentive plan for employees, for the approval of our 2013 equity incentive plan for directors and for the ratification of our audit committee's appointment of KPMG LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2013.

May you change your vote after you have voted by proxy but before our 2013 annual meeting of stockholders convenes?

You may revoke your proxy at any time prior to the time when the proxies our board of directors appointed vote your shares during our 2013 annual meeting of stockholders. If you are a stockholder of record, you may revoke your proxy by timely:

submitting a written notice of revocation to our chief financial officer;

returning a second proxy dated later than the date of your first proxy by telephone, via the internet or by mail; or

voting in person at our 2013 annual meeting of stockholders.

However, if you attend our 2013 annual meeting of stockholders in person and do not submit a ballot, our proxies will vote the proxy you most recently submitted to them in accordance with the instructions you provided on that most recent proxy.

If a bank, broker, nominee, other fiduciary or other person is the holder of record of the shares you own, you will need to follow the instructions of the bank, broker, nominee, other fiduciary or other holder of record as to how you may revoke your proxy.

If you have any questions about our 2013 annual meeting of stockholders or voting your shares, please call Jeffrey D. Miller, our senior vice president and chief financial officer, at 1-800-877-0600 or e-mail Mr. Miller at jeffmiller@donegalgroup.com.

Table of Contents**STOCK OWNERSHIP*****The Ownership of Our Principal Stockholders***

The table below lists each person whom we believe beneficially owned 5% or more of the outstanding shares of our Class A common stock or 5% or more of the outstanding shares of our Class B common stock as of the close of business on March 1, 2013.

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 Gregory M. Shepard(1) 7028 Portmarnock Place	7,755,953	38.7%	4,217,039	75.6%
Bradenton, FL 34202 Dimensional Fund Advisors LP(2) 1299 Ocean Avenue Santa Monica, CA 90401	3,602,900	18.0	397,100	7.1

- (1) Mr. Shepard reported the ownership information shown in the above table in a Schedule 13D/A he filed with the Securities and Exchange Commission, or the SEC, on November 6, 2012.
- (2) Dimensional Fund Advisors LP reported the ownership information shown in the above table in a Schedule 13G/A it filed with the SEC on February 11, 2013. Dimensional Fund Advisors LP disclaims beneficial ownership of these shares.

Table of Contents***The Ownership of Our Directors and Executive Officers***

The following table shows the amount and percentage of outstanding shares of our Class A common stock and outstanding shares of our Class B common stock that each of our directors and each of our nominees for director, each of our named executive officers and all of our executive officers, our nominees for director and directors as a group owned beneficially at the close of business on March 1, 2013. The total shown for each person includes shares the person owned jointly, in whole or in part, with the person's spouse, or owned individually by the person's spouse and shares purchasable upon the exercise of stock options that were exercisable as of March 1, 2013 or become exercisable within 60 days of March 1, 2013. Ownership is less than 1% unless otherwise indicated. The business address of each of our executive officers, directors and nominees for director is c/o Donegal Group Inc., 1195 River Road, P.O. Box 302, Marietta, Pennsylvania 17547.

Name of Individual or Identity of Group	Class A Shares Beneficially Owned(2)	Percentage of Class A Common Stock(2)	Class B Shares Beneficially Owned	Percentage of Class B Common Stock
Directors and Nominees for Director:				
Donald H. Nikolaus(1)	943,307	4.6%	186,375	3.3%
Scott A. Berlucchi	27,855			
Robert S. Bolinger	32,310		1,450	
Patricia A. Gilmartin	31,929			
Philip H. Glatfelter, II	36,835		3,276	
Jack L. Hess	30,533			
Kevin M. Kraft, Sr.	31,036			
John J. Lyons	70,706		1,776	
Jon M. Mahan	29,188			
S. Trezevant Moore, Jr.	27,855		1,000	
R. Richard Sherbahn	32,205		677	
Richard D. Wampler, II	30,078			
Executive Officers:				
Kevin G. Burke	140,000			
Cyril J. Greenya	145,017		820	
Jeffrey D. Miller	166,722		582	
Robert G. Shenk	158,195			
Daniel J. Wagner	172,326		166	
All directors and executive officers as a group (17 persons)	2,106,097	9.8%	196,122	3.5%

- (1) Includes 166,369 shares of our Class A common stock and 3,938 shares of our Class B common stock owned at March 1, 2013 by a family foundation of which Mr. Nikolaus is trustee.
- (2) Includes currently exercisable stock options to purchase 25,000 shares of Class A common stock that each director we list above beneficially owns, other than Mr. Hess, who holds exercisable stock options to purchase 18,000 shares of Class A common stock, and Mr. Nikolaus. Also includes, with respect to each executive officer, the following currently exercisable stock options to purchase shares of Class A common stock the executive officer beneficially owns: Mr. Nikolaus, 483,333 shares; Mr. Burke, 140,000 shares; Mr. Greenya, 140,000 shares; Mr. Miller, 150,000 shares; Mr. Shenk, 140,000 shares and Mr. Wagner 140,000 shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of 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 10% or more of our Class B common stock report such person's ownership of our Class A common stock and our Class B common stock to the SEC. Such persons

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also must file statements of changes in such ownership with the SEC within two days of a change in such person's ownership of our Class A common stock or our Class B common stock. Our executive officers and directors, our nominees for election as director, certain holders of 10% or more of our Class A common stock and certain holders of 10% or more of our Class B common stock have advised us in writing that each of them made all required filings on a timely basis during 2012.

THE RELATIONSHIP OF DONEGAL MUTUAL AND DGI

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, 124 years later, Donegal Mutual has succeeded and grown to have approximately \$350.7 million in total assets and surplus of approximately \$187.7 million at December 31, 2012. In addition, Donegal Mutual owns 38.7% of the outstanding shares of our Class A common stock and 75.6% of the outstanding shares of our Class B common stock.

DGI, at December 31, 2012, had total assets of approximately \$1.3 billion and stockholders' equity of approximately \$400.0 million. Donegal Mutual and DGI's insurance subsidiaries conduct business together as the Donegal Insurance Group in 22 Mid-Atlantic, Midwestern, New England and Southern states.

During 2012, A.M. Best Company reported that the Donegal Insurance Group ranked as the 101st largest property and casualty insurance group in the United States based on its 2011 net premiums written. A.M. Best Company has assigned the Donegal Insurance Group an A.M. Best rating of A (Excellent) for the past 19 consecutive years.

Since we established Atlantic States in 1986, Donegal Mutual and our insurance subsidiaries have conducted business together as the Donegal Insurance Group, 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 and the same facilities and offer the same types of insurance products. We believe Donegal Mutual's majority interest in the combined voting power of our Class A common stock and of our Class B common stock 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 enhance 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. Donegal Mutual and we 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 Atlantic States 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 consolidated revenues. However, that percentage has gradually decreased over the past few years as we have acquired a number of other companies in other jurisdictions that do not participate in the underwriting pool.

From time to time, the board of directors of Donegal Mutual and our board of directors review our structure and relationships. The most recent such review occurred in November and December 2012. As a result of these

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reviews, both our board of directors and Donegal Mutual's board of directors continue to believe, as of the date of this proxy statement, that the Donegal Mutual-DGI structure continues to be appropriate for the respective businesses and operations of DGI and of Donegal Mutual.

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 ensure its long-term viability. Donegal Mutual determined to implement a downstream holding company structure as one of its business strategies. 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 in September 1986 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. During the year ended December 31, 2012, our insurance subsidiaries paid a total of \$7.0 million in dividends to us. These dividends are a major source of the funds we utilize to pay quarterly cash dividends to our stockholders. Donegal Mutual received \$5.6 million in dividends from us during the year ended December 31, 2012.

As the capital of Atlantic States and our other insurance subsidiaries has increased, the underwriting capacity of our insurance subsidiaries, including Atlantic States, has proportionately increased. 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 to 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 change in the pooling agreement between Atlantic States and Donegal Mutual in the foreseeable future, including any change in the percentage participation of Atlantic States in the underwriting pool.

We recapitalized in April 2001. 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 at 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 stockholders at the time of our recapitalization remained constant. Donegal Mutual's continued ownership of more than a majority of the voting power of our outstanding common stock better enables us to maintain our long-term relationship with Donegal Mutual, which our board of directors believes is a central part of our business strategy and success.

We effected our recapitalization because we believed in 2001, and continue to believe as of the date of this proxy statement, that a capital structure that has more than one class of publicly traded securities offers 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

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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 holder of our Class A common stock and our Class B common stock who has purchased our Class A common stock or our Class B common stock has purchased our Class A common stock or our Class B common stock with the prior knowledge and consistent disclosure by us that Donegal Mutual has, since our formation in 1986, held greater-than-majority voting control of us for the reasons we discuss in this proxy statement, and that Donegal Mutual currently 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.

Our board of directors remains of the opinion that preservation of the relationship between Donegal Mutual and us and our status as an independent public company is in the best interests of all of the constituencies that we and Donegal Mutual serve, including our stockholders, the policyholders of our insurance subsidiaries, the policyholders of Donegal Mutual, Donegal Mutual's employees, the independent insurance agents who represent our insurance companies and the local communities in which we maintain offices. We believe our relationship with Donegal Mutual offers us and our insurance subsidiaries a number of competitive advantages, including the following:

facilitating the stable management, consistent underwriting discipline, external growth and long-term profitability of the Donegal Insurance Group;

creating operational and expense synergies given the combined resources and operating efficiencies of the Donegal Insurance Group;

enhancing our opportunities to expand by acquisition because of the ability of Donegal Mutual to acquire control of other mutual insurance companies and thereafter demutualize them and sell them to us at a fair price;

producing more uniform and stable underwriting results for the Donegal Insurance Group than any of the individual member companies could achieve without the relationship between Donegal Mutual and our insurance subsidiaries; and

providing Donegal Mutual and Atlantic States with a significantly larger underwriting capacity because of the underwriting pool Donegal Mutual and Atlantic States have maintained since 1986 than either company could have achieved independently.

Our board of directors reviewed our relationships with Donegal Mutual in the fourth quarter of 2012 and the first two months of 2013 and determined that the continuation of the existing relationships between Donegal Mutual and us are in our best interests and in the best interests of our stockholders. In the latter portion of the fourth quarter of 2012 and the first quarter of 2013, the board of directors of Donegal Mutual undertook its annual review of the transactions between Donegal Mutual and DGI and determined that continuing the current transactions between Donegal Mutual and DGI and the current corporate structure of Donegal Mutual and DGI is in the best interests of Donegal Mutual and in the best interests of its various constituencies.

We refer to our Form 10-K Annual Report for the fiscal year ended December 31, 2012 for a discussion of our business strategy.

Our Strategy to Maximize Stockholder Value

A fundamental goal of our board of directors and management is to maximize stockholder value over the long-term. We conduct our operations with this fundamental goal in mind. Our business strategies seek to maximize stockholder value by improving operating efficiencies as well as pursuing internal and external growth in order to

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enhance the long-term profitability of our businesses. Our board of directors and management regularly evaluate our business strategies and concentrate on improving our long-term, sustainable earnings. We focus on:

generating sustainable underwriting profitability by carefully selecting product lines, evaluating individual risks based on historic results, minimizing individual exposure to catastrophe-prone areas, analyzing the cost and availability of reinsurance as well as the level at which the reinsurance attaches and evaluating claims history on a regular basis to ensure the adequacy of underwriting guidelines and product pricing;

pursuing profitable growth by organic expansion within the traditional operating territories of our insurance subsidiaries through developing and maintaining quality agency representation;

seeking to acquire property and casualty insurance companies that augment the organic growth of our insurance subsidiaries in existing markets and expand our business into new geographic regions;

enhancing the profitability of our insurance subsidiaries through expense controls and the utilization of state-of-the-art technology to increase operating efficiency and effective communication with agents, policyholders and potential policyholders;

providing responsive and friendly customer and agent service to enable our insurance subsidiaries to attract new policyholders and retain existing policyholders; and

maintaining premium rate adequacy to enhance the underwriting results of our insurance subsidiaries, while maintaining high levels of retention for their existing books of business, and at the same time preserving their ability to write new business.

The Coordinating Committee

Donegal Mutual and we 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.

Any change to an agreement between Donegal Mutual, us and any of our insurance subsidiaries, or any new agreement between Donegal Mutual, us and any of our insurance subsidiaries is also subject to the applicable provisions of the Pennsylvania Insurance Company Law of 1921, as amended, and the Pennsylvania Insurance Holding Company Act, as amended, or the PHCA. The coordinating committee utilizes the following process in considering whether to approve a new agreement between Donegal Mutual and us or one of our insurance subsidiaries or a change in an existing agreement between Donegal Mutual and us or one of our insurance subsidiaries:

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

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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 Donegal Mutual's board of directors.

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The coordinating committee also meets annually during the first two months of each year to review each existing agreement and on-going transaction 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 these 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 2013 in the ordinary course of our business and the business of Donegal Mutual.

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

Mr. Bixenman, age 66, has been a director of Donegal Mutual since 2008 and retired at the end of 2012 as a vice president and senior consultant at Williams & Company Consulting, Inc., an environmental and business consulting firm with its headquarters in Sioux City, Iowa.

Mr. Bixenman is a certified public accountant with extensive experience in auditing and preparing financial statements. Mr. Bixenman beneficially owns 30,755 shares of our Class A common stock. He owns no shares of our Class B common stock. As director compensation in 2012, Donegal Mutual paid Mr. Bixenman cash fees of \$44,000 and granted him a restricted stock award of 400 shares of Class A common stock with a value at the time of issuance of \$5,664.

Mr. Hiestand, age 75, has been a director of Donegal Mutual since 1983 and has been a self-employed provider of insurance administrative services for over 20 years. Mr. Hiestand served as a director of Central Savings and Loan Association in Columbia, Pennsylvania from 1982 to 1992. Mr. Hiestand beneficially owns 32,247 shares of our Class A common stock. He owns 157 shares of our Class B common stock. As director compensation in 2012, Donegal Mutual paid Mr. Hiestand cash fees of \$42,250 and granted him a restricted stock award of 400 shares of Class A common stock with a value at the time of issuance of \$5,664.

The Relationship of Donegal Mutual and DGI

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. Donegal Mutual's charges for these services totaled \$78.8 million in 2012 compared to \$64.7 million in 2011.

We lease office equipment and automobiles to Donegal Mutual and Southern. Donegal Mutual and Southern made total lease payments to us of \$953,000 in 2012 compared to \$957,000 in 2011.

Donegal Mutual and Atlantic States participate in an underwriting pool. Both companies cede 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 respective boards of directors of Donegal Mutual and Atlantic States and by the coordinating committee. Our 2012 annual report to stockholders contains additional information describing the underwriting pool.

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In addition to the pooling agreement, our insurance subsidiaries have various ongoing reinsurance agreements with Donegal Mutual. These agreements include:

Donegal Mutual and Peninsula have a quota-share reinsurance agreement under which 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 because any one insurance company may only offer a single pricing tier for workers' compensation insurance in those states.

On November 1, 2012, Donegal Mutual and Southern terminated on a run-off basis a quota-share reinsurance agreement that had been in effect for a number of years because the quota-share reinsurance agreement was no longer necessary. While this quota-share reinsurance agreement was in effect, Donegal Mutual transferred to Southern 100% of the premiums and losses related to certain personal lines products Donegal Mutual offered in Virginia through the use of Donegal Mutual's automated policy quotation and policy issuance system.

Donegal Mutual and Le Mars have a quota-share reinsurance agreement under which 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 purpose of these agreements is 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 have 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. Because of the reinsurance pooling agreement between Donegal Mutual and our subsidiary, Atlantic States, we receive an 80% allocation, or 20%, of the MICO business Donegal Mutual reinsures.

The coordinating committee annually reviews each of the agreements and transactions we describe in the preceding paragraph 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 2013, 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 continuation of the terms of such agreements and transactions through the next annual review during the first two months of 2014.

We refer you to note 3 of the notes to our consolidated financial statements we include in our 2012 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 capacity.

We own 48.2% and Donegal Mutual owns 51.8% of Donegal Financial Services Corporation, or DFSC. On May 6, 2011, Union National Financial Corporation, or UNNF, a bank holding company headquartered in Lancaster, Pennsylvania, merged with and into DFSC, with DFSC as the surviving corporation. On the same date, Union National Community Bank, a national banking association headquartered in Lancaster, Pennsylvania and a subsidiary of UNNF, merged with and into Province Bank FSB, a federal savings bank and a subsidiary of DFSC. Upon the merger, Province Bank FSB changed its name to Union Community Bank FSB, or UCB, and continued its status as a federal savings bank.

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As a result of DFSC's ownership of UCB, Donegal Mutual and we, as the two owners of DFSC, and DFSC are grandfathered unitary savings and loan holding companies regulated under the Home Owners' Loan Act, or HOLA. Grandfathered unitary savings and loan holding companies are regulated by the Board of Governors of the Federal Reserve System, or the Board. UCB is regulated by the Office of the Comptroller of the Currency, or the OCC.

No person may lawfully acquire control of a grandfathered unitary savings and loan holding company without complying with regulatory requirements under either HOLA, if the acquirer is a company, or the Change in Bank Control Act, or the CBCA, which can apply to any kind of acquirer, including an individual. The Board regulations under the CBCA establish a rebuttable presumption of control applicable to any person who wishes to acquire more than 10% of any class of voting security of a grandfathered unitary savings and loan holding company registered under the Exchange Act, such as DGI. Such a person must make a filing with the Board either rebutting the presumption of control or else conceding that the presumption applies and providing the personal and financial information the CBCA requires. The person may only consummate the stock purchase if the Board does not disapprove the acquisition within a time period that lasts a minimum of 60 days, and sometimes longer.

We do not consolidate the financial statements of DFSC and its wholly owned subsidiary, UCB, with our financial statements. We have filed the separate consolidated financial statements of DFSC as a schedule to our Form 10-K Annual Report for the year ended December 31, 2012.

UCB is currently in the process of converting to a Pennsylvania-chartered stock savings bank, which UCB believes it can complete by June 30, 2013. As the two owners of DFSC, both Donegal Mutual and we believe such a conversion would be beneficial to UCB. Following the conversion, the primary regulators of UCB will be the Pennsylvania Department of Banking and the Board pursuant to HOLA. At December 31, 2012, UCB had total assets of \$509.8 million, total deposits of \$422.8 million and total loans of \$294.5 million. UCB had net income of \$9.8 million for the year ended December 31, 2012. Donegal Mutual and UCB are also parties to an administrative services agreement. Under this agreement, Donegal Mutual provides various services, principally internal audit, investment, information technology, administrative support, facility and equipment maintenance services and purchasing, to UCB, subject to the overall limitation that the costs Donegal Mutual charges to UCB 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. Donegal Mutual and we also conduct routine banking business with UCB in the ordinary course of business of the Donegal Insurance Group.

Donegal Mutual leases 3,600 square feet in a Donegal Mutual-owned building in Marietta, Pennsylvania to UCB. In addition, UCB 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 each year.

The Risk Management Committee

The Donegal Insurance Group maintains a risk management committee. The risk management committee consists of 14 officers of Donegal Mutual, seven of whom are also executive officers of DGI. The purpose of the risk management committee is to assess and monitor the major strategic, operational, regulatory, informational and external risks that affect the business the Donegal Insurance Group transacts and the internal and external resources of the Donegal Insurance Group for assessing and controlling such risks.

The responsibilities of the risk management committee on behalf of the Donegal Insurance Group include:

evaluating the effectiveness of the Donegal Insurance Group's assessment and management of risk;

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

assessing the Donegal Insurance Group's risk management, compliance and control activities and the adequacy of such activities in identifying the risks that confront the Donegal Insurance Group; and

reporting periodically to our respective boards of directors.

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The Donegal Insurance Group's risk management committee meets quarterly, and annually evaluates its performance of its responsibilities.

CORPORATE GOVERNANCE

Our board of directors maintains corporate governance guidelines to assist the committees of our board of directors in the discharge of their respective responsibilities. Each committee of our board of directors has a written charter that sets forth the purposes, goals and responsibilities of the committee as well as the qualifications for committee membership, procedures for the appointment and removal of committee members, committee structure and operations and committee reporting to our board of directors. You may view the charters of our executive committee, our audit committee, our nominating committee and our compensation committee on our website at www.donegalgroup.com. The charters of the committees of our board of directors provide our stockholders with a description of the manner in which our board of directors and its committees operate.

The Composition of Our Board of Directors

Our by-laws provide that the number of members of our board of directors cannot be less than seven nor more than 12. Our board of directors fixes the size of our board of directors within these limits and may increase or decrease the size of our board of directors from time to time. Currently, our board of directors has fixed the number of members of our board of directors at 11. Our board of directors has three classes, with terms expiring at three successive annual meetings and upon the newly elected class of directors taking office.

We constitute a controlled company under applicable NASDAQ regulations because Donegal Mutual owns, and has owned since our formation in 1986, more than a majority of the aggregate voting power of our outstanding shares of Class A common stock and our outstanding shares of Class B common stock. As 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 of directors is, however, subject to the corporate governance rules of the PHCA. The PHCA requires that the board of directors of a Pennsylvania-domiciled insurance company or of 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 PHCA further requires that the members of these 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 whose respective members satisfy the requirements of the PHCA.

Pursuant to the PHCA, the committees of our board of directors annually discharge each of the following responsibilities:

the annual recommendation of the appointment of an independent registered public accounting firm for our insurance company subsidiaries;

the review of the financial condition of our insurance company subsidiaries;

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

the nomination of candidates for election as our directors by our stockholders; and

the evaluation of the performance of the principal officers of each of our insurance company subsidiaries and the recommendation to their respective boards of directors as to the selection and compensation of their respective principal officers.

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The Committees of Our Board of Directors

We expect our directors to attend all meetings of our board of directors, meetings of the committees of our board of directors on which they serve and meetings of our stockholders. We further expect our directors to devote the time necessary to fulfill their responsibilities as directors. During 2012, each of our directors attended 75% or more of the total number of meetings of our board of directors and of the meetings of the committees of our board of directors on which that director served. All of the members of our board of directors attended our 2012 annual meeting of stockholders. Each of the committees of our board of directors has a written charter that stockholders may view on our website. Our website address is www.donegalgroup.com. Each of the committees of our board of directors reviews its charter annually.

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 commit