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Brackbill, Robert

From: Frantz, Jodi (Insurance)
Sent: Friday, May 03, 2013 10:42 AM
To: Brackbill, Robert; Johnson, Stephen; Rankin, Kimberly
Cc: Daubert, Amy
Subject: FW: Donegal Group Inc. and Atlantic States Insurance Company--Shepard Amended Tender Offer and Form A Application
Attachments: 528913A.PDF

From: Pratter, Robert L. [<mailto:RPratter@duanemorris.com>]
Sent: Friday, May 03, 2013 10:41 AM
To: Frantz, Jodi (Insurance)
Cc: donnikolaus@donegalgroup.com
Subject: Donegal Group Inc. and Atlantic States Insurance Company--Shepard Amended Tender Offer and Form A Application

Dear Ms. Frantz:

As counsel to Donegal Group Inc. ("DGI") and Atlantic States Insurance Company, I am informing the Pennsylvania Insurance Department and sending you a PDF copy of DGI's Amendment No.2 to Schedule 14D-9 that was filed on May 2, 2013 with the United States Securities and Exchange Commission. Amendment No. 2 to the Schedule 14D-9 contains information with respect to the recommendation to the DGI Class B stockholders by the Special Committee of the DGI Board OF Directors and the DGI Board of Directors that the Class B stockholders reject Gregory Mark Shepard's Amended Tender Offer and not tender their Class B Shares for purchase pursuant to the Amended Tender Offer.

Please contact the undersigned if you have any questions with respect to Amendment No. 2 to Schedule 14D-9 or related matters.

Respectfully,

Robert L. Pratter
Of Counsel

Duane Morris LLP
30 South 17th Street
Philadelphia, PA 19103-4196
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For more information about Duane Morris, please visit <http://www.DuaneMorris.com>

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

**SCHEDULE 14D-9
(Amendment No. 2)**

**SOLICITATION/RECOMMENDATION STATEMENT
UNDER SECTION 14(d)(4) OF THE SECURITIES EXCHANGE ACT OF 1934**

DONEGAL GROUP INC.
(Name of Subject Company)

DONEGAL GROUP INC.
(Name of Person Filing Schedule 14D-9)

Class B Common Stock, par value \$0.01 per share
(Title of Class of Securities)

257701-30-0
(CUSIP Number of Class of Securities)

Jeffrey D. Miller
Senior Vice President and Chief Financial Officer
Donegal Group Inc.
1195 River Road, P.O. Box 302
Marietta, PA 17547-0302
(717) 426-1931

(Name, address and telephone number of person authorized to receive notices and communications on behalf of the persons filing statement)

With copies to:

Frederick W. Dreher, Esq.
John W. Kauffman, Esq.
Duane Morris LLP
30 South 17th Street
Philadelphia, PA 19103-4196
(215) 979-1234
Counsel to Donegal Group Inc.

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Ballard Spahr LLP
1735 Market Street
Philadelphia, PA 19103-7559
(215) 864-8117
Counsel to the
Donegal Group Inc.
Special Committee

Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

Item 4.	<u>The Solicitation or Recommendation</u>
Item 9.	<u>Exhibits</u>

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(i)

PREFACE

This Amendment No. 2 to Solicitation/Recommendation Statement on Schedule 14D-9 (this "Amended 14D-9") relates to the tender offer (the "Offer") of Gregory Mark Shepard ("Shepard") to purchase for cash 962,636 shares of Donegal Group Inc. ("DGI") Class B common stock (the "Class B Shares") at a purchase price of \$30.00 per share upon the terms and subject to the conditions set forth in Shepard's Schedule TO (the "TO"). Shepard filed the TO with the Securities and Exchange Commission (the "SEC") on March 20, 2013. Shepard amended the Offer on April 22, 2013 and extended its expiration date to May 20, 2013 (the "Amended Offer"). Shepard also filed an amended Schedule TO (the "Amended TO") with the SEC on April 22, 2013.

The DGI Board of Directors (the "DGI Board") met on April 30, 2013, following a meeting the Special Committee of the DGI Board held on April 26, 2013. The Special Committee concluded that the Amended Offer was illusory and recommended that the DGI Board recommend to the holders of the Class B Shares that they reject Shepard's Amended Offer and not tender their Class B Shares for purchase because the Amended Offer is illusory. In accordance with the report and recommendation of the Special Committee, the DGI Board unanimously recommends that the holders of the Class B Shares REJECT the Amended Offer and NOT TENDER their Class B Shares for purchase pursuant to the Amended Offer. DGI sets forth the reasons for the recommendation of the DGI Board in this Amended 14D-9.

(ii)

Item 4. The Solicitation or Recommendation.

(a) Solicitation/Recommendation

The DGI Board thoroughly evaluated and assessed the conditions in the Amended Offer. The DGI Board acted upon a report and recommendation submitted to the DGI Board by the Special Committee and advice from independent legal counsel. The Special Committee met on April 26, 2013. At its April 30, 2013 meeting, the DGI Board determined that Shepard could not satisfy certain conditions Shepard stated in his Amended Offer before the May 20, 2013 Expiration Date or within a reasonable period of time after the May 20, 2013 Expiration Date.

The DGI Board, therefore, unanimously recommends that the holders of DGI's Class B Shares REJECT the Amended Offer and NOT TENDER their Class B Shares for purchase pursuant to the Amended Offer.

(b) Background

Shepard commenced the Amended Offer on April 22, 2013. Shepard's conditions precedent to the Amended Offer provide that Shepard has no obligation to purchase the Class B Shares if any of his conditions to the Amended Offer have not been met. Because of the Amended Offer's Expiration Date of May 20, 2013, the DGI Board and the Special Committee believe that the Amended Offer is illusory for the reasons DGI sets forth in Item 4(c) of this Amended 14D-9.

(c) Reasons for the DGI Board Recommendation

In reaching the conclusions and making the recommendation DGI describes above, the DGI Board and the Special Committee reviewed the conditions to the Amended Offer. As set forth in this Amended 14D-9, the DGI Board and the Special Committee comprised of independent members of the DGI Board believe that Shepard cannot satisfy a number of conditions to the Amended Offer before the May 20, 2013 Expiration Date or within a reasonable period of time after the May 20, 2013 Expiration Date. These conditions include the FRB Condition, the HSR Condition and the Insurance Regulatory Approval Condition.

The FRB Condition

Shepard has conditioned the Amended Offer upon the approval of the Federal Reserve Bank of Philadelphia (the "FRB") following the expiration of a 60-day review period after Shepard's filing of an application with the FRB for his proposed acquisition of the Class B Shares. Even though Shepard made his initial Offer for the Class B Shares on March 20, 2013 and even though his initial Offer, like the Amended Offer, was conditioned on FRB approval, Shepard did not file the requisite application for FRB approval until April 29, 2013. Because of the length of the review period, the DGI Board and the Special Committee do not believe that Shepard can satisfy the FRB Condition by the May 20, 2013 Expiration Date or within a reasonable period of time after the May 20, 2013 Expiration Date. Shepard cannot waive this condition, which is by law an indispensable legal condition precedent to the consummation of the Amended Offer.

The HSR Condition

Shepard may not consummate the Amended Offer prior to the expiration or termination of all applicable waiting periods and any extension of the waiting periods applicable to the notification Shepard must file with respect to the Amended Offer pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976. To the knowledge of the DGI Board, as of May 1, 2013, Shepard had not made the filing or paid the filing fee. Because of the length of the waiting period, the DGI Board believes that Shepard cannot satisfy the HSR Condition prior to the May 20, 2013 Expiration Date or within a reasonable period of time after the May 20, 2013 Expiration Date. Shepard cannot waive this condition, which is by law an indispensable legal condition precedent to the consummation of the Amended Offer.

The Insurance Regulatory Approval Condition

The Insurance Regulatory Approval Condition requires that the insurance regulators in six states – Iowa, Maryland, Michigan, Pennsylvania, Virginia and Wisconsin – approve the Tender Offer. Two states have raised legal issues as to whether Shepard may initiate the Tender Offer at all prior to obtaining insurance regulatory approval in those states. All the regulatory states also have review and/or public hearing procedures, and other conditions that Shepard must satisfy before the Insurance Regulatory Approval Condition can be met. Shepard also has not provided to DGI a complete copy of the Form A Application, which DGI believes is required by law. The DGI Board believes that unless and until Shepard meets all of the legal and procedural requirements applicable to the insurance regulatory approval process in Iowa, Maryland, Michigan, Pennsylvania, Virginia and Wisconsin, the insurance regulatory process in all six states will not proceed in a manner that will satisfy the Insurance Regulatory Approval Condition by the May 20, 2013 Expiration Date or within a reasonable period of time after the May 20, 2013 Expiration Date. Moreover, Shepard cannot waive the requirement of insurance regulatory approval in Iowa, Maryland, Michigan, Pennsylvania, Virginia and Wisconsin, which by law are indispensable legal conditions precedent to the consummation of the Amended Offer.

In addition, although Shepard may ultimately decide to waive the Minimum Tender Condition – unlike the HSR Condition, the FRB Condition and the Insurance Regulatory Approval Condition, which cannot be waived because they are indispensable legal conditions that must be satisfied before Shepard can consummate the Amended Offer – it too cannot be satisfied. Shepard’s Minimum Tender Condition cannot be satisfied because, as set forth in Item 4(d), none of the directors, executive officers or affiliates of DGI or Donegal Mutual intends to tender their Class B Shares to Shepard pursuant to his Amended Offer. As a result, sufficient Class B Shares are not available for purchase by Shepard that would permit him to satisfy the Minimum Tender Condition.

For the foregoing reasons, the DGI Board and the Special Committee determined that the HSR Condition, the FRB Condition, the Insurance Regulatory Approval Condition and the Minimum Tender Condition cannot be satisfied by the May 20, 2013 Expiration Date or within a reasonable period of time following the May 20, 2013 Expiration Date. **Accordingly, the DGI Board continues to believe that Shepard’s Amended Offer is illusory and recommends that the holders of Class B Shares REJECT the Amended Offer and NOT TENDER their Class B Shares to Shepard for purchase pursuant to the Amended Offer.**

(d) Intent to Tender

If the directors and executive officers of DGI were to tender pursuant to the Amended Offer all Class B Shares they own, they would receive the same cash consideration and on the same terms and conditions as all other holders of Class B Shares. As of April 1, 2013, the directors and executive officers of DGI own an aggregate of 196,122 Class B Shares, or 3.5% of the outstanding Class B Shares. If the directors and executive officers of DGI were to tender all of such Class B Shares for purchase pursuant to the Amended Offer and those Class B Shares were accepted for purchase by Shepard, the directors and executive officers of DGI would receive an aggregate consideration of approximately \$5.9 million in cash.

To the knowledge of DGI, none of the directors, executive officers or affiliates of DGI or Donegal Mutual intends to tender the Class B Shares they held of record or beneficially owned for purchase pursuant to the Amended Offer. Donald H. Nikolaus, the President and Chief Executive Officer of DGI, advised the Special Committee that he has considered the Amended Offer and has determined that he will not tender any of the 186,375 Class B Shares he beneficially owns for purchase by Shepard.

If you have tendered your DGI Class B Shares, you can withdraw them. Please contact our information agent, MacKenzie Partners, Inc., toll-free at (800) 322-2885 for assistance in withdrawing your tender. You can also contact your broker or DGI. The information to contact DGI is set forth below:

Jeffrey D. Miller
Senior Vice President and Chief Financial Officer
Donegal Group Inc.
1195 River Road, P.O. Box 302
Marietta, PA 17547
(717) 426-1931

DGI includes copies of its press release and a letter to its stockholders relating to the recommendation of the DGI Board to reject the Amended Offer as Exhibit (a)(1) and Exhibit (a)(2) to this Amended 14D-9 and incorporates such press release and letter by reference in this Amended 14D-9.

Item 9. Exhibits.

DGI herewith files the following exhibits or incorporates such exhibits in this Amended 14D-9:

<u>Exhibit Number</u>	<u>Description</u>
(a)(1)	Press Release of DGI dated May 2, 2013
(a)(2)	Letter from DGI to the Holders of Class B Common Stock dated May 2, 2013

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this Amendment No. 2 to Schedule 14D-9 is true, complete and correct.

DONEGAL GROUP INC.

By: /s/ Donald H. Nikolaus
Donald H. Nikolaus,
President

Dated: May 2, 2013

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
(a)(1)	Press Release of DGI dated May 2, 2013
(a)(2)	Letter from DGI to the Holders of Class B Common Stock dated May 2, 2013

FOR IMMEDIATE RELEASE
May 2, 2013

THE BOARD OF DIRECTORS OF DONEGAL GROUP INC.
RECOMMENDS THAT ITS CLASS B STOCKHOLDERS REJECT
THE AMENDED TENDER OFFER OF GREGORY MARK SHEPARD

MARIETTA, PA — May 2, 2013 — Donegal Group Inc. (“DGI”) (NASDAQ: DGICA and DGICB) reported that it had filed an amendment to Schedule 14D-9 solicitation/recommendation statement with the SEC today. The Amended Schedule 14D-9 reports the unanimous recommendation of DGI’s Board that the holders of DGI’s Class B Common Stock reject the unsolicited and amended tender offer for 962,636 shares of DGI’s Class B Shares at a price of \$30.00 per share in cash by Gregory Mark Shepard. The Amended Offer states it will expire May 20, 2013.

DGI’s Board has thoroughly evaluated and assessed the conditions to the Amended Offer that Shepard established, together with the assistance of a report and recommendation submitted to DGI’s Board by a special committee of five directors independent of Donegal Mutual Insurance Company and advised by independent legal counsel. Based upon its evaluation and assessment of the conditions to the Amended Offer, including the federal and state regulatory approvals Shepard must obtain before he can legally consummate his offer, DGI’s Board unanimously determined that Shepard’s Amended Offer is illusory because Shepard will not be able to satisfy certain legal conditions precedent to the Amended Offer before its expiration date or within a reasonable period of time after the expiration date. **Accordingly, the DGI Board recommends that the holders of DGI Class B Shares REJECT the Amended Offer and NOT TENDER their Class B Shares to Shepard for purchase pursuant to the Amended Offer.**

DGI has posted in the Investors area of its website at www.donegalgroup.com a letter to its stockholders that provides more information regarding the DGI Board recommendation.

Important Information and Where to Find It

This communication does not constitute an offer to buy or the solicitation of an offer to sell any securities. **DGI urges the holders of its Class B common stock to read the solicitation/recommendation statement, as well as any other documents DGI subsequently files with the SEC when such documents become available because they will contain important information.** Holders of Class B Shares may obtain, without charge, a copy of the solicitation/recommendation statement and other documents (when available) that DGI files with the SEC at the SEC’s website at www.sec.gov and DGI’s website at www.donegalgroup.com. In addition, DGI’s solicitation/recommendation statement and other documents (when available) that DGI files with the SEC may be obtained, without charge, from DGI by writing to DGI’s corporate secretary, Sheri O. Smith, at its principal executive offices at 1195 River Road, P.O. Box 302, Marietta, Pennsylvania 17547 or by e-mail to sherismith@donegalgroup.com.

About Donegal Group Inc.

Donegal Group Inc. is an insurance holding company with insurance subsidiaries offering personal and commercial property and casualty lines of insurance in 22 Mid-Atlantic, Midwestern, New England and Southern states. The insurance subsidiaries of DGI and Donegal Mutual Insurance Company conduct business together as the Donegal Insurance Group. The Donegal Insurance Group has an A.M. Best rating of A (Excellent). Donegal Mutual Insurance Company and DGI together own Donegal Financial Services Corporation, a grandfathered unitary savings and loan holding company that owns Union Community Bank FSB, a federal savings bank.

DGI’s Class A common stock and Class B common stock trade on NASDAQ under the symbols DGICA and DGICB, respectively.

CONTACT: Jeffrey D. Miller
Senior Vice President and Chief
Financial Officer
Phone: (717) 426-1931
Fax: (717) 426-7031
E-mail: investors@donegalgroup.com



May 2, 2013

Dear Stockholder:

On April 22, 2013, Gregory Mark Shepard, or Shepard, extended until May 20, 2013 his unsolicited tender offer, or the Amended Offer, to acquire up to 962,636 shares of Class B common stock, or the Class B Shares, of Donegal Group Inc., or DGI, for \$30.00 per share in cash. The 962,636 Class B Shares represent approximately 17.3% of the outstanding Class B Shares of DGI. The Amended Offer lists the amended conditions that Shepard established with respect to his obligation to consummate the Amended Offer.

Donegal Mutual Insurance Company, or Donegal Mutual, and our insurance subsidiaries have conducted business together as the Donegal Insurance Group since 1986, while retaining their separate legal and corporate existences. As such, Donegal Mutual and our insurance subsidiaries share the same business philosophies, the same management, the same employees and the same facilities and offer the same types of insurance products.

Mr. Shepard's Tender Offer represents a continuation of his efforts to influence the boards of directors of DGI and Donegal Mutual to pursue a merger with another insurance company. We believe that Mr. Shepard's desires are contrary to DGI's long-term business plan that we have shared with you in many of our communications and public filings. In short, we do not share Mr. Shepard's desires because:

- We believe we have a solid long-term business strategy to grow profitably and effectively compete with other regional and national property and casualty insurance companies.
- Our current business structure has proven its effectiveness and success over the past 27 years of our existence. Over that time period, the Donegal Insurance Group has grown significantly in terms of premium revenue and financial strength, and the Donegal Insurance Group has developed an excellent reputation with its policyholders and the insurance-buying public as a group of regional property and casualty insurers.

We believe the long-term continuation of our business structure enhances our ability to implement our business philosophies, provide superior service to our policyholders, maintain excellent employee relations and provide a stable environment within which we can grow our businesses for the benefit of DGI and its stockholders.

The DGI Board has thoroughly evaluated and assessed the amended conditions that Shepard established for his Amended Offer, together with the assistance of a report and recommendation submitted to the DGI Board by a special committee of five DGI directors independent of Donegal Mutual and advised by independent legal counsel. Based upon its evaluation and assessment of the conditions to the Amended Offer, including the federal and state regulatory approvals Shepard must obtain before he can legally consummate his Amended Offer, the DGI Board unanimously determined that Shepard's Amended Offer remains illusory. The Amended Offer remains illusory because Shepard cannot satisfy at least three of the conditions precedent to the Amended Offer prior to the May 20, 2013 expiration date or within a reasonable period of time thereafter and Shepard cannot waive these conditions precedent.

- The Amended Offer is subject to Shepard's receipt of regulatory approvals from insurance regulators in Iowa, Maryland, Michigan, Pennsylvania, Virginia and Wisconsin. Two states have raised legal issues as to whether Shepard may initiate the Tender Offer at all prior to obtaining insurance regulatory approval in those states. All the regulatory states also have review and/or public hearing procedures, and other conditions that Shepard must satisfy before the Insurance Regulatory Approval Condition can be met. Shepard also has not provided to DGI a complete copy of the Form A Application, which DGI believes is required by law. The DGI Board believes that unless and until Shepard meets all of the legal and procedural requirements applicable to the insurance regulatory approval process in Iowa, Maryland, Michigan, Pennsylvania, Virginia and Wisconsin, the insurance regulatory process in all six states will not proceed in a manner that will satisfy the Insurance Regulatory Approval Condition by the May 20, 2013 Expiration Date or within a reasonable period of time after the May 20, 2013 Expiration Date.

- The Amended Offer is subject to the approval of the Federal Reserve Bank of Philadelphia (the "FRB") following the expiration of a 60-day review period after Shepard's filing of an application with the FRB for his proposed acquisition of the Class B Shares. Even though Shepard made his initial Offer for the Class B Shares on March 20, 2013 and even though his initial Offer, like the Amended Offer, was conditioned on FRB approval, Shepard did not file the requisite application for FRB approval until April 29, 2013. Because of the length of the review period, the DGI Board and the Special Committee do not believe that Shepard can satisfy the FRB Condition by the May 20, 2013 Expiration Date or within a reasonable period of time after the May 20, 2013 Expiration Date. Shepard cannot waive this condition, which is by law an indispensable legal condition precedent to the consummation of the Amended Offer.
- The Amended Offer is subject to compliance with the Hart-Scott-Rodino Antitrust Improvements Act of 1976. Shepard has not as of May 1, 2013 made the necessary filing or paid the requisite filing fee. If Shepard makes the filing and pays the fee, the applicable waiting period will extend beyond May 20, 2013.

In addition, Shepard's Amended Offer continues the Minimum Tender Condition requiring the tender of 925,000 Class B Shares. Shepard will be unable to satisfy the Minimum Tender Condition because officers and directors of DGI have stated their intentions not to tender their Class B Shares to Shepard, and therefore there are substantially fewer than 925,000 Class B Shares available for tender to Shepard.

The DGI Board, therefore, urges you to REJECT the Amended Offer and NOT TENDER your shares for purchase pursuant to the Amended Offer.

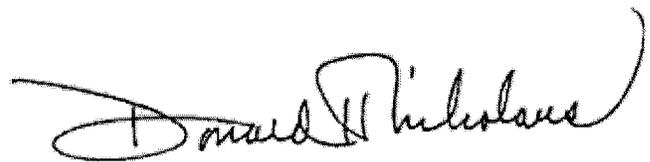
We filed Amendment No. 2 to the Schedule 14D-9 ("Amendment No. 2") with the Securities and Exchange Commission today. The Schedule 14D-9 contains a complete discussion of the significant factors that resulted in the recommendation of the DGI Board that you should not tender your Class B Shares.

For the reasons described in this letter and in our Amendment No. 2, the DGI Board unanimously recommends that you REJECT Shepard's Amended Offer and NOT TENDER your Class B Shares pursuant to the Amended Offer. If you have already tendered your Class B Shares, you have the right to withdraw your tender and have your Class B Shares returned to you. Please contact our information agent, MacKenzie Partners, Inc., toll-free at (800) 322-2885 for assistance in withdrawing your tender.

We urge you to read Amendment No. 2 in its entirety so that you can review in detail the reasons for the recommendation of the DGI Board. If you have any questions concerning Amendment No. 2 or need copies of DGI's publicly-filed materials, please contact Jeffrey D. Miller, our Senior Vice President and Chief Financial Officer, at our principal executive offices at 1195 River Road, P.O. Box 302, Marietta, PA 17547, or by e-mail addressed to jeffmiller@donegalgroup.com.

We have the utmost regard for you, our stockholders, and we respect your valuable time. In the opinion of the DGI Board and its Special Committee, Shepard's offer is illusory because Shepard cannot obtain the regulatory approvals he needs to consummate the Amended Offer on or before the May 20, 2013 expiration date or within a reasonable period of time after the May 20, 2013 expiration date. The DGI Board, for the reasons it sets forth in the enclosed Amendment No. 2, urges you to REJECT the Amended Offer and NOT TENDER your Class B Shares.

Sincerely,



Donald H. Nikolaus
President