

DONEGAL GROUP INC
Form PRE 14A
March 06, 2019
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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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PRELIMINARY COPY

NOTICE OF THE ANNUAL MEETING OF STOCKHOLDERS

WE WILL HOLD ON APRIL 18, 2019

To the Stockholders of

DONEGAL GROUP INC.:

We will hold our 2019 annual meeting of stockholders (our 2019 Annual Meeting) at 10:00 a.m., local time, on Thursday, April 18, 2019, at the Heritage Hotel Lancaster, 500 Centerville Road, Lancaster, Pennsylvania 17601. At our 2019 Annual Meeting, our stockholders will vote on the following items of stockholder business:

The election of the three persons our board of directors has nominated to serve as Class C directors, each for a term of three years and until the election of their respective successors and their respective successors take office;

The approval of our 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 40,000,000 shares to 50,000,000 shares;

The approval of our proposal to amend our 2011 employee stock purchase plan in order to increase the number of shares of our Class A common stock available for purchase by our employees under the plan from 300,000 shares to 500,000 shares;

The approval of our proposal to adopt our 2019 equity incentive plan for employees so that we will have sufficient shares available under our equity incentive plans for employees to continue those plans for our employees;

The approval of our proposal to adopt our 2019 equity incentive plan for directors so that we will have sufficient shares available under our equity incentive plans for directors to continue those plans for our directors; and

The ratification of the appointment by our audit committee of KPMG LLP to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2019.

Our advance notice by-laws require that our stockholders submit to us, not later than 90 days prior to the first anniversary of the date on which we first mailed our proxy statement to stockholders for our most recent year's annual meeting of stockholders, the information specified in those by-laws regarding any nomination by a stockholder of a

candidate for election as a director or any proposal by a stockholder of any other item of stockholder business a stockholder wishes our stockholders to consider at our next forthcoming annual meeting of stockholders. That date was December 16, 2018 with respect to our 2019 Annual Meeting and is December 18, 2019 with respect to our 2020 annual meeting of stockholders. No stockholder made another nomination or other proposal for consideration by our stockholders at our 2019 Annual Meeting.

Our board of directors has established the close of business on March 1, 2019 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 2019 Annual Meeting.

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We include our 2018 Annual Report to stockholders (our 2018 Annual Report) with this notice of our 2019 Annual Meeting and our proxy statement relating to our 2019 Annual Meeting. You may vote at our 2019 Annual Meeting in person, by mail, by telephone or via the Internet as we describe on the enclosed proxy card that you may use to vote by proxy at our 2019 Annual Meeting. Please return your duly signed and completed proxy card whether or not you plan to attend our 2019 Annual Meeting in person.

By order of our board of directors,

Kevin G. Burke,

President and Chief Executive Officer

March 18, 2019

Marietta, Pennsylvania

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Important Notice Regarding the Availability of Our Proxy Materials for

Our April 18, 2019 Annual Meeting

This mailing includes our notice of our 2019 Annual Meeting, our proxy statement with respect to our 2019 Annual Meeting and our 2018 Annual Report. You may also view each of these documents on the Internet at www.proxyvote.com. No information on our website other than our notice of our 2019 Annual Meeting, this proxy statement with respect to our 2019 Annual Meeting and our 2018 Annual Report constitutes a part of our proxy solicitation materials for our 2019 Annual Meeting or part of our 2018 Annual Report.

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DONEGAL GROUP INC.

PROXY STATEMENT

Introduction

This proxy statement contains information relating to our 2019 Annual Meeting. We will hold our 2019 Annual Meeting at 10:00 a.m., local time, on Thursday, April 18, 2019, at the Heritage Hotel Lancaster, 500 Centerville Road, Lancaster, Pennsylvania 17601.

On March 18, 2019, we commenced the mailing to our stockholders of record at the close of business on March 1, 2019 of:

this proxy statement;

a form of proxy card;

a postage-paid return envelope for the convenience of our stockholders in returning their completed and signed proxy card to the firm that tabulates the results of the proxy votes of our stockholders; and

our 2018 Annual Report.

We ask our stockholders to return their completed proxy cards promptly whether or not they plan to attend our 2019 Annual Meeting in person unless a stockholder prefers to vote in person, by telephone or via the Internet.

We will pay the costs of preparing and mailing our proxy materials for our 2019 Annual Meeting to our 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 solicitation materials for our 2019 Annual Meeting 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 may also solicit proxies from some stockholders in person, by mail, by e-mail or by telephone through our directors, officers and regular employees whom we do not employ specifically for proxy solicitation purposes and none of whom will receive any additional compensation for performing such services.

Summary of our 2018 Performance

For 2018, our total revenues increased 4.4% compared to 2017. However, although we made considerable progress in 2018 on various initiatives to improve our underwriting performance, we incurred a net loss in 2018. The following table depicts our total revenues, net (loss) income, net (loss) income per diluted Class A share and net (loss) income per Class B share for the three years ended December 31, 2018, 2017 and 2016. For further information, we refer you to the financial statements we include in our 2018 Annual Report.

	Year Ended December 31		
	2018	2017	2016
Total revenues	\$ 771.8 million	\$ 739.0 million	\$ 688.4 million
Net (loss) income	(32.8) million	7.1 million	30.8 million
Net (loss) income per diluted Class A share	(1.18)	0.26	1.16
Net (loss) income per Class B share	(1.09)	0.22	1.06

We use the following defined terms in this proxy statement:

Annual Meeting or 2019 Annual Meeting means our annual meeting of stockholders that we will hold on April 18, 2019;

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Annual Report or 2018 Annual Report means our Annual Report to our stockholders for 2018;

Atlantic States means Atlantic States Insurance Company;

Code means the Internal Revenue Code of 1986, as amended;

Computershare means Computershare Trust Company, N.A., the transfer agent for our Class A common stock and our Class B common stock;

DFSC means Donegal Financial Services Corporation;

DGCL means the Delaware General Corporation Law;

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

Donegal Mutual means Donegal Mutual Insurance Company;

Exchange Act means the Securities Exchange Act of 1934;

Form 10-K Report means the annual report on Form 10-K that we file annually with the SEC;

Le Mars means Le Mars Insurance Company;

MICO means Michigan Insurance Company;

PCAOB means the Public Company Accounting Oversight Board (United States);

Peninsula means the Peninsula Insurance Group;

PHCA means the Pennsylvania Insurance Holding Companies Act;

SEC means the Securities and Exchange Commission;

Sheboygan means Sheboygan Falls Insurance Company;

Southern means Southern Insurance Company of Virginia; and

UCB means Union Community Bank.

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Unless we otherwise expressly indicate, all of the financial information we include or incorporate by reference in this proxy statement for our 2019 Annual Meeting relates to our 2018 fiscal year. Our 2018 fiscal year began on January 1, 2018 and ended on December 31, 2018.

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OUR 2019 ANNUAL MEETING

In accordance with this proxy statement, our board of directors solicits proxies from our stockholders for use in connection with our 2019 Annual Meeting and any adjournment or postponement of our 2019 Annual Meeting. We will hold our 2019 Annual Meeting at 10:00 a.m., local time, on Thursday, April 18, 2019 at the Heritage Hotel Lancaster, 500 Centerville Road, Lancaster, Pennsylvania 17601.

What is the agenda for our 2019 Annual Meeting?

At our 2019 Annual Meeting, our stockholders will consider and act upon the six items of stockholder business we propose as follows:

the election of the three persons our board of directors has nominated to serve as Class C directors, each for a term of three years and until the election of their respective successors and their respective successors take office;

approval of our proposal to amend our certificate of incorporation to increase the number of shares of Class A common stock we have the authority to issue from 40,000,000 shares to 50,000,000 shares;

approval of our proposal to amend our 2011 employee stock purchase plan to increase the number of shares available for purchase by our employees under that plan from 300,000 shares to 500,000 shares;

approval of our proposal to adopt our 2019 equity incentive plan for employees;

approval of our proposal to adopt our 2019 equity incentive plan for directors; and

the ratification of the appointment by our audit committee of KPMG LLP to serve as our independent registered public accounting firm for our fiscal year ending December 31, 2019.

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

Our advance notice by-laws require that a stockholder provide us with a specified period of prior notice of that stockholder's intention to nominate any candidate for election as a Class C director at our 2019 Annual Meeting or to propose any other item of stockholder business for stockholder consideration at our 2019 Annual Meeting.

Our advance notice by-laws establish a date by which a stockholder must submit a stockholder proposal to us with respect to our next forthcoming annual meeting of stockholders. That date in general is 90 days prior to the first anniversary of the mailing date of our proxy solicitation material for our prior year's annual meeting of stockholders. After that date, a stockholder may no longer propose any candidate for election as a director at our next forthcoming annual meeting of stockholders and may no longer propose any other item of stockholder business for consideration and a vote by our stockholders at our next forthcoming annual meeting of stockholders. For our 2019 Annual Meeting, that date was December 16, 2018. For our 2020 annual meeting of stockholders, that date is December 18, 2019. 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 our annual meetings of stockholders.

No stockholder has nominated a candidate for election as a Class C director at our 2019 Annual Meeting or proposed the transaction of any other item of stockholder business at our 2019 Annual Meeting. Therefore, under applicable law and our by-laws, at our 2019 Annual Meeting:

no stockholder may validly present a nomination of a candidate for election as a Class C director or validly propose any other item of stockholder business; and

we will not conduct a vote of our stockholders on any item of stockholder business other than those six items of stockholder business we describe in this proxy statement and in our accompanying notice of our 2019 Annual Meeting.

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Accordingly, no item of stockholder business may properly come before our 2019 Annual Meeting or any adjournment or postponement of our 2019 Annual Meeting other than the six items of stockholder business we describe in our notice of our 2019 Annual Meeting, as well as in this proxy statement. As a result, we will not submit any other item of stockholder business, other than procedural matters related to the conduct of our 2019 Annual Meeting, to a vote of our stockholders at our 2019 Annual Meeting.

We are a Delaware corporation. Therefore, the DGCL, our amended and restated certificate of incorporation as currently in effect and our by-laws as currently in effect govern the conduct of business at our annual meetings of stockholders, our relationships with our stockholders and the relative rights, powers, duties and obligations of us and our stockholders, directors, nominees for directors, officers and employees.

What is the quorum requirement for the conduct of business at our 2019 Annual Meeting?

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 2019 Annual Meeting voting together as a single class constitutes a quorum at our 2019 Annual Meeting. Because Donegal Mutual owns approximately 72% of the combined voting power of our outstanding Class A common stock and our outstanding Class B common stock and all of Donegal Mutual's shares will be present at our 2019 Annual Meeting, a quorum will be present at our 2019 Annual Meeting. Because a quorum will be present at our 2019 Annual Meeting, our stockholders will have the legal power and authority to conduct the six items of stockholder business at our 2019 Annual Meeting that we describe in our notice of our 2019 Annual Meeting and in this proxy statement.

What is the order of business at our 2019 Annual Meeting?

Our by-laws and applicable provisions of the DGCL govern the organization, conduct of business at and the adjournment or postponement of our 2019 Annual Meeting. Our board of directors has designated Kevin G. Burke, our president and chief executive officer, as the presiding officer of our 2019 Annual Meeting. Mr. Burke will call our 2019 Annual Meeting to order and will conduct the business of our 2019 Annual Meeting, including voting upon the six items of stockholder business upon which our stockholders will vote at our 2019 Annual Meeting. Mr. Burke, in his capacity as the presiding officer of our 2019 Annual Meeting, will determine, in his discretion, the order of the items of stockholder business we will conduct at our 2019 Annual Meeting and the procedural manner in which we will conduct the business of our 2019 Annual Meeting.

We have historically conducted the voting on the items of stockholder business we submit for a stockholder vote at our annual meetings of stockholders immediately following the calling to order of our annual meetings and the determination of a quorum by the presiding officer of our annual meetings. We currently intend to follow a substantially similar procedure at our 2019 Annual Meeting. After our stockholders have voted on the six items of stockholder business we describe in this proxy statement, and the inspectors of election our board of directors has appointed have tallied the voting on those six items of stockholder business, Kevin G. Burke, our president and chief executive officer, and Jeffrey D. Miller, our executive vice president and chief financial officer, will then discuss our results of operations for 2018 compared to 2017 and our outlook for 2019. After those remarks, the inspectors of election for our 2019 Annual Meeting will announce the results of the voting on the six items of business on which our stockholders have voted at our 2019 Annual Meeting. Then Messrs. Burke and Miller will, as they deem appropriate in their discretion under then prevailing circumstances, recognize stockholders who wish to ask pertinent questions or make comments.

Who is entitled to notice of, and who may vote at, our 2019 Annual Meeting?

Our board of directors established the close of business on March 1, 2019 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 2019 Annual Meeting. We refer to those eligible stockholders as

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stockholders of record in this proxy statement. Stockholders of record, including persons whom a stockholder of record duly and validly appoints as the proxy of such stockholder of record, may attend, and vote at, our 2019 Annual Meeting.

Each share of our Class A common stock held of record for our 2019 Annual Meeting has the right to cast one-tenth of a vote for each nominee for election as a Class C director at our 2019 Annual Meeting and for the other items of stockholder business we submit to a vote of our stockholders at our 2019 Annual Meeting.

Each share of our Class B common stock held of record for our 2019 Annual Meeting has the right to cast one vote for each nominee for election as a Class C director at our 2019 Annual Meeting and for the other items of stockholder business we submit to a vote of our stockholders at our 2019 Annual Meeting.

We will request valid 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 2019 Annual Meeting in person. If you are a beneficial owner, you will also need to bring a copy of your voting instructions card or brokerage statement reflecting your stock ownership as of the record date. We will not permit cameras, recording devices, cell phones and other electronic devices at our 2019 Annual Meeting other than those we operate. Security measures at our 2019 Annual Meeting may include bag, metal detector and hand-wand searches.

Even if you currently plan to attend our 2019 Annual Meeting 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 you own that are registered in your name?" By using one of those methods of voting, we can then recognize your votes even if you later do not, or cannot, for any reason attend our 2019 Annual Meeting and vote in person.

Computershare, our independent stock transfer agent, 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, 2019, the record date for our 2019 Annual Meeting. If your name appears on that certified list of stockholders, you are a stockholder of record entitled to vote in person or by proxy at our 2019 Annual Meeting. For example, you are a stockholder of record if you received this proxy statement and the related materials for our 2019 Annual Meeting directly from us through our mailing agent and not indirectly from another person who is the record holder of the shares you own beneficially, such as a bank, a brokerage firm or other fiduciary or representative.

Our by-laws, in compliance with the DGCL, 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 2019 Annual Meeting, to examine, at our principal executive offices in Marietta, Pennsylvania, an alphabetical list of the holders of record for our 2019 Annual Meeting of our Class A common stock and an alphabetical list of the holders of record for our 2019 Annual Meeting of our Class B common stock. We will grant the request of a stockholder of record to make such an examination if: