

NASPERS LTD

Form 6-K

November 15, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For the month of November 2006

NASPERS LIMITED

(Translation of registrant's name into English)

Naspers Centre

40 Heerengracht

Cape Town

SOUTH AFRICA 8001

(Address of principal executive offices)

(Indicate by check mark whether the registrant

files or will file annual reports under cover of Form 20-F

or Form 40-F.)

Form 20-F

Form 40-F

(Indicate by check mark whether the registrant by
furnishing the information contained in this form is also

thereby furnishing the information to the Commission

pursuant to Rule 12g3-2(b) under the Securities Exchange Act
of 1934.)

Yes

No

EXHIBIT LIST

Exhibit

Description

Sequential

Page Number

Announcement and press release
relating to the exchange of
Johncom interest in Electronic
Media Network Limited (M-
Net)/SuperSport International
Holdings Limited (SuperSport)
for Naspers shares and cash.,
dated November 14, 2006

Naspers Limited

(Incorporated in the Republic of South Africa)

(Registration number 1925/001431/06)

Share code: NPN ISIN: ZAE000015889

(“Naspers” or “the company”)

EXCHANGE OF JOHNCOM INTEREST IN ELECTRONIC MEDIA NETWORK LIMITED (M-NET)/SUPERSPORT INTERNATIONAL HOLDINGS LIMITED (SUPERSPORT) FOR NASPERS SHARES AND CASH

1. INTRODUCTION

Naspers currently owns an effective 60,12% interest in M-Net/SuperSport (29,98% via MultiChoice Africa (Proprietary) Limited

(MCSA), 26,33% via MNH Holdings (1998) (Proprietary) Limited (MNH) and 3,81% directly) (collectively, the “Naspers interests”).

Johnnic Communications Limited (Johncom) currently owns an effective 38,56% interest in M-Net/SuperSport (an effective

25,01% through its 47,5% via MNH and 13,55% directly) (collectively, the “Johncom interests”).

The Johncom interests will be exchanged for a consideration of Naspers shares and cash (“the transaction”).

2. RATIONALE

In light of the migration from analogue to digital broadcasting, the introduction of new technologies such as high definition (HD)

television and pending competition for content, all of which will increase costs and capital expenditure, the parties have considered

it prudent to consolidate the interests of M-Net/SuperSport with those of Naspers.

Naspers is currently concluding an empowerment drive within its South African operations. After the above transaction has been

concluded, the intention of Naspers is to consolidate the whole of the M-Net/SuperSport shareholding into MCSA. This will ensure

that M-Net and SuperSport are appropriately empowered and will secure the best possible position for the new BEE shareholders

of MCSA.

3. CONSIDERATION

Naspers will issue 20 886 667 Naspers N ordinary shares and pay R250 million in cash to Johncom as consideration for the

Johncom interests.

4. INFORMATION RELATING TO M-NET/SUPERSPORT

At present, M-Net’s television channels are delivered to subscribers via analogue terrestrial and digital satellite distribution. The

existing analogue system, which broadcasts the main M-Net entertainment channel and Community Services Network (CSN)

channel, has been in operation for 20 years and is rapidly becoming obsolete. M-Net also compiles some 11 channels for

distribution via satellite in South Africa and across the rest of sub-Saharan Africa by MultiChoice, as part of the DStv bouquet. The

main markets are Nigeria and Angola.

Similarly, SuperSport compiles seven sports channels for distribution in South Africa and across sub-Saharan Africa. These comprise three 24-hour channels, including a dedicated pan-African football channel, a sports update channel, a 24-hour highlights channel, a dedicated interactive sports channel, a Portuguese-language sports channel for Angola and Mozambique, and three *ad hoc* sports channels.

Looking forward, the introduction of several competitors, coupled with the recent weakening of the rand relative to the US dollar,

is expected to drive up M-Net/SuperSport's programming costs. This will cause turbulence and affect profitability over the next few years.

5. FINANCIAL EFFECTS

Pro forma financial effects

After the transaction, Naspers's effective stake in M-Net/SuperSport will be 98,7% and M-Net, SuperSport and MNH will be

subsidiaries of Naspers. Consequently, the articles of association of each of M-Net, SuperSport and MNH will be amended (to the

extent required) to conform to the requirements set out in Schedule 10 of the JSE Limited Listings Requirements.

The table below sets out the unaudited

pro forma financial effects of the transaction and is based on the published *pro forma*

numbers of Naspers for the year ended 31 March 2006.

The unaudited

pro forma financial effects, for which the Naspers board is responsible, are presented for illustrative purposes only and may not give a fair reflection of the financial position and results of operations post the implementation of the transaction.

-
-
-
-

Per Naspers share
Before the
After the
 %

transaction

(1)

transaction

(2)

Change

EPS

EPS (cents)

1 093

1 154

6

HEPS (cents)

729

790

8

Fully diluted EPS

EPS (cents)

1 034

1 091

6

HEPS (cents)

689

747

8

NAV (cents)

(3)

3 436

4 227

23

NTAV (cents)

(3)

2 922

2 697

(8)

Number of shares in issue ('000)

(4)

290 555

311 441

Weighted average number of shares in issue ('000)

(4)

283 719

304 606

Fully diluted weighted average number of shares in issue ('000)

(4)

300 243

321 129

Notes:

1. The information “Before the transaction” is based on published *pro forma* numbers for the year ended 31 March 2006 and takes into consideration the *pro forma* effects of the BEE transactions announced in September 2006.

2. The information “After the transaction” is based on the following assumptions:

(i) the transaction was implemented on 1 April 2005

(ii) the R250 million cash used in financing the transaction was earning interest at 7% before tax.

3. The NAV and NTAV per ordinary share “After the transaction” is based on the assumption that the transaction was implemented on 31 March 2006. The purchase price allocation accounting exercise had not been completed and the total excess over the NAV acquired was allocated to goodwill.

4. Naspers issued 20 886 667 shares and used R250 million of its existing cash resources to finance the acquisition.

5. The effect on core HEPS is as follows:

• Before the transaction

(1)

: 671 cents

• After the transaction

(2)

: 716 cents

• % change: 7

6. EFFECTIVE DATE

The effective date of the transaction will be on fulfilment of the conditions precedent indicated below.

7. CONDITIONS PRECEDENT

The transaction is subject to a number of conditions precedent, *inter alia*, the approval of the transaction by Johncom’s shareholders and by the appropriate regulatory authorities.

Cape Town

14 November 2006

Sponsor to Naspers

Attorneys to Naspers

JAN S. DE VILLIERS

A T T O R N E Y S

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South Africa, 14th November 2006 - Naspers Limited (JSE: NPN, NASDAQ: NPSN: Johncom announced today that it has disposed of its 38% interest in M-Net and SuperSport to Naspers for 20.8 million new Naspers N ordinary shares plus R250 million in cash.

Mashudo Ramano, chairperson of Johncom stated:

“After full consideration we as a Board believe this offer provides real value to Johncom shareholders. We will continue to focus on becoming an integrated media house as we deliver value to our shareholders. The group’s media and entertainment assets provide an exciting platform for future growth”.

Steve Pacak, financial director of Naspers, said: “The pay television industry is presently undergoing significant change, with rapid technological developments. Severe competition is also coming with 18 applications having lodged to launch new pay television services in South Africa. This changing environment will increase costs and put pressure on cash flows. It therefore seems prudent to consolidate the interest in M-Net and SuperSport ahead of the storm. This interest will now be injected into MultiChoice South Africa, where a strong empowerment component is now being introduced. This is also important for the future of M-Net and SuperSport”.

The transaction is still subject to Johncom shareholder approval.

Contact details:

Johncom:
Prakash Desai
011 280 5003 / 083 380 1528

College Hill:
Johannes van Niekerk
011 447 3030 / 082 691 9110

Naspers:
Steve Pacak

021 406 3585

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.

NASPERS LIMITED

Date: November 14, 2006 by

Name:

Stephan J. Z. Pacak

Title:

Director

timates in the future. However, on the basis of our insurance subsidiaries internal procedures which analyze, among other things, their prior assumptions, their experience with similar cases and historical trends such as reserving patterns, loss payments, pending levels of unpaid claims and product mix, as well as court decisions, economic conditions and public attitudes, we believe that our insurance subsidiaries have made adequate provision for their liability for losses and loss expenses.

Differences between liabilities reported in our financial statements prepared on the basis of generally accepted accounting principles (GAAP) and our insurance subsidiaries financial statements prepared on a statutory accounting basis (SAP) result from anticipating salvage and subrogation recoveries for GAAP but not for SAP. These differences amounted to \$8.3 million, \$8.7 million and \$9.2 million at December 31, 2007, 2008 and 2009, respectively.

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The following table sets forth a reconciliation of the beginning and ending GAAP net liability of our insurance subsidiaries for unpaid losses and loss expenses for the periods indicated:

(in thousands)	Year Ended December 31,		
	2007	2008	2009
Gross liability for unpaid losses and loss expenses at beginning of year	\$ 259,022	\$ 226,432	\$ 239,809
Less reinsurance recoverable	95,710	76,280	78,502
Net liability for unpaid losses and loss expenses at beginning of year	163,312	150,152	161,307
Acquisition of Sheboygan		2,173	
Provision for net losses and loss expenses for claims incurred in the current year	187,797	221,617	241,012
Change in provision for estimated net losses and loss expenses for claims incurred in prior years	(10,013)	2,684	9,823
Total incurred	177,784	224,301	250,835
Net losses and loss payments for claims incurred during:			
The current year	118,444	143,369	152,293
Prior years	72,500	71,950	79,587
Total paid	190,944	215,319	231,880
Net liability for unpaid losses and loss expenses at end of year	150,152	161,307	180,262
Plus reinsurance recoverable	76,280	78,502	83,337
Gross liability for unpaid losses and loss expenses at end of year	\$ 226,432	\$ 239,809	\$ 263,599

The following table sets forth the development of the liability for net unpaid losses and loss expenses of our insurance subsidiaries from 1999 to 2009. Loss data in the table includes business ceded to Atlantic States from the underwriting pool.

Net liability at end of year for unpaid losses and loss expenses sets forth the estimated liability for net unpaid losses and loss expenses recorded at the balance sheet date for each of the indicated years. This liability represents the estimated amount of net losses and loss expenses for claims arising in the current and all prior years that are unpaid at the balance sheet date, including losses incurred but not reported.

The Net liability reestimated as of portion of the table shows the reestimated amount of the previously recorded liability based on experience for each succeeding year. The estimate increases or decreases as payments are made and more information becomes known about the severity of the remaining unpaid claims. For example, the 2005 liability has developed a redundancy after four years because we expect the reestimated net losses and loss expenses to be \$22.8 million less than the estimated liability we initially established in 2005 of \$173.0 million.

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The Cumulative (excess) deficiency shows the cumulative excess or deficiency at December 31, 2009 of the liability estimate shown on the top line of the corresponding column. An excess in liability means that the liability established in prior years exceeded actual net losses and loss expenses or our insurance subsidiaries reevaluated the liability at less than the original estimate. A deficiency in liability means that the liability established in prior years was less than actual net losses and loss expenses or our insurance subsidiaries reevaluated the liability at more than the original estimate.

The Cumulative amount of liability paid through portion of the table shows the cumulative net losses and loss expense payments made in succeeding years for net losses incurred prior to the balance sheet date. For example, the 2005 column indicates that as of December 31, 2009 payments equal to \$133.8 million of the currently reestimated ultimate liability for net losses and loss expenses of \$150.2 million had been made.

Amounts shown in the 2004 column of the table include information for Le Mars and the Peninsula Companies for all accident years prior to 2004. Amounts shown in the 2008 column of the table include information for Sheboygan for all accident years prior to 2008.

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(in thousands)	Year Ended December 31,										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Liability at end of year for unpaid reinsurance and loss reserves	\$ 99,234	\$ 102,709	\$ 114,544	\$ 131,108	\$ 138,896	\$ 171,431	\$ 173,009	\$ 163,312	\$ 150,152	\$ 161,307	\$ 180,262
Liability originated as of:											
1 year later	100,076	110,744	121,378	130,658	136,434	162,049	159,393	153,299	152,836	171,130	
2 years later	103,943	112,140	120,548	128,562	130,030	152,292	153,894	150,934	154,435		
3 years later	104,073	110,673	118,263	124,707	123,399	148,612	151,792	150,078			
4 years later	101,880	108,766	114,885	119,817	120,917	147,280	150,183				
5 years later	100,715	107,561	113,070	118,445	119,968	145,874					
6 years later	100,479	106,950	112,614	118,605	119,731						
7 years later	99,968	106,298	112,921	118,905							
8 years later	99,927	106,835	113,350								
9 years later	100,223	107,474									
10 years later	100,837										
Relative (s) deficiency	1,603	4,765	(1,194)	(12,203)	(19,165)	(25,557)	(22,826)	(13,234)	4,283	9,823	
Relative amount of liability paid in:											
1 year later	\$ 39,060	\$ 43,053	\$ 45,048	\$ 46,268	\$ 51,965	\$ 67,229	\$ 71,718	72,499	71,950	79,592	
2 years later	60,622	67,689	70,077	74,693	81,183	102,658	107,599	104,890	105,576		
3 years later	76,811	82,268	87,198	93,288	99,910	123,236	125,926	121,711			
4 years later	85,453	92,127	97,450	105,143	109,964	133,844	133,805				
5 years later	91,337	98,007	104,551	111,523	113,684	136,377					
6 years later	94,420	101,664	108,136	114,145	114,499						
7 years later	96,823	103,767	110,193	114,641							
8 years later	98,268	105,046	110,447								
9 years later	98,847	104,990									
10 years later	98,283										

	Year Ended December 31									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	
	(in thousands)									
Gross liability at end of year	\$ 179,840	\$ 210,692	\$ 217,914	\$ 267,190	\$ 265,730	\$ 259,022	\$ 226,432	\$ 239,809	\$ 263,599	
Reinsurance recoverable	65,296	79,584	79,018	95,759	92,721	95,710	76,280	78,502	83,337	
Net liability at end of year	114,544	131,108	138,896	171,431	173,009	163,312	150,152	161,307	180,262	

Gross reestimated liability latest	191,184	207,187	207,667	237,608	238,713	238,592	232,342	253,179
Reestimated recoverable latest	77,834	88,282	87,936	91,734	88,530	88,514	77,907	82,049
Net reestimated liability latest	113,350	118,905	119,731	145,874	150,183	150,078	154,435	171,130
Gross cumulative deficiency (excess)	11,344	(3,505)	(10,247)	(29,582)	(27,017)	(20,430)	5,910	13,370

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Technology

Donegal Mutual owns the majority of the technology systems our insurance subsidiaries use. The technology systems consist primarily of an integrated central processing computer, a series of server-based computer networks and various communications systems that allow the home office of our insurance subsidiaries and their branch offices to utilize the same systems for the processing of business. Donegal Mutual maintains backup facilities and systems at the office of one of our insurance subsidiaries and through a contract with a leading provider of computer disaster recovery sites and tests these backup facilities and systems on a regular basis. Our insurance subsidiaries bear their proportionate share of information services expenses based on their respective percentage of the total net written premiums of the Donegal Insurance Group.

The business strategy of our insurance subsidiaries depends on the use, development and implementation of integrated technology systems. These systems enable our insurance subsidiaries to provide a high level of service to agents and policyholders by processing business in a timely and efficient manner, communicating and sharing data with agents, providing a variety of methods for the payment of premiums and allowing for the accumulation and analysis of information for the management of our insurance subsidiaries.

We believe the availability and use of these technology systems has resulted in improved service to agents and policyholders, increased efficiencies in processing the business of our insurance subsidiaries and lower operating costs. Four key components of these integrated technology systems are the agency interface system, the WritePro[®] and WriteBiz[®] systems, a claims processing system and an imaging system. The agency interface system provides our insurance subsidiaries with a high level of data sharing both to and from agents' systems and also provides agents with an integrated means of processing new business. The WritePro[®] and WriteBiz[®] systems are fully automated underwriting and policy issuance systems that provide agents with the ability to generate underwritten quotes and automatically issue policies that meet the underwriting guidelines of our insurance subsidiaries with limited or no intervention by their personnel. The claims processing system allows our insurance subsidiaries to process claims efficiently and in an automated environment. The imaging system eliminates the need to handle paper files, while providing greater access to the same information by a variety of personnel.

Third-Party Reinsurance

Our insurance subsidiaries and Donegal Mutual purchase certain third-party reinsurance on a combined basis. Le Mars, the Peninsula Companies and Sheboygan also have separate reinsurance programs that provide certain coverage that is commensurate with their relative size and exposures. Our insurance subsidiaries use several different reinsurers, all of which, consistent with the requirements of our insurance subsidiaries and Donegal

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Mutual, have an A.M. Best rating of A- (Excellent) or better or, with respect to foreign reinsurers, have a financial condition that, in the opinion of our management, is equivalent to a company with at least an A- rating from A.M. Best.

The external reinsurance our insurance subsidiaries and Donegal Mutual purchase includes:

excess of loss reinsurance, under which their losses are automatically reinsured, through a series of contracts, over a set retention (generally \$750,000 for 2009); and

catastrophic reinsurance, under which they recover, through a series of contracts, 100% of an accumulation of many losses resulting from a single event, including natural disasters, over a set retention (generally \$3.0 million for 2009).

The amount of coverage provided under each of these types of reinsurance depends upon the amount, nature, size and location of the risk being reinsured.

Our insurance subsidiaries' principal third-party reinsurance agreement in 2009 was a multi-line per risk excess of loss treaty that provided 100% coverage up to \$1.0 million for both property and liability losses over the set retention.

For property insurance, our insurance subsidiaries also have excess of loss treaties that provide for additional coverage over the multi-line treaty up to \$2.5 million per loss. For liability insurance, our insurance subsidiaries have excess of loss treaties that provide for additional coverage over the multi-line treaty up to \$40.0 million per occurrence. For workers' compensation insurance, our insurance subsidiaries have excess of loss treaties that provide for additional coverage over the multi-line treaty up to \$10.0 million on any one life.

Our insurance subsidiaries and Donegal Mutual have property catastrophe coverage through a series of layered treaties up to aggregate losses of \$100.0 million for any single event.

Our insurance subsidiaries and Donegal Mutual also purchase facultative reinsurance to cover exposures from property and casualty losses that exceed the limits provided by their respective treaty reinsurance.

Competition

The property and casualty insurance industry is highly competitive on the basis of both price and service. Numerous companies compete for business in the geographic areas where our insurance subsidiaries operate, many of which are substantially larger and have greater financial resources than those of our insurance subsidiaries. In addition, because the

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insurance products of our insurance subsidiaries and those of Donegal Mutual are marketed exclusively through independent insurance agencies, most of which represent more than one insurance company, our insurance subsidiaries face competition within agencies as well as competition to retain qualified independent agents.

Investments

Return on invested assets is an important element of the financial results of our insurance subsidiaries, and the investment strategy of our insurance subsidiaries is to generate an appropriate amount of after-tax income on invested assets while minimizing credit risk through investments in high-quality securities. As a result, our insurance subsidiaries seek to invest a high percentage of their assets in diversified, highly rated and marketable fixed-maturity instruments. The fixed-maturity portfolios of our insurance subsidiaries consist of both taxable and tax-exempt securities. Our insurance subsidiaries maintain a portion of their portfolios in short-term securities, such as investments in commercial paper, to provide liquidity for the payment of claims and operation of their businesses. Our insurance subsidiaries maintain a negligible percentage (less than 1.5% at December 31, 2009) of their portfolios in equity securities.

At December 31, 2009, 99.8% of all debt securities held by our insurance subsidiaries had an investment-grade rating. The investment portfolios of our insurance subsidiaries did not contain any mortgage loans or any non-performing assets at December 31, 2009.

The following table shows the composition of the debt securities (at carrying value) in the investment portfolios of our insurance subsidiaries, excluding short-term investments, by rating as of December 31, 2009: (dollars in thousands)

Rating ⁽¹⁾	December 31, 2009	
	Amount	Percent
U.S. Treasury and U.S. agency securities ⁽²⁾	\$ 137,399	23.2%
Aaa or AAA	202,624	34.3
Aa or AA	163,692	27.7
A	82,247	13.9
BBB	2,597	0.5
BB	250	
B	1,254	0.2
CCC	1,448	0.2
Total	\$ 591,511	100.0%

(1) Ratings assigned by Moody's Investors Services, Inc. or Standard & Poor's Corporation.

(2) Includes residential mortgage-backed securities of \$94.8 million.

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Our insurance subsidiaries invest in both taxable and tax-exempt securities as part of their strategy to maximize after-tax income and are currently increasing their investments in tax-exempt securities. This strategy considers, among other factors, the alternative minimum tax. Tax-exempt securities made up approximately 67.9%, 75.8% and 71.0% of the debt securities in the combined investment portfolios of DGI and its insurance subsidiaries at December 31, 2007, 2008 and 2009, respectively.

The following table shows the classification of our investments and the investments of our insurance subsidiaries (at carrying value) at December 31, 2007, 2008 and 2009:

(dollars in thousands)	2007		December 31, 2008		2009	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Fixed maturities(1):						
Held to maturity:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 51,611	8.5%	\$ 8,517	1.4%	\$ 2,000	0.3%
Obligations of states and political subdivisions	81,457	13.5	76,451	12.1	61,736	9.3
Corporate securities	9,838	1.6	8,341	1.3	6,243	0.9
Residential mortgage-backed securities	11,384	1.9	6,569	1.0	3,828	0.6
Total held to maturity	154,290	25.5	99,878	15.8	73,807	11.1
Available for sale:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	25,374	4.2	6,630	1.0	40,630	6.1
Obligations of states and political subdivisions	251,866	41.6	337,003	53.3	358,367	53.7
Corporate securities	15,228	2.5	23,936	3.8	27,766	4.2
Residential mortgage-backed securities	43,850	7.2	78,247	12.4	90,941	13.6
Total available for sale	336,318	55.5	445,816	70.5	517,704	77.6
Total fixed maturities	490,608	81.0	545,694	86.3	591,511	88.7
Equity securities(2)	36,361	6.0	5,895	0.9	9,915	1.5
Investments in affiliates(3)	8,649	1.4	8,594	1.4	9,309	1.4
Short-term investments(4)	70,252	11.6	71,953	11.4	56,100	8.4
Total investments	\$ 605,870	100.0%	\$ 632,136	100.0%	\$ 666,835	100.0%

(1)

See Notes 1 and 5 to our consolidated financial statements incorporated by reference herein. We value fixed maturities classified as held to maturity at amortized cost; we value those fixed maturities classified as available for sale at fair value. Total fair value of fixed maturities classified as held to maturity was \$155.4 million at December 31, 2007, \$101.5 million at December 31, 2008 and \$77.0 million at December 31, 2009. The amortized cost of fixed maturities classified as available for sale was \$331.8 million at December 31, 2007, \$449.0 million at December 31, 2008 and \$503.7 million at December 31, 2009.

(2)

We value equity securities at fair value. Total cost of equity securities was \$30.0 million at December 31, 2007, \$2.9 million at December 31, 2008 and \$3.8 million at December 31, 2009.

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(3) We value investments in affiliates at cost, adjusted for our share of earnings and losses of our affiliates as well as changes in equity of our affiliates due to unrealized gains and losses.

(4) We value short-term investments at cost, which approximates fair value.

The following table sets forth the maturities (at carrying value) in fixed maturity and short-term investment portfolios of DGI and its insurance subsidiaries at December 31, 2007, December 31, 2008 and December 31, 2009:

(dollars in thousands)	2007		December 31, 2008		2009	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Due in(1):						
One year or less	\$ 29,299	6.0%	\$ 14,008	2.6%	\$ 16,410	2.8%
Over one year through three years	61,523	12.5	33,772	6.2	35,007	5.9
Over three years through five years	36,360	7.4	44,579	8.2	46,392	7.8
Over five years through ten years	186,441	38.0	174,130	31.9	166,352	28.1
Over ten years through fifteen years	86,089	17.5	89,889	16.5	121,308	20.5
Over fifteen years	35,662	7.3	104,500	19.1	111,273	18.9
Residential mortgage-backed securities	55,234	11.3	84,816	15.5	94,769	16.0
	\$ 490,608	100.0%	\$ 545,694	100.0%	\$ 591,511	100.0%

(1) Based on stated maturity dates with no prepayment

assumptions.
Actual
maturities will
differ because
borrowers may
have the right to
call or prepay
obligations with
or without call
or prepayment
penalties.

As shown above, our insurance subsidiaries held investments in residential mortgage-backed securities having a carrying value of \$94.8 million at December 31, 2009. The mortgage-backed securities consist primarily of investments in governmental agency balloon pools with stated maturities between one and 24 years. The stated maturities of these investments limit the exposure of our insurance subsidiaries to extension risk should interest rates rise and prepayments decline. Our insurance subsidiaries perform an analysis of the underlying loans when evaluating a residential mortgage-backed security for purchase, and they select those securities that they believe will provide a return that properly reflects the prepayment risk associated with the underlying loans.

The following table sets forth the investment results of DGI and its insurance subsidiaries for the years ended December 31, 2007, 2008 and 2009:

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(dollars in thousands)	Year Ended December 31,		
	2007	2008	2009
Invested assets(1)	\$598,604	\$619,003	\$649,486
Investment income(2)	22,785	22,756	20,631
Average yield	3.8%	3.7%	3.2%
Average tax-equivalent yield	4.8	4.9	4.4

(1) Average of the aggregate invested amounts at the beginning and end of the period.

(2) Investment income is net of investment expenses and does not include realized investment gains or losses or provision for income taxes.

A.M. Best Rating

Donegal Mutual and our insurance subsidiaries have an A.M. Best rating of A (Excellent), based upon their respective current financial condition and historical statutory results of operations and retrocessional agreements. We believe that the A.M. Best rating of Donegal Mutual and our insurance subsidiaries is an important factor in their marketing of their products to their agents and customers. A.M. Best's ratings are industry ratings based on a comparative analysis of the financial condition and operating performance of insurance companies. A.M. Best's classifications are A++ and A+ (Superior), A and A- (Excellent), B++ and B+ (Very Good), B and B- (Good), C++ and C+ (Fair), C and C- (Marginal), D (Below Minimum Standards) and E and F (Liquidation). A.M. Best's ratings are based upon factors relevant to the payment of claims of policyholders and are not directed toward the protection of investors in insurance companies. According to A.M. Best, the Excellent rating that the Donegal Insurance Group maintains is assigned to those companies that, in A.M. Best's opinion, have an excellent ability to meet their ongoing obligations to policyholders.

Regulation

Insurance companies are subject to supervision and regulation in the states in which they transact business. Such supervision and regulation relate to numerous aspects of an insurance company's business and financial condition. The primary purpose of such supervision and regulation is the protection of policyholders. The extent of such regulation varies, but generally derives from state statutes that delegate regulatory, supervisory and administrative authority to state insurance departments. Accordingly, the authority of the state insurance departments includes the establishment of standards of solvency that must be met and maintained by insurers, the licensing of insurers and agents to do business, the nature of and limitations on investments, premium rates for property and casualty insurance, the provisions that insurers must make for current losses and future liabilities, the deposit of securities for the benefit of policyholders, the approval of policy forms, notice requirements for the cancellation of policies and the approval of certain changes in control. State insurance departments also conduct periodic examinations of the affairs of insurance

companies and

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require the filing of annual and other reports relating to the financial condition of insurance companies.

In addition to state-imposed insurance laws and regulations, the National Association of Insurance Commissioners (the NAIC) has established a risk-based capital system for assessing the adequacy of statutory capital and surplus that augments the states' current fixed dollar minimum capital requirements for insurance companies. At December 31, 2009, our insurance subsidiaries and Donegal Mutual each exceeded the minimum levels of statutory capital the risk-based capital rules require by a substantial margin.

Generally, every state has guaranty fund laws under which insurers licensed to do business in that state can be assessed on the basis of premiums written by the insurer in that state in order to fund policyholder liabilities of insolvent insurance companies. Under these laws in general, an insurer is subject to assessment, depending upon its market share of a given line of business, to assist in the payment of policyholder claims against insolvent insurers. Our insurance subsidiaries and Donegal Mutual have made accruals for their portion of assessments related to such insolvencies based upon the most current information furnished by the guaranty associations.

Most states have legislation that regulates insurance holding company systems. Each insurance company in the insurance holding company system is required to register with the insurance supervisory agency of its state of domicile and furnish information concerning the operations of companies within the insurance holding company system that may materially affect the operations, management or financial condition of the insurers within the system. Pursuant to these laws, the respective insurance departments may examine our insurance subsidiaries or Donegal Mutual at any time, require disclosure of material transactions by the holding company with another member of the insurance holding company system and require prior notice or prior approval of certain transactions, such as extraordinary dividends from the insurance subsidiaries to the holding company.

The Pennsylvania Insurance Holding Companies Act, which generally applies to Donegal Mutual, us and our insurance subsidiaries, requires that all transactions within an insurance holding company system to which an insurer is a party must be fair and reasonable and that any charges or fees for services performed must be reasonable. Any management agreement, service agreement, cost sharing arrangement and reinsurance agreement must be filed with the Pennsylvania Insurance Department (the Department) and is subject to Department review. We have filed the pooling agreement between Donegal Mutual and Atlantic States that established the underwriting pool and the reinsurance agreements between Donegal Mutual and our insurance subsidiaries with the Department.

Approval of the applicable insurance commissioner is also required prior to consummation of transactions affecting the control of an insurer. In virtually all states, including Pennsylvania, Iowa, Maryland, Virginia and Wisconsin where our insurance

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subsidiaries are domiciled, the acquisition of 10% or more of the outstanding capital stock of an insurer or its holding company or the intent to acquire such an interest creates a rebuttable presumption of a change in control. Pursuant to an order issued in April 2003, the Department approved Donegal Mutual's ownership of up to 70% of our outstanding Class A common stock and up to 100% of our outstanding Class B common stock.

Our insurance subsidiaries participate in involuntary insurance programs for automobile insurance, as well as other property and casualty insurance lines, in the states in which they operate. These programs include joint underwriting associations, assigned risk plans, fair access to insurance requirements (FAIR) plans, reinsurance facilities, windstorm plans and tornado plans. Legislation establishing these programs requires all companies that write lines covered by these programs to provide coverage, either directly or through reinsurance, for insureds who cannot obtain insurance in the voluntary market. The legislation creating these programs usually allocates a pro rata portion of risks attributable to such insureds to each company on the basis of direct premiums written or the number of automobiles insured in the particular state. Generally, state law requires participation in such programs as a condition to doing business. The loss ratio on insurance written under involuntary programs has traditionally been greater than the loss ratio on insurance written in the voluntary market.

The insurance laws of the respective states of domicile of our insurance subsidiaries restrict the amount of dividends or other distributions our insurance subsidiaries may pay to us without the prior approval of the insurance regulatory authorities of that state. Generally, the maximum amount that an insurance subsidiary may pay during any year after notice to, but without prior approval of, the insurance commissioners of these states is limited to a stated percentage of that subsidiary's statutory capital and surplus as of the end of the preceding year or the net income of the subsidiary for the preceding year. As of December 31, 2009, the amount of dividends our insurance subsidiaries could pay us during 2010, without the prior approval of the various insurance commissioners, was:

Name of Insurance Subsidiary	Ordinary Dividend Amount
Atlantic States	\$ 12.4million
Southern	None
Le Mars	2.8million
Peninsula Companies	3.9million
Sheboygan	0.6million
Total	\$ 19.7million

Donegal Mutual

Donegal Mutual organized as a mutual fire insurance company in Pennsylvania in 1889. At December 31, 2009, Donegal Mutual had admitted assets of \$325.0 million and

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policyholders surplus of \$172.1 million. At December 31, 2009, Donegal Mutual had total liabilities of \$152.9 million, including debt of \$13.1 million, reserves for net losses and loss expenses of \$44.3 million and unearned premiums of \$29.3 million. Donegal Mutual's investment portfolio of \$221.6 million at December 31, 2009 consisted primarily of investment-grade bonds of \$18.5 million and its investment in our common stock. At December 31, 2009, Donegal Mutual owned 8,355,184 shares, or approximately 42% of our Class A common stock, Donegal Mutual carried on its books at \$111.6 million, and 4,180,234 shares, or approximately 75%, of our Class B common stock, Donegal Mutual carried on its books at \$55.8 million. The foregoing financial information is presented on the statutory basis of accounting required by the NAIC Accounting Practices and Procedures Manual. Donegal Mutual does not, nor is it required to, prepare financial statements in accordance with generally accepted accounting principles.

Donegal Financial Services Corporation

Because of Donegal Mutual's and our ownership of DFSC, both Donegal Mutual and we are regulated as unitary savings and loan holding companies. As such, Donegal Mutual and we are subject to regulation by the Office of Thrift Supervision, or the OTS, under the holding company provisions of the federal Home Owners' Loan Act. As a federally chartered and insured stock savings association, Province Bank is subject to regulation and supervision by the OTS, which is the primary regulator of federal savings banks, and by the Federal Deposit Insurance Corporation. The primary purpose of the statutory and regulatory scheme is to protect depositors, the financial institutions and the financial system as a whole rather than the shareholders of financial institutions or their holding companies.

Transactions between a savings association and its affiliates are subject to quantitative and qualitative restrictions under Sections 23A and 23B of the Federal Reserve Act. Affiliates of a savings association include, among other entities, the savings association's holding company and non-banking companies that are under common control with the savings association. These restrictions on transactions with affiliates apply to transactions between DFSC and Province Bank, on the one hand, and us and our insurance subsidiaries, on the other hand. These restrictions also apply to transactions among DFSC, Province Bank and Donegal Mutual.

Cautionary Statement Regarding Forward-Looking Statements

This annual report and the documents incorporated by reference into this annual report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include certain discussions relating to underwriting, premium and investment income volume, business strategies, reserves, profitability and business relationships and our other business activities during 2009 and beyond. In some cases, you can identify forward-looking statements by terms such as may,

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will, should, could, would, expect, plan, intend, anticipate, believe, estimate, objective, and similar expressions. These forward-looking statements reflect our current views about future events, are based on our current assumptions and are subject to known and unknown risks and uncertainties that may cause our results, performance or achievements to differ materially from those anticipated in or implied by those statements. Many of the factors that will determine future events or achievements are beyond our ability to control or predict. Such factors may include those described under Risk Factors. The forward-looking statements contained in this annual report reflect our views and assumptions only as of the date of this Form 10-K Report. Except as required by law, we do not intend to, and assume no responsibility for, updating any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and our other filings pursuant to the Securities Exchange Act of 1934, or the Exchange Act, are available without charge on our website, www.donegalgroup.com, as soon as reasonably practicable after we file them electronically with the Securities and Exchange Commission, or SEC. Our Code of Business Conduct and Ethics and the charters of our audit committee and our nominating committee are available on our website. Upon request to our corporate secretary, printed copies are also available. We are providing the address to our website solely for the information of investors. We do not intend the reference to our website address to be an active link or to otherwise incorporate the contents of the website into this Form 10-K report.

Item 1A. Risk Factors.

Risk Factors

Risks Relating to Us and Our Business

Donegal Mutual is our controlling stockholder, and it and its directors and executive officers have potential conflicts of interest between the best interests of our stockholders and the best interests of the policyholders of Donegal Mutual.

Donegal Mutual controls the election of all of the members of our board of directors. Five of the 11 members of our board of directors are also directors of Donegal Mutual. Donegal Mutual and we have the same executive officers. These common directors and executive officers have a fiduciary duty to our stockholders and also have a fiduciary duty to the policyholders of Donegal Mutual. Among the potential conflicts of interest that could arise from these separate fiduciary duties are:

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We and Donegal Mutual periodically review the percentage participation of Atlantic States and Donegal Mutual in the underwriting pool that the two companies have maintained since 1986;

Our insurance subsidiaries and Donegal Mutual annually review and then establish the terms of certain reinsurance agreements between them with the objective over the long-term of having an approximately equal balance between payments and recoveries;

We and Donegal Mutual periodically allocate certain shared expenses among Donegal Mutual, us and our insurance subsidiaries in accordance with various inter-company expense-sharing agreements; and

Our insurance subsidiaries may enter into other transactions or contractual relationships with Donegal Mutual, including, for example, our purchases from time to time from Donegal Mutual of the surplus note of a mutual insurance company that will convert into a stock insurance company.

Donegal Mutual has sufficient voting power to determine the outcome of all matters submitted to our stockholders for approval.

Each share of our Class A common stock has one-tenth of a vote per share and votes as a single class with our Class B common stock, which has one vote per share except for matters that would uniquely affect the rights of holders of our Class A common stock. Donegal Mutual has the right to vote approximately 66% of the aggregate voting power of our Class A common stock and our Class B common stock and has sufficient voting control to: elect all of the members of our board of directors, who determine our management and policies; and

control the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including mergers or other acquisition proposals and the sale of all or substantially all of our assets, in each case regardless of how our other stockholders vote their shares.

The interests of Donegal Mutual in maintaining this majority control of us may have an adverse effect on the price of our Class A common stock and our Class B common stock because of the absence of any potential takeover premium and may be inconsistent with the interests of our stockholders other than Donegal Mutual.

Donegal Mutual's voting control, certain provisions of our certificate of incorporation and by-laws and certain provisions of Delaware law make it remote that anyone could acquire control of us unless Donegal Mutual were in favor of the acquisition of control.

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Donegal Mutual's voting control, certain anti-takeover provisions in our certificate of incorporation and by-laws and certain provisions of the Delaware General Corporation Law (the "DGCL") could delay or prevent the removal of members of our board of directors and could make more difficult or more expensive a merger, tender offer or proxy contest involving us to succeed, even if such events were in the best interests of our stockholders other than Donegal Mutual. These factors could also discourage a third party from attempting to acquire control of us. In particular, our certificate of incorporation and by-laws include the following anti-takeover provisions:

our board of directors is classified into three classes, so that our stockholders elect only one-third of the members of our board of directors each year;

our stockholders may remove our directors only for cause;

our stockholders may not take stockholder action except at an annual or special meeting of our stockholders;

the request of stockholders holding at least 20% of the aggregate voting power of our Class A common stock and our Class B common stock is required to call a special meeting of our stockholders;

stockholders are required to provide advance notice to us to nominate candidates for election to our board of directors or to make a stockholder proposal at a stockholders' meeting;

cumulative voting rights are not available in the election of our directors;

pre-emptive rights are not available in connection with the securities we issue; and

our board of directors may issue, without stockholder approval unless otherwise required by law, preferred stock with such terms as our board of directors may determine.

Moreover, the DGCL contains certain provisions that prohibit certain business combination transactions with an interested stockholder under certain circumstances.

We have authorized preferred stock that we could issue to make it more difficult for a third party to acquire us.

We have 2,000,000 authorized shares of preferred stock that we could issue in one or more series without further stockholder approval, unless otherwise required by law, and upon such terms and conditions, and having such rights, privileges and preferences, as our

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board of directors may determine our potential issuance of preferred stock and that may make it difficult for a third party to acquire control of us.

Because we are an insurance holding company, no person can acquire or seek to acquire a 10% or greater interest in us without first obtaining approval of the insurance commissioners of the states of domicile of our insurance subsidiaries.

We own insurance subsidiaries domiciled in the states of Pennsylvania, Maryland, Virginia, Iowa and Wisconsin and Donegal Mutual controls an insurance company domiciled in Georgia. The insurance laws of each of these states provide that no person can acquire or seek to acquire a 10% or greater interest in us without first filing specified information with the insurance commissioner of that state and obtaining the prior approval of the proposed acquisition of a 10% or greater interest in us by the state insurance commissioner based on statutory standards designed to protect the safety and soundness of the insurance holding company and its subsidiary.

Our insurance subsidiaries currently conduct business in a limited number of states, with a concentration of business in Pennsylvania, Maryland and Virginia. Any single catastrophe occurrence or other condition affecting losses in these states could adversely affect the results of operations of our insurance subsidiaries.

Our insurance subsidiaries conduct business in states located primarily in the Mid-Atlantic, Midwestern and Southeastern portions of the United States. A substantial portion of their business consists of private passenger and commercial automobile, homeowners and workers compensation insurance in Pennsylvania, Maryland and Virginia. While our insurance subsidiaries actively manage their exposure to catastrophes through their underwriting process and the purchase of reinsurance, a single catastrophic occurrence, destructive weather pattern, general economic trend, terrorist attack, regulatory development or other condition affecting one or more of the states in which our insurance subsidiaries conduct substantial business could materially adversely affect their business, financial condition and results of operations. Common catastrophic events include hurricanes, earthquakes, tornadoes, wind and hail storms, fires, explosions and severe winter storms.

The business, financial condition and results of operations of our insurance subsidiaries may be adversely affected if the independent agents who market the products of our insurance subsidiaries do not maintain their current levels of premium writing with us, fail to comply with established underwriting guidelines of our insurance subsidiaries or otherwise inappropriately market the products of our insurance subsidiaries.

Our insurance subsidiaries market their insurance products solely through a network of approximately 2,000 independent insurance agencies. This agency force is one of the most important components of the competitive profile of our insurance subsidiaries. As a result, our insurance subsidiaries are materially dependent upon the independent agents they use,

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each of whom has the authority to bind our insurance subsidiaries to insurance policies. To the extent that our independent agents' marketing efforts cannot maintain their current levels of volume and quality or they bind our insurance subsidiaries to unacceptable insurance risks, fail to comply with the established underwriting guidelines of our insurance subsidiaries or otherwise inappropriately market the products of our insurance subsidiaries, the business, financial condition and results of operations of our insurance subsidiaries could suffer.

The business of our insurance subsidiaries may not continue to grow and may be materially adversely affected if they cannot retain existing, and attract new, independent agents or if insurance consumers increase their use of insurance marketing systems other than independent agents.

Our ability to retain existing and to attract new independent agents is essential to the continued growth of the business of our insurance subsidiaries. If independent agents find it easier to do business with the competitors of our insurance subsidiaries, our insurance subsidiaries could find it difficult to retain their existing business or to attract new business. While our insurance subsidiaries believe they maintain good relationships with the independent agents they appoint, our insurance subsidiaries cannot be certain that these independent agents will continue to sell the products of our insurance subsidiaries to the consumers these independent agents represent. Some of the factors that could adversely affect the ability of our insurance subsidiaries to retain existing and attract new independent agents include:

the significant competition among insurance companies to attract independent agents;

the intense and time-consuming process of selecting new independent agents;

the insistence of our insurance subsidiaries that independent agents adhere to consistent underwriting standards; and

the ability of our insurance subsidiaries to pay competitive and attractive commissions, bonuses and other incentives to independent agents.

While our insurance subsidiaries sell insurance to policyholders solely through their network of independent agencies, many competitors of our insurance subsidiaries sell insurance through a variety of delivery methods, including independent agencies, captive agencies, the Internet and direct sales. To the extent that these policyholders change their marketing system preference, the business, financial condition and results of operations of our insurance subsidiaries may be adversely affected.

We are dependent on dividends from our insurance subsidiaries for the payment of our operating expenses, our debt service and dividends to our stockholders; however, there are regulatory

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restrictions and business considerations that limit the amount of dividends our insurance subsidiaries may pay to us.

As a holding company, we rely primarily on dividends from our insurance subsidiaries as a source of funds to meet our corporate obligations. The amount of dividends our insurance subsidiaries can pay to us is subject to regulatory restrictions and depends on the amount of surplus our subsidiaries maintain. From time to time, the NAIC and various state insurance regulators consider modifying the method of determining the amount of dividends that an insurance company may pay without prior regulatory approval. The maximum amount of ordinary dividends that our insurance subsidiaries can pay to us in 2010 without prior regulatory approval is approximately \$19.7 million. Other business and regulatory considerations, such as the impact of dividends on surplus that could affect the ratings, competitive conditions, the investment results of our subsidiaries and the amount of premiums that our insurance subsidiaries can write could also adversely impact the ability of our insurance subsidiaries to pay dividends to us.

If A.M. Best downgrades the rating it has assigned to Donegal Mutual or our insurance subsidiaries, it would adversely affect their competitive position.

Industry ratings are a factor in establishing and maintaining the competitive position of insurance companies. A.M. Best, an industry-accepted source of insurance company financial strength ratings, rates Donegal Mutual and our insurance subsidiaries. A.M. Best ratings provide an independent opinion of an insurance company's financial health and its ability to meet its obligations to its policyholders. We believe that the financial strength rating of A.M. Best is material to the operations of Donegal Mutual and our insurance subsidiaries. Currently, Donegal Mutual and our insurance subsidiaries each have an A (Excellent) rating from A.M. Best. If A.M. Best were to downgrade the rating of Donegal Mutual or any of our insurance subsidiaries, it would adversely affect the competitive position of Donegal Mutual and our insurance subsidiaries and make it more difficult for them to market their products and retain their existing policyholders.

Our strategy to grow in part through acquisitions of smaller insurance companies exposes us to risks that could adversely affect our results of operations and financial condition.

The affiliation with and acquisition of smaller and other undercapitalized insurance companies involves risks that could adversely affect our results of operations and financial condition. The risks associated with these affiliations and acquisitions include:

the potential inadequacy of reserves for loss and loss expenses;

the need to supplement management with additional experienced personnel;

conditions imposed by regulatory agencies that make the realization of cost-savings through integration of operations more difficult;

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a need for additional capital that was not anticipated at the time of the acquisition; and

the use of more of our management's time than we originally anticipated.

If we cannot obtain sufficient capital to fund the organic growth of our insurance subsidiaries and to make acquisitions, we may not be able to expand our business.

Our strategy is to expand our business through the organic growth of our insurance subsidiaries and through our strategic acquisitions of regional insurance companies. Our insurance subsidiaries will require additional capital in the future to support this strategy. If we cannot obtain sufficient capital on satisfactory terms and conditions, we may not be able to expand the business of our insurance subsidiaries or to make future acquisitions. Our ability to obtain additional financing will depend on a number of factors, many of which are beyond our control. For example, we may not be able to obtain additional financing because our insurance subsidiaries may already have substantial debt at the time, because we do not have sufficient cash flow to service or repay our existing or additional debt or because financial institutions are not making financing available. In addition, any equity capital we obtain in the future could be dilutive to our existing stockholders.

Many of the competitors of our insurance subsidiaries have greater financial strength than our insurance subsidiaries, and these competitors may be able to offer their products at lower prices than our insurance subsidiaries can afford to do.

The property and casualty insurance industry is intensely competitive. Competition can be based on many factors, including:

the perceived financial strength of the insurer;

premium rates;

policy terms and conditions;

policyholder service;

reputation; and

experience.

Our insurance subsidiaries compete with many regional and national property and casualty insurance companies, including direct sellers of insurance products, insurers having their own agency organizations and other insurers represented by independent agents. Many of these insurers have greater capital than our insurance subsidiaries, have substantially greater financial, technical and operating resources and have equal or higher ratings from A.M. Best than our insurance subsidiaries. In addition, competition may

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become increasingly better capitalized in the future as the traditional barriers between insurance companies and other financial institutions erode and as the property and casualty insurance industry continues to consolidate.

The greater capitalization of many of the competitors of our insurance subsidiaries enables them to operate with lower profit margins and, therefore, allows them to market their products more aggressively, to take advantage more quickly of new marketing opportunities and to offer lower premium rates. Our insurance subsidiaries may not be able to maintain their current competitive position in the markets in which they operate if their competitors offer prices on products that are lower than the prices our insurance subsidiaries are prepared to offer. Moreover, if these competitors lower the price of their products and our insurance subsidiaries meet their pricing, the profit margins and revenues of our insurance subsidiaries may decrease and their ratios of claims and expenses to premiums may increase. All of these factors materially adversely affect the financial condition and results of operations of our insurance subsidiaries.

Because the investment portfolios of our insurance subsidiaries consist primarily of fixed-income securities, their investment income and the fair value of their investment portfolios could decrease as a result of a number of factors.

Our insurance subsidiaries invest the premiums they receive from their policyholders and maintain investment portfolios that consist primarily of fixed-income securities. Therefore, the management of these investment portfolios is an important component of their profitability and a significant portion of the operating income of our insurance subsidiaries is generated from the income they receive on their invested assets. A number of factors offset the quality and/or yield of their portfolios may be affected by a number of factors, including the general economic and business environment, government monetary policy, changes in the credit quality of the issuers of the fixed-income securities our insurance subsidiaries own, changes in market conditions and regulatory changes. The fixed-income securities our insurance subsidiaries own consist primarily of securities issued by domestic entities that are backed either by the credit or collateral of the underlying issuer. Factors such as an economic downturn, disruption in the credit market or the availability of credit, a regulatory change pertaining to a particular issuer's industry, a significant deterioration in the cash flows of the issuer or a change in the issuer's marketplace may adversely affect the ability of our insurance subsidiaries to collect principal and interest from the issuer.

The investments of our insurance subsidiaries are also subject to risk resulting from interest rate fluctuations. Increasing interest rates or a widening in the spread between interest rates available on U.S. Treasury securities and corporate debt or asset-backed securities, for example, will typically have an adverse impact on the market values of fixed-rate securities. If interest rates decline, our insurance subsidiaries would generally achieve a lower overall rate of return on investments of cash generated from their operations. In addition, in the event of the call or maturity of investments in a declining interest rate

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environment, our insurance subsidiaries may not be able to reinvest the proceeds in securities with comparable interest rates. Changes in interest rates may reduce both the profitability and the return on the invested capital of our insurance subsidiaries.

Our insurance subsidiaries depend on key personnel. The loss of any member of their senior management or our executive management could negatively affect the implementation of their business strategies and achievement of their growth objectives.

The loss of, or failure to attract, key personnel could significantly impede the financial plans, growth, marketing and other objectives of our insurance subsidiaries. Their success depends to a substantial extent on the ability and experience of their senior management. Our insurance subsidiaries believe that their future success is dependent on their ability to attract and retain additional skilled and qualified personnel and to expand, train and manage their employees. Our insurance subsidiaries may be unable to do so because of the intense competition for experienced personnel in the insurance industry. With limited exceptions, our insurance subsidiaries do not have employment agreements with their key personnel.

The reinsurance agreements on which our insurance subsidiaries rely do not relieve our insurance subsidiaries from their primary liability to their policyholders, and our insurance subsidiaries face a risk of non-payment from their reinsurers as well as the non-availability of reinsurance in the future.

Our insurance subsidiaries rely on reinsurance agreements to limit their maximum net loss from large single catastrophic risks or excess of loss risks in areas where our insurance subsidiaries may have a concentration of policyholders. Reinsurance also enables our insurance subsidiaries to increase their capacity to write insurance. Although the reinsurance our insurance subsidiaries maintain provides that the reinsurer is liable to them for any reinsured losses, the reinsurance does not relieve our insurance subsidiaries from their primary liability to their policyholders if the reinsurer fails to pay our insurance subsidiaries. To the extent that a reinsurer is unable to pay losses for which it is liable to our insurance subsidiaries, our insurance subsidiaries remain liable for such losses. As of December 31, 2009, our insurance subsidiaries had approximately \$24.0 million of reinsurance receivables from third-party reinsurers relating to paid and unpaid losses. Any insolvency or inability of these reinsurers to make timely payments to our insurance subsidiaries under the terms of their reinsurance agreements would adversely affect the results of operations of our insurance subsidiaries.

In addition, our insurance subsidiaries face a risk of the non-availability of reinsurance or an increase in reinsurance costs that could adversely affect their ability to write business or their results of operations. Market conditions beyond the control of our insurance subsidiaries, such as the amount of surplus in the reinsurance market and the frequency and severity of natural and man-made catastrophes, affect both the availability and the cost of the reinsurance our insurance subsidiaries purchase. If our insurance subsidiaries can not

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maintain their current level of reinsurance or purchase new reinsurance protection in amounts that our insurance subsidiaries consider sufficient, our insurance subsidiaries would either have to be willing to accept an increase in their net risk retention or reduce their insurance writings which would adversely affect them.

Risks Relating to the Property and Casualty Insurance Industry

Industry trends, such as increased litigation against the insurance industry and individual insurers, the willingness of courts to expand covered causes of loss, rising jury awards, escalating medical costs and increasing loss severity may contribute to increased costs and to the deterioration of the reserves of our insurance subsidiaries.

Loss severity in the property and casualty insurance industry has increased in recent years, principally driven by larger court judgments and increasing medical costs. In addition, many classes of complainants have brought legal actions and proceedings that tend to increase the size of judgments. The propensity of policyholders and third-party claimants to litigate and the willingness of courts to expand causes of loss and the size of awards to eliminate exclusions and to increase coverage limits may make the loss reserves of our insurance subsidiaries inadequate for current and future losses.

Loss or significant restriction of the use of credit scoring in the pricing and underwriting of the personal lines insurance products by our insurance subsidiaries could adversely affect their future profitability.

Our insurance subsidiaries use credit scoring as a factor in making risk selection and pricing decisions where allowed by state law for personal lines insurance products. Recently, some consumer groups and regulators have questioned whether the use of credit scoring unfairly discriminates against people with low incomes, minority groups and the elderly. These consumer groups and regulators often call for the prohibition or restriction on the use of credit scoring in underwriting and pricing. Laws or regulations enacted in a number of states that significantly curtail the use of credit scoring in the underwriting process could reduce the future profitability of our insurance subsidiaries.

Changes in applicable insurance laws or regulations or changes in the way regulators administer those laws or regulations could adversely affect the operating environment of our insurance subsidiaries and increase their exposure to loss or put them at a competitive disadvantage.

Property and casualty insurers are subject to extensive supervision in their domiciliary states and in the states in which they do business. This regulatory oversight includes, by way of example, matters relating to licensing and examination, approval of premium rates, market conduct, policy forms, limitations on the nature and amount of certain investments, claims practices, mandated participation in involuntary markets and guaranty funds, reserve adequacy, insurer solvency, transactions between affiliates, the amount of dividends that

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insurers may pay and restrictions on underwriting standards. Such regulation and supervision are primarily for the benefit and protection of policyholders rather than stockholders. For instance, our insurance subsidiaries are subject to involuntary participation in specified markets in various states in which they operate, and the premium rates our insurance subsidiaries may charge do not always correspond with the underlying costs of providing that coverage.

The NAIC and state insurance regulators are re-examining existing laws and regulations, specifically focusing on insurance company investments, issues relating to the solvency of insurance companies, risk-based capital guidelines, restrictions on the terms and conditions included in insurance policies, certain methods of accounting, reserves for unearned premiums, losses and other purposes, the values at which they may carry investment securities and the definition of other-than-temporary impairment, interpretations of existing laws and the development of new laws. Changes in state laws and regulations, as well as changes in the way state regulators view related-party transactions in particular, could change the operating environment of our insurance subsidiaries and have an adverse effect on their business.

The state insurance regulatory framework has recently come under increased federal scrutiny partly as a result of the substantial emergency funding the federal government provided to AIG. Congress is considering proposals that it should create an optional federal charter for insurers. Federal chartering has the potential to create an uneven playing field for insurers by subjecting federally-chartered and state-chartered insurers to different regulatory requirements. Federal chartering also raises the possibility of duplicative or conflicting federal and state requirements. In addition, if federal legislation repeals the partial exemption for the insurance industry from federal antitrust laws, our ability to collect and share loss cost data with the industry could adversely affect the results of operations of our insurance subsidiaries.

Our insurance subsidiaries are subject to assessments, based on their market share in a given line of business, to assist in the payment of unpaid claims and related costs of insolvent insurance companies. Such assessments could adversely affect the financial condition of our insurance subsidiaries.

Our insurance subsidiaries must pay assessments pursuant to the guaranty fund laws of the various states in which they conduct business. Generally, under these laws, our insurance subsidiaries can be assessed, depending upon the market share of our insurance subsidiaries in a given line of insurance business, to assist in the payment of unpaid claims and related costs of insolvent insurance companies in those states. We cannot predict the number and magnitude of future insurance company failures in the states in which our insurance subsidiaries conduct business, but future assessments could adversely affect the business, financial condition and results of operations of our insurance subsidiaries.

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Our insurance subsidiaries must establish premium rates and loss and loss expense reserves from forecasts of the ultimate costs they expect will arise from risks underwritten during the policy period, and the profitability of our insurance subsidiaries could be adversely affected if their premium rates or reserves are insufficient to satisfy their ultimate costs.

One of the distinguishing features of the property and casualty insurance industry is that it prices its products before it knows its costs since insurers generally establish their premium rates before they know the amount of losses they will incur. Accordingly, our insurance subsidiaries establish premium rates from forecasts of the ultimate costs they expect to arise from risks they have underwritten during the policy period. These premium rates may not be sufficient to cover the ultimate losses incurred. Further, our insurance subsidiaries must establish reserves for losses and loss expenses as balance sheet liabilities based upon estimates involving actuarial and statistical projections at a given time of what our insurance subsidiaries expect their ultimate liability to be. Significant periods of time often elapse from the occurrence of an insured loss to the reporting of the loss and the payment of that loss. It is possible that their ultimate liability could exceed these estimates because of the future development of known losses, the existence of losses that have occurred but are currently unreported and larger than historical settlements on pending and unreported claims. The process of estimating reserves is inherently judgmental and can be influenced by variable factors including:

trends in claim frequency and severity;

changes in operations;

emerging economic and social trends;

inflation; and

changes in the regulatory and litigation environments.

If our insurance subsidiaries have insufficient premium rates or reserves, insurance regulatory authorities may require increases to these reserves. An increase in reserves results in an increase in losses and a reduction in net income for the period in which the deficiency in reserves exists. Accordingly, if an increase in reserves is not sufficient, it may adversely impact their business, liquidity, financial condition and results of operations.

The financial results of our insurance subsidiaries depend primarily on the ability to underwrite risks effectively and to charge adequate rates to policyholders.

The financial condition, cash flows and results of operations of our insurance subsidiaries depend on the ability to underwrite and set rates accurately for a full spectrum of risks, across a number of lines of insurance. Rate adequacy is necessary to generate

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sufficient premium to pay losses, loss adjustment expenses and underwriting expenses and to earn a profit.

The ability to underwrite and set rates effectively is subject to a number of risks and uncertainties, including:
the availability of sufficient, reliable data;

the ability to conduct a complete and accurate analysis of available data;

the ability to timely recognize changes in trends and to project both the severity and frequency of losses with reasonable accuracy;

uncertainties generally inherent in estimates and assumptions;

the ability to project changes in certain operating expense levels with reasonable certainty;

the development, selection and application of appropriate rating formulae or other pricing methodologies;

the use of modeling tools to assist with correctly and consistently achieving the intended results in underwriting and pricing ;

the ability to innovate with new pricing strategies, and the success of those innovations on implementation;

the ability to secure regulatory approval of premium rates on an adequate and timely basis;

the ability to predict policyholder retention accurately;

unanticipated court decisions, legislation or regulatory action;

unanticipated changes in our claim settlement practices;

changing driving patterns for auto exposures; changing weather patterns for property exposures;

changes in the medical sector of the economy;

unanticipated changes in auto repair costs, auto parts prices and used car prices;

impact of inflation and other factors on cost of construction materials and labor;

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the ability to monitor property concentration in catastrophe prone areas, such as hurricane, earthquake and wind/hail regions; and

the general state of the economy in the states in which we operate.

Such risks may result in the premium rates of our insurance subsidiaries being based on inadequate or inaccurate data or inappropriate assumptions or methodologies, and may cause our estimates of future changes in the frequency or severity of claims to be incorrect. As a result, our insurance subsidiaries could underprice risks, which would negatively affect our margins, or we could overprice risks, which could reduce our volume and competitiveness. In either event, underpricing or overpricing risks could adversely impact their operating results, financial condition and cash flows.

The cyclical nature of the property and casualty insurance industry may reduce the revenues and profit margins of our insurance subsidiaries.

The property and casualty insurance industry is highly cyclical with respect to both individual lines of business and the overall insurance industry. Premium rate levels relate to the availability of insurance coverage, which varies according to the level of surplus available in the insurance industry. The level of surplus in the industry varies with returns on invested capital and regulatory barriers to withdrawal of surplus. Increases in surplus may result in increased price competition among property and casualty insurers. If our insurance subsidiaries find it necessary to reduce premiums or limit premium increases due to these competitive pressures on pricing, our insurance subsidiaries may experience a reduction in their profit margins and revenues, an increase in their ratios of losses and expenses to premiums and, therefore, lower profitability.

Risks Relating to Our Class A Common Stock

The price of our Class A common stock may be adversely affected by its low trading volume.

Our Class A common stock has limited liquidity. Reported average daily trading volume in our Class A common stock for the year ended December 31, 2009 was approximately 27,000 shares. This limited liquidity subjects our shares of Class A common stock to greater price volatility.

Donegal Mutual's ownership of our stock, anti-takeover provisions of our certificate of incorporation and by-laws and certain state laws make it unlikely anyone could acquire control of us unless Donegal Mutual were in favor of the acquisition of control.

Donegal Mutual's ownership of our Class A common stock and Class B common stock, certain anti-takeover provisions of our certificate of incorporation and by-laws, certain provisions of Delaware law and the insurance laws and regulations of Pennsylvania, Maryland, Iowa, Virginia, Wisconsin and Georgia could delay or prevent the removal of

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members of our board of directors and could make it more difficult for a merger, tender offer or proxy contest involving us to succeed, even if our stockholders other than Donegal Mutual believed such events were beneficial to them. These factors could also discourage a third party from attempting to acquire control of us. The classification of our board of directors could also have the effect of delaying or preventing a change in control of us.

In addition, we have 2,000,000 authorized shares of preferred stock that we could issue in one or more series without stockholder approval, to the extent permitted by applicable law, and upon such terms and conditions, and having such rights, privileges and preferences, as our board of directors may determine. Our ability to issue preferred stock could make it difficult for a third party to acquire us. We have no current plans to issue any preferred stock.

Moreover, the DGCL contains certain provisions that prohibit certain business combination transactions under certain circumstances. In addition, state insurance laws and regulations generally prohibit any person from acquiring, or seeking to acquire, a 10% or greater interest in an insurance company without the prior approval of the state insurance commissioner of the state where the insurer is domiciled.

Item 1B. Unresolved Staff Comments.

We have no unresolved written comments from the SEC staff regarding our filings under the Exchange Act.

Item 2. Properties.

We and our insurance subsidiaries share administrative headquarters with Donegal Mutual in a building in Marietta, Pennsylvania owned by Donegal Mutual. Donegal Mutual charges us and our insurance subsidiaries for an appropriate portion of the building expenses under an inter-company allocation agreement. The Marietta headquarters has approximately 230,000 square feet of office space. Southern owns a facility of approximately 10,000 square feet in Glen Allen, Virginia. Le Mars owns a facility of approximately 25,500 square feet in Le Mars, Iowa, the Peninsula Companies own a facility of approximately 14,600 square feet in Salisbury, Maryland and Sheboygan owns a facility of approximately 8,800 square feet in Sheboygan Falls, Wisconsin.

Item 3. Legal Proceedings.

Our insurance subsidiaries are parties to routine litigation that arises in the ordinary course of their insurance business. We believe that the resolution of these lawsuits will not have a material adverse effect on the financial condition or results of operations of our insurance subsidiaries.

Table of Contents**Item 4. Reserved.**

Not applicable.

Executive Officers of the Company

The following table sets forth information regarding the executive officers of Donegal Mutual and us, each of whom has served with us for more than 10 years:

Name	Age	Position
Donald H. Nikolaus	67	President and Chief Executive Officer of Donegal Mutual since 1981; President and Chief Executive Officer of us since 1986.
Robert G. Shenk	56	Senior Vice President, Claims, of Donegal Mutual and us since 1997; other positions from 1986 to 1997.
Cyril J. Greenya	65	Senior Vice President and Chief Underwriting Officer, of Donegal Mutual and us since 2005, Senior Vice President, Underwriting of Donegal Mutual from 1997 to 2005; other positions from 1986 to 2005.
Daniel J. Wagner	49	Senior Vice President and Treasurer of Donegal Mutual and us since 2005; Vice President and Treasurer of Donegal Mutual and us from 2000 to 2005; other positions from 1993 to 2005.
Jeffrey D. Miller	45	Senior Vice President and Chief Financial Officer of Donegal Mutual and us since 2005; Vice President and Controller of Donegal Mutual and us from 2000 to 2005; other positions from 1995 to 2005.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

We incorporate the response to this Item in part by reference to page 40 of our Annual Report to Stockholders for the year ended December 31, 2009, or 2009 Annual Report. Our 2009 Annual Report is included as Exhibit (13) to this Form 10-K Report.

As of February 26, 2010, we had approximately 1,229 holders of record of our Class A common stock and approximately 418 holders of record of our Class B common stock.

We declared dividends of \$0.42 per share on our Class A common stock and \$0.37 per share on our Class B common stock in 2008 and \$0.45 per share on our Class A common stock and \$0.40 per share on our Class B common stock in 2009.

Between October 1, 2009 and December 31, 2009, we and Donegal Mutual purchased shares of our Class A common stock and Class B common stock as set forth in the table below.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans of Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs(1)
Month #1 October 1-31, 2009	Class A Class B	Class A \$ Class B \$	Class A Class B	
Month #2 November 1-30, 2009	Class A 12,900 Class B	Class A \$15.10 Class B \$	Class A 12,900 Class B	
Month #3 December 1-31, 2009	Class A Class B	Class A \$ Class B \$	Class A Class B	
Total	Class A 12,900 Class B	Class A \$15.10 Class B \$	Class A 12,900 Class B	

(1) We announced on February 23, 2009 that we will purchase up

to 300,000
shares of
Class A
common stock
at market prices
prevailing from
time to time in
the open market
subject to the
provisions of
SEC
Rule 10b-18 and
in privately
negotiated
transactions. We
have 292,331
additional
shares of
Class A
common stock
available for
purchase under
this program.

Our performance graph is included on page 39 of our 2009 Annual Report.

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Item 6. Selected Financial Data.

We incorporate the response to this Item by reference to page 6 of our 2009 Annual Report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

We incorporate the response to this Item by reference to pages 8 through 16 of our 2009 Annual Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Our insurance subsidiaries are exposed to the impact of changes in interest rates, changes in fair values of investments and credit risk because each them maintains a substantial investment portfolio in relation to its total assets.

In the normal course of business, we and our insurance subsidiaries employ established policies and procedures to manage and mitigate exposure to changes in interest rates, fluctuations in the fair market value of debt and equity securities and credit risk.

Interest Rate Risk

Our insurance subsidiaries monitor interest rate exposure through regular reviews of their respective asset and liability positions. Our insurance subsidiaries regularly monitor their cash flow estimates and the impact of interest rate fluctuations on their investment portfolio. Our insurance subsidiaries generally do not hedge their exposure to interest rate risk because each of them has the capacity to, and does, hold fixed-maturity investments to maturity.

The following table presents the principal cash flows and related weighted-average interest rates by expected maturity dates for financial instruments sensitive to interest rates of our insurance subsidiaries:

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(amounts in thousands)	As of December 31, 2009	
	Principal cash flows	Weighted-average interest rate
<i>Fixed maturities and short-term investments:</i>		
2010	\$ 74,981	1.4%
2011	15,457	4.3
2012	20,476	3.3
2013	20,220	4.2
2014	26,965	4.1
Thereafter	479,472	4.4
Total	\$ 637,571	
Market value	\$ 650,810	
<i>Debt:</i>		
Thereafter	\$ 15,465	4.3%
Total	\$ 15,465	
Fair Value	\$ 15,465	

The actual cash flows of our insurance subsidiaries and Donegal Mutual from investments may differ from those indicated above because of calls and prepayments.

Equity Price Risk

Our insurance subsidiaries carry their portfolios of marketable equity securities on their consolidated balance sheets at estimated fair value. These securities have exposure to equity price risk. We define equity price risk as the risk of potential loss in estimated fair value resulting from an adverse change in prices. Our insurance subsidiaries seek to mitigate equity price risk and exposure by earning competitive relative returns on diverse portfolios of high-quality and liquid securities.

Credit Risk

The fixed-maturity securities portfolios our insurance subsidiaries maintain and, to a lesser extent, their short-term investments of our insurance subsidiaries are subject to credit risk. We define credit risk as the potential loss in market value resulting from adverse changes in a borrower's ability to repay its debt. Our insurance subsidiaries seek to manage this risk through pre-investment underwriting analysis and regular reviews by our investment staff. Each of our insurance subsidiaries seeks to limit its credit risk by limiting the amount of its fixed-maturity investments in the securities of any one issuer.

Our insurance subsidiaries provide property and casualty insurance coverages through independent insurance agencies located throughout the states in which Donegal Mutual and our insurance subsidiaries conduct business. Our insurance subsidiaries bill the majority of this business directly to the policyholder, although our insurance subsidiaries bill

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a portion of their commercial business through the agents of our insurance subsidiaries. Our insurance subsidiaries who extend credit to agents in the normal course of their business.

Our insurance subsidiaries place reinsurance with Donegal Mutual and with major unaffiliated authorized reinsurers. Although our insurance subsidiaries as a matter of law retain ultimate responsibility to our policyholders if a reinsurer fails for any reason to pay an insurance risk we have ceded, we do not regard this legal conclusion as a material risk because each of our insurance subsidiaries has an A.M. Best rating of A.

Item 8. Financial Statements and Supplementary Data.

We incorporate the response to this Item by reference to pages 17 through 35 of our 2009 Annual Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2009 covered by this Form 10-K Report. Based on such evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of December 31, 2009, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information we are required to disclose in the reports that we file or submit under the Exchange Act and our disclosure controls and procedures are also effective to ensure that information we disclose in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we include a report of our management's assessment of the design and effectiveness of our internal control over financial reporting as part of our 2009 Annual Report. KPMG LLP, an independent registered public accounting firm, audited the effectiveness of our internal control over financial reporting as of December 31, 2009 based on criteria established by Internal Control

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Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. We include the report of KPMG LLP dated March 11, 2010 as part of our 2009 Annual Report.

Changes in Internal Control over Financial Reporting

We have not changed our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2009 that have materially affected, or are reasonably likely to affect materially, our internal control over financial reporting.

Item 9B. Other Information.

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance of the Registrant.

We respond to this Item by reference to our proxy statement, or the Proxy Statement, we will file with respect to the annual meeting of our stockholders that we will hold on April 15, 2010. We respond to this Item with respect to our executive officers by reference to Part I of this Form 10-K Report.

We incorporate the full text of our Code of Business Conduct and Ethics by reference to Exhibit 15 to this Form 10-K Report.

Item 11. Executive Compensation.

We incorporate the response to this Item by reference to our proxy statement filed with the SEC relating to our annual meeting of stockholders to be held April 15, 2010. Neither the Report of our Compensation Committee nor the Report of our Audit Committee is deemed filed with the SEC or deemed incorporated by reference into any filing we make under the Securities Act or the Exchange Act, except to the extent we specifically incorporate it by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

We respond to this Item by reference to our Proxy Statement.

Item 13. Certain Relationships and Related Transactions and Director Independence.

We respond to this Item by reference to our Proxy Statement.

Item 14. Principal Accountant Fees and Services.

We respond to this Item by reference to our Proxy Statement.

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PART IV

Item 15. Exhibits and Financial Statement Schedule.

(a) Financial statements, financial statement schedule and exhibits filed:

(a) Consolidated Financial Statements

	Page*
Reports of Independent Registered Public Accounting Firm	36, 38
Donegal Group Inc. and Subsidiaries:	
Consolidated Balance Sheets as of December 31, 2009 and 2008	17
Consolidated Statements of Income and Comprehensive Income for each of the years in the three-year period ended December 31, 2009, 2008 and 2007	18
Consolidated Statements of Stockholders' Equity for each of the years in the three-year period ended December 31, 2009, 2008 and 2007	19
Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2009, 2008 and 2007	20
Notes to Consolidated Financial Statements	21
Report and Consent of Independent Registered Public Accounting Firm	Exhibit 23
(b) Financial Statement Schedule	

Page

Donegal Group Inc. and Subsidiaries

Schedule III – Supplementary Insurance Information

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We have omitted all other schedules since they are not required, not applicable or the information is included in the financial statements or notes thereto.

* Refers to pages of our 2009 Annual Report to Stockholders. We incorporate by reference to pages 17 through 38 of our 2009 Annual Report, our Consolidated Financial Statements,

Notes to
Consolidated
Financial
Statements,
Report of
Independent
Registered
Public
Accounting
Firm on
consolidated
financial
statements,
Management s
Report on

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Internal Control
over Financial
Reporting and
Report of
Independent
Registered
Public
Accounting
Firm on Internal
Control Over
Financial
Reporting. With
the exception of
the portions of
our 2009
Annual Report
in this Item and
Items 5, 6, 7 and
8 of this Form
10-K Report,
our 2009
Annual Report
shall not be
deemed filed as
part of this
Form 10-K
Report or
otherwise
subject to the
liabilities of
Section 18 of
the Exchange
Act.
(c) Exhibits

Exhibit No.	Description of Exhibits	Reference
(3)(i)	Certificate of Incorporation of Donegal Group Inc., as amended.	(a)
(3)(ii)	Amended and Restated By-laws of Donegal Group Inc.	(r)
Management Contracts and Compensatory Plans or Arrangements		
(10)(B)	Donegal Group Inc. 2001 Equity Incentive Plan for Employees.	(c)
(10)(C)	Donegal Group Inc. 2001 Equity Incentive Plan for Directors.	(c)
(10)(D)	Donegal Group Inc. 2001 Employee Stock Purchase Plan, as amended.	(d)

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(10)(E)	Donegal Group Inc. Amended and Restated 2001 Agency Stock Purchase Plan.	(e)
(10)(F)	Donegal Mutual Insurance Company 401(k) Plan.	(f)
(10)(G)	Amendment No. 1 effective January 1, 2000 to Donegal Mutual Insurance Company 401(k) Plan.	(f)
(10)(H)	Amendment No. 2 effective January 6, 2000 to Donegal Mutual Insurance Company 401(k) Plan.	(b)
(10)(I)	Amendment No. 3 effective July 23, 2001 to Donegal Mutual Insurance Company 401(k) Plan.	(b)
(10)(J)	Amendment No. 4 effective January 1, 2002 to Donegal Mutual Insurance Company 401(k) Plan.	(b)
(10)(K)	Amendment No. 5 effective December 31, 2001 to Donegal Mutual Insurance Company 401(k) Plan.	(b)

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Exhibit No.	Description of Exhibits	Reference
(10)(L)	Amendment No. 6 effective July 1, 2002 to Donegal Mutual Insurance Company 401(k) Plan.	(p)
(10)(M)	Donegal Group Inc. 2007 Equity Incentive Plan for Employees.	(s)
(10)(N)	Donegal Group Inc. 2007 Equity Incentive Plan for Directors.	(s)
(10)(O)	Donegal Group Inc. Incentive Compensation Program.	(u)
 Other Material Contracts		
(10)(O)	Amended and Restated Tax Sharing Agreement dated as of October 19, 2006 among Donegal Group Inc., Atlantic States Insurance Company, Southern Insurance Company of Virginia, Le Mars Insurance Company, The Peninsula Insurance Company and Peninsula Indemnity Company.	(p)
(10)(P)	Amended and Restated Services Allocation Agreement dated July 20, 2006 among Donegal Group Inc., Atlantic States Insurance Company, Southern Insurance Company, Le Mars Insurance Company, The Peninsula Insurance Company, Peninsula Indemnity Company and Donegal Mutual Insurance Company.	(b)
(10)(Q)	Proportional Reinsurance Agreement dated September 29, 1986 between Donegal Mutual Insurance Company and Atlantic States Insurance Company.	(h)
(10)(R)	Amendment dated October 1, 1988 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company.	(i)
(10)(S)	Amendment dated July 16, 1992 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company.	(j)
(10)(T)	Amendment dated as of December 21, 1995 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company.	(k)

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Exhibit No.	Description of Exhibits	Reference
(10)(U)	Reinsurance and Retrocession Agreement dated May 21, 1996 between Donegal Mutual Insurance Company and Southern Insurance Company of Virginia.	(g)
(10)(V)	Amendment dated as of April 20, 2000 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company.	(l)
(10)(W)	Lease Agreement dated as of September 1, 2000 between Donegal Mutual Insurance Company and Province Bank FSB.	(c)
(10)(X)	Plan of Conversion of Le Mars Mutual Insurance Company of Iowa adopted August 11, 2003.	(n)
(10)(Y)	Stock Purchase Agreement dated as of October 28, 2003 between Donegal Group Inc. and Folksamerica Holding Company, Inc.	(m)
(10)(Z)	Credit Agreement dated as of November 25, 2003 between Donegal Group Inc. and Manufacturers and Traders Trust Company.	(n)
(10)(AA)	First Amendment to Credit Agreement dated as of July 20, 2006 between Donegal Group Inc. and Manufacturers and Traders Trust Company.	(b)
(10)(BB)	Amended and Restated Services Allocation Agreement dated October 19, 2006 among Donegal Group Inc., Atlantic States Insurance Company, Southern Insurance Company of Virginia, Le Mars Insurance Company, The Peninsula Insurance Company, Peninsula Indemnity Company and Donegal Mutual Insurance Company.	(q)
(10)(CC)	Amendment dated as of February 11, 2008 to Proportional Reinsurance Agreement between Donegal Mutual Insurance Company and Atlantic States Insurance Company.	(t)
(10)(DD)	Contribution Note Purchase Agreement dated as of December 27, 2006 between Donegal Mutual Insurance Company and Sheboygan Falls Mutual Insurance Company.	(v)

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Exhibit No.	Description of Exhibits	Reference
(10)(EE)	Plan of Conversion of Sheboygan Falls Mutual Insurance Company adopted October 14, 2008.	(v)
(10)(FF)	Surplus Note Purchase Agreement dated as of September 8, 2009 between Donegal Mutual Insurance Company and Southern Mutual Insurance Company.	Filed herewith
(10)(GG)	Quota-share Reinsurance Agreement dated as of October 30, 2009 but effective as of 11:59 p.m. on October 31, 2009 between Donegal Mutual Insurance Company and Southern Mutual Insurance Company.	Filed herewith
(10)(HH)	Services and Affiliation Agreement dated as of October 30, 2009 between Donegal Mutual Insurance Company and Southern Mutual Insurance Company.	Filed herewith
(10)(II)	Technology License Agreement dated as of October 30, 2009 between Donegal Mutual Insurance Company and Southern Mutual Insurance Company.	Filed herewith
(10)(JJ)	Amended and Restated Proportional Reinsurance Agreement dated March 1, 2010 between Donegal Mutual Insurance Company and Atlantic States Insurance Company.	Filed herewith
(13)	2009 Annual Report to Stockholders (electronic filing contains only those portions incorporated by reference into this Form 10-K Report).	Filed herewith
(14)	Code of Business Conduct and Ethics	(o)
(21)	Subsidiaries of Registrant.	Filed herewith
(23)	Report and Consent of Independent Registered Public Accounting Firm	Filed herewith
(31.1)	Rule 13a-14(a)/15(d)-14(a) Certification of Chief Executive Officer	Filed herewith
(31.2)	Rule 13a-14(a)/15(d)-14(a) Certification of Chief Financial Officer	Filed herewith

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Exhibit No.	Description of Exhibits	Reference
(32.1)	Section 1350 Certification of Chief Executive Officer	Filed herewith
(32.2)	Section 1350 Certification of Chief Financial Officer	Filed herewith
(a)	Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-3 Registration Statement No. 333-59828 filed April 30, 2001.	
(b)	Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 2001.	
(c)	Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 2000.	

- (d) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-8 Registration Statement No. 333-62974 filed June 14, 2001.

- (e) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-2 Registration Statement No. 333-63102 declared effective February 8, 2002.

- (f) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 1999.

- (g) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K

Report for the
year ended
December 31,
1996.

- (h) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form S-1 Registration Statement No. 33-8533 declared effective October 29, 1986.
- (i) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 1988.
- (j) Such exhibit is hereby incorporated by reference to the like-described exhibit in Registrant's Form 10-K Report for the year ended December 31, 1992.
- (k) Such exhibit is hereby incorporated by reference to the

like-described
exhibit in
Registrant's
Form 8-K
Report dated
December 21,
1995.

- (l) Such exhibit is
hereby
incorporated by
reference to the
like-described
exhibit in
Registrant's
Form 8-K
Report dated
May 31, 2000.

- (m) Such exhibit is
hereby
incorporated by
reference to the
like-described
exhibits in

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Registrant's
Form 8-K
Report dated
November 3,
2003.

(n) Such exhibit is
hereby
incorporated by
reference to the
like-described
exhibit in
Registrant's
Form 8-K
Report dated
December 1,
2003.

(o) Such exhibit is
hereby
incorporated by
reference to the
like-described
exhibit in
Registrant's
Form 10-K
Annual Report
for the year
ended
December 31,
2003.

(p) Such exhibit is
hereby
incorporated by
reference to the
like-described
exhibit in
Registrant's
Form 8-K
Report dated
October 23,
2006.

(q) Such exhibit is
hereby
incorporated by
reference to the
like-described

exhibit in
Registrant's
Form 10-Q
Quarterly
Report for the
quarter ended
September 30,
2006.

(r) Such exhibit is
hereby
incorporated by
reference to the
like-described
exhibit in
Registrant's
Form 8-K
Report dated
December 22,
2006.

(s) Such exhibit is
hereby
incorporated by
reference to the
like-numbered
exhibit in
Registrant's
Form 8-K
Report dated
April 20, 2007.

(t) Such exhibit is
hereby
incorporated by
reference to the
like-numbered
exhibit in
Registrant's
Form 8-K
Report dated
February 13,
2008.

(u) Such exhibit is
hereby
incorporated by
reference to the
description of
such plan in
Registrant's

definitive proxy
statement for its
Annual Meeting
of Stockholders
to be held on
April 15, 2010.

- (v) Such exhibit is
hereby
incorporated by
reference to the
like-described
exhibit in
Registrant's
Form 10-K
Annual Report
for the year
ended
December 31,
2008.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Donald H. Nikolaus
Donald H. Nikolaus, President

Date: March 11, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Donald H. Nikolaus Donald H. Nikolaus	President and a Director (principal executive officer)	March 11, 2010
/s/ Jeffrey D. Miller Jeffrey D. Miller	Senior Vice President and Chief Financial Officer (principal financial and accounting officer)	March 11, 2010
/s/ Robert S. Bolinger Robert S. Bolinger	Director	March 11, 2010
/s/ Philip A. Garcia Philip A. Garcia	Director	March 11, 2010

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Signature	Title	Date
/s/ Patricia A. Gilmartin Patricia A. Gilmartin	Director	March 11, 2010
/s/ Philip H. Glatfelter, II Philip H. Glatfelter, II	Director	March 11, 2010
/s/ Kevin M. Kraft, Sr. Kevin M. Kraft, Sr.	Director	March 11, 2010
/s/ John J. Lyons John J. Lyons	Director	March 11, 2010
/s/ Jon M. Mahan Jon M. Mahan	Director	March 11, 2010
/s/ S. Trezevant Moore, Jr. S. Trezevant Moore, Jr.	Director	March 11, 2010
R. Richard Sherbahn	Director	March 11, 2010
/s/ Richard D. Wampler, II Richard D. Wampler, II	Director	March 11, 2010

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DONEGAL GROUP INC. AND SUBSIDIARIES
SCHEDULE III SUPPLEMENTARY INSURANCE INFORMATION

(\$ in thousands)

Years Ended December 31, 2009, 2008 and 2007

Segment	Net Earned Premiums	Net Investment Income	Net Losses And Loss Expenses	Amortization of Deferred Policy Acquisition Costs	Other Underwriting Expenses	Net Premiums Written
Year Ended December 31, 2009						
Personal lines	\$ 241,844	\$	\$ 178,040	\$ 41,071	\$ 34,634	\$ 252,487
Commercial lines	113,181		72,795	19,221	16,209	110,742
Investments		20,631				
	\$ 355,025	\$ 20,631	\$ 250,835	\$ 60,292	\$ 50,843	\$ 363,229
Year Ended December 31, 2008						
Personal lines	\$ 225,024	\$	\$ 155,573	\$ 37,821	\$ 34,482	\$ 239,540
Commercial lines	121,551		68,728	20,429	18,626	125,401
Investments		22,756				
	\$ 346,575	\$ 22,756	\$ 224,301	\$ 58,250	\$ 53,108	\$ 364,941
Year Ended December 31, 2007						
Personal lines	\$ 196,429	\$	\$ 124,602	\$ 32,438	\$ 33,402	\$ 202,353
Commercial lines	113,642		53,182	18,767	19,324	111,336
Investments		22,785				
	\$ 310,071	\$ 22,785	\$ 177,784	\$ 51,205	\$ 52,726	\$ 313,689

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DONEGAL GROUP INC. AND SUBSIDIARIES
 SCHEDULE III SUPPLEMENTARY INSURANCE INFORMATION, CONTINUED
 (\$ in thousands)

		At December 31,			
	Segment	Deferred Policy Acquisition Costs	Liability For Losses And Loss Expenses	Unearned Premiums	Other Policy Claims and Benefits Payable
2009					
	Personal lines	\$ 22,925	\$ 130,745	\$ 168,791	\$
	Commercial lines	9,919	132,854	73,030	
	Investments				
		\$ 32,844	\$ 263,599	\$ 241,821	\$
2008					
	Personal lines	\$ 19,468	\$ 114,149	\$ 150,920	\$
	Commercial lines	10,073	125,660	78,094	
	Investments				
		\$ 29,541	\$ 239,809	\$ 229,014	\$

See accompanying Report and Consent of Independent Registered Public Accounting Firm.

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