

LATHROP & GAGE_{LLP}

VIC PETERSON
DIRECT LINE: 312.920.3337
EMAIL: VPETERSON@LATHROPGAGE.COM
WWW.LATHROPGAGE.COM

155 N. WACKER, SUITE 3050
CHICAGO, ILLINOIS 60606
PHONE: 312.920.3300
FAX: 312.920.3301

April 25, 2013

VIA EMAIL

Mr. Robert E. Brackbill, Jr.
Chief, Company Licensing Division
Pennsylvania Insurance Department
Office of Corporate and Financial Regulation
1345 Strawberry Square
Harrisburg, PA 17120

Re: Form A Dated March 20, 2013, Submitted by Gregory M. Shepard

Dear Mr. Brackbill:

On behalf of Mr. Gregory M. Shepard, we are responding to your request for additional information from your letter dated April 17, 2013.

1. Mr. Shepard holds one million (1,000,000) shares of a New York Stock Exchange listed publicly traded company. As of the close of business on April 24, 2013, the price per share was \$32.71. (Hence, Mr. Shepard holds approximately \$32.71 million of this stock. The average daily trading volume for this stock is over 2 million shares, per Yahoo Finance as of April 24, 2013.) Hence, there is a ready market for Mr. Shepard to liquidate his holdings of this security and to have the funds required to purchase the Donegal Group Inc. ("Donegal") Class B stock pursuant to the tender offer.

2. Mr. Shepard is an individual investor with no insurance operations. He is seeking through his tender offer to increase his minority investment in Donegal because he believes Donegal's stock is undervalued. He has no operational plans for, or any intent to influence, any of Donegal's insurance subsidiaries, including Atlantic States Insurance Company. He has no plans to change Atlantic States' location, to change its name, to increase its capital, to change its type of business to be written, or to change its premium volume. There are no new directors or managers contemplated at Atlantic States as a result of Mr. Shepard's tender offer, and there are no financial or employment guarantees that have been offered to Atlantic States' present management in connection with Mr. Shepard's tender offer.

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3. There is no way that Mr. Shepard can control Donegal in reality. Donegal is controlled by the 67% voting interest of Donegal Mutual Insurance Company ("Donegal Mutual"). Donegal Mutual and Donegal have overlapping Boards of Directors. In its SEC filings, Donegal has emphasized that Donegal Mutual will remain in a control position. (See, e.g., pages 12, 17, and 38 of Donegal's Definitive Proxy Statement on Schedule 14A filed with the SEC on March 18, 2013.)

As of April 22, 2013, Mr. Shepard has dropped his Board representation condition from his tender offer at the Donegal level and Donegal Mutual level. So, even if the tender offer is successful, and all regulatory approvals are received, Mr. Shepard will not have any Board representation either at Donegal or at Donegal Mutual, notwithstanding an over eighty million (\$80,000,000) investment in Donegal and holding securities with voting power equal to 22.7%.

Having said this, Mr. Shepard believes that the stock market does not understand the true value of Donegal. Mr. Shepard believes that Donegal and Donegal Mutual are extremely valuable in the hands of a larger mutual property and casualty company. This is because Donegal Mutual would merge into the acquiring mutual, and the acquiring mutual would pick up Donegal Mutual's surplus and net written premium. Hence, in the hands of an acquiring mutual property and casualty company, the stock of Donegal becomes extremely valuable.

Mr. Shepard has asked the Boards of Donegal and Donegal Mutual to consider this strategic merger, but to no avail. Mr. Shepard has been a longstanding shareholder of Donegal for over six (6) years. During that period of time, the stock price of the Class A stock has declined and the stock price of the Class B stock has only marginally improved. At the same time, Donegal's insiders have issued to themselves stock option grants on Class A shares, which if fully exercised, would equal approximately one third of the total Class A shares outstanding. This is way beyond the option levels of Donegal's peer companies.

4. As stated above, Mr. Shepard has dropped his Board representation condition at both Donegal Mutual and Donegal.

5. As stated above, Mr. Shepard has dropped his Board representation condition at both Donegal Mutual and Donegal.

6. Mr. Shepard will comply with the Department's requirement.

7. Mr. Shepard is an individual investor who conducts no insurance operations. Mr. Shepard has no controlling interest in any insurance company or insurance holding company, although he currently owns shares with 9.99% of the total

voting power of Donegal. Mr. Shepard is not a director of any insurance company or insurance holding company. Therefore, the market share analysis specified in 40 P.S. 991.1402(f)(1)(ii) is not applicable.

8. Mr. Shepard will provide under separate cover.

9. A copy of Mr. Shepard's response letter to the Iowa Insurance Department's letter of March 27, 2013 is attached.

10. In its Schedule 14D-9 Response, filed on April 3, 2013, Donegal essentially asserted three (3) conditions that could not be met: 1) Board director representation condition; 2) restriction on future option grants; and 3) Don Nikolaus, as holder of 186,375 Class B shares, had no intention of tendering his shares. Donegal then asserted that it would not cooperate in meeting Mr. Shepard's conditions, and that therefore the tender offer had no chance of succeeding and was illusory.

On April 22, 2013, Mr. Shepard responded by simply dropping the director representation condition at both Donegal Mutual and Donegal, and waiving the condition against future plans of Class A options. With respect to Mr. Nikolaus' professed intention not to tender his Class B shares, Mr. Shepard notes that people frequently change their minds when it comes to money, and that Mr. Nikolaus will be disappointing many Class B shareholders if he fails to tender out of sheer obstinence. Mr. Nikolaus will, in effect, "ruin it" for everyone else. If Mr. Nikolaus persists in his position, he would be risking, in Mr. Shepard's view, serious breaches of his fiduciary duties to the Class B shareholders.

With \$30 per share being offered by Mr. Shepard, the Class B share represents an outstanding financial offer. The Class B stock price has not been at \$30 for over ten (10) years, if it has ever been at that price level. Neither Donegal nor Mr. Nikolaus has ever voiced an objection to Mr. Shepard's \$30 per share offer based on the adequacy of the price.

11. Mr. Shepard will provide under separate cover a breakout of the specific confidential information, along with the bases for the assertion of confidentiality. These exhibits contain personal financial information, and their release would be harmful to Mr. Shepard. In the meantime, please continue to treat Exhibits H-M as confidential information.

On April 22, 2013, Mr. Shepard issued a press release and filed Amendment No. 4 to his Tender Offer Statement on Schedule TO with the SEC, announcing that he has extended the expiration date of his tender offer until Monday, May 20, 2013, and that he has waived his board of directors representation condition at both the Donegal and

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Donegal Mutual levels, as discussed above. In light of these changes to the terms of his tender offer, Mr. Shepard hereby amends his Form A statement dated March 20, 2013, filed with the Pennsylvania Insurance Department as follows:

(a) To change all references to the original expiration date of April 19, 2013, to state instead that the tender offer will expire at 11:59 p.m., New York City time, on May 20, 2013;

(b) To replace the last sentence of the sixth paragraph of the section in Item 1 titled "Introduction" with the following: "As discussed in greater detail below, even if the Tender Offer is successful, Shepard would still have a minority percentage of the voting power of DGI's outstanding stock.";

(c) To delete the seventh paragraph of the section in Item 1 titled "Introduction"; and

(d) To delete the fourth paragraph of the section in Item 1 titled "Information About the Tender Offer."

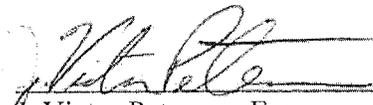
On behalf of Mr. Shepard, we request a hearing date at your earliest opportunity. Mr. Shepard looks forward to a public hearing and is available for that purpose on May 9 or 10, 2013. Because Mr. Shepard has extended the expiration date of his tender offer until Monday, May 20, 2013, he requests that a hearing be held no later than May 15, 2013, in order to give Donegal Class B shareholders and the securities markets sufficient time to digest the information prior to the expiration of the tender offer.

Thank you for your attention to this matter. If you have any other questions, or require any further additional information, please do not hesitate to contact the undersigned.

Very truly yours,

Lathrop & Gage LLP

By:


Victor Peterson, Esq.