



June 19, 2013

J. Victor Peterson, Esquire
Lathrop & Gage LLP
100 North Riverside Plaza, Suite 2100
Chicago, Illinois 60606-1501

VIA E-MAIL: vpeterson@lathropgage.com

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

Dear Mr. Peterson,

The Pennsylvania Insurance Department ("Department") has completed its review of the responses provided to our initial review letter of April 17, 2013. Please provide the following additional materials in support of the filing. For your convenience, the items requested in the Department's initial review letter are set forth below in italics.

1. *The estimated purchase price is reported in Item 4 of the Form A to be approximately \$29 million dollars to be paid from Mr. Shepard's personal funds. Please provide a specific description of the source of such funds (cash, investments, etc.) which will be used for the purchase. If Mr. Shepherd intends to liquidate investments, please specifically indicate which investments and the current fair market value of the same.*

Your response letter did not provide the name of the publicly traded company. Also, the audited financial statements of March 15, 2013, do not appear to agree with the response provided. To be as clear as possible, the Department requests a complete list of assets held by Mr. Shepard, to include a listing of companies in which shares are held, the number of shares and their current market value. We also request a list of the specific shares that will be sold to pay the \$28,879,080 for the DGI shares to be acquired.

2. *The filing does not contain a business plan for Atlantic States post acquisition. Please provide a discussion on the projected business plan for the domestic insurer.*

The Department has not received a response to this request.

3. *Item 5 of the Form A states that Mr. Shepard has no immediate plans to, among other things, cause the merger of Atlantic States (although he reserves the right to "develop plans or proposals in the future to seek to control DGI or any of DGI's subsidiaries that could*

potentially attempt to cause DGI or any of DGI's subsidiaries to declare an extraordinary dividend, to liquidate it, to sell its assets or to merge or consolidate it with any person, or to make any other material change its investment policy...). However, Mr. Shepard's press release on the Tender Offer appears to indicate that Mr. Shepard is attempting to acquire these shares specifically to cause a merger or other corporate transaction to increase shareholder value. Please provide a discussion on this apparent conflict.

The response provides that "[t]here is no way that Mr. Shepard can control Donegal in reality." Given this statement, please explain how acquiring the additional shares of DGI will assist in attaining the stated goal of influencing Donegal Mutual Insurance Company to merge with another larger mutual property and casualty insurer. Additionally, please explain how such a merger would be in the best interest of policyholders and in the public interest.

4. *Mr. Shepard has requested board seats on both the Donegal Mutual Insurance Company and Donegal Group Inc. Board of Directors. Please provide a discussion on compliance with the requirements of 40 P.S. Sections 991.1405(c)(3) and (4).*

Answered.

5. *Mr. Shepard has requested three seats on the Donegal Mutual Insurance Company Board of Directors. Control of mutual insurance companies is obtained by obtaining 10% or greater of the seats of the Board of Directors. Does Mr. Shepard intend to file a Form A for his acquisition of 25% of the Board of Directors of Donegal Mutual Insurance Company?*

Answered.

6. *The Department requires an instrument in compliance with 40 P.S. Sections 991.1402(b)11.1 and 11.2.*

The Response provides that Mr. Shepard will comply with the Department's requirement. Please provide the acknowledgment and agreement required by these statutory provisions.

7. *Provide a market share analysis as described by 40 P.S. Section 991.1402(f)(1)(ii).*

Answered.

8. *Provide a listing of Mr. Shepard's non-insurance affiliates.*

The Response provides that a response to this inquiry will be provided under separate cover. Please provide the listing or indicate when such separate response will be provided.

9. *Provide a copy of Mr. Shepard's response to the Iowa Insurance Department's letter of March 27, 2013.*

At the time of providing the requested document you requested that it be kept confidential until a future event. Please provide a discussion on when we can expect the response to the

Iowa Insurance Department to become public.

10. *Please respond to the assertions made by Donegal in its April 3, 2013, Schedule 14D-9 regarding the failure to meet the conditions of the Offer.*

Answered.

11. *The March 19, 2013, cover letter to the Form A filing requests confidential treatment of Exhibits H-M because they are "personal financial statements." Please identify the specific information, document, report or other material within the personal financial statements that is asserted to be confidential. Additionally, for each genre of items identified, state the basis upon which the assertion of confidentiality, propriety or privilege is premised.*

Although Mr. Shepard has generally requested confidential treatment of financial statements, the Department has not received a list of each genre of items identified and the basis upon which confidentiality is asserted for each of these items. Please provide such list in accordance with the requirements of 31 Pa.Code §25.12(c). Although you do cite to §25.12(c) in your May 6, 2013 letter as the basis of the privilege, please also include any other common-law bases for confidentiality that you are asserting. Additionally, please respond *specifically* to each of the assertions in the June 14, 2013 letter from Robert L. Pratter to the Department, including any legal argument in response to paragraph 3 of such letter.

In addition to the above:

1. Your letter of May 6, 2013, which responded to DGI's public comments of April 3, 9 and 30, 2013, includes the following statement: "Mr. Shepard's Form A seeks to rebut the presumption of control under Pennsylvania Statutes..." The purpose of a Form A is to obtain the Department's approval to acquire control of a domestic insurer. If the applicant intends to establish that he is not attaining control of a domestic insurer he should file a disclaimer of control for the Department's consideration in lieu of a Form A application. Please clarify Mr. Shepard's intentions in this regard.
2. Counsel for DGI submitted a public comment to the Department dated May 9, 2013. The document was forwarded to you for a response on May 15, 2013. Please provide a response to Mr. Pratter's May 9, 2013, public comment. This response should include a complete discussion regarding Mr. Shepard's involvement with Illinois Healthcare Insurance Company, and provide explanation of how, by virtue of such involvement with an insolvent insurance company, Mr. Shepard does not violate the competence, experience and integrity standard set forth in 40 P.S. § 991.1402(f)(v).
3. Please provide a copy of all correspondence with other insurance department regulators and your responses.
4. Please provide a response for each public comment letter received.

Feel free to contact me directly with any questions you may have concerning this correspondence, or the filing review process, at (717) 783-2143 or rbrackbill@pa.gov.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Robert E. Brackbill, Jr.", with a large, stylized flourish extending to the right.

Robert E. Brackbill, Jr., PIR
Chief
Company Licensing Division