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RECEIVED
Corporate & Financial Regulation

September 12, 2013

SEP 13 2013

Pennsylvania
Insurance Department

VIA EMAIL AND FEDERAL EXPRESS

Ms. Kimberly A. Rankin
Director, Bureau of Company Licensing and Financial Analysis
Office of Corporate & Financial Regulation
Pennsylvania Insurance Department (the "Department")
1345 Strawberry Square
Harrisburg, PA 17120

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

Dear Ms. Rankin,

On behalf of our client Gregory M. Shepard, we are providing Mr. Shepard's responses to your request for additional information in your letter dated August 23, 2103.

With respect to your initial question, our letter on behalf of Mr. Shepard dated July 19, 2013, stated that Mr. Shepard owns 1,000,000 shares of common stock of Navistar International Corp., which is publicly traded on the New York Stock Exchange under the symbol "NAV." Navistar common stock closed at \$36.58 per share on September 11, 2013, so the aggregate value of Mr. Shepard's 1,000,000 Navistar shares was \$36,580,000 on that date.

Mr. Shepard's Form A requests the Department's approval of his purchasing up to 962,636 additional shares of Class B common stock ("Class B Shares") of Donegal Group Inc. ("DGI"). The price of Class B Shares closed at \$19.64 per share on September 11, 2013. At that price, purchasing all of the 962,636 Class B Shares for which Mr. Shepard is seeking the Department's approval would cost Mr. Shepard \$18,906,171.

If the Department approves Mr. Shepard's Form A, he intends to sell an amount of his Navistar shares that is sufficient to generate the funds required to purchase up to 962,636 Class B Shares. In the unlikely event that the price of Navistar stock decreases and/or the price of Class B Shares increases so much that the proceeds from his sale of Navistar shares is not sufficient to generate the funds required to purchase all 962,636

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Class B Shares, then Mr. Shepard could simply purchase fewer than 962,636 additional Class B Shares. Therefore, we respectfully submit that a complete list of Mr. Shepard's assets is not necessary for the Department to determine that he has sufficient assets to generate the funds required to purchase additional Class B Shares.

Nonetheless, Mr. Shepard has provided the Department with unredacted versions of his audited financial statements. Moreover, Mr. Shepard has already disclosed to the Department a complete listing of companies whose stock he owns, which is as follows: 1,000,000 Navistar shares (closing price \$36.58 per share on September 11, 2013); 3,602,900 shares of Class A common stock of DGI (closing price \$13.77 per share on September 11, 2013); and 397,100 Class B Shares (closing price \$19.64 per share on September 11, 2013).

* * *

Mr. Shepard's responses to your additional questions in your August 23 letter are as follows. For your convenience, your questions are reproduced in italics.

1. *Since Mr. Shepard is no longer affiliated with any insurance companies, what happened to his holdings in American Union Insurance Companies and all subsidiaries?*

Mr. Shepard's 50% ownership was redeemed out of American Union Insurance Company ("AUIC") on March 6, 2009 for 50% of policyholders' surplus, or \$60.9 million. AUIC had no subsidiaries or affiliates after 2000.

2. *We don't understand what AIG's interest and subsequent acquisition of 20th Century Group has to do with the discussion.*

AUIC was considering how AUIC and its share of 20th Century Insurance Group stock could be acquired by AIG, which is a transaction that almost happened several different times in various ways between 1998 and 2004.

3. *In lines 2 and 3 of page 9, do you mean 1998 instead of 2008 and 1999 instead of 2009?*

Yes. The relevant lines of our July 19 letter stated 2008 instead of 1998 and 2009 instead of 1999 in error.

4. *How did the sale by American Union Life Insurance Company of Union Auto Indemnity Company and most of its property and casualty operations contribute to*

the liquidation of Illinois HealthCare when Illinois HealthCare was formed in late 1997 and the sale occurred on January 1, 1997.

Please see the attached **Exhibit A**, which covers the group of companies affiliated with American Union Life Insurance Company (“AULIC”) referred to collectively as Union Insurance Group, from 1996 to 2000. The operating expenses of this group of companies were allocated primarily based on the premiums of the group of companies. In 1996 the property-casualty premiums earned for this group were \$35,466,612 (65% of the total premiums earned), and the life, accident and health premiums earned were \$19,214,377 (35% of the total premiums earned). Then, on January 1, 1997, AULIC sold Union Automobile Indemnity Company to Unitrin, Inc., which resulted in the property-casualty premiums earned dropping to 3% of the 1997 total premiums earned, which in turn caused the property-casualty expense ratio to increase from 38.2% in 1996 to 84.2% in 1997 and the life, accident and health expense ratio to increase from 34.2% in 1996 to 44.4% in 1997. In 1998 and 1999 the property-casualty expense ratio increased further to 120.6% and then decreased to 67.1%, and the life, accident and health expense ratio increased further from 47.7% to 59.7%. The expense ratios increased because much of the overhead and costs shared by the companies in the Union Insurance Groups for property-casualty before Union Automobile Indemnity Company was sold could not be reduced sufficiently after the sale to operate efficiently, given the premium decline attributable to the sale. This is what Mr. Shepard meant when he said that the sale by AULIC of Union Auto Indemnity Company contributed to the subsequent liquidation of Illinois HealthCare.

5. *Are the terms “American Union Life” and “AULIC” referring to the same company?*

Yes.

6. *A statement on page 10 indicates that there were nine liquidations in Illinois in 2000, what was the total number of insurers licensed in Illinois in 2000?*

We do not know the answer or how to find out. However, we can tell you that we obtained the information about the nine liquidations of Illinois insurance companies in 2000 from the Closed Company List on the website of the Illinois Office of the Special Deputy Receiver (link here: http://www.osdchi.com/company_menu_closed.htm).

7. *The final paragraph on page 10 indicated that Mr. Shepard saved 63,000 policies by the sale of Union Automobile Indemnity Company, what was the profit to AULIC for the sale?*

\$19,258,614, as shown on **Exhibit B**.

8. *Please provide a rationale for the decision to walk away from Illinois Healthcare instead of managing the company through a run-off process?*

During the first four months of 2000, Illinois HealthCare Insurance Company (“Illinois HealthCare”) was in contact with the Illinois Department of Insurance (the “IDOI”) regarding its profitability, business plan, and maintaining its capital and surplus above the Illinois minimum of \$1,500,000. Illinois HealthCare began 2000 with \$2,555,569 in capital and surplus. On or about May 1, 2000, Illinois HealthCare filed its 1st quarter 2000 quarterly statement showing that its capital and surplus had declined to \$916,402. Approximately 10 days later, Illinois HealthCare received a letter from the IDOI stating that Illinois HealthCare must increase its capital and surplus to more than \$1,500,000 by June 30, 2000, or it would be placed into liquidation.

There was never any discussion between Illinois HealthCare and the IDOI regarding any possibility of Mr. Shepard’s managing Illinois HealthCare through a run-off process. Moreover, Illinois HealthCare was advised by its experienced regulatory counsel that the options available to Illinois HealthCare were the same as those available to other Illinois health care insurance providers that faced insolvency at around the same time, including American Health Care Providers, Inc., which was placed in liquidation by an order of the Circuit Court of Cook County on May 11, 2000, following a four-month battle with the IDOI.

On June 30, 2000, American Union Insurance Company (“AUIC”) had only six employees, including Mr. Shepard and his brother, Tracy Shepard, who jointly owned AUIC. Tracy Shepard wanted no involvement with Illinois HealthCare. On June 30, 2000, Mr. Shepard (i.e., Gregory Shepard) was the sole owner of Illinois HealthCare, and he owed \$19,371,100 to Commerce Bank, \$21,262,000 to AUIC, and \$600,000 to his father’s trust for a total of \$41,233,100, which prevented him from borrowing any additional funds to contribute to Illinois HealthCare.

* * *

As requested, attached hereto as **Exhibit C** is a restated Form A, which incorporates the amendments contained in our August 1, 2013 letter on behalf of Mr. Shepard and in our April 25, 2013 letter on behalf of Mr. Shepard. Attached hereto as **Exhibit D** is a redline comparison of the restated Form A against the original Form A dated March 20, 2013.

* * *

Lastly, your August 23 letter asks for Mr. Shepard’s response to the comments provided by DGI in Mr. Pratter’s August 21 letter to the Department. Mr. Shepard rejects

DGI's self-serving mischaracterization of the continuation of Mr. Shepard's Form A application as an "entirely different transaction." Mr. Shepard respectfully submits that whether Mr. Shepard plans to purchase such additional shares through a tender offer or by some other means is not relevant to the Department's determination of whether to approve his Form A. In this regard, Mr. Shepard notes that almost all of the amendments to his Form A contained in our August 1, 2013 letter on his behalf are simply deletions of language concerning the tender offer, which had just expired.

In prior correspondence with the Department, Mr. Shepard has repeatedly addressed DGI's allegation that his motives are inconsistent. In response, Mr. Shepard refers to such prior correspondence and reiterates that there is no inconsistency between (1) the fact that Mr. Shepard would not control DGI, even if the Department approves his Form A application for the Department's permission to purchase up to 962,636 additional Class B Shares, which would increase his stake in DGI to 22.7% of the aggregate voting power of its two classes of stock, when Donegal Mutual Insurance Company would continue its overwhelming control of DGI with 65.9% of the aggregate voting power of DGI's outstanding stock, and (2) Mr. Shepard's past statements of his belief that DGI's stockholders would receive greater value for their DGI shares as a result of a strategic merger of DGI into another mutual property and casualty insurer, although Mr. Shepard has no specific plans or proposals for such a transaction and certainly no ability to cause such a transaction, given his lack of control of DGI.

The "offer" made by Mr. Shepard in his August 2, 2013 letter proposing an amicable transaction was rejected by the Boards of Directors of DGI and Donegal Mutual Insurance Company, which renders Mr. Pratter's objection here moot.

Mr. Pratter does score a rhetorical point by noting our inadvertent failure, in our August 1, 2013 letter on behalf of Mr. Shepard amending his Form A, to delete part of a sentence relating to the expired tender offer. We congratulate him and have now deleted the offending clause (i.e., "and because there is no efficient way to acquire a large number of shares through the trading market") from the restated version of Mr. Shepard's Form A that is attached hereto as **Exhibit C**. Mr. Shepard indeed sought at first to purchase the additional 962,636 Class B Shares through a tender offer for reasons of efficiency.

Mr. Pratter's demand for Mr. Shepard to update his financial statements on a quarterly basis is not called for in the regulations and goes beyond the scope of the Form A process.

Answering further, DGI needs dissenting shareholders. This is clear from the abnormally large number of stock options granted to insiders by DGI, which is under the

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control of a single individual, the CEO. However, DGI does not want dissenting shareholders, which is what DGI's opposition to Mr. Shepard's Form A application is fundamentally about.

* * *

Thank you for your attention to this matter. If you have any other questions or require further information, please do not hesitate to contact the undersigned.

Very truly yours,

Lathrop & Gage LLP

By:


J. Victor Peterson, Esq.

EXHIBIT A

All Lines Consolidated to Property-Casualty Statement

	1996				1997				1998				1999				2000				09/31/00							
	Union Auto Insurance	Private State Farmers	Union Auto Indemnity	% of Total UIG	American Union Life	% of Earned Premiums	% of Total UIG	Direct Auto Insurance	Direct Auto Indemnity	Sub-Total	% of Earned Premiums	% of Total UIG	American Union Life	% of Earned Premiums	% of Total UIG	Sub-Total	% of Earned Premiums	Illinois HealthCare Inc.	Illinois HealthCare Ins. Co.	Sub-Total	% of Earned Premiums	% of Total	Illinois HealthCare Inc.	Illinois HealthCare Ins. Co.	Sub-Total	% of Earned Premiums	% of Total	UIG Total
1 Premiums earned	481,501	158,220	34,826,891	35,466,612	19,214,377	64,86	58,936	522,656	581,592	3.07	54,686,989	18,957,985	18,957,985	97.02	19,539,577	18,957,985	0	0	18,957,985	97.02	19,539,577	0	0	0	0	18,957,985	97.02	19,539,577
2 Losses incurred	475,140	128,256	24,355,922	24,959,318	10,773,138	70.37	24,504	225,254	249,758	42.94	35,739,435	12,170,389	12,170,389	0.00	12,430,147	12,170,389	0	0	12,170,389	0.00	12,430,147	0	0	0	0	12,170,389	0.00	12,430,147
3 Loss expenses incurred	66,664	12,324	3,899,705	3,869,693	0	0.00	3,370	28,989	32,359	5.56	3,899,705	7,261,716	7,261,716	0.00	8,881,665	7,261,716	0	0	7,261,716	0.00	8,881,665	0	0	0	0	7,261,716	0.00	8,881,665
4 Other underwriting expenses incurred	305,346	120,942	8,899,392	9,319,680	6,574,493	34.21	168,276	289,208	457,484	78.66	15,893,173	1,356,322	1,356,322	0.00	1,356,322	1,356,322	0	0	1,356,322	0.00	1,356,322	0	0	0	0	1,356,322	0.00	1,356,322
5 Aggregate write-ins for underwriting deductions	0	0	0	0	0	0.00	0	0	0	0.00	0	0	0	0.00	0	0	0	0	0	0.00	0	0	0	0	0	0	0	0
6 TOTAL underwriting deductions	847,150	261,522	17,040,019	18,148,691	17,346,631	68.74	196,100	543,451	739,551	127.16	55,495,332	19,432,105	19,432,105	3.59	21,384,131	19,432,105	0	0	19,432,105	3.59	21,384,131	0	0	0	0	19,432,105	3.59	21,384,131
7 Net investment income earned	365,649	-103,302	2,213,128	2,482,474	1,867,746	9.72	-137,164	-20,795	-157,959	-27.16	81,325,350	831,785	831,785	0.00	831,785	831,785	0	0	831,785	0.00	831,785	0	0	0	0	831,785	0.00	831,785
8 Net realized capital gains or (losses)	6,833,229	288,932	2,348,180	9,469,341	1,261,794	6.28	3,327,522	42,003	42,003	0.20	1,261,794	504,537	504,537	0.00	504,537	504,537	3,582	3,582	504,537	0.00	504,537	3,582	3,582	0	0	504,537	0.00	504,537
9A Net investment gain or (loss)	6,833,229	-1,177,735	3,524,772	9,200,266	-1,271,491	-5.94	3,327,522	203,691	3,531,213	1.36	7,928,175	1,356,322	1,356,322	0.00	1,356,322	1,356,322	3,582	3,582	1,356,322	0.00	1,356,322	3,582	3,582	0	0	1,356,322	0.00	1,356,322
9B Net gain or (loss) from agents or premium balances	0	443	0	443	0	0.00	0	0	0	0.00	0	0	0	0.00	0	0	0	0	0	0.00	0	0	0	0	0	0	0	0
10 Finance and service charges not included in premiums	0	2,540	230,308	232,848	0	0.00	0	2,282	2,282	0.01	232,848	0	0	0.00	0	0	0	0	2,282	0.01	2,282	0	0	0	0	2,282	0.01	2,282
11 Aggregate write-ins for miscellaneous income	5,000	0	0	5,000	30,689	0.14	0	0	0	0.00	35,689	0	0	0.00	0	0	0	0	35,689	0.14	35,689	0	0	0	0	35,689	0.14	35,689
12 TOTAL other income	5,000	2,097	180,498	187,595	30,689	0.14	0	2,248	2,248	0.01	218,284	11,623	11,623	0.00	11,623	11,623	0	0	11,623	0.00	11,623	0	0	0	0	11,623	0.00	11,623
13A Dividends to policyholders	6,492,580	-1,728,941	4,492,142	6,705,781	626,944	3.00	3,190,358	185,144	3,375,502	1.58	7,332,725	873,825	873,825	0.00	873,825	873,825	3,582	3,582	873,825	0.00	873,825	3,582	3,582	0	0	873,825	0.00	873,825
13B Net income, after dividends to policyholders	86,535	9,877	85,401	191,713	676,944	3.20	156,796	10,063	166,859	0.79	693,357	48,997	48,997	0.00	48,997	48,997	3,582	3,582	48,997	0.00	48,997	3,582	3,582	0	0	48,997	0.00	48,997
15 Federal and foreign income taxes incurred	6,398,245	-1,288,313	1,405,741	6,514,668	155,900	0.74	3,033,582	173,631	3,207,213	1.50	6,672,368	825,128	825,128	0.00	825,128	825,128	3,045	3,045	825,128	0.00	825,128	3,045	3,045	0	0	825,128	0.00	825,128

All Lines Consolidated to Property-Casualty Statement

	1998				1999				2000				09/31/00		
	American Union	% of Total UIG	American Union Life	% of Earned Premiums	Sub-Total	% of Total UIG	American Union Life	% of Earned Premiums	Illinois HealthCare Ins. Co.	Sub-Total	% of Total UIG	American Union Life	% of Earned Premiums	Illinois HealthCare Ins. Co.	% of Earned Premiums
1 Premiums earned	562,760	29,119	17,099,942	6,687,732	23,187,674	97.63	23,187,674	68.05	19,857,331	24,846,497	97.95	25,365,723	66.53	6,268,770	87.41
2 Losses incurred	560,110	13.82	11,999,070	4,581,165	15,780,235	77.96	15,780,235	0.00	12,432,884	15,607,693	72.82	15,852,334	8.89	5,479,650	87.41
3 Loss expenses incurred	0	0.00	6,806,489	4,252,391	11,060,880	47.70	11,060,880	0.00	0	0	0.00	49,368	46,040	0.00	0.00
4 Other underwriting expenses incurred	0	0.00	18,007,559	8,833,556	26,841,115	115.76	26,841,115	0.00	11,492,243	14,841,890	59.73	15,141,123	1,312,038	2,746,646	43.81
5 Aggregate write-ins for underwriting deductions	0	0.00	-907,617	-2,745,824	-3,653,441	-15.76	-3,653,441	0.00	0	0	0.00	0	0.00	0.00	0.00
6 TOTAL underwriting deductions	0	0.00	8,936,942	5,537,571	12,474,456	58.00	12,474,456	0.00	0	0	0.00	0	0.00	0.00	0.00
7 Net investment gain or (loss)	413,265	175.44	936,001	777,295	1,213,296	5.94	1,213,296	-15.76	262,291	536,662	22.55	98,09	31,042,825	1,613,825	131.23
8 Net realized capital gains or (losses)	3,573,929	155.44	1,935,871	0	1,935,871	9.05	1,935,871	0.00	80,585	80,585	0.36	4,443,004	2,841,759	211.65	131.23
9A Net investment gain or (loss)	12,312,301	589.44	2,871,872	277,295	3,149,167	14.28	3,149,167	0.00	342,876	617,247	2.81	20,885,933	2,841,759	151,950	131.23
9B Net gain or (loss) from agents or premium balances	0	0.00	0	0	0	0.00	0	0.00	0	0	0.00	0	0.00	0.00	0.00
10 Finance and service charges not included in premiums	2,240	1.00	0	0	2,240	0.01	2,240	0.00	0	0	0.00	0	0.00	0.00	0.00
11 Aggregate write-ins for miscellaneous income	2,189	1.00	693,070	4,516	697,259	3.15	697,259	0.00	19,587	19,587	0.09	1,260,939	2,841,759	17,962.68	13.12
12 TOTAL other income	11,901,225	542.44	2,661,841	2,473,045	188,796	0.86	188,796	0.00	3,705,313	4,966,252	22.73	20,555,795	1,745,765	11,736,238	13.12
13A Dividends to policyholders	0	0.00	2,661,841	2,473,045	188,796	0.86	188,796	0.00	0	0	0.00	0	0.00	0.00	0.00
13B Net income, after dividends to policyholders	11,901,225	542.44	755,369	2,233	757,501	3.42	757,501	0.00	3,705,313	4,966,252	22.73	20,555,795	1,745,765	11,736,238	13.12
15 Federal and foreign income taxes incurred	10,738,581	489.44	1,806,472	2,475,577	569,105	2.58	569,105	0.00	3,710,265	4,973	0.02	14,077,759	2,733,296	1,736,238	13.12

EXHIBIT B

Unitrin Inc. stock sales and profits and (losses) on Union Automobile Indemnity Company

Union Automobile Ind. Co. Company	Purchase Date	Exchange or Sale Date	Number of shares	Consideration	Actual Cost	Profit or (loss) on disposal
American Union Life Ins. Co.	01/20/95	12/30/96	3,800	7,600,000	10,133,333	-2,533,333
Prairie State Farmers Ins. Co.	01/20/95	12/30/96	2,200	4,400,000	5,866,667	-1,466,667
Union Automobile Ins. Co.	01/20/95	01/01/97	10,000	2,000,000	2,000,000	0
Sub-Total						-4,000,000

Unitrin Inc. (Kemper Corp.) Company	Exchange Date	Sale Date	Number of shares	Consideration	Actual Cost	Profit or (loss) on disposal
Union Automobile Ins. Co.	01/01/97		342,000		2,000,000	
Union Automobile Ins. Co.	01/01/97	07/31/98	-41,379	2,700,000	241,982	2,458,018
Union Automobile Ins. Co.	01/01/97	Various	-300,621	22,558,614	1,758,018	20,800,596
Sub-Total						23,258,614
TOTAL						19,258,614

EXHIBIT C

FORM A

**STATEMENT REGARDING THE ACQUISITION OF CONTROL OF
A DOMESTIC INSURANCE COMPANY**

**ATLANTIC STATES INSURANCE COMPANY,
a Pennsylvania insurance company and wholly owned subsidiary of**

**DONEGAL GROUP INC.,
a Delaware corporation**

BY

**GREGORY M. SHEPARD,
an individual**

**Filed with the PENNSYLVANIA INSURANCE COMMISSIONER
and sent to Donegal Group Inc.**

March 20, 2013

Address notices and correspondence concerning this statement to

**J. Victor Peterson, Esq.
Lathrop & Gage LLP
100 North Riverside Plaza, Suite 2100
Chicago, Illinois 60606-1501
(312) 920-3337
vpeterson@lathropgage.com**

ITEM 1. INSURER AND METHOD OF ACQUISITION

State the name, NAIC code number and address of the domestic insurer to which this application relates and a brief description of how control is to be acquired.

Introduction

This application relates to Atlantic States Insurance Company, a Pennsylvania property and casualty insurance company ("Atlantic States"). Atlantic States' NAIC code number is 22586. Atlantic States' statutory home office is located at 1955 River Road, Marietta, Pennsylvania 17547 and its main administrative office is also located at 1955 River Road, Marietta, Pennsylvania 17547. The telephone number for its statutory home office is (717) 426-1931. The telephone number for its main administrative office is (717) 426-1931.

Atlantic States is a wholly owned subsidiary of Donegal Group Inc., a Delaware corporation ("DGI"). The principal office of DGI is located at 1955 River Road, Marietta, Pennsylvania 17547. DGI has two classes of common shares: Class A common stock, par value \$0.01 per share, one-tenth of a vote per share, which trades on the NASDAQ under the symbol DGICA ("Class A Shares"); and Class B common stock, par value \$0.01 per share, one vote per share, which trades on the NASDAQ under the symbol DGICB ("Class B Shares"). DGI does not have cumulative voting.

Donegal Mutual Insurance Company, a Pennsylvania property and casualty insurance company ("Donegal Mutual"), owns approximately 38.7% of the Class A Shares and approximately 75.6% of the Class B Shares with a total voting power of 65.9%. The principal office of Donegal Mutual is 1955 River Road, Marietta, Pennsylvania 17547. Donegal Mutual solely controls DGI and its wholly owned Pennsylvania subsidiary Atlantic States.

Gregory M. Shepard, an individual ("Shepard"), owns approximately 18.0% of the Class A Shares and 7.1% of the Class B Shares, with a total voting power of 9.99% (because the Class A Shares have one-tenth of a vote and the Class B Shares have one vote). Shepard has been a holder of both Class A Shares and Class B Shares since 2005.

However, even if Shepard were to acquire 962,636 additional Class B Shares, he would then own Class A Shares and Class B Shares with an aggregate of 22.7% of DGI's combined voting power. Therefore, he would still not have the power to influence or control DGI or Atlantic States. Given the overwhelming control of DGI by Donegal Mutual through its ownership of shares with almost 2/3 of the voting power of DGI's outstanding stock, there is no way that Shepard could in fact control DGI. As discussed in greater detail below, Shepard would still have a minority percentage of the voting power of DGI's outstanding stock.

DGI is an insurance holding company for 7 wholly owned subsidiary property and casualty insurers domiciled in Pennsylvania, Iowa, Maryland, Michigan, Virginia and Wisconsin. DGI's control of its subsidiary insurers has been obtained in the various states over a period of years, as follows: Atlantic States Insurance Company (PA domiciled; NAIC Code No. 22586), 1986; Southern Insurance Company of Virginia (VA domiciled; NAIC Code No. 26867), 1988; Peninsula Insurance Company and Peninsula Indemnity Company (both MD

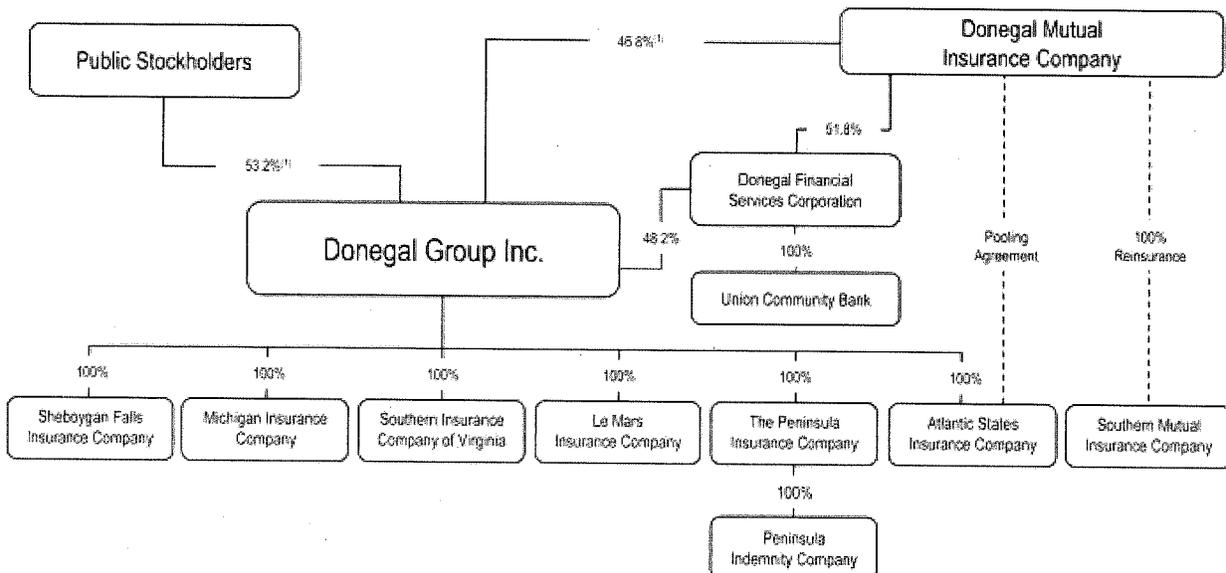
domiciled; NAIC Code Nos. 14958 and 39900, respectively), 2004; Le Mars Insurance Company (IA domiciled; NAIC Code No. 14389), 2004; Sheboygan Falls Insurance Company (WI domiciled; NAIC Code No. 15148), 2008; and Michigan Insurance Company (MI domiciled; NAIC Code No. 10857), 2010.

Recognizing that the acquisition of 10% or more of the outstanding capital stock of an insurer or its holding company creates a rebuttable presumption of a change in control, Shepard on February 9, 2006, filed a Disclaimer of Control with the Pennsylvania Department of Insurance requesting approval to purchase up to 14.99% of DGI's aggregate voting securities. Shepard's Disclaimer of Control maintained that allowing him to purchase up to 14.99% of DGI's aggregate voting securities would not amount to control, since Donegal Mutual then had the right to vote approximately 62% of the aggregate voting power of the Class A Shares and the Class B Shares. On February 16, 2006, Shepard received approval of his Disclaimer of Control from the Pennsylvania Department of Insurance.

Subsequently, Shepard filed Disclaimers of Control with the 3 other state insurance departments where at the time DGI had domiciled subsidiary insurance companies, i.e. the Iowa Insurance Division, Maryland Insurance Administration, and the Virginia Bureau of Insurance, requesting approval to purchase up to 14.99% of DGI's aggregate voting securities. Approval from the insurance commissioners of Maryland and Virginia was received in the second quarter of 2007. In the first quarter of 2009, the Iowa Insurance Division denied Shepard's Disclaimer of Control, stating that Shepard needed to file a Form A to obtain approval to purchase up to 14.99% of DGI's aggregate voting securities. Shepard at the time declined to file a Form A in Iowa. Accordingly, Shepard has not acquired more than 9.99% voting control of DGI.

Information About the DGI Structure

The following chart, which appears on page 3 of Annual Report on Form 10-K for the year ended December 31, 2012 ("DGI's 2012 10-K"), shows the organizational structure of DGI and its subsidiaries and the relation of Donegal Mutual thereto. DGI's 2012 10-K is attached hereto as **Exhibit B**.



Information About the Proposed Purchases

Mr. Shepard is acquiring shares because he believes that DGI's shares are undervalued.

If Shepard acquires an additional 962,636 Class B Shares, his Class A Shares and Class B Shares would represent approximately 22.7% of the combined voting power of DGI's outstanding stock. By contrast, Donegal Mutual owns Class A Shares and Class B Shares that represent approximately 65.9% of the combined voting power of DGI's outstanding stock.

Financial Information Overview

The following chart presents a snapshot of certain financial information about DGI, Donegal Mutual, and each of DGI's subsidiaries during the 2012 calendar year (all amounts rounded to the nearest \$1,000), as reported in DGI's 2012 10-K.

Company	2012 Statutory Income	2012 Statutory Capital and Surplus
Donegal Mutual Insurance Company	<i>not stated in DGI's 2012 10-K</i>	\$187.7 million
Donegal Group Inc.	\$17,535,000	\$361,968,000
Atlantic States Insurance Company	\$12,508,000	\$180,466,000
Southern Insurance Company of Virginia	(\$1,540,000)	\$58,841,000
Peninsula Insurance Company	\$1,479,000	\$42,471,000
Le Mars Insurance Company	\$2,423,000	\$26,803,000
Michigan Insurance Company	\$2,698,000	\$42,443,000
Sheboygan Falls Insurance Company	(\$33,000)	\$10,944,000

Information About Shepard's DGI Holdings

On August 31, 2009, Shepard filed a Statement of Beneficial Ownership on Schedule 13G with the SEC, reporting that he owned 1,000,000 Class A Shares and 294,000 Class B Shares representing 5.02% and 5.27% respectively of the June 30, 2009 outstanding shares.

On February 16, 2010, Shepard filed Amendment No. 1 to his Schedule 13G with the SEC, reporting that he owned 1,674,750 Class A Shares and 325,250 Class B Shares as of December 31, 2009, representing 8.41% and 5.83% respectively of the December 31, 2009 outstanding shares.

On July 12, 2010, Shepard filed a Statement of Beneficial Ownership on Schedule 13D with the SEC, reporting that he owned 3,140,000 Class A Shares and 360,000 Class B Shares representing 15.77% and 6.46%, respectively, of the March 31, 2010 outstanding Class A Shares and Class B Shares. This Schedule 13D is attached hereto as **Exhibit C**.

On December 10, 2010, Shepard filed Amendment No. 1 to his Schedule 13D with the SEC, reporting that he owned 3,251,000 Class A Shares and 373,366 Class B Shares representing 16.26% and 6.70% respectively of the October 31, 2010 outstanding shares, for a total voting power of 9.2% (based on the number of shares then outstanding). Attached as exhibits to this filing were 3 letters dated December 9, 2010 from the Shepard to the Pennsylvania Department, Maryland Insurance Administration, and the Virginia Bureau of Insurance withdrawing his previously filed Disclaimer of Control filings. This Schedule 13D/A#1 is attached hereto as **Exhibit D**.

On May 24, 2011, Shepard filed Amendment No. 2 to his Schedule 13D with the SEC, reporting that he owned 3,513,220 Class A Shares and 382,000 Class B Shares representing 17.53% and 6.85% respectively of the April 29, 2011 outstanding shares of 20,043,002 Class A Shares and 5,576,775 Class B Shares, for a total voting power of 9.7% (based on the number of shares then outstanding). This Schedule 13D/A#2 is attached hereto as **Exhibit E**.

On November 9, 2011, Shepard filed Amendment No. 3 to his Schedule 13D with the SEC, reporting that he owned 3,602,900 Class A Shares and 397,100 Class B Shares representing 18.04% and 7.12% respectively of the October 31, 2011 outstanding shares of 19,975,609 Class A Shares and 5,576,775 Class B Shares, for a total voting power of 9.99% (based on the number of shares then outstanding). This Schedule 13D/A#3 is attached hereto as **Exhibit F**.

On November 8, 2012, Shepard filed Amendment No. 4 to his Schedule 13D with the SEC, reporting that he owned 3,602,900 Class A Shares and 397,100 Class B Shares representing 17.96% and 7.12% respectively of the October 31, 2012 outstanding shares of 20,062,899 Class A Shares and 5,576,775 Class B Shares, for a total voting power of 9.99% (based on the number of shares then outstanding). This Schedule 13D/A#4 is attached hereto as **Exhibit G**.

On March 20, 2013, Shepard commenced the Tender Offer, filed this Form A with the Insurance Commissions in Pennsylvania, Iowa, Maryland, Michigan, Virginia and Wisconsin, where DGI's insurance subsidiaries are currently domiciled. The Schedule TO filed by Shepard on March 20, 2013, also constituted an amendment to his Schedule 13D, as permitted by General Instruction G to Schedule TO. As noted above, this Schedule TO and the accompanying Offer to Purchase are attached hereto as **Exhibit A**.

On July 31, 2013, the Tender Offer referenced in the immediately preceding paragraph expired without Shepard purchasing any Class B Shares in connection therewith.

Information About DGI and Donegal Mutual

DGI, through its subsidiaries and affiliates, provides property-casualty insurance products through 2,500 independent insurance agencies in 22 states. Insurance products are marketed primarily in the primarily in the Mid-Atlantic, Midwest, New England and Southeast regions of

the United States. Donegal Mutual organized DGI in 1986.

Donegal Mutual provides facilities, management and other services to DGI and its insurance subsidiaries through an expense sharing agreement. Donegal Mutual organized as a mutual fire insurance company in Pennsylvania in 1889. According to DGI's 2012 10-K, at December 31, 2012, Donegal Mutual had admitted assets of \$350.7 million and policyholders' surplus of \$187.7 million, as well as total liabilities of \$162.9 million, including reserves for net losses and loss expenses of \$46.2 million and unearned premiums of \$39.3 million.

As described in DGI's 2012 10-K, in 2000 DGI and Donegal Mutual formed Donegal Financial Services Corporation ("DFSC") as a unitary thrift holding company and its wholly owned subsidiary, Province Bank FSB, as a federal savings bank. In May 2011, DFSC merged with Union National Financial Corporation ("UNNF"), with DFSC as the surviving company in the merger. Under the merger agreement, Province Bank FSB and Union National Community Bank, which UNNF owned, also merged to form Union Community Bank ("UCB"). UCB is a federal savings bank with 13 branch offices in Lancaster County, Pennsylvania, and \$510.0 million in assets at December 31, 2012. Because DGI and Donegal Mutual together own all of the outstanding capital stock of DFSC, the Federal Reserve Bank of Philadelphia (the "FRB") regulates DGI and Donegal Mutual as unitary savings and loan holding companies. As a result, DGI and Donegal Mutual are subject to regulation by the FRB under the holding company provisions of the federal Home Owners' Loan Act. UCB, as a federally chartered and insured stock savings association, is subject to regulation and supervision by the Office of the Comptroller of the Currency and by the Federal Deposit Insurance Corporation.

DGI has two classes of common stock which trade on the NASDAQ. The Class A Shares, have one-tenth of a vote per share, and the Class B Shares have one vote per share. As of March 1, 2013, according to DGI's 2012 10-K, DGI had 20,050,649 Class A Shares (with 2,005,064 votes) and 5,576,775 Class B Shares (with 5,576,775 votes) outstanding, with total combined votes of the Class A Shares and Class B Shares of 7,581,839.

Donegal Mutual as of March 1, 2013, owns 7,755,953 Class A Shares (representing 38.7% of the outstanding Class A Shares) with 775,595 votes and 4,217,039 Class B Shares (representing 75.6% of the outstanding Class B Shares) with 4,217,039 votes. By combining the Class A and Class B votes, Donegal Mutual has the authority to cast 4,992,634 or 65.9% of the 7,581,839 total combined votes.

The other public shareholders (besides Donegal Mutual and Shepard) owned as of March 1, 2013, 8,691,796 Class A Shares (representing 43.3% of the outstanding Class A Shares) with 869,179 votes and as of March 1, 2013, 962,636 Class B Shares (representing 17.3% of the outstanding Class B Shares) with 962,636 votes. By combining the Class A and Class B votes, the other public shareholders as of November 14, 2012, have the authority to cast 1,831,815 or 24.1% of the 7,581,839 total combined votes.

In addition, according to DGI's 2012 10-K, as of December 31, 2012, there were 6,700,825 Class A Shares subject to options outstanding under DGI's stock option plans. Based on the foregoing, there would be 26,751,474 Class A Shares outstanding and 15,392,621 Class A Shares owned by public shareholders (other than Donegal Mutual and Shepard), assuming the

exercise of all outstanding stock options and the non issuance of additional shares available for issuance under the stock option plans.

Background with the Federal Reserve Board

On December 21, 2012, DGI sent a petition to the Board of Governors of the Federal Reserve System for it to commence an enforcement action against Shepard, alleging that Shepard failed to submit a required application rebutting the rebuttable presumption of control of DGI resulting from Shepard's current ownership of more than 10% of DGI's Class A Shares. The Federal Reserve Board regulates acquisitions of controlling interests in savings and loan holding companies, such as DGI as a result of its indirect ownership of Union Community Bank, a federal savings bank – despite the fact that Union Community Bank has filed an application to convert to a state savings bank charter, which would be regulated by the Pennsylvania Department of Banking and the FDIC, although DGI would continue to be regulated by the Federal Reserve Board as a savings and loan holding company.

The petition seeks regulatory enforcement by the Federal Reserve Board despite its stated policy not to reconsider determinations made by the U.S. Treasury Department's Office of Thrift Supervision (the "OTS"), a predecessor regulator to the Federal Reserve Board. The Federal Reserve Board stated this policy in a release announcing the adoption of Regulation LL published in the Federal Register on September 13, 2011 (Vol. 76, No. 177, at page 56,501), as follows: "The Board does not anticipate revisiting ownership structures previously approved by the OTS. The Board would apply its rules only to new investments and would only reconsider the particular structures of past investments approved by the OTS if the company proposes a material transaction, such as an additional expansionary investment, significant recapitalization, or significant modification of business plan." In a letter to Shepard dated February 28, 2011, the OTS concluded that, despite his owning more than 10% of a class of DGI shares, he was "not in violation of the rules at this time."

The background leading to the OTS's determination that Shepard was not in violation of the relevant "acquisition of control" regulations, a determination which the Federal Reserve Board has stated that it is its policy not to reconsider, is as follows. Although Shepard always believed that he owned less than 10% of the voting power of DGI, in a letter dated November 24, 2010, he was informed by the OTS that he was in violation of acquisition of control regulations, because he owned 18% of DGI's Class A Shares. In a letter to the OTS dated December 17, 2010, an attorney for Shepard explained that, due to the Class A Shares each having only one-tenth (1/10) of a vote, Shepard's Class A Shares and Class B Shares together represented (at that time) only 9.2% of the total votes for the outstanding Class A Shares and Class B Shares. This letter also explained that Mr. Shepard's indirect ownership of DGI's indirect subsidiary Province Bank FSB, which was subsequently renamed Union Community Bank FSB, was approximately 4.4%. As noted above, in a letter to Shepard dated February 28, 2011, the OTS concluded that Shepard was "not in violation of the rules at this time." In a letter to the OTS dated March 3, 2011, an attorney for Shepard confirmed his understanding that the position of the OTS was that the Class A Shares and Class B Shares would be treated as one class of stock for purposes of the Change in Bank Control Act and the regulations implementing it. This letter also acknowledged that, if in the future Shepard were to purchase additional shares of DGI stock such that he would own Class A Shares and Class B Shares with a combined voting power of 10% or more, he

would first be required to obtain regulatory approval under the relevant “acquisition of control” regulations. Shepard acknowledges that the Tender Offer requires regulatory approval under the relevant “acquisition of control” regulations and he intends to comply fully with all applicable rules and regulatory orders.

On January 2, 2013, Shepard sent a letter to the Board of Governors of the Federal Reserve System opposing DGI’s petition dated December 21, 2012, described above, for an enforcement action against Shepard for allegedly violating “acquisition of control” regulations under the Change in Bank Control Act. In this letter, Shepard noted the Federal Reserve Board’s policy, also described above, not to reconsider determinations already made by the OTS regarding compliance with such regulations, such as the OTS’s determination in its letter dated February 28, 2011, that Shepard, despite his owning more than 10% of a class of DGI shares, was “not in violation of the rules at this time.”

Shepard Shareholder Proposal

Shepard attempted to bring a shareholder proposal for a vote at DGI’s 2013 Annual Meeting pursuant to Rule 14a-8 of the Exchange Act of 1934, as amended. The proposal called for DGI to immediately hire an investment banker to evaluate alternatives that could enhance shareholder value, including but not limited to, a merger or outright sale of DGI. However, DGI sought to block the proposal and the Securities and Exchange Commission on February 15, 2013, stated that it would take no action if DGI excluded it.

ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT

A. *State the name and address of the applicant seeking to acquire control over the insurer.*

Gregory M. Shepard’s home and business address is 7028 Portmarnock Place, Bradenton, FL 34202.

B. *If the applicant is not an individual, state the nature of its business operations for the past five (5) years or for such lesser period as the person and any predecessors thereof shall have been in existence. Briefly describe the business intended to be done by the applicant and the applicant’s subsidiaries.*

Not applicable.

C. *Furnish a chart or listing clearly presenting the identities and the interrelationships among the applicant and all affiliates of the applicant. No affiliate need be identified if its total assets are equal to less than 1/2 of 1% of the total assets of an ultimate controlling person affiliated with the applicant. Indicate in such chart or listing the percentage of voting securities of each person which is owned or controlled by the applicant or by any other person. If control of any person is maintained other than by the ownership or control of voting securities, indicate the basis of control. As to each person specified in such chart or listing indicate the type of organization (e.g. corporation, trust, partnership) and the state or other jurisdiction of domicile. If court proceedings involving a reorganization or liquidation are pending with respect to any such person, indicate which person, and set forth the title of the court, nature of proceedings and the date when commenced.*

Not applicable.

ITEM 3. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH THE APPLICANT

Furnish a biographical affidavit for (1) the applicant if the applicant is an individual or (2) all persons who are directors, executive officers or owners of 10% or more of the voting securities of the applicant if the applicant is not an individual. Biographical affidavits filed with the Department within the immediately preceding 3 years need not be included if there has been no change in the information already on file.

Biographical affidavits shall be signed in the original and shall include the following:

A. Name and business address.

B. Present principal business activity, occupation or employment including position and office held and the name, principal business and address of any corporation or other organization in which employment is carried on.

C. Material occupations, positions, offices or employment during the last five (5) years, giving the starting and ending date of each and the name, principal business and address of any business corporation or other organization in which each occupation, position, office or employment was carried on. If any occupation, position, office or employment required licensing by or registration with any Federal, state or municipal governmental agency, indicate that fact, the current status of the licensing or registration, and an explanation of any surrender, revocation, suspension or disciplinary proceedings in connection therewith.

D. Whether or not the person has ever been convicted in a criminal proceeding (excluding minor traffic violations) during the last ten (10) years and, if so, give the date, nature of conviction, name and location of court, and penalty imposed or other disposition of the case.

The Department will accept copies of original, signed biographical affidavits filed with the chief insurance regulatory official of another jurisdiction if the following conditions are met:

(1) The identity of the chief insurance regulatory official holding the original affidavit and the date of the original filing are provided in this statement.

(2) The original affidavit was filed within the immediately preceding three years.

(3) There has been no change in the information required in the affidavit.

Shepard's biographical affidavit, including the attachment thereto, has been filed together with this Form A and is incorporated herein by reference.

ITEM 4. NATURE, SOURCE AND AMOUNT OF CONSIDERATION

A. Describe the nature, source and amount of funds or other considerations used or to be used in effecting the merger or other acquisition of control. If any part of the same is represented or is to be represented by funds or other consideration borrowed or otherwise obtained for the purpose of acquiring, holding or trading securities, furnish a description of the transaction, the names of the parties thereto, the relationship, if any, between the borrower, and the lender, the amounts borrowed or to be borrowed, and copies of all agreements, promissory notes and security arrangements relating thereto.

Mr. Shepard will pay the purchase consideration for up to 962,636 additional Class B Shares in cash from his personal funds, without borrowing any of such funds. The aggregate amount of such consideration will depend on the number of shares purchased and the price per share in each particular purchase.

B. Explain the criteria used in determining the nature and amount of such consideration.

The prices for the additional Class B Shares that Mr. Shepard would purchase will be determined by the stock market prices of Class B Shares, or by private negotiations, at the time of such purchases.

C. If the source of the consideration is a loan made in the lender's ordinary course of business and if the applicant wishes the identity of the lender to remain confidential, the applicant must specifically request that the identity be kept confidential.

Not applicable.

ITEM 5. FUTURE PLANS FOR INSURER

Describe any plans or proposals which the applicant may have to declare an extraordinary dividend, to liquidate the insurer, to sell its assets to or merge it with any person or persons or to make any other material change in its business operations or corporate structure or management.

Shepard does not presently seek to control DGI or any of DGI's subsidiaries, and has no present plans or proposals with respect to either 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 in its investment policy, business, corporate structure, or management. Shepard 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 in its investment policy, business, corporate structure, or management. In addition, Shepard may dispose of all or any portion of his Class A Shares or Class B Shares at any time or from time to time in the open market or otherwise. 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.

ITEM 6. VOTING SECURITIES TO BE ACQUIRED

State the number of shares of the insurer's voting securities which the applicant, its affiliates and any person listed in Item 3 plan to acquire, and the terms of the offer, request, invitation, agreement or acquisition, and a statement as to the method by which the fairness of the proposal was arrived at.

According to DGI's 2012 10-K, there were 20,050,649 Class A Shares (with 2,005,064 votes) and 5,576,775 Class B Shares (with 5,576,775 votes) of DGI issued and outstanding as of March 1, 2013, with total combined votes of the Class A Shares and Class B Shares of 7,581,839. 7,755,953 of the Class A Shares (with 775,595 votes) and 4,217,039 Class B Shares (with 4,217,039 votes) were held as of March 1, 2013, by Donegal Mutual. Donegal Mutual, by combining the votes for its Class A Shares and Class B Shares, has a total voting power of 4,992,634 votes or 65.9% of the total combined votes. Shepard currently owns 3,602,900 of the Class A Shares (with 360,290 votes) and 397,100 Class B Shares (with 397,100 votes) with 757,390 total votes (9.99%), which were all acquired in open-market transactions.

Shepard seeks approval to acquire up to 24.99% of the outstanding Donegal Group total combined Class A Share and Class B Share voting securities in order to acquire up to an additional 962,636 Class B Shares per an March 20, 2013 Tender Offer filed by Shepard. 962,636 Class B Shares represent 12.7% of the 7,581,839 total combined votes of the Class A Shares and Class B Shares. Consideration for additional Class B Share purchases per the March 20, 2013 Tender Offer filed by Shepard would be a net cash payment of \$30 per Class B Share.

Shepard believes that the Tender Offer price of \$30.00 per Class B Share is fair, based on the fact that such price is higher than the closing price for Class B Shares at any time during the past five years, as well as the fact that the highest closing price for Class B Shares during the past year is \$21.80, in each case according to historical prices listed on the Yahoo Finance website.

ITEM 7. OWNERSHIP OF VOTING SECURITIES

State the amount of each class of any voting security of the insurer which is beneficially owned or concerning which there is a right to acquire beneficial ownership by the applicant, its affiliates or any person listed in Item 3.

Shepard individually owns 3,602,900 Class A Shares and 397,100 Class B Shares representing 18.0% of the outstanding Class A Shares and 7.1% of the outstanding Class B Shares as of March 1, 2013. Shepard's Class A Shares and Class B Shares were acquired in open-market transactions.

ITEM 8. CONTRACTS, ARRANGEMENTS, OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE INSURER

Give a full description of any contracts, arrangements or understandings with respect to any voting security of the insurer in which the applicant, its affiliates or any person listed in Item 3 is involved, including, but not limited to, transfer of any of the securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or

guarantees of profits, division of losses or profits, or the giving or withholding of proxies. The description shall identify the person with whom such contracts, arrangements or understandings have been entered into.

None.

ITEM 9. RECENT PURCHASES OF VOTING SECURITIES

Describe any purchases of any voting securities of the insurer by the applicant, its affiliates or any person listed in Item 3 during the twelve (12) calendar months preceding the filing of this statement.

Include in the description the dates of purchase, the name of the purchasers, and the consideration paid or agreed to be paid therefor.

State whether any shares so purchased are hypothecated.

Shepard has not purchased any Class A Shares or Class B Shares within the twelve (12) calendar months preceding the filing of this statement. No Class A Shares or Class B Shares owned by Shepard are pledged or hypothecated.

ITEM 10. RECENT RECOMMENDATIONS TO PURCHASE

Describe any recommendations to purchase any voting security of the insurer made by the applicant, its affiliates or any person listed in Item 3, or by anyone based upon interviews or at the suggestion of the applicant, its affiliates or any person listed in Item 3 during the twelve (12) calendar months preceding the filing of this statement.

None.

ITEM 11. AGREEMENTS WITH BROKER-DEALERS

Describe the terms of any agreement, contract or understanding made with any broker-dealer as to solicitation of voting securities of the insurer for tender and the amount of any fees, commissions or other compensation to be paid to broker-dealers with regard thereto.

None.

ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS

A. Financial statements and exhibits shall be attached to this statement as an appendix, but list under this item the financial statements and exhibits so attached.

B. The financial statements shall include the annual financial statements of the persons identified in Item 2(c) for the preceding five (5) fiscal years (or for such lesser period as the applicant and its affiliates and any predecessors thereof shall have been in existence), and

similar information covering the period from the end of the person's last fiscal year, if that information is available. Statements may be prepared on either an individual basis, or, unless the Commissioner otherwise requires, on a consolidated basis if consolidated statements are prepared in the usual course of business.

The annual financial statements of the applicant shall be accompanied by the certificate of an independent public accountant to the effect that the statements present fairly the financial position of the applicant and the results of its operations for the year then ended, in conformity with generally accepted accounting principles or with requirements of insurance or other accounting principles or permitted under law. If the applicant is an insurer which is actively engaged in the business of insurance, the financial statements need not be certified, provided they are based on the Annual Statement of that person filed with the insurance department of the person's domiciliary state and are in accordance with the requirements of insurance or other accounting principles prescribed or permitted under the law and regulations of that state.

C. If the acquiring person is an individual, the Department may require the filing of Federal income tax returns in lieu of audited financial statements. Any returns filed shall be given confidential treatment and shall not be subject to subpoena and shall not be made public by the Department or any other person.

D. File as exhibits copies of all tender offers for, requests or invitations for, tenders of, exchange offers for, and agreements to acquire or exchange any voting securities of the insurer and (if distributed) of additional soliciting material relating thereto, any proposed employment, consultation, advisory or management contracts concerning the insurer, annual reports to the stockholders of the insurer and the applicant for the last two fiscal years, and any additional documents or papers required by this chapter.

EXHIBITS

Exhibit H	Shepard Financial Statement as of September 15, 2012;
Exhibit I	Shepard Financial Statement as of December 31, 2011;
Exhibit J	Shepard Financial Statement as of December 31, 2010;
Exhibit K	Shepard Financial Statement as of December 31, 2009;
Exhibit L	Shepard Financial Statement as of December 31, 2008;
Exhibit M	Shepard Financial Statement as of December 31, 2007;
Exhibit N	Shepard Biographical Affidavit;
Exhibit O	Shepard Financial Statement as of December 31, 2012;
Exhibit P	Shepard Financial Statement as of March 15, 2013.

ITEM 13. SIGNATURE AND CERTIFICATION

Signature and certification required as follows:

SIGNATURE

Gregory M. Shepard has duly signed this application in the City of Bradenton and State of Florida on the ____ day of March, 2013.

Gregory M. Shepard

CERTIFICATION

The undersigned deposes and says that he has duly executed the attached application dated March ____, 2013, and that he is authorized and competent to execute and file such instrument. Deponent further says that he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

Gregory M. Shepard

NOTARY

STATE OF FLORIDA)
) SS:
COUNTY OF MANATEE)

On this ____ day of March, 2013, before me, the undersigned, a Notary Public in and for the aforesaid state and county, appeared Gregory M. Shepard, who is personally known to me to be the same person who executed the foregoing instrument.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Notary Public

My Commission Expires:

EXHIBIT D

FORM A

**STATEMENT REGARDING THE ACQUISITION OF CONTROL OF
A DOMESTIC INSURANCE COMPANY**

**ATLANTIC STATES INSURANCE COMPANY,
a Pennsylvania insurance company and wholly owned subsidiary of**

**DONEGAL GROUP INC.,
a Delaware corporation**

BY

**GREGORY M. SHEPARD,
an individual**

**Filed with the PENNSYLVANIA INSURANCE COMMISSIONER
and sent to Donegal Group Inc.**

March 20, 2013

Address notices and correspondence concerning this statement to

**J. Victor Peterson, Esq.
Lathrop & Gage LLP
100 North Riverside Plaza, Suite 2100
Chicago, Illinois 60606-1501
(312) 920-3337
vpeterson@lathropgage.com**

ITEM 1. INSURER AND METHOD OF ACQUISITION

State the name, NAIC code number and address of the domestic insurer to which this application relates and a brief description of how control is to be acquired.

Introduction

This application relates to Atlantic States Insurance Company, a Pennsylvania property and casualty insurance company ("Atlantic States"). Atlantic States' NAIC code number is 22586. Atlantic States' statutory home office is located at 1955 River Road, Marietta, Pennsylvania 17547 and its main administrative office is also located at 1955 River Road, Marietta, Pennsylvania 17547. The telephone number for its statutory home office is (717) 426-1931. The telephone number for its main administrative office is (717) 426-1931.

Atlantic States is a wholly owned subsidiary of Donegal Group Inc., a Delaware corporation ("DGI"). The principal office of DGI is located at 1955 River Road, Marietta, Pennsylvania 17547. DGI has two classes of common shares: Class A common stock, par value \$0.01 per share, one-tenth of a vote per share, which trades on the NASDAQ under the symbol DGICA ("Class A Shares"); and Class B common stock, par value \$0.01 per share, one vote per share, which trades on the NASDAQ under the symbol DGICB ("Class B Shares"). DGI does not have cumulative voting.

Donegal Mutual Insurance Company, a Pennsylvania property and casualty insurance company ("Donegal Mutual"), owns approximately 38.7% of the Class A Shares and approximately 75.6% of the Class B Shares with a total voting power of 65.9%. The principal office of Donegal Mutual is 1955 River Road, Marietta, Pennsylvania 17547. Donegal Mutual solely controls DGI and its wholly owned Pennsylvania subsidiary Atlantic States.

Gregory M. Shepard, an individual ("Shepard"), owns approximately 18.0% of the Class A Shares and 7.1% of the Class B Shares, with a total voting power of 9.99% (because the Class A Shares have one-tenth of a vote and the Class B Shares have one vote). Shepard has been a holder of both Class A Shares and Class B Shares since 2005.

~~Shepard intends to purchase in the market through a tender offer up to 962,636 additional Class B Shares at \$30.00 cash per share (the "Tender Offer"), representing 12.7% of DGI's combined voting power. In connection with the Tender Offer, Shepard filed a Tender Offer Statement on Schedule TO on March 20, 2013 with the U.S. Securities and Exchange Commission (the "SEC"). The Tender Offer will expire at 11:59 p.m., New York City time, on April 19, 2013, unless Shepard extends it. This Schedule TO and the accompanying Offer to Purchase are attached hereto as **Exhibit A**.~~

However, even if Shepard were to acquire 962,636 additional Class B Shares in the Tender Offer, he would then own Class A Shares and Class B Shares with an aggregate of 22.7% of DGI's combined voting power. Therefore, he would still not have the power to influence or control DGI or Atlantic States. Given the overwhelming control of DGI by Donegal Mutual through its ownership of shares with almost 2/3 of the voting power of DGI's outstanding stock, there is no way that Shepard could in fact control DGI. As discussed in greater detail below, ~~even if the Tender Offer is successful, Shepard would still have a minority percentage of the~~

~~voting power of DGI's outstanding stock, and would be represented on Boards of Directors of DGI and Donegal Mutual by a minority of the directors in each case.~~

~~———— A condition of the Tender Offer is for three persons selected by Shepard to be appointed as new directors of each of DGI and Donegal Mutual, with no increase in the size of each board from 12 directors. If DGI had cumulative voting, and if the Tender Offer is successful, Shepard would be able to elect three of DGI's directors as a result of his owning shares with 22.7% of the voting power of DGI's outstanding stock after the Tender Offer. If the Tender Offer is completed, Shepard's net investment in DGI stock would total approximately \$80 million, which Shepard believes entitles him to board representation. Because Donegal Mutual overwhelmingly controls DGI, this Tender Offer condition also involves seats on Donegal Mutual's board. However, the three new directors on each of the boards of DGI and Donegal Mutual would be a minority of their directors and would not give Shepard control over either company, nor would it affect Donegal Mutual's overwhelming control of DGI. Moreover, the Tender Offer does not require any change to DGI's management or policies, and Shepard has no present plans to seek any such change.~~

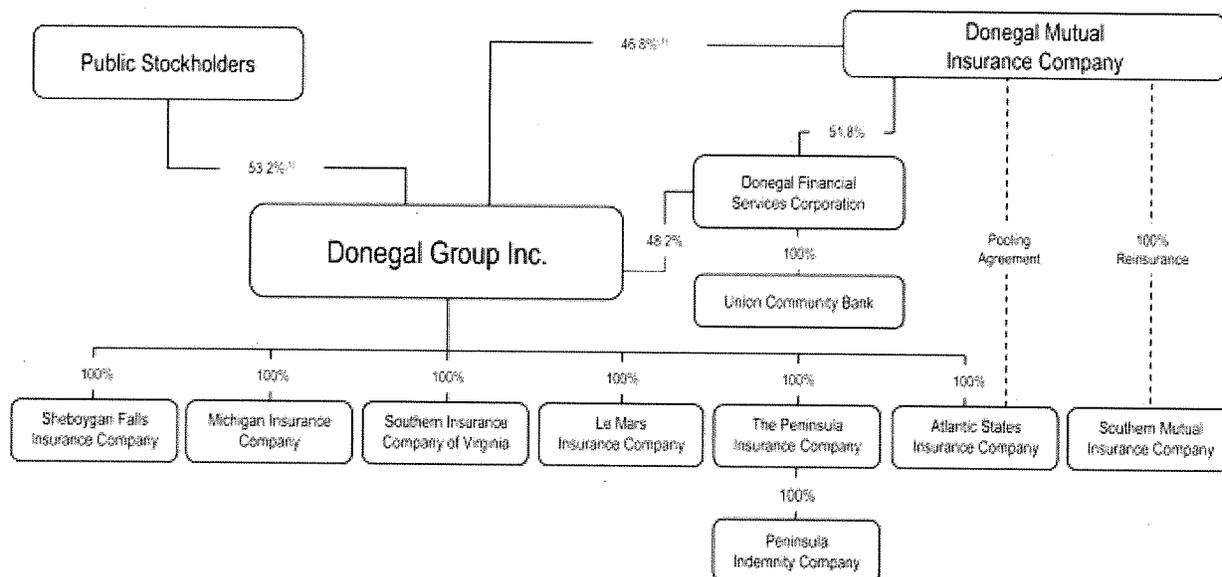
DGI is an insurance holding company for 7 wholly owned subsidiary property and casualty insurers domiciled in Pennsylvania, Iowa, Maryland, Michigan, Virginia and Wisconsin. DGI's control of its subsidiary insurers has been obtained in the various states over a period of years, as follows: Atlantic States Insurance Company (PA domiciled; NAIC Code No. 22586), 1986; Southern Insurance Company of Virginia (VA domiciled; NAIC Code No. 26867), 1988; Peninsula Insurance Company and Peninsula Indemnity Company (both MD domiciled; NAIC Code Nos. 14958 and 39900, respectively), 2004; Le Mars Insurance Company (IA domiciled; NAIC Code No. 14389), 2004; Sheboygan Falls Insurance Company (WI domiciled; NAIC Code No. 15148), 2008; and Michigan Insurance Company (MI domiciled; NAIC Code No. 10857), 2010.

Recognizing that the acquisition of 10% or more of the outstanding capital stock of an insurer or its holding company creates a rebuttable presumption of a change in control, Shepard on February 9, 2006, filed a Disclaimer of Control with the Pennsylvania Department of Insurance requesting approval to purchase up to 14.99% of DGI's aggregate voting securities. Shepard's Disclaimer of Control maintained that allowing him to purchase up to 14.99% of DGI's aggregate voting securities would not amount to control, since Donegal Mutual then had the right to vote approximately 62% of the aggregate voting power of the Class A Shares and the Class B Shares. On February 16, 2006, Shepard received approval of his Disclaimer of Control from the Pennsylvania Department of Insurance.

Subsequently, Shepard filed Disclaimers of Control with the 3 other state insurance departments where at the time DGI had domiciled subsidiary insurance companies, i.e. the Iowa Insurance Division, Maryland Insurance Administration, and the Virginia Bureau of Insurance, requesting approval to purchase up to 14.99% of DGI's aggregate voting securities. Approval from the insurance commissioners of Maryland and Virginia was received in the second quarter of 2007. In the first quarter of 2009, the Iowa Insurance Division denied Shepard's Disclaimer of Control, stating that Shepard needed to file a Form A to obtain approval to purchase up to 14.99% of DGI's aggregate voting securities. Shepard at the time declined to file a Form A in Iowa. Accordingly, Shepard has not acquired more than 9.99% voting control of DGI.

Information About the DGI Structure

The following chart, which appears on page 3 of Annual Report on Form 10-K for the year ended December 31, 2012 (“DGI’s 2012 10-K”), shows the organizational structure of DGI and its subsidiaries and the relation of Donegal Mutual thereto. DGI’s 2012 10-K is attached hereto as **Exhibit B**.



Information About the Tender Offer Proposed Purchases

~~Mr. Shepard is acquiring shares in the Tender Offer, if successful, because he believes that DGI’s shares are undervalued, and because there is no efficient way to acquire a large number of shares through the trading market.~~

~~Shepard commenced the Tender Offer to purchase 962,636 Class B Shares of DGI for \$30.00 per share in cash by filing a Tender Offer Statement on Schedule TO and accompanying exhibits with the SEC on March 20, 2013. The closing price for DGI’s Class B Shares was \$21.07 on March 19, 2013. The Tender Offer will expire at 11:59 p.m., New York City time, on April 19, 2013, unless Shepard extends it. As noted, this Schedule TO and the accompanying Offer to Purchase are attached hereto as Exhibit A. If Shepard acquires an additional 962,636 Class B Shares, his Class A Shares and Class B Shares would represent approximately 22.7% of the combined voting power of DGI’s outstanding stock. By contrast, Donegal Mutual owns Class A Shares and Class B Shares that represent approximately 65.9% of the combined voting power of DGI’s outstanding stock.~~

~~The Tender Offer is not subject to any financing condition. However, the Tender Offer is subject to several other conditions, including (i) a condition that a minimum of 925,000 Class B Shares must be tendered, (ii) a condition that three persons selected by Mr. Shepard be appointed to each of the Boards of Directors of DGI and Donegal Mutual, with no increase in the size of each board from 12 directors, (iii) a condition that each of six State insurance regulators (in states where DGI’s insurance subsidiaries are domiciled) approve the relevant Form A filing, (iv) a condition that the Federal Reserve Board approve Shepard’s rebuttal of control filing (relating~~

to a DGI subsidiary that is a federal savings bank), (v) a condition that the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 has expired or terminated early, and (vi) a condition that no litigation involving the Tender Offer has been initiated.

If the Tender Offer is successful, Mr. Shepard would own shares with approximately 22.7% of the total voting power of DGI's stock. If DGI had cumulative voting, which it does not, then Mr. Shepard would be able to have three minority director representatives (one for each class of director). Under the corporation statute of Pennsylvania, for example, cumulative voting is required unless a company's articles of incorporation affirmatively provide otherwise. However, cumulative voting is not required under the corporation statute of Delaware, where DGI is incorporated. Moreover, because DGI does not have cumulative voting, a large minority shareholder such as Mr. Shepard is unable to elect directors, which is contrary to recent pronouncements on corporate democracy, such as the SEC's adoption of "proxy access" rules to facilitate the inclusion of director nominees of significant, long-term shareholders in companies' proxy materials. Mr. Shepard is also seeking three seats on Donegal Mutual's Board of Directors because Donegal Mutual overwhelmingly controls DGI. However, such directors would constitute a minority of the directors on each of such boards.

— The Depository for the Tender Offer is The Colbent Corporation. The Information Agent for the Tender Offer is D.L. King & Co., Inc.

Financial Information Overview

The following chart presents a snapshot of certain financial information about DGI, Donegal Mutual, and each of DGI's subsidiaries during the 2012 calendar year (all amounts rounded to the nearest \$1,000), as reported in DGI's 2012 10-K.

Company	2012 Statutory Income	2012 Statutory Capital and Surplus
Donegal Mutual Insurance Company	<i>not stated in DGI's 2012 10-K</i>	\$187.7 million
Donegal Group Inc.	\$17,535,000	\$361,968,000
Atlantic States Insurance Company	\$12,508,000	\$180,466,000
Southern Insurance Company of Virginia	(\$1,540,000)	\$58,841,000
Peninsula Insurance Company	\$1,479,000	\$42,471,000
Le Mars Insurance Company	\$2,423,000	\$26,803,000
Michigan Insurance Company	\$2,698,000	\$42,443,000
Sheboygan Falls Insurance Company	(\$33,000)	\$10,944,000

Information About Shepard's DGI Holdings

On August 31, 2009, Shepard filed a Statement of Beneficial Ownership on Schedule 13G with the SEC, reporting that he owned 1,000,000 Class A Shares and 294,000 Class B Shares representing 5.02% and 5.27% respectively of the June 30, 2009 outstanding shares.

On February 16, 2010, Shepard filed Amendment No. 1 to his Schedule 13G with the SEC, reporting that he owned 1,674,750 Class A Shares and 325,250 Class B Shares as of December 31, 2009, representing 8.41% and 5.83% respectively of the December 31, 2009 outstanding shares.

On July 12, 2010, Shepard filed a Statement of Beneficial Ownership on Schedule 13D with the SEC, reporting that he owned 3,140,000 Class A Shares and 360,000 Class B Shares representing 15.77% and 6.46%, respectively, of the March 31, 2010 outstanding Class A Shares and Class B Shares. This Schedule 13D is attached hereto as **Exhibit C**.

On December 10, 2010, Shepard filed Amendment No.1 to his Schedule 13D with the SEC, reporting that he owned 3,251,000 Class A Shares and 373,366 Class B Shares representing 16.26% and 6.70% respectively of the October 31, 2010 outstanding shares, for a total voting power of 9.2% (based on the number of shares then outstanding). Attached as exhibits to this filing were 3 letters dated December 9, 2010 from the Shepard to the Pennsylvania Department, Maryland Insurance Administration, and the Virginia Bureau of Insurance withdrawing his previously filed Disclaimer of Control filings. This Schedule 13D/A#1 is attached hereto as **Exhibit D**.

On May 24, 2011, Shepard filed Amendment No. 2 to his Schedule 13D with the SEC, reporting that he owned 3,513,220 Class A Shares and 382,000 Class B Shares representing 17.53% and 6.85% respectively of the April 29, 2011 outstanding shares of 20,043,002 Class A Shares and 5,576,775 Class B Shares, for a total voting power of 9.7% (based on the number of shares then outstanding). This Schedule 13D/A#2 is attached hereto as **Exhibit E**.

On November 9, 2011, Shepard filed Amendment No. 3 to his Schedule 13D with the SEC, reporting that he owned 3,602,900 Class A Shares and 397,100 Class B Shares representing 18.04% and 7.12% respectively of the October 31, 2011 outstanding shares of 19,975,609 Class A Shares and 5,576,775 Class B Shares, for a total voting power of 9.99% (based on the number of shares then outstanding). This Schedule 13D/A#3 is attached hereto as **Exhibit F**.

On November 8, 2012, Shepard filed Amendment No. 4 to his Schedule 13D with the SEC, reporting that he owned 3,602,900 Class A Shares and 397,100 Class B Shares representing 17.96% and 7.12% respectively of the October 31, 2012 outstanding shares of 20,062,899 Class A Shares and 5,576,775 Class B Shares, for a total voting power of 9.99% (based on the number of shares then outstanding). This Schedule 13D/A#4 is attached hereto as **Exhibit G**.

On March 20, 2013, Shepard commenced the Tender Offer, filed this Form A with the Insurance Commissions in Pennsylvania, Iowa, Maryland, Michigan, Virginia and Wisconsin, where DGI's insurance subsidiaries are currently domiciled. The Schedule TO filed by Shepard

on March 20, 2013, also constituted an amendment to his Schedule 13D, as permitted by General Instruction G to Schedule TO. As noted above, this Schedule TO and the accompanying Offer to Purchase are attached hereto as **Exhibit A**.

On July 31, 2013, the Tender Offer referenced in the immediately preceding paragraph expired without Shepard purchasing any Class B Shares in connection therewith.

Information About DGI and Donegal Mutual

DGI, through its subsidiaries and affiliates, provides property-casualty insurance products through 2,500 independent insurance agencies in 22 states. Insurance products are marketed primarily in the Mid-Atlantic, Midwest, New England and Southeast regions of the United States. Donegal Mutual organized DGI in 1986.

Donegal Mutual provides facilities, management and other services to DGI and its insurance subsidiaries through an expense sharing agreement. Donegal Mutual organized as a mutual fire insurance company in Pennsylvania in 1889. According to DGI's 2012 10-K, at December 31, 2012, Donegal Mutual had admitted assets of \$350.7 million and policyholders' surplus of \$187.7 million, as well as total liabilities of \$162.9 million, including reserves for net losses and loss expenses of \$46.2 million and unearned premiums of \$39.3 million.

As described in DGI's 2012 10-K, in 2000 DGI and Donegal Mutual formed Donegal Financial Services Corporation ("DFSC") as a unitary thrift holding company and its wholly owned subsidiary, Province Bank FSB, as a federal savings bank. In May 2011, DFSC merged with Union National Financial Corporation ("UNNF"), with DFSC as the surviving company in the merger. Under the merger agreement, Province Bank FSB and Union National Community Bank, which UNNF owned, also merged to form Union Community Bank ("UCB"). UCB is a federal savings bank with 13 branch offices in Lancaster County, Pennsylvania, and \$510.0 million in assets at December 31, 2012. Because DGI and Donegal Mutual together own all of the outstanding capital stock of DFSC, the Federal Reserve Bank of Philadelphia (the "FRB") regulates DGI and Donegal Mutual as unitary savings and loan holding companies. As a result, DGI and Donegal Mutual are subject to regulation by the FRB under the holding company provisions of the federal Home Owners' Loan Act. UCB, as a federally chartered and insured stock savings association, is subject to regulation and supervision by the Office of the Comptroller of the Currency and by the Federal Deposit Insurance Corporation.

DGI has two classes of common stock which trade on the NASDAQ. The Class A Shares, have one-tenth of a vote per share, and the Class B Shares have one vote per share. As of March 1, 2013, according to DGI's 2012 10-K, DGI had 20,050,649 Class A Shares (with 2,005,064 votes) and 5,576,775 Class B Shares (with 5,576,775 votes) outstanding, with total combined votes of the Class A Shares and Class B Shares of 7,581,839.

Donegal Mutual as of March 1, 2013, owns 7,755,953 Class A Shares (representing 38.7% of the outstanding Class A Shares) with 775,595 votes and 4,217,039 Class B Shares (representing 75.6% of the outstanding Class B Shares) with 4,217,039 votes. By combining the Class A and Class B votes, Donegal Mutual has the authority to cast 4,992,634 or 65.9% of the 7,581,839 total combined votes.

The other public shareholders (besides Donegal Mutual and Shepard) owned as of March 1, 2013, 8,691,796 Class A Shares (representing 43.3% of the outstanding Class A Shares) with 869,179 votes and as of March 1, 2013, 962,636 Class B Shares (representing 17.3% of the outstanding Class B Shares) with 962,636 votes. By combining the Class A and Class B votes, the other public shareholders as of November 14, 2012, have the authority to cast 1,831,815 or 24.1% of the 7,581,839 total combined votes.

In addition, according to DGI's 2012 10-K, as of December 31, 2012, there were 6,700,825 Class A Shares subject to options outstanding under DGI's stock option plans. Based on the foregoing, there would be 26,751,474 Class A Shares outstanding and 15,392,621 Class A Shares owned by public shareholders (other than Donegal Mutual and Shepard), assuming the exercise of all outstanding stock options and the non issuance of additional shares available for issuance under the stock option plans.

~~If the Tender Offer is consummated, a minimum of 925,000 Class B Shares would be acquired by Shepard. Shepard does not intend to tender any of his Class B Shares in the Offer. Following consummation of the Offer there would be a limited number of publicly traded Class B Shares outstanding and those might be delisted from NASDAQ.~~

Background with the Federal Reserve Board

On December 21, 2012, DGI sent a petition to the Board of Governors of the Federal Reserve System for it to commence an enforcement action against Shepard, alleging that Shepard failed to submit a required application rebutting the rebuttable presumption of control of DGI resulting from Shepard's current ownership of more than 10% of DGI's Class A Shares. The Federal Reserve Board regulates acquisitions of controlling interests in savings and loan holding companies, such as DGI as a result of its indirect ownership of Union Community Bank, a federal savings bank – despite the fact that Union Community Bank has filed an application to convert to a state savings bank charter, which would be regulated by the Pennsylvania Department of Banking and the FDIC, although DGI would continue to be regulated by the Federal Reserve Board as a savings and loan holding company.

The petition seeks regulatory enforcement by the Federal Reserve Board despite its stated policy not to reconsider determinations made by the U.S. Treasury Department's Office of Thrift Supervision (the "OTS"), a predecessor regulator to the Federal Reserve Board. The Federal Reserve Board stated this policy in a release announcing the adoption of Regulation LL published in the Federal Register on September 13, 2011 (Vol. 76, No. 177, at page 56,501), as follows: "The Board does not anticipate revisiting ownership structures previously approved by the OTS. The Board would apply its rules only to new investments and would only reconsider the particular structures of past investments approved by the OTS if the company proposes a material transaction, such as an additional expansionary investment, significant recapitalization, or significant modification of business plan." In a letter to Shepard dated February 28, 2011, the OTS concluded that, despite his owning more than 10% of a class of DGI shares, he was "not in violation of the rules at this time."

The background leading to the OTS's determination that Shepard was not in violation of the relevant "acquisition of control" regulations, a determination which the Federal Reserve

Board has stated that it is its policy not to reconsider, is as follows. Although Shepard always believed that he owned less than 10% of the voting power of DGI, in a letter dated November 24, 2010, he was informed by the OTS that he was in violation of acquisition of control regulations, because he owned 18% of DGI's Class A Shares. In a letter to the OTS dated December 17, 2010, an attorney for Shepard explained that, due to the Class A Shares each having only one-tenth (1/10) of a vote, Shepard's Class A Shares and Class B Shares together represented (at that time) only 9.2% of the total votes for the outstanding Class A Shares and Class B Shares. This letter also explained that Mr. Shepard's indirect ownership of DGI's indirect subsidiary Province Bank FSB, which was subsequently renamed Union Community Bank FSB, was approximately 4.4%. As noted above, in a letter to Shepard dated February 28, 2011, the OTS concluded that Shepard was "not in violation of the rules at this time." In a letter to the OTS dated March 3, 2011, an attorney for Shepard confirmed his understanding that the position of the OTS was that the Class A Shares and Class B Shares would be treated as one class of stock for purposes of the Change in Bank Control Act and the regulations implementing it. This letter also acknowledged that, if in the future Shepard were to purchase additional shares of DGI stock such that he would own Class A Shares and Class B Shares with a combined voting power of 10% or more, he would first be required to obtain regulatory approval under the relevant "acquisition of control" regulations. Shepard acknowledges that the Tender Offer requires regulatory approval under the relevant "acquisition of control" regulations and he intends to comply fully with all applicable rules and regulatory orders.

On January 2, 2013, Shepard sent a letter to the Board of Governors of the Federal Reserve System opposing DGI's petition dated December 21, 2012, described above, for an enforcement action against Shepard for allegedly violating "acquisition of control" regulations under the Change in Bank Control Act. In this letter, Shepard noted the Federal Reserve Board's policy, also described above, not to reconsider determinations already made by the OTS regarding compliance with such regulations, such as the OTS's determination in its letter dated February 28, 2011, that Shepard, despite his owning more than 10% of a class of DGI shares, was "not in violation of the rules at this time."

Shepard Shareholder Proposal

Shepard attempted to bring a shareholder proposal for a vote at DGI's 2013 Annual Meeting pursuant to Rule 14a-8 of the Exchange Act of 1934, as amended. The proposal called for DGI to immediately hire an investment banker to evaluate alternatives that could enhance shareholder value, including but not limited to, a merger or outright sale of DGI. However, DGI sought to block the proposal and the Securities and Exchange Commission on February 15, 2013, stated that it would take no action if DGI excluded it.

ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT

A. *State the name and address of the applicant seeking to acquire control over the insurer.*

Gregory M. Shepard's home and business address is 7028 Portmarnock Place, Bradenton, FL 34202.

B. *If the applicant is not an individual, state the nature of its business operations for the past five (5) years or for such lesser period as the person and any predecessors thereof shall*

have been in existence. Briefly describe the business intended to be done by the applicant and the applicant's subsidiaries.

Not applicable.

C. Furnish a chart or listing clearly presenting the identities and the interrelationships among the applicant and all affiliates of the applicant. No affiliate need be identified if its total assets are equal to less than 1/2 of 1% of the total assets of an ultimate controlling person affiliated with the applicant. Indicate in such chart or listing the percentage of voting securities of each person which is owned or controlled by the applicant or by any other person. If control of any person is maintained other than by the ownership or control of voting securities, indicate the basis of control. As to each person specified in such chart or listing indicate the type of organization (e.g. corporation, trust, partnership) and the state or other jurisdiction of domicile. If court proceedings involving a reorganization or liquidation are pending with respect to any such person, indicate which person, and set forth the title of the court, nature of proceedings and the date when commenced.

Not applicable.

ITEM 3. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH THE APPLICANT

Furnish a biographical affidavit for (1) the applicant if the applicant is an individual or (2) all persons who are directors, executive officers or owners of 10% or more of the voting securities of the applicant if the applicant is not an individual. Biographical affidavits filed with the Department within the immediately preceding 3 years need not be included if there has been no change in the information already on file.

Biographical affidavits shall be signed in the original and shall include the following:

A. Name and business address.

B. Present principal business activity, occupation or employment including position and office held and the name, principal business and address of any corporation or other organization in which employment is carried on.

C. Material occupations, positions, offices or employment during the last five (5) years, giving the starting and ending date of each and the name, principal business and address of any business corporation or other organization in which each occupation, position, office or employment was carried on. If any occupation, position, office or employment required licensing by or registration with any Federal, state or municipal governmental agency, indicate that fact, the current status of the licensing or registration, and an explanation of any surrender, revocation, suspension or disciplinary proceedings in connection therewith.

D. Whether or not the person has ever been convicted in a criminal proceeding (excluding minor traffic violations) during the last ten (10) years and, if so, give the date, nature of conviction, name and location of court, and penalty imposed or other disposition of the case.

The Department will accept copies of original, signed biographical affidavits filed with the chief insurance regulatory official of another jurisdiction if the following conditions are met:

- (1) The identity of the chief insurance regulatory official holding the original affidavit and the date of the original filing are provided in this statement.*
- (2) The original affidavit was filed within the immediately preceding three years.*
- (3) There has been no change in the information required in the affidavit.*

Shepard's biographical affidavit, including the attachment thereto, has been filed together with this Form A and is incorporated herein by reference.

ITEM 4. NATURE, SOURCE AND AMOUNT OF CONSIDERATION

A. Describe the nature, source and amount of funds or other considerations used or to be used in effecting the merger or other acquisition of control. If any part of the same is represented or is to be represented by funds or other consideration borrowed or otherwise obtained for the purpose of acquiring, holding or trading securities, furnish a description of the transaction, the names of the parties thereto, the relationship, if any, between the borrower, and the lender, the amounts borrowed or to be borrowed, and copies of all agreements, promissory notes and security arrangements relating thereto.

~~The consideration for the 962,636 Class B Shares to be purchased pursuant to the Tender Offer will be \$28,879,080 in cash, which Shepard will pay out of his own personal funds. In addition, fees and expenses in the aggregate amount of \$120,920 are expected to be incurred in the transaction. None of the foregoing amounts represents borrowed funds.~~

Mr. Shepard will pay the purchase consideration for up to 962,636 additional Class B Shares in cash from his personal funds, without borrowing any of such funds. The aggregate amount of such consideration will depend on the number of shares purchased and the price per share in each particular purchase.

B. Explain the criteria used in determining the nature and amount of such consideration.

~~The \$28,879,080 consideration amount results from a Tender Offer price of \$30.00 per share for 962,636 Class B Shares.~~

The prices for the additional Class B Shares that Mr. Shepard would purchase will be determined by the stock market prices of Class B Shares, or by private negotiations, at the time of such purchases.

C. If the source of the consideration is a loan made in the lender's ordinary course of business and if the applicant wishes the identity of the lender to remain confidential, the applicant must specifically request that the identity be kept confidential.

Not applicable.

ITEM 5. FUTURE PLANS FOR INSURER

Describe any plans or proposals which the applicant may have to declare an extraordinary dividend, to liquidate the insurer, to sell its assets to or merge it with any person or persons or to make any other material change in its business operations or corporate structure or management.

Shepard does not presently seek to control DGI or any of DGI's subsidiaries, and has no present plans or proposals with respect to either 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 in its investment policy, business, corporate structure, or management. Shepard 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 in its investment policy, business, corporate structure, or management. In addition, Shepard may dispose of all or any portion of his Class A Shares or Class B Shares at any time or from time to time in the open market or otherwise. 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.

ITEM 6. VOTING SECURITIES TO BE ACQUIRED

State the number of shares of the insurer's voting securities which the applicant, its affiliates and any person listed in Item 3 plan to acquire, and the terms of the offer, request, invitation, agreement or acquisition, and a statement as to the method by which the fairness of the proposal was arrived at.

According to DGI's 2012 10-K, there were 20,050,649 Class A Shares (with 2,005,064 votes) and 5,576,775 Class B Shares (with 5,576,775 votes) of DGI issued and outstanding as of March 1, 2013, with total combined votes of the Class A Shares and Class B Shares of 7,581,839. 7,755,953 of the Class A Shares (with 775,595 votes) and 4,217,039 Class B Shares (with 4,217,039 votes) were held as of March 1, 2013, by Donegal Mutual. Donegal Mutual, by combining the votes for its Class A Shares and Class B Shares, has a total voting power of 4,992,634 votes or 65.9% of the total combined votes. Shepard currently owns 3,602,900 of the Class A Shares (with 360,290 votes) and 397,100 Class B Shares (with 397,100 votes) with 757,390 total votes (9.99%), which were all acquired in open-market transactions.

Shepard seeks approval to acquire up to 24.99% of the outstanding Donegal Group total combined Class A Share and Class B Share voting securities in order to acquire up to an additional 962,636 Class B Shares per an March 20, 2013 Tender Offer filed by Shepard. 962,636 Class B Shares represent 12.7% of the 7,581,839 total combined votes of the Class A Shares and Class B Shares. Consideration for additional Class B Share purchases per the March 20, 2013 Tender Offer filed by Shepard would be a net cash payment of \$30 per Class B Share.

Shepard believes that the Tender Offer price of \$30.00 per Class B Share is fair, based on the fact that such price is higher than the closing price for Class B Shares at any time during the past five years, as well as the fact that the highest closing price for Class B Shares during the past

year is \$21.80, in each case according to historical prices listed on the Yahoo Finance website.

ITEM 7. OWNERSHIP OF VOTING SECURITIES

State the amount of each class of any voting security of the insurer which is beneficially owned or concerning which there is a right to acquire beneficial ownership by the applicant, its affiliates or any person listed in Item 3.

Shepard individually owns 3,602,900 Class A Shares and 397,100 Class B Shares representing 18.0% of the outstanding Class A Shares and 7.1% of the outstanding Class B Shares as of March 1, 2013. Shepard's Class A Shares and Class B Shares were acquired in open-market transactions.

ITEM 8. CONTRACTS, ARRANGEMENTS, OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE INSURER

Give a full description of any contracts, arrangements or understandings with respect to any voting security of the insurer in which the applicant, its affiliates or any person listed in Item 3 is involved, including, but not limited to, transfer of any of the securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits, or the giving or withholding of proxies. The description shall identify the person with whom such contracts, arrangements or understandings have been entered into.

None.

ITEM 9. RECENT PURCHASES OF VOTING SECURITIES

Describe any purchases of any voting securities of the insurer by the applicant, its affiliates or any person listed in Item 3 during the twelve (12) calendar months preceding the filing of this statement.

Include in the description the dates of purchase, the name of the purchasers, and the consideration paid or agreed to be paid therefor.

State whether any shares so purchased are hypothecated.

Shepard has not purchased any Class A Shares or Class B Shares within the twelve (12) calendar months preceding the filing of this statement. No Class A Shares or Class B Shares owned by Shepard are pledged or hypothecated.

ITEM 10. RECENT RECOMMENDATIONS TO PURCHASE

Describe any recommendations to purchase any voting security of the insurer made by the applicant, its affiliates or any person listed in Item 3, or by anyone based upon interviews or at the suggestion of the applicant, its affiliates or any person listed in Item 3 during the twelve

(12) calendar months preceding the filing of this statement.

None.

ITEM 11. AGREEMENTS WITH BROKER-DEALERS

Describe the terms of any agreement, contract or understanding made with any broker-dealer as to solicitation of voting securities of the insurer for tender and the amount of any fees, commissions or other compensation to be paid to broker-dealers with regard thereto.

None.

ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS

A. Financial statements and exhibits shall be attached to this statement as an appendix, but list under this item the financial statements and exhibits so attached.

B. The financial statements shall include the annual financial statements of the persons identified in Item 2(c) for the preceding five (5) fiscal years (or for such lesser period as the applicant and its affiliates and any predecessors thereof shall have been in existence), and similar information covering the period from the end of the person's last fiscal year, if that information is available. Statements may be prepared on either an individual basis, or, unless the Commissioner otherwise requires, on a consolidated basis if consolidated statements are prepared in the usual course of business.

The annual financial statements of the applicant shall be accompanied by the certificate of an independent public accountant to the effect that the statements present fairly the financial position of the applicant and the results of its operations for the year then ended, in conformity with generally accepted accounting principles or with requirements of insurance or other accounting principles or permitted under law. If the applicant is an insurer which is actively engaged in the business of insurance, the financial statements need not be certified, provided they are based on the Annual Statement of that person filed with the insurance department of the person's domiciliary state and are in accordance with the requirements of insurance or other accounting principles prescribed or permitted under the law and regulations of that state.

C. If the acquiring person is an individual, the Department may require the filing of Federal income tax returns in lieu of audited financial statements. Any returns filed shall be given confidential treatment and shall not be subject to subpoena and shall not be made public by the Department or any other person.

D. File as exhibits copies of all tender offers for, requests or invitations for, tenders of, exchange offers for, and agreements to acquire or exchange any voting securities of the insurer and (if distributed) of additional soliciting material relating thereto, any proposed employment, consultation, advisory or management contracts concerning the insurer, annual reports to the stockholders of the insurer and the applicant for the last two fiscal years, and any additional documents or papers required by this chapter.

EXHIBITS

Exhibit H	Shepard Financial Statement as of September 15, 2012;
Exhibit I	Shepard Financial Statement as of December 31, 2011;
Exhibit J	Shepard Financial Statement as of December 31, 2010;
Exhibit K	Shepard Financial Statement as of December 31, 2009;
Exhibit L	Shepard Financial Statement as of December 31, 2008;
Exhibit M	Shepard Financial Statement as of December 31, 2007;
Exhibit N	Shepard Biographical Affidavit;
Exhibit O	<u>Shepard Financial Statement as of December 31, 2012;</u>
Exhibit P	<u>Shepard Financial Statement as of March 15, 2013.</u>

ITEM 13. SIGNATURE AND CERTIFICATION

Signature and certification required as follows:

SIGNATURE

Gregory M. Shepard has duly signed this application in the City of Bradenton and State of Florida on the ____ day of March, 2013.

Gregory M. Shepard

CERTIFICATION

The undersigned deposes and says that he has duly executed the attached application dated March ____, 2013, and that he is authorized and competent to execute and file such instrument. Deponent further says that he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

Gregory M. Shepard

NOTARY

STATE OF FLORIDA)
) SS:
COUNTY OF MANATEE)

On this ____ day of March, 2013, before me, the undersigned, a Notary Public in and for the aforesaid state and county, appeared Gregory M. Shepard, who is personally known to me to be the same person who executed the foregoing instrument.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Notary Public

My Commission Expires:
