

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

August 1, 2013

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Corporate & Financial Regulation

AUG 02 2013

Pennsylvania
Insurance Department

VIA EMAIL AND FEDERAL EXPRESS

Mr. Robert E. Brackbill, Jr.
Chief, Company Licensing Division
Pennsylvania Insurance Department (the "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:

Our client Gregory M. Shepard hereby notifies the Department that his tender offer ("Tender Offer") for 962,636 shares of Class B common stock ("Class B Shares") of Donegal Group Inc. ("DGI") expired in accordance with its terms at 11:59 p.m. New York City time on July 31, 2013. Mr. Shepard did not further extend the Tender Offer, and he did not purchase any Class B Shares pursuant to the Tender Offer, because the "Minimum Condition," which required at least 925,000 Class B Shares to have been tendered and not withdrawn, and the "Insurance Regulatory Approval Condition" were not satisfied. See the Press Release attached hereto as **Exhibit A**, which was released on August 1, 2013, at 6:00 a.m. Eastern Time via PR Newswire.

However, Mr. Shepard is not withdrawing, but instead is hereby amending, his Form A application (1) to delete references (specified below) to the Tender Offer and (2) to request the Department's approval of his purchasing – in the open market or through private transactions, rather than through the Tender Offer – up to 962,636 additional Class B Shares which, together with the shares of DGI's common stock that Mr. Shepard currently owns, would constitute 22.7% of the combined voting power of DGI's common stock (i.e., the same level of stock ownership as in Mr. Shepard's initial Form A).

In addition, Mr. Shepard reserves the right to pursue an amicable transaction (i.e., with the consent of DGI's Board of Directors), in which he may purchase a greater amount of DGI's common stock. However, if DGI's Board of Directors were to agree to

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such an amicable transaction, then Mr. Shepard would further amend his Form A to seek the Department's approval for such a transaction.

In particular, Mr. Shepard's initial Form A is hereby amended as follows:

- In Item 1, the fifth paragraph (on page 2) is deleted;
- In Item 1, in the first sentence of the sixth paragraph (on page 2), the words "in the Tender Offer" are deleted;
- In Item 1, in the fourth sentence of the sixth paragraph (on page 3), the words "even if the Tender Offer is successful" are deleted;
- In Item 1, in the fourth sentence of the sixth paragraph (on page 3), the words ", and would be represented on the Boards of Directors of DGI and Donegal Mutual by a minority of the directors in each case" are deleted (Mr. Shepard had already waived the "Board Condition" of the Tender Offer);
- In Item 1, the seventh paragraph (on page 3) is deleted;
- In Item 1, title of the subsection titled "Information About the Tender Offer" (on page 4) is restated as "Information About the Proposed Purchases";
- In Item 1, in first paragraph of the subsection formerly titled "Information About the Tender Offer" (on page 4), the words "in the Tender Offer, if successful" are deleted;
- In Item 1, in the second paragraph of the subsection formerly titled "Information About the Tender Offer" (on page 4), the first four sentences are deleted;
- In Item 1, the third, fourth and fifth paragraphs of the subsection formerly titled "Information About the Tender Offer" (on pages 4 and 5) are deleted;
- In Item 1, the following is added as a separate paragraph at the end of the subsection titled "Information About Shepard's DGI Holdings" on page 7:
"On July 31, 2013, the Tender Offer referenced in the immediately preceding paragraph expired without Shepard purchasing any Class B Shares in connection therewith.";
- In Item 1, the last paragraph of the subsection titled "Information About DGI and Donegal Mutual" (on page 8) is deleted;

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- In Item 4.A, Mr. Shepard restates his response as follows: “Mr. Shepard will pay the purchase consideration for up to 962,636 additional Class B Shares in cash from his personal funds, without borrowing any of such funds. The aggregate amount of such consideration will depend on the number of shares purchased and the price per share in each particular purchase.”; and
- In Item 4.B, Mr. Shepard restates his response as follows: “The prices for the additional Class B Shares that Mr. Shepard would purchase will be determined by the stock market prices of Class B Shares, or by private negotiations, at the time of such purchases.”

* * *

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:



J. Victor Peterson, Esq.

FOR IMMEDIATE RELEASE

Tender Offer for Donegal Group Class B Shares by Gregory Shepard Expires

Bradenton, Florida, August 1, 2013 (NASDAQ: "DGICB") – Gregory Mark Shepard announced today that his tender offer for 962,636 shares of Class B Common Stock ("Class B Shares") of Donegal Group Inc. ("Donegal") at a price of \$30 per share (the "Offer") expired at 11:59 p.m., New York City time, on July 31, 2013.

Mr. Shepard stated, "The Offer expired on July 31, 2013, and was not further extended. Class B Shares that have been tendered and not withdrawn will be promptly returned and not accepted for payment, because the 'Minimum Condition' and the 'Insurance Regulatory Approval Condition' of the Offer have not been satisfied. The 'Minimum Condition' required at least 925,000 Class B Shares to have been tendered and not withdrawn. Even if the Minimum Condition were reduced by the 196,000 Class B Shares owned by Donegal insiders, it still would not have been satisfied."

Mr. Shepard added, "The 'Insurance Regulatory Approval Condition' required the approval of my purchase of additional Class B Shares pursuant to the Offer by the insurance departments of the six states where Donegal's insurance subsidiaries are located. Although the Offer was open for over four months, none of these approvals has been received."

Based on information received from the Depository for the Offer, as of 5:00 p.m., New York City time, on July 31, 2013, approximately 394,215 Class B Shares had been tendered and not withdrawn from the Offer, plus an additional 1,988 shares had been submitted by guaranteed delivery. All shares tendered and not withdrawn will be promptly returned.