

DONEGAL GROUP INC
Form PRE 14A
March 01, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Donegal Group Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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NOTICE OF THE ANNUAL MEETING OF STOCKHOLDERS

WE WILL HOLD ON APRIL 18, 2013

To the Stockholders of

DONEGAL GROUP INC.:

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

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

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

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

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

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

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

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

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

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

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

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

By order of our board of directors,

Donald H. Nikolaus,
Chairman and Chief Executive Officer

March 18, 2013

Marietta, Pennsylvania

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

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

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DONEGAL GROUP INC.

PROXY STATEMENT

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

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

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

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

Atlantic States means Atlantic States Insurance Company;

DFSC means Donegal Financial Services Corporation;

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

Donegal Mutual means Donegal Mutual Insurance Company;

Le Mars means Le Mars Insurance Company;

MICO means Michigan Insurance Company;

Peninsula means the Peninsula Insurance Group;

Sheboygan means Sheboygan Falls Insurance Company;

Southern means Southern Insurance Company of Virginia; and

UCB means Union Community Bank FSB.

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

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OUR 2013 ANNUAL MEETING OF STOCKHOLDERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

What voting rights do our stockholders have?

At March 1, 2013, we had outstanding:

20,050,649 shares of our Class A common stock, each of which entitles its holder to cast one-tenth of a vote with respect to each matter we submit for a stockholder vote at our 2013 annual meeting of stockholders; and

5,576,775 shares of our Class B common stock, each of which entitles its holder to cast one vote with respect to each matter we submit for a stockholder vote at our 2013 annual meeting of stockholders.

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

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

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

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

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

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