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FORM A

STATEMENT REGARDING  
THE ACQUISITION OF  
CONTROL OF OR MERGER WITH  
A DOMESTIC INSURER

2006 DEC 28 PM 2:46

WISCONSIN DEPARTMENT OF  
REGISTRATION AND  
COMMERCIAL SERVICE

Filed with the OFFICE OF THE COMMISSIONER OF INSURANCE  
OF THE STATE OF WISCONSIN

Sheboygan Falls Mutual Insurance Company

Name of Domestic Insurer

By

Donegal Mutual Insurance Company

Name of Acquiring Person (Applicant)

WISCONSIN

(State of domicile of Insurer being acquired)

Dated: December 28, 2006

Name, Title, Address and Telephone Number of Individual to Whom Notices and  
Correspondence Concerning This Statement Should be Addressed:

Donald H. Nikolaus  
President and Chief Executive Officer  
Donegal Mutual Insurance Company  
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Marietta, Pennsylvania 17547  
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With a Copy to:

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This Statement Regarding the Acquisition of Control of the Domestic Insurer (this "Statement") seeks approval of the Office of the Commissioner of Insurance of the State of Wisconsin (the "OCI") pursuant to Sections 611.72 and 617.11 of the Wisconsin Insurance Code and Section 40.02 of the Wisconsin Administrative Code for the acquisition of control of the Domestic Insurer (as defined herein).

**ITEM 1. INSURER AND METHOD OF ACQUISITION.**

*(a) Name and Address of Domestic Insurer.*

This Statement relates to the proposed acquisition of control of the following Wisconsin-domiciled insurance company: Sheboygan Falls Mutual Insurance Company ("Sheboygan Falls" or the "Domestic Insurer"). The principal executive offices of Sheboygan Falls are located at 511 Water Street, Sheboygan Falls, Wisconsin 53085-0159, telephone: (920) 467-4613.

*(b) Method of Acquisition of Control.*

Following arms' length negotiations between Donegal Mutual Insurance Company ("Donegal Mutual") and Sheboygan Falls, Donegal Mutual and Sheboygan Falls executed a Contribution Note Purchase Agreement (the "Agreement") dated as of December 27, 2006, a copy of which is included as Exhibit 1 to this Statement.

Subject to the prior approval of the Commissioner of Insurance of the State of Wisconsin (the "Commissioner") and satisfaction or waiver of the other closing conditions set forth in the Agreement, Donegal Mutual will acquire control (the "Acquisition") of Sheboygan Falls pursuant to the Agreement, which contemplates the following actions:

- Donegal Mutual will purchase from Sheboygan Falls, for the principal amount thereof, a contribution note (the "Note") to be issued by Sheboygan Falls in the principal amount of \$3,500,000. The proposed form of Note is included as Exhibit 2 to this Statement.
- Upon the closing (the "Closing") of the purchase of the Note, four of the eight current members (one vacancy currently exists) of the Board of Directors of Sheboygan Falls, as designated by Sheboygan Falls, will retire, the number of directors of Sheboygan Falls will be expanded from nine directors to ten directors and six designees of Donegal Mutual will be appointed by the remaining members of the Sheboygan Falls Board of Directors to fill the six vacancies on the Board of Directors of Sheboygan Falls. All of the Donegal Mutual designees are currently directors of Donegal Mutual. A copy of the NAIC Biographical Affidavit of each Donegal Mutual designee is included as Exhibit 3 to this Statement.

- Upon the Closing, Donegal Mutual will enter into a services agreement (the "Services Agreement") with Sheboygan Falls. The purpose of the Services Agreement is to assist Sheboygan Falls in reducing its expense ratio and to provide advice and assistance to the officers and employees of Sheboygan Falls in connection with their conduct of the operations of Sheboygan Falls. The proposed form of Services Agreement is attached as Exhibit 4 to this Statement.
- Upon the Closing, Donegal Mutual would enter into a technology license agreement (the "Technology License Agreement") with Sheboygan Falls. The purpose of the Technology License Agreement is to make available to Sheboygan Falls certain information systems and applications licensed to or developed by Donegal Mutual, including systems that provide automated underwriting and policy issuance and enhanced policyholder services, on a cost-effective basis. The proposed form of Technology License Agreement is included as Exhibit 5 to this Statement.
- Upon the Closing, Sheboygan Falls will enter into employment agreements (the "Employment Agreements") with Bradford C. Bailey, Daniel A. Kussart, Janice L. Tupper and Lee F. Wilcox, the four principal officers of Sheboygan Falls. The annual salary to be set forth in the Employment Agreements for each officer will be the same as the annual salary of such officer on the date of the Closing. The purpose of the Employment Agreements is to assure Sheboygan Falls and Donegal Mutual of the continued services of such persons. The proposed form of Employment Agreement between Sheboygan Falls and Lee F. Wilcox is included as Exhibit 6A to this Statement and the proposed form of Employment Agreement between Sheboygan Falls and each of Bradford C. Bailey, Daniel A. Kussart and Janice L. Tupper is included as Exhibit 6B to this Statement.
- Upon the Closing, Sheboygan Falls will enter into a retrocessional reinsurance agreement (the "Retrocessional Agreement") with Donegal Mutual pursuant to which Sheboygan Falls will cede 100% of its in-force business to Donegal Mutual and Donegal Mutual will immediately thereafter retrocede all of such business to Sheboygan Falls. The purpose of the Retrocessional Agreement is to assist Sheboygan Falls in obtaining an improved A.M. Best rating. The proposed form of the Retrocessional Agreement is included as Exhibit 7 to this Statement.
- The approval of the Amended and Restated Bylaws of Sheboygan Falls, subject to approval by the OCI. The purpose of the Amended and Restated Bylaws is to increase the number of directors from nine to ten,

and to have more comprehensive Bylaws that are consistent with those of Donegal Mutual and its affiliated insurance companies. The proposed form of Amended and Restated Bylaws is included as Exhibit 8 to this Statement.

**ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT.**

**(a) Name and Address of the Applicant.**

The name of the applicant is Donegal Mutual Insurance Company. The address of its principal executive offices is 1195 River Road, Marietta, Pennsylvania 17547.

**(b) Business Operations of the Applicant.**

The principal business activity of Donegal Mutual, which began operations in 1889, has been the operation of a mutual fire insurance company. Donegal Mutual underwrites a broad line of personal and commercial coverages, consisting of private passenger and commercial automobile, homeowners, commercial multi-peril, workers' compensation and other lines of insurance.

In the mid-1980s, Donegal Mutual, like a number of other mutual property and casualty insurance companies, recognized the need to develop additional sources of capital and surplus in order to remain competitive, have the capacity to expand its business and assure its long-term viability. Donegal Mutual, again like a number of other mutual property and casualty insurance companies, determined to implement a downstream holding company structure as a strategic response.

Thus, in 1986, Donegal Mutual formed Donegal Group Inc. ("DGI") as a Delaware corporation and caused DGI to form Atlantic States Insurance Company ("Atlantic States") as a Pennsylvania stock casualty insurance company.

As part of the implementation of the downstream holding company structure, Donegal Mutual and Atlantic States entered into a pooling agreement in 1986, whereby Donegal Mutual and Atlantic States each cede all of their direct written business to the pool and the pool then allocates a portion of the pooled business back to Atlantic States and a portion back to Donegal Mutual.

Since 1986, DGI has effected three public offerings, a major purpose of which was to provide additional capital for Atlantic States and DGI's other insurance subsidiaries and to fund acquisitions. As the capital of Atlantic States has increased, its underwriting capacity has increased proportionately. Thus, as originally planned in the 1980s, Atlantic States has had access to the capital necessary to support the growth of its direct business and increases in the amount and percentages of business it assumes from the underwriting pool with Donegal Mutual. As a result, the participation of Atlantic States in the underwriting

pool has increased over the years from an initial participation of 35% in 1986 to its current 70% participation, and the size of the pool has increased substantially.

The insurance operations of DGI's subsidiaries are interrelated with the insurance operations of Donegal Mutual and, while maintaining the separate corporate existence of each company, Donegal Mutual and DGI's insurance subsidiaries conduct their insurance business together as the Donegal Insurance Group. As such, Donegal Mutual and DGI's insurance subsidiaries have the same business philosophy, the same management, the same employees and facilities and offer the same types of insurance products.

Donegal Mutual believes its relationships with DGI and DGI's insurance subsidiaries provide Donegal Mutual with a number of competitive advantages, including the following:

- Facilitating stable management, consistent underwriting discipline, external growth and long-term profitability;
- Creating operational and expense synergies from the combination of resources and operations of Donegal Mutual and DGI's insurance subsidiaries;
- Enhancing opportunities to expand by acquisition because of the ability of Donegal Mutual to affiliate with and, over time, acquire control of other mutual insurance companies and thereafter demutualize them and sell them to DGI; and
- Producing more stable and uniform underwriting results over extended periods of time than any of the companies could achieve without the relationship between Donegal Mutual, DGI and DGI's insurance subsidiaries.

For further information regarding the business conducted by Donegal Mutual and DGI, reference is made to DGI's 2005 Annual Report to Stockholders, DGI's proxy statement for its April 20, 2006 annual meeting of stockholders, DGI's Form 10-K Annual Report for the year ended December 31, 2005 as filed with the Securities and Exchange Commission (the "SEC"), Donegal Mutual's Insurance Holding Company System Annual Registration Statement for the year ended December 31, 2005 as filed with the Insurance Department of the Commonwealth of Pennsylvania and Amendment No. 15 to Donegal Mutual's Schedule 13D as filed with the SEC, copies of which are attached hereto as Exhibits 9, 10, 11, 12 and 13, respectively, to this Statement.

The strategy of Donegal Mutual and DGI is to seek growth both internally and through acquisitions. Since the formation of DGI and Atlantic States in 1986, Donegal Mutual and DGI have completed the following acquisitions:

<u>Company Acquired</u>	<u>State of Domicile</u>	<u>Year Control Acquired</u>	<u>Method of Acquisition</u>
Southern Mutual Insurance Company and now Southern Insurance Company of Virginia ("Southern")	Virginia	1984	Surplus note investment by Donegal Mutual in 1984; demutualization in 1988; acquisition of stock by DGI in 1988.
Pioneer Mutual Insurance Company and formerly Pioneer Insurance Company ("Pioneer Ohio") *	Ohio	1992	Surplus note investment by Donegal Mutual in 1992; demutualization in 1993; acquisition of stock by DGI in 1997.
Delaware Mutual Insurance Company and formerly Delaware Atlantic Insurance Company ("Delaware Atlantic") *	Delaware	1993	Surplus note investment by Donegal Mutual in 1993; demutualization in 1999; acquisition of stock by DGI in 1995.
Pioneer Mutual Insurance Company and formerly Pioneer Insurance Company ("Pioneer New York")*	New York	1995	Surplus note investment by Donegal Mutual in 1995; demutualization in 1998; acquisition of stock by DGI in 2001.
Southern Heritage Insurance Company **	Georgia	1998	Purchase of stock by DGI in 1998.
Le Mars Mutual Insurance Company of Iowa and now Le Mars Insurance Company ("Le Mars")	Iowa	2002	Surplus note investment by Donegal Mutual in 2002; demutualization in 2004; acquisition of stock by DGI in 2004.
Peninsula Insurance Group ("Peninsula")***	Maryland	2004	Purchase of stock by DGI in 2004.

\* Merged into Atlantic States in 2001 or 2002.

\*\* Merged into Southern in 2002.

\*\*\* Consists of The Peninsula Insurance Company and Peninsula Indemnity Company.

In the case of Delaware Atlantic, Pioneer Ohio, Pioneer New York and Le Mars, each of the acquired companies was, at the time Donegal Mutual first acquired control, a mutual property and casualty insurance company operating at a competitive disadvantage, at a substantial loss and under regulatory scrutiny. Each acquisition had as its first step a transaction in which Donegal Mutual made a surplus note investment, entered into a services agreement and Donegal Mutual's designees constituted a majority of the insurer's board of directors. The next step in each case was the demutualization of the insurer, the acquisition by Donegal Mutual of all of the capital stock of the demutualized company and an additional surplus investment by Donegal Mutual. The final step in each case, as the insurer achieved consistent profitability, was the sale of the insurer by Donegal Mutual to DGI, which as a publicly-traded Nasdaq Global Select Market issuer, has greater access to capital to foster

growth and maintain surplus adequacy. In each of these transactions, Donegal Mutual worked proactively with the domiciliary insurance authorities.

The acquisitions have generally resulted in significant increases in the insurer's business after the restructuring and substantially enhanced surplus. For example, the surplus of Le Mars at December 31, 2001, the year prior to Donegal Mutual's acquisition of control, was \$7 million. Le Mars' surplus at September 30, 2006 was \$21 million.

As a result of the foregoing acquisitions, Donegal Mutual has expanded into those Mid-Atlantic states and Southeastern states in which Donegal Mutual currently believes it is desirable to do business and begun an expansion into the Midwestern portion of the United States (defined by Donegal Mutual as the states from Ohio through Nebraska) through Le Mars' operations in Iowa, Nebraska, Oklahoma and South Dakota. The acquisition of control of Sheboygan Falls would enable Donegal Mutual to commence operations in Wisconsin. Thereafter, it is the current intention of Donegal Mutual to seek other acquisitions in states such as Wisconsin, Illinois, Indiana and Minnesota for the purpose of establishing a meaningful presence in the Midwestern portion of the United States.

Assuming this Statement is approved, it is the current intention of Donegal Mutual to follow substantially the same model with Sheboygan Falls as was the case with the other mutual insurers whose control was acquired by Donegal Mutual. Donegal Mutual's expectation is that Sheboygan Falls will become more profitable, expand its operations in Wisconsin and serve as a major component of Donegal Mutual's presence in the Midwestern portion of the United States.

As of December 1, 2006, Donegal Mutual owned approximately 41.1% of the outstanding Class A Common Stock (one-tenth of a vote per share) of DGI and approximately 69.0% of the outstanding Class B Common Stock of DGI (one vote per share), thereby providing Donegal Mutual with approximately 62% of the voting power in DGI. The remainder of DGI's outstanding Class A Common Stock and Class B Common Stock was held by approximately 1,000 public stockholders as of September 30, 2006. Except as disclosed in the organization chart in this Item 2, Donegal Mutual does not control, is not controlled by and is not under common control with any other person.

DGI owns approximately 48% and Donegal Mutual owns approximately 52% of Donegal Financial Services Corporation, the holding company for Province Bank FSB, a federal savings bank headquartered in Marietta, Pennsylvania, the deposits of which are insured by the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation.

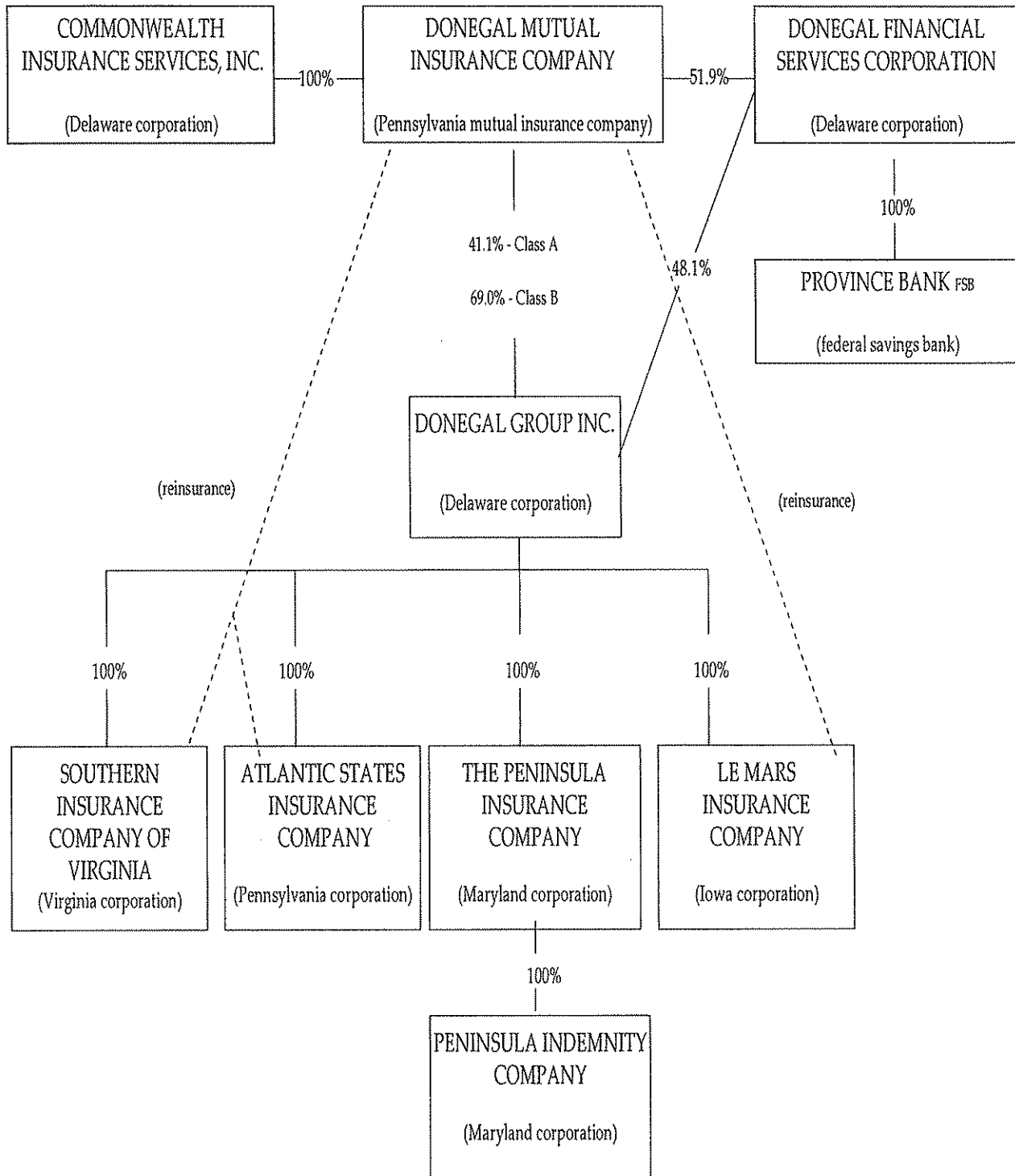


**(c) Organization Chart.**

A chart presenting the identities of and interrelationships among Donegal Mutual, DGI, DGI's insurance subsidiaries and Province Bank appears on the next page of this Statement. The NAIC number is included for each of the entities that is an insurance company.

No court proceedings involving a reorganization or liquidation are pending with respect to Donegal Mutual, DGI, Atlantic States, Southern, Le Mars or Peninsula.

DONEGAL CORPORATE STRUCTURE – DECEMBER 1, 2006



**ITEM 3. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH THE APPLICANT.**

The names of the Applicant's directors and executive officers, and the business address of each is set forth below. Copies of the NAIC biographical affidavits of each of such persons are included as Exhibit 3 to this Statement.

Unless otherwise indicated below, the business address of all such persons is Donegal Mutual Insurance Company, 1195 River Road, Marietta, Pennsylvania 17547. None of such persons has been convicted in a criminal proceeding (excluding minor traffic violations) during the past ten years.

Directors of Donegal Mutual:

<u>Name and Address</u>	<u>Position with Donegal Mutual</u>	<u>Principal Occupation for Past Ten Years</u>
Scott A. Berlucchi* 763 Johnsonburg Road St. Mary's, PA 15857	Director	President and Chief Executive Officer of Elk Regional Health System from August 2004 to present; Chief Executive Officer, Lancaster Urological Group, Inc., from April 2003 to June 2004, President and Chief Executive Officer of Susquehanna Division of Lancaster General Hospital from May 1995 to March 2003; Director of Donegal Mutual since October 2006.
Dennis J. Bixenman* P.O. Box 9400 Sioux City, IA 51102	Director	Senior Consultant, Williams & Company, a consulting firm, for more than the past 10 years; Director of Donegal Mutual since October 2006.
Frederick W. Dreher* 30 South 17 <sup>th</sup> Street Philadelphia, PA 19103	Director	Partner, Duane Morris LLP, attorneys, since 1970; Director of Donegal Mutual since 1996.

<u>Name and Address</u>	<u>Position with Donegal Mutual</u>	<u>Principal Occupation for Past Ten Years</u>
Patricia A. Gilmartin 1295 River Road Marietta, PA 17547	Director	Employee of Donegal Insurance Agency since 1969, which has no affiliation with Donegal Mutual or DGI, except that Donegal Insurance Agency receives insurance commissions in the ordinary course of business from Donegal Mutual and from DGI's insurance subsidiaries in accordance with Donegal Mutual's and such subsidiaries' standard commission schedules and agency contracts; Director of DGI since 1986 and of Donegal Mutual since 1979. Mrs. Gilmartin is licensed as an insurance agent, and in good standing, with the Insurance Department of the Commonwealth of Pennsylvania.
Philip H. Glatfelter, II*	Chairman of the Board and a Director	Retired since 1989; Vice President of Meridian Bank, a position held for more than five years, until 1989; Director of Donegal Mutual since 1981, Vice Chairman of Donegal Mutual from 1991 to 2001 and Chairman of Donegal Mutual since 2001; Chairman of the Board of DGI since 2001 and a Director of DGI since 1986.
Cyril J. Greenya	Senior Vice President, Chief Underwriting Officer and a Director	Senior Vice President and Chief Underwriting Officer of Donegal Mutual and DGI since 2005; Senior Vice President, Underwriting of Donegal Mutual from 1997 to 2005; Vice President, Commercial Underwriting of Donegal Mutual from 1992 to 1997; Manager, Commercial Underwriting of

<u>Name and Address</u>	<u>Position with Donegal Mutual</u>	<u>Principal Occupation for Past Ten Years</u>
		Donegal Mutual from 1983 to 1992; Director of Donegal Mutual since October 2006.
John E. Hiestand 11 West High Street Maytown, PA 17550	Director	Self-employed provider of insurance administrative services since 1996; Director of Donegal Mutual since 1983.
Kevin M. Kraft, Sr. 519 Walnut Street Columbia, PA 17512	Director	President, Clyde W. Kraft Funeral Home, Inc.; Director of Donegal Mutual since 2003.
Donald H. Nikolaus*	President, Chief Executive Officer and a Director	Director of Donegal Mutual since 1972 and of DGI since 1986; President and Chief Executive Officer of Donegal Mutual since 1981 and of DGI since 1986; also a partner in the law firm of Nikolaus & Hohenadel since 1972.
R. Richard Sherbahn* 2173 Embassy Drive Lancaster, PA 17603	Director	Owner and operator of Sherbahn Associates, Inc., a life insurance and financial planning firm, since 1974; Director of Donegal Mutual since 1967 and of DGI since 1986. Mr. Sherbahn is licensed as an insurance agent, and in good standing, with the Insurance Department of the Commonwealth of Pennsylvania.

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\* Designee of Donegal Mutual to serve on the Board of Directors of Sheboygan Falls.

Executive Officers (to the extent not listed above as Directors):

<u>Name and Address</u>	<u>Position with Donegal Mutual</u>	<u>Principal Occupation for Past Ten Years</u>
Jeffrey D. Miller	Senior Vice President and Chief Financial Officer	Senior Vice President and Chief Financial Officer of Donegal Mutual and of DGI since 2005; Vice President and Controller of Donegal Mutual and of DGI from 2000 to 2005; Controller of Donegal Mutual and of DGI from 1995 to 2000.
Robert G. Shenk	Senior Vice President, Claims	Senior Vice President, Claims of Donegal Mutual since 1997; Vice President, Claims of Donegal Mutual from 1992 to 1997; Manager, Casualty Claims of Donegal Mutual from 1985 to 1992.
Daniel J. Wagner	Senior Vice President and Treasurer	Senior Vice President and Treasurer of Donegal Mutual and of DGI since 2005; Vice President and Treasurer of Donegal Mutual and of DGI from 2000 to 2005; Treasurer of Donegal Mutual and of DGI from 1993 to 2005; Controller of Donegal Mutual and of DGI from 1988 to 1995.

Because Donegal Mutual is a mutual insurance company, it has no voting securities and therefore there is no person or entity that owns 10% or more of the voting securities of Donegal Mutual. With the exception of Donegal Mutual, no person or entity owns 10% or more of the voting securities of DGI.

**ITEM 4. NATURE, SOURCE AND AMOUNT OF CONSIDERATION.**

**(a) Consideration.**

The purchase price to be paid by Donegal Mutual for the Note will come from Donegal Mutual's existing internally generated funds and no portion of the purchase price of the Note will be borrowed. No assets of Sheboygan Falls will be pledged, hypothecated or

otherwise made subject to any lien or security interest to collateralize Sheboygan Falls' obligations under the Note.

**(b) Criteria.**

The terms of the Agreement, including the Note, the Services Agreement, the Employment Agreements, the Technology License Agreement, the Retrocessional Agreement and the Amended and Restated Bylaws, were determined by arms' length negotiations between Donegal Mutual and Sheboygan Falls, each of whom was represented by independent counsel, and such other studies and analysis as Donegal Mutual considered relevant.

A number of factors were considered by Donegal Mutual in determining the principal amount of the Note, including the financial condition of Sheboygan Falls as of December 31, 2005 and September 30, 2006, the minimum surplus required by Wisconsin law, the anticipated results of operations and needs of Sheboygan Falls and the requirements of A.M. Best for the issuance of an improved A.M. Best rating.

**ITEM 5. APPLICANT'S FUTURE PLANS FOR THE INSURER.**

(a) Donegal Mutual has no present plans or proposals for Sheboygan Falls to declare an extraordinary dividend, to liquidate Sheboygan Falls, to sell its assets, to merge it with any person or persons or to make any other changes in the business investment philosophy, operations, corporate structure or management of Sheboygan Falls, except as set forth below.

Upon Donegal Mutual's purchase of the Note:

- Four directors of Sheboygan Falls will retire and Sheboygan Falls has agreed to take such action as is necessary to expand its Board of Directors from nine members to ten members and to appoint to Sheboygan Falls' Board of Directors six designees of Donegal Mutual to fill the six vacancies that will thereupon exist on Sheboygan Falls' Board of Directors. All of the Donegal Mutual designees are currently directors of Donegal Mutual.
- Donegal Mutual will provide services to Sheboygan Falls pursuant to the terms of the Services Agreement for the purpose of assisting Sheboygan Falls in reducing its expense ratio and to provide advice and assistance to the officers and employees of Sheboygan Falls in connection with the conduct of the operations of Sheboygan Falls.
- Sheboygan Falls will enter into Employment Agreements with its four senior executive officers.

- Donegal Mutual and Sheboygan Falls will enter into the Technology License Agreement for the purpose of granting Sheboygan Falls the right to use certain computer systems and applications of Donegal Mutual in order to make Sheboygan Falls more competitive and to enable it to reduce its expense ratio.
- Donegal Mutual and Sheboygan Falls will enter into the Retrocessional Agreement for the purpose of enhancing the ability of Sheboygan Falls to obtain an improved A.M. Best rating.

Donegal Mutual will seek to become a licensed property and casualty insurer in the State of Wisconsin. Donegal Mutual will work with Sheboygan Falls to reduce Sheboygan Fall's reinsurance costs, and may, but is not obligated, to provide certain layers of reinsurance to Sheboygan Falls.

Donegal Mutual currently intends that it will, at an unspecified future time, seek to demutualize Sheboygan Falls in accordance with Section 611.76 of the Wisconsin Code and that DGI would seek to acquire all of the capital stock of Sheboygan following the demutualization.

(b) Donegal Mutual believes that its acquisition of control of Sheboygan Falls will be in the best interests of Sheboygan Falls and the constituencies served by Sheboygan Falls. The benefits to the policyholders of Sheboygan Falls will include the additional surplus Sheboygan Falls will receive from issuance of the Note, the preservation of local management over the marketing, underwriting and claims adjustment processes and the enhancement of policyholder services through the affiliation of Sheboygan Falls with a larger insurance organization that maintains higher levels of technology, has access to the public capital markets and can benefit from economies of scale. Donegal Mutual further believes that the public interests of the citizens of Wisconsin will be served by Donegal Mutual's acquisition of control of Sheboygan Falls because Donegal Mutual will maintain the facilities of Sheboygan Falls in Sheboygan Falls, Wisconsin for not less than five years, will maintain significant employment at the Sheboygan Falls, Wisconsin facility and will assist in the improvement in the financial condition of Sheboygan Falls and the consequent ability of Sheboygan Falls to remain competitive in property and casualty insurance in Wisconsin.

Donegal Mutual maintains an excellent financial condition and has an A.M. Best rating of A (Excellent). At September 30, 2006, Donegal Mutual and the insurance subsidiaries of DGI (together, the "Donegal Insurance Group") had consolidated total admitted assets of \$944 million and consolidated surplus of \$413 million. For the year ended December 31, 2005, the Donegal Insurance Group had consolidated direct earned premiums of \$412 million. Donegal Mutual also has the ability, through DGI, to access the public markets to raise additional capital. The additional surplus being provided by Donegal Mutual will benefit the policyholders of Sheboygan Falls in that it gives them additional



protection for the payment of claims, and the surplus represented by the Note is subordinated to the interests of the policyholders.

**ITEM 6. VOTING SECURITIES TO BE ACQUIRED.**

Not applicable.

**ITEM 7. OWNERSHIP OF VOTING SECURITIES.**

Not applicable.

**ITEM 8. CONTRACTS, ARRANGEMENTS OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE INSURER.**

Not applicable.

**ITEM 9. RECENT PURCHASES OF VOTING SECURITIES.**

Not applicable.

**ITEM 10. RECENT RECOMMENDATIONS TO PURCHASE.**

Not applicable.

**ITEM 11. AGREEMENTS WITH BROKER-DEALERS.**

Not applicable.

**ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS.**

**(a) Exhibits:**

- (1) Contribution Note Purchase Agreement dated as of December 27, 2006 between Donegal Mutual Insurance Company and Sheboygan Falls Mutual Insurance Company.

- (2) Proposed form of the Contribution Note to be issued by Sheboygan Falls Mutual Insurance Company to Donegal Mutual Insurance Company.
- (3) NAIC Biographical Affidavit of each proposed Donegal Mutual Insurance Company designee for appointment to the Board of Directors of Sheboygan Falls Mutual Insurance Company and each executive officer of Donegal Mutual Insurance Company.
- (4) Proposed form of Services Agreement between Donegal Mutual Insurance Company and Sheboygan Falls Mutual Insurance Company.
- (5) Proposed form of Technology License Agreement between Donegal Mutual Insurance Company and Sheboygan Falls Mutual Insurance Company.
- (6A) Proposed form of Employment Agreement between Sheboygan Falls Mutual Insurance Company and Lee F. Wilcox.
- (6B) Proposed form of Employment Agreement between Sheboygan Falls Mutual Insurance Company and its executive officers other than Lee F. Wilcox.
- (7) Proposed form of Retrocessional Reinsurance Agreement between Donegal Mutual Insurance Company and Sheboygan Falls Mutual Insurance Company.
- (8) Form of Amended and Restated Bylaws of Sheboygan Falls Mutual Insurance Company to be adopted by the Board of Directors of Sheboygan Falls Mutual Insurance Company.
- (9) 2005 Annual Report to Stockholders of Donegal Group Inc.
- (10) Proxy Statement of Donegal Group Inc. for its 2006 Annual Meeting of Stockholders.
- (11) Form 10-K Annual Report of Donegal Group Inc. for the year ended December 31, 2005 as filed with the Securities and Exchange Commission (without exhibits).
- (12) Insurance Holding Company System Annual Registration Statement of Donegal Mutual Insurance Company for the year ended December 31, 2005 as filed with the Insurance Department of the Commonwealth of Pennsylvania.

(13) Amendment No. 15 to Schedule 13D of Donegal Mutual Insurance Company.

**(b) Financial Statements:**

- (1) Annual Statement of Donegal Mutual Insurance Company for the year ended December 31, 2001.
- (2) Annual Statement of Donegal Mutual Insurance Company for the year ended December 31, 2002.
- (3) Annual Statement of Donegal Mutual Insurance Company for the year ended December 31, 2003.
- (4) Annual Statement of Donegal Mutual Insurance Company for the year ended December 31, 2004.
- (5) Annual Statement of Donegal Mutual Insurance Company for the year ended December 31, 2005.

ITEM 13. SIGNATURE AND CERTIFICATION.


SIGNATURE

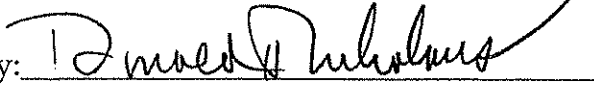
Pursuant to the requirements of ch. Ins 40, Wis. Adm. Code, Donegal Mutual Insurance Company has caused this Statement to be duly signed on its behalf in the Town of Marietta and Commonwealth of Pennsylvania on the 28<sup>th</sup> day of December, 2006.

(SEAL)

DONEGAL MUTUAL INSURANCE COMPANY


ATTEST:

  
\_\_\_\_\_  
Jeffrey D. Miller, Senior Vice  
President and Chief Financial Officer

By:   
\_\_\_\_\_  
Donald H. Nikolaus, President  
and Chief Executive Officer

CERTIFICATION

The undersigned deposes and says that he has duly executed the attached Statement dated December 28<sup>th</sup>, 2006, for and on behalf of Donegal Mutual Insurance Company; that he is the President and Chief Executive Officer of such company, and that he is authorized to execute and file such instrument. Deponent further says that he is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

  
\_\_\_\_\_  
Donald H. Nikolaus, President  
and Chief Executive Officer

COMMONWEALTH OF PENNSYLVANIA:  
COUNTY OF LANCASTER:

Subscribed and sworn to this 28<sup>th</sup> day of December, 2006.

*Patricia A Hall*

Patricia A. Hall

Notary Public

My commission expires on:

