

As filed with the Securities and Exchange Commission on February 28, 1996.

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM S-8  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

DONEGAL GROUP INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

23-2424711  
(I.R.S. Employer Identification No.)

1195 River Road  
Marietta, Pennsylvania  
(Address of Principal Executive Offices)

17547  
(Zip Code)

DONEGAL GROUP INC.  
1996 EMPLOYEE STOCK PURCHASE PLAN  
(Full title of plan)

Donald H. Nikolaus, President  
Donegal Group Inc.  
1195 River Road  
Marietta, Pennsylvania 17547  
(Name and address of agent for service)

(717) 426-1931  
(Telephone number, including area code,  
of agent for service)

Copy to:  
Kathleen M. Shay, Esquire  
Duane, Morris & Heckscher  
One Liberty Place  
Philadelphia, PA 19103-7396

CALCULATION OF REGISTRATION FEE

Title of securities to be registered	Amount to be registered(1)	Proposed maximum offering price per share(2)	Proposed maximum aggregate offering price(2)	Amount of registration fee
Common Stock, par value \$1.00	100,000 shares	\$18.5625	\$1,856,250	\$641

- (1) In addition, pursuant to Rule 416(c) under the Securities Act of 1933, this registration statement also covers an indeterminate amount of interests to be offered or sold pursuant to the 1996 Employee Stock Purchase Plan.
- (2) Estimated solely for the purpose of calculating the registration fee based on the average of the high and low sales prices of the Common Stock of the Company on the Nasdaq Stock Market on February 22, 1996, or \$18.5625 per share.

DONEGAL GROUP INC.

Cross-Reference Sheet  
Pursuant to Item 501(b) of Regulation S-K

Item Number and Caption -----	Heading in Prospectus -----
1. Plan Information.....	*
2. Registrant Information and Employee Plan Annual Information.....	*

-----  
\* Omitted because no Prospectus is being filed herewith. All information required in the Section 10(a) Prospectus will be furnished to plan participants pursuant to a memorandum or other plan documents, as supplemented or amended from time to time.

PART II

INFORMATION REQUIRED IN REGISTRATION STATEMENT

Item 3. Incorporation of Documents by Reference.

The following material is incorporated herein by reference:

(a) The Annual Report on Form 10-K of Donegal Group Inc. (the "Company") for the year ended December 31, 1994 as filed by the Company with the Securities and Exchange Commission (the "Commission").

(b) The Company's Form 10-Q Reports for the quarters ended March 31, 1995, June 30, 1995 and September 30, 1995 as filed by the Company with the Commission.

(c) The description of the Company's Common Stock set forth in the Company's Registration Statement on Form S-1 filed with the Commission under the Securities Act of 1933, as amended, (the "Act") on October 29, 1986 under the caption "Description of Capital Stock," "Dividend Policy" and "Business--Regulation," which is incorporated by reference in response to Item 1 of the Registration Statement on Form 8-A filed by the Company with the Commission on January 27, 1987 pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act").

All reports or other documents filed pursuant to Sections 13, 14 and 15(d) of the Exchange Act subsequent to the date of this Registration Statement, in each case filed by the Company prior to the termination of the offering of the securities offered hereby, shall be deemed to be incorporated by reference in this Registration Statement and to be a part hereof from the date of filing of such reports and documents. Any statement contained in a document incorporated or deemed to be incorporated herein by reference shall be deemed to be modified or superseded for the purposes of this Registration Statement to the extent that a statement contained herein or in any other subsequently filed document, which also is or is deemed to be incorporated herein by reference, modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Registration Statement.

Item 4. Description of Securities.

No answer to this item is required because the class of securities to be offered is registered under Section 12 of the Exchange Act.

Item 5. Interests of Named Experts and Counsel.

The consolidated financial statements and schedules of the Company as of December 31, 1993 and 1994 and for each of the years in the three-year period ended December 31, 1994

incorporated by reference in this Registration Statement have been audited and reported on by KPMG Peat Marwick LLP, independent certified public accountants. Such financial statements and schedules have been incorporated by reference herein in reliance upon the report of KPMG Peat Marwick LLP, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing. Such report refers to a change in the Company's method of accounting for investment securities by adopting the provisions of Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities."

The validity of the issuance of the shares of Common Stock registered hereby will be passed upon for the Company by Duane, Morris & Heckscher, Philadelphia, Pennsylvania.

Item 6. Indemnification of Directors and Officers.

Section 145 of the General Corporation Law of the State of Delaware empowers a Delaware corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon plea of nolo contendere or its equivalent, does not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

In the case of an action or suit by or in the right of the corporation to procure a judgment in its favor, Section 145 empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by reason of the fact that he is or was acting in any of the capacities set forth above against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, except that indemnification is not permitted in respect of any claim, issue or matter as to which such person is adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought determines upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court deems proper.

Section 145 further provides: That a Delaware corporation is required to indemnify a director, officer, employee or agent against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with any action, suit or proceeding or in defense of any

claim, issue or matter therein as to which such person has been successful on the merits or otherwise; that indemnification provided for by Section 145 shall not be deemed exclusive of any other rights to which the indemnified party may be entitled; that indemnification provided for by Section 145 shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of such person's heirs, executors and administrators; and empowers the corporation to purchase and maintain insurance on behalf of a director or officer against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such whether or not the corporation would have the power to indemnify him against such liability under Section 145. A Delaware corporation may provide indemnification only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct. Such determination is to be made (i) by the board of directors by a majority vote of a quorum consisting of directors who were not party to such action, suit or proceeding, or (ii) if such a quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion or (iii) by the stockholders.

Article Five of the Company's By-laws provides for indemnification of directors and officers of the Company to the fullest extent permitted by the General Corporation Law of the State of Delaware, as presently or hereafter in effect. The By-laws of Donegal Mutual Insurance Company also provide that Donegal Mutual Insurance Company shall indemnify to the full extent authorized by law any director or officer of Donegal Mutual Insurance Company who is made, or threatened to be made, a party to any action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that he is or was serving as a director, officer or employee of the Company at the request of Donegal Mutual Insurance Company.

The Company provides liability insurance for each director and officer for certain losses arising from claims or charges made against them while acting in their capacities as directors or officers of the Company up to an aggregate of \$1,000,000 inclusive of defense costs, expenses and charges.

Additionally, as permitted by the General Corporate Law of the State of Delaware, Article Six of the Company's Certificate of Incorporation provided that no director of the Company shall incur personal liability to the Company or its stockholders for monetary damages for breach of his fiduciary duty as a director; provided, however, that the provision does not eliminate or limit the liability of a director for (i) any breach of the director's duty of loyalty to the Company or its stockholders; (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) the unlawful payment of dividends or unlawful purchase or redemption of stock under Section 174 of the General Corporation Law of the State of Delaware; or (iv) any transaction from which the director derived an improper personal benefit.

Item 7. Exemption from Registration Claimed.

No answer to this item is required because no restricted securities are to be reoffered or resold pursuant to this Registration Statement.

Item 8. Exhibits.

- (4) Donegal Group Inc. 1996 Employee Stock Purchase Plan.
- (5) Opinion of Duane, Morris & Heckscher.
- (23)(A) Consent of Duane, Morris & Heckscher (included in their opinion filed as Exhibit 5).
- (23)(B) Consent of KPMG Peat Marwick LLP.
- (24) Power of Attorney (see page II-6 of this Registration Statement).

Item 9. Undertakings.

The registrant hereby undertakes:

(a) to file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement to include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement;

(b) that for purposes of determining any liability under the Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein and the offering of such securities at that time shall be deemed to be the initial bona fide offer thereof; and

(c) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The undersigned registrant hereby further undertakes that, for purposes of determining any liability under the Act, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

The undersigned registrant hereby further undertakes that, insofar as indemnification for liabilities arising under the Act may be permitted to directors, officers and controlling persons of the registrant, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered,

the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Marietta, Pennsylvania on February 28, 1996.

DONEGAL GROUP INC.

By: /s/ Donald H. Nikolaus

-----  
Donald H. Nikolaus, President

Know all men by these presents, that each person whose signature appears below constitutes and appoints Donald H. Nikolaus and Ralph G. Spontak, and each or either of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him, and in his name, place and stead, in any and all capacities to sign any or all amendments or post-effective amendments to this Registration Statement, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed below by the following persons in the capacities and on the date indicated.

Signature -----	Title -----	Date -----
/s/ C. Edwin Ireland ----- C. Edwin Ireland	Chairman of the Board and a Director	February 28, 1996
/s/ Donald H. Nikolaus ----- Donald H. Nikolaus	President and a Director (principal executive officer)	February 28, 1996
/s/ Ralph G. Spontak ----- Ralph G. Spontak	Senior Vice President, Chief Financial Officer and Secretary (principal financial and accounting officer)	February 28, 1996
/s/ Patricia A. Gilmartin ----- Patricia A. Gilmartin	Director	February 28, 1996



Signature  
-----

Title  
-----

Date  
-----

/s/ Philip H. Glatfelter, II  
-----  
Philip H. Glatfelter, II

Director

February 28, 1996

/s/ R. Richard Sherbahn  
-----  
R. Richard Sherbahn

Director

February 28, 1996

-----  
Thomas J. Finley, Jr.

Director

, 1996

-----  
Robert S. Bolinger

Director

, 1996

EXHIBIT INDEX

(Pursuant to Item 601 of Regulation S-K)

Exhibit No.	Exhibit	Page
(4)	Donegal Group Inc. 1996 Employee Stock Purchase Plan.	
(5)	Opinion of Duane, Morris & Heckscher.	
(23)(B)	Consent of KPMG Peat Marwick LLP.	

EXHIBIT 4

DONEGAL GROUP INC.

1996 EMPLOYEE STOCK PURCHASE PLAN

As Adopted as of January 1, 1996

Section 1. Purpose.

The Donegal Group Inc. 1996 Employee Stock Purchase Plan has been established by Donegal Group Inc. (the "Company") for the benefit of the eligible employees of the Company, its parent, Donegal Mutual Insurance Company (the "Mutual Company"), and participating subsidiaries of the Company and the Mutual Company. The purpose of this Plan is to provide each eligible employee with an opportunity to acquire or increase his proprietary interest in the Company through the purchase of shares of the Company's Common Stock at a discount from current market prices. This Plan is intended to meet the requirements of Section 423 of the Internal Revenue Code of 1986, as amended (the "Code").

The Company has heretofore maintained The Donegal Group Inc. Employee Stock Purchase Plan (the "Prior Plan"), pursuant to which Eligible Employees (as hereinafter defined) with respect to this Plan are currently enrolled as participants. The Company anticipates that all of the shares of the Company's Common Stock reserved for issuance under the Prior Plan will be subscribed for during the current subscription period under the Prior Plan. The first Subscription Period (as hereinafter defined) under this Plan shall run concurrently with the current subscription period under the Prior Plan so that, after the shares reserved for issuance under the Prior Plan shall be fully subscribed, shares of the Company's Common Stock reserved for issuance under this Plan shall be issued to the extent necessary to fill such subscriptions, and, in such event, shares issued under this Plan and under the Prior Plan shall be allocated among participants on a pro rata basis or on such other reasonable basis as management of the Company shall determine.

Section 2. Eligible Employees.

(a) Employees eligible to participate in this Plan ("Eligible Employees") shall consist of all individuals: (i) who are full-time employees (as defined in Section 2(b) of this Plan) of the Company, the Mutual Company or any subsidiary (as defined in Section 425 of the Code) of the Company or the Mutual Company (a "Participating Subsidiary"), and (ii) who have completed one month of employment on or prior to the date on which an Enrollment Period (as hereinafter defined) begins.

(b) A "full-time employee" is an employee of the Company, the Mutual Company or any Participating Subsidiary who works or is scheduled to work at least 1,000 hours during any calendar year. An employee who is not scheduled to work at least 1,000 hours during a calendar year, but who in fact works at least 1,000 hours during a calendar year, shall be considered a "full-time employee" once the employee works for 1,000 hours during such year.

(c) A person who is otherwise an Eligible Employee shall not be granted any right to purchase shares of the Company's Common Stock under this Plan to the extent that: (i) based on such person's ownership of the Company's Common Stock at the time the right is granted, such right, if exercised, would cause the person to own shares of the Company's Common Stock (including shares that would be owned if all outstanding options to purchase Common Stock held by such person were exercised) that possess 5% or more of the total combined voting power or value of all classes of stock of the Company, or any subsidiary of the Company or the Mutual Company, or (ii) such right would cause such person to have purchase rights under this Plan and all other stock purchase plans of the Company, or any subsidiary of the Company or the Mutual Company that meet the requirements of Section 423 of the Code that accrue at a rate that exceeds \$25,000 of fair market value of the Common Stock of the Company, or any subsidiary of the Company or the Mutual Company (determined at the time the right to purchase Common Stock under this Plan is granted) for each calendar year in which such right is outstanding. For this purpose, a right to purchase Common Stock accrues when such right first becomes exercisable during the calendar year (but the rate of accrual for any calendar year may in no event exceed \$25,000 of the fair market value of the Common Stock subject to the right), and the number of shares of Common Stock under one right may not be carried over to any other right.

(d) Notwithstanding anything to the contrary set forth in this Plan, officers of the Company, the Mutual Company or any Participating Subsidiary who are subject to Section 16 of the Securities Exchange Act of 1934 (the "Exchange Act") with respect to their ownership of shares of the Company's Common Stock ("Section 16 Officers") shall be subject to the restrictions and conditions set forth in Sections 7(b) and 9 of this Plan.

### Section 3. Duration of Plan and Subscription Periods.

This Plan shall be in effect from January 1, 1996 through and including December 31, 2005. During the term of this Plan, there shall be 20 semi-annual "Subscription Periods." Each Subscription Period shall extend from January 1 through June 30 or from July 1 through December 31, respectively, with the first Subscription Period beginning on January 1, 1996 and the last Subscription Period ending on December 31, 2005.

### Section 4. Enrollment and Enrollment Period.

Eligible Employees who are enrolled in the Prior Plan as of December 31, 1995 shall be deemed to be enrolled automatically in this Plan effective as of the first Subscription Period. Thereafter, enrollment for participation in this Plan shall take place during the "Enrollment Period" preceding each Subscription Period, which shall be either the period from the 1st through the 31st day of December or the period from the 1st through the 30th day of June of each year. Except as provided above regarding enrollment in this Plan as of the first Subscription Period, any person who is an Eligible Employee and who desires to subscribe for the purchase of Common Stock must file a subscription agreement during an Enrollment Period, and such employee's participation in this Plan shall commence at the outset of the next Subscription Period. Once enrolled, an Eligible Employee shall continue to participate in this Plan for each succeeding Subscription Period until such Eligible Employee terminates his participation or ceases to be an Eligible

Employee. An Eligible Employee who desires to change his rate of contribution may do so effective as of the beginning of the next Subscription Period during the Enrollment Period for the next Subscription Period. An Eligible Employee who is not a Section 16 Officer may also change his rate of contribution during a Subscription Period only pursuant to Section 7(b) of this Plan.

Section 5. Number of Shares To Be Offered.

The total number of shares to be made available under this Plan is 100,000 shares of the Company's Common Stock. Such Common Stock may be authorized and unissued shares or shares issued and thereafter acquired by the Company. In the event the total number of shares available for purchase under this Plan are purchased prior to the expiration of this Plan, this Plan may be terminated in accordance with Section 13 of this Plan.

Section 6. Subscription Price.

The "Subscription Price" for each share of Common Stock subscribed for under this Plan during each Subscription Period shall be the lesser of 85% of the fair market value of such share on the last trading day before the first day of the Enrollment Period with respect to such Subscription Period or 85% of the fair market value of such share on the last trading day of such Subscription Period. The fair market value of a share shall be the closing price reported by the Nasdaq Stock Market on the applicable date; provided, however, that the Subscription Price shall never be less than \$1.00 per share.

Section 7. Amount of Contribution and Method of Payment.

(a) The Subscription Price shall be payable by the Eligible Employee by means of payroll deduction. The maximum payroll deduction shall be no more than 10% of an Eligible Employee's Base Pay (as hereinafter defined). The minimum payroll deduction an Eligible Employee must authorize is a payroll deduction, based on such employee's rate of Base Pay at the time of such authorization, that will enable such employee to accumulate by the end of the Subscription Period an amount sufficient to purchase at least ten shares of Common Stock. An Eligible Employee may not make separate cash deposits toward the payment of the Subscription Price.

(b) An Eligible Employee who is not a Section 16 Officer may at any time during a Subscription Period reduce the amount previously authorized to be deducted from his Base Pay, provided the reduction conforms with the minimum payroll deduction set forth in Section 7(a) of this Plan, by forwarding to the Company a written notice setting forth the reduction in his payroll deduction. The change shall become effective on a prospective basis as soon as practicable after receipt by the Company of the change notice. A payroll deduction may be changed under this Section 7(b) of this Plan, by forwarding to the Company a written notice setting forth the reduction in his payroll deduction only once during any Subscription Period and shall remain in effect for subsequent Subscription Periods, subject to compliance with Section 7(a) of this Plan,

until such Eligible Employee terminates his participation or ceases to be an Eligible Employee. A Section 16 Officer may not change his rate of contribution during a Subscription Period.

(c) "Base Pay" means the straight-time earnings or regular salary paid to an Eligible Employee. Base Pay shall not include overtime, bonuses or other items that are not considered to be regular compensation by the committee administering this Plan pursuant to Section 14 of this Plan. Payroll deductions shall commence with the first paycheck issued during the Subscription Period and shall continue with each paycheck throughout the entire Subscription Period, except for pay periods for which the Eligible Employee receives no compensation (i.e., uncompensated personal leave, leave of absence, etc.).

#### Section 8. Purchase of Shares.

The Company shall maintain on its books a "Plan Account" in the name of each Eligible Employee who authorized a payroll deduction (a "participant"). At the close of each pay period, the amount deducted from the participant's Base Pay shall be credited to the participant's Plan Account. No interest shall be paid by the Company on any Plan Account balance. As of the last day of each Subscription Period, the amount then in the participant's Plan Account shall be divided by the Subscription Price for such Subscription Period and the participant's Plan Account shall be credited with the number of whole shares that results. Share certificates shall be issued and delivered to each participant within a reasonable time thereafter. Any amount remaining in a participant's Plan Account shall be carried forward to the next Subscription Period, but shall not otherwise reduce the amount a participant may contribute pursuant to Section 7 of this Plan during the next Subscription Period. If a participant does not accumulate sufficient funds in his Plan Account to purchase at least ten shares of Common Stock during a Subscription Period, such participant shall be deemed to have withdrawn from this Plan pursuant to Section 9 of this Plan.

If the number of shares subscribed for during any Subscription Period exceeds the number of shares available for purchase under this Plan, the remaining shares available for purchase shall be allocated among all participants in proportion to their Plan Account balances, exclusive of any amounts carried forward pursuant to the preceding paragraph. If the number of shares that would be credited to any participant's Plan Account in either or both of the Subscription Periods occurring during any calendar year exceeds the limit specified in Section 2(c) of this Plan, the participant's Plan Account shall be credited with the maximum number of shares permissible, and the remaining amounts shall be refunded in cash without interest thereon.

#### Section 9. Withdrawal from this Plan.

A participant other than a Section 16 Officer (unless the withdrawal occurs pursuant to Section 10 of this Plan) may withdraw from this Plan at any time by giving written notice of withdrawal to the Company. As soon as practicable following receipt of a notice of withdrawal, the amount credited to the participant's Plan Account shall be refunded in cash without interest thereon. No further payroll deductions shall be made with respect to such participant except in accordance with an authorization for a new payroll deduction filed during a subsequent Enrollment Period in accordance with Section 4 of this Plan. A participant's withdrawal shall not affect his

eligibility to participate during any succeeding Subscription Period. A withdrawal by a Section 16 Officer, other than a withdrawal under Section 10 of this Plan, shall not become effective until the Subscription Period that commences after the date written notice of such withdrawal is received by the Company.

Section 10. Separation from Employment.

Separation from employment for any reason, including death, disability or retirement (as hereinafter defined) shall be treated as an automatic withdrawal pursuant to Section 9 of this Plan. However, at the election of a participant who retires, or in the event of a participant's death at the election of his beneficiary, any cash balance in such participant's Plan Account may be used to purchase the appropriate number of whole shares of Common Stock at a Subscription Price determined in accordance with Section 6 of this Plan using the date of his retirement or death as though it was the last day of the Subscription Period. Any cash balance in the Plan Account after such purchase shall be refunded in cash to the participant, or in the event of his death to his beneficiary without interest thereon. A transfer of employment among the Company, the Mutual Company or any Participating Subsidiary shall not be treated as a separation from employment. As used in this Section 10, "retirement" means a termination of employment by reason of a participant's retirement at or after his earliest permissible retirement date pursuant to and in accordance with his employer's regular retirement plan or practice.

Section 11. Assignment and Transfer Prohibited.

No participant may assign, pledge, hypothecate or otherwise dispose of his subscription or rights to subscribe under this Plan to any other person, and any attempted assignment, pledge, hypothecation or disposition shall be void, provided that a participant may acquire the shares of Common Stock subscribed to under this Plan in the name of the participant and another person jointly with the right of survivorship upon appropriate written notice to the Company. No subscription or right to subscribe granted to a participant under this Plan shall be transferable by him otherwise than by will or by the laws of descent and distribution, and such subscription rights shall be exercisable, during his lifetime, only by the participant.

Section 12. Adjustment of and Changes in the Common Stock.

In the event that the outstanding shares of Common Stock of the Company are hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company, or of another corporation, by reason of reorganization, merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend (either in shares of the Company's Common Stock or of another class of the Company's stock), spin-off or combination of shares, appropriate adjustments shall be made by the Committee appointed pursuant to Section 14 of this Plan in the aggregate number and kind of shares that are reserved for sale under this Plan.

Section 13. Amendment or Discontinuance of this Plan.

The Board of Directors of the Company (the "Board") shall have the right to amend, modify or terminate this Plan at any time without notice, provided that no participant's existing rights are adversely affected thereby and provided further that, without the approval of the holders of a majority of the shares of the Company's Common Stock present or represented and entitled to vote at a duly convened meeting of stockholders, no such amendment shall increase the benefits accruing to participants under this Plan, increase the total number of shares subject to this Plan, change the formula by which the price at which the shares shall be sold is determined, or change the class of employees eligible to participate in this Plan.

Section 14. Administration.

This Plan shall be administered by a committee to be appointed by the Board consisting of three employees of the Company. The committee may from time to time adopt rules and regulations for carrying out this Plan. Any interpretation or construction of any provision of this Plan by the Board shall be final and conclusive on all persons. Any interpretation or construction of any provision of this Plan by the committee shall be final and conclusive on all persons absent contrary action by the Board.

Section 15. Designation of Beneficiary.

A participant may file a written designation of a beneficiary who is to receive any cash credited to the participant under this Plan in the event of such participant's death prior to the delivery to him of such cash. Such designation of a beneficiary may be changed by the participant at any time upon written notice. Upon the death of a participant and upon receipt by the committee of proof of the participant's death and of the identity and existence of a beneficiary validly designated by him under this Plan, the Company shall deliver such cash to such beneficiary. In the event of the death of a participant and in the absence of a beneficiary validly designated under this Plan who is living at the time of such participant's death, the Company shall deliver such cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its sole discretion, may deliver such cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent, or relative is known to the Company, then to such other person as the Company may designate. No designated beneficiary shall, prior to the death of the participant by whom he has been designated, acquire any interest in the shares or cash credited to the participant under this Plan.

Section 16. Employees' Rights.

Nothing contained in this Plan shall prevent the Company, the Mutual Company or any Participating Subsidiary from terminating any employee's employment. No employee shall have any rights as a stockholder of the Company by reason of participation in this Plan unless and until certificates representing the shares of Common Stock for which he has subscribed shall have been issued and delivered by the Company.



Section 17. Use of Funds.

All payroll deductions received or held by the Company under this Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

Section 18. Government Regulations.

The Company's obligation to sell and deliver Common Stock under this Plan is subject to any prior approval or compliance that may be required to be obtained or made from or with any governmental or regulatory authority in connection with the authorization, issuance or sale of such Common Stock.

Section 19. Titles.

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

Section 20. Applicable Law.

This Plan shall be construed, administered and governed in all respects under the laws of the Commonwealth of Pennsylvania and the United States of America.

Section 21. Compliance with Rule 16b-3.

To the extent that Rule 16b-3 under the Exchange Act applies to purchases made under this Plan, it is the intent of the Company that this Plan comply in all respects with the requirements of Rule 16b-3, that any ambiguities or inconsistencies in the construction of this Plan be interpreted to give effect to such intention and that if this Plan shall not so comply, whether on the date of adoption or by reason of any later amendment to or interpretation of Rule 16b-3, the provisions of this Plan shall be deemed to be automatically amended so as to bring them into full compliance with such rule.

Section 22. Approval of Stockholders.

Prior to January 1, 1997, this Plan shall be submitted for approval by the affirmative vote of the holders of a majority of the shares of the Company's Common Stock present or represented and entitled to vote at a duly convened meeting of stockholders. Subscriptions for the purchase of shares under this Plan shall be subject to the condition that this Plan shall be approved by the stockholders of the Company prior to such date in the manner contemplated by Section 423(b)(2) of the Code. If not so approved prior to such date, this Plan shall terminate, all subscriptions hereunder shall be cancelled and be of no further force or effect and all participants shall be entitled to the prompt refund in cash, without interest, of all sums previously deducted from their compensation pursuant to this Plan.



February 28, 1996

The Board of Directors of  
Donegal Group Inc.  
1195 River Road  
Marietta, PA 17547

Gentlemen:

We have acted as counsel to Donegal Group Inc. (the "Company") in connection with the preparation and filing with the Securities and Exchange Commission under the Securities Act of 1933, as amended, of a registration statement on Form S-8 (the "Registration Statement") relating to the offer and sale by the Company of up to 100,000 shares (the "Shares") of Common Stock, \$1.00 par value, of the Company, pursuant to the Company's 1996 Employee Stock Purchase Plan (the "Plan").

As counsel to the Company, we have supervised all corporate proceedings in connection with the preparation and filing of the Registration Statement. We have also examined the Company's Certificate of Incorporation and By-laws, as amended to date, the corporate minutes and other proceedings and the records relating to the authorization, sale and issuance of the Shares, and such other documents and matters of law as we have deemed necessary or appropriate in order to render this opinion.

Based upon the foregoing, it is our opinion that each of the Shares, when issued in accordance with the terms and conditions of the Plan, will be duly authorized, legally and validly issued and outstanding, fully paid and nonassessable.

We hereby consent to the use of this opinion in the Registration Statement.

Sincerely,

DUANE, MORRIS & HECKSCHER



Independent Auditors' Consent

The Board of Directors  
Donegal Group Inc.

We consent to the use of our reports incorporated herein by reference and to the reference to our firm under the heading "Experts" in the registration statement.

Our reports refer to a change in the Company's method of accounting for investment securities by adopting the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities".

KPMG Peat Marwick LLP

February 28, 1996