Securities and Exchange Commission
Washington, D.C. 20549
Form 10-Q

(Mark One)

[x] Quarterly Report Pursuant to Section 13 of the Securities Exchange Act of 1934 For the Quarterly Period Ended June 30, 2001

or

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

For the transition period from ________________ to __________________.

Commission File No. 0-15341

Donegal Group Inc.
(Exact name of registrant as specified in its charter)

Delaware	23-2424711
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1195 River Road, P.O. Box 302, Marietta, PA 17547-0302
(Address of principal executive offices, including zip code)

(717) 426-1931
(Registrant's telephone number, including area code)

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

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

Applicable Only to Issuers Involved in Bankruptcy Proceedings During the Preceding Five Years:

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

Applicable Only to Corporate Issuers:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 5,973,804 shares of Class A Common Stock and 2,978,759 shares of Class B Common Stock, $0.01 par value, outstanding on July 31, 2001.

Part 1. Financial Information

Item 1. Financial Statements.

Donegal Group Inc. and Subsidiaries
Consolidated Balance Sheet
(Unaudited)

	June 30, 2001	Dec. 31, 2000*
Assets		
Investments		
Fixed maturities		
Held to maturity, at amortized cost	$ 88,835,677	$ 143,181,718
Available for sale, at market value	158,207,013	114,611,183
Equity securities, available for sale at market	14,012,536	12,112,236
Short-term investments, at cost, which approximates market	15,486,003	19,439,505
Total investments	276,541,229	289,344,642
Cash	4,429,540	5,182,988

Accrued investment income	4,000,067	4,002,464
Premiums receivable	27,352,707	21,758,502
Reinsurance receivable	81,424,798	67,443,687
Deferred policy acquisition costs	13,129,124	12,284,214
Federal income tax receivable	--	259,962
Deferred federal income taxes	7,320,544	7,690,886
Prepaid reinsurance premiums	50,487,499	38,385,540
Property and equipment, net	4,882,667	5,236,483
Accounts receivable - securities	9,673,641	234,817
Other	689,420	757,554
Total assets	$ 479,931,236	$ 452,581,739

Liabilities and Stockholders' Equity

Liabilities		
Losses and loss expenses	$ 185,444,064	$ 169,375,927
Unearned premiums	132,151,607	113,613,537
Accrued expenses	5,170,815	5,877,475
Reinsurance balances payable	1,039,705	1,634,975
Federal income taxes payable	197,959	--
Cash dividend declared to stockholders	--	797,282
Line of credit	28,200,000	40,000,000
Accounts payable - securities	1,808,232	959,652
Due to affiliate	3,607,566	4,528,996
Other	1,295,903	1,664,304
Total liabilities	358,915,851	338,452,148
Stockholders' Equity		
Preferred stock, $1.00 par value, authorized 2,000,000 shares; none issued		
Common stock, $1.00 par value, none and 20,000,000 authorized, issued 0 and 8,980,977 shares and outstanding 0 and 8,858,689 shares	--	8,980,977
Class A common stock, $.01 par value, authorized 30,000,000 shares, issued 6,047,734 and 0 shares and outstanding 5,966,210 and 0 shares	60,477	--
Class B common stock, $.01 par value, authorized 10,000,000 shares, issued 3,015,775 and 0 shares and outstanding 2,975,013 and 0 shares	30,158	--
Additional paid-in capital	56,661,826	46,969,840
Accumulated other comprehensive income (loss)	1,097,145	(199,063)
Retained earnings	64,057,527	59,269,593
Treasury stock	(891,748)	(891,756)
Total stockholders' equity	121,015,385	114,129,591
Total liabilities and stockholders' equity	$ 479,931,236	$ 452,581,739

* Restated - See note 8.

See accompanying notes to consolidated financial statements.

Donegal Group Inc. and Subsidiaries
Consolidated Statement of Income
(Unaudited)

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000 *
Revenues:		
Premiums earned	$132,720,546	$111,198,525
Premiums ceded	51,027,654	38,662,693
Net premiums earned	81,692,892	72,535,832
Investment income, net of investment expenses	8,277,895	7,881,127
Realized gain	113,839	109,207
Lease income	399,616	414,994
Service charge income	804,753	749,536
Total revenues	91,288,995	81,690,696
Expenses:		
Losses and loss expenses	87,601,341	74,990,011
Reinsurance recoveries	33,511,468	24,217,158
Net losses and loss expenses	54,089,873	50,772,853
Amortization of deferred policy acquisition costs	13,171,000	12,376,000
Other underwriting expenses	13,199,417	10,952,341
Policy dividends	716,702	587,235
Interest	1,392,001	1,580,988
Other expenses	1,077,715	568,007
Total expenses	83,646,708	76,837,424
Income before income taxes	7,642,287	4,853,272
Income taxes	1,990,423	1,188,091
Net income	$ 5,651,864	$ 3,665,181
Earnings per common share		
Basic	$ 0.63	$ 0.42
Diluted	$ 0.63	$ 0.42

Consolidated Statement of Comprehensive Income
(Unaudited)

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000 *
Net income	$ 5,651,864	$ 3,665,181
Other comprehensive income (loss), net of income tax		
Unrealized gains on securities:		
Unrealized holding gain during the period, net of income tax	1,371,342	11,835
Reclassification adjustment, net of income tax	(75,134)	(72,077)
Other comprehensive income (loss)	1,296,208	(60,242)
Comprehensive income	$ 6,948,072	$ 3,604,939

* Restated - see note 8.

See accompanying notes to consolidated financial statements.

Donegal Group Inc. and Subsidiaries
Consolidated Statement of Income
(Unaudited)

	Three Months Ended June 30, 2001	2000 *
Revenues:		
Premiums earned	$ 67,647,307	$ 56,840,017
Premiums ceded	25,995,317	20,392,883
Net premiums earned	41,651,990	36,447,134
Investment income, net of investment expenses	4,236,709	3,901,058
Realized gain (loss)	(6,968)	391,117
Lease income	198,925	208,222
Service charge income	416,313	385,832
Total revenues	46,496,969	41,333,363
Expenses:		
Losses and loss expenses	45,051,226	36,135,473
Reinsurance recoveries	17,120,037	11,311,532
Net losses and loss expenses	27,931,189	24,823,941
Amortization of deferred policy acquisition costs	6,668,000	6,208,000
Other underwriting expenses	6,694,388	5,694,300
Policy dividends	317,322	234,273
Interest	579,387	757,778
Other expenses	682,378	294,120
Total expenses	42,872,664	38,012,412
Income before income taxes	3,624,305	3,320,951
Income taxes	927,036	818,452
Net income	$ 2,697,269	$ 2,502,499
Earnings per common share		
Basic	$ 0.30	$ 0.29
Diluted	$ 0.30	$ 0.29

Consolidated Statement of Comprehensive Income
(Unaudited)

	Three Months Ended June 30, 2001	2000 *
Net income	$ 2,697,269	$ 2,502,499
Other comprehensive income (loss), net of income tax		
Unrealized gains on securities:		
Unrealized holding gain (loss) during the period, net of income tax	(543,813)	499,967
Reclassification adjustment, net of income tax	4,599	(258,138)
Other comprehensive income (loss)	(539,214)	241,829
Comprehensive income	$ 2,158,055	$ 2,744,328

* Restated - see note 8.

See accompanying notes to consolidated financial statements.

Donegal Group Inc. and Subsidiaries
Consolidated Statement of Stockholders' Equity
(Unaudited)
For the Six Months Ended June 30, 2001

	Common Stock					
	Prior Shares	Class A Share	Class B Share	Prior Amount	Class A Amount	Class B Amount
Balance, December 31, 2000 *	8,980,977			$ 8,980,977	$ --	$ --
Issuance of common stock	61,830	16,181		61,830	162	
Recapitalization	(9,042,807)	6,027,997	3,013,998	(9,042,807)	60,280	30,140
Net income						
Cash dividends						
Exercise of stock options		3,556	1,777		35	18
Other comprehensive income						
Balance, June 30, 2001	--	6,047,734	3,015,775	$ --	$ 60,477	$ 30,158

[RESTUBBED]

	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2000 *	$ 46,969,840	$ (199,063)	$ 59,269,593	$ (891,756)	$ 114,129,591
Issuance of common stock	691,603				753,595
Recapitalization	8,949,479			8	(2,900)
Net income			5,651,864		5,651,864
Cash dividends			(863,930)		(863,930)
Exercise of stock options	50,904				50,957
Other comprehensive income		1,296,208			1,296,208
Balance, June 30, 2001	$ 56,661,826	$ 1,097,145	$ 64,057,527	$ (891,748)	$ 121,015,385

* Restated - see note 8.

See accompanying notes to consolidated financial statements.

Donegal Group Inc. and Subsidiaries
Consolidated Statement of Cash Flows
(Unaudited)

	Six Months Ended June 30, 2001	2000 *
Cash Flows from Operating Activities:		
Net income	$ 5,651,864	$ 3,665,181
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	564,508	531,677
Realized investment gain	(113,839)	(109,207)
Changes in assets and liabilities:		
Losses and loss expenses	16,068,137	2,346,693
Unearned premiums	18,538,070	8,319,848
Premiums receivable	(5,594,205)	(3,449,513)
Deferred policy acquisition costs	(844,910)	(544,358)
Deferred income taxes	(297,401)	333,926
Reinsurance receivable	(13,981,111)	(924,572)
Prepaid reinsurance premiums	(12,101,959)	(4,591,308)
Accrued investment income	2,397	(168,086)
Due to affiliate	(921,430)	(101,842)
Reinsurance balances payable	(595,270)	(38,744)
Current income taxes	457,921	39,279
Other, net	(1,037,422)	(966,099)
Net adjustments	143,486	677,694
Net cash provided by operating activities	5,795,350	4,342,875
Cash Flows from Investing Activities:		
Purchase of fixed maturities		
Held to maturity	(13,659,750)	(5,912,003)
Available for sale	(25,623,643)	(13,194,803)
Purchase of equity securities, available for sale	(6,742,189)	(13,470,191)
Maturity of fixed maturities		
Held to maturity	16,304,164	6,625,468
Available for sale	22,506,453	4,700,000
Sale of fixed maturities, available for sale	4,271,591	496,250
Sale of equity securities, available for sale	5,180,419	9,440,407
Net purchase of property and equipment	(79,785)	(139,168)
Net sales of short-term investments	3,953,502	4,279,814
Net cash provided by (used in) investing activities	6,110,762	(7,174,226)
Cash Flows from Financing Activities:		
Cash dividends paid	(1,661,212)	(1,547,121)
Issuance of common stock	801,652	1,715,694
Line of credit, net	(11,800,000)	--
Net cash provided by (used in) financing activities	(12,659,560)	168,573
Net decrease in cash	(753,448)	(2,662,778)
Cash at beginning of period	5,182,988	4,500,570
Cash at end of period	$ 4,429,540	$ 1,837,792
Cash paid during period - Interest	$ 2,045,457	$ 1,102,693
Net cash paid during period - Taxes	$ 1,825,000	$ 810,456

* Restated - see note 8.

See accompanying notes to consolidated financial statements.

Summary Notes to Consolidated Financial Statements

1 - Organization

Donegal Group Inc. (the "Company") was organized as a regional insurance holding company by Donegal Mutual Insurance Company (the "Mutual Company") on August 26, 1986 and operates in the Mid-Atlantic and Southern states through its wholly-owned stock insurance companies, Atlantic States Insurance Company ("Atlantic States"), Southern Heritage Insurance Company ("Southern Heritage"), Southern Insurance Company of Virginia ("Southern"), Delaware Atlantic Insurance Company ("Delaware"), Pioneer Insurance Company - New York ("Pioneer - New York") and Pioneer Insurance Company - Ohio ("Pioneer - Ohio") (collectively "Insurance Subsidiaries"). The Company has three operating segments: the investment function, the personal lines of insurance and the commercial lines of insurance. Products offered in the personal lines of insurance consist primarily of homeowners and private passenger automobile policies. Products offered in the commercial lines of insurance consist primarily of commercial automobile, commercial multiple peril and workers' compensation policies. The Insurance Subsidiaries are subject to regulation by Insurance Departments in those states in which they operate and undergo periodic examinations by those departments. The Insurance Subsidiaries are also subject to competition from other insurance companies in their operating areas. Atlantic States participates in an inter-company pooling arrangement with the Mutual Company and assumes 70% of the pooled business (65% prior to July 1, 2000). Southern cedes 50% of its business to the Mutual Company. At June 30, 2001, the Mutual Company held 62% of the outstanding common stock of the Company.

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

Effective January 1, 2001, the Mutual Company has entered into a retrocessional reinsurance agreement with Southern Heritage Insurance Company, whereby Southern Heritage cedes all of its business, net of outside reinsurance, to the Mutual Company who then retrocedes all of it back to Southern Heritage. For the three and six months ending June 30, 2001, this agreement resulted in a $4,308,755 and $8,131,273 increase, respectively, in both premiums earned and premiums ceded and a $2,342,641 and $4,044,619 increase, respectively, in both losses and loss expenses and reinsurance recoveries. However, this agreement has no impact on net premiums earned or net income.

The Company has announced plans to streamline its corporate structure by merging a number of its subsidiaries together. Pending regulatory approval Pioneer - New York will be merged into Atlantic States Insurance Company and Southern Heritage Insurance Company will be merged into Southern Insurance Company of Virginia. Regulatory approval has been received for the merger of Delaware Atlantic Insurance Company into Atlantic States Insurance Company and this merger is effective August 1, 2001. This merger is not anticipated to have a material impact on the Company.

On April 19, 2001 the Company's stockholders approved an amendment to the Company's Certificate of Incorporation. Among other things, the amendment reclassified the Company's common stock as Class B common stock and effected a one-for-three reverse split of the Company's Class B common stock effective April 19, 2001. The amendment also authorized a new class of common stock with one-tenth of a vote per share designated as Class A common stock. The Company's Board also approved a dividend of two shares of Class A common stock for each share of Class B common stock, after the one-for-three reverse split, held of record at the close of business April 19, 2001. The effect of the reverse split and the stock dividend taken together is that the Company will have the same total number of shares outstanding after the reverse split and the stock dividend as it did before the reverse split and the stock dividend. Therefore, there is no change in the historical earnings per share of the Class A common stock and the Class B common stock after the reverse split and the stock dividend compared to before the reverse split and the stock dividend.

Each share of Class A common stock outstanding at the time of the declaration of any dividend or other distribution payable in cash upon the shares of Class B common stock is entitled to a dividend or distribution payable at the same time and to stockholders of record on the same date in an amount at least 10% greater than any dividend declared upon each share of Class B common stock. In the event of a merger or consolidation of the Company with or into another entity, the holders of Class A common stock and the holders of Class B common stock are entitled to receive the same per share consideration in such merger or consolidation. In the event of any liquidation, dissolution or winding-up of the Company, any assets available to common stockholders will be distributed pro-rata to the holders of Class A and Class B common stock.

2 - Basis of Presentation

The financial information for the interim period included herein is unaudited; however, such information reflects all adjustments, consisting only of normal recurring adjustments, which, in the opinion of management, are necessary to a fair presentation of the financial position, results of operations and cash flow for the interim period included herein. The results of operations for the three and six months ended June 30, 2001, are not necessarily indicative of results of operations to be expected for the twelve months ended December 31, 2001.

These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.

3 - Earnings Per Share

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

	Net Income	Weighted Average Shares Outstanding	Earnings Per Share
Three Months Ended June 30:			
2001			
Basic	$2,697,269	8,928,017	$ .30
Effect of stock options	--	167,955	--
Diluted	$2,697,269	9,095,972	$ .30
2000			
Basic	$2,502,499	8,680,348	$ .29
Effect of stock options	--	--	--
Diluted	$2,502,499	8,680,348	$ .29
Six Months Ended June 30:			
2001			
Basic	$5,651,864	8,909,270	$ .63
Effect of stock options	--	133,194	---
Diluted	$5,651,864	9,042,464	$ .63
2000			
Basic	$3,665,181	8,626,365	$ .42
Effect of stock options	--	--	--
Diluted	$3,665,181	8,626,365	$ .42

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2001	2000	2001	2000
Number of Options	1,042,338	1,425,281	1,042,338	1,425,281

4 - Segment Information

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

	Three Months Ended June 30 2001	2000
	($ in thousands)	
Revenues:		
Premiums earned:		
Commercial lines	$15,574	$12,933
Personal lines	26,078	23,514
Total net premiums earned	41,652	36,447
Net investment income	4,237	3,901
Realized investment Gain (loss)	(7)	391
Other	615	594
Total revenues $46,497	$41,333	
Income before income taxes:		
Underwriting income (loss)		
Commercial lines	$(760)	$ 1,349
Personal lines	(109)	(2,549)
SAP underwriting loss	(869)	(1,200)
GAAP adjustments	910	687
GAAP underwriting income (loss)	41	(513)
Net investment income	4,237	3,901
Realized investment gain (loss)	(7)	391
Other	(647)	(458)
Income before income taxes	$ 3,624	$ 3,321

	Six Months Ended June 30 2001	2000
	($ in thousands)	
Revenues:		
Premiums earned:		
Commercial lines	$30,583	$25,347
Personal lines	51,110	47,189
Total net premiums earned	81,693	72,536
Net investment income	8,278	7,881
Realized investment gain	114	109
Other	1,204	1,165
Total revenues	$91,289	$81,691
Income before income taxes:		
Underwriting income (loss)		
Commercial lines	$(430)	$458
Personal lines	51	(3,265)
SAP underwriting loss	(379)	(2,807)
GAAP adjustments	895	654
GAAP underwriting income (loss)	516	(2,153)
Net investment income	8,278	7,881
Realized investment gain	114	109
Other	(1,266)	(984)
Income before income taxes	$ 7,642	$4,853

5 - Restructuring Charge

On September 29, 1999, the Company announced a plan to consolidate certain subsidiary support functions into its Marietta, Pennsylvania office. As a result of this consolidation, the Company recorded a restructuring charge in 1999 of $2,044,000 for employee termination benefits, occupancy charges, lease cancellation costs and asset impairments. The charge was included in other underwriting expenses. The consolidation has been completed.

Employee termination benefits include severance payments, which were paid either in a lump sum or over a defined period, and related benefits for approximately 60 employees. Of the terminated employees, approximately 50% were from subsidiary support functions and approximately 50% were from the Marietta, Pennsylvania office. By December 31, 1999, all of the terminated employees had left the employment of the Company.

Included in occupancy charges are future lease obligations, less anticipated sublease benefits, for leased space that is no longer being used by the Delaware Atlantic and Southern Heritage subsidiary support functions.

Also included in the restructuring charges were contract cancellation costs that represented the estimated cost to buy out of the remaining term on printer, copier, and computer processing contracts that provided no future benefits to the Company as a result of the restructuring. By December 31, 1999, all such assets had been taken out of service.

Asset impairments, which were a direct result of the consolidation of subsidiary functions, amounted to $407,000. They consisted of capitalized programming and data center costs, voice systems, and leasehold and office improvements. These assets were written-down to zero in 1999. By December 31, 1999, all such assets were taken out of service.

Activity in the restructuring accrual is as follows:

	Employee Termination Benefits	Occupancy	Contract Cancellations	Totals
RESTRUCTURING CHARGE	$ 782,000	$ 488,000	$ 529,000	$1,799,000
CASH PAYMENT	(343,000)	(47,000)	(365,000)	(755,000)
REVERSAL OF PRIOR ACCRUAL	(71,000)	--	(91,000)	(162,000)
BALANCE AT DECEMBER 31, 1999	$ 368,000	$ 441,000	$ 73,000	$ 882,000
CASH PAYMENTS	(339,000)	(155,000)	(73,000)	(567,000)
ACCRUAL ADJUSTMENT	--	12,000	--	12,000
BALANCE AT DECEMBER 31, 2000	$ 29,000	$ 298,000	$ --	$ 327,000
CASH PAYMENTS	(6,000)	(57,000)	--	(63,000)
BALANCE AT 6/30/01	$ 23,000	$ 241,000	$ --	$ 264.000

6 - Recent Accounting Standards -
Accounting for Derivative Instruments and Hedging Activities

The Company has no derivative instruments or hedging activities as defined in accordance with the Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," and SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No 133", which statements became effective January 1, 2001. On January 1, 2001, the Company transferred investments with an amortized cost of $51,640,154 and fair value of $52,444,675 from the held to maturity classification to the available for sale classification under the provisions of SFAS No. 133 and 138. The unrealized holding gain of $804,521 at January 1, 2001 was reported in other comprehensive income. The transfer had no impact on net income.

Business Combinations

In July 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires the purchase method of accounting to be used for all future business combinations and contains provisions for the accounting for goodwill and intangible assets. SFAS No. 142 is effective January 1, 2002, and will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead evaluated for impairment.

As of the date of adoption, the Company expects to have unamortized goodwill in the amount of $117,000 which will be subject to the transition provisions of Statements 141 and 142, no unamortized identifiable intangible assets, and no unamortized negative goodwill. Amortization expense related to goodwill was $61,534 and $30,505 for the year ended December 31, 2000 and the six months ended June 30, 2001, respectively. The impact of adopting these Statements on the Company's financial statements is not expected to be material.

7 - Implementation of Codification

The National Association of Insurance Commissioners (NAIC) has adopted the Codification of Statutory Accounting Principles with an effective date of January 1, 2001. The codified principles are intended to provide a basis of accounting recognized and adhered to in the absence of conflict with, or silence of, state statutes and regulations. The impact of the codified principles on the statutory capital and surplus of the Company's Insurance Subsidiaries as of January 1, 2001 is as follows: Atlantic States - $5,922,449 increase; Southern Heritage - $1,083,354 increase; Pioneer-Ohio - $313,638 increase; Delaware Atlantic - $246,293 increase; Southern of Virginia - $1,171,204 increase; and Pioneer - New York - 0.

8 - Business Combination

In January 2001, the Company acquired all of the outstanding shares of Pioneer - New York from the Mutual Company, which previously owned 100% of Pioneer - New York. The acquisition has been accounted for as a reorganization of entities under common control, similar to a pooling of interests, as both Pioneer - New York and the Company are under the common management and control of the Mutual Company. As such, all financial data prior to January 1, 2001 has been restated to include the results of operations, financial position and cash flows of Pioneer - New York.

The following information presents certain income statement data of the separate companies for the period preceding the merger:

Three and six months ended June 30, 2000 (unaudited):

Revenues	Three Months Ended June 30, 2000	Six Months Ended June 30, 2000
Donegal Group, Inc.	$40,801,600	$80,547,134
Pioneer - New York	531,763	1,143,562
Total	41,333,363	$81,690,696
Net income (loss)		
Donegal Group, Inc.	$ 2,470,400	$ 3,720,634
Pioneer - New York	32,099	(55,453)
Total	$ 2,502,499	$ 3,665,181

In connection with the transaction, the Company issued the Mutual Company a $4,441,311 note, which bears a 6% rate and is due in one year. The Company classifies this note in Due to Affiliate. There were no material transactions between Donegal Group Inc. and Pioneer - New York prior to the merger. Pioneer - New York's accounting policies, which were previously based on statutory accounting principles, were conformed to the Company's accounting policies. Such changes did not materially impact Pioneer - New York's net income.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations -Three Months Ended June 30, 2001 to Three Months Ended June 30, 2000

In January 2001, the Company acquired all of the outstanding shares of Pioneer Insurance Company of New York ("Pioneer - New York") from the Mutual Company, which previously owned 100% of Pioneer - New York. The acquisition has been accounted for as a reorganization of entities under common control, similar to a pooling of interests, as both Pioneer - New York and the Company are under the common management and control of the Mutual Company. As such, all financial data prior to January 1, 2001 has been restated to include the results of operations, financial position and cash flows of Pioneer - New York.

Revenues for the three months ended June 30, 2001 were $46,496,969, an increase of $5,163,606, or 12.5%, over the same period of 2000. An increase in net premiums earned of $5,204,856, or 14.3%, represented most of this change. Net premiums written of the insurance subsidiaries increased 17.7% in the second quarter of 2001 compared to the second quarter of 2000. An increase in Atlantic State's share of the pooled business of itself and Donegal Mutual from 65 % to 70%, effective July 1, 2000, accounted for 6.2 percentage points of the 17.7 percentage point increase in the premiums written. The remaining portion of the increase was primarily due to rate increases. Investment income for the second quarter of 2001 increased $335,651 or 8.6%. An increase in the annualized average return on investments from 5.8% in the second quarter of 2000 to 6.0% in the second quarter of 2001 and an increase in average invested assets from $269.7 million in the second quarter of 2000 to $281.9 million in the second quarter of 2001 accounted for the change. Realized investment losses were $6,968 in the second quarter of 2001 compared to a gain of $391,117 for the same period of 2000. The realized loss in 2001 included $463,735 in losses, which resulted from changes in the market value of securities that were determined to be other then temporary. The realized gains in 2000 resulted from the normal turnover of the Company's portfolio.

The GAAP combined ratio of insurance operations in the second quarter of 2001 was 99.9% compared to 101.4% for the same period in 2000. The GAAP combined ratio is the sum of the ratios of incurred losses and loss adjusting expenses to premiums earned (loss ratio), policyholders' dividends to premiums earned (dividend ratio), and underwriting expenses to premiums earned (expense ratio). The Company's loss ratio in the second quarter of 2001 was 67.1% compared to 68.1% in the second quarter of 2000. The Company's expense ratio for the second quarter of 2001 was 32.1% compared to 32.7% for the second quarter of 2000. The dividend ratio increased from 0.6% in the second quarter of 2000 to 0.8% in the second quarter of 2001.

Federal income taxes for the second quarter of 2001 represented 25.6% of the income before income taxes compared to 24.6% for the same period of 2000. These rates vary from the expected rate of 34% primarily due to the effect of tax-exempt investment income.

Results of Operations -Six Months Ended June 30, 2001
to Six Months Ended June 30, 2000
- --------------------------------

In January 2001, the Company acquired all of the outstanding shares of Pioneer Insurance Company of New York ("Pioneer - New York") from the Mutual Company, which previously owned 100% of Pioneer - New York. The acquisition has been accounted for as a reorganization of entities under common control, similar to a pooling of interests, as both Pioneer - New York and the Company are under the common management and control of the Mutual Company. As such, all financial data prior to January 1, 2001 has been restated to include the results of operations, financial position and cash flows of Pioneer - New York.

Revenues for the six months ended June 30, 2001 were $91,288,995, an increase of $9,598,299 or 11.7%, over the same period of 2000. An increase in net premiums earned of $9,157,060 or 12.6%, represented most of this change. Net premiums written of the insurance subsidiaries increased 15.6% in the first half of 2001 compared to the first half of 2000. An increase in Atlantic State's share of the pooled business of itself and Donegal Mutual from 65% to 70%, effective July 1, 2000, accounted for 6.1 percentage points of the 15.6 percentage point increase in the premiums written. The remaining portion of the increase was primarily due to rate increases. Investment income for the first six months of 2001 increased $396,768 or 5.0%. An increase in the annualized average return on investments from 5.8% in the first six month of 2000 to 5.9% in the first six months of 2001 and an increase in average invested assets from $270.4 million in the first six months of 2000 to $282.9 million in the first six months of 2001 accounted for the change. Realized investment gains were $113,839 in the first six months of 2001 compared to a gain of $109,207 for the same period of 2000. The realized gains in 2000 and 2001 were net of losses of $285,208 and $463,735, respectively, in losses, which resulted from changes in the market value of securities that were determined to be other then temporary.

The GAAP combined ratio of insurance operations in the first six months of 2001 was 99.4% compared to 103.0% for the same period in 2000. The GAAP combined ratio is the sum of the ratios of incurred losses and loss adjusting expenses to premiums earned (loss ratio), policyholders' dividends to premiums earned (dividend ratio), and underwriting expenses to premiums earned (expense ratio). The Company's loss ratio in the first six months of 2001 was 66.2% compared to 70.0% in the first six months of 2000. The Company's expense ratio for the first six months of 2001 was 32.3% compared to 32.2% for the first six months of 2000. The dividend ratio increased slightly from 0.8% for the first six months of 2000 to 0.9 for the first six months of 2001.

Federal income taxes for the six months ended June 30, 2001 represented 26.0% of the income before income taxes compared to 24.5% for the same period of 2000. These rates vary from the expected rate of 34% primarily due to the effect of tax-exempt investment income.

Liquidity and Capital Resources

The Company generates sufficient funds from its operations and maintains a high degree of liquidity in its investment portfolio. The primary source of funds to meet the demands of claim settlements and operating expenses are premium collections, investment earnings and maturing investments. The Company had no significant commitments for capital expenditures as of June 30, 2001.

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

As of June 30, 2001, pursuant to a credit agreement dated December 29, 1995, with Fleet National Bank of Connecticut, (the " Bank") the Company had unsecured borrowings of $28.2 million. Per the terms of the credit agreement, the Company may borrow up to $40 million at interest rates equal to the bank's then current prime rate or the then current London interbank Eurodollar bank rate plus 1.70%. At June 30, 2001, the interest rates on the outstanding balances were 5.7625% on an outstanding eurodollar balance of $13.2 million and 5.75% on an outstanding eurodollar rate balance of $15.0 million. In addition, the Company will pay a non-use fee at a rate of 3/10 of 1% per annum on the average daily unused portion of the Bank's commitment. On each July 27, commencing July 27, 2001, the credit line will be reduced by $8 million. Any outstanding loan in excess of the remaining credit line, after such reduction, will then be payable.

The Company's principal source of cash with which to pay stockholder dividends is dividends from Atlantic States, Southern, Pioneer - Ohio, Pioneer - New York, Southern Heritage and Delaware, which are required by law to maintain certain minimum surplus on a statutory basis and are subject to regulations under which payment of dividends from statutory surplus is restricted and may require prior approval of their domiciliary insurance regulatory authorities. Atlantic States, Southern, Pioneer - Ohio, Pioneer - New York, Southern Heritage and Delaware are subject to Risk Based Capital (RBC) requirements effective for 1994. At December 31, 2000, each of the six Companies' capital was substantially above the RBC requirements. At December 31, 2000, amounts available for distribution as dividends to Donegal Group without prior approval of the insurance regulatory authorities are $5,414,419 from Atlantic States, $908,259 from Southern, $581,132 from Pioneer - Ohio, $323,992 from Delaware, $973,796 from Southern Heritage and none from Pioneer - New York.

In June 2000, Delaware made a $3.8 million dividend distribution to Donegal Group, which was approved by the Delaware Insurance Department.

Credit Risk

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

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

Impact of Inflation

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

Part II. Other Information

Item 1. Legal Proceedings.

On March 30, 2001, an action was filed in the Court of Chancery of the State of Delaware against the Mutual Company, the Company and the directors of the Company. The action was filed derivatively on behalf of the Company and as a class action on behalf of the holders of the Company's common stock other than the Company, the Company's directors, the Mutual Company and their associates and affiliates.

The action challenged the compliance of the Amendment to the Company's Charter, the Reverse Split and the Stock Dividend with certain provisions of the Delaware General Corporation Law and asserted a violation of fiduciary duties by the Mutual Company and the directors of the Company. The action also made certain allegations regarding the grant of stock options to certain persons and the manner in which the Coordinating Committee of the Boards of Directors of the Company and the Mutual Company operates.

The Company, the Mutual Company and the Company's Board of Directors deny the allegations in the action, and believe the actions taken in connection with the Amendment to the Company's Charter, the Reverse Split and the Stock Dividend were appropriate and in the best interest of all of the Company's stockholders.

However, rather than engage in protracted and extensive litigation, the Company, the Mutual Company and the directors of the Company entered into an agreement, which is subject to court approval, settling the litigation. As part of the agreement, the Company agreed to various administrative changes related to the Reverse Spit and Stock Dividend, which were approved by the Company's Stockholders on April 19, 2001. Upon court approval of the settlement, it is anticipated that the Company and the Mutual Company will be obligated to pay legal fees to the plaintiff's counsel as determined by the court. The Company does not expect these payments to have a material impact on its financial statements.

Item 2. Changes in Securities. (None)

Item 3. Defaults upon Senior Securities.

Quantitative and Qualitative Disclosure About Market Risk

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

The Company has maintained approximately the same duration of its investment portfolio to its liabilities from December 31, 2000 to June 30, 2001. In addition, the Company has maintained approximately the investment mix during this period.

There have been no material changes to the Company's quantitative or qualitative market risk exposure from December 31, 2000 through June 30, 2001.

Item 4. Submission of Matters to a Vote of Security Holders. (None)

Item 5. Other Information. (None)

Item 6. Exhibits and Reports on Form 8-K.

(a) EX -27 Financial Data Schedule
(b) Reports on 8-K:
None

Signatures

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

DONEGAL GROUP INC.

August 14, 2001 By:

Donald H. Nikolaus, President
and Chief Executive Officer

August 14, 2001 By:

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