

073

EXHIBIT B

01

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13D

Under the Securities Exchange Act of 1934
(Amendment No.)*

DONEGAL GROUP INC.

(Name of Issuer)

Class A Common Stock
Class B Common Stock

(Title of Class of Securities)

Class A: 257701201

Class B: 257701300

(CUSIP Number of Class of Securities)

Gregory M. Shepard
5055 Gulf of Mexico Drive
Longboat Key, FL 34228
(941) 552-8296 or (309) 827-5968

(Name, Address and Telephone Number of Persons
Authorized to Receive Notices and Communications
on behalf of person(s) filing statement)

July 9, 2010

(Date of Event Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(b)(3) or (4), check the following box .

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Table of ContentsClass A CUSIP No. 257701201 and Class B CUSIP No. 257701300

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1.	NAME OF REPORTING PERSON S.S. OR I.R.S. IDENTIFICATION NOS. OF REPORTING PERSON Gregory M. Shepard	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input type="checkbox"/> (b) <input type="checkbox"/>	
3.	SEC USE ONLY	
4.	SOURCE OF FUNDS PF	
5.	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e) <input checked="" type="checkbox"/>	
6.	CITIZENSHIP OR PLACE OF ORGANIZATION United States of America	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7.	SOLE VOTING POWER Class A 3,140,000; Class B 360,000
	8.	SHARED VOTING POWER -0-
	9.	SOLE DISPOSITIVE POWER Class A 3,140,000; Class B 360,000
	10.	SHARED DISPOSITIVE POWER -0-
11.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON Class A 3,140,000; Class B 360,000	
12.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES <input type="checkbox"/>	
13.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) Class A 15.77%; Class B 6.46%	
14.	TYPE OF REPORTING PERSON IN	

Table of Contents**SCHEDULE 13D**

This Schedule 13D is filed on behalf of Gregory M. Shepard, an individual, for the purpose of reporting transactions in the Class A Common Stock, par value \$0.01 per share, (the "Class A Shares") and the Class B Common Stock, par value \$0.01 per share, (the "Class B Shares") of Donegal Group Inc. Previously, Mr. Shepard filed a Schedule 13G on August 31, 2009 regarding the Class A Shares and the Class B Shares and Amendment No. 1 to Schedule 13G/A on February 15, 2010 regarding the Class A Shares and the Class B Shares.

ITEM 1. SECURITY AND ISSUER.

This Schedule 13D relates to the Class A Shares and Class B Shares of Donegal Group Inc., a Delaware corporation (the "Issuer"). The address of the principal executive offices of the Issuer is 1195 River Road, P.O. Box 302, Marietta, PA 17547.

ITEM 2. IDENTITY AND BACKGROUND.

- a) The person filing this statement is Gregory M. Shepard (the "Filing Person").
- b) The principal business address and the principal office of the Filing Person is 5055 Gulf of Mexico Drive, Longboat Key, FL 34228.
- c) The Filing Person's present principal occupation or employment is investing in securities
- d) Negative.
- e) Negative.
- f) The Filing Person is a citizen of the United States.

ITEM 3. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION.

The aggregate purchase price of 3,140,000 Class A Shares and 360,000 Class B Shares purchased by Filing Person was \$46,026,129 and \$6,009,445 respectively (including commissions). The source of funding for the purchase of these Shares was personal funds.

ITEM 4. PURPOSE OF TRANSACTIONS.

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The Filing Person has been purchasing the Class A and Class B Shares of the Issuer for the past several years based on his belief that the shares represent an attractive investment opportunity.

Except as set forth in this Schedule 13D, the Issuer has no present plan or proposal that would relate to or result in any of the matters or actions described in subparagraphs (a) — (j) of Item 4 of Schedule 13D. Depending on various factors including, without limitation, the price of Class A and Class B Shares of the Issuer, developments affecting the Issuer, conditions in the securities market and general economic and industry conditions and, subject to receipt of any applicable regulatory approvals, the Filing Person reserves the right in the future to take such actions with respect to his investment in the Issuer as he deems appropriate, including the purchase of additional Class A and Class B Shares of the Issuer on the open market or in private transactions or otherwise, on such terms and at such times as the Filing Person may deem advisable.

On June 25, 2010, the Filing Person sent a letter to the Issuer (attached as Exhibit 7.1) regarding the acquisition of Union National Financial Corporation (“UNNF”). On July 9, 2010, the Issuer sent a letter to the Filing Person (attached as Exhibit 7.2) regarding the UNNF acquisition. On July 12, 2010, the Filing Person sent a letter to the Issuer (attached as Exhibit 7.3) regarding the UNNF acquisition.

ITEM 5. INTEREST IN SECURITIES OF THE ISSUER.

- a) As of the close of business on July 12, 2010, the Filing Person may be deemed to beneficially own, in the aggregate, 3,140,000 Class A Shares and 360,000 Class B Shares, representing approximately 15.77% and 6.46%, respectively of the Issuer’s outstanding Class A Shares and Class B Shares (based upon the 19,924,944 Class A Shares and 5,576,775 Class B Shares stated to be outstanding as of March 31, 2010 by the Issuer in the Issuer’s Form 10Q filing, filed with the Securities and Exchange Commission on May 7, 2010).
- b) The Filing Person has sole voting power and sole dispositive power with respect to 3,140,000 Class A Shares and 360,000 Class B Shares.
- c) The following table sets forth all purchases with respect to Class A Shares and Class B Shares effected during the past sixty (60) days by the Filing Person. All such transactions were effected in the open market, the table excludes commissions paid.

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Date	No. of Class A Shares Purchased	Price Per Share	Date	No. of Class B Shares Purchased	Price Per Share
05/12/10	141	14.3000	05/12/10	0	—
05/13/10	590	14.3348	05/13/10	577	17.9584
05/14/10	11,481	14.2049	05/14/10	0	—
05/17/10	1,327	14.0600	05/17/10	0	—
05/18/10	2,657	14.0647	05/18/10	0	—
05/19/10	11,445	14.0356	05/19/10	0	—
05/20/10	16,372	13.6541	05/20/10	0	—
05/21/10	25,693	13.4268	05/21/10	0	—
05/24/10	15,234	13.1946	05/24/10	1,367	16.9241
05/25/10	10,680	12.8055	05/25/10	0	—
05/26/10	10,453	12.7707	05/26/10	0	—
05/27/10	0	—	05/27/10	0	—
05/28/10	6,485	12.9194	05/28/10	0	—
06/01/10	10,000	12.7400	06/01/10	0	—
06/02/10	2,444	12.9999	06/02/10	0	—
06/03/10	7,292	13.0000	06/03/10	0	—
06/04/10	25,390	12.7313	06/04/10	0	—
06/07/10	0	—	06/07/10	0	—
06/08/10	6,634	12.4399	06/08/10	0	—
06/09/10	10,000	12.4541	06/09/10	0	—
06/10/10	0	—	06/10/10	0	—
06/11/10	0	—	06/11/10	0	—
06/14/10	11,257	12.7360	06/14/10	0	—
06/15/10	0	—	06/15/10	0	—
06/16/10	4,038	12.9875	06/16/10	0	—
06/17/10	2,593	13.0089	06/17/10	1,500	17.1337
06/18/10	34,747	13.0436	06/18/10	0	—
06/21/10	18,435	12.9082	06/21/10	0	—
06/22/10	7,639	12.6270	06/22/10	0	—
06/23/10	18,331	12.5879	06/23/10	0	—
06/24/10	4,438	12.5447	06/24/10	2,081	17.0713
06/25/10	157	12.5500	06/25/10	0	—
06/28/10	41,644	12.7737	06/28/10	0	—
06/29/10	20,568	12.4974	06/29/10	0	—
06/30/10	3,860	12.5000	06/30/10	0	—
07/01/10	0	—	07/01/10	372	17.0296
07/02/10	0	—	07/02/10	1,784	17.0000
07/05/10	0	—	07/05/10	0	—
07/06/10	0	—	07/06/10	0	—
07/07/10	0	—	07/07/10	0	—
07/08/10	0	—	07/08/10	0	—
07/09/10	0	—	07/09/10	0	—
07/12/10	0	—	07/12/10	0	—

Table of Contents**ITEM 6. CONTRACTS, ARRANGEMENTS, UNDERSTANDINGS OR RELATIONSHIPS WITH RESPECT TO SECURITIES OF THE ISSUER.**

Except as described herein, the Filing Person does not have any contracts, arrangements, understandings or relationships (legal or otherwise) with any person with respect to any securities of the Issuer, including but not limited to the transfer or voting of any of the securities, finder's fees, joint ventures, loan or option arrangements, puts or calls, guarantees of profits, division of profits or losses, or the giving or withholding of proxies.

ITEM 7. MATERIAL TO BE FILED AS EXHIBITS.

- 7.1 June 25, 2010 Letter from Filing Person to Issuer's CEO
- 7.2 July 9, 2010 Letter from Issuer's CFO to Filing Person
- 7.3 July 12, 2010 Letter from Filing Person to Issuer's CEO

SIGNATURE

After reasonable inquiry and to the best of his knowledge and belief, the undersigned certifies that the information set forth in this statement is true, complete and correct.

DATED: July 12, 2010

/s/ Gregory M. Shepard
Gregory M. Shepard

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- 7.1 June 25, 2010 Letter from Filing Person to Issuer's CEO
- 7.2 July 9, 2010 Letter from Issuer's CFO to Filing Person
- 7.3 July 12, 2010 Letter from Filing Person to Issuer's CEO

EX-7.1 2 c59056exv7w1.htm EX-7.1

Exhibit 7.1:

Gregory M. Shepard
5055 Gulf of Mexico Drive
Longboat Key, FL 34228

June 25, 2010

Mr. Donald H. Nikolaus
CEO
Donegal Mutual Insurance Company
Donegal Group, Inc.
1195 River Road
Marietta, PA 17547

Dear Mr. Nikolaus:

As you know, I have a significant personal investment in Donegal Group Inc. ("DGI") and also own common shares of Union National Financial Corporation ("UNNF"). As with all of my investments, I follow and monitor publicly available information on these companies. Also as you know, my ownership in both DGI and UNNF has been and continues to be for investment purposes only, in both fact and intent, and not for the purpose or having the effect of changing or influencing the control of either company. My inquiry is based upon trying to garner a better, fact-based understanding from the following information:

- A press release dated April 20, 2010 announced Donegal Financial Service Corporation's acquisition of UNNF. At the close of trading, the DGICA shares were valued at \$14.83 per share;
- Three days later, or on April 23, 2010, I noted in the press release announcing DGI's first quarter results, that total stockholders' equity, or book value, was \$385,428,382, or a per common share amount of \$15.11 as of the close of the first quarter on March 31, 2010;
- Simply put, I am writing to inquire why Donegal Mutual is utilizing over 500,000 DGICA shares currently trading at about \$12.50 per share (or 83% of DGI book value) for this UNNF acquisition, which is non-strategic in nature? At 83% of book value, why would Donegal Mutual not use its cash reserves for this purchase?

I look forward to receiving your reply and to better understanding your planned direction and use of this acquisition.

Cordially yours,

Gregory M. Shepard



DONEGAL
GROUP INC.

1195 River Road
Box 302
Marietta, PA 17547-0302 (717) 426-1931
www.donegalgroup.com

July 9, 2010

VIA E-MAIL AND FIRST CLASS MAIL

Gregory M. Shepard
5055 Gulf of Mexico Drive
Longboat Key, FL 34228

Dear Mr. Shepard:

On behalf of Donegal Group Inc. ("DGI"), we provide DGI's response to your letter of June 25, 2010 to Don Nikolaus. As your subsequent e-mail requested, we have also e-mailed a copy of our response to you.

We acknowledge the investment in DGI that your Schedule 13G dated February 16, 2010 reports. However, as you know from our prior communications, DGI does not acknowledge or agree with your characterization of your ownership as "passive."

Your June 25, 2010 letter questioned the agreement of Donegal Mutual Insurance Company ("Donegal Mutual") to provide a portion of the merger consideration for the UNNF acquisition by contributing 600,000 shares of Class A common stock of DGI that Donegal Mutual has held for many years. Because these shares are currently outstanding shares, this use of the Class A shares by Donegal Mutual is not dilutive to DGI's current stockholders in any respect. The acquisition of UNNF serves many valid business interests of the various Donegal entities involved in the acquisition. DGI has described these business interests in detail in the publicly available Form S-4 registration statement related to the transaction that DGI filed with the SEC. We reference the section of that registration statement entitled "The Merger — The Donegal Parties' Reasons for the Merger."

Gregory M. Shepard
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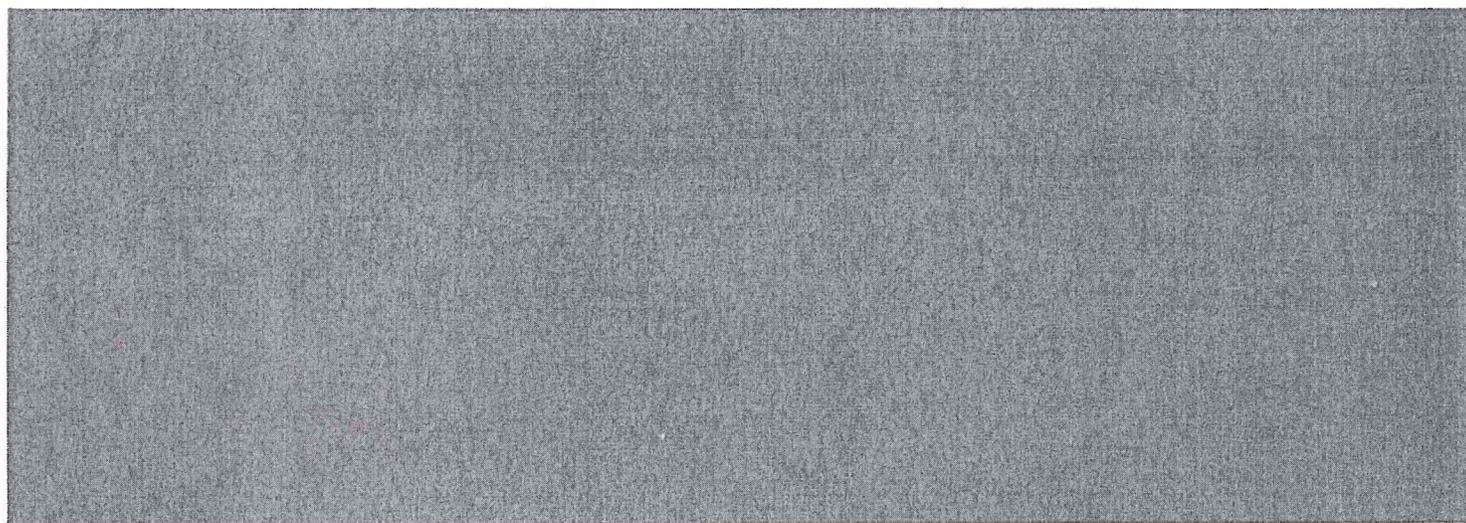
We believe this letter and the information in the registration statement answer your question. Finally, we trust that you understand that it is DGI's policy not to comment or provide any information on an individual basis to stockholders or others regarding DGI's disclosures in its publicly filed documents.

Sincerely,



Jeffrey D. Miller,
Senior Vice President and Chief Financial Officer

cc: Donald H. Nikolaus



EX-7.3 4 c59056exv7w3.htm EX-7.3

Exhibit 7.3

July 12, 2010

The Boards of Directors
c/o Donald H. Nikolaus
Chief Executive Officer
Donegal Group Inc.
Donegal Mutual Insurance Company
1195 River Road
Marietta, PA 17547

Dear Boards of Directors:

After careful analysis of the facts available to me, I am writing to you to gain additional information concerning the proposed merger transaction of Union National Financial Corporation ("UNNF") and Donegal Mutual Insurance Company ("Donegal Mutual"). Please know that I personally own 3,140,000 Class A and 360,000 Class B shares of Donegal Group Inc. ("DGI") representing approximately 15.8% and 6.5%, respectively of the Class A and Class B outstanding common shares. However, I am currently not a Donegal Mutual policy holder. (Additionally, I own 20,000 common shares of UNNF.)

As you know, my significant personal ownership and investment in both DGI and UNNF has been and continues to be for investment purposes, not for the purposes of having the effect of changing or influencing the control of either company. As an investor seeking a reasonable return on my investment, for over 5 years I have deferred to your communicated stated strategy and business judgment to execute that strategy. Unfortunately the value of my investment in DGI has declined, not increased.

Approximately 10 years ago, 17 million dollars of capital was invested by DGI in Province Bank FSB while Donegal Mutual built Province Bank a beautiful home office building in Marietta, Pennsylvania for approximately 3 million dollars. In spite of this lack of focus upon strengthening the property and casualty insurance business of Donegal Mutual and DGI through the aforesaid investment and (more recently in August 2008 with Donegal Mutual's acquisition of Conestoga Title Insurance Company) ("Conestoga"), I have remained confident in management focusing upon its property and casualty insurance business. However, I am concerned with Donegal Mutual's proposed acquisition of UNNF, which has lost nearly 1.5 million dollars (before tax) over the past 3 years.

It is my understanding that DGI (and its wholly owned subsidiaries), through a pooling agreement with Donegal Mutual, has as its focus to offer property and casualty business distributed through a network of independent insurance agencies located throughout the Mid-Atlantic, Southeast, and Midwest. Please know I understand this strategy and the business risk involved, and have supported this strategy through my personal investment in DGI.

My letter to you is for you to respond and me to better understand: (a) how owning UNNF will support profitable growth of the property and casualty business

underwritten by the insurers and (b) why Donegal Mutual is using over 500,000 DGICA shares it currently owns, currently trading at 80-85% of DGI's book value, as opposed to substituting cash to make this purchase.

I look forward to receiving this requested information and to better understanding the strategic direction which is being pursued.

Respectfully,

Gregory M. Shepard