

# LATHROP & GAGE<sub>LLP</sub>

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**RECEIVED**  
Corporate & Financial Regulation

March 19, 2013

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**Pennsylvania**  
**Insurance Department**

VIA FEDERAL EXPRESS

Mr. Michael F. Consedine  
Commissioner of Insurance  
Commonwealth of Pennsylvania Insurance Department (the "Insurance Department")  
1345 Strawberry Square  
Harrisburg, PA 17120

**Re: Form A**

**Pennsylvania-regulated entities: Atlantic States Insurance Company ("Atlantic States"), NAIC Code No. 22586; Donegal Group Inc. ("DGI"); and Donegal Mutual Insurance Company ("Donegal Mutual")**

**Transaction: Tender offer dated March 20, 2013, by Gregory M. Shepard, an individual ("Mr. Shepard"), for 962,636 Class B Shares of DGI, which owns 100% of Atlantic States**

Dear Mr. Consedine,

Please find enclosed herewith a Statement Regarding the Acquisition of Control of a Domestic Insurance Company on Form A filed hereby on behalf of Mr. Shepard in connection with Mr. Shepard's contemplated acquisition of control of Atlantic States, a Pennsylvania property and casualty insurance company. Also enclosed are Mr. Shepard's Biographical Affidavit (on NAIC Form 11) and an attachment thereto.

Atlantic States is a wholly owned subsidiary of DGI, a Delaware corporation, whose principal offices are located in Marietta, Pennsylvania. On March 20, 2013, Mr. Shepard will file with the U.S. Securities and Exchange Commission a Tender Offer Statement on Schedule TO and the related Offer to Purchase, copies of which are also enclosed. As set forth in such documents, Mr. Shepard is offering to purchase 962,636 shares of Class B common stock of DGI for \$30.00 per share in cash (the "Tender Offer").

March 19, 2013

Page 2

Because the trading volume of the Class B common stock of DGI is historically very low, there is no efficient means to acquire a large number of shares of such stock other than through a tender offer.

If the Tender Offer is successful, Mr. Shepard would own shares of Class A and Class B common stock representing an aggregate of 22.7% of the voting power of DGI's outstanding stock. By contrast, Donegal Mutual, a Pennsylvania property and casualty insurance company, owns shares of Class A and Class B common stock representing an aggregate of 65.9% of the voting power of DGI's outstanding stock.

Given the overwhelming control of DGI by Donegal Mutual through its ownership of shares with almost 2/3 of the voting power of DGI's outstanding stock, there is no way that Mr. Shepard could in fact control DGI. Even if the Tender Offer is successful, Mr. Shepard would still have a minority percentage of the voting power of DGI's outstanding stock, and would be represented on Boards of Directors of DGI and Donegal Mutual by a minority of the directors in each case.

40 P.S. 991.1402(a)(1) and 31 P.A.C. 25.16(a) require Mr. Shepard to file the Form A with, and to receive approval from, the Insurance Department before consummating the acquisition pursuant to the Tender Offer. Mr. Shepard hereby respectfully requests such approval.

Exhibits H – M to the Form A are Mr. Shepard's personal financial statements, which are contained in the enclosed envelope. Pursuant to 31 P.A.C. 25.12(c), Mr. Shepard respectfully requests that the Insurance Department give these documents confidential treatment, because they are his personal financial statements. Please direct any inquiries regarding the issue of confidential treatment of such materials to me.

If the Insurance Department requires further information, please do not hesitate to contact me.

Sincerely yours,

LATHROP & GAGE LLP



By: J. Victor Peterson, Esq.