

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

RECEIVED
Corporate & Financial Regulation

July 19, 2013

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VIA EMAIL (WITHOUT EXHIBITS) AND FEDERAL EXPRESS

Pennsylvania
Insurance Department

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:

On behalf of our client Mr. Gregory M. Shepard, we are responding to your letter dated June 19, 2013, requesting additional information in connection with the matter referenced above. The numbering of Mr. Shepard's responses below corresponds to the numbering of the items in your June 19 letter, which are reproduced in italics. The items that your June 19 letter indicates have been answered are omitted from this letter.

- 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. Shepard intends to liquidate investments, please specifically indicate which investments and the current fair market value of the same.*

Mr. Shepard restated Section 10—"Source and Amount of Funds" of his Offer to Purchase, in Amendment No. 9 to Mr. Shepard's Tender Offer Statement on Schedule TO filed with the SEC on July 15, 2013, as follows:

"Offeror estimates that the total amount of funds required to acquire up to 962,636 Class B Shares, at a price of \$30.00 per Class B Share, net to the seller in cash, without interest, to be a maximum of \$28,879,080. The Offer's estimated related costs and expenses of \$120,920, to be paid by Offeror, are described in Section 16—"FEES AND EXPENSES."

Offeror intends to generate the \$28,879,080 required to fund his purchase of 962,636 Class B Shares in the event of a fully subscribed Offer from selling his 1,000,000 shares of common stock of Navistar International Corp., a publicly traded company listed on the New York Stock Exchange under the symbol "NAV." The closing price of Navistar common stock was \$34.02 on July 18, 2013, according to Yahoo Finance. There is no restriction on Offeror's sale of his Navistar shares, which are freely tradable. There is no lien on Offeror's Navistar shares, and they have not been pledged or hypothecated in any way. Offeror purchased his Navistar shares in the open market. The average ten-day trading volume for Navistar common stock is over 1.3 million shares, according to Yahoo Finance as of July 18, 2013. Accordingly, there is a ready market for Offeror to liquidate his Navistar shares, in order to generate the funds required for his purchase of Class B Shares pursuant to the Offer.

If the proceeds from Offeror's sale of his 1,000,000 Navistar shares are not sufficient to generate the \$28,879,080 required to fund his purchase of 962,636 Class B Shares in the event of a fully subscribed Offer, then Offeror intends to cover any such shortfall by borrowing, on margin from his brokerage firm or from another lender such as a bank, against the 3,602,900 Class A Shares that Offeror currently owns. Based on the July 18, 2013 closing price of \$14.66 per share for the Class A Shares (according to Yahoo Finance), Offeror could generate approximately \$7.9 million by borrowing against his 3,602,900 Class A Shares, assuming a 15% loan-to-margin ratio. Currently, Offeror does not have a margin or other borrowing arrangement in place, but if and when he does he will disclose its terms, including (i) the identity of the broker/lender, (ii) the term, (iii) the collateral (i.e., Offeror's Class A Shares), (iv) the stated and effective interest rates, (v) any other material terms or conditions of the loan, and (vi) any plans or arrangements to finance or repay the loan.

Offeror believes that the proceeds from selling his 1,000,000 Navistar shares plus – if necessary – the additional back-up borrowing against his Class A Shares will be more than sufficient to cover the costs of purchasing the entire 962,636 Class B Shares that are subject to the tender offer. However, if the closing price of Navistar common stock is below \$22 per share for seven consecutive trading days, or if some other event causes a material change in Offeror's plans to fund his Offer as disclosed in the immediately preceding paragraph, then it may become necessary for Offeror to seek alternative financing. No plans or arrangements for alternative financing have been made at this time, but if Offeror seeks

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alternative financing, Offeror will promptly amend the Offer to Purchase to disclose plans for, and to explain the source of, the alternative financing.

Offeror's net worth is \$100 million to \$120 million as of March 15, 2013. The amount of Offeror's illiquid assets is \$20 million to \$32 million as of March 15, 2013."

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

Mr. Shepard's post-acquisition business plan and pro forma financial statements for the 2013 – 2017 fiscal years, in each case for Atlantic States, are attached hereto as **Exhibit A**.

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.*

Mr. Shepard respectfully submits that his Press Release dated March 20, 2013, attached as Exhibit (a)(1)(G) to his Tender Offer Statement on Schedule TO filed with the SEC on March 20, 2013, does not indicate that he "is attempting to acquire these shares specifically to cause a merger or other corporate transaction to increase shareholder value." Even if his tender offer receives regulatory approval and is successful, Mr. Shepard's stake in DGI would increase from 9.99% to 22.7% of the combined voting power of Donegal stock, while Donegal Mutual would continue to overwhelmingly control DGI by owning 65.7% of the combined voting power of DGI stock. As a result, Mr. Shepard would be unable "to cause a merger or other corporate transaction" involving DGI without the approval of the boards of directors of DGI and Donegal Mutual.

Nonetheless, Mr. Shepard has indeed stated in his March 20, 2013 Press Release and elsewhere that he "believes DGI should be combined with another mutual" to "unlock realization of the value of DGI's shares...." Similarly, Mr. Shepard stated, in

Amendment No. 4 to his Tender Offer Statement on Schedule TO filed with the SEC on April 22, 2013, that:

“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.”

Thus, as Mr. Shepard has stated, he has no specific plans or proposals for a merger transaction between DGI and another mutual property and casualty insurer, which he believes would be the best means to increase the price of DGI’s shares. Although Mr. Shepard, in his Form A, reserved rights to “develop plans or proposals in the future...that could potentially attempt to cause DGI... to merge or consolidate it...,” he currently has no specific plans or proposals to do so and, even after a successful tender offer, he would have no ability to do so without the approval of the boards of directors of DGI and Donegal Mutual.

As a large, long-standing and committed shareholder of DGI, Mr. Shepard wants the same thing that every other shareholder wants – for the price of the stock to go up. It is not wrong or improper for Mr. Shepard to share his ideas for unlocking value, nor would it be wrong or improper for him to share these ideas with DGI management or with Donegal Mutual. This does not mean, however, that Mr. Shepard has any means or instrumentality to control DGI in reality, so long as Donegal Mutual continues to hold 65.7% of DGI’s voting equity. Likewise, if Mr. Shepard criticizes the policies and decisions of DGI or Donegal Mutual from time to time, this does not mean that Mr. Shepard is seeking control of DGI or to take it over, or that he has specific plans to do so.

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

The agreement referenced in 40 P.S. Section 991.1402(b)(11.1) is attached hereto as **Exhibit B**. The acknowledgment referenced in 40 P.S. Section 991.1402(b)(11.2) is attached hereto as **Exhibit C**.

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

Mr. Shepard has no non-insurance affiliates, because he is not a director or officer of any company and does not own 10% or more of the outstanding shares of a class of stock of any company other than DGI.

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

Mr. Shepard's letters dated April 8, 2013, and April 29, 2013, both in response to the Iowa Insurance Department's letter dated March 27, 2013, are attached hereto as **Exhibit D** and **Exhibit E**, respectively.

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.*

Revised redacted versions of Mr. Shepard's Financial Statements, which were submitted as Exhibits H – M and O – P of his Form A, are attached hereto as **Exhibit F**. The only redacted items of information in each of the attached Financial Statements are the aggregate estimated values of Mr. Shepard's farmland and residences (such redacted items, the "Confidential Information"). Mr. Shepard considers the Confidential Information to be proprietary, because the Confidential Information reveals his cost bases in his farmland or residences. Mr. Shepard would be severely disadvantaged by its disclosure to potential buyers of his farmland or residences, if and when he decides to sell any such parcels. Accordingly, Mr. Shepard respectfully requests that the Department use its discretion to post on its web page for Mr. Shepard's Form A the revised redacted versions of Mr. Shepard's Financial Statements, which are attached hereto as **Exhibit F**, but not the Confidential Information.

Mr. Shepard respectfully submits that the Confidential Information is very limited in scope and, given its nature, could not possibly assist the public in commenting on his Form A. Nonetheless, Mr. Shepard expects that the Confidential Information will be discussed and vetted at the public hearing on his Form A, and he has no objection to this. Mr. Shepard also notes that both the Department and DGI already have unredacted versions of his Financial Statements. In Mr. Shepard's opinion, DGI's only purpose in continuing to seek public disclosure of Mr. Shepard's unredacted

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Financial Statements is to impede Mr. Shepard's tender offer on all fronts by attempting to embarrass him and make him vulnerable to identity theft and fraud by exposing his personal financial information. Given that Mr. Shepard's Financial Statements will be thoroughly vetted by DGI at the hearing, it serves no legitimate state or public interest to disclose a person's most confidential and personal financial information.

As stated in our letter on behalf of Mr. Shepard to the Department dated May 6, 2013, Pennsylvania's Right-To-Know Law ("RTKL") contains an exception for:

- (11) A record that constitutes or reveals a trade secret or **confidential proprietary information.**" (65 P.S. § 67.708(b); emphasis added.)

Because the Confidential Information is confidential proprietary information, as discussed above, this exception to the RTKL provides a legal basis – in addition to the Department's discretion – for the Department to post on its web page for Mr. Shepard's Form A the revised redacted versions of Mr. Shepard's Financial Statements, which are attached hereto as **Exhibit F**, but not the Confidential Information.

Mr. Shepard notes that § 1402 of the Pennsylvania Insurance Company Law does not require all information in a Form A applicant's financial statements to be disclosed to the public (e.g., by the Department posting such information on its web page for the Form A), as opposed to requiring such information to be disclosed to the Department and the domestic insurer to which the Form A relates. Therefore, Mr. Shepard respectfully contends that § 1402 of the Pennsylvania Insurance Company Law does not supersede the RTKL's exemption for confidential proprietary information as it applies to the exclusion of the Confidential Information from the version of Mr. Shepard's Financial Statements to be posted on the Department's web page for his Form A.

Mr. Shepard also respectfully contends that the disclosure of his personal Financial Statements would be bad state policy and would set a bad precedent that would lead to unintended consequences. If the Department does not exercise its discretion with respect to Mr. Shepard's Confidential Information, every antagonist of a future Form A applicant will demand full disclosure of confidential information to the public, in accordance with the example set in Mr. Shepard's case, regardless of the facts and circumstances.

Additional Items:

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.*

Mr. Shepard requests that the Department disregard the statement quoted above, which was submitted in error. Mr. Shepard's intention in submitting his Form A is to obtain the Department's approval to acquire control of Atlantic States Insurance Company as a result of increasing his ownership of DGI to approximately 22.7% of the combined voting power of DGI's common stock by means of a tender offer for up to 962,636 Class A Shares of DGI.

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).*

Mr. Pratter's May 9, 2013 public comment on behalf of DGI ("DGI's May 9 Comment") begins by requesting delivery of Mr. Shepard's Financial Statements to DGI. Mr. Shepard has subsequently delivered his Financial Statements to DGI.

The balance of DGI's May 9 Comment contains DGI's comments relating to the numbered items in the Department's initial review letter to Mr. Shepard dated April 17, 2013. Mr. Shepard's responses in Items 1 – 11 above are also responsive to DGI's May 9 Comment.

Regarding Mr. Shepard's involvement with Illinois HealthCare Insurance Company:

Illinois HealthCare Insurance Company ("Illinois HealthCare") was formed in late 1997 as an Illinois-domiciled life, accident and health insurance company with \$10,000,000 of capital and surplus. Mr. Shepard was the Chairman, President, and 100% shareholder of Illinois HealthCare. Illinois HealthCare was formed to reinsure the business of American Union Life Insurance Company ("AULIC"), another

Illinois-domiciled life, accident and health insurance company that wrote primarily individual major medical insurance. In 1997, AULIC was a 100% subsidiary of American Union Insurance Company ("American Union"), an Illinois-domiciled property and casualty insurer that had just sold its independent property and casualty business to Unitrin Inc. Mr. Shepard was Chairman and President of both American Union and AULIC from 1985 to 2004, and Mr. Shepard and his brother each owned 50% of American Union. From 1994 to 2005, American Union, with most of its assets invested in 20th Century Insurance Group ("20th Century") common stock, was considering how it might be purchased by American International Group, Inc. ("AIG"), which owned an increasing equity position in 20th Century. In 2007, AIG acquired the remaining 37% of 20th Century for cash.

Illinois HealthCare, Inc. ("IHCI") was also formed in late 1997 as an Illinois HMO. Thomas J. Pliura, MD, and Mr. Shepard each owned 50% of IHCI. Mr. Pliura was President and Mr. Shepard was a Vice President of IHCI. Mr. Pliura and Mr. Shepard were the only directors of IHCI. IHCI was formed to be a Managed Medicaid Provider at a time when the State of Illinois had approval from the federal government to involuntarily roll over its entire population of Medicaid recipients from fee-for-service into managed care. IHCI received approval from the Illinois Department of Public Aid to be the only approved Medicaid managed care provider for much of Illinois outside of the Chicago area. In 1997, IHCI was capitalized with \$2,000,000, and it finished the year with \$857,000 in net worth.

In 1998, however, the State of Illinois decided not to proceed with its plans to involuntarily enroll its Medicaid members into managed care. In early 1998, IHCI merged with and into Illinois HealthCare, a transaction which resulted in Mr. Pliura owning 20% and becoming President and Mr. Shepard owning 80% and becoming CEO and Chairman of Illinois HealthCare.

In mid-1999, Illinois HealthCare abandoned its efforts to compete against the Illinois Medicaid fee-for-service market, and in late November of 1999 Mr. Shepard purchased Mr. Pliura's 20% equity share of Illinois HealthCare and Mr. Pliura resigned as President.

From 1997 to 2000, Illinois HealthCare's individual major medical health insurance and its Medicaid business were very unprofitable. In addition, Illinois HealthCare incurred at least \$5 million of start-up expenses for reinsurance ceding commissions to AULIC, a new managed-care computer system and new hardware, and employee recruitment expenses.

Illinois HealthCare's capital and surplus declined from \$9,456,865 on December 31, 1997, to \$5,131,510 on December 31, 2008, and to \$2,555,569 on December 31, 2009. On March 31, 2000, Illinois HealthCare's capital and surplus was below the minimum capital and surplus required by Illinois law. After the Illinois HealthCare's 1st quarter 2000 statement was filed, the Illinois Department of Insurance gave the company until June 30, 2000, to increase its capital and surplus above the statutory minimum. Mr. Shepard and the receiver contacted more than dozen companies in 2000 regarding reinsuring Illinois HealthCare's book of business, but those efforts failed.

The liquidation of Illinois HealthCare occurred as a result of a number of issues, including:

- The State of Illinois' decision in 1998 to withdraw its support of a federally approved plan to involuntarily enroll its entire 1,450,000 statewide Medicaid population into managed care. In 1998, only 185,000 Medicaid enrollees in Cook County had voluntarily enrolled in managed care. When the State of Illinois decided not to proceed with its mandatory Medicaid managed care plan, Illinois HealthCare, with its plan to be the sole managed care entity in 30 downstate counties, suffered greatly due to the tremendous investment it had made in computer and telephone hardware, software systems, programming, employee recruitment, staffing, training, and other expenses it had incurred since 1996 to expand into this new line of business;
- The increased level of expenses incurred by American Union Life Insurance Company and Illinois HealthCare Insurance Company after AUIC sold Union Auto Indemnity Company and almost all of its property and casualty operations on January 1, 1997; and
- An increased level of cost shifting in the 1990s from public plans to traditional indemnity plans such as those sold by American Union Life Insurance Company and Illinois HealthCare. American Union Life since 1968 and Illinois HealthCare after 1997 sold multi-million dollar individual major medical insurance through independent agents and brokers. Like nearly all of its traditional fee for service health insurer competitors, American Union Life and Illinois HealthCare failed to estimate the level of increased cost shifting in the 1990s and the resulting rapidly increasing health care costs.

As cost shifting accelerated, health insurers raised rates, which increased adverse selection due to many healthy individuals dropping from the market and then re-entering after they became ill, further causing premium levels inadequacy, capital

declines, and capital shortfalls and surplus shortfalls. That does not mean that the managers of these companies are underhanded, devious or lack integrity. There are risks inherent in the insurance business, and in bad economic times these risks increase, as recent history attests with respect to capital shortages in the banking industry.

In the insurance industry, states require admitted companies to pay into their state guarantee funds to protect policyholders against a "rainy day" when and if capital becomes insufficient to support anticipated claims. Donegal would have the Federal Reserve Bank believe that policyholders were bereft of coverage, got sick, failed to obtain medical treatment and died. In fact, the policyholders were referred to the state guarantee funds and the claims were processed in the ordinary course.

Mr. Shepard was not accused of taking premiums, funds or deposits, embezzlement or anything of the sort. The business issue was a capital shortage and a surplus shortage, as has happened many times in the banking industry. By way of example, in 2000 alone, eight other insurance companies in addition to Illinois HealthCare Insurance Company went into liquidation in Illinois: 1) Agora Syndicate, Inc.; 2) Alliance General Insurance Company; 3) Alpine Insurance Company; 4) American Health Care Providers, Inc.; 5) American Unified Life & Health Insurance; 6) Illinois Earth Care Workers Compensation Trust; 7) Illinois Electrical Employers Workers Compensation Association, Inc.; and 8) RCA Syndicate #1, Ltd.

Unfortunately, insurance company liquidations occur frequently. That does not mean that their managers are evil people who cannot and should not be in positions of trust ever again. These liquidations are frequently not in the popular press because they are handled routinely, with very few policyholders suffering losses. This is again because insurance companies are required to pay into the guarantee funds precisely for this purpose.

Mr. Shepard's overall record in running insurance companies should also be considered in light of his actions on behalf of Union Automobile Indemnity Company, an Illinois stock and property casualty insurer. Mr. Shepard used great skill and effort to sell this company to Unitrin in 1997, with approximately 63,000 policies in force covering about 158,000 insureds. This transaction occurred without complication, and without regulatory delay or non-approvals. In focusing on Illinois HealthCare, Donegal fails to recognize Mr. Shepard for "saving" those 63,000 policies, as well as for "creating" 32,000 policies during his career.

Finally, regarding Mr. Shepard's integrity:

Mr. Shepard is a businessman who spends much of his time managing his own finances. Mr. Shepard is also a family man with a wife and four boys. He and his family are prominent members of their communities.

As one example of Mr. Shepard's public largesse, so you get an accurate picture of Mr. Shepard's character, in 1999, Mr. Shepard and his brother entered into an Annexation Agreement with the Town of Normal, Illinois, for land on Veterans Parkway that includes a "sales tax rebate" provision whereby Mr. Shepard and his brother up-fronted \$4,975,000 for an intersection on Veterans Parkway (i.e. Shepard Road) and other street, sewer, water, and infrastructure improvements. In return for up-fronting the costs that normally would have been paid by the Town of Normal, Mr. Shepard and his brother were able to recapture the entire \$4,975,000 from portions of the sales tax dollars received over 20 years by the Town of Normal on the lots that were developed. Eventually, after 13 years they received all of the \$4,975,000 back. Their agreement allowed the Town of Normal to reduce debt levels and assisted them in selling bonds after 2000 to finance the redevelopment of downtown Normal, which has been a huge undertaking.

In the fall of 2011, Mr. Shepard was recognized at an event attended by several Illinois State Senators and several Illinois State Representatives, the Normal Mayor, City Manager, several Council members and many people from the Parks and Recreation Department at a ceremony marking the opening of Shepard Park. This event followed Mr. Shepard's attendance at a groundbreaking two years prior. In April 2012, Mr. Shepard attended a very similar ceremony marking the opening of Shepard Dog Park.

Mr. Shepard has never been accused of embezzlement, dishonesty with respect to money, funds or deposits, and he has not been indicted of any serious crimes, nor has he been involved or associated with any type of criminal or suspicious organization, nor does Donegal's protest letter so allege.

Mr. Shepard is not a "Johnny-come-lately" to Donegal stock, as he has been a continuous shareholder for over five years. Mr. Shepard does not own or operate a hedge fund. He engages in no long-short strategies, arbitrage, short selling or other aggressive trading maneuvers. He is, rather, a long term investor, who has specialized knowledge about the insurance industry in general. Mr. Shepard has invested over \$56,000,000 in Donegal.

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As discussed above, Mr. and Mrs. Shepard are pillars in their communities, and Mr. Shepard has the business acumen, integrity and generosity to qualify to be a 22.7% shareholder of an insurance holding company. For instance, in the fall of 2012, Mr. Shepard organized and hosted a fund raising event for the Bloomington-Normal Community Cancer Center in honor of Jeffrey D. Stelle, ("JD"), a very well-known Bloomington-Normal developer, builder, and community leader who was dying of cancer. Over \$10,000 was donated to the Community Cancer Center in JD's honor. Another Community Cancer Event in JD's honor (who died September 28, 2012) is being organized by Mr. Shepard and is scheduled for September 19, 2013.

In October 2012, Mr. Shepard agreed to host the 40th Class Reunion Party for all of the Bloomington-Normal high school seniors who graduated in 1973. On June 29, 2013, 375 former graduates plus significant others from Bloomington High School, Bloomington Central Catholic High School, Normal University High School and Normal Community High School reunited at the Shepard home. Each person attending donated \$10 to the Community Cancer Center in memory of their fellow classmates who have died in the last 40 years from cancer.

From 1999 to 2001, Mr. Shepard gave 50% of 26 acres worth (approximately \$3,900,000) to the Town of Normal, Illinois for a green zone and 3 detention basins that are all stocked with fish and open for public fishing. In 2007, Mr. Shepard gave 50% of 18 acres worth (approximately \$1,800,000) to the Town of Normal for Shepard Park, which includes Shepard Dog Park, 2 baseball fields, 2 children's playground areas, picnic table areas and an open area for a future soccer field.

In 2012, Mr. Shepard has attended more than 12 charity fund raisers, given over \$20,000 in cash, and nearly \$10,000 in goods to over 20 charities.

In 2013, Mr. Shepard entered into an agreement with the Town of Normal to improve, between June and December of 2013, the northern 1/2 mile of Constitution Trail, a Bloomington-Normal-McLean County hiking-walking-biking trail, by contributing \$4,000 in addition to his time and efforts, to landscape the west side of the last 1/2 mile of the trail. The Town of Normal is removing over 100 less desirable trees and planting hundreds of new trees and bushes while re-grading a dangerous embankment that was threatening the underpinnings of the trail over an old, very large drainage pipe. Mr. Shepard also deeded 2.7 acres of his farm on Northtown Road on the Northern edge of Normal without any price negotiation to the Town of Normal, thereby enabling the Town to receive \$3.2 million from the State of Illinois for the improvement of Northtown Road, a project expected to cost \$4 million, which will be a boost to the local road building economy in 2013. Without

Mr. Shepard's timely help, Normal probably would have only received \$2.4 million from the State of Illinois.

3. *Please provide a copy of all correspondence with other insurance department regulators and your responses.*

Please see the following exhibits, which are attached hereto without their attachments (except where otherwise indicated):

Exhibit G	Letter from the Iowa Division of Insurance dated March 27, 2013
Exhibit D	Letter to the Iowa Division of Insurance dated April 8, 2013
Exhibit E	Letter to the Iowa Division of Insurance dated April 29, 2013
Exhibit H	Letter to the Iowa Division of Insurance dated May 7, 2013
Exhibit I	Letter from the Wisconsin Office of the Commissioner of Insurance dated April 10, 2013
Exhibit J	Letter to the Wisconsin Office of the Commissioner of Insurance dated April 25, 2013
Exhibit K	Letter to the Wisconsin Office of the Commissioner of Insurance dated May 7, 2013
Exhibit L	Letter from the Wisconsin Office of the Commissioner of Insurance dated May 10, 2013
Exhibit M	Letter from the Michigan Department of Insurance and Financial Services dated March 25, 2013
Exhibit N	Letter to the Michigan Department of Insurance and Financial Services dated May 6, 2013
Exhibit O	Letter from the Michigan Department of Insurance and Financial Services dated June 6, 2013
Exhibit P	Letter to the Michigan Department of Insurance and Financial Services dated July 3, 2013
Exhibit Q	Letter from the Maryland Insurance Administration dated April 30, 2013
Exhibit R	Letter to the Maryland Insurance Administration dated May 13, 2013
Exhibit S	Letter from the Virginia Bureau of Insurance dated April 30, 2013
Exhibit T	Letter to the Virginia Bureau of Insurance dated May 13, 2013
Exhibit U	Letter from the Virginia Bureau of Insurance dated May 23, 2013

4. *Please provide a response for each public comment letter received.*

The public comment letter on behalf of DGI and Atlantic States Insurance Company (“Atlantic States”) dated April 9, 2013, contends that Mr. Shepard is required to deliver his Financial Statements to DGI. Mr. Shepard has subsequently delivered his Financial Statements to DGI.

Regarding DGI’s May 9 Comment, please see Mr. Shepard’s response to Additional Item 2 above.

The public comment letter on behalf of DGI and Atlantic States dated May 20, 2013, relates to the delivery of Mr. Shepard’s Financial Statements to DGI. Mr. Shepard has subsequently delivered his Financial Statements to DGI.

The public comment letter on behalf of DGI and Atlantic States dated June 14, 2013, relates to confidential treatment requested by Mr. Shepard for his Financial Statements. Mr. Shepard notes that DGI has continued to seek public disclosure of Mr. Shepard’s Financial Statements, even after Mr. Shepard delivered them to DGI and the public comment period has expired. Regarding confidential treatment requested by Mr. Shepard for his Financial Statements, please see Mr. Shepard’s response to the Department’s Item 11 above.

* * *

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.

Atlantic States Insurance Company 5 year Business Plan for the period covering 2013-2017

(submitted by Gregory M. Shepard based upon the 2012 Annual Statement, KPMG Audited Financial Report, and Management Discussion and Analysis, filed with the Insurance Department of the Commonwealth of Pennsylvania and the NAIC).

Company Background

The Atlantic States Insurance Company (the "Company") was acquired by Donegal Group Inc. ("DGI") in 1986. DGI is an insurance holding company that is affiliated with Donegal Mutual Insurance Company ("Donegal Mutual"), which owns 47% of DGI with majority voting control.

The Company is a regional property and casualty insurer domiciled in Pennsylvania doing business in 13 Mid-Atlantic, Midwestern and Southern states. The Company operates through a pooling agreement with Donegal Mutual. Under this pooling agreement, the Company assumes 80% of the pooled business of the two companies. Additionally, the Company has a catastrophe treaty in which Donegal Mutual assumes losses up to \$2,000,000 in excess of \$2,000,000.

Description of Business

The Company provides property and liability coverages through independent agency systems located in six states (Pennsylvania, Ohio, Delaware, Maryland, Virginia, Georgia) writing 99% of the direct premiums written. The Company also markets approximately 1% of its direct writings through independent agencies located in 7 other states (Iowa, Tennessee, Indiana, New York, Nebraska, North Carolina, South Dakota). The majority of this business is billed directly to the insured, although a portion of the Company's business is billed through its agents, who are extended credit in the normal course of business. The Company writes various lines of property and casualty insurance.

Financial Position

Assets and Liabilities

Invested assets grew by \$22.3 million in 2012, an increase of 5.3% over invested assets as of December 31, 2011. Investment allocations did not change materially from 2011 to 2012. The Company's portfolio remains predominately invested in fixed income obligations. Bond holdings comprised 95.0% and 94.8% of total invested assets as of December 31, 2012 and December 31, 2011, respectively. Mr. Shepard assumed that the asset and liability compositions will not change in the 2013 to 2017 time period.

Policyholders Surplus

The Company is required by law to maintain certain minimum capital and surplus on a statutory basis and is subject to regulations under which payment of dividends from statutory surplus is restricted and may require prior approval of domiciliary insurance regulatory authorities. Statutes for the State of Pennsylvania require insurers to have a minimum capital and surplus. The Company is also subject to RBC requirements that may further impact its ability to pay dividends. At December 31, 2012, the Company's statutory capital and surplus was above the

RBC requirements. At December 31, 2012, \$18,046,566 is available for distribution as dividends to DGI without approval of the Insurance Department of the Commonwealth of Pennsylvania. During 2012, the Company paid \$7,000,000 in dividends to DGI. It was assumed that, for 2013 – 2017, surplus will grow by net income accretions, after payment of dividends, and that RBC will remain above the action thresholds for the period 2013 – 2017.

Future Operations

In 2012 and 2011, direct premiums written increased by 11.2% and 12.3%, respectfully. By contrast the Donegal Insurance Group's direct written premiums increased from \$595,258,000 in 2010 to \$629,110,000 in 2011 or 5.7% and to \$673,370,000 in 2012 or 7.0%.

It was assumed that the Company's direct premiums written from 2013 to 2017 would grow by 12% annually though the Donegal Insurance Group's growth in direct premiums written would be 6% or half that the amount enjoyed by the Company.

In 2012, losses incurred decreased to 56.5% of earned premium, compared to 64.7% in 2011 because of favorable weather-related losses. Losses incurred for the period 2013 to 2017 were assumed to be 61% of earned premium and based upon Donegal Insurance Group's historical results.

In 2012, loss adjustment expense incurred was 11.1% of earned premium, compared to 13.0% in 2011 again because of favorable weather-related losses. Loss adjustment expenses incurred for the period 2013 to 2017 were assumed to be 11% of earned premium and based upon Donegal Insurance Group's historical results.

In 2012 and 2011, the underwriting expense ratio was 32.5% of earned premium. The Company participates in an expense sharing agreement with Donegal Mutual. Pursuant to this agreement, the Company reimburses Donegal Mutual for costs relating to certain employees and services provided to the Company by Donegal Mutual. Charges under this agreement were \$60,236,423 and \$52,160,771 for 2012 and 2011, respectively. The underwriting expenses ratio for the period 2013 to 2017 was assumed to be 30% of earned premium and based upon Donegal Insurance Group's more recent results.

In 2011 and 2012, the Company paid \$666,550 (0.26% of earned premium) and \$947,821 (0.33% of earned premium) in dividends to policyholders and it was assumed that dividends of 0.30% of earned premiums would be paid in the 2013 to 2017 time period.

In 2012, total investments were \$442,564,237 producing net investment income earned of \$10,982,257 with a net investment yield of 2.5% and it was assumed that this net yield would continue during the 2013 to 2017 time period.

In 2012, finance and service charges were \$3,926,824 and a 12% annual growth was assumed during the time period.

It was assumed there would be no additional capital gains realized or unrealized during the 2013 to 2017 time period.

In 2012, net income before taxes were \$16,890,874 and federal and foreign income taxes incurred were \$3,435,513 amounting to a tax rate of 20.4%. It was assumed that during the 2013 to 2017 time period that the federal and foreign income taxes incurred tax rate would be 18.0% due to the higher combined ratio of 102% projected versus the 100.1% achieved in 2012.

No attempt was made to estimate any changes in either the net deferred incomes tax or in non admitted assets during the 2013 to 2017 time period.

Cash Flow and Liquidity

Mr. Shepard projects the Company's operations will result in a statutory combined ratio of 103% which should result in a positive cash flow. It is anticipated that the positive cash flow will allow the Company to meet its future cash flow needs including the payment of reserves and losses. The Company paid a \$12 million dividend to its parent in 2011 and a \$7 million dividend in 2012 and it was assumed that a \$6.5 million dividend would be paid in 2013 and an annual dividend of \$7 million would be paid in the 2014 to 2017 time period.

Atlantic States Insurance Company

Direct Premiums Written, Net Premiums Written, Premiums Earned

Line of Business	2012								
	1 Direct Business	2 Reinsurance Assumed		3 Reinsurance Ceded		6 1+2+3-4-5 Net Premiums Written	7 Unearned Premiums Prior Year	8 Unearned Premiums Current Year	9 Premiums Earned
		From Affiliates	From Non-Affiliates	To Affiliates	To Non-Affiliates				
1 Fire	418,172	3,804,057	0	400,396	17,776	3,804,057	1,980,331	2,205,818	3,578,570
2 Allied lines	180,726	1,408,567	0	173,077	7,649	1,408,567	824,510	811,020	1,422,057
3 Farmowners multiple peril	402,410	2,957,278	0	379,965	22,445	2,957,278	1,596,243	1,738,710	2,814,811
4 Homeowners multiple peril	21,399,147	63,038,779	0	20,291,744	1,107,403	63,038,779	34,296,116	37,598,792	59,736,103
5 Commercial multiple peril	20,850,734	43,895,963	0	19,322,429	1,528,305	43,895,963	20,783,519	23,256,165	41,423,317
6 Mortgage guaranty	0	0	0	0	0	0	0	0	0
8 Ocean Marine	0	0	0	0	0	0	0	0	0
9 Inland marine	610,417	2,158,236	0	585,363	25,054	2,158,236	1,180,165	1,205,598	2,132,803
10 Financial guaranty	0	0	0	0	0	0	0	0	0
11.1 Medical professional - liability - occurrence	0	0	0	0	0	0	0	0	0
11.2 Medical professional - liability - claims made	0	0	0	0	0	0	0	0	0
12 Earthquake	83,291	204,217	0	79,812	3,479	204,217	102,790	123,391	183,616
13 Group accident and health	0	0	0	0	0	0	0	0	0
14 Credit accident and health (group and individual)	0	0	0	0	0	0	0	0	0
15 Other accident and health	0	0	0	0	0	0	0	0	0
16 Workers' compensation	16,814,732	40,021,741	0	15,944,699	870,033	40,021,741	16,033,803	18,947,636	37,107,908
17.1 Other liability - occurrence	152,647	2,002,376	0	80,708	71,939	2,002,376	982,551	1,032,244	1,952,683
17.2 Other liability - claims made	0	0	0	0	0	0	0	0	0
17.3 Excess Workers' Compensation	0	0	0	0	0	0	0	0	0
18.1 Products liability - occurrence	0	0	0	0	0	0	0	0	0
18.1 Products liability - claims made	0	0	0	0	0	0	0	0	0
18.2 Products liability - claims made	0	0	0	0	0	0	0	0	0
19.1, 19.2 Private passenger auto liability	32,862,794	61,976,657	0	32,563,548	299,246	61,976,657	27,803,598	30,623,952	59,156,303
19.3, 19.4 Commercial auto liability	18,553,847	23,657,687	0	18,381,540	172,307	23,657,687	10,073,244	11,532,037	22,198,894
21 Auto physical damage	32,641,197	58,164,666	0	32,468,894	172,303	58,164,666	26,220,542	28,056,181	56,329,027
22 Aircraft (all perils)	0	0	0	0	0	0	0	0	0
23 Fidelity	0	0	0	0	0	0	0	0	0
24 Surety	0	0	0	0	0	0	0	0	0
26 Burglary and theft	0	-906	0	0	0	-906	2,707	2,613	-812
27 Boiler and machinery	351,390	21,462	0	1,191	350,199	21,462	-80	6,485	14,897
28 Credit	0	0	0	0	0	0	0	0	0
29 International	0	0	0	0	0	0	0	0	0
30 Warranty	0	0	0	0	0	0	0	0	0
31 Reinsurance - Nonproportional Assumed Property	0	0	0	0	0	0	0	0	0
32 Reinsurance - Nonproportional Assumed Liability	0	0	0	0	0	0	0	0	0
33 Reinsurance - Nonproportional Assumed Financial Lines	0	0	0	0	0	0	0	0	0
34 Aggregate write-ins for other lines of business	2,547	0	0	0	0	2,547	0	0	2,547
35 TOTALS	145,324,051	303,310,780	0	140,673,366	4,648,138	303,313,327	141,880,039	157,140,642	288,052,724

Atlantic States Insurance Company

Direct Premiums Written, Net Premiums Written, Premiums Earned

Line of Business	2013									
	1 Direct Business	2 Reinsurance Assumed		3 From Affiliates	4 Reinsurance Ceded		6 1+2+3-4-5 Net Premiums Written	7 Unearned Premiums Prior Year	8 Unearned Premiums Current Year	9 Premiums Earned
		From Affiliates	From Non-Affiliates		To Affiliates	To Non-Affiliates				
1 Fire	468,353	4,032,300	0	448,444	18,843	4,033,367	2,205,818	2,340,373	3,898,812	
2 Allied lines	202,413	1,493,081	0	193,846	8,108	1,493,540	811,020	860,492	1,444,068	
3 Farmowners multiple peril	450,699	3,134,715	0	425,561	23,792	3,136,061	1,738,710	1,844,771	3,030,000	
4 Homeowners multiple peril	23,967,045	66,821,106	0	22,726,753	1,173,847	66,887,550	37,598,792	39,892,318	64,594,024	
5 Commercial multiple peril	23,352,822	46,529,721	0	21,641,120	1,620,003	46,621,419	23,256,165	24,674,791	45,202,793	
6 Mortgage guaranty	0	0	0	0	0	0	0	0	0	
8 Ocean Marine	0	0	0	0	0	0	0	0	0	
9 Inland marine	683,667	2,287,730	0	655,607	26,557	2,289,233	1,205,598	1,279,139	2,215,692	
10 Financial guaranty	0	0	0	0	0	0	0	0	0	
11.1 Medical professional - liability - occurrence	0	0	0	0	0	0	0	0	0	
11.2 Medical professional - liability - claims made	0	0	0	0	0	0	0	0	0	
12 Earthquake	93,286	216,470	0	89,389	3,688	216,679	123,391	130,918	209,152	
13 Group accident and health	0	0	0	0	0	0	0	0	0	
14 Credit accident and health (group and individual)	0	0	0	0	0	0	0	0	0	
15 Other accident and health	0	0	0	0	0	0	0	0	0	
16 Workers' compensation	18,832,500	42,423,045	0	17,858,063	922,235	42,475,247	18,947,636	20,103,442	41,319,442	
17.1 Other liability - occurrence	170,965	2,122,519	0	90,393	76,255	2,126,835	1,032,244	1,095,211	2,063,868	
17.2 Other liability - claims made	0	0	0	0	0	0	0	0	0	
17.3 Excess Workers' Compensation	0	0	0	0	0	0	0	0	0	
18.1 Products liability - occurrence	0	0	0	0	0	0	0	0	0	
18.2 Products liability - claims made	0	0	0	0	0	0	0	0	0	
19.1, 19.2 Private passenger auto liability	36,806,329	65,695,256	0	36,471,174	317,201	65,713,211	30,623,952	32,492,013	63,845,150	
19.3, 19.4 Commercial auto liability	20,780,309	25,077,148	0	20,587,325	182,645	25,087,487	11,532,037	12,235,491	24,384,032	
21 Auto physical damage	36,558,141	61,654,546	0	36,365,161	182,641	61,664,884	28,056,181	29,767,608	59,953,457	
22 Aircraft (all perils)	0	0	0	0	0	0	0	0	0	
23 Fidelity	0	0	0	0	0	0	0	0	0	
24 Surety	0	0	0	0	0	0	0	0	0	
26 Burglary and theft	0	0	0	0	0	0	0	0	0	
27 Boiler and machinery	0	-960	0	0	0	-960	2,613	2,772	-1,120	
28 Credit	393,557	22,750	0	1,334	371,211	43,762	6,485	6,881	43,366	
29 International	0	0	0	0	0	0	0	0	0	
30 Warranty	0	0	0	0	0	0	0	0	0	
31 Reinsurance - Nonproportional Assumed Property	0	0	0	0	0	0	0	0	0	
32 Reinsurance - Nonproportional Assumed Liability	0	0	0	0	0	0	0	0	0	
33 Reinsurance - Nonproportional Assumed Financial Lines	0	0	0	0	0	0	0	0	0	
34 Aggregate write-ins for other lines of business	2,853	0	0	0	0	2,853	0	0	2,853	
35 TOTALS	162,762,937	321,509,427	0	157,554,170	4,927,026	321,791,168	157,140,642	166,726,221	312,205,589	

Atlantic States Insurance Company

Direct Premiums Written, Net Premiums Written, Premiums Earned

Line of Business	2014									
	1 Direct Business	2 Reinsurance Assumed		3 From Non-Affiliates	4 Reinsurance Ceded		6 1+2+3-4-5 Net Premiums Written	7 Unearned Premiums Prior Year	8 Unearned Premiums Current Year	9 Premiums Earned
		From Affiliates	From Non-Affiliates		To Affiliates	To Non-Affiliates				
1 Fire	524,555	4,274,238	0	502,257	19,973	4,276,564	2,340,373	2,483,136	4,133,801	
2 Allied lines	226,703	1,582,666	0	217,108	8,594	1,583,666	860,492	912,982	1,531,176	
3 Farmowners multiple peril	504,783	3,322,798	0	476,628	25,219	3,325,733	1,844,771	1,957,302	3,213,202	
4 Homeowners multiple peril	26,843,090	70,830,372	0	25,453,964	1,244,278	70,975,220	39,892,318	42,325,750	68,541,789	
5 Commercial multiple peril	26,155,161	49,321,504	0	24,238,055	1,717,203	49,521,406	24,674,791	26,179,953	48,016,244	
6 Mortgage guaranty	0	0	0	0	0	0	0	0	0	
8 Ocean Marine	0	0	0	0	0	0	0	0	0	
9 Inland marine	765,707	2,424,994	0	734,279	28,151	2,428,271	1,279,139	1,357,167	2,350,244	
10 Financial guaranty	0	0	0	0	0	0	0	0	0	
11.1 Medical professional - liability - occurrence	0	0	0	0	0	0	0	0	0	
11.2 Medical professional - liability - claims made	0	0	0	0	0	0	0	0	0	
12 Earthquake	104,480	229,458	0	100,116	3,909	229,913	130,918	138,904	221,927	
13 Group accident and health	0	0	0	0	0	0	0	0	0	
14 Credit accident and health (group and individual)	0	0	0	0	0	0	0	0	0	
15 Other accident and health	0	0	0	0	0	0	0	0	0	
16 Workers' compensation	21,092,400	44,968,428	0	20,001,030	977,569	45,082,229	20,103,442	21,329,752	43,855,919	
17.1 Other liability - occurrence	191,480	2,249,870	0	101,240	80,831	2,259,279	1,095,211	1,162,019	2,192,471	
17.2 Other liability - claims made	0	0	0	0	0	0	0	0	0	
17.3 Excess Workers' Compensation	0	0	0	0	0	0	0	0	0	
18.1 Products liability - occurrence	0	0	0	0	0	0	0	0	0	
18.2 Products liability - claims made	0	0	0	0	0	0	0	0	0	
19.1 Private passenger auto liability	41,223,089	69,636,972	0	40,847,715	336,233	69,676,113	32,492,013	34,474,026	67,694,100	
19.4 Commercial auto liability	23,273,946	26,581,777	0	23,057,804	193,604	26,604,315	12,235,491	12,981,856	25,857,950	
21 Auto physical damage	40,945,118	65,353,819	0	40,728,981	193,600	65,376,356	29,767,608	31,583,432	63,560,532	
22 Aircraft (all perils)	0	0	0	0	0	0	0	0	0	
23 Fidelity	0	0	0	0	0	0	0	0	0	
24 Surety	0	0	0	0	0	0	0	0	0	
26 Burglary and theft	0	0	0	0	0	0	0	0	0	
27 Boiler and machinery	440,784	-1,018	0	0	0	-1,018	2,772	2,942	-1,187	
28 Credit	0	24,115	0	1,494	393,484	69,921	6,881	7,300	69,501	
29 International	0	0	0	0	0	0	0	0	0	
30 Warranty	0	0	0	0	0	0	0	0	0	
31 Reinsurance - Nonproportional Assumed Property	0	0	0	0	0	0	0	0	0	
32 Reinsurance - Nonproportional Assumed Liability	0	0	0	0	0	0	0	0	0	
33 Reinsurance - Nonproportional Assumed Financial Lines	0	0	0	0	0	0	0	0	0	
34 Aggregate write-ins for other lines of business	3,195	0	0	0	0	3,195	0	0	0	
35 TOTALS	182,294,490	340,799,992	0	176,460,670	5,222,648	341,411,164	166,726,221	176,896,521	331,240,864	

Atlantic States Insurance Company

Direct Premiums Written, Net Premiums Written, Premiums Earned

Line of Business	2015								
	1 Direct Business	2 Reinsurance Assumed		3 Reinsurance Ceded		6 1+2+3-4-5 Net Premiums Written	7 Unearned Premiums Prior Year	8 Unearned Premiums Current Year	9 Premiums Earned
		From Affiliates	From Non-Affiliates	To Affiliates	To Non-Affiliates				
1 Fire	587,502	4,530,693	0	562,528	21,172	4,534,495	2,483,136	2,634,607	4,383,024
2 Allied lines	253,907	1,677,626	0	243,161	9,110	1,679,262	912,982	968,674	1,623,570
3 Farmowners multiple peril	565,357	3,522,165	0	533,823	26,732	3,526,967	1,957,302	2,076,698	3,407,571
4 Homeowners multiple peril	30,064,261	75,080,194	0	28,508,439	1,318,935	75,317,081	42,325,750	44,907,620	72,735,210
5 Commercial multiple peril	29,293,780	52,280,794	0	27,146,622	1,820,236	52,607,717	26,179,953	27,776,930	51,010,740
6 Mortgage guaranty	0	0	0	0	0	0	0	0	0
8 Ocean Marine	0	0	0	0	0	0	0	0	0
9 Inland marine	857,592	2,570,494	0	822,393	29,840	2,575,853	1,357,167	1,439,954	2,493,066
10 Financial guaranty	0	0	0	0	0	0	0	0	0
11.1 Medical professional - liability - occurrence	0	0	0	0	0	0	0	0	0
11.2 Medical professional - liability - claims made	0	0	0	0	0	0	0	0	0
12 Earthquake	117,018	243,226	0	112,130	4,144	243,970	138,904	147,377	235,497
13 Group accident and health	0	0	0	0	0	0	0	0	0
14 Credit accident and health (group and individual)	0	0	0	0	0	0	0	0	0
15 Other accident and health	0	0	0	0	0	0	0	0	0
16 Workers' compensation	23,623,488	47,666,534	0	22,401,154	1,036,223	47,852,644	21,329,752	22,630,867	46,551,530
17.1 Other liability - occurrence	214,458	2,384,862	0	113,389	85,681	2,400,250	1,162,019	1,232,902	2,329,367
17.2 Other liability - claims made	0	0	0	0	0	0	0	0	0
17.3 Excess Workers' Compensation	0	0	0	0	0	0	0	0	0
18.1 Products liability - occurrence	0	0	0	0	0	0	0	0	0
18.2 Products liability - claims made	0	0	0	0	0	0	0	0	0
19.1, 19.2 Private passenger auto liability	46,169,859	73,815,190	0	45,749,440	356,407	73,879,202	34,474,026	36,576,941	71,776,287
19.3, 19.4 Commercial auto liability	26,066,819	28,176,684	0	25,824,740	205,220	28,213,542	12,981,856	13,773,749	27,421,649
21 Auto physical damage	45,858,532	69,275,048	0	45,616,458	205,216	69,311,906	31,583,432	33,510,021	67,365,316
22 Aircraft (all perils)	0	0	0	0	0	0	0	0	0
23 Fidelity	0	0	0	0	0	0	0	0	0
24 Surety	0	0	0	0	0	0	0	0	0
26 Burglary and theft	0	0	0	0	0	0	0	0	0
27 Boiler and machinery	0	-1,079	0	0	0	-1,079	2,942	3,121	-1,258
28 Credit	493,678	25,562	0	1,673	417,093	100,473	7,300	7,746	100,028
29 International	0	0	0	0	0	0	0	0	0
30 Warranty	0	0	0	0	0	0	0	0	0
31 Reinsurance - Nonproportional Assumed Property	0	0	0	0	0	0	0	0	0
32 Reinsurance - Nonproportional Assumed Liability	0	0	0	0	0	0	0	0	0
33 Reinsurance - Nonproportional Assumed Financial Lines	0	0	0	0	0	0	0	0	0
34 Aggregate write-ins for other lines of business	3,578	0	0	0	0	3,578	0	0	3,578
35 TOTALS	204,169,828	361,247,992	0	197,635,951	5,536,007	362,245,863	176,896,521	187,687,208	351,455,175

Atlantic States Insurance Company

Direct Premiums Written, Net Premiums Written, Premiums Earned

Line of Business	2016								
	1 Direct Business	2 Reinsurance Assumed		3 Reinsurance Ceded		6 1+2+3-4-5 Net Premiums Written	7 Unearned Premiums Prior Year	8 Unearned Premiums Current Year	9 Premiums Earned
		From Affiliates	From Non-Affiliates	To Affiliates	To Non-Affiliates				
1 Fire	658,002	4,802,534	0	630,031	22,442	4,808,063	2,634,607	2,795,318	4,647,352
2 Allied lines	284,376	1,778,283	0	272,340	9,657	1,780,663	968,674	1,027,763	1,721,573
3 Farmowners multiple peril	633,200	3,733,495	0	597,882	28,336	3,740,477	2,076,698	2,203,376	3,613,798
4 Homeowners multiple peril	33,671,972	79,585,006	0	31,929,452	1,398,071	79,929,455	44,907,620	47,646,985	77,190,091
5 Commercial multiple peril	32,809,034	55,417,642	0	30,404,216	1,929,450	55,893,010	27,776,930	29,471,323	54,198,617
6 Mortgage guaranty	0	0	0	0	0	0	0	0	0
8 Ocean Marine	0	0	0	0	0	0	0	0	0
9 Inland marine	960,503	2,724,723	0	921,080	31,630	2,732,516	1,439,954	1,527,791	2,644,679
10 Financial guaranty	0	0	0	0	0	0	0	0	0
11.1 Medical professional - liability - occurrence	0	0	0	0	0	0	0	0	0
11.2 Medical professional - liability - claims made	0	0	0	0	0	0	0	0	0
12 Earthquake	131,060	257,819	0	125,586	4,392	258,901	147,377	156,367	249,911
13 Group accident and health	0	0	0	0	0	0	0	0	0
14 Credit accident and health (group and individual)	0	0	0	0	0	0	0	0	0
15 Other accident and health	0	0	0	0	0	0	0	0	0
16 Workers' compensation	26,458,306	50,526,526	0	25,089,293	1,098,397	50,797,143	22,630,867	24,011,349	49,416,660
17.1 Other liability - occurrence	240,193	2,527,954	0	126,996	90,821	2,550,330	1,232,902	1,308,109	2,475,123
17.2 Other liability - claims made	0	0	0	0	0	0	0	0	0
17.3 Excess Workers' Compensation	0	0	0	0	0	0	0	0	0
18.1 Products liability - occurrence	0	0	0	0	0	0	0	0	0
18.2 Products liability - claims made	0	0	0	0	0	0	0	0	0
19.1, 19.2 Private passenger auto liability	51,710,243	78,244,102	0	51,239,373	377,791	78,337,180	36,576,941	38,808,135	76,105,986
19.3, 19.4 Commercial auto liability	29,194,837	29,867,285	0	28,923,709	217,534	29,920,880	13,773,749	14,613,948	29,080,681
21 Auto physical damage	51,361,555	73,431,551	0	51,090,433	217,529	73,485,144	33,510,021	35,554,133	71,441,033
22 Aircraft (all perils)	0	0	0	0	0	0	0	0	0
23 Fidelity	0	0	0	0	0	0	0	0	0
24 Surety	0	0	0	0	0	0	0	0	0
26 Burglary and theft	0	0	0	0	0	0	0	0	0
27 Boiler and machinery	552,919	-1,144	0	1,874	442,118	136,022	3,121	3,311	-1,334
28 Credit	0	27,095	0	0	0	0	7,746	8,218	135,550
29 International	0	0	0	0	0	0	0	0	0
30 Warranty	0	0	0	0	0	0	0	0	0
31 Reinsurance - Nonproportional Assumed Property	0	0	0	0	0	0	0	0	0
32 Reinsurance - Nonproportional Assumed Liability	0	0	0	0	0	0	0	0	0
33 Reinsurance - Nonproportional Assumed Financial Lines	0	0	0	0	0	0	0	0	0
34 Aggregate write-ins for other lines of business	4,008	0	0	0	0	4,008	0	0	4,008
35 TOTALS	228,670,208	382,922,871	0	221,352,265	5,868,167	384,372,647	187,687,208	199,136,128	372,923,728

Atlantic States Insurance Company

Direct Premiums Written, Net Premiums Written, Premiums Earned

	Line of Business	1 Direct Business	2 Reinsurance Assumed		3 Reinsurance Ceded		4 2017		5 1+2+3-4-5 Net Premiums Written	6 Unearned Premiums Prior Year	7 Unearned Premiums Current Year	8 Premiums Earned	9
			From Affiliates	From Non-Affiliates	To Affiliates	To Non-Affiliates							
1	Fire	736,962	5,090,686	0	705,635	23,788	5,098,225	2,795,318	2,965,832	4,927,711			
2	Allied lines	318,501	1,884,980	0	305,021	10,236	1,888,224	1,027,763	1,090,457	1,825,531			
3	Farmowners multiple peril	709,184	3,957,505	0	669,628	30,036	3,967,024	2,203,376	2,337,782	3,832,618			
4	Homeowners multiple peril	37,712,609	84,360,106	0	35,760,986	1,481,955	84,829,774	47,646,985	50,553,451	81,923,308			
5	Commercial multiple peril	36,746,118	58,742,700	0	34,052,722	2,045,217	59,390,879	29,471,323	31,269,074	57,593,128			
6	Mortgage guaranty	0	0	0	0	0	0	0	0	0			
8	Ocean Marine	0	0	0	0	0	0	0	0	0			
9	Inland marine	1,075,763	2,888,207	0	1,031,610	33,528	2,898,832	1,527,791	1,620,987	2,805,637			
10	Financial guaranty	0	0	0	0	0	0	0	0	0			
11.1	Medical professional - liability - occurrence	0	0	0	0	0	0	0	0	0			
11.2	Medical professional - liability - claims made	0	0	0	0	0	0	0	0	0			
12	Earthquake	146,787	273,288	0	140,656	4,656	274,764	156,367	165,905	265,226			
13	Group accident and health	0	0	0	0	0	0	0	0	0			
14	Credit accident and health (group and individual)	0	0	0	0	0	0	0	0	0			
15	Other accident and health	0	0	0	0	0	0	0	0	0			
16	Workers' compensation	29,633,303	53,558,117	0	28,100,008	1,164,300	53,927,112	24,011,349	25,476,042	52,462,420			
17.1	Other liability - occurrence	269,016	2,679,631	0	142,235	96,271	2,710,141	1,308,109	1,387,904	2,630,347			
17.2	Other liability - claims made	0	0	0	0	0	0	0	0	0			
17.3	Excess Workers' Compensation	0	0	0	0	0	0	0	0	0			
18.1	Products liability - occurrence	0	0	0	0	0	0	0	0	0			
18.2	Products liability - claims made	0	0	0	0	0	0	0	0	0			
19.1, 19.2	Private passenger auto liability	57,915,472	82,938,748	0	57,388,098	400,459	83,065,663	38,808,135	41,175,431	80,698,366			
19.3, 19.4	Commercial auto liability	32,698,218	31,659,322	0	32,394,554	230,586	31,732,400	14,613,948	15,505,399	30,840,949			
21	Auto physical damage	57,524,942	77,837,444	0	57,221,285	230,580	77,910,520	35,554,133	37,722,935	75,741,718			
22	Aircraft (all perils)	0	0	0	0	0	0	0	0	0			
23	Fidelity	0	0	0	0	0	0	0	0	0			
24	Surety	0	0	0	0	0	0	0	0	0			
26	Burglary and theft	0	0	0	0	0	0	0	0	0			
27	Boiler and machinery	0	-1,212	0	0	0	-1,212	3,311	3,513	-1,414			
28	Credit	619,269	28,721	0	2,099	468,645	177,246	8,218	8,719	176,745			
29	International	0	0	0	0	0	0	0	0	0			
30	Warranty	0	0	0	0	0	0	0	0	0			
31	Reinsurance - Nonproportional Assumed Property	0	0	0	0	0	0	0	0	0			
32	Reinsurance - Nonproportional Assumed Liability	0	0	0	0	0	0	0	0	0			
33	Reinsurance - Nonproportional Assumed Financial Lines	0	0	0	0	0	0	0	0	0			
34	Aggregate write-ins for other lines of business	4,489	0	0	0	0	4,489	0	0	4,489			
35	TOTALS	256,110,633	405,898,244	0	247,914,537	6,220,257	407,874,083	199,136,128	211,283,432	395,726,779			

Balance Sheet

	Net Admitted 12/31/12	Net Admitted 12/31/13	Net Admitted 12/31/14	Net Admitted 12/31/15	Net Admitted 12/31/16	Net Admitted 12/31/17
Assets						
1. Bonds (Schedule D)	420,526,184	447,450,708	471,495,771	497,796,305	525,874,594	556,528,982
2. Stocks (Schedule D):						
2.1 Preferred stocks						
2.2 Common stocks	12,777,778	12,777,778	12,777,778	12,777,778	12,777,778	12,777,778
3. Mortgage loans on real estate (Schedule B):						
3.1 First liens						
3.2 Other than first liens						
4. Real Estate						
4.1 Properties occupied by the company (less \$... Encumbrances)	305,908	305,908	305,908	305,908	305,908	305,908
4.2 Properties held for the production of income (less \$... Encumbrances)	610,010	610,010	610,010	610,010	610,010	610,010
4.3 Properties held for sale (less \$... Encumbrances)						
5. Cash, cash equivalents and short-term investments	4,952,820	4,952,820	4,952,820	4,952,820	4,952,820	4,952,820
6. Contract loans (including \$... Premium notes)						
7. Derivatives (Schedule DB)						
8. Other invested assets (Schedule BA)	3,391,537	3,391,537	3,391,537	3,391,537	3,391,537	3,391,537
9. Receivables for securities						
10. Securities lending reinvested collateral assets (Schedule DL)						
11. Aggregate write-ins for invested assets						
12. Subtotals, cash and invested assets (Line 1 through Line 11)	442,564,237	469,488,761	493,533,824	519,834,358	547,912,647	578,567,035
13. Title plants less \$... Charged off (for Title insurers only)	4,054,410	4,054,410	4,054,410	4,054,410	4,054,410	4,054,410
14. Investment income due and accrued						
15. Premium and considerations:						
15.1 Uncollected premiums and agents' balances in the course of collection	22,023,483	22,023,483	22,023,483	22,023,483	22,023,483	22,023,483
15.2 Deferred premiums, agents' balances and installment booked but deferred and not yet due	40,008,482	40,008,482	40,008,482	40,008,482	40,008,482	40,008,482
15.3 Accrued retrospective premiums						
16. Reinsurance:						
16.1 Amounts recoverable from reinsurers	8,951,135	8,951,135	8,951,135	8,951,135	8,951,135	8,951,135
16.2 Fund held by or deposited with reinsured companies						
16.3 Other amounts recoverable under reinsurance contracts						
17. Amounts receivable relating to reinsured plans						
18.1 Current federal and foreign income tax recoverable and interest thereon	1,200,857	1,200,857	1,200,857	1,200,857	1,200,857	1,200,857
18.2 Net deferred tax asset	20,009,062	20,009,062	20,009,062	20,009,062	20,009,062	20,009,062
19. Guaranty funds receivable or on deposit						
20. Electronic data processing equipment and software	0	0	0	0	0	0
21. Furniture and equipment, including health care delivery assets (\$...)	0	0	0	0	0	0
22. Net adjustment in assets and liabilities due to foreign exchange rates						
23. Receivables from parents, subsidiaries and affiliates						
24. Health Care (\$...) and other amounts receivable						
25. Aggregated write-ins for other than invested assets	29,195	29,195	29,195	29,195	29,195	29,195
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Amounts						
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts						
28. Total (Line 26 through Line 27)	538,840,861	565,765,385	589,810,448	616,110,982	644,189,271	674,843,659

	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17
Liabilities, Surplus, and Other Funds						
1. Losses (Part 2A, Line 35, Column 8)	131,900,307	142,960,148	151,676,428	160,933,240	170,763,043	181,205,203
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	18,287,108	19,820,482	21,028,937	22,312,333	23,675,170	25,122,907
3. Loss adjustment expenses (Part 2A, Line 35, Column 9)	31,673,000	34,328,781	36,421,807	38,644,630	41,005,044	43,512,502
4. Commissions payable, contingent commissions and other similar charges	0	0	0	0	0	0
5. Other expenses (excluding taxes, licenses and fees)	318,406	345,104	366,145	388,491	412,220	437,428
6. Tax, licenses and fees (excluding federal and foreign income taxes)	1,481,213	1,605,413	1,703,295	1,807,247	1,917,633	2,034,897
7.1 Current federal and foreign income taxes (including \$... On realized capital gains (losses))	0	0	0	0	0	0
7.2 Net deferred tax liability						
8. Borrowed money \$... And interest thereon \$						
9. Unearned premiums	157,140,642	166,726,221	176,896,521	187,896,521	199,136,128	211,283,432
10. Advance premium	1,221,348	1,294,629	1,372,307	1,454,645	1,541,924	1,634,439
11. Dividends declared and unpaid:						
11.1 Stockholders						
11.2 Policyholders	540,000	585,279	620,963	658,861	699,104	741,854
12. Ceded reinsurance premiums payable (net of ceding commissions)	11,323,595	12,273,078	13,021,368	13,816,062	14,659,947	15,556,403
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)						
14. Amounts withheld or retained by company for account of others	188,766	204,594	217,068	230,316	244,383	259,328
15. Remittances and items not allocated	6,386	6,921	7,343	7,792	8,268	8,773
16. Provision for reinsurance (including \$... Certified) (Schedule F, Part 8)						
17. Net adjustments in assets and liabilities due to foreign exchange rates						
18. Drafts outstanding						
19. Payable to parent, subsidiaries and affiliates	4,294,432	4,654,520	4,938,306	5,239,691	5,559,731	5,899,709
20. Derivatives						
21. Payable for securities						
22. Payable for securities lending						
23. Liability for amounts held under uninsured plans						
24. Capital notes \$... And interest thereon \$						
25. Aggregate write-ins for liabilities						
26. Total liabilities excluding protected cell liabilities (Line 1 through Line 25)	358,375,203	384,805,171	408,270,489	433,389,828	459,622,596	487,696,874
27. Protected cell liabilities						
28. Total liabilities (Line 26 and Line 27)	358,375,203	384,805,171	408,270,489	433,389,828	459,622,596	487,696,874
29. Aggregate write-ins for special surplus funds						
30. Common capital stock	4,230,000	4,230,000	4,230,000	4,230,000	4,230,000	4,230,000
31. Preferred capital stock						
32. Aggregate write-ins for other than special surplus funds						
33. Surplus notes						
34. Gross paid in and contributed surplus	51,310,864	51,310,864	51,310,864	51,310,864	51,310,864	51,310,864
35. Unassigned funds (surplus)	124,924,794	125,419,350	125,999,095	127,180,290	129,025,811	131,605,921
36. Less treasury stock, at cost:						
36.1 ... shares common (value including in Line 30 \$...)						
36.2 ... shares preferred (value including in Line 31 \$...)						
37. Surplus as regards policyholders (Line 29 to Line 35, less Line 36) (Page 4, Line 39)	180,465,658	180,960,214	181,539,959	182,721,154	184,566,675	187,146,785
38. Totals (Page 2, Line 38, Column 3)	538,840,861	565,765,385	589,810,448	616,110,982	644,189,271	674,843,659

Atlantic States Insurance Company

Exhibit 3

Summary of 5 Year Projections

	Atlantic States Insurance Company 12/31/12	Atlantic States Insurance Company 12/31/13	Atlantic States Insurance Company 12/31/14	Atlantic States Insurance Company 12/31/15	Atlantic States Insurance Company 12/31/16	Atlantic States Insurance Company 12/31/17
BALANCE SHEET						
Total Investments	442,564,237	469,488,761	493,533,824	519,834,358	547,912,647	578,567,035
Total Assets	538,840,861	565,765,385	589,810,448	616,110,982	644,189,271	674,843,659
Total Liabilities	358,375,203	384,805,171	408,270,489	433,389,828	459,622,596	487,696,874
Total Surplus as regards policyholders	180,465,658	180,960,214	181,539,959	182,721,154	184,566,675	187,146,785
STATEMENT OF INCOME DATA						
Premiums earned	288,052,724	312,205,589	331,240,864	351,455,175	372,923,728	395,726,779
Losses incurred	162,660,374	190,445,409	202,056,927	214,387,657	227,483,474	241,393,335
Loss adjustment expenses incurred	32,107,198	34,342,615	36,436,495	38,660,069	41,021,610	43,529,946
Other underwriting expenses incurred	93,663,194	93,661,677	99,372,259	105,436,553	111,877,118	118,718,034
Aggregate write-ins for underwriting deductions	0	0	0	0	0	0
Total underwriting deductions	288,430,766	318,449,701	337,865,681	358,484,279	380,382,203	403,641,315
Net underwriting gains (loss)	-378,042	-6,244,112	-6,624,817	-7,029,104	-7,458,475	-7,914,536
Net investment income earned	10,982,257	11,312,632	11,936,323	12,543,631	13,185,533	13,864,371
Net realized capital gains (losses)	2,359,835	0	0	0	0	0
Net investment gain (loss)	13,342,092	11,312,632	11,936,323	12,543,631	13,185,533	13,864,371
Finance and service charges	3,926,824	4,398,043	4,925,808	5,516,905	6,178,934	6,920,406
Aggregate write-ins for miscellaneous income	0	0	0	0	0	0
Net income before dividends and taxes	16,890,874	9,466,563	10,237,314	11,031,432	11,905,992	12,870,241
Dividends to policyholders	947,821	936,617	993,723	1,054,366	1,118,771	1,187,180
Federal and foreign income taxes incurred	3,435,513	1,535,390	1,663,846	1,795,872	1,941,700	2,102,951
Net income after taxes	12,507,540	6,994,556	7,579,745	8,181,195	8,845,521	9,580,110
Change in net unrealized capital gains or (losses)	274,355	0	0	0	0	0
Change in net deferred income tax	1,725,404	0	0	0	0	0
Change in nonadmitted assets	-547,513	0	0	0	0	0
Dividends to stockholders	-7,000,000	-6,500,000	-7,000,000	-7,000,000	-7,000,000	-7,000,000
Change in surplus	6,959,786	494,556	579,745	1,181,195	1,845,521	2,580,110

Exhibit B

AGREEMENT

The undersigned, Gregory M. Shepard, hereby agrees, pursuant to 40 Pennsylvania Statutes Section 991.1402(b)(11.1), that he will provide to the Pennsylvania Insurance Department the annual enterprise risk report specified in 40 Pennsylvania Statutes Section 991.1404(k.1) as long as he has control, as defined in 40 Pennsylvania Statutes Section 991.1401, of Atlantic States Insurance Company, a Pennsylvania insurance company and wholly owned subsidiary of Donegal Group Inc., a Delaware corporation.

Dated: July 10, 2013


Gregory M. Shepard

Exhibit C

ACKNOWLEDGMENT

The undersigned, Gregory M. Shepard, hereby acknowledges, pursuant to 40 Pennsylvania Statutes Section 991.1402(b)(11.2), that he and the subsidiaries within his control in the insurance holding company system of Donegal Group Inc., a Delaware corporation, will provide information to the Insurance Commissioner of the Commonwealth of Pennsylvania upon request as necessary to evaluate enterprise risk to the insurer, Atlantic States Insurance Company, a Pennsylvania insurance company and wholly owned subsidiary of Donegal Group Inc.

Dated: July 16, 2013


Gregory M. Shepard

Exhibit D

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

April 8, 2013

VIA E-MAIL

Mr. James N. Armstrong
Deputy Commissioner & Chief Examiner
Ms. Kim Cross
Assistant Chief Examiner
Iowa Insurance Division (the "Division")
330 Maple St.
Des Moines, IA 50319-0065

Re: Form A Filing on Behalf of Gregory M. Shepard

Dear Mr. Armstrong and Ms. Cross:

We are writing in response to your letter dated March 27, 2013, on behalf of our client, Mr. Gregory M. Shepard.

We respectfully disagree with your interpretation of Iowa Code Section 521A.3.1.a (the "Iowa Statute"). Mr. Shepard requests that his Form A application be allowed to proceed in Iowa, as Iowa has done in the past with respect to another unsolicited tender offer for shares of a publicly-traded company with an Iowa-domiciled insurance subsidiary.

Mr. Shepard's offer is an unsolicited invitation for tenders for Class B shares of Donegal Group Inc. ("Donegal"), a publicly traded NASDAQ-listed company. The Iowa Statute contemplates the situation where a shareholder avails himself of the federal tender offer rules under the Williams Act, which are codified in Regulation 14D under the Securities Exchange Act of 1934, to make an unsolicited tender offer for shares.

The Iowa Statute unfortunately does not expressly make a distinction between publicly-traded companies and privately-held companies. We believe this fact has led to some of the confusion in interpretation. In the public company context, a tender offer filed with the Securities and Exchange Commission that contains a number of mandatory conditions prior to acceptance, including a condition for regulatory approval, is in essence what the Iowa statute phrases as an "invitation for tenders." This is because there

is no mechanism for a shareholder to actually receive payment for shares until the regulatory approvals have been received.

Under the principle of statutory construction referred to as “*expressio unius est exclusio alterius*,” each word or phrase of the Iowa Statute must be given its own separate meaning. The statute specifically refers to three types of transactions: 1) “tender offers” (without defining what this means); 2) “request or invitation for tenders”; and 3) agreements to exchange securities or seek to acquire voting securities.

The Iowa Statute also refers to two different time frames for approval by the Iowa Commissioner of Insurance (the “Commissioner”): 1) those that require approval prior to the making; and 2) those that require approval prior to the acquisition of securities. “Agreements” to acquire control and firm “offers” that are not subject to any conditions require prior approval; invitations to tender, on the other hand, require approval prior to acquisition of the securities, not prior to the making of the invitation itself.

In particular, the Iowa Statute states: “No person other than the issuer shall make a tender offer for or a request or invitation for tenders of, or enter into any agreement to exchange securities for, seek to acquire, or acquire, . . . any voting security of a domestic insurer . . . unless, at the time any such offer, request, or invitation is made or any such agreement is entered into, ***or prior to the acquisition of such securities if no offer or agreement is involved***, such person has filed with the commissioner . . . [a Form A] statement . . .” (Emphasis added.)

The tender offer filed by Mr. Shepard, to use the phrasing of the Iowa Statute, is an “invitation for tenders” – it is not a firm “offer” or “agreement.” It is not a firm “offer” because it is specifically subject to regulatory approval, prior to any acquisition of securities, in addition to the fulfillment of other mandatory conditions. Iowa makes a distinction between: “tender offers” and “an invitation for tenders” – this is why both types are mentioned separately. Stated another way, the Iowa Statute mandates that ***no acquisition of securities*** pursuant to an “invitation for tenders” can occur without approval from the Commissioner. But that does not mean that an offeror is precluded from filing an “invitation for tenders” with the Securities and Exchange Commission and undergoing the Form A process to seek the Commissioner’s approval.

Compare the public company context with someone making an “offer” or “tender offer” for shares of a privately held company without any conditions for regulatory approval. That type of offer cannot be made without the ***prior approval*** of the Commissioner. The Iowa statute was never intended to block access to the capital markets and prevent the filing of “invitation for tenders” pursuant to the Williams Act, and it was never intended to preclude access to the Form A process for those who made

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such filings. Mr. Shepard has represented in writing that he will not acquire any further Donegal shares until all regulatory approvals have been received.

Every State we are familiar with interprets this statute the same as we do, and this has long been the practice among state insurance departments. **In fact, even Iowa has interpreted this statute the same way in the past. In the late 1990s, Nationwide Mutual Insurance Company made an unsolicited (i.e., “hostile”) tender offer for Allied Group, Inc., which was headquartered in Iowa and had three Iowa-domiciled insurance subsidiaries.** See the following link to the initial tender offer filing with the SEC on May 19, 1998: <http://www.sec.gov/Archives/edgar/data/315099/0000950133-98-002001.txt>. (If the link does not work, please copy or type the foregoing into your web browser.) In its Offer to Purchase (see the foregoing link), Nationwide Mutual states on page 3 that its tender offer has an “Insurance Regulatory Approval Condition” (just like Mr. Shepard’s), and it states on page 4 that “[o]n the date of this Offer to Purchase, Parent and Purchaser made Form A filings . . . with the relevant Insurance Commissions . . .” Nationwide Mutual did not obtain Form A approval from the Division before announcing its tender offer, but rather made receiving Form A approval a condition of the offer, which had to be satisfied before acquiring any shares pursuant to the offer. The Division did not tell Nationwide to withdraw its tender offer and Form A. Instead, the Commissioner permitted the Form A process to proceed. This is all Mr. Shepard is asking here – for equal treatment in permitting the Form A process to proceed in Iowa.

The State of Pennsylvania has a nearly identical statute to the Iowa Statute - almost word-for-word the same. See Pennsylvania Statutes, Title 40, Section 991.1402(a)(1), which is attached hereto as **Exhibit A** for your convenience. Yet, in Pennsylvania, Mr. Shepard’s Form A fee has been accepted and his Form A materials are already posted on the Pennsylvania Department of Insurance website (link here: http://www.portal.state.pa.us/portal/server.pt/community/industry_activity/9276/-donegal_group_form-a/1451040). Donegal is headquartered in Pennsylvania, and the largest portion of its insurance business is conducted there. While we recognize that Iowa is a sovereign state, the Pennsylvania filing and posting on its website is probative that the our interpretation of the statute is correct in the context of an “invitation for tenders” of shares of a publicly traded company.

In addition, the Division’s interpretation would make a tender offer for a publicly traded company impossible. That is because obtaining Form A approval is a *public* process, but a tender offer for a publicly traded company must be kept confidential until the offeror makes an announcement, or else the price of the subject company’s shares will rise to the tender offer price before the announcement of the tender offer.

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Indeed, it is a form of “insider trading” – specifically prohibited under Rule 14e-3 under the Securities Exchange Act of 1934 – to buy or sell stock on information about a tender offer (or, in the phrasing of the Iowa Statute, an “invitation for tenders”) that has not been formally announced through SEC filings. Therefore, we respectfully submit that your interpretation reads the Iowa Statute in a contradictory way, because it would make a tender offer for a publicly traded company impossible where Iowa Form A approval is required. It would also require the person bringing the tender offer to violate Federal securities laws by disclosing the tender offer prior to filing a Schedule TO with the SEC.

This is why Iowa permitted the Form A process to proceed in 1998 for the unsolicited tender offer for shares of publicly traded Allied Group with its Iowa-domiciled insurance subsidiary Allied Financial.

We respectfully suggest that the only way to make sense of the Iowa Statute in the context of an unsolicited tender offer is to interpret it as requiring Form A approval prior to the consummation of a tender offer (i.e., prior to an acquisition of shares pursuant to the “invitation for tenders”), but not prior to the “launching” or announcement of the “invitation for tenders,” not only to be consistent with Federal securities laws, but because announcing a tender offer is not a purchase of shares or a binding agreement to do so. It is merely an invitation to do so that is conditional, in Mr. Shepard’s case, on receiving Form A approval.

If the Division’s interpretation were correct, no shareholder or other person could ever bring an unsolicited tender offer of any company that has an insurance subsidiary, no matter how small, domiciled in Iowa. This would be in complete frustration of the Williams Act and the other federal laws enabling tender offers, and in complete derogation of federal-state comity.

If the Division continues in its view, it would “blow a huge hole” in the insurance world with respect to the way these transactions are typically effectuated and approved. Iowa would be by itself in an unprecedented action. No one in the United States would believe they are permitted to bring an unsolicited tender offer for shares of an insurance holding company that has a subsidiary domiciled in Iowa. Federal-state comity challenges would ensue, not to mention grievances on the part of shareholders who would argue that Iowa is impermissibly tilting in management’s favor. In addition, Donegal’s shareholders would be denied the opportunity to receive \$30.00 per share for their Class B shares, a 42% premium over the closing price the day before announcement. No insurance regulator anywhere in the country has ever said, to our knowledge, that it will not conduct a Form A review on an unsolicited tender offer.

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Here is a list of a few of the unsolicited (i.e., “hostile”) transactions involving insurance companies that have occurred in the United States in recent years. Besides the Allied Group, Inc. transaction mentioned above, Cendant Corporation made a hostile tender offer for American Bankers Insurance Group Inc. in 1998 (link to initial SEC filing: <http://www.sec.gov/Archives/edgar/data/350571/0000950136-98-000104-index.html>); SouthCap Corporation made a hostile tender offer for United Home Life Insurance Company in 1997 (link to initial SEC filing: <http://www.sec.gov/Archives/edgar/data/101262/0000950144-97-003878-index.html>); Torchmark made a hostile tender offer for Kansas City Life Insurance Company in 1988; and BATUS, Inc., a unit of BAT Industries, made a hostile unsolicited bid for Farmers Group, Inc. in 1988.

If the arguments presented above were not overwhelmingly convincing, the Iowa Statute also states that “[n]o person other than the issuer shall make a[n] . . . invitation for tenders of . . . any voting security of a domestic insurer if, after the consummation thereof, such person would, directly or indirectly . . . **be in control of such insurer.**” The definition of “control” in Iowa Code Section 521A.1.3 states that the presumption of control resulting from owning 10% or more of the voting securities “may be rebutted by showing that control does not in fact exist.” Mr. Shepard is seeking Class B shares that would give him 22.7% of the total voting power of Donegal, the corporate parent of Le Mars Insurance Company. First, he would remain under 25% voting control, and may therefore rebut the presumption of control by showing that no control exists in reality. Secondly, and dispositively, there is no way Mr. Shepard can ever be in control of Donegal in any meaningful sense of the word. This is because Donegal Mutual has – and will continue to have, even if Mr. Shepard’s tender offer succeeds – the voting power with respect to 65.9% of Donegal. Donegal Mutual and Donegal’s business operations are intertwined – they share employees and facilities and have an overlapping Board of Directors. Donegal has represented in its SEC filings that it expects Donegal Mutual’s control to continue far into the future.

Mr. Shepard respectfully requests that his Iowa Form A application be permitted to go forward, as his Form A in Pennsylvania has. Mr. Shepard has stated in writing, and he hereby undertakes in this letter, that he will not acquire any shares of Donegal’s Class A or Class B common stock, directly or indirectly through any instrumentality, unless and until all regulators, including the Iowa Insurance Division, first approve his acquisitions pursuant to his tender offer.

If you have any questions about any of the above, please don’t hesitate to call. If the Division is inclined not to agree, then we request a meeting in Des Moines to more fully vet the issues before the Division takes action.

Iowa Insurance Division
April 8, 2013
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Very truly yours,

Lathrop & Gage LLP

By: 
J. Victor Peterson, Esq.

cc: Frederick M. Haskins, Esq. - Patterson Law Firm, LLP

Exhibit E

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

April 29, 2013

**VIA E-MAIL (WITHOUT EXHIBITS)
AND FEDERAL EXPRESS (WITH EXHIBITS)**

Mr. James N. Armstrong
Deputy Commissioner & Chief Examiner
Ms. Kim Cross
Assistant Chief Examiner
Iowa Insurance Division (the "Division")
330 Maple St.
Des Moines, IA 50319-0065

Re: Form A Filing on Behalf of Gregory M. Shepard – SUPPLEMENTAL INFORMATION

Dear Mr. Armstrong and Ms. Cross:

This letter supplements our letter on behalf of our client, Gregory M. Shepard, to you dated April 8, 2013, which responded to your letter dated March 27, 2013. This letter provides supplemental information intended to assist the Division in making its determination on whether Mr. Shepard's Form A application will be allowed to proceed in Iowa. The information in this letter is additional to, and does not amend, our letter dated April 8, 2013.

Mr. Shepard is seemingly between a "rock and a hard place" in Iowa. On the one hand, the federal securities laws mandate that Mr. Shepard cannot make any "public announcement" of a tender offer without complying with the federal securities rules, including filing his tender offer materials with the Securities and Exchange Commission ("SEC"). On the other hand, if Iowa's statute (Code §521A.3.1.a) requires Mr. Shepard to file a Form A statement and to receive approval prior to filing tender offer materials with the SEC, then Mr. Shepard risks civil and criminal penalties for violating the federal securities laws, because his Form A statement would constitute a "public announcement." There is a conflict between the Iowa statute and the federal securities laws, raising the question of which one pre-empts the other. Fortunately, the United States Supreme Court has provided guidance on this issue, and several other federal courts have directly addressed the issue. To accommodate both the state and federal regimes, state insurance divisions have adopted a "harmonized" view which permits the offeror to proceed with the Form A process while simultaneously filing tender offer documents with the SEC,

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provided that the offeror not pay for and acquire any tendered shares until all regulatory approvals have been received. This was exactly the procedure followed by Nationwide Mutual Insurance Company in Iowa in its tender offer bid for Allied Group and Allied Financial. See page 4 of the Offer to Purchase at [http://www.sec.gov/Archives/edgar/-data/315099/0000950133-98-002001.txt](http://www.sec.gov/Archives/edgar/data/315099/0000950133-98-002001.txt) (if the link does not work, please cut-and-paste it into your browser).

In particular, this letter provides legal authorities in support of Mr. Shepard's contention that Iowa should follow the "harmonized approach" taken by other states with similar precommencement notice and approval provisions, which permits a tender offer to commence and remain open during the Form A approval process, so long as the offer is conditional on Form A approval (such that no shares may be acquired pursuant to the offer unless and until Form A approval is received).

On March 20, 2013, Mr. Shepard filed with the Securities and Exchange Commission ("SEC") a tender offer on Schedule TO (the "Offer"). See **Exhibit A**. Mr. Shepard's Offer is an unsolicited invitation for tenders for Class B shares of Donegal Group Inc. ("Donegal"), a publicly traded NASDAQ-listed company. Mr. Shepard's offer price is \$30 per share, a 42% premium over the price of the Class B shares prior to the date of announcement. The Offer is entirely subject to regulatory approvals, including state insurance departments, the Federal Reserve Bank of Philadelphia and the Federal Trade Commission. There is no way for tendering shareholders to receive any money or for Mr. Shepard to acquire any shares in the Offer unless and until all regulatory approvals have been received.

The Offer was initially scheduled to expire on April 19, 2013, and contained a condition that Mr. Shepard be granted Board representation at the Donegal level and Donegal Mutual level (collectively, the "Board Condition").

On April 22, 2013, and in accordance with federal securities laws, Mr. Shepard extended the Offer until May 20, 2013 (see **Exhibit B**), and has dropped the Board Condition and condition against future grants of options for Donegal Class A shares, in response to comments made by Donegal in its Schedule 14D-9 Response, which was issued on April 3, 2013. See **Exhibit C**.

Mr. Shepard states conspicuously in his Offer to Purchase that it is subject to Offeror having obtained all regulatory approvals from state insurance regulators. This Offer to Purchase is filed with the SEC on Schedule TO, and is signed by Mr. Shepard and filed with the SEC under pain of criminal penalties. 15 U.S.C. §78n(e). See **Exhibit D**.

It would be completely impossible for an offeror to ever bring a tender offer for a publicly traded insurance company if prior Form A approval were first required. Upon making the Form A filing, which is a public announcement, there would be trading in the stock. If the offeror filed the Form A with the Division, but failed to file a Schedule TO with the SEC in order to comply with Iowa law, the offeror would place himself in peril of serious criminal violations of the federal securities laws, specifically Section 32(a) of the 1934 Act (see **Exhibit E**), and also shareholder lawsuits based on failure to comply with the federal securities laws and possible market manipulation.

There is obviously a substantial conflict between the Iowa law and the federal securities laws. Either one must pre-empt the other, or they must both be harmonized to meet the interests of both regulators. The consensus view that has emerged has favored a harmonized approach.

The federal Williams Act, which regulates the rules and disclosures relating to tender offers for publicly traded shares, was adopted in 1968 as an amendment to the Securities Exchange Act of 1934, as amended (the "1934 Act"; 15 U.S.C. §78a et seq. The fundamental principles behind the Williams Act are to: 1) require sufficient disclosure of the tender offer to alert the public shareholders as to the identities, conditions, specifics, and affiliations of the offeror, and 2) level the "playing field" between target company management and the offeror so that one side does not have an unfair advantage over the other. Initially, the scope of the Williams Act did not specifically refer to the stock or securities of insurance companies. However, in 1982, the Williams Act was amended to make clear that it specifically pertains to the stock of publicly traded insurance companies. The Williams Act, as amended, states:

It shall be unlawful for any person, directly or indirectly, . . . to make a tender offer for . . . any class of any equity security which is registered pursuant to section 12 of this title, or **any equity security of an insurance company** which would have been required to be so registered except for the exemption contained in section 12(g)(2)(G) of this title. . . . unless. . . (15 U.S.C. §78n(d)(1)(1982)) (Bold emphasis added.) (See **Exhibit D**.)

Pursuant to Rule 14d-2 issued by the SEC pursuant to the Williams Act, an offeror such as Mr. Shepard must file a Schedule TO upon a public announcement of a tender offer. A public announcement is defined in Instruction 5 to Rule 14d-2 as "any oral or written communication by the bidder, or any person authorized to act on the bidder's behalf, that is reasonably designed to, or has the effect of, informing the public or security holders in general about the tender offer. . . ." See **Exhibit F**.

Under the applicable 1934 Act regulations, upon a public announcement of a tender offer, such as the filing of a Form A, a pre-commencement communication must be filed on Schedule TO. See Rule 14d-2(6) in **Exhibit F**. However, Rule 14e-8 (see **Exhibit G**) requires that no one can make a pre-commencement communication on Schedule TO unless that person has the intention to commence the tender offer within a reasonable time and complete the offer. If this were not so, the public securities markets would roil with manipulation as would-be offerors would make pre-commencement communications of tender offers and never follow through.

Under Iowa Code Section 521A.3.1.a (see **Exhibit H**), Mr. Shepard would be required to file his Form A statement with the Division prior to commencing a tender offer. But the Form A filing would trigger, because it is a public announcement, a requirement to file a pre-commencement tender offer notification under cover of Schedule TO. However, one cannot file a pre-commencement notification regarding a tender offer unless the offeror has the intention of commencing the tender offer within a reasonable time and completing the offer. Of course, whether or not Mr. Shepard's Offer would be permitted to commence within a reasonable time after public announcement is entirely with the discretion of the State of Iowa. No offeror could form an intention to commence a tender offer within a reasonable period of time after the Form A filing and to complete the offer, because whether the offer is commenced and completed would depend entirely on the Division and the process could take months before resolution, one way or the other.

Imagine the situation if Mr. Shepard had filed his Form A first with the Division before commencing his Offer. Because filing the Form A is a "public announcement," Mr. Shepard would be required to make a filing with the SEC on Schedule TO and to have the intention to commence contemporaneously the Offer within a reasonable period of time, and to complete the Offer. He would have to disclose the acquisition price and details about the other terms and conditions of the Offer. The stock price of the Donegal Class B shares might then fluctuate wildly, with buyers and sellers and winners and losers. If the State of Iowa then decided against Form A approval, Mr. Shepard would be subject to the most serious market manipulation charges and suits by Class B shareholders who lost money in the interim.

The McCarran-Ferguson Act was passed in 1945 (15 U.S.C. §§1011 – 1015). See **Exhibit I**. It stands for the proposition that any Act of Congress that does not expressly regulate the "business of insurance" will not preempt state laws or regulations that regulate the "business of insurance." The Williams Act was amended in part to make it clear that Congress intended to regulate tender offers for publicly traded shares of insurance companies.

As several courts and commentators have noted, it is impossible for an offeror to comply with both the Williams Act and state insurance laws that require advance Form A approval like Iowa's. As the United States Supreme Court held, impossibility of compliance between state and federal law is grounds for preemption of the former. (*Florida Lime & Avocado Growers, Inc. v. Paul*, 373 U.S. 132, 142-43 (1963)). See **Exhibit J.**)

Despite the clear language of the 1982 amendment to the Williams Act specifically including insurance company stock, some early courts were confused. Some of these courts stated that the Williams Act did not specifically state that it was regulating the "business of insurance," and hence state insurance control acquisition statutes were not preempted.

However, in *SEC v. National Securities, Inc.* (393 U.S. 453 (1969)) (see **Exhibit K**), the United States Supreme Court ruled that the "business of insurance" exemption from federal preemption under the McCarran-Ferguson Act related only to the relationship between the insurance company and its policyholders. It did not pertain to the regulations of insurance companies' stockholders, which were held to be outside the McCarran-Ferguson's "business of insurance" exemption. In other words, the federal securities laws directly apply to stockholders of insurance companies.

In *National Securities*, two insurance companies that merged argued that the federal securities laws did not apply to them because the state insurance commissioner had otherwise approved their merger. The United States Supreme Court disagreed because the issue in the case involved the disposition of the stock of the two merged entities; not the protection of policyholders. In the words of the United States Supreme Court:

Even accepting respondents' view of Arizona law, we do not believe that a state statute aimed at protecting the interests of those who own stock in insurance companies comes within the sweep of the McCarran-Ferguson Act. Such a statute is not a state attempt to regulate 'the business of insurance,' as that phrase was used in the Act. (393 U.S. 453, 457.)

In this case, Arizona is concerning itself with a markedly different set of problems. *It is attempting to regulate not the "insurance" relationship, but the relationship between a stockholder and the company in which he owns stock.*

This is not insurance regulation, but securities regulation.

It is true that the state statute applies only to insurance companies. But mere matters of form need not detain us.

The crucial point is that here the State has focused its attention on stockholder protection; it is not attempting to secure the interests of those purchasing insurance policies. Such regulation is not within the scope of the McCarran-Ferguson act. (393 U.S. 453, 460; Emphasis added.)

Of course, under the securities laws state regulation may co-exist with that offered under the federal securities laws. See, e.g., Securities Act of 1933, s 18, 48 Stat. 85, 15 U.S.C. s 77r; Securities Exchange Act of 1934, s 28(a), 48 Stat. 903, 15 U.S.C. s 78bb(a). ***But it has never been held that state regulation of insurance securities pre-empts federal regulation, on the theory that the federal securities laws would be 'superseding' state laws regulating the 'business of insurance.'*** (393 U.S. 453, 461; Emphasis added.)

As a result, to avoid preemption issues and attempt to rationally harmonize the federal and state regimes, many states permit "conditional tender offers." These are tender offers for publicly traded insurance companies that cannot be completed without insurance commissioner approval, typically through a Form A proceeding. This is precisely Mr. Shepard's offer.

Conditional offers for publicly traded insurance companies are kept "open" during the Form A process. Shareholders can withdraw their shares at any time prior to insurance department approval and acceptance by the offeror.

In *Sun Life Group, Inc. v. Standard Life Ins. Co. of Indiana*, 1980 WL 1383 (S.D. Ind. 1980) (see **Exhibit L**), the target company argued that the Indiana Insurance Holding Company Act prohibited the commencement of a tender offer without the prior approval of the Indiana Insurance Commissioner, following a hearing held not sooner than 30 days after the Form A filing. However, the court held that the "offer, conditioned as it is upon approval of the Indiana Insurance Commissioner, is in compliance with both the Indiana Act and federal requirements...that the offer once filed with the Commissioner be disseminated to the shareholders." (See 1980 WL 1383, Section 12.) The court noted that "[t]he Indiana Act has been informally construed by the Indiana Insurance Commissioner in a letter to counsel for [the offeror] to permit the making of a tender

offer for an Indiana insurer, or an agreement to acquire shares, prior to the Commissioner's approval as long as the offer or agreement is expressly made conditioned upon that approval." Thus, both the Indiana Insurance Commissioner and the U.S. District Court of the Southern District of Indiana have – as has the Pennsylvania Insurance Department by accepting Mr. Shepard's Form A filing – "harmonized" Indiana's Form A regulations, notwithstanding their precommencement notification and approval provisions, with the Williams Act by permitting the commencement of tender offers before insurance regulatory approval has been obtained when – as in Mr. Shepard's Offer – completion of the offer is conditioned upon that approval.

Mr. Shepard respectfully requests the Division to adopt the same "harmonized approach"; namely, for the Division to proceed with the Form A process while permitting Mr. Shepard's Offer to remain open, subject to the express condition that no tendered shares may be acquired unless and until all regulators have approved, including the State of Iowa. This harmonized methodology avoids constitutional preemption issues.

In *Edgar v. MITE Corp.*, 457 U.S. 624, 102 S.Ct. 2629 (1982) (see **Exhibit M**), the U.S. Supreme Court held that the Illinois Takeover Act was unconstitutional under the Supremacy Clause, because its precommencement notification provision frustrated the objectives of, and was therefore preempted by, the Williams Act. Similarly to the advance notification requirements of Iowa Code Section 521A.3.1.a, the Illinois Takeover Act required a tender offeror to notify the Illinois Secretary of State and the target company of its intent to make a tender offer and the material terms of the offer 20 business days before the offer commenced. The U.S. Supreme Court found that Illinois' precommencement notice requirement frustrated the Congressional policies of "evenhandedness" between bidders and target in takeovers and protecting the right of shareholders to make an "informed choice" about whether to tender their shares, by "introducing extended delay into the tender offer process." (See 457 U.S. 624, 633-37.) For the same reason, we respectfully submit that the precommencement notice requirement in Iowa's regulations on the acquisition of control of domestic insurance companies is also preempted by the Williams Act.

In *Gunter v. AGO International B.V.*, 533 F.Supp. 86 (N.D. Fla. 1981) (see **Exhibit N**), a similar provision of the Florida Insurance Holding Company Act, which required a tender offeror to file a Form A statement and to receive regulatory approval before commencing the tender offer, was held unconstitutional under the Supremacy Clause.

"It is clear that the Florida Act conflicts with and frustrates the clear purposes of the Williams Act. The Florida Act requires the tender offeror to file with the Department of Insurance and send to the insurer and

controlling company a statement detailing the offer at least sixty days prior to the time any form of tender offer is furnished to security holders. ... This sixty-day period enables incumbent management to gain valuable time in its efforts to defeat the tender offer, thereby dissolving the neutrality which Congress strived to achieve by the Williams Act.” (See 533, F.Supp. 86, 90; internal citation omitted.)

In *National City Lines, Inc. v. LLC Corp.*, 524 F.Supp. 906 (W.D. Missouri 1981) (see **Exhibit O**), a precommencement notification provision of the Missouri Insurance Holding Companies Act was held unconstitutional under the Supremacy Clause because it conflicted with the Williams Act. In addition, the invalidation of that provision was found not to conflict with the McCarran-Ferguson Act’s exception to federal preemption permitting state regulation of the “business of insurance.”

“It is the collective intent of Congress...to subject all transactions in securities of insurance companies to the pervasive requirements of the Williams Act. ... The express terms of the Williams Act and its regulations require application of the federal tender offer rules even where the tender offer is made for equity securities of the parent of an insurance company subsidiary. ... [T]he application of the Williams Act to securities transactions involving insurance companies is consistent with the McCarran-Ferguson Act. As the Supreme Court held in *S.E.C. v. National Securities, Inc.*, ... a state which seeks to regulate transactions in securities of an insurance company is engaged in ‘the regulation of securities’ rather than the regulation of the ‘business of insurance.’ Under those circumstances, the McCarran-Ferguson Act is not an impediment to the application of the Williams Act. Because [sections including the precommencement notification provision] of the Insurance Act empower the Director to regulation the relationship between a stockholder and the company in which he owns stock, the Director can engage in the regulation of securities. This power is clearly preempted by the Williams Act and, as the National Securities case makes manifest, is not protected by the McCarran-Ferguson Act.” (See 524 F.Supp. 906, 910; internal citations omitted.)

As we mentioned in our letter of April 8, 2013, in Pennsylvania, Mr. Shepard’s Form A fee has been accepted and his Form A materials are already posted on the Pennsylvania Department of Insurance website (link here: http://www.portal.state.pa.us/portal/server.pt/community/industry_activity/9276/-donegal_group_form-a/1451040). Donegal is headquartered in Pennsylvania, and the largest portion of its insurance business is conducted there. We recognize that each state

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April 29, 2013
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is sovereign. However, Pennsylvania's statute has an advance approval requirement similar to Iowa's (see 40 P.S. §991.1402(a)(1)), but Pennsylvania has adopted the harmonized view. Pennsylvania permits the federal securities law filing (i.e., of Schedule TO to commence the tender offer), and then conducts the Form A process during the period when the offer is open. No Class B Donegal shares can be acquired by Mr. Shepard, and no Donegal shareholder can receive payment, unless and until each Insurance Commissioner approves.

On behalf of Mr. Shepard, based on the arguments set forth and legal authorities cited above including the U.S. Supreme Court, we respectfully request the State of Iowa and the Division to permit Mr. Shepard's Form A filing to proceed in the "harmonized" way discussed above, and to permit Mr. Shepard to fulfill his obligations under the federal securities laws, including the Williams Act and the rules issued by the SEC thereunder.

Mr. Shepard requests that this letter be kept confidential from the public while the Division is reviewing and considering the matter. The basis for this request is that public disclosure might be used by Donegal management for adverse publicity and might "tilt the playing field" in favor of Donegal management, contrary to the Williams Act and the federal securities laws.

If you have any questions about any of the above, please don't hesitate to call.

Very truly yours,

Lathrop & Gage LLP

By: 

J. Victor Peterson, Esq.

Cc: Fred Haskins, Esq.

Exhibit F

MR. GREGORY M. SHEPARD

Statement of Financial Condition

March 15, 2013

STRIEGEL KNOBLOCH & COMPANY, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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STRIEGEL KNOBLOCH & COMPANY, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

Dennis K. Knobloch, CPA
James E. Mulligan, CPA
James P. Ingold, CPA
Joel M. White, CPA

Danny L. Kiedaisch, CPA
John J. Belletete, CPA
Chad E. Rogers, CPA
David A. Klimas, CPA

L. Eugene Striegel, CPA
1935-2011
Martha E. Ingold, CPA
Consultant

INDEPENDENT AUDITORS' REPORT

Mr. Gregory M. Shepard
7028 Portmarnock Place
Bradenton, Florida

We have audited the accompanying statement of financial condition of Mr. Gregory M. Shepard as of March 15, 2013, and the related notes to the financial statement.

Mr. Gregory M. Shepard's Responsibility for the Financial Statement

Mr. Gregory M. Shepard is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Mr. Gregory M. Shepard's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of his internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by Mr. Gregory M. Shepard, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial condition of Mr. Gregory M. Shepard as of March 15, 2013, in accordance with accounting principles generally accepted in the United States of America.



Bloomington, Illinois
March 25, 2013

115 West Jefferson, Suite 200, P.O. Box 3217, Bloomington, Illinois 61702-3217
Ph: (309) 829-4303 Fax: (309) 827-3191 Website: www.skco.net
With offices in Chicago, Pontiac and Rantoul

MR. GREGORY M. SHEPARD

Statement of Financial Condition

March 15, 2013

ASSETS

Cash and cash equivalents	\$ 1,984,639
Marketable securities (Note 2)	97,724,480
Other investments (Note 3):	
Farmland	
Residences (Note 2)	
Personal property (Note 2)	<u>900,000</u>
Total Assets	<u>\$ 122,151,119</u>

LIABILITIES AND NET WORTH

Federal income tax payable	\$ 2,287,000
Notes, secured with marketable securities and mortgages on real estate, with interest ranging from 1.875% to 3.250% with monthly payments of interest only	9,179,600
Estimated income taxes on the difference between estimated current values of assets and their tax basis (Note 4)	8,700,000
Net worth	<u>101,984,519</u>
Total Liabilities and Net Worth	<u>\$ 122,151,119</u>

The accompanying notes are an integral part of this statement.

MR. GREGORY M. SHEPARD

Notes to Statement of Financial Condition

March 15, 2013

Note 1 – Significant Accounting Policies:

The accompanying statement of financial condition includes the assets and liabilities of Mr. Gregory M. Shepard. Some of the other Notes to Statement of Financial Condition contain more specific information regarding the carrying value of certain individual assets. Other significant accounting policies are as follows:

- A) In the determination of net assets, all major assets owned by Mr. Gregory M. Shepard, and all major liabilities are included in the accompanying Statement of Financial Condition.
- B) The asset values are intended to represent the best available information as to the exchange prices under present conditions, assuming a willing buyer and a willing seller.
- C) Minor personal effects and other items which have an immaterial effect on net assets are not included in this report.
- D) The information is based on personal records maintained by Mr. Gregory M. Shepard.

Note 2 – Estimated Current Value Basis:

The values shown were determined as follows:

Marketable securities	Marketable value as quoted on applicable exchange.
Farmland	Estimates are based on market value, as noted in the applicable footnote.
Residences	Market value based on Mr. Shepard's knowledge of local market conditions, and acquisition of the property.
Personal property	Actual cost or fair market value based on estimated resale value.

MR. GREGORY M. SHEPARD

Notes to Statement of Financial Condition - Continued

March 15, 2013

Note 3 – Farmland:

Mr. Shepard has a 100% ownership interest in farmland located in McLean County, Illinois. Based upon an appraisal dated October 1, 2008, the estimated current value of the farmland is [REDACTED]

Note 4 – Estimated Income Taxes:

Estimated income taxes have been provided on the excess of the estimated current values of assets over their tax basis, as if the estimated current values of the assets had been realized on the statement date, using applicable tax laws and regulations. The provision will probably differ from the amounts of income taxes that eventually might be paid because those amounts are determined by the timing and the method of disposal or realization and the tax laws and regulations in effect at the time of disposal or realization.

The estimated current values of assets exceeded their tax basis by approximately \$29,000,000 at March 15, 2013.

Note 5 – Subsequent Event:

No other events have occurred subsequent to March 15, 2013, that are required to be disclosed in these financial statements. This evaluation was made as of March 25, 2013, the date these financial statements were available to be issued.

MR. GREGORY M. SHEPARD

Statement of Financial Condition

December 31, 2012

STRIEGEL KNOBLOCH & COMPANY, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Joel M. White, CPA

Danny L. Kiedaisch, CPA
John J. Belletete, CPA
Chad E. Rogers, CPA
David A. Klimas, CPA

L. Eugene Striegel, CPA
1935-2011
Martha E. Ingold, CPA
Consultant

INDEPENDENT AUDITORS' REPORT

Mr. Gregory M. Shepard
7028 Portmarnock Place
Bradenton, Florida

We have audited the accompanying statement of financial condition of Mr. Gregory M. Shepard as of December 31, 2012, and the related notes to the financial statement.

Mr. Gregory M. Shepard's Responsibility for the Financial Statement

Mr. Gregory M. Shepard is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Mr. Gregory M. Shepard's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of his internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by Mr. Gregory M. Shepard, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial condition of Mr. Gregory M. Shepard as of December 31, 2012, in accordance with accounting principles generally accepted in the United States of America.



Bloomington, Illinois
March 25, 2013

115 West Jefferson, Suite 200, P.O. Box 3217, Bloomington, Illinois 61702-3217
Ph: (309) 829-4303 Fax: (309) 827-3191 Website: www.skco.net
With offices in Chicago, Pontiac and Rantoul

MR. GREGORY M. SHEPARD

Statement of Financial Condition

December 31, 2012

ASSETS

Cash and cash equivalents	\$ 92,426
Marketable securities (Note 2)	79,502,516
Other investments (Note 3):	
Farmland	
Residences (Note 2)	
Personal property (Note 2)	<u>600,000</u>
Total Assets	<u>\$ 101,736,942</u>

LIABILITIES AND NET WORTH

Federal income tax payable	\$ 2,287,000
Notes, secured with marketable securities and mortgages on real estate, with interest ranging from 1.875% to 3.250% with monthly payments of interest only	7,371,868
Estimated income taxes on the difference between estimated current values of assets and their tax basis (Note 4)	2,500,000
Net worth	<u>89,578,074</u>
Total Liabilities and Net Worth	<u>\$ 101,736,942</u>

The accompanying notes are an integral part of this statement.

MR. GREGORY M. SHEPARD

Notes to Statement of Financial Condition

December 31, 2012

Note 1 – Significant Accounting Policies:

The accompanying statement of financial condition includes the assets and liabilities of Mr. Gregory M. Shepard. Some of the other Notes to Statement of Financial Condition contain more specific information regarding the carrying value of certain individual assets. Other significant accounting policies are as follows:

- A) In the determination of net assets, all major assets owned by Mr. Gregory M. Shepard, and all major liabilities are included in the accompanying Statement of Financial Condition.
- B) The asset values are intended to represent the best available information as to the exchange prices under present conditions, assuming a willing buyer and a willing seller.
- C) Minor personal effects and other items which have an immaterial effect on net assets are not included in this report.
- D) The information is based on personal records maintained by Mr. Gregory M. Shepard.

Note 2 – Estimated Current Value Basis:

The values shown were determined as follows:

Marketable securities	Marketable value as quoted on applicable exchange.
Farmland	Estimates are based on market value, as noted in the applicable footnote.
Residences	Market value based on Mr. Shepard's knowledge of local market conditions, and acquisition of the property.
Personal property	Actual cost or fair market value based on estimated resale value.

MR. GREGORY M. SHEPARD

Notes to Statement of Financial Condition - Continued

December 31, 2012

Note 3 – Farmland:

Mr. Shepard has a 100% ownership interest in farmland located in McLean County, Illinois. Based upon an appraisal dated October 1, 2008, the estimated current value of the farmland is [REDACTED]

Note 4 – Estimated Income Taxes:

Estimated income taxes have been provided on the excess of the estimated current values of assets over their tax basis, as if the estimated current values of the assets had been realized on the statement date, using applicable tax laws and regulations. The provision will probably differ from the amounts of income taxes that eventually might be paid because those amounts are determined by the timing and the method of disposal or realization and the tax laws and regulations in effect at the time of disposal or realization.

The estimated current values of assets exceeded their tax basis by approximately \$11,000,000 at December 31, 2012.

Note 5 – Subsequent Event:

No other events have occurred subsequent to December 31, 2012, that are required to be disclosed in these financial statements. This evaluation was made as of March 25, 2013, the date these financial statements were available to be issued.

MR. GREGORY M. SHEPARD

Statement of Financial Condition

September 15, 2012

STRIEGEL KNOBLOCH & COMPANY, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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STRIEGEL KNOBLOCH & COMPANY, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

Dennis K. Knobloch, CPA
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David A. Klimas, CPA

L. Eugene Striegel, CPA
1935-2011
Martha E. Ingold, CPA
Consultant

INDEPENDENT AUDITORS' REPORT

Mr. Gregory M. Shepard
7028 Portmarnock Place
Bradenton, Florida

We have audited the accompanying statement of financial condition of Mr. Gregory M. Shepard as of September 15, 2012. This financial statement is the responsibility of Mr. Shepard. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by the individual, as well as evaluating the overall presentation of the statement of financial condition. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial condition of Mr. Gregory M. Shepard as of September 15, 2012, in conformity with accounting principles generally accepted in the United States of America.



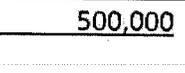
Bloomington, Illinois
September 19, 2012

MR. GREGORY M. SHEPARD

Statement of Financial Condition

September 15, 2012

ASSETS

Cash and cash equivalents	\$ 43,162
Marketable securities (Note 2)	80,839,118
Other investments (Note 3):	
Farmland	
Residences (Note 2)	
Personal property (Note 2)	<u>500,000</u>
Total Assets	<u>\$ 102,924,280</u>

LIABILITIES AND NET WORTH

Federal income tax payable	\$ 2,287,000
Notes, secured with marketable securities and a mortgage on real estate, with interest ranging from 1.875% to 5.000% with monthly payments of interest only	4,230,000
Estimated income taxes on the difference between estimated current values of assets and their tax basis (Note 4)	3,500,000
Net worth	<u>92,907,280</u>
Total Liabilities and Net Worth	<u>\$ 102,924,280</u>

The accompanying notes are an integral part of this statement.

MR. GREGORY M. SHEPARD

Notes to Statement of Financial Condition

September 15, 2012

Note 1 – Significant Accounting Policies:

The accompanying statement of financial condition includes the assets and liabilities of Mr. Gregory M. Shepard. Some of the other Notes to Statement of Financial Condition contain more specific information regarding the carrying value of certain individual assets. Other significant accounting policies are as follows:

- A) In the determination of net assets, all major assets owned by Mr. Gregory M. Shepard, and all major liabilities are included in the accompanying Statement of Financial Condition.
- B) The asset values are intended to represent the best available information as to the exchange prices under present conditions, assuming a willing buyer and a willing seller.
- C) Minor personal effects and other items which have an immaterial effect on net assets are not included in this report.
- D) The information is based on personal records maintained by Mr. Gregory M. Shepard.

Note 2 – Estimated Current Value Basis:

The values shown were determined as follows:

Marketable securities	Marketable value as quoted on applicable exchange.
Farmland	Estimates are based on market value, as noted in the applicable footnote.
Residences	Market value based on Mr. Shepard's knowledge of local market conditions, and acquisition of the property.
Personal property	Actual cost or fair market value based on estimated resale value.

MR. GREGORY M. SHEPARD

Notes to Statement of Financial Condition - Continued

September 15, 2012

Note 3 – Farmland:

Mr. Shepard has a 100% ownership interest in farmland located in McLean County, Illinois. Based upon an appraisal dated October 1, 2008, the estimated current value of the farmland is [REDACTED]

Note 4 – Estimated Income Taxes:

Estimated income taxes have been provided on the excess of the estimated current values of assets over their tax basis, as if the estimated current values of the assets had been realized on the statement date, using applicable tax laws and regulations. The provision will probably differ from the amounts of income taxes that eventually might be paid because those amounts are determined by the timing and the method of disposal or realization and the tax laws and regulations in effect at the time of disposal or realization.

The estimated current values of assets exceeded their tax basis by approximately \$16,000,000 at September 15, 2012.

Note 5 – Subsequent Event:

No other events have occurred subsequent to September 15, 2012, that are required to be disclosed in these financial statements. This evaluation was made as of September 19, 2012, the date these financial statements were available to be issued.

MR. GREGORY M. SHEPARD

Statement of Financial Condition

December 31, 2011

STRIEGEL KNOBLOCH & COMPANY, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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STRIEGEL KNOBLOCH & COMPANY, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

Dennis K. Knobloch, CPA
James E. Mulligan, CPA
James P. Ingold, CPA
Joel M. White, CPA

Danny L. Kiedaisch, CPA
John J. Belletete, CPA
Chad E. Rogers, CPA
David A. Klimas, CPA

L. Eugene Striegel, CPA
1935-2011
Martha E. Ingold, CPA
Consultant

INDEPENDENT AUDITORS' REPORT

Mr. Gregory M. Shepard
7028 Portmarnock Place
Bradenton, Florida

We have audited the accompanying statement of financial condition of Mr. Gregory M. Shepard as of December 31, 2011. This financial statement is the responsibility of Mr. Shepard. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by the individual, as well as evaluating the overall presentation of the statement of financial condition. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial condition of Mr. Gregory M. Shepard as of December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Striegel Knobloch & Company, LLC

Bloomington, Illinois
September 18, 2012

MR. GREGORY M. SHEPARD

Statement of Financial Condition

December 31, 2011

ASSETS

Cash and cash equivalents	\$ 9,248
Marketable securities (Note 2)	61,411,617
Other investments (Notes 3 and 4):	
Country Acres Land Corporation	14,930,871
Farmland	
Residences (Note 2)	
Personal property (Note 2)	<u>500,000</u>
Total Assets	<u>\$ 98,944,736</u>

LIABILITIES AND NET WORTH

Federal income tax payable	\$ 21,035
State income tax payable (overpayment)	(5,008)
Notes, secured with marketable securities and a mortgage on real estate, with interest ranging from 1.875% to 5.000% with monthly payments of interest only	6,960,248
Estimated income taxes on the difference between estimated current values of assets and their tax basis (Note 5)	6,000,000
Net worth	<u>85,968,461</u>
Total Liabilities and Net Worth	<u>\$ 98,944,736</u>

The accompanying notes are an integral part of this statement.

MR. GREGORY M. SHEPARD

Notes to Statement of Financial Condition

December 31, 2011

Note 1 – Significant Accounting Policies:

The accompanying statement of financial condition includes the assets and liabilities of Mr. Gregory M. Shepard. Some of the other Notes to Statement of Financial Condition contain more specific information regarding the carrying value of certain individual assets. Other significant accounting policies are as follows:

- A) In the determination of net assets, all major assets owned by Mr. Gregory M. Shepard, and all major liabilities are included in the accompanying Statement of Financial Condition.
- B) The asset values are intended to represent the best available information as to the exchange prices under present conditions, assuming a willing buyer and a willing seller.
- C) Minor personal effects and other items which have an immaterial effect on net assets are not included in this report.
- D) The information is based on personal records maintained by Mr. Gregory M. Shepard.

Note 2 – Estimated Current Value Basis:

The values shown were determined as follows:

Marketable securities	Marketable value as quoted on applicable exchange.
Investment in a closely held subchapter S corporation	Estimates are based on company market value, as noted in the applicable footnote.
Farmland	Estimates are based on market value, as noted in the applicable footnote.
Residences	Market value based on Mr. Shepard's knowledge of local market conditions, and acquisition of the property.
Personal property	Actual cost or fair market value based on estimated resale value.

MR. GREGORY M. SHEPARD

Notes to Statement of Financial Condition - Continued

December 31, 2011

Note 3 – Closely Held Corporation:

Country Acres Land Corporation – Mr. Shepard owns 50% of this subchapter S corporation. The Corporation was organized for the purpose of acquiring and developing real estate. Based upon an appraisal dated December 20, 2007, the estimated current value of the real estate owned by the corporation is \$29,861,742. Thus, Mr. Shepard's 50% ownership value is \$14,930,871 at December 31, 2011.

Note 4 – Farmland:

Mr. Shepard has a 100% ownership interest in farmland located in McLean County, Illinois. Based upon an appraisal dated October 1, 2008, the estimated current value of the farmland is [REDACTED]

Note 5 – Estimated Income Taxes:

Estimated income taxes have been provided on the excess of the estimated current values of assets over their tax basis, as if the estimated current values of the assets had been realized on the statement date, using applicable tax laws and regulations. The provision will probably differ from the amounts of income taxes that eventually might be paid because those amounts are determined by the timing and the method of disposal or realization and the tax laws and regulations in effect at the time of disposal or realization.

The estimated current values of assets exceeded their tax basis by approximately \$23,000,000 at December 31, 2011.

Note 6 – Subsequent Event:

On July 26, 2012, Mr. Shepard sold his 50% share of Country Acres Land Corporation for a total consideration of \$10,985,742.

No other events have occurred subsequent to December 31, 2011, that are required to be disclosed in these financial statements. This evaluation was made as of September 18, 2012, the date these financial statements were available to be issued.

MR. GREGORY M. SHEPARD
Statement of Financial Condition
December 31, 2010

STRIEGEL KNOBLOCH & COMPANY, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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STRIEGEL KNOBLOCH & COMPANY, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

L. Eugene Striegel, CPA
James E. Mulligan, CPA
Martha E. Ingold, CPA

Dennis K. Knobloch, CPA
John J. Belletete, CPA
Chad E. Rogers, CPA

Danny L. Kiedaisch, CPA
James P. Ingold, CPA
Joel M. White, CPA

INDEPENDENT AUDITORS' REPORT

Mr. Gregory M. Shepard
7028 Portmarnock Place
Bradenton, Florida

We have audited the accompanying statement of financial condition of Mr. Gregory M. Shepard as of December 31, 2010. This financial statement is the responsibility of Mr. Shepard. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by the individual, as well as evaluating the overall presentation of the statement of financial condition. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial condition of Mr. Gregory M. Shepard as of December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Striegel Knobloch & Company, LLC

Bloomington, Illinois
July 21, 2011

MR. GREGORY M. SHEPARD
Statement of Financial Condition
December 31, 2010

ASSETS

Cash and cash equivalents	\$ 54,601
Marketable securities (Note 2)	59,747,759
Other investments (Notes 3 and 4):	
Country Acres Land Corporation	15,006,485
Farmland	[REDACTED]
Residences (Note 2)	[REDACTED]
Personal property (Note 2)	<u>500,000</u>
 Total Assets	 <u>\$ 97,401,845</u>

LIABILITIES AND NET WORTH

Federal income tax payable	\$ 264,338
State income tax payable	(3,885)
Notes, secured with marketable securities and a mortgage on real estate, with interest ranging from 1.76% to 3.75% with monthly payments of interest only	3,240,103
Estimated income taxes on the difference between estimated current values of assets and their tax basis (Note 5)	6,500,000
Net worth	<u>87,401,289</u>
 Total Liabilities and Net Worth	 <u>\$ 97,401,845</u>

The accompanying notes are an integral part of this statement.

MR. GREGORY M. SHEPARD

Notes to Statement of Financial Condition

December 31, 2010

Note 1 – Significant Accounting Policies:

The accompanying statement of financial condition includes the assets and liabilities of Mr. Gregory M. Shepard. Some of the other Notes to Statement of Financial Condition contain more specific information regarding the carrying value of certain individual assets. Other significant accounting policies are as follows:

- A) In the determination of net assets, all major assets owned by Mr. Gregory M. Shepard, and all major liabilities are included in the accompanying Statement of Financial Condition.
- B) The asset values are intended to represent the best available information as to the exchange prices under present conditions, assuming a willing buyer and a willing seller.
- C) Minor personal effects and other items which have an immaterial effect on net assets are not included in this report.
- D) The information is based on personal records maintained by Mr. Gregory M. Shepard.

Note 2 – Estimated Current Value Basis:

The values shown were determined as follows:

Marketable securities	Marketable value as quoted on applicable exchange.
Investment in a closely held subchapter S corporation	Estimates are based on company market value, as noted in the applicable footnote.
Farmland	Estimates are based on market value, as noted in the applicable footnote.
Residences	Market value based on Mr. Shepard's knowledge of local market conditions, and acquisition of the property.
Personal property	Actual cost or fair market value based on estimated resale value.

MR. GREGORY M. SHEPARD

Notes to Statement of Financial Condition - Continued

December 31, 2010

Note 3 – Closely Held Corporation:

Country Acres Land Corporation – Mr. Shepard owns 50% of this subchapter S corporation. The Corporation was organized for the purpose of acquiring and developing real estate. Based upon an appraisal dated December 20, 2007, the estimated current value of the real estate owned by the corporation is \$30,012,970. Thus, Mr. Shepard's 50% ownership value is \$15,006,485 at December 31, 2010.

Note 4 – Farmland:

Mr. Shepard has a 100% ownership interest in farmland located in McLean County, Illinois. Based upon an appraisal dated October 1, 2008, the estimated current value of the farmland is [REDACTED]

Note 5 – Estimated Income Taxes:

Estimated income taxes have been provided on the excess of the estimated current values of assets over their tax basis, as if the estimated current values of the assets had been realized on the statement date, using applicable tax laws and regulations. The provision will probably differ from the amounts of income taxes that eventually might be paid because those amounts are determined by the timing and the method of disposal or realization and the tax laws and regulations in effect at the time of disposal or realization.

The estimated current values of assets exceeded their tax basis by approximately \$26,000,000 at December 31, 2010.

Note 6 – Subsequent Event:

No events have occurred subsequent to December 31, 2010, that are required to be disclosed in these financial statements. This evaluation was made as of July 21, 2011, the date these financial statements were available to be issued.

MR. GREGORY M. SHEPARD
Statement of Financial Condition
December 31, 2009

STRIEGEL KNOBLOCH & COMPANY, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

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STRIEGEL KNOBLOCH & COMPANY, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

L. Eugene Striegel, CPA
James E. Mulligan, CPA
Martha E. Ingold, CPA

Dennis K. Knobloch, CPA
John J. Belletete, CPA
Chad E. Rogers, CPA

Danny L. Kiedaisch, CPA
James P. Ingold, CPA
Joel M. White, CPA

INDEPENDENT AUDITORS' REPORT

Mr. Gregory M. Shepard
5055 Gulf of Mexico Drive, #414
Longboat Key, FL

We have audited the accompanying statement of financial condition of Mr. Gregory M. Shepard as of December 31, 2009. This financial statement is the responsibility of Mr. Shepard. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by the individual, as well as evaluating the overall presentation of the statement of financial condition. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial condition of Mr. Gregory M. Shepard as of December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Striegel Knobloch & Company, L.L.C.

Bloomington, Illinois
October 18, 2010

MR. GREGORY M. SHEPARD
Statement of Financial Condition
December 31, 2009

ASSETS

Cash and cash equivalents	\$ 989,723
Marketable securities (Note 2)	68,167,997
Other investments (Notes 3 and 4):	
Country Acres Land Corporation	15,059,023
Farmland	[REDACTED]
Residences (Note 2)	
Personal property (Note 2)	<u>500,000</u>
 Total Assets	 <u>\$ 104,031,743</u>

LIABILITIES AND NET WORTH

Federal income tax payable	\$ 8,959,571
State income tax payable	(7,820)
Estimated income taxes on the difference between estimated current values of assets and their tax basis (Note 5)	7,000,000
Net worth	<u>88,079,992</u>
 Total Liabilities and Net Worth	 <u>\$ 104,031,743</u>

The accompanying notes are an integral part of this statement.

MR. GREGORY M. SHEPARD

Notes to Statement of Financial Condition

December 31, 2009

Note 1 – Significant Accounting Policies:

The accompanying statement of financial condition includes the assets and liabilities of Mr. Gregory M. Shepard. Some of the other Notes to Statement of Financial Condition contain more specific information regarding the carrying value of certain individual assets. Other significant accounting policies are as follows:

- A) In the determination of net assets, all major assets owned by Mr. Gregory M. Shepard, and all major liabilities are included in the accompanying Statement of Financial Condition.
- B) The asset values are intended to represent the best available information as to the exchange prices under present conditions, assuming a willing buyer and a willing seller.
- C) Minor personal effects and other items which have an immaterial effect on net assets are not included in this report.
- D) The information is based on personal records maintained by Mr. Gregory M. Shepard.

Note 2 – Estimated Current Value Basis:

The values shown were determined as follows:

Marketable securities	Marketable value as quoted on applicable exchange.
Investment in a closely held subchapter S corporation	Estimates are based on company market value, as noted in the applicable footnote.
Farmland	Estimates are based on market value, as noted in the applicable footnote.
Residences	Market value based on Mr. Shepard's knowledge of local market conditions, and acquisition of the property.
Personal property	Actual cost or fair market value based on estimated resale value.

MR. GREGORY M. SHEPARD

Notes to Statement of Financial Condition - Continued

December 31, 2009

Note 3 – Closely Held Corporation:

Country Acres Land Corporation – Mr. Shepard owns 50% of this subchapter S corporation. The Corporation was organized for the purpose of acquiring and developing real estate. Based upon an appraisal dated December 20, 2007, the estimated current value of the real estate owned by the corporation is \$30,118,045. Thus, Mr. Shepard's 50% ownership value is \$15,059,023 at December 31, 2009.

Note 4 – Farmland:

Mr. Shepard has a 100% ownership interest in farmland located in McLean County, Illinois. Based upon an appraisal dated October 1, 2008, the estimated current value of the farmland is [REDACTED]

Note 5 – Estimated Income Taxes:

Estimated income taxes have been provided on the excess of the estimated current values of assets over their tax basis, as if the estimated current values of the assets had been realized on the statement date, using applicable tax laws and regulations. The provision will probably differ from the amounts of income taxes that eventually might be paid because those amounts are determined by the timing and the method of disposal or realization and the tax laws and regulations in effect at the time of disposal or realization.

The estimated current values of assets exceeded their tax basis by approximately \$30,000,000 at December 31, 2009.

Note 6 – Subsequent Event:

No events have occurred subsequent to December 31, 2009, that are required to be disclosed in these financial statements. This evaluation was made as of October 18, 2010, the date these financial statements were available to be issued.

MR. GREGORY M. SHEPARD
Statement of Financial Condition
December 31, 2008

STRIEGEL KNOBLOCH & COMPANY, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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STRIEGEL KNOBLOCH & COMPANY, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

L. Eugene Striegel, CPA
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James P. Ingold, CPA

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Martha E. Ingold, CPA

Dennis K. Knobloch, CPA
John J. Belletete, CPA
Chad E. Rogers, CPA

INDEPENDENT AUDITORS' REPORT

Mr. Gregory M. Shepard
5055 Gulf of Mexico Drive, #414
Longboat Key, FL

We have audited the accompanying statement of financial condition of Mr. Gregory M. Shepard as of December 31, 2008. This financial statement is the responsibility of Mr. Shepard. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by the individual, as well as evaluating the overall presentation of the statement of financial condition. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial condition of Mr. Gregory M. Shepard as of December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Striegel Knobloch & Company, L.L.C.

Bloomington, Illinois
August 27, 2009

MR. GREGORY M. SHEPARD

Statement of Financial Condition

December 31, 2008

ASSETS

Cash and cash equivalents	\$ 381,603
Marketable securities (Note 2)	10,531,110
Other investments (Notes 3 and 4):	
American Union Insurance Company	61,009,755
Country Acres Land Corporation	15,066,767
Country Acres Farms	
Residences (Note 2)	
Personal property (Note 2)	<u>500,000</u>
Total Assets	<u>\$ 104,621,735</u>

LIABILITIES AND NET WORTH

Federal income tax payable	\$ 44,513
State income tax payable	8,312
Notes, secured with mortgages on real estate, with interest ranging from 2.750% to 6.375% with monthly payments of principal and interest	4,470,143
Estimated income taxes on the difference between estimated current values of assets and their tax basis (Note 5)	15,000,000
Net worth	<u>85,098,767</u>
Total Liabilities and Net Worth	<u>\$ 104,621,735</u>

The accompanying notes are an integral part of this statement.

MR. GREGORY M. SHEPARD

Notes to Statement of Financial Condition

December 31, 2008

Note 1 – Significant Accounting Policies:

The accompanying statement of financial condition includes the assets and liabilities of Mr. Gregory M. Shepard. Some of the other Notes to Statement of Financial Condition contain more specific information regarding the carrying value of certain individual assets. Other significant accounting policies are as follows:

- A) In the determination of net assets, all major assets owned by Mr. Gregory M. Shepard, and all major liabilities are included in the accompanying Statement of Financial Condition.
- B) The asset values are intended to represent the best available information as to the exchange prices under present conditions, assuming a willing buyer and a willing seller.
- C) Minor personal effects and other items which have an immaterial effect on net assets are not included in this report.
- D) The information is based on personal records maintained by Mr. Gregory M. Shepard.

Note 2 – Estimated Current Value Basis:

The values shown were determined as follows:

Marketable securities	Marketable value as quoted on applicable exchange.
Investments in a closely held corporation and subchapter S corporation	Estimates are based on company market value, as noted in the applicable footnote.
Farmland	Estimates are based on market value, as noted in the applicable footnote.
Residences	Market value based on Mr. Shepard's knowledge of local market conditions, and acquisition of the property.
Personal property	Actual cost or fair market value based on estimated resale value.

MR. GREGORY M. SHEPARD

Notes to Statement of Financial Condition - Continued

December 31, 2008

Note 3 – Closely Held Corporations:

American Union Insurance Company – Mr. Shepard owns 50% of the outstanding shares of this regular C corporation.

The balance sheet at December 31, 2008 (stated at current market value), is summarized below:

Total assets	\$ <u>122,039,082</u>
Liabilities	\$ 19,572
Stockholders' equity	<u>122,019,510</u>
Total liabilities and stockholders' equity	\$ <u>122,039,082</u>
Mr. Shepard's 50% ownership	\$ <u>61,009,755</u>

Country Acres Land Corporation – Mr. Shepard owns 50% of this subchapter S corporation. The Corporation was organized for the purpose of acquiring and developing real estate. Based upon an appraisal dated December 20, 2007, the estimated current value of the real estate owned by the corporation is \$30,133,533. Thus, Mr. Shepard's 50% ownership value is \$15,066,767 at December 31, 2008.

Note 4 – Farmland:

Mr. Shepard has an undivided 50% ownership interest in farmland owned by Country Acres Farms. Based upon an appraisal dated October 1, 2008, the estimated current value of the farmland is [REDACTED]. Thus, Mr. Shepard's 50% ownership value is [REDACTED] at December 31, 2008.

MR. GREGORY M. SHEPARD

Notes to Statement of Financial Condition - Continued

December 31, 2008

Note 5 – Estimated Income Taxes:

Estimated income taxes have been provided on the excess of the estimated current values of assets over their tax basis, as if the estimated current values of the assets had been realized on the statement date, using applicable tax laws and regulations. The provision will probably differ from the amounts of income taxes that eventually might be paid because those amounts are determined by the timing and the method of disposal or realization and the tax laws and regulations in effect at the time of disposal or realization.

The estimated current values of assets exceeded their tax basis by approximately \$85,000,000 at December 31, 2008.

MR. GREGORY M. SHEPARD

Statement of Financial Condition

December 31, 2007

STRIEGEL KNOBLOCH & COMPANY, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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STRIEGEL KNOBLOCH & COMPANY, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

L. Eugene Striegel, CPA Dennis K. Knobloch, CPA
Danny L. Kiedaisch, CPA James E. Mulligan, CPA John J. Belletete, CPA
James P. Ingold, CPA Martha E. Ingold, CPA Chad E. Rogers, CPA

INDEPENDENT AUDITORS' REPORT

Mr. Gregory M. Shepard
5055 Gulf of Mexico Drive, #414
Longboat Key, FL

We have audited the accompanying statement of financial condition of Mr. Gregory M. Shepard as of December 31, 2007. This financial statement is the responsibility of Mr. Shepard. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by the individual, as well as evaluating the overall presentation of the statement of financial condition. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial condition of Mr. Gregory M. Shepard as of December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Striegel Knobloch & Company, L.L.C.

Bloomington, Illinois
August 27, 2009

MR. GREGORY M. SHEPARD
Statement of Financial Condition
December 31, 2007

ASSETS

Cash and cash equivalents	\$ 67,804
Marketable securities (Note 2)	11,224,831
Other investments (Notes 3 and 4):	
American Union Insurance Company	61,302,602
Country Acres Land Corporation	15,135,425
Country Acres Farms	[REDACTED]
Residence (Note 2)	[REDACTED]
Personal property (Note 2)	<u>500,000</u>
Total Assets	<u>\$ 104,905,662</u>

LIABILITIES AND NET WORTH

Federal income tax payable	\$ 70,726
State income tax payable	12,062
Notes, secured with mortgages on real estate, with interest ranging from 6.375% to 7.000% with monthly payments of principal and interest	3,783,567
Estimated income taxes on the difference between estimated current values of assets and their tax basis (Note 5)	17,000,000
Net worth	<u>84,039,307</u>
Total Liabilities and Net Worth	<u>\$ 104,905,662</u>

The accompanying notes are an integral part of this statement.

MR. GREGORY M. SHEPARD

Notes to Statement of Financial Condition

December 31, 2007

Note 1 – Significant Accounting Policies:

The accompanying statement of financial condition includes the assets and liabilities of Mr. Gregory M. Shepard. Some of the other Notes to Statement of Financial Condition contain more specific information regarding the carrying value of certain individual assets. Other significant accounting policies are as follows:

- A) In the determination of net assets, all major assets owned by Mr. Gregory M. Shepard, and all major liabilities are included in the accompanying Statement of Financial Condition.
- B) The asset values are intended to represent the best available information as to the exchange prices under present conditions, assuming a willing buyer and a willing seller.
- C) Minor personal effects and other items which have an immaterial effect on net assets are not included in this report.
- D) The information is based on personal records maintained by Mr. Gregory M. Shepard.

Note 2 – Estimated Current Value Basis:

The values shown were determined as follows:

Marketable securities	Marketable value as quoted on applicable exchange.
Investments in a closely held corporation and subchapter S corporation	Estimates are based on company market value, as noted in the applicable footnote.
Farmland	Estimates are based on market value, as noted in the applicable footnote.
Residence	Market value based on Mr. Shepard's knowledge of local market conditions, and acquisition of the property.
Personal property	Actual cost or fair market value based on estimated resale value.

MR. GREGORY M. SHEPARD

Notes to Statement of Financial Condition - Continued

December 31, 2007

Note 3 – Closely Held Corporations:

American Union Insurance Company – Mr. Shepard owns 50% of the outstanding shares of this regular C corporation.

The balance sheet at December 31, 2007 (stated at current market value), is summarized below:

Total assets	\$ <u>134,946,365</u>
Liabilities	\$ 12,341,162
Stockholders' equity	<u>122,605,203</u>
Total liabilities and stockholders' equity	\$ <u>134,946,365</u>
Mr. Shepard's 50% ownership	\$ <u>61,302,602</u>

Country Acres Land Corporation – Mr. Shepard owns 50% of this subchapter S corporation. The Corporation was organized for the purpose of acquiring and developing real estate. Based upon an appraisal dated December 20, 2007, the estimated current value of the real estate owned by the corporation is \$30,270,850. Thus, Mr. Shepard's 50% ownership value is \$15,135,425 at December 31, 2007.

Note 4 – Farmland:

Mr. Shepard has an undivided 50% ownership interest in farmland owned by Country Acres Farms. Based upon an appraisal dated October 15, 2007, the estimated current value of the farmland is [REDACTED]. Thus, Mr. Shepard's 50% ownership value is [REDACTED] at December 31, 2007.

MR. GREGORY M. SHEPARD

Notes to Statement of Financial Condition - Continued

December 31, 2007

Note 5 – Estimated Income Taxes:

Estimated income taxes have been provided on the excess of the estimated current values of assets over their tax basis, as if the estimated current values of the assets had been realized on the statement date, using applicable tax laws and regulations. The provision will probably differ from the amounts of income taxes that eventually might be paid because those amounts are determined by the timing and the method of disposal or realization and the tax laws and regulations in effect at the time of disposal or realization.

The estimated current values of assets exceeded their tax basis by approximately \$86,000,000 at December 31, 2007.

Exhibit G



STATE OF IOWA

TERRY E. BRANSTAD
GOVERNOR

KIM REYNOLDS
LT. GOVERNOR

NICK GERHART
COMMISSIONER OF INSURANCE

March 27, 2013

Via E-mail vpeterson@lathropgage.com
and US Mail

J. Victor Peterson, Esq.
Lathrop & Gage LLP
155 N. Wacker, Suite 3050
Chicago, Illinois 60606

Re: Form A - Le Mars Insurance Company
Filed by: Gregory M. Shepard

Dear Mr. Peterson:

The Iowa Insurance Division received on March 21, 2013, the above-captioned Form A filed on behalf of your client, Gregory M. Shepard. As noted in your cover letter and filing, Mr. Shepard has effectuated a tender offer for shares of Donegal Group, Inc.

Iowa Code section 521A.3(1) provides in part:

521A.3 Acquisition of control of or merger with domestic insurer.

1. Filing requirements.

a. No person other than the issuer shall make a tender offer for or a request or invitation for tenders of, or enter into any agreement to exchange securities for, seek to acquire, or acquire, in the open market or otherwise, any voting security of a domestic insurer if, after the consummation thereof, such person would, directly or indirectly, or by conversion or by exercise of any right to acquire, be in control of such insurer, and no person shall enter into an agreement to merge with or otherwise to acquire control of a domestic insurer unless, at the time any such offer, request, or invitation is made or any such agreement is entered into, or prior to the acquisition of such securities if no offer or agreement is involved, such person has filed with the commissioner and has sent to such insurer, and such insurer has sent to its shareholders, a statement containing the information required by **this section** and such offer, request, invitation, agreement or acquisition has been approved by the commissioner in the manner hereinafter prescribed.

J. Victor Peterson, Esq.
Page 2 of 2

Pursuant to statute, Mr. Shepard is precluded from making a tender offer for shares or an invitation for tenders, prior to compliance with this provision. Please advise on or before April 1, 2013, if Mr. Shepard wishes to withdraw the Form A filing and tender offer.

Regards,

A handwritten signature in black ink, appearing to read "James N. Armstrong". The signature is stylized and written in a cursive-like font.

James N. Armstrong
Deputy Commissioner/Chief Examiner

Exhibit H

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

May 7, 2013

VIA EMAIL

Mr. James N. Armstrong
Deputy Commissioner & Chief Examiner
Ms. Kim Cross
Assistant Chief Examiner
Iowa Insurance Division (the "Division")
330 Maple St.
Des Moines, IA 50319-0065

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

Dear Mr. Armstrong and Ms. Cross:

Our client Gregory M. Shepard submitted his Iowa Form A application on March 20, 2013. We responded on behalf of Mr. Shepard on April 8, 2013, to your letter dated March 27, 2013. We provided supplemental information on behalf of Mr. Shepard in a letter dated April 29, 2013.

On behalf of Mr. Shepard, we are writing to request that the Division set a date for a public hearing on Mr. Shepard's Form A application between June 12 and 28, 2013, pursuant to Iowa Code Section 521A.3.4.b.

The Pennsylvania Insurance Department filed Mr. Shepard's Pennsylvania Form A for public inspection on April 12, 2013, so its 60-day review period expires on June 12, 2013. The Federal Reserve Bank of Philadelphia, whose regulatory approval is also required for the same transaction, has stated that it expects to make its determination no later than June 28, 2013. Accordingly, Mr. Shepard respectfully requests a hearing date between June 12 and 28, 2013, for his Iowa Form A application.

Over 360,000 Donegal Class B shares were tendered in response to Mr. Shepard's tender offer, and these shareholders are clamoring to be paid \$30 per share, which is a significant premium to the current trading price. Because the tender offer is contingent on regulatory approval, including from the Division, Mr. Shepard would like to move forward with the process expeditiously.

James N. Armstrong and Kim Cross
May 7, 2013
Page 2

Mr. Shepard welcomes a public hearing at the earliest opportunity. If Donegal or anyone else has any objections to Mr. Shepard's Form A application, Mr. Shepard would like the opportunity, in the interests of fairness, to answer those objections openly and then to have the Division make its determination.

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.

Exhibit I



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

April 10, 2013

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

MR J VICTOR PETERSON ESQ
LATHROP & GAGE LLP
155 N WACKER SUITE 3050
CHICAGO IL 60606 1787

Re: Form A Filing – Sheboygan Falls Insurance Company

Dear Mr. Peterson:

The State of Wisconsin Office of the Commissioner of Insurance ("OCI") received the above-referenced Form A filing on behalf of your client, Mr. Gregory M. Shepard, on March 21, 2013. As stated in your cover letter, Mr. Shepard has effectuated a tender offer for additional shares of Donegal Group, Inc. ("DGI").

Pursuant to s. Ins 40.02, Wis. Adm. Code, any person seeking to make a tender offer to acquire additional voting securities of a domestic insurer, which would result in direct or indirect control of the domestic insurer, must first file a Form A filing with the Commissioner and receive prior approval from the Commissioner, before making the tender offer.

In accordance with s. Ins 40.02, Wis. Adm. Code, Mr. Shepard is precluded from making a tender offer for shares prior to receiving OCI's approval of the Form A filing on the proposed transaction. ***Please be advised that OCI is unable to proceed with its review of the Form A filing until the tender offer is rescinded. Please provide evidence that the tender offer has been rescinded by April 26, 2013, or advise OCI that Mr. Shepard wishes to withdraw the Form A filing.***

Upon receipt of evidence that the tender offer has been rescinded (on or before April 26, 2013), we will proceed with our review of the Form A filing. Please note that the plan of acquisition, along with all pertinent correspondence and statutorily required information will be placed on OCI's website. In addition, pursuant to s. 611.72 (3), Wis. Stat., OCI will hold a public hearing concerning this application for acquisition of control. The time and date of the public hearing is yet to be determined.

Please feel free to call me at (608) 266-9896 if you have any questions.

Sincerely,

Kristin L. Forsberg
Financial Examiner/Licensing Specialist
Bureau of Financial Examinations
Email: kristin.forsberg@wisconsin.gov

Exhibit J

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

April 25, 2013

**VIA E-MAIL (WITHOUT EXHIBITS)
AND FEDERAL EXPRESS (WITH EXHIBITS)**

Ms. Julie Walsh, Esq.
State of Wisconsin Office of the Commissioner of Insurance
125 South Webster Street
P.O. Box 7873
Madison, Wisconsin 53707

Re: Form A Filing on Behalf of Gregory M. Shepard

Dear Ms. Walsh:

This letter pertains to the Form A filing made on behalf of Mr. Gregory M. Shepard on or around March 20, 2013 in connection with his proposed acquisition of Class B shares of Donegal Group Inc. ("Donegal").

On behalf of Mr. Shepard, we are responding to your letter dated April 10, 2013.

On March 20, 2013, Mr. Shepard filed with the Securities and Exchange Commission ("SEC") a tender offer on Schedule TO (the "Offer"). See **Exhibit A**. Mr. Shepard's Offer is an unsolicited invitation for tenders for Class B shares of Donegal Group Inc. ("Donegal"), a publicly traded NASDAQ-listed company. Mr. Shepard's offer price is \$30 per share, a 42% premium over the price of the Class B shares prior to the date of announcement. The Offer is entirely subject to regulatory approvals, including state insurance departments, the Federal Reserve Bank of Philadelphia and the Federal Trade Commission. There is no way for tendering shareholders to receive any money or for Mr. Shepard to acquire any shares in the Offer unless and until all regulatory approvals have been received.

The Offer was initially scheduled to expire on April 19, 2013, and contained a condition that Mr. Shepard be granted Board representation at the Donegal level and Donegal Mutual level (collectively, the "Board Condition"). On April 22, 2013, and in accordance with federal securities laws, Mr. Shepard extended the Offer until May 20, 2013 (see **Exhibit B**), and has dropped the Board Condition and condition against future

State of Wisconsin
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April 25, 2013
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grants of options for Donegal Class A shares, in response to comments made by Donegal in its Schedule 14D-9 Response, which was issued on April 3, 2013. See **Exhibit C**.

Mr. Shepard states conspicuously in his Offer to Purchase that it is subject to Offeror having obtained all regulatory approvals from state insurance regulators. This Offer to Purchase is filed with the SEC on Schedule TO, and is signed by Mr. Shepard and filed with the SEC under pain of criminal penalties. 15 U.S.C. §78n(e). See **Exhibit D**.

It would be completely impossible for an offeror to ever bring a tender offer for a publicly traded insurance company if prior Form A approval were first required. Upon making the Form A filing, which is a public announcement, there would be trading in the stock. If the offeror filed the Form A with the Wisconsin Office of the Commissioner of Insurance ("OCI"), but failed to file a Schedule TO with the SEC in order to comply with Wisconsin law, the offeror would place himself in peril of serious criminal violations of the federal securities laws, specifically Section 32(a) of the 1934 Act (see **Exhibit E**), and also shareholder lawsuits based on failure to comply with the federal securities laws and possible market manipulation.

There is obviously a substantial conflict between the Wisconsin law and the federal securities laws. Either one must pre-empt the other, or they must both be harmonized to meet the interests of both regulators. The consensus view that has emerged has favored a harmonized approach.

The federal Williams Act, which regulates the rules and disclosures relating to tender offers for publicly traded shares, was adopted in 1968 as an amendment to the Securities Exchange Act of 1934, as amended (the "1934 Act"; 15 U.S.C. §78a et seq.). The fundamental principles behind the Williams Act are to: 1) require sufficient disclosure of the tender offer to alert the public shareholders as to the identities, conditions, specifics, and affiliations of the offeror, and 2) level the "playing field" between target company management and the offeror so that one side does not have an unfair advantage over the other. Initially, the scope of the Williams Act did not specifically refer to the stock or securities of insurance companies. However, in 1982, the Williams Act was amended to make clear that it specifically pertains to the stock of publicly traded insurance companies. The Williams Act, as amended, states:

It shall be unlawful for any person, directly or indirectly, . . .
to make a tender offer for . . . any class of any equity
security which is registered pursuant to section 12 of this
title, or *any equity security of an insurance company* which

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would have been required to be so registered except for the exemption contained in section 12(g)(2)(G) of this title. . . . unless. . . (15 U.S.C. §78n(d)(1)(1982)) (Bold emphasis added.) (See **Exhibit D**.)

Pursuant to Rule 14d-2 issued by the SEC pursuant to the Williams Act, an offeror such as Mr. Shepard must file a Schedule TO upon a public announcement of a tender offer. A public announcement is defined in Instruction 5 to Rule 14d-2 as “any oral or written communication by the bidder, or any person authorized to act on the bidder’s behalf, that is reasonably designed to, or has the effect of, informing the public or security holders in general about the tender offer. . . .” See **Exhibit F**.

Under the applicable 1934 Act regulations, upon a public announcement of a tender offer, such as the filing of a Form A, a pre-commencement communication must be filed on Schedule TO. See Rule 14d-2(6) in **Exhibit F**. However, Rule 14e-8 (see **Exhibit G**) requires that no one can make a pre-commencement communication on Schedule TO unless that person has the intention to commence the tender offer within a reasonable time and complete the offer. If this were not so, the public securities markets would roil with manipulation as would-be offerors would make pre-commencement communications of tender offers and never follow through.

Under Wisconsin INS 40.02. (see **Exhibit H**), Mr. Shepard would be required to file his Form A statement with the Wisconsin OCI prior to commencing a tender offer. But the Form A filing would trigger, because it is a public announcement, a requirement to file a pre-commencement tender offer notification under cover of Schedule TO. However, one cannot file a pre-commencement notification regarding a tender offer unless the offeror has the intention of commencing the tender offer within a reasonable time and completing the offer. Of course, whether or not Mr. Shepard’s Offer would be permitted to commence within a reasonable time after public announcement is entirely with the discretion of the State of Wisconsin. No offeror could form an intention to commence a tender offer within a reasonable period of time after the Form A filing and to complete the offer, because whether the offer is commenced and completed would depend entirely on the Wisconsin regulator and the process could take months before resolution, one way or the other.

Imagine the situation if Mr. Shepard had filed his Form A first with the State of Wisconsin, before commencing his Offer. Because filing the Form A is a “public announcement,” Mr. Shepard would be required to make a filing with the SEC on Schedule TO and to have the intention to commence contemporaneously the Offer within a reasonable period of time, and to complete the Offer. He would have to disclose the

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acquisition price and details about the other terms and conditions of the Offer. The stock price of the Donegal Class B shares might then fluctuate wildly, with buyers and sellers and winners and losers. If the State of Wisconsin then decided against Form A approval, Mr. Shepard would be subject to the most serious market manipulation charges and suits by Class B shareholders who lost money in the interim.

The McCarran-Ferguson Act was passed in 1945 (15 U.S.C. §§1011 – 1015). See **Exhibit I**. It stands for the proposition that any Act of Congress that does not expressly regulate the “business of insurance” will not preempt state laws or regulations that regulate the “business of insurance.” The Williams Act was amended in part to make it clear that Congress intended to regulate tender offers for publicly traded shares of insurance companies.

As several courts and commentators have noted, it is impossible for an offeror to comply with both the Williams Act and state insurance laws that require advance Form A approval like Wisconsin’s. As the United States Supreme Court held, impossibility of compliance between state and federal law is grounds for preemption of the former. (*Florida Lime & Avocado Growers, Inc. v. Paul*, 373 U.S. 132, 142-43 (1963)). See **Exhibit J**.)

Despite the clear language of the 1982 amendment to the Williams Act specifically including insurance company stock, some early courts were confused. Some of these courts stated that the Williams Act did not specifically state that it was regulating the “business of insurance,” and hence state insurance control acquisition statutes were not preempted.

However, in *SEC v. National Securities, Inc.* (393 U.S. 453 (1969)) (see **Exhibit K**), the United States Supreme Court ruled that the “business of insurance” exemption from federal preemption under the McCarran-Ferguson Act related only to the relationship between the insurance company and its policyholders. It did not pertain to the regulations of insurance companies’ stockholders, which were held to be outside the McCarran-Ferguson’s “business of insurance” exemption. In other words, the federal securities laws directly apply to stockholders of insurance companies.

In *National Securities*, two insurance companies that merged argued that the federal securities laws did not apply to them because the state insurance commissioner had otherwise approved their merger. The United States Supreme Court disagreed because the issue in the case involved the disposition of the stock of the two merged entities; not the protection of policyholders. In the words of the United States Supreme Court:

Even accepting respondents' view of Arizona law, we do not believe that a state statute aimed at protecting the interests of those who own stock in insurance companies comes within the sweep of the McCarran-Ferguson Act. Such a statute is not a state attempt to regulate 'the business of insurance,' as that phrase was used in the Act. (393 U.S. 453, 457.)

In this case, Arizona is concerning itself with a markedly different set of problems. *It is attempting to regulate not the "insurance" relationship, but the relationship between a stockholder and the company in which he owns stock. This is not insurance regulation, but securities regulation.* It is true that the state statute applies only to insurance companies. But mere matters of form need not detain us. *The crucial point is that here the State has focused its attention on stockholder protection; it is not attempting to secure the interests of those purchasing insurance policies. Such regulation is not within the scope of the McCarran-Ferguson act.* (393 U.S. 453, 460; Emphasis added.)

Of course, under the securities laws state regulation may co-exist with that offered under the federal securities laws. See, e.g., Securities Act of 1933, s 18, 48 Stat. 85, 15 U.S.C. s 77r; Securities Exchange Act of 1934, s 28(a), 48 Stat. 903, 15 U.S.C. s 78bb(a). *But it has never been held that state regulation of insurance securities pre-empts federal regulation, on the theory that the federal securities laws would be 'superseding' state laws regulating the 'business of insurance.'* (393 U.S. 453, 461; Emphasis added.)

As a result, to avoid preemption issues and attempt to rationally harmonize the federal and state regimes, many states permit "conditional tender offers." These are tender offers for publicly traded insurance companies that cannot be completed without insurance commissioner approval, typically through a Form A proceeding. This is precisely Mr. Shepard's offer.

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Conditional offers for publicly traded insurance companies are kept “open” during the Form A process. Shareholders can withdraw their shares at any time prior to insurance department approval and acceptance by the offeror.

In *Sun Life Group, Inc. v. Standard Life Ins. Co. of Indiana*, 1980 WL 1383 (S.D. Ind. 1980) (see **Exhibit L**), the target company argued that the Indiana Insurance Holding Company Act prohibited the commencement of a tender offer without the prior approval of the Indiana Insurance Commissioner, following a hearing held not sooner than 30 days after the Form A filing. However, the court held that the “offer, conditioned as it is upon approval of the Indiana Insurance Commissioner, is in compliance with both the Indiana Act and federal requirements...that the offer once filed with the Commissioner be disseminated to the shareholders.” (See 1980 WL 1383, Section 12.) The court noted that “[t]he Indiana Act has been informally construed by the Indiana Insurance Commissioner in a letter to counsel for [the offeror] to permit the making of a tender offer for an Indiana insurer, or an agreement to acquire shares, prior to the Commissioner’s approval as long as the offer or agreement is expressly made conditioned upon that approval.” Thus, both the Indiana Insurance Commissioner and the U.S. District Court of the Southern District of Indiana have – as has the Pennsylvania Insurance Department by accepting Mr. Shepard’s Form A filing – “harmonized” Indiana’s Form A regulations, notwithstanding their precommencement notification and approval provisions, with the Williams Act by permitting the commencement of tender offers before insurance regulatory approval has been obtained when – as in Mr. Shepard’s Offer – completion of the offer is conditioned upon that approval.

Mr. Shepard respectfully requests the OCI to adopt the same “harmonized approach”; namely, for the OCI to proceed with the Form A process while permitting Mr. Shepard’s Offer to remain open, subject to the express condition that no tendered shares may be acquired unless and until all regulators have approved, including the State of Wisconsin. This harmonized methodology avoids constitutional preemption issues.

In *Edgar v. MITE Corp.*, 457 U.S. 624, 102 S.Ct. 2629 (1982) (see **Exhibit M**), the U.S. Supreme Court held that the Illinois Takeover Act was unconstitutional under the Supremacy Clause, because its precommencement notification provision frustrated the objectives of, and was therefore preempted by, the Williams Act. Similarly to the advance notification requirements of Section INS 40.02(1) of the Wisconsin Administrative Code, the Illinois Takeover Act required a tender offeror to notify the Illinois Secretary of State and the target company of its intent to make a tender offer and the material terms of the offer 20 business days before the offer commenced. The U.S. Supreme Court found that Illinois’ precommencement notice requirement frustrated the Congressional policies of “evenhandedness” between bidders and target in takeovers and

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protecting the right of shareholders to make an “informed choice” about whether to tender their shares, by “introducing extended delay into the tender offer process.” (See 457 U.S. 624, 633-37.) For the same reason, we respectfully submit that the precommencement notice requirement in Wisconsin’s regulations on the acquisition of control of domestic insurance companies is also preempted by the Williams Act.

In *Gunter v. AGO International B.V.*, 533 F.Supp. 86 (N.D. Fla. 1981) (see **Exhibit N**), a similar provision of the Florida Insurance Holding Company Act, which required a tender offeror to file a Form A statement and to receive regulatory approval before commencing the tender offer, was held unconstitutional under the Supremacy Clause.

“It is clear that the Florida Act conflicts with and frustrates the clear purposes of the Williams Act. The Florida Act requires the tender offeror to file with the Department of Insurance and send to the insurer and controlling company a statement detailing the offer at least sixty days prior to the time any form of tender offer is furnished to security holders. ... This sixty-day period enables incumbent management to gain valuable time in its efforts to defeat the tender offer, thereby dissolving the neutrality which Congress strived to achieve by the Williams Act.” (See 533, F.Supp. 86, 90; internal citation omitted.)

In *National City Lines, Inc. v. LLC Corp.*, 524 F.Supp. 906 (W.D. Missouri 1981) (see **Exhibit O**), a precommencement notification provision of the Missouri Insurance Holding Companies Act was held unconstitutional under the Supremacy Clause because it conflicted with the Williams Act. In addition, the invalidation of that provision was found not to conflict with the McCarran-Ferguson Act’s exception to federal preemption permitting state regulation of the “business of insurance.”

“It is the collective intent of Congress...to subject all transactions in securities of insurance companies to the pervasive requirements of the Williams Act. ... The express terms of the Williams Act and its regulations require application of the federal tender offer rules even where the tender offer is made for equity securities of the parent of an insurance company subsidiary. ... [T]he application of the Williams Act to securities transactions involving insurance companies is consistent with the McCarran-Ferguson Act. As the Supreme Court held in *S.E.C. v. National Securities, Inc.*, ... a state which seeks to regulate transactions in securities of an insurance company is engaged in ‘the regulation of securities’ rather than the regulation of the ‘business of insurance.’ Under those

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circumstances, the McCarran-Ferguson Act is not an impediment to the application of the Williams Act. Because [sections including the precommencement notification provision] of the Insurance Act empower the Director to regulation the relationship between a stockholder and the company in which he owns stock, the Director can engage in the regulation of securities. This power is clearly preempted by the Williams Act and, as the National Securities case makes manifest, is not protected by the McCarran-Ferguson Act.” (See 524 F.Supp. 906, 910; internal citations omitted.)

Every State we are familiar with harmonizes federal and state law with respect to Form A. See the following link to the initial tender offer filing with the SEC on May 19, 1998: <http://www.sec.gov/Archives/edgar/data/315099/0000950133-98-002001.txt>. (If the link does not work, please copy or type the foregoing into your web browser.)

In its Offer to Purchase (see the foregoing link), Nationwide Mutual states on page 3 that its tender offer has an “Insurance Regulatory Approval Condition” (just like Mr. Shepard’s), and it states on page 4 that “[o]n the date of this Offer to Purchase, Parent and Purchaser made Form A filings . . . with the relevant Insurance Commissions” Nationwide Mutual did not obtain Form A approval from the relevant state insurance commissions before announcing its tender offer, but rather made receiving Form A approval a condition of the offer, which had to be satisfied before acquiring any shares pursuant to the offer. No state insurance commission told Nationwide to withdraw its tender offer and Form A. Instead, the Form A process was permitted to proceed.

In Pennsylvania, Mr. Shepard’s Form A fee has been accepted and his Form A materials are already posted on the Pennsylvania Department of Insurance website (link here: http://www.portal.state.pa.us/portal/server.pt/community/industry_activity/9276/-donegal_group_form-a/1451040). Donegal is headquartered in Pennsylvania, and the largest portion of its insurance business is conducted there. We recognize that each state is sovereign. However, Pennsylvania’s statute has an advance approval requirement similar to Wisconsin’s (see 40 P.S. §991.1402(a)(1)), but Pennsylvania has adopted the harmonized view. Pennsylvania permits the federal securities law filing (i.e., of Schedule TO to commence the tender offer), and then conducts the Form A process during the period when the offer is open. No Class B Donegal shares can be acquired by Mr. Shepard, and no Donegal shareholder can receive payment, unless and until each Insurance Commissioner approves.

If the Wisconsin Insurance Department ruled otherwise, it would “blow a huge hole” in the insurance world with respect to the way these transactions are typically

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Page 9

effectuated and approved, and it would be in an unprecedented action. No one in the United States would be able to bring an unsolicited tender offer for shares of an insurance holding company that has a subsidiary domiciled in Wisconsin. Federal-state comity challenges would ensue, not to mention grievances on the part of shareholders who would argue that Wisconsin is impermissibly tilting in management's favor.

Here is a list of a few of the unsolicited (i.e., "hostile") transactions involving insurance companies that have occurred in the United States in recent years. Besides the Allied Group, Inc. transaction mentioned above, Cendant Corporation made a hostile tender offer for American Bankers Insurance Group Inc. in 1998 (link to initial SEC filing: <http://www.sec.gov/Archives/edgar/data/350571/0000950136-98-000104-index.html>); SouthCap Corporation made a hostile tender offer for United Home Life Insurance Company in 1997 (link to initial SEC filing: <http://www.sec.gov/Archives/edgar/data/101262/0000950144-97-003878-index.html>); Torchmark made a hostile tender offer for Kansas City Life Insurance Company in 1988; and BATUS, Inc., a unit of BAT Industries, made a hostile unsolicited bid for Farmers Group, Inc. in 1988.

On behalf of Mr. Shepard, based on the arguments set forth and legal authorities cited above including the U.S. Supreme Court, we respectfully request the State of Wisconsin and the OCI to permit Mr. Shepard's Form A filing to proceed in the "harmonized" way discussed above, and to permit Mr. Shepard to fulfill his obligations under the federal securities laws, including the Williams Act and the rules issued by the SEC thereunder.

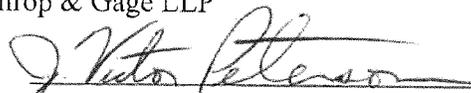
Mr. Shepard requests that this letter be kept confidential from the public while the OCI is reviewing and considering the matter. The basis for this request is that public disclosure might be unfairly used by Donegal management for adverse publicity and might "tilt the playing field" in favor of Donegal management, contrary to the Williams Act and the federal securities laws.

If you have any questions about any of the above, please don't hesitate to call.

Very truly yours,

Lathrop & Gage LLP

By:


f. Victor Peterson, Esq.

cc: Ms. Kristin Forsberg

Exhibit K

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

May 7, 2013

VIA EMAIL

Ms. Kristin Forsberg
Mr. Richard Wica
State of Wisconsin Office of the Commissioner of Insurance (the "OCI")
125 South Webster Street
P.O. Box 7873
Madison, Wisconsin 53707

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

Dear Ms. Forsberg and Mr. Wica:

Our client Gregory M. Shepard submitted his Wisconsin Form A application on March 20, 2013. We responded on behalf of Mr. Shepard on April 25, 2013, to the OCI's letter dated April 10, 2013.

On behalf of Mr. Shepard, we are writing to request that the OCI set a date for a public hearing on Mr. Shepard's Form A application between June 12 and 28, 2013, pursuant to Wisconsin Statutes Section 611.72(3).

The Pennsylvania Insurance Department filed Mr. Shepard's Pennsylvania Form A for public inspection on April 12, 2013, so its 60-day review period expires on June 12, 2013. The Federal Reserve Bank of Philadelphia, whose regulatory approval is also required for the same transaction, has stated that it expects to make its determination no later than June 28, 2013. Accordingly, Mr. Shepard respectfully requests a hearing date between June 12 and 28, 2013, for his Wisconsin Form A application.

Over 360,000 Donegal Class B shares were tendered in response to Mr. Shepard's tender offer, and these shareholders are clamoring to be paid \$30 per share, which is a significant premium to the current trading price. Because the tender offer is contingent on regulatory approval, including from the OCI, Mr. Shepard would like to move forward with the process expeditiously.

Mr. Shepard welcomes a public hearing at the earliest opportunity. If Donegal or anyone else has any objections to Mr. Shepard's Form A application, Mr. Shepard would

Ms. Kristin Forsberg and Mr. Richard Wica
May 7, 2013
Page 2

like the opportunity, in the interests of fairness, to answer those objections openly and then to have the OCI make its determination.

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.

Exhibit L



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

May 10, 2013

Legal Unit
125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 267-9586 • Fax: (608) 264-6228
Web Address: oci.wi.gov

MR J. VICTOR PETERSON
LATHROP & GAGE LLP
155 N. WACKER SUITE 3050
CHICAGO IL 60606

Re: Gregory Shepard Form A Filing

Dear Mr. Peterson:

I am writing in response to your April 25, 2013 letter and to request additional information to support your contention that there a conflict between Wisconsin law and the federal Williams Act¹. It appears, at least on the face of it, that Mr. Shepard could comply with Wisconsin law and the Williams Act by filing his Form A filing seeking prior approval of his tender offer from the Wisconsin Office of the Commissioner of Insurance ("OCI") with the Securities and Exchange Commission ("SEC") under Schedule TO. However, you contend that Mr. Shepard could not do so without being liable for securities fraud as he could not commence the tender offer within a "reasonable" time after filing Form A, as required by SEC Rule 14e-8.

In light of the forgoing, please provide any case law, SEC guidance or any other authority which specifies the allowable amount of time between a pre-commencement communication and a tender offer or other factors that the SEC considers in determined what is "reasonable" under Rule 14e-8. In addition, please expand upon your argument as to why the term "reasonable" cannot be read to include the time needed to comply with state prior approval requirements. Finally, please provide any case law, SEC guidance, or any other authority that supports you argument that Mr. Shepard would violate Rule 14e-8 if he filed his Form A as a pre-commencement communication and has bona fide intention to commence and complete a tender offer if and when his Form A filing was approved by the state.

If you have any questions, please call me at (608) 261-6018 or e-mail me at richard.wicka@wisconsin.gov.

Sincerely,

Richard B. Wicka
Deputy Chief Legal Counsel

¹ OCI does not concede that, even if there is a conflict of law, that the McCarran-Ferguson Act would not apply or that Wisconsin law would be preempted by the Williams Act. See *Cts. Corp. v. Dynamics Corp*, 481 U.S. 69, 87, 107 S.Ct. 1637, 1649 (U.S. 1987) ("[T]he possibility that [Indiana Law] will delay some tender offers is insufficient to require a conclusion that the Williams Act preempts [Indiana law]"), see also *Alleghany Corp. v. Commissioner Haase*, 708 F.Supp. 1507 (W.D.Wis. 1988).

Exhibit M



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES
LANSING

R. KEVIN CLINTON
DIRECTOR

March 25, 2013

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

Dear Mr. Peterson:

We have performed an initial cursory review of the Form A filed by you on behalf of Mr. Gregory M. Shepard (the "Applicant"), regarding the acquisition of control of our domestic insurer, Michigan Insurance Company ("MIC"). At this time we are unable to deem the filing complete. We will require a response to each area below to continue to review the filing for completeness.

- The Form A Statement was submitted without signature and certification. Section 13 of the Form A requires the Statement be signed and certified. We will require an original Form A Statement, with wet signatures, be submitted.
- Item 5(b) requests a 5 year business plan for the insurer including projected amounts for direct, assumed, ceded, and net written premiums by line of business as well as pro-forma statutory balance sheets and income statements. The Form A filing did not include a 5 year business plan or projections. Please provide updated information in regard to Item 5 of the Form A filing.
- Item 2(c) requests a chart listing identities and interrelationships among the Applicant and all affiliates of the Applicant. The Form A filing submitted provides a response of "not applicable". As the Applicant currently owns a material amount of Donegal Group Inc.'s shares please expand on how the requirement of Item 2(c) is inapplicable.

Also, as discussed in our telephone conversation, Mr. Shepard will be required to submit fingerprint results. As Mr. Shepard does not reside in Michigan a fingerprint card should be used. We understand that timing for fingerprint processing can vary. In accordance with our policies we will accept receipt of the fingerprint card when considering completeness.

We are allowed 30 days to review an application for completeness. The clock has been stopped as of today and will resume once an acceptable response to the issues above has been received. After the application has been deemed complete, we have an additional 90 days to complete our review. If you have any questions, please contact me at (517) 373-2086 or wightmanj@michigan.gov.

Sincerely,

Jennifer Wightman
Financial Analyst
Office of Insurance Evaluation

Exhibit N

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

May 6, 2013

VIA FEDERAL EXPRESS

Ms. Jennifer Wightman
Financial Analyst, Office of Insurance Evaluation
State of Michigan Department of Insurance and Financial Services ("DIFS")
611 W. Ottawa St., 3rd Floor
Lansing, MI 48933

Re: Form A Statement filed by Gregory M. Shepard re: Michigan Insurance Company ("MIC")

Dear Ms. Wightman,

On behalf of our client Gregory M. Shepard, we are responding to your letter on behalf of the DIFS dated March 25, 2013.

On April 22, 2013, Mr. Shepard amended his tender offer for additional shares of Class B common stock of Donegal Group Inc. ("DGI"), which is the parent company of Michigan-domiciled MIC, to extend the current expiration date of the tender offer to May 20, 2013 (and Mr. Shepard may further extend the expiration date), and to drop the board representation condition to his tender offer. Accordingly, it is no longer a condition of Mr. Shepard's tender offer that three directors selected by him be appointed to the boards of directors of DGI and its controlling shareholder Donegal Mutual Insurance Company. Of course, receiving regulatory approvals, including by the DIFS, remains a condition of the tender offer, so Mr. Shepard may not, and will not, acquire any additional shares of DGI stock pursuant to the tender offer before receiving such regulatory approvals.

Enclosed herewith is Mr. Shepard's Form A statement with original signatures, including a certification (but not including the exhibits thereto, which were previously submitted). For your convenience, please note that the enclosed Form A is identical to the Form A previously submitted on behalf of Mr. Shepard, except for the addition of the signature page.

With respect to Item 5(b) of Mr. Shepard's Form A, we note that Mr. Shepard does not presently seek to control DGI or any of DGI's subsidiaries, including MIC, and has no present plans or proposals with respect to either DGI or any of DGI's subsidiaries, including MIC, to declare an extraordinary dividend, to liquidate it, to sell its assets, or to

May 6, 2013

Page 2

merge or consolidate it with any person, or to make any other material change in its investment policy, business, corporate structure, or management. Mr. Shepard reserves the right to develop plans or proposals in the future to seek to control DGI or any of DGI's subsidiaries, including MIC, that could potentially attempt to cause DGI or any of DGI's subsidiaries, including MIC, 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 in its investment policy, business, corporate structure, or management. In addition, Mr. Shepard may dispose of all or any portion of his shares of DGI's Class A or Class B common stock at any time or from time to time in the open market or otherwise. Mr. Shepard may seek to participate in, and to influence the outcome of, any proxy solicitation and any bidding process involving DGI, as a bidder or otherwise.

Furthermore, Mr. Shepard is an individual investor with no insurance operations. He is seeking through his tender offer for additional DGI Class B shares to increase his minority investment in DGI because he believes DGI's stock is undervalued. He has no operational plans for, or any intent to influence, any of DGI's insurance subsidiaries, including MIC. He has no plans to change MIC's location, to change its name, to increase its capital, to change its type of business to be written, or to change its premium volume. There are no new directors or managers contemplated at MIC as a result of Mr. Shepard's tender offer, and there are no financial or employment guarantees that have been offered to MIC's present management in connection with Shepard's tender offer.

As a result, Item 5(b) of Form A is inapplicable to Mr. Shepard.

MIC's direct premiums written were approximately \$105.4 million in 2010 and approximately \$108.0 million in 2011. Mr. Shepard's plan is for DGI's and MIC's managements to continue to run the insurance operations according to their experience and plans.

MIC's net premiums written were approximately \$27.1 million in 2010 and approximately \$27.1 million in 2011. Mr. Shepard's plan is for DGI's and MIC's managements to continue to run the insurance operations according to their experience and plans.

MIC's net premiums earned were approximately \$26.9 million in 2010 and approximately \$27.2 million in 2011. Mr. Shepard's plan is for DGI's and MIC's managements to continue to run the insurance operations according to their experience and plans.

MIC's combined ratio was approximately 103.3 in 2010 and approximately 100.6 in 2011. Mr. Shepard's plan is for DGI's and MIC's managements to continue to run the insurance operations according to their experience and plans.

May 6, 2013

Page 3

MIC's policyholders' surplus was approximately \$32.3 million in 2010 and approximately \$39.3 million in 2011. Mr. Shepard's plan is for DGI's and MIC's managements to continue to run the insurance operations according to their experience and plans.

With respect to Item 2(c) of Mr. Shepard's Form A, Mr. Shepard currently owns approximately 9.99% of the total voting power of the Class A and Class B common shares of Donegal Group Inc. ("Donegal"). Accordingly, his ownership is under the 10% threshold for most definitions of "affiliate." Nonetheless, we hereby amend Item 2(c) of Mr. Shepard's Form A to list his ownership of Donegal stock as set forth in the first sentence of this paragraph. In addition, Mr. Shepard is not an affiliate of any other company, because he is not a director, officer, or greater than 10% shareholder (either alone or as part of a group) of any company.

Also enclosed herewith is Mr. Shepard's fingerprint card, which was prepared at the Bloomington, Illinois Police Department. The Bloomington, Illinois Police Department does not have access to the Livescan system, so Mr. Shepard was not able to transmit his fingerprint card by means of the Livescan system. Please forward Mr. Shepard's fingerprint card to the appropriate person.

Mr. Shepard believes that, as supplemented by the information provided in and enclosed with this letter, his Michigan Form A application is complete. Therefore, Mr. Shepard respectfully requests that the DIFS determine that his Form A filing is complete and that the DIFS commence its review of his Form A as soon as possible.

Please contact me if I may provide any further information.

Very truly yours,

LATHROP & GAGE LLP



By: Vic Peterson

Enclosures

Exhibit O



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES
LANSING

R. KEVIN CLINTON
DIRECTOR

June 6, 2013

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

RE: Form A Statement Regarding Acquisition of Control of Michigan Insurance Company
NAIC No. 10857

Dear Mr. Peterson:

Based on the review of the Form A filing, we have determined that the filing is lacking vital information. Due to the missing information, we are unable to deem the Form A Statement complete.

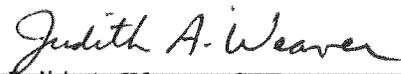
The Form A Statement requires certain information be provided. Specifically, Item 5(b) requires a 5 year business plan and pro-forma financial information be provided. You have stated in your letter dated March 25, 2013, that this item is inapplicable as Mr. Gregory Shepard does not, at this time, plan to attempt to materially change the operations of Donegal Group Inc., or Michigan Insurance Company. However, your letter also indicates that Mr. Shepard reserves the right to develop plans or proposals which could materially impact the companies in the future. Regardless of Mr. Shepard's immediate plans in regard to Donegal Group Inc. or Michigan Insurance Company, if the Tender Offer is accepted, Mr. Shepard's ownership would meet the definition of "control" and a complete Form A filing is thus required.

Further, without the information required in Item 5(b) the Department of Insurance and Financial Services is unable to determine whether the purchase would be in accordance with Section 1315(1) of the Michigan Insurance Code. Section 1315(1) indicates that the Director shall approve an acquisition unless the acquisition would result in one of several listed outcomes. 1315(1)(e) states that, "The plans or proposals that the acquiring party has to liquidate the insurer, sell its assets, consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, are unfair and unreasonable to the insurer's policyholders, and not in the public interest." As Mr. Shepard has reserved the right to develop plans or proposals which could materially impact the insurer in the future, however has not provided details of these plans, we are unable to determine that Section 1315(1)(e) would not apply to this proposed purchase.

We will allow 30 additional days for the deficient area above to be addressed. If the 5 year business plan and pro-formas financial information are not received within the 30 days the Form A filing will be returned as it is considered incomplete.

You may also wish to consider withdrawing the Form A filing. Such a withdrawal would be without prejudice. If you elect to withdraw, you must formally request this in writing within 30 days of the date of this letter. In case of any questions, please contact Jennifer Wightman at 517-373-0246.

Sincerely,

A handwritten signature in cursive script that reads "Judith A. Weaver".

Judith A. Weaver, CFE

Director

Office of Insurance Evaluation

Exhibit P

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

July 3, 2013

VIA EMAIL AND FEDERAL EXPRESS

Office of Insurance Evaluation
Department of Insurance and Financial Services ("DIFS")
State of Michigan
611 W. Ottawa St., 3rd Floor
Lansing, MI 48933
Attention: Judith A. Weaver, Director
Jennifer Wightman, Financial Analyst

Re: Form A Statement filed by Gregory M. Shepard re: Michigan Insurance Company
("MIC")

Dear Ms. Weaver and Ms. Wightman,

On behalf of our client Gregory M. Shepard, we are responding to your letter on behalf of the DIFS dated June 6, 2013.

Mr. Shepard reiterates the following statement concerning MIC's parent company, Donegal Group Inc. ("DGI"), which was made in our letter on his behalf to the DIFS dated May 6, 2013:

"...Mr. Shepard is an individual investor with no insurance operations. He is seeking through his tender offer for additional DGI Class B shares to increase his minority investment in DGI because he believes DGI's stock is undervalued. He has no operational plans for, or any intent to influence, any of DGI's insurance subsidiaries, including MIC. He has no plans to change MIC's location, to change its name, to increase its capital, to change its type of business to be written, or to change its premium volume. There are no new directors or managers contemplated at MIC as a result of Mr. Shepard's tender offer, and there are no financial or employment guarantees that have been offered to MIC's present management in connection with Shepard's tender offer."

As Mr. Shepard's Form A notes, if his acquisition of 962,636 additional Class A Shares of DGI pursuant to his tender offer is successful, he would then own Class A

July 3, 2013

Page 2

Shares and Class B Shares with an aggregate of approximately 22.7% of the combined voting power of DGI's outstanding stock. Donegal Mutual Insurance Company would continue to own shares with approximately 65.7% of the combined voting power of DGI's outstanding stock, and thus would continue to have overwhelming control over DGI and its subsidiaries, including MIC. Moreover, Mr. Shepard has waived the condition of his tender offer that his representatives be appointed to the boards of directors of DGI and Donegal Mutual. For these reasons, Mr. Shepard would not effectively control DGI or any of its subsidiaries, including MIC, even if his Form A is approved and his tender offer succeeds, so he would be unable (in addition to his having no intention, plan or desire) to affect the current management and corporate policies of MIC.

Mr. Shepard recognizes that Item 5(b) of Michigan's Form A requires an applicant to "[p]rovide a 5 year business plan which describes the types of business to be written by the insurer, marketing plan, projected direct, assumed, ceded, and net written premiums by line, pro-forma statutory balance sheets and income statements."

Accordingly, please see the following Exhibits attached to this letter, which Mr. Shepard hereby incorporates into Item 5(b) of his Form A:

- Exhibit 1** Direct, Assumed, Ceded, and Net Written Premiums of MIC by Line of Business – As reported for 2012, and as projected for 2013 – 2017
- Exhibit 2** Balance Sheet of MIC – As reported for 2012, and as projected for 2013 – 2017
- Exhibit 3** Statement of Income of MIC – As reported for 2012, and as projected for 2013 – 2017
- Exhibit 4** Five-Year Business Plan for MIC Covering 2013 – 2017

Also with respect to Item 5(b) of his Form A, Mr. Shepard has no proposed changes to MIC's reinsurance program, has no proposed capital contributions to MIC, has no proposed changes to MIC's executive officers and directors, and has no proposed changes to MIC's compliance plan with the "books and records in Michigan" requirement of Section 5256.

Mr. Shepard respectfully submits that his business plan will not adversely impact MIC policyholders or the public interest. To the contrary, Mr. Shepard's business plan calls for continued steady growth of MIC's premiums and surplus, and it enhances MIC's claims-paying ability and financial stability.

Mr. Shepard believes that, as supplemented by the information provided in and attached as exhibits to this letter, his Michigan Form A application is complete.

July 3, 2013
Page 3

Therefore, Mr. Shepard respectfully requests that the DIFS determine that his Form A filing is complete and that the DIFS commence its review of his Form A as soon as possible.

Please contact me if I may provide any further information.

Very truly yours,

Lathrop & Gage LLP

By:



Vic Peterson
Vic Peterson

Attachments

Michigan Insurance Company

Direct Premiums Written, Net Premiums Written, Premiums Earned

Line of Business	2012									
	1 Direct Business	2 Reinsurance Assumed		3 Reinsurance Ceded		5 1+2+3-4-5 Net Premiums Written	6 Unearned Premiums Prior Year	7 Unearned Premiums Current Year	8 Unearned Premiums Current Year	9 Premiums Earned
		From Affiliates	From Non-Affiliates	To Affiliates	To Non-Affiliates					
1 Fire	378,020	0	354,493	92,176	156,513	483,824	173,747	272,680	384,891	
2 Allied lines	405,231	0	474,482	91,796	179,758	608,159	349,290	305,117	652,332	
3 Farmowners multiple peril	0	0	0	0	0	0	0	0	0	
4 Homeowners multiple peril	15,657,921	0	0	3,725,650	6,627,314	5,304,957	2,152,837	2,786,358	4,671,436	
5 Commercial multiple peril	16,515,491	0	0	3,914,680	7,073,266	5,527,545	1,767,336	2,706,221	4,588,660	
6 Mortgage guaranty	0	0	0	0	0	0	0	0	0	
8 Ocean Marine	0	0	0	0	0	0	0	0	0	
9 Inland marine	0	0	0	0	0	0	0	0	0	
10 Financial guaranty	462,054	0	87,751	108,935	197,902	242,968	109,622	119,816	232,774	
11.1 Medical professional - liability - occurrence	0	0	0	0	0	0	0	0	0	
11.2 Medical professional - liability - claims made	0	0	0	0	0	0	0	0	0	
12 Earthquake	1,292	0	124	319	529	568	0	390	178	
13 Group accident and health	0	0	0	0	0	0	0	0	0	
14 Credit accident and health (group and individual)	0	0	0	0	0	0	0	0	0	
15 Other accident and health	0	0	0	0	0	0	0	0	0	
16 Workers' compensation	0	0	0	0	0	0	0	0	0	
17.1 Other liability - occurrence	28,970,850	0	9,646	6,837,055	12,592,140	9,551,301	2,619,540	4,210,055	7,960,786	
17.2 Other liability - claims made	1,514,736	0	1,971,103	48,376	1,389,076	2,048,387	765,791	895,580	1,918,598	
17.3 Excess Workers' Compensation	0	0	0	0	0	0	0	0	0	
18.1 Products liability - occurrence	246,878	0	0	41,452	148,772	56,654	81,664	10,293	128,025	
18.2 Products liability - claims made	-3,768	0	0	0	-1,732	-2,036	121,774	118,289	1,449	
19.1, 19.2 Private passenger auto liability	20,775,218	0	0	3,695,228	11,877,226	5,202,764	1,358,708	1,977,219	4,584,253	
19.3, 19.4 Commercial auto liability	6,750,957	0	229,195	1,291,282	3,645,370	2,043,500	687,517	985,861	1,745,156	
21 Auto physical damage	17,889,706	0	114,398	4,430,457	7,238,856	6,334,791	1,853,454	2,537,080	5,651,165	
22 Aircraft (all perils)	0	0	0	0	0	0	0	0	0	
23 Fidelity	0	0	11,510	0	0	11,510	7,688	8,258	10,940	
24 Surety	0	0	124,028	0	0	124,028	33,607	48,633	109,002	
26 Burglary and theft	1,272	0	7,663	0	526	8,409	3,646	4,169	7,886	
27 Boiler and machinery	1,060,944	0	0	311	1,057,093	3,540	165,559	418	168,681	
28 Credit	0	0	0	0	0	0	0	0	0	
29 International	0	0	0	0	0	0	0	0	0	
30 Warranty	0	0	0	0	0	0	0	0	0	
31 Reinsurance - Nonproportional Assumed Property	0	0	0	0	0	0	0	0	0	
32 Reinsurance - Nonproportional Assumed Liability	0	0	0	0	0	0	0	0	0	
33 Reinsurance - Nonproportional Assumed Financial Lines	0	0	0	0	0	0	0	0	0	
34 Aggregate write-ins for other lines of business	0	0	0	0	0	0	0	0	0	
35 TOTALS	110,626,802	0	3,384,393	24,277,717	52,182,609	37,550,869	12,251,780	16,986,437	32,816,212	

Michigan Insurance Company

Direct Premiums Written, Net Premiums Written, Premiums Earned

Line of Business	2013									
	1 Direct Business	2 Reinsurance Assumed		3 Reinsurance Ceded		5 1+2+3-4-5 Net Premiums Written	6 Unearned Premiums Prior Year	7 Unearned Premiums Current Year	8 Unearned Premiums Current Year	9 Premiums Earned
		From Affiliates	From Non-Affiliates	To Affiliates	To Non-Affiliates					
1 Fire	385,580	0	0	94,020	119,732	171,828	272,680	349,693	94,815	
2 Allied lines	413,336	0	0	93,632	137,515	182,189	305,117	391,291	96,015	
3 Farmowners multiple peril	0	0	0	0	0	0	0	0	0	
4 Homeowners multiple peril	15,971,079	0	0	3,800,163	5,069,895	7,101,021	2,786,358	3,573,309	6,314,070	
5 Commercial multiple peril	16,845,801	0	0	3,992,974	5,411,048	7,441,779	2,706,221	3,470,539	6,677,461	
6 Mortgage guaranty	0	0	0	0	0	0	0	0	0	
8 Ocean Marine	0	0	0	0	0	0	0	0	0	
9 Inland marine	0	0	0	0	0	0	0	0	0	
10 Financial guaranty	471,295	0	0	111,114	151,395	208,786	119,816	153,656	174,947	
11.1 Medical professional - liability - occurrence	0	0	0	0	0	0	0	0	0	
11.2 Medical professional - liability - claims made	0	0	0	0	0	0	0	0	0	
12 Earthquake	1,318	0	0	325	405	588	390	500	478	
13 Group accident and health	0	0	0	0	0	0	0	0	0	
14 Credit accident and health (group and individual)	0	0	0	0	0	0	0	0	0	
15 Other accident and health	0	0	0	0	0	0	0	0	0	
16 Workers' compensation	29,550,267	0	0	6,973,796	9,632,987	12,943,484	4,210,055	5,399,101	11,754,438	
17.1 Other liability - occurrence	1,545,031	0	0	49,344	1,062,643	433,044	895,580	1,148,519	180,105	
17.2 Other liability - claims made	0	0	0	0	0	0	0	0	0	
17.3 Excess Workers' Compensation	251,816	0	0	42,281	113,811	95,724	10,293	13,200	92,817	
18.1 Products liability - occurrence	-3,843	0	0	0	-1,325	-2,518	118,289	151,697	-35,927	
18.2 Products liability - claims made	0	0	0	0	0	0	0	0	0	
19.1, 19.2 Private passenger auto liability	21,190,722	0	0	3,769,133	9,086,078	8,335,512	1,977,219	2,535,645	7,777,086	
19.3, 19.4 Commercial auto liability	6,885,976	0	0	1,317,108	2,788,708	2,780,160	985,861	1,264,298	2,501,724	
21 Auto physical damage	18,247,500	0	0	4,519,066	5,537,725	8,190,709	2,537,080	3,253,628	7,474,162	
22 Aircraft (all perils)	0	0	0	0	0	0	0	0	0	
23 Fidelity	0	0	0	0	0	0	0	0	0	
24 Surety	0	0	0	0	0	0	8,258	10,590	-2,332	
26 Burglary and theft	1,297	0	0	0	0	0	48,633	62,368	-13,735	
27 Boiler and machinery	1,082,163	0	0	317	808,676	273,170	418	536	273,051	
28 Credit	0	0	0	0	0	0	0	0	0	
29 International	0	0	0	0	0	0	0	0	0	
30 Warranty	0	0	0	0	0	0	0	0	0	
31 Reinsurance - Nonproportional Assumed Property	0	0	0	0	0	0	0	0	0	
32 Reinsurance - Nonproportional Assumed Liability	0	0	0	0	0	0	0	0	0	
33 Reinsurance - Nonproportional Assumed Financial Lines	0	0	0	0	0	0	0	0	0	
34 Aggregate write-ins for other lines of business	0	0	0	0	0	0	0	0	0	
35 TOTALS	112,839,338	0	0	24,763,271	39,919,696	48,156,371	16,986,437	21,783,916	43,358,891	

Michigan Insurance Company

Direct Premiums Written, Net Premiums Written, Premiums Earned

Line of Business	2014									
	1 Direct Business	2 Reinsurance Assumed		3 Reinsurance Ceded		5 1+2+3-4-5 Net Premiums Written	6	7 Unearned Premiums Prior Year	8 Unearned Premiums Current Year	9 Premiums Earned
		From Affiliates	From Non-Affiliates	To Affiliates	To Non-Affiliates					
1 Fire	393,292	0	0	95,900	81,418	215,974	349,693	455,246	110,421	
2 Allied lines	421,602	0	0	95,505	93,511	232,587	391,291	509,400	114,478	
3 Farmowners multiple peril	0	0	0	0	0	0	0	0	0	
4 Homeowners multiple peril	16,290,501	0	0	3,876,166	3,447,546	8,966,789	3,573,309	4,651,889	7,888,209	
5 Commercial multiple peril	17,182,717	0	0	4,072,833	3,679,531	9,430,352	3,470,539	4,518,099	8,382,793	
6 Mortgage guaranty	0	0	0	0	0	0	0	0	0	
8 Ocean Marine	0	0	0	0	0	0	0	0	0	
9 Inland marine	0	0	0	0	0	0	0	0	0	
10 Financial guaranty	480,721	0	0	113,336	102,949	264,436	153,656	200,036	218,056	
11.1 Medical professional - liability - occurrence	0	0	0	0	0	0	0	0	0	
11.2 Medical professional - liability - claims made	0	0	0	0	0	0	0	0	0	
12 Earthquake	1,344	0	0	332	275	737	500	651	586	
13 Group accident and health	0	0	0	0	0	0	0	0	0	
14 Credit accident and health (group and individual)	0	0	0	0	0	0	0	0	0	
15 Other accident and health	0	0	0	0	0	0	0	0	0	
16 Workers' compensation	30,141,272	0	0	7,113,272	6,550,464	16,477,536	5,399,101	7,028,784	14,847,853	
17.1 Other liability - occurrence	1,575,931	0	0	50,330	722,601	803,000	1,148,519	1,495,192	456,327	
17.2 Other liability - claims made	0	0	0	0	0	0	0	0	0	
17.3 Excess Workers' Compensation	256,852	0	0	43,127	77,392	136,334	13,200	17,184	132,349	
18.1 Products liability - occurrence	-3,920	0	0	0	-901	-3,019	151,697	197,486	-48,808	
18.2 Products liability - claims made	0	0	0	0	0	0	0	0	0	
19.1, 19.2 Private passenger auto liability	21,614,537	0	0	3,844,515	6,178,564	11,591,458	2,535,645	3,301,013	10,826,090	
19.3, 19.4 Commercial auto liability	7,023,696	0	0	1,343,450	1,896,331	3,783,915	1,264,298	1,645,918	3,402,295	
21 Auto physical damage	18,612,450	0	0	4,609,447	3,765,672	10,237,331	3,253,628	4,235,714	9,255,245	
22 Aircraft (all perils)	0	0	0	0	0	0	0	0	0	
23 Fidelity	0	0	0	0	0	0	10,590	13,787	-3,197	
24 Surety	0	0	0	0	0	0	62,368	81,194	-18,826	
26 Burglary and theft	1,323	0	0	0	274	1,050	5,346	6,960	-564	
27 Boiler and machinery	1,103,806	0	0	324	549,903	553,580	536	698	553,418	
28 Credit	0	0	0	0	0	0	0	0	0	
29 International	0	0	0	0	0	0	0	0	0	
30 Warranty	0	0	0	0	0	0	0	0	0	
31 Reinsurance - Nonproportional Assumed Property	0	0	0	0	0	0	0	0	0	
32 Reinsurance - Nonproportional Assumed Liability	0	0	0	0	0	0	0	0	0	
33 Reinsurance - Nonproportional Assumed Financial Lines	0	0	0	0	0	0	0	0	0	
34 Aggregate write-ins for other lines of business	0	0	0	0	0	0	0	0	0	
35 TOTALS	115,096,125	0	0	25,258,537	27,145,529	62,692,059	21,783,916	28,359,250	56,116,726	

Michigan Insurance Company

Exhibit 1

Direct Premiums Written, Net Premiums Written, Premiums Earned

	2015										
	1 Direct Business	2 Reinsurance Assumed		3 Reinsurance Ceded		5 1+2+3-4-5 Net Premiums Written	6	7 Unearned Premiums Prior Year	8 Unearned Premiums Current Year	9 Premiums Earned	
		From Affiliates	From Non-Affiliates	To Affiliates	To Non-Affiliates						
1 Fire	401,158	0	0	97,818	41,523	261,817	455,246	564,882	152,180		
2 Allied lines	430,034	0	0	97,415	47,690	284,929	509,400	632,078	162,251		
3 Farmowners multiple peril	0	0	0	0	0	0	0	0	0		
4 Homeowners multiple peril	16,616,311	0	0	3,953,690	1,758,248	10,904,373	4,651,889	5,772,199	9,784,064		
5 Commercial multiple peril	17,526,371	0	0	4,154,290	1,876,561	11,495,520	4,518,099	5,606,187	10,407,432		
6 Mortgage guaranty	0	0	0	0	0	0	0	0	0		
8 Ocean Marine	0	0	0	0	0	0	0	0	0		
9 Inland marine	0	0	0	0	0	0	0	0	0		
10 Financial guaranty	490,335	0	0	115,603	52,504	322,229	200,036	248,210	274,054		
11.1 Medical professional - liability - occurrence	0	0	0	0	0	0	0	0	0		
11.2 Medical professional - liability - claims made	0	0	0	0	0	0	0	0	0		
12 Earthquake	1,371	0	0	339	140	892	651	808	735		
13 Group accident and health	0	0	0	0	0	0	0	0	0		
14 Credit accident and health (group and individual)	0	0	0	0	0	0	0	0	0		
15 Other accident and health	0	0	0	0	0	0	0	0	0		
16 Workers' compensation	30,744,098	0	0	7,255,537	3,340,737	20,147,824	7,028,784	8,721,519	18,455,089		
17.1 Other liability - occurrence	1,607,450	0	0	51,337	368,526	1,187,586	1,495,192	1,855,277	827,501		
17.2 Other liability - claims made	0	0	0	0	0	0	0	0	0		
17.3 Excess Workers' Compensation	261,989	0	0	43,989	39,470	178,530	17,184	21,323	174,392		
18.1 Products liability - occurrence	-3,999	0	0	0	-460	-3,539	197,486	245,047	-51,100		
18.2 Products liability - claims made	0	0	0	0	0	0	0	0	0		
19.1, 19.2 Private passenger auto liability	22,046,828	0	0	3,921,406	3,151,068	14,974,354	3,301,013	4,095,992	14,179,375		
19.3, 19.4 Commercial auto liability	7,164,170	0	0	1,370,319	967,129	4,826,722	1,645,918	2,042,302	4,430,337		
21 Auto physical damage	18,984,699	0	0	4,701,636	1,920,493	12,362,570	4,235,714	5,255,796	11,342,488		
22 Aircraft (all perils)	0	0	0	0	0	0	0	0	0		
23 Fidelity	0	0	0	0	0	0	13,787	17,107	-3,320		
24 Surety	0	0	0	0	0	0	81,194	100,748	-19,554		
26 Burglary and theft	1,350	0	0	0	140	1,210	6,960	8,636	-466		
27 Boiler and machinery	1,125,882	0	0	330	280,450	845,102	698	866	844,934		
28 Credit	0	0	0	0	0	0	0	0	0		
29 International	0	0	0	0	0	0	0	0	0		
30 Warranty	0	0	0	0	0	0	0	0	0		
31 Reinsurance - Nonproportional Assumed Property	0	0	0	0	0	0	0	0	0		
32 Reinsurance - Nonproportional Assumed Liability	0	0	0	0	0	0	0	0	0		
33 Reinsurance - Nonproportional Assumed Financial Lines	0	0	0	0	0	0	0	0	0		
34 Aggregate write-ins for other lines of business	0	0	0	0	0	0	0	0	0		
35 TOTALS	117,398,047	0	0	25,763,708	13,844,220	77,790,120	28,359,250	35,188,977	70,960,393		

Michigan Insurance Company

Exhibit 1

Direct Premiums Written, Net Premiums Written, Premiums Earned

Line of Business	2016											
	1	2		3		4		5	6	7	8	9
	Direct Business	From Affiliates	From Non-Affiliates	To Affiliates	To Non-Affiliates	Reinsurance Ceded	Net Premiums Written	1+2+3+4-5	Unearned Premiums Prior Year	Unearned Premiums Current Year	Premiums Earned	
1 Fire	409,181	0	0	99,774	0	0	309,407	0	564,882	678,721	195,567	
2 Allied lines	438,635	0	0	99,363	0	0	339,272	0	632,078	759,460	211,891	
3 Farmowners multiple peril	0	0	0	0	0	0	0	0	0	0	0	
4 Homeowners multiple peril	16,948,637	0	0	4,032,763	0	0	12,915,874	0	5,772,199	6,935,459	11,752,613	
5 Commercial multiple peril	17,876,899	0	0	4,237,376	0	0	13,639,523	0	5,806,187	6,735,992	12,509,718	
6 Mortgage guaranty	0	0	0	0	0	0	0	0	0	0	0	
8 Ocean Marine	0	0	0	0	0	0	0	0	0	0	0	
9 Inland marine	0	0	0	0	0	0	0	0	0	0	0	
10 Financial guaranty	500,142	0	0	117,915	0	0	382,227	0	248,210	298,231	332,206	
11.1 Medical professional - liability - occurrence	0	0	0	0	0	0	0	0	0	0	0	
11.2 Medical professional - liability - claims made	0	0	0	0	0	0	0	0	0	0	0	
12 Earthquake	1,399	0	0	345	0	0	1,053	0	808	971	890	
13 Group accident and health	0	0	0	0	0	0	0	0	0	0	0	
14 Credit accident and health (group and individual)	0	0	0	0	0	0	0	0	0	0	0	
15 Other accident and health	0	0	0	0	0	0	0	0	0	0	0	
16 Workers' compensation	0	0	0	0	0	0	0	0	0	0	0	
17.1 Other liability - occurrence	31,358,980	0	0	7,400,648	0	0	23,958,332	0	8,721,519	10,479,151	22,200,700	
17.2 Other liability - claims made	1,639,599	0	0	52,364	0	0	1,587,235	0	1,855,277	2,229,167	1,213,345	
17.3 Excess Workers' Compensation	0	0	0	0	0	0	0	0	0	0	0	
18.1 Products liability - occurrence	267,229	0	0	44,869	0	0	222,360	0	21,323	25,620	218,063	
18.2 Products liability - claims made	-4,079	0	0	0	0	0	-4,079	0	245,047	294,430	-53,462	
19.1, 19.2 Private passenger auto liability	22,487,764	0	0	3,999,834	0	0	18,487,930	0	4,095,992	4,921,450	17,662,473	
19.3, 19.4 Commercial auto liability	7,307,453	0	0	1,397,725	0	0	5,909,728	0	2,042,302	2,453,884	5,498,146	
21 Auto physical damage	19,364,393	0	0	4,795,669	0	0	14,568,724	0	5,255,796	6,314,987	13,509,533	
22 Aircraft (all perils)	0	0	0	0	0	0	0	0	0	0	0	
23 Fidelity	0	0	0	0	0	0	0	0	17,107	20,555	-3,448	
24 Surety	0	0	0	0	0	0	0	0	100,748	121,051	-20,304	
26 Burglary and theft	1,377	0	0	0	0	0	1,377	0	8,636	10,377	-364	
27 Boiler and machinery	1,148,400	0	0	337	0	0	1,148,063	0	866	1,040	1,147,889	
28 Credit	0	0	0	0	0	0	0	0	0	0	0	
29 International	0	0	0	0	0	0	0	0	0	0	0	
30 Warranty	0	0	0	0	0	0	0	0	0	0	0	
31 Reinsurance - Nonproportional Assumed Property	0	0	0	0	0	0	0	0	0	0	0	
32 Reinsurance - Nonproportional Assumed Liability	0	0	0	0	0	0	0	0	0	0	0	
33 Reinsurance - Nonproportional Assumed Financial Lines	0	0	0	0	0	0	0	0	0	0	0	
34 Aggregate write-ins for other lines of business	0	0	0	0	0	0	0	0	0	0	0	
35 TOTALS	119,746,008	0	0	26,278,982	0	0	93,467,027	0	35,188,977	42,280,548	86,375,455	

Michigan Insurance Company

Exhibit 1

Direct Premiums Written, Net Premiums Written, Premiums Earned

Line of Business	2017										
	1 Direct Business	2 Reinsurance Assumed		3 Reinsurance Ceded		5 1+2+3-4-5 Net Premiums Written	6 Unearned Premiums Prior Year	7 Unearned Premiums Current Year	8 Unearned Premiums Current Year	9 Premiums Earned	
		From Affiliates	From Non-Affiliates	To Affiliates	To Non-Affiliates						
1 Fire	417,365	0	0	101,770	0	315,595	678,721	692,296	302,020		
2 Allied lines	447,408	0	0	101,350	0	346,058	759,460	774,649	330,868		
3 Farmowners multiple peril	0	0	0	0	0	0	0	0	0		
4 Homeowners multiple peril	17,287,610	0	0	4,113,419	0	13,174,191	6,935,459	7,074,169	13,035,482		
5 Commercial multiple peril	18,234,437	0	0	4,322,123	0	13,912,314	6,735,992	6,870,712	13,777,594		
6 Mortgage guaranty	0	0	0	0	0	0	0	0	0		
8 Ocean Marine	0	0	0	0	0	0	0	0	0		
9 Inland marine	0	0	0	0	0	0	0	0	0		
10 Financial guaranty	510,145	0	0	120,273	0	389,872	298,231	304,196	383,907		
11.1 Medical professional - liability - occurrence	0	0	0	0	0	0	0	0	0		
11.2 Medical professional - liability - claims made	0	0	0	0	0	0	0	0	0		
12 Earthquake	1,426	0	0	352	0	1,074	971	990	1,055		
13 Group accident and health	0	0	0	0	0	0	0	0	0		
14 Credit accident and health (group and individual)	0	0	0	0	0	0	0	0	0		
15 Other accident and health	0	0	0	0	0	0	0	0	0		
16 Workers' compensation	31,986,159	0	0	7,548,661	0	24,437,498	10,479,151	10,688,734	24,227,915		
17.1 Other liability - occurrence	1,672,391	0	0	53,411	0	1,618,980	2,229,167	2,273,751	1,574,397		
17.2 Other liability - claims made	0	0	0	0	0	0	0	0	0		
17.3 Excess Workers' Compensation	272,573	0	0	45,766	0	226,807	25,620	26,132	226,295		
18.1 Products liability - occurrence	-4,160	0	0	0	0	-4,160	294,430	300,319	-10,049		
18.2 Products liability - claims made	0	0	0	0	0	0	0	0	0		
19.1, 19.2 Private passenger auto liability	22,937,519	0	0	4,079,830	0	18,857,689	4,921,450	5,019,879	18,759,260		
19.3, 19.4 Commercial auto liability	7,453,602	0	0	1,425,680	0	6,027,922	2,453,884	2,502,962	5,978,845		
21 Auto physical damage	19,751,681	0	0	4,891,583	0	14,860,098	6,314,987	6,441,287	14,733,799		
22 Aircraft (all perils)	0	0	0	0	0	0	0	0	0		
23 Fidelity	0	0	0	0	0	0	0	20,966	-411		
24 Surety	0	0	0	0	0	0	121,051	123,472	-2,421		
26 Burglary and theft	1,404	0	0	0	0	1,404	10,377	10,585	1,197		
27 Boiler and machinery	1,171,368	0	0	343	0	1,171,025	1,040	1,061	1,171,004		
28 Credit	0	0	0	0	0	0	0	0	0		
29 International	0	0	0	0	0	0	0	0	0		
30 Warranty	0	0	0	0	0	0	0	0	0		
31 Reinsurance - Nonproportional Assumed Property	0	0	0	0	0	0	0	0	0		
32 Reinsurance - Nonproportional Assumed Liability	0	0	0	0	0	0	0	0	0		
33 Reinsurance - Nonproportional Assumed Financial Lines	0	0	0	0	0	0	0	0	0		
34 Aggregate write-ins for other lines of business	0	0	0	0	0	0	0	0	0		
35 TOTALS	122,140,928	0	0	26,804,561	0	95,336,367	42,280,548	43,126,159	94,490,756		

Michigan Insurance Company

Exhibit 2

Balance Sheet

Assets	Net Admitted 12/31/12	Net Admitted 12/31/13	Net Admitted 12/31/14	Net Admitted 12/31/15	Net Admitted 12/31/16	Net Admitted 12/31/17
1. Bonds (Schedule D)						
2. Stocks (Schedule D):						
2.1 Preferred stocks	55,472,758	61,902,832	81,100,772	102,829,644	125,532,018	136,232,161
2.2 Common stocks						
3. Mortgage loans on real estate (Schedule B):						
3.1 First liens	268,788	268,788	268,788	268,788	268,788	268,788
3.2 Other than first liens						
4. Real Estate						
4.1 Properties occupied by the company (less \$... Encumbrances)						
4.2 Properties held for the production of income (less \$... Encumbrances)						
4.3 Properties held for sale (less \$... Encumbrances)						
5. Cash, cash equivalents and short-term investments	8,288,916	8,288,916	8,288,916	8,288,916	8,288,916	8,288,916
6. Contract loans (including \$.. Premium notes)						
7. Derivatives (Schedule DB)						
8. Other invested assets (Schedule BA)						
9. Receivables for securities						
10. Securities lending reinvested collateral assets (Schedule DL)						
11. Aggregate write-ins for invested assets						
12. Subtotals, cash and invested assets (Line 1 through Line 11)	64,030,462	70,460,536	89,658,476	111,387,348	134,089,722	144,789,865
13. Title plants less \$... Charged off (for Title insurers only)						
14. Investment income due and accrued	453,719	494,554	637,974	803,848	980,694	1,059,150
15. Premium and considerations:						
15.1 Uncollected premiums and agents' balances in the course of collection	5,311,739	5,417,974	5,526,333	5,636,860	5,749,597	5,864,589
15.2 Deferred premiums, agents' balances and installment booked but deferred and not yet due	28,213,958	28,778,237	29,353,802	29,940,878	30,539,696	31,150,489
15.3 Accrued retrospective premiums						
16. Reinsurance:						
16.1 Amounts recoverable from reinsurers	7,284,854	6,162,986	4,992,019	3,773,966	2,502,140	2,552,183
16.2 Fund held by or deposited with reinsured companies						
16.3 Other amounts receivable under reinsurance contracts						
17. Amounts receivable relating to reinsured plans						
18.1 Current federal and foreign income tax recoverable and interest thereon						
18.2 Net deferred tax asset	2,118,110	2,118,110	2,118,110	2,118,110	2,118,110	2,118,110
19. Guaranty funds receivable or on deposit						
20. Electronic data processing equipment and software	101,016	101,016	101,016	101,016	101,016	101,016
21. Furniture and equipment, including health care delivery assets (\$...)						
22. Net adjustment in assets and liabilities due to foreign exchange rates						
23. Receivables from parents, subsidiaries and affiliates						
24. Health Care (\$...) and other amounts receivable						
25. Aggregated write-ins for other than invested assets	15,837	15,837	15,837	15,837	15,837	15,837
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Amounts						
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts						
28. Total (Line 26 through Line 27)	107,529,695	122,106,955	140,961,271	162,335,566	184,654,515	196,208,943

Michigan Insurance Company

Liabilities, Surplus, and Other Funds		12/31/12	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17
1.	Losses (Part 2A, Line 35, Column 8)	20,348,594	26,880,493	34,783,358	43,983,556	53,536,784	58,569,242
2.	Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	123,163	162,698	210,532	266,217	324,040	354,499
3.	Loss adjustment expenses (Part 2A, Line 35, Column 9)	6,773,000	8,947,133	11,577,590	14,639,863	17,819,641	19,494,687
4.	Commissions payable, contingent commissions and other similar charges	3,506,887	4,632,598	5,994,581	7,580,148	9,226,556	10,093,853
5.	Other expenses (excluding taxes, licenses and fees)	548,923	725,127	938,315	1,186,499	1,444,207	1,579,962
6.	Tax, licenses and fees (excluding federal and foreign income taxes)	2,215,804	2,927,077	3,787,638	4,789,468	5,829,740	6,377,736
7.1	Current federal and foreign income taxes (including \$... On realized capital gains (losses))	1,070,775	1,414,494	1,830,355	2,314,484	2,817,190	3,082,006
7.2	Net deferred tax liability						
8.	Borrowed money \$... And interest thereon \$						
9.	Unearned premiums	16,986,437	21,783,916	28,359,250	35,188,977	42,280,548	43,126,159
10.	Advance premium	550,119	705,489	918,436	1,139,622	1,369,289	1,396,674
11.	Dividends declared and unpaid:						
	11.1 Stockholders						
	11.2 Policyholders						
12.	Ceded reinsurance premiums payable (net of ceding commissions)						
13.	Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)	12,883,030	9,662,273	6,441,547	3,220,774	0	0
14.	Amounts withheld or retained by company for account of others						
15.	Remittances and items not allocated	79,763	0	0	0	0	0
16.	Provision for reinsurance (including \$... Certified) (Schedule F, Part 8)						
17.	Net adjustments in assets and liabilities due to foreign exchange rates						
18.	Drafts outstanding						
19.	Payable to parent, subsidiaries and affiliates						
20.	Derivatives						
21.	Payable for securities						
22.	Payable for securities lending						
23.	Liability for amounts held under uninsured plans						
24.	Capital notes \$... And interest thereon \$						
25.	Aggregate write-ins for liabilities						
26.	Total liabilities excluding protected cell liabilities (Line 1 through Line 25)	65,086,495	77,841,297	94,841,602	114,309,608	134,647,994	144,074,817
27.	Protected cell liabilities						
28.	Total liabilities (Line 26 and Line 27)	65,086,495	77,841,297	94,841,602	114,309,608	134,647,994	144,074,817
29.	Aggregate write-ins for special surplus funds						
30.	Common capital stock	1,000	1,000	1,000	1,000	1,000	1,000
31.	Preferred capital stock						
32.	Aggregate write-ins for other than special surplus funds						
33.	Surplus notes						
34.	Gross paid in and contributed surplus	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
35.	Unassigned funds (surplus)	21,001,812	21,001,812	21,001,812	21,001,812	21,001,812	21,001,812
36.	Less treasury stock, at cost:	16,440,388	16,897,972	17,358,885	17,843,281	18,372,583	19,018,972
	36.1 ... shares common (value including in Line 30 \$...)						
	36.2 ... shares preferred (value including in Line 31 \$...)						
37.	Surplus as regards policyholders (Line 29 to Line 35, less Line 36) (Page 4, Line 39)	42,442,200	44,265,657	46,119,670	48,025,958	50,006,521	52,134,126
38.	Totals (Page 2, Line 38, Column 3)	107,528,695	122,106,954	140,961,272	162,335,566	184,654,515	196,208,943

Michigan Insurance Company

Exhibit 3

Summary of 5 Year Projections

	Michigan Insurance Company 12/31/12	Michigan Insurance Company 12/31/13	Michigan Insurance Company 12/31/14	Michigan Insurance Company 12/31/15	Michigan Insurance Company 12/31/16	Michigan Insurance Company 12/31/17
BALANCE SHEET						
Total Investments	64,030,462	70,460,536	89,658,476	111,387,348	134,089,722	144,789,865
Total Assets	108,628,036	122,106,955	140,961,271	162,335,566	184,654,515	196,208,943
Total Liabilities	65,086,495	77,841,297	94,841,602	114,309,608	134,647,994	144,074,817
Total Surplus as regards policyholders	42,443,200	44,265,657	46,119,670	48,025,958	50,006,521	52,134,126
STATEMENT OF INCOME DATA						
Premiums earned	32,816,212	43,358,891	56,116,726	70,960,393	86,375,455	94,490,756
Losses incurred	18,095,511	26,882,512	34,792,370	43,995,444	53,552,782	58,584,269
Loss adjustment expenses incurred	4,653,059	4,769,478	6,172,840	7,805,643	9,501,300	10,393,983
Other underwriting expenses incurred	10,992,254	13,007,667	16,835,018	21,288,118	25,912,637	28,347,227
Aggregate write-ins for underwriting deductions	0	0	0	0	0	0
Total underwriting deductions	33,740,824	44,659,658	57,800,228	73,089,205	88,966,719	97,325,479
Net underwriting gains (loss)	-924,612	-1,300,767	-1,683,502	-2,128,812	-2,591,264	-2,834,723
Net investment income earned	1,638,724	1,804,536	2,191,351	2,665,439	3,182,923	3,569,871
Net realized capital gains (losses)	897,435	0	0	0	0	0
Net investment gain (loss)	2,536,159	1,804,536	2,191,351	2,665,439	3,182,923	3,569,871
Finance and service charges	1,695,719	1,729,633	1,764,226	1,799,511	1,835,501	1,872,211
Aggregate write-ins for miscellaneous income	0	0	0	0	0	0
Net income before taxes	3,307,266	2,233,403	2,272,075	2,336,138	2,427,160	2,607,359
Dividends to policyholders	0	0	0	0	0	0
Federal and foreign income taxes incurred	609,009	410,946	418,062	429,849	446,597	479,754
Net income before taxes	2,698,257	1,822,457	1,854,013	1,906,288	1,980,563	2,127,605
Change in net unrealized capital gains or (losses)	-45,823	0	0	0	0	0
Change in net deferred income tax	-227,593	0	0	0	0	0
Change in nonadmitted assets	753,936	0	0	0	0	0
Dividends to stockholders	0	0	0	0	0	0
Change in surplus	480,520	1,822,457	1,854,013	1,906,288	1,980,563	2,127,605

Michigan 5 year Business Plan for the period covering 2013-2017

(submitted by Gregory M. Shepard based upon the 2012 Annual Statement, KPMG Audited Financial Report, and Management Discussion and Analysis, filed with the Michigan DIFS and the NAIC).

Company Background

The Michigan Insurance Company (the "Company") was acquired by Donegal Group effective December 1, 2010 for a final purchase price of \$42.3 million. Donegal Group Inc. is an insurance holding company that is affiliated with Donegal Mutual Insurance Company, which has majority voting control of Donegal Group Inc. Prior to Donegal Group Inc.'s acquisition the Company was a majority owned subsidiary of West Bend Mutual Insurance Company. The Company was incorporated on November 3, 1997 and issued its first policy in February of 1998.

The Company participates in a quota share agreement with Donegal Mutual Insurance Company, under which it cedes 25% of the net business written. The Company also has a quota share agreement with outside reinsurers, under which it ceded 50% and 40% of the net business written in 2011 and 2012, respectively. Effective January 1, 2013, the percentage ceded to the outside reinsurers was revised to 30%. Mr. Shepard assumed the percentage ceded to the outside reinsurers would be revised to 20% in 2014, 10% in 2015 and eliminated at year end 2015. Effective January 1, 2013, the Company terminated on a cut-off basis its contract with West Bend Mutual Insurance Company under which it had assumed 20% of the net business written by West Bend Mutual in the State of Michigan.

Description of Business

The Company provides property and liability coverages through independent agency systems located in the State of Michigan. The majority of this business is billed directly to the insured, although a portion of the Company's business is billed through its agents, who are extended credit in the normal course of business. The Company writes various lines of property and casualty insurance.

Financial Position

Assets and Liabilities

Mr. Shepard assumed that the asset and liability compositions will not change in the 2013 to 2017 time period.

Policyholders Surplus

The Company is required by law to maintain certain minimum capital and surplus on a statutory basis and is subject to regulations under which payment of dividends from statutory surplus is restricted and may require prior approval of domiciliary insurance regulatory authorities. Statutes for the State of Michigan require insurers to have a minimum capital and surplus of \$7,500,000. The Company is also subject to RBC requirements that may further impact its

ability to pay dividends. At December 31, 2012, the Company's statutory capital and surplus was above the RBC requirements. It is assumed for 2013 – 2017 that surplus will grow by net income accretions and that the Company will be above RBC requirements throughout 2013 – 2017. At December 31, 2012, \$4,244,320 is available for distribution as dividends to DGI without approval of the Michigan DIFS.

In January 2002, West Bend Mutual purchased a surplus note from the Company for \$5.0 million to increase the Company's statutory surplus. On December 1, 2010, Donegal Mutual purchased the surplus note from West Bend Mutual at face value. The surplus note carries an interest rate of 5.00%, and any repayment of principal requires prior insurance regulatory approval. Interest is noncumulative and paid annually, and not accrued until approved by the Michigan DIFS. Interest expense of \$250,000 was recorded in 2012 and 2011, respectively.

Future Operations

In 2012, direct premiums written increased by 2.4%. Commercial lines direct written premium increased by 9.8%, while personal lines decreased by 3.9%. The growth in commercial lines primarily reflected the impact of rate increases and higher workers' compensation payrolls. The decline in personal lines business reflected strengthening of underwriting standards. Total policy count dropped by 6.2% reflecting the strengthening of underwriting standards in personal lines. It was assumed that direct premiums written from 2013 to 2017 would grow by 2% annually primarily reflecting the impact of future rate increases of 5% and a declining policy count of 3% per year.

In 2012, losses incurred decreased to 55.1% of earned premium, compared to 62.4% in 2011. The improvement reflected favorable experience in the business assumed from the NSI division of West Bend Mutual Insurance Company and a reduction in losses assumed from the State's workers' compensation pool. Losses incurred for the period 2013 to 2017 were assumed to be 62% of earned premium and based upon Donegal Group's historical results.

In 2012, loss adjustment expense incurred was 14.2% of earned premium, compared to 9.5% in 2011. The increase reflected a change in the structure of the Company's quota share reinsurance contract, whereby ULAE is recovered through the ceding commission on policies effective after December 1, 2010. Loss adjustment expenses incurred for the period 2013 to 2017 were assumed to be 11% of earned premium and based upon Donegal Group's historical results.

In 2012, the underwriting expense ratio increased slightly to 29.3%, compared to 28.7% in 2011, reflecting the decreased ceding commission resulting from the decrease in the quota share ceding percentage. The Company participates in an expense sharing agreement with Donegal Mutual. Pursuant to this agreement, the Company reimburses Donegal Mutual for costs relating to certain employees and services provided to the Company by Donegal Mutual. Charges under this agreement were \$4,297,754 and \$0 for 2012 and 2011, respectively. The underwriting expenses ratio for the period 2013 to 2017 was assumed to be 30% of earned premium and based upon Donegal Group's more recent results.

In 2011 and 2012, the Company did not pay any dividends to policyholders and it was assumed no dividends would be paid in the 2013 to 2017 time period.

In 2012, total investments were \$64,030,462 producing net investment income earned of \$1,638,724 with a net investment yield of 2.6% and it was assumed that this net yield would continue during the 2013 to 2017 time period.

In 2012, finance and service charges were \$1,695,719 and it 2% annual growth was assumed during the time period.

It was assumed there would be no additional capital gains realized or unrealized during the 2013 to 2017 time period.

In 2012, net income before taxes were \$3,307,266 and federal and foreign income taxes incurred were \$609,009 amounting to a tax rate of 18.4%. It was assumed that during the 2013 to 2017 time period that the federal and foreign income taxes incurred tax rate of 18.4% would continue.

No attempt was made to estimate any changes in either the net deferred incomes tax or in non admitted assets during the 2013 to 2017 time period.

Cash Flow and Liquidity

Mr. Shepard projects the Company's operations will result in a statutory combined ratio of 103% which should result in a positive cash flow. It is anticipated that the positive cash flow will allow the Company to meet its future cash flow needs including the payment of reserves and losses. It was assumed that the Company's capital structure would continue to include a \$5.0 million surplus note that is held by Donegal Mutual Insurance Company and carries an interest rate of 5%, or \$250,000 annually. The Company paid a \$2 million dividend to its parent, Donegal Group, in 2011, however it was assumed that no dividends would be paid in the 2013 to 2017 time period.

Exhibit Q

MARTIN O'MALLEY
Governor

ANTHONY G. BROWN
Lt. Governor



THERESE M. GOLDSMITH
Commissioner

KAREN STAKEM HORNIG
Deputy Commissioner

NEIL A. MILLER
Associate Commissioner
Examination and Auditing

200 St. Paul Place, Suite 2700, Baltimore, Maryland 21202
Direct Dial: 410-468-2126 Fax: 410-468-2101
Email: lynn.beckner@maryland.gov
1-800-492-6116 TTY: 1-800-735-2258
www.mdinsurance.state.md.us

April 30, 2013

Mr. J. Victor Peterson, Esq.
Lathrop & Gage LLP
Suite 3050
155 North Wacker Drive
Chicago, IL 60606

Via Email: VPeterson@LATHROPGAGE.COM

RE: Form A – Tender Offer by Gregory M. Shepard for shares of Donegal Group Inc.

Dear Mr. Peterson,

We have performed a preliminary review of the Form A filing providing notification of the Tender offer dated March 20, 2013 by Gregory M. Shepard (an individual) to purchase additional shares of Class B common stock of Donegal Group Inc. (DGI). We have also reviewed your letter dated March 20, 2013 provided with the Form A filing and the press release from Mr. Shepard dated April 22, 2013.

Our review of the Form A has disclosed certain areas where additional information is needed, as follows:

1. In your letter you indicated that all written communication received from the Pennsylvania Insurance Department or any other insurance regulator regarding the Form A filing would be forwarded to the Maryland Insurance Department. We have not received these documents to-date. Please provide all written communication received from the Pennsylvania Insurance Department or any other insurance regulator in this matter along with Mr. Shepard's response.
2. The estimated purchase price of the Class B shares of approximately \$29,000,000 is to be paid in cash from Mr. Shepard's personal funds according to the Form A. Mr. Shepard's September 15, 2012 financial statements do not clearly demonstrate sufficient liquidity to

purchase the shares. Please provide a detailed explanation for how Mr. Shepard plans to provide the necessary funding for the purchase.

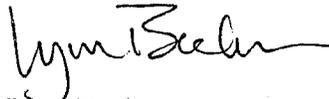
3. Mr. Shepard's September 15, 2012 financial statement shows marketable securities totaling \$80,839,118. Please provide a listing of all investments exceeding 10% ownership, including all non-insurance affiliates.
4. Please provide a market share analysis as described in Section 7-403 of the Insurance Article of the Annotated Code of Maryland.
5. Please provide a discussion of the projected business plan for the Maryland-regulated entities, Peninsula Insurance Company and Peninsula Indemnity Company.
6. Your March 20, 2013 letter requests confidential treatment of Mr. Shepard's personal financial statements, but does explain why you believe these should be confidential, or identify which components of the statements should be considered to be confidential. Please provide an explanation of these matters. For each component of the statements you believe should be considered to be confidential, please state the basis under which you believe they should be afforded such treatment. Please note that the Administration has received a request for copies of these statements.
7. Several places in your March 20, 2013 letter and the Form A filing state that Mr. Shepard will not in fact control DGI should the tender offer be successful. Thus it is not clear if this filing is intended to be a disclaimer of control, or a filing to acquire control of DGI and ultimately its insurance subsidiaries. These statements are contradicted by the statement in Item 5 of the Form A that Mr. Shepard reserves the right to develop plans or proposals in the future to seek to control DGI...to liquidate it, sell its assets or to merge or consolidate it with any person...

Section 7-101(c) of the Insurance Article of the Annotated Code of Maryland defines "Control", "controlling", "controlled by", or "under common control with" to mean the direct or indirect possession of the *power to direct or cause the direction of the management and policies of a person*, through ownership of voting securities or of securities convertible into voting securities, by contract other than a commercial contract for goods or nonmanagement services, or otherwise, whether or not the power is exercised or sought to be exercised (Emphasis added). Considering this definition, please clarify how Mr. Shepard will in fact be in a position to control DGI should the tender offer be successful. In your response, please address the indications in Mr. Shepard's press release that the acquisition of these shares is being attempted specifically to cause a merger or other corporate transactions to increase shareholder value.

Mr. J. Victor Peterson
April 30, 2013
Page 3 of 3

Please provide a response to this letter by May 14, 2013. We will continue our review of the Form A filing once we receive your response to this letter. If you have any questions please do not hesitate to call me at 410-468-2126.

Sincerely,

A handwritten signature in black ink, appearing to read "Lynn Beckner". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Lynn Beckner
Chief Financial Analyst

Exhibit R

LATHROP & GAGE_{LLP}

VIC PETERSON
DIRECT LINE: 312.920.3337
EMAIL: VPETERSON@LATHROP GAGE.COM
WWW.LATHROP GAGE.COM

155 N. WACKER, SUITE 3050
CHICAGO, ILLINOIS 60606
PHONE: 312.920.3300
FAX: 312.920.3301

May 13, 2013

Confidential Treatment Requested

VIA EMAIL

Ms. Lynn Beckner
Chief Financial Analyst
Maryland Insurance Administration
200 St. Paul Place, Suite 2700
Baltimore, MD 21202

Re: Form A – Tender Offer by Gregory M. Shepard for shares of Donegal Group Inc. (“DGI”)

Dear Ms. Beckner,

On behalf of Mr. Gregory M. Shepard, we are responding to your request for additional information in your letter dated April 30, 2013. The numbered items below correspond to the numbering in your letter.

1. The Pennsylvania Insurance Department created a web page (link here: http://www.portal.state.pa.us/portal/server.pt/community/industry_activity/9276/donegal_group_form-a/1451040), which it periodically updates with written communications relating to Mr. Shepard’s Form A filing.

2. Mr. Shepard holds one million (1,000,000) shares of a New York Stock Exchange-listed publicly traded company. As of the close of business on May 10, 2013, the price per share was over \$35. (Hence, Mr. Shepard holds over \$35 million of this stock. The average daily trading volume for this stock is over 2 million shares, per Yahoo Finance as of May 10, 2013.) Hence, there is a ready market for Mr. Shepard to liquidate his holdings of this security and to have the funds required to purchase the Donegal Group Inc. (“Donegal”) Class B stock pursuant to the tender offer.

3. In addition to the securities described in Item 2 above, Mr. Shepard currently owns 3,602,900 shares of Donegal Class A common stock and 397,100 shares

Lynn Beckner
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of Donegal Class B common stock. Mr. Shepard does not own securities issued by any other company. Mr. Shepard ownership of the securities described in Item 2 above constitutes less than 2% of the outstanding shares of such securities. As of the close of business on May 10, 2013, the price per share of Donegal Class A common stock was \$14.52, and the price per share of Donegal Class B common stock was \$21.79.

Mr. Shepard owns approximately 18.0% of the outstanding shares of Donegal Class A common stock and approximately 7.1% of the outstanding shares of Donegal Class B common stock. However, because Donegal's Class A common stock has 1/10 of a vote per share and Donegal's Class B common stock has one vote per share, Mr. Shepard owns shares with approximately 9.99% of the total combined voting power of Donegal's Class A and Class B common stock. By contrast, Donegal Mutual Insurance Company ("Donegal Mutual") owns shares with approximately 65.7% of the total combined voting power of Donegal's Class A and Class B common stock.

4. Mr. Shepard is an individual investor who conducts no insurance operations. Mr. Shepard has no controlling interest in any insurance company or insurance holding company, although he currently owns shares with 9.99% of the total voting power of Donegal (as described in Item 3 above). Mr. Shepard is not a director of any insurance company or insurance holding company. Therefore, the market share analysis specified in Section 403 of the Maryland Insurance Acquisitions Disclosure and Control Act is not applicable.

5. Mr. Shepard is an individual investor with no insurance operations. He is seeking through his tender offer to increase his minority investment in Donegal because he believes Donegal's stock is undervalued. He has no operational plans for, or any intent to influence, any of Donegal's insurance subsidiaries, including Peninsula Insurance Company and Peninsula Indemnity Company. He has no plans to change either one of Donegal's Maryland-domiciled insurance subsidiaries' location, to change its name, to increase its capital, to change its type of business to be written, or to change its premium volume. There are no new directors or managers contemplated at Peninsula Insurance Company or Peninsula Indemnity Company as a result of Mr. Shepard's tender offer, and there are no financial or employment guarantees that have been offered to any member of the present management of Peninsula Insurance Company or Peninsula Indemnity Company in connection with Mr. Shepard's tender offer.

6. Section 106(a) of the Maryland Insurance Acquisitions Disclosure and Control Act states, in relevant part, that "...all information and documents that are filed with the Commissioner in compliance with the requirements of this title...: (1) are confidential material; ...and (3) may not be made public by the Commissioner..." Mr.

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Page 3

Shepard requested confidential treatment for his personal financial statements and his biographical affidavit (and the addendum thereto) (collectively, the "Confidential Documents"), all of which he filed with the Commissioner as exhibits to his Form A filing. Therefore, the Confidential Documents are confidential pursuant to these statutory provisions and may not be made public by the Commissioner.

In addition, the Maryland Code's State Government Article provides in Section 10-617(d): "A custodian shall deny inspection of the part of a public record that contains any of the following information provided by or obtained from any person...: ... (3) confidential financial information..." Moreover, the Maryland Code's State Government Article provides in Section 10-617(f)(2): "... [A] custodian shall deny inspection of the part of a public record that contains information about the finances of an individual, including assets, income, liabilities, net worth, bank balances, financial history or activities, or creditworthiness." These provisions prohibit the Maryland Insurance Administration from publicly disclosing Mr. Shepard's personal financial statements.

The overarching reason Mr. Shepard is seeking confidential treatment for the Confidential Documents is that he possesses significant wealth, and providing the Confidential Documents to Donegal without a confidentiality and nondisclosure agreement would place him and his family at risk of identity theft, fraud, or physical harm.

We will provide to Donegal, under separate cover, a confidentiality and non-disclosure agreement with respect to the Confidential Documents. If Donegal is willing to sign that agreement, Mr. Shepard will provide unredacted versions of the Confidential Documents to Donegal and this issue will be resolved.

Even without a confidentiality and non-disclosure agreement, Mr. Shepard is willing to provide Donegal with redacted versions of the Confidential Documents.

7. There is no way that Mr. Shepard can control Donegal in reality. Donegal is controlled by the 65.7% voting interest of Donegal Mutual described in Item 3 above. Donegal Mutual and Donegal have overlapping Boards of Directors. In its SEC filings, Donegal has emphasized that Donegal Mutual will remain in a control position. (See, e.g., pages 12, 17, and 38 of Donegal's Definitive Proxy Statement on Schedule 14A filed with the SEC on March 18, 2013.)

Lynn Beckner
Maryland Insurance Administration
May 13, 2013
Page 4

As of April 22, 2013, Mr. Shepard has dropped his Board representation condition from his tender offer at the Donegal level and Donegal Mutual level. Thus, even if the tender offer is successful, and all regulatory approvals are received, Mr. Shepard will not have any Board representation either at Donegal or at Donegal Mutual, notwithstanding an over eighty million (\$80,000,000) investment in Donegal and holding securities with voting power equal to 22.7% (assuming that the tender offer is successfully completed).

Having said this, Mr. Shepard believes that the stock market does not understand the true value of Donegal. Mr. Shepard believes that Donegal and Donegal Mutual are extremely valuable in the hands of a larger mutual property and casualty company. This is because Donegal Mutual would merge into the acquiring mutual, and the acquiring mutual would pick up Donegal Mutual's surplus and net written premium. Hence, in the hands of an acquiring mutual property and casualty company, the stock of Donegal becomes extremely valuable.

Mr. Shepard has asked the Boards of Donegal and Donegal Mutual to consider this strategic merger, but to no avail. Like any other Donegal shareholder, Mr. Shepard wants the value of his shares to increase. Mr. Shepard has been a longstanding shareholder of Donegal for over six (6) years. During that period of time, the stock price of the Class A stock has declined and the stock price of the Class B stock has only marginally improved. At the same time, Donegal's insiders have issued to themselves stock option grants on Class A shares, which if fully exercised, would equal approximately one third of the total Class A shares outstanding. This is way beyond the option levels of Donegal's peer companies.

* * *

Mr. Shepard requests that the Maryland Insurance Administration continue its review of his Form A filing.

On behalf of Mr. Shepard, we hereby request confidential treatment for this letter on the grounds that it contains sensitive personal and financial information, the disclosure of which would be harmful to Mr. Shepard.

Lynn Beckner
Maryland Insurance Administration
May 13, 2013
Page 5

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

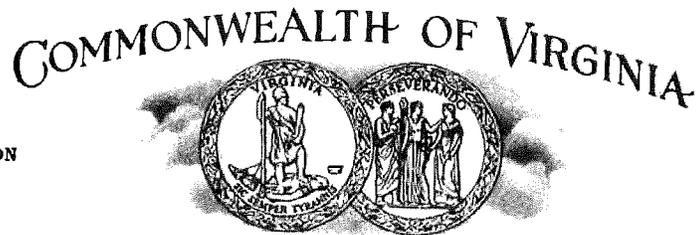
By:


J. Victor Peterson, Esq.

JVP:dmp

Exhibit S

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
<http://www.scc.virginia.gov/boi>

April 30, 2013

Gregory M. Shepard
C/o J. Victor Peterson, Esquire
Lathrop & Gage, LLP
155 North Wacker Drive
Chicago, IL 60606-1787

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

Dear Mr. Shepard:

I am in receipt of your March 20, 2013 Form A and the Statement Regarding the Acquisition of Control of a Domestic Insurance Company filed with the Virginia State Corporation Commission on behalf of Mr. Shepard in connection with Mr. Shepard's contemplated acquisition of control of Donegal Group Inc. and therefore Southern Insurance Company of Virginia. Please provide the following additional information in support of the Form A filing:

- 1) It was disclosed in the Biographical Affidavit that Gregory Shepard was the Chairman and CEO of Illinois HealthCare Insurance Company, an Illinois domiciled stock insurer. Furthermore, it was disclosed that Mr. Shepard owned 100% of the insurer and that the company was placed in liquidation by the Illinois Department of Insurance. Please explain Mr. Shepard's role as Chairman and CEO of Illinois HealthCare Insurance Company, including when he was appointed to that position, the details relating to the company's subsequent insolvency, a brief history of the company during the time Mr. Shepard served as its Chairman and CEO, and a summary of the financial condition for the years during that period. Please detail the actions taken by the Illinois Department.
- 2) The Form A represents that Mr. Shepard proposes to acquire up to an additional 962,636 shares of Class B stock. The latest financial statement for Mr. Shepard reports marketable securities worth \$80.8 million, cash of \$43 thousand and other non liquid assets. The majority of Mr. Shepard's marketable securities appear to be invested in Donegal stock. The Form A further states that "The Tender Offer is not subject to any financing condition." Please provide a specific list of assets that would be used to make the acquisition. If assets need to be liquidated please list those assets and provide a current market value for the assets.

Gregory M. Shepard
April 22, 2013

- 3) Please provide this office with a copy of Mr. Shepard's response to any letter that he received regarding his Form A filing from the states of Pennsylvania, Iowa, Maryland, Michigan, and Wisconsin.

In addition please note that the Petition for Protective Order must be filed by local counsel prior to the issuance of the order.

Please do not hesitate to call me if you have any questions.

Sincerely,

Wilbert M. (Buddy) Wilson
Wilbert M. (Buddy) Wilson, CPA
Senior Insurance Financial Analyst
Domestic Financial Analysis Section
(804) 371-9793
Buddy.wilson@scc.virginia.gov

Exhibit T

LATHROP & GAGELLP

May 13, 2013

Confidential Treatment Requested

VIA FEDERAL EXPRESS

Wilbert M. (Buddy) Wilson, CPA
Senior Insurance Financial Analyst
Domestic Financial Analysis Section
Bureau of Insurance
State Corporation Commission
Commonwealth of Virginia
Tyler Building
1300 E. Main Street
Richmond, VA 23219

Re: Form A dated March 20, 2013,
Submitted by Gregory M. Shepard,
Case No. INS-2013-00054

Dear Mr. Wilson,

On behalf of our client Gregory M. Shepard, we are writing in response to your letter dated April 30, 2013, which we received on May 6, 2013. Mr. Shepard hereby provides the following additional information in support of his Form A filing.

1. Illinois HealthCare Insurance Company ("Illinois HealthCare") was formed in late 1997 as an Illinois-domiciled life, accident and health insurance company with \$10,000,000 of capital and surplus. Mr. Shepard was the Chairman, President, and 100% shareholder of Illinois HealthCare. Illinois HealthCare was formed to reinsure the business of American Union Life Insurance Company ("AULIC"), another Illinois-domiciled life, accident and health insurance company that wrote primarily individual major medical insurance. In 1997, AULIC was a 100% subsidiary of American Union Insurance Company ("American Union"), an Illinois-domiciled property and casualty insurer that had just sold its independent property and casualty business to Unitrin Inc. Mr. Shepard was Chairman and President of both American Union and AULIC from 1985 to 2004, and Mr. Shepard and his brother each owned 50% of American Union. From 1994 to 2005, American Union, with most of its assets invested in 20th Century Insurance Group ("20th Century") common stock, was considering how it might be purchased by American International Group, Inc. ("AIG"), which owned an increasing equity position in 20th Century. In 2007, AIG acquired the remaining 37% of 20th Century for cash.

Wilbert M. (Buddy) Wilson, CPA
Senior Insurance Financial Analyst
Domestic Financial Analysis Section
Bureau of Insurance
May 13, 2013
Page 2

Illinois HealthCare, Inc. ("IHCI") was also formed in late 1997 as an Illinois HMO. Thomas J. Pliura, MD, and I each owned 50% of IHCI. Mr. Pliura was President and Mr. Shepard was a Vice President of IHCI. Mr. Pliura and Mr. Shepard were the only directors of IHCI. IHCI was formed to be a Managed Medicaid Provider at a time when the State of Illinois had approval from the federal government to involuntarily roll over its entire population of Medicaid recipients from fee-for-service into managed care. IHCI received approval from the Illinois Department of Public Aid to be the only approved Medicaid managed care provider for much of Illinois outside of the Chicago area. In 1997, IHCI was capitalized with \$2,000,000, and it finished the year with \$857,000 in net worth.

In 1998, however, the State of Illinois decided not to proceed with its plans to involuntarily enroll its Medicaid members into managed care. In early 1998, IHCI merged with and into Illinois HealthCare, a transaction which resulted in Mr. Pliura owning 20% and becoming President and Mr. Shepard owning 80% and becoming CEO and Chairman of Illinois HealthCare.

In mid-1999, Illinois HealthCare abandoned its efforts to compete against the Illinois Medicaid fee-for-service market, and in late November of 1999 Mr. Shepard purchased Mr. Pliura's 20% equity share of Illinois HealthCare and Mr. Pliura resigned as President.

From 1997 to 2000, Illinois HealthCare's individual major medical health insurance and its Medicaid business were very unprofitable. In addition, Illinois HealthCare incurred at least \$5 million of start-up expenses for reinsurance ceding commissions to AULIC, a new managed-care computer system and new hardware, and employee recruitment expenses.

Illinois HealthCare's capital and surplus declined from \$9,456,865 on December 31, 1997, to \$5,131,510 on December 31, 2008, and to \$2,555,569 on December 31, 2009. On March 31, 2000, Illinois HealthCare's capital and surplus was below the minimum capital and surplus required by Illinois law. After the Illinois HealthCare's 1st quarter 2000 statement was filed, the Illinois Department of Insurance gave the company until June 30, 2000, to increase its capital and surplus above the statutory minimum. Mr. Shepard and the receiver contacted more than dozen companies in 2000 regarding reinsuring Illinois HealthCare's book of business, but those efforts failed.

2. Mr. Shepard holds, in addition to his shares of Donegal Group Inc. ("Donegal"), one million (1,000,000) shares of a New York Stock Exchange-listed publicly traded company. As of the close of business on May 10, 2013, the price per share was over \$35. (Hence, Mr. Shepard holds over \$35 million of this stock. The average daily trading volume for this stock is over 2 million shares, per Yahoo Finance as of May 10, 2013.) Hence, there is a ready market for Mr. Shepard to liquidate his holdings of this security in order to have the funds required to purchase the Donegal Class B stock pursuant to the tender offer.

Wilbert M. (Buddy) Wilson, CPA
Senior Insurance Financial Analyst
Domestic Financial Analysis Section
Bureau of Insurance
May 13, 2013
Page 3

On behalf of Mr. Shepard, we hereby request confidential treatment for this letter on the grounds that it contains sensitive personal and financial information, the disclosure of which would be harmful to Mr. Shepard.

Please contact the undersigned with any comments or requests for further information.

Sincerely yours,

LATHROP & GAGE LLP

By:


J. Victor Peterson

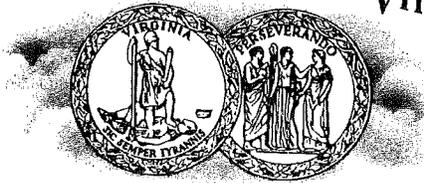
JVP:dmp

cc: Gregory T. Chew (via email)

Exhibit U

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
<http://www.scc.virginia.gov/boi>

May 23, 2013

Gregory M. Shepard
C/o J. Victor Peterson, Esquire
Lathrop & Gage, LLP
155 North Wacker Drive
Chicago, IL 60606-1787

RE: Form A dated March 20, 2013 Case Number INS-2013-00054

Dear Mr. Peterson:

I am in receipt of your letter dated May 15, 2013. Please provide the following additional information as a special report in support of the Form A filing:

- 1) Are there more current financial statements for Mr. Shepard other than the audited financial statements dated September 15, 2012? Section 38.2-1324 A 3 of the Code of Virginia requires unaudited information as of a date not earlier than ninety days prior to the filing of the application. Also, please identify the one million shares of publicly traded stock that Mr. Shepard would use to fund this transaction and provide evidence of ownership.
- 2) The Form A filing Item 5 indicates there are no present plans to merge Donegal Group, Inc. (DGI) but reserves the right to develop plans or proposals in the future to merge DGI. However, the Tender Offer dated March 20, 2013 filed with the SEC and the Shareholder Proposals in March 2012 and December 2012 indicate that Mr. Shepard wants the DGI board to merge or sell the company. If the purpose of the acquisition of additional shares is a merger or sale of DGI in order to maximize shareholder value, why is it not disclosed in the Form A Item 5?
- 3) Please provide an organizational chart for Illinois HealthCare Insurance (Illinois HealthCare), American Union Insurance Company, and American Union Life Insurance Company as of the date that Illinois HealthCare was placed in liquidation. Were any guaranty funds activated as a result of the Illinois HealthCare liquidation and were any policyholder, creditor or guaranty

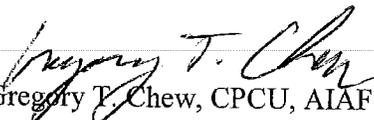
May 23, 2013

funds (if applicable) claims not paid? Was asset recovery action instituted by the liquidator against Mr. Shepard or any of his controlled companies?

- 4) Also, we requested that you provide this office with a copy of Mr. Shepard's response to letters that he received regarding his Form A filing from the states of Pennsylvania, Iowa, Maryland, Michigan, and Wisconsin. We did not receive a response to this request in your letter dated May 15, 2013. Please provide this office with a copy of that correspondence.

Please note that the Form A is not complete and the deemed approval date is tolled with this request for additional information.

Sincerely,


Gregory T. Chew, CPCU, AIAF
Supervisor - Domestic Financial Analysis Section
(804) 371-9214