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July 10, 2013

## VIA EMAIL

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: Donegal Group Inc. ("Donegal")

Dear Mr. Brackbill:

We are responding on behalf of our client, Gregory M. Shepard ("Mr. Shepard"), to the letter dated July 8, 2013, sent to you by David Pittinsky, Esq. of Ballard Spahr LLP on behalf Donegal.

That letter attached a draft term sheet as Exhibit P thereto (the "Exploratory Term Sheet"). For exploratory discussion purposes and with an expectation of confidentiality, Mr. Shepard sent the Exploratory Term Sheet to his brother, Tracy Shepard, upon the urging of several family members, along with a cover letter (attached hereto as **Exhibit A**) regarding naming rights to the Community Cancer Center in Bloomington, Illinois. Mr. Shepard has had conflicts, including litigation, with his brother in the past. Unfortunately, Tracy Shepard's disclosure of the Exploratory Term Sheet to Donegal is a result of those hard feelings.

Mr. Pittinsky makes "much too much" over the Exploratory Term Sheet, and he fails to point out the following:

- 1) The Exploratory Term Sheet assumes the tender offer has been successful. See "Security" (end of first paragraph): "All of the Class B shares acquired by Borrower in the TO."

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- 2) The Exploratory Term Sheet is for an entirely different transaction, after the successful completion of the tender offer, that would be consensual with Donegal, Donegal Mutual and their Boards of Directors.
- 3) Mr. Shepard has never stated that he would be a passive shareholder. In fact, Mr. Shepard must file his SEC Statement of Beneficial Ownership of Donegal shares on Schedule 13D, because he is not eligible to file Schedule 13G, which is available only to passive shareholders.
- 4) Mr. Shepard's Schedule 13D (Item 4 – "Statement of Intent") and his pronouncements in his Schedule TO are entirely consistent. Mr. Shepard has consistently stated that his intent with respect to Donegal is to explore ways to enhance shareholder value.
- 5) The Exploratory Term Sheet specifically states that any new transaction would be subject to regulatory approvals.
- 6) Mr. Shepard has no ability to gain actual control of Donegal as a result of his current tender offer, because Donegal Mutual would continue to own shares with 65.7% of the combined voting power of Donegal's stock even after a successful tender offer. Moreover, Mr. Shepard waived his condition for Board representation.

Furthermore, the Exploratory Term Sheet is consistent with Mr. Shepard's reservation of his rights, in Item 4 of his Schedule 13D (as revised), to pursue additional transactions with respect to Donegal and the financing therefor. For example, Amendment No. 4 to Mr. Shepard's Schedule 13D filed on November 8, 2012, states in part that he "may, from time to time and at any time, in the future take such actions with respect to his investment in the Issuer as he deems appropriate including, but not limited to: communicating with management, the Board, other stockholders, industry participants and other interested or relevant parties (including financing sources and financial advisors) about the Issuer or proposing a potential or other transaction involving the Issuer and about various other matters, including the operations, business, strategic plans, assets and capital structure of the Issuer or one or more of the other items described in subparagraphs (a)-(j) of Item 4 of Schedule 13D...."

Moreover, Mr. Shepard has stated, in Amendment No. 4 to his Schedule TO filed with the SEC on April 22, 2013, that:

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"Offeror believes that the Company's shares are undervalued and that the best means to increase the price of the Company's shares would be to merge the Company and Donegal Mutual into another mutual property and casualty insurer. However, Offeror currently has no specific plans or proposals for such a merger transaction. Moreover, Offeror has no present plans or proposals for a change in the conduct of the business or employment of the assets and surplus of the Company and its affiliates and subsidiaries."

Mr. Pittinsky received a private communication as a result of an intra-family dispute. Instead of realizing the Exploratory Term Sheet for what it is, Mr. Pittinsky seeks to use it for his client's advantage by mischaracterizing it. With the Exploratory Term Sheet, Mr. Shepard is exploring future options, as any shareholder might do. At the end of the day, Mr. Pittinsky's argument is nothing more than churlish name-calling.

Mr. Shepard reiterates that he has no present plans or proposals for a merger transaction or any transaction other than the present tender offer. He has no present plans or proposals for a change in the conduct of the business or employment of the assets and surplus of Donegal and its affiliates and subsidiaries.

Mr. Shepard respectfully submits that the Exploratory Term Sheet is not relevant to the Department's determination on his Form A in connection with his current tender offer, and requests that the Department disregard it as extraneous material. The Exploratory Term Sheet is nothing more than the exploration of an idea.

Please contact the undersigned with any comments or questions.

Very truly yours,

Lathrop & Gage LLP

By:

  
Victor Peterson

**Exhibit A**

See attached.

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June 24, 2013

Mr. Tracy M. Shepard  
20077 E. 950 North Road  
Bloomington, IL 61704

Re: Community Cancer Center

Dear Tracy:

Enclosed are materials on my investment in Donegal Group for your review. If you and I could enter into a version of the enclosed Term Sheet then I would be willing to contribute 75% of the funds required to have the Community Cancer Center renamed as the Shepard Cancer Center or the Shepard Community Cancer Center. I am asking that you contribute the other 25%. The current naming asking price for the campus is \$4,000,000 down from \$5,000,000 but it is negotiable and maybe \$2 to \$3 million would be an acceptable number. I gave them \$20,000 last year and still have \$80,000 due over the next 4 years on my current pledge. Several people have asked me if I had any interest in the naming rights. L.F. was involved in the Cancer Society and I am sure this is something that all of those who have preceded us and our heirs would be proud of. I have not attempted to negotiate the naming rights and will wait to hear from you.

Please do not hesitate to contact me at 310-1331 or 827-5968. I will be in Bloomington until September 25 or so.

Your brother,

