

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**SCHEDULE TO**

(Rule 14D-100)

TENDER OFFER STATEMENT UNDER SECTION 14(d)(1) OR 13(e)(1) OF THE SECURITIES EXCHANGE ACT OF 1934  
(AMENDMENT NO. 3)

**DONEGAL GROUP INC.**

(Name of Subject Company (Issuer))

**GREGORY MARK SHEPARD**

(Name of Filing Persons (Offeror))

CLASS B COMMON STOCK, PAR VALUE \$0.01 PER SHARE

(Title of Class of Securities)

257701300

(CUSIP Number of Class of Securities)

J. Victor Peterson

Lathrop & Gage LLP

155 North Wacker Drive

Chicago, IL 60606-1787

(312) 920-3300

(Name, Address and Telephone Numbers of Person Authorized to Receive Notices and Communications  
on Behalf of Filing Person)

CALCULATION OF FILING FEE

TRANSACTION VALUATION\*

AMOUNT OF FILING FEE\*\*

\$28,879,080

\$3,939.11

\* For purposes of calculating the filing fee pursuant to Rule 0-11(d) only, the transaction valuation was calculated on the basis of the purchase of 962,636 shares of Donegal Group Inc. Class B common stock at the Tender Offer price of \$30.00 per share.

\*\* The filing fee, calculated in accordance with Rule 0-11 of the Securities Exchange Act of 1934 and Fee Rate Advisory No. 1 for fiscal year 2013 issued by the Securities and Exchange Commission on August 31, 2012, by multiplying the transaction value by 0.0001364.

x Check the box if any part of the fee is offset as provided by Rule 0-11 (a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid:

\$3,939.11

Filing Parties:

Gregory Mark Shepard

Form or Registration No.:

005-39100

Date Filed:

March 20, 2013

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

Check the appropriate boxes below to designate any transactions to which the statement relates:

x third-party Tender Offer subject to Rule 14d-1.

issuer Tender Offer subject to Rule 13e-4.

going-private transaction subject to Rule 13e-3.

x amendment to Schedule 13 D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the Tender Offer:

This Amendment No. 3 (this "Amendment") is filed by Gregory Mark Shepard, a Florida resident ("Offeror"). This Amendment further amends and supplements the Tender Offer Statement on Schedule TO and the exhibits thereto originally filed by Offeror with the Securities and Exchange Commission (the "SEC") on March 20, 2013, as previously amended and supplemented by Amendment No. 1 thereto filed by Offeror with the SEC on March 27, 2013, and Amendment No. 2 thereto filed by Offeror with the SEC on April 9, 2013 (as previously amended and supplemented, the "Schedule TO"). The Schedule TO relates to the offer by Offeror to purchase, for cash, 962,636 shares of Class B common stock, par value \$0.01 per share ("Class B Shares"), or such lesser number of shares as are properly tendered and not properly withdrawn, of Donegal Group Inc., a Delaware corporation (the "Company"), at a price of \$30.00 per share, net to the seller in cash, without interest thereon and less any required withholding taxes, upon the terms and subject to the conditions set forth in the Offer to Purchase dated March 20, 2013 (the "Offer to Purchase"), a copy of which is attached as Exhibit (a)(1)(A) to the Schedule TO, and in the related Letter of Transmittal, a copy of which is attached as Exhibit (a)(1)(B) to the Schedule TO.

Capitalized terms used in this Amendment but not otherwise defined have the meanings ascribed to them in the Offer to Purchase.

As permitted by General Instruction G to Schedule TO, this Amendment is also an amendment to the statement on Schedule 13D originally filed on July 12, 2010, as subsequently amended, by Offeror.

**Item 12. Exhibits.**

Item 12 of Schedule TO is hereby amended and supplemented to include the following: "(a)(1)(J) Text of press release regarding offer issued by Offeror dated April 11, 2013," and "(a)(1)(K) Letter from Offeror to Donald H. Nikolaus, President and CEO of the Company, dated April 10, 2013."

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

By: / S / GREGORY MARK SHEPARD

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## EXHIBIT INDEX

<b>EXHIBIT NO.</b>	<b>DOCUMENT</b>
(a)(1)(A)	Offer to Purchase dated March 20, 2013. *
(a)(1)(B)	Form of Letter of Transmittal. *
(a)(1)(C)	Form of Notice of Guaranteed Delivery. *
(a)(1)(D)	Form of Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees. *
(a)(1)(E)	Form of Letter to Clients for use by Brokers, Dealers, Commercial Banks, Trust Companies and other Nominees. *
(a)(1)(F)	Summary Advertisement as published in Investor's Business Daily on March 20, 2013. *
(a)(1)(G)	Text of press release regarding offer issued by Offeror dated March 20, 2013. *
(a)(1)(H)	Text of press release regarding offer issued by Offeror dated March 27, 2013. *
(a)(1)(I)	Text of press release regarding offer issued by Offeror dated April 9, 2013. *
(a)(1)(J)	Text of press release regarding offer issued by Offeror dated April 11, 2013.
(a)(1)(K)	Letter from Offeror to Donald H. Nikolaus, President and CEO of the Company, dated April 10, 2013.
(b)	Not Applicable.
(d)(1)	Not Applicable.
(d)(2)	Not Applicable.
(d)(3)	Not Applicable.
(e)	Not Applicable.
(f)	Not Applicable.

\* Previously filed.

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## FOR IMMEDIATE RELEASE

**Shepard Blasts Donegal Group CEO Nikolaus for Outrageous Potential Dilution of Shareholders**

Bradenton, Florida, April 11, 2013 (NASDAQ: "DGICB") – Gregory M. Shepard announced today that he has sent a letter to Donegal Group Inc.'s ("Donegal") CEO and President, Don Nikolaus, demanding that he explain the extraordinarily high number of options granted to himself and other Donegal insiders and employees relative to industry peers at Donegal's upcoming Annual Meeting of Shareholders on April 18, 2013. The letter is available on the SEC's website at [www.sec.gov](http://www.sec.gov), under Donegal Group or under Gregory Mark Shepard, as an attachment to Mr. Shepard's Schedule TO amendment filed today.

According to Mr. Shepard, "The number of Donegal Class A shares issuable upon the exercise of options granted through December 31, 2012, is approximately 33% of Donegal's total number of Class A shares outstanding, calculated on a fully diluted basis." Mr. Shepard continued, "I hired Duff & Phelps to assist me in compiling the numbers. The results show a staggering disregard on the part of Don Nikolaus and the Donegal Board of Directors for their shareholders, in my opinion. Don Nikolaus and the Board members have enriched themselves at the expense of shareholders."

According to Mr. Shepard, "The potential dilution to Donegal shareholders because of option grants far exceeds that of the peer companies listed by Donegal in its 2012 10-K. The peer companies listed by Donegal are Cincinnati Financial Corp. ("CINF"), Eastern Insurance Holdings Inc. ("EIHI"), EMC Insurance Group Inc. ("EMCI"), The Hanover Insurance Group, Inc. ("THG"), Horace Mann Educator's Corp. ("HMN"), Selective Insurance Group, Inc. ("SIGI"), State Auto Financial Corp. ("STFC"), Tower Group International, Ltd. (formerly Tower Group Inc.) ("TWGP") and United Fire and Casualty Co. ("UFCS"). The shares issuable upon the exercise of options granted through December 31, 2012 by these peer companies amount to 4.8%, 13.7%, 12.3%, 6.5%, 4.8%, 2.0%, 8.2%, and 2.2% of their respective total outstanding shares (data unavailable for United Fire)."

"In comparison, the Donegal Class A shares issuable upon the exercise of options granted as of December 31, 2012, are an astounding 33% of the total outstanding Class A shares – almost three times as high as the next closest peer group company," said Mr. Shepard.

Mr. Shepard continued, "Shame on Don Nikolaus and the Donegal Board of Directors. At the upcoming Annual Meeting of Shareholders, Don Nikolaus and the Board want shareholders to approve a new Class A stock option plan that would authorize the granting of options for yet another 4.5 million Class A shares, plus options for an additional 600,000 Class A shares to the Donegal directors, including the directors of Donegal Mutual. This is on top of the previously granted options for 6,700,825 Class A shares. Donegal currently has only approximately 20.1 million Class A shares and 5.6 million Class B shares outstanding."

"It is particularly ironic that Donegal declined to recommend my tender offer to Class B stockholders, in part because Donegal wants these new stock option plans approved," said Mr. Shepard.

Mr. Shepard added, "I first became a Donegal stockholder in 2005. At year-end 2005, Donegal had granted options for 735,802 Class A shares, representing approximately 5.2% of the 14,258,646 then-outstanding Class A shares and 4.0% of the 18,440,663 then-outstanding Class A and Class B shares combined. At the end of 2012, Donegal has granted options for 6,700,825 Class A shares, representing 33.5% of the 20,025,199 outstanding Class A Shares and 26.2% of the 25,601,974 outstanding Class A and Class B shares combined. The options have increased by 655% (i.e., 26.2% / 4.0%) in 7 years. That is outrageous. By comparison, Donegal's book value has only increased by a total of 13% in the last 5 years."

Mr. Shepard asks stockholders to call Don Nikolaus, at 800-877-0600, and Jeffrey Miller, Senior Vice President and Chief Financial Officer, at 717-426-1931, if they are dissatisfied with the potential dilution to the shareholders.

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On March 20, 2013, Gregory M. Shepard announced a tender offer for 962,636 of the outstanding shares of Class B Common Stock of Donegal at a price of \$30 per Class B share (the "Offer"). The Offer represents approximately a 42% premium to the closing price of Donegal Class B shares on NASDAQ on March 19, 2013 – the last full trading day prior to the commencement of the Offer.

The Offer is not subject to any financing contingency. Other conditions apply to the Offer, including the tender of at least 925,000 Class B shares, insurance and bank regulatory approvals, expiration or early termination of the Hart-Scott-Rodino waiting period, and no litigation involving the Offer. Mr. Shepard is also seeking the appointment of three persons selected by him to the Donegal Board and the Board of Donegal Mutual Insurance Company ("Donegal Mutual"), as a condition of the Offer, without an increase in the size of each board from 12 directors.

The Offer will expire on April 19, 2013 at 11:59 p.m., New York City time, unless extended. Tenders of shares of Donegal's Class B Common Stock must be made prior to the expiration of the Offer and may be withdrawn at any time prior to the expiration of the Offer. Only shares properly tendered and not properly withdrawn pursuant to the Offer will be purchased. **The Offer includes withdrawal rights so that a tendering shareholder can freely withdraw any shares prior to acceptance of such shares for payment under the Offer.**

Mr. Shepard is the beneficial owner of 3,602,900 Class A shares and 397,100 Class B shares of Donegal, which he acquired at a total cost of \$58.6 million. Mr. Shepard has been a Class A and a Class B shareholder of Donegal since 2005, and he is now by far Donegal's largest shareholder with the exception of Donegal Mutual.

This press release is neither an offer to purchase nor a solicitation of an offer to sell shares of Donegal. It does not purport to be complete and is qualified in its entirety by reference to the complete text of the Offer to Purchase and the related Letter of Transmittal, which contain important information that should be read carefully before any decision is made with respect to the Offer.

The Offer to Purchase and the related Letter of Transmittal and Notice of Guaranteed Delivery are filed with the SEC and are available through the SEC's website at <http://www.sec.gov/>. Any questions or requests for assistance or for additional copies of the Offer to Purchase, the related Letter of Transmittal and other related tender offer materials may be directed to the Information Agent at its address and telephone numbers set forth below, and copies will be furnished promptly at the Offeror's expense. **The Information Agent for the Offer is: D.F. King & Co., Inc.**, 48 Wall Street, 22nd Floor, New York, NY 10005. Banks and Brokerage Firms please call collect: (212) 269-5550. All others call toll-free: (800) 967-5079. Email: [information@dfking.com](mailto:information@dfking.com)

Duff & Phelps' analysis was provided to Mr. Shepard, at his request and expense, solely for informational purposes. The analysis is derived from data sourced from third parties, and Duff & Phelps takes no responsibility for any inaccuracies, errors or omissions in the third party source data or the analysis, and Duff & Phelps offers no representations, warranties or assurances with respect to, and accepts no liability or responsibility in connection with, either the source data or the analysis.

THE OFFER IS NOT INTENDED TO AND DOES NOT CONSTITUTE (I) A SOLICITATION OF A PROXY, CONSENT OR AUTHORIZATION FOR OR WITH RESPECT TO THE ANNUAL MEETING OR ANY SPECIAL MEETING OF DONEGAL'S STOCKHOLDERS OR (II) A SOLICITATION OF A CONSENT OR AUTHORIZATION IN THE ABSENCE OF ANY SUCH MEETING.

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Gregory M. Shepard  
7028 Portmarnock Place  
Bradenton, Florida 34202

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April 10, 2013

Mr. Donald H. Nikolaus  
President & Chief Executive Officer  
Donegal Group, Inc.  
1195 River Road  
Marietta, Pennsylvania 17547

Re: Request for Explanation of Extraordinarily High Level of Option Grants

Dear Mr. Nikolaus:

As you know, I have been a longstanding shareholder of Donegal Group, Inc. ("Donegal") and currently hold 3,602,900 shares of Class A and 397,100 shares of Class B stock.

I am very disappointed that you have continued to issue options, especially to yourself and the other executives and directors, including Donegal Mutual Insurance Company directors, in such an outrageously high manner in comparison to even the industry peer companies identified by Donegal. These option grants are potentially highly dilutive to the shareholders.

I would like you to explain to the shareholders at the upcoming Annual Meeting on April 18, 2013, why you believe this was in the shareholders' best interest, given the dismal price performance of Donegal's Class A shares and Class B shares over the last seven years.

I attach an analysis that was compiled based on publicly available data by Duff & Phelps. I ask you to distribute this letter to the shareholders at the annual meeting and to discuss and justify your actions.

Very truly yours,

/s/ Gregory M. Shepard

Gregory M. Shepard

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# Memo

**To:** Gregory M. Shepard  
**From:** Duff & Phelps, LLC  
**Subject:** Analysis of Options Grants of Donegal Group, Inc,  
**Date:** April 10, 2013

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Dear Mr. Shepard:

We were engaged to perform an analysis of the option grants made by Donegal Group (“Donegal”). Listed below is a summary of our findings. Please refer to the attached appendix which has schedules supporting our analysis.

## I. Current Options

- Donegal has 3.1 million Vested options as of 12/31/2012, which is in the upper quartile of the group of selected guideline public companies (“GPCs”)
- Donegal has 3.6 million Unvested options as of 12/31/2012, which is the highest number in the group of selected GPCs
- The number of Donegal’s in-the-money options is equal to 3.9 million, which equates to a \$3.4 million liability, if exercised
- Relative to GPC, Donegal:
  - o has the highest number of Options Granted with 1.8 million, 2.3 million and 1.3 million, in 2010, 2011 and 2012, respectively
  - o has the highest number of Options Granted in relation to Total Number of Shares Outstanding, with 9.0%, 11.5% and 6.5% in 2010, 2011 and 2012, respectively, all of which are at least 6.0x the average of the GPCs
  - o has the highest number of Options Granted from 2010-2012 in relation to Total Shares Outstanding at 27.0%

This analysis is provided solely for informational purposes and is derived from data sourced from third parties, and D&P takes no responsibility for any inaccuracies, errors or omissions in such third party data or in the analysis itself, and D&P offers no representations, warranties or assurances with respect thereto, and accepts no liability or responsibility in connection with either of the source data or the analysis.

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- o has the highest number of Options Granted (Cumulative) in relation to the Total Number of Shares Outstanding, with 20.0%, 26.5% and 33.4% in 2010, 2011 and 2012
- o is the highest in Option Value (calculated as Fair Value as of the date of grant) for all options granted from 2010-2012 as % of Market Capitalization (2.7%)<sup>1</sup>
- o is the highest in its group of GPCs in Total Value of Options at Grant Date in 2012, with \$10.3 million in value <sup>2</sup>
- o is in the top of the upper quartile in its group of GPCs in Options Granted (Cumulative), with 4.0 million, 5.3 million and 6.70 million options outstanding in 2010, 2011 and 2012, respectively.

## II. Earnings Dilution

- The analysis in Section II assumes that the additional 10 million shares are authorized and issued in 2013.
- We assume two different Net Income Forecasts for 2013.
  - o If we assume that 2013 Net Income remains unchanged from 2012 at \$18.5:
    - The increase in Class A Shares Outstanding would dilute EPS from \$0.91 in 2012 to \$0.61 in 2013
    - This increase in Class A Shares Outstanding would also result in decreased earnings attributable to Mr. Shepherd from \$3.27 million in 2012 to \$2.19 million in 2013
  - o If we assume that 2013 Net Income increased to \$24.1 million (based on a forecast from Thomson Reuters):
    - The increase in Total Number of Class A Shares Outstanding would dilute EPS from \$0.91 in 2012 to \$0.79 in 2013

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<sup>1</sup> This analysis excludes certain competitors whose Market Capitalization was less than \$250 million or greater than \$750 million as of 12/31/2012.

<sup>2</sup> Id.

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- This increase in Class A Shares Outstanding would also result in decreased earnings attributable to Mr. Shepherd from \$3.27 million in 2012 to \$2.86 million in 2013

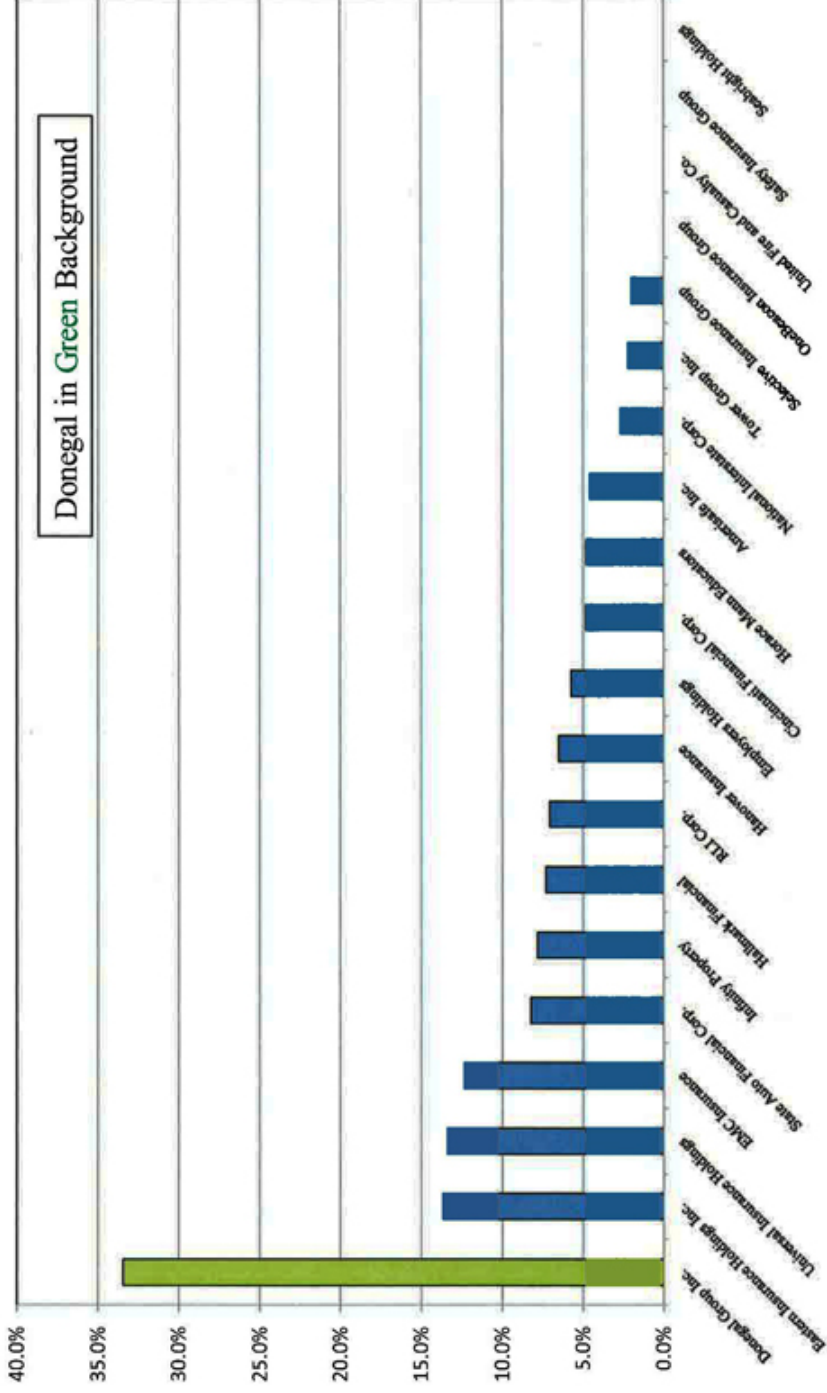
### III. Voting Dilution

- If the 10 million additional authorized shares are issued in 2013:
  - o The number of Total Number of Class A Shares Outstanding increases to 30.05 million (approximately 50% increase)
  - o The increase in Class A Shares Outstanding dilutes Mr. Shepherd's voting rights from 9.99% in 2012 to 8.8% in 2013
  - o This increase in Class A Shares Outstanding would also dilute the voting rights of the average shareholder by roughly 11.6% (1 less 2012 Voting Shares of 7.58 million divided by 2013 Voting Shares of 8.58 million)

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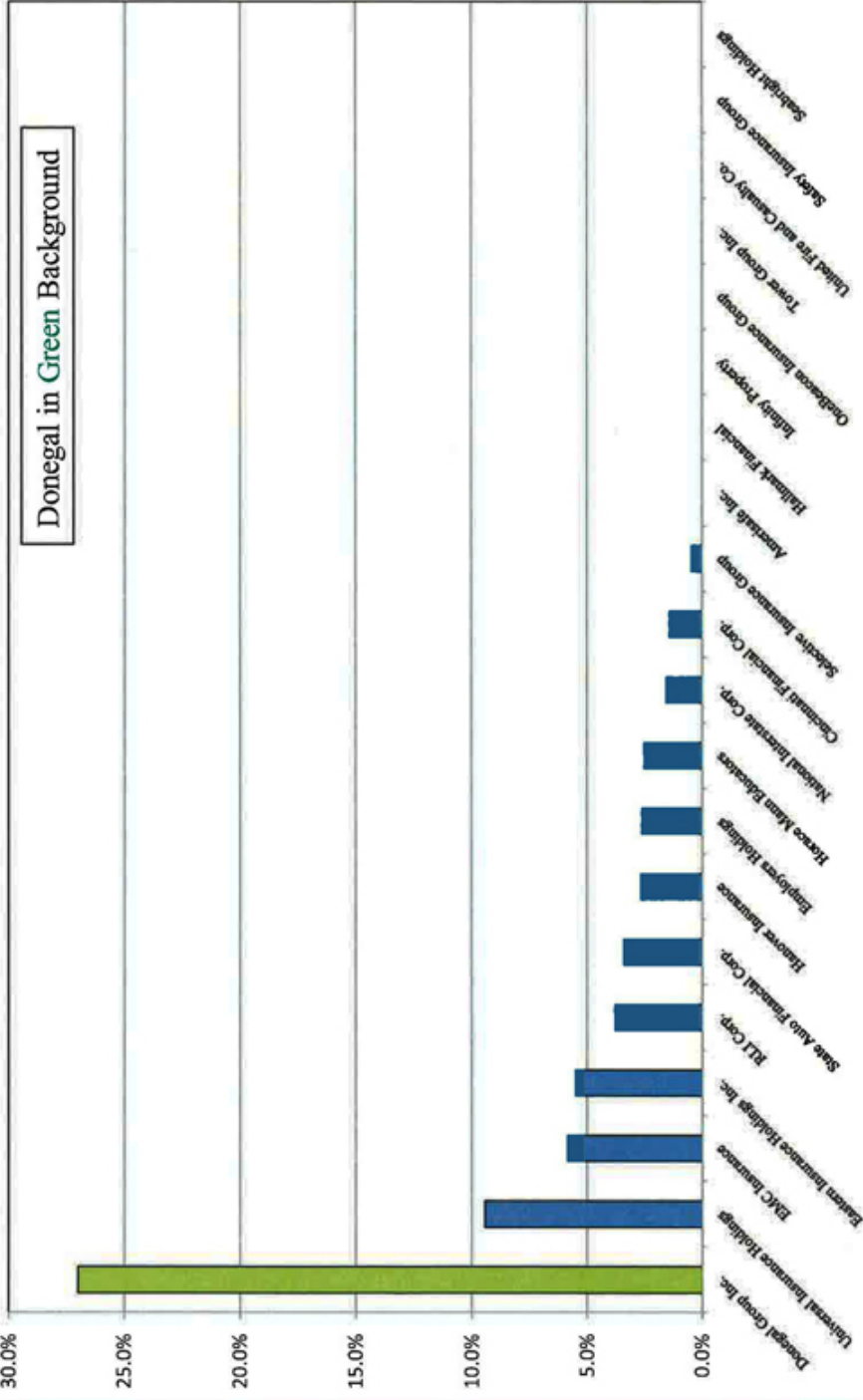
## Cumulative Granted Options as % of Shares Outstanding, fully diluted



Donegal in Green Background

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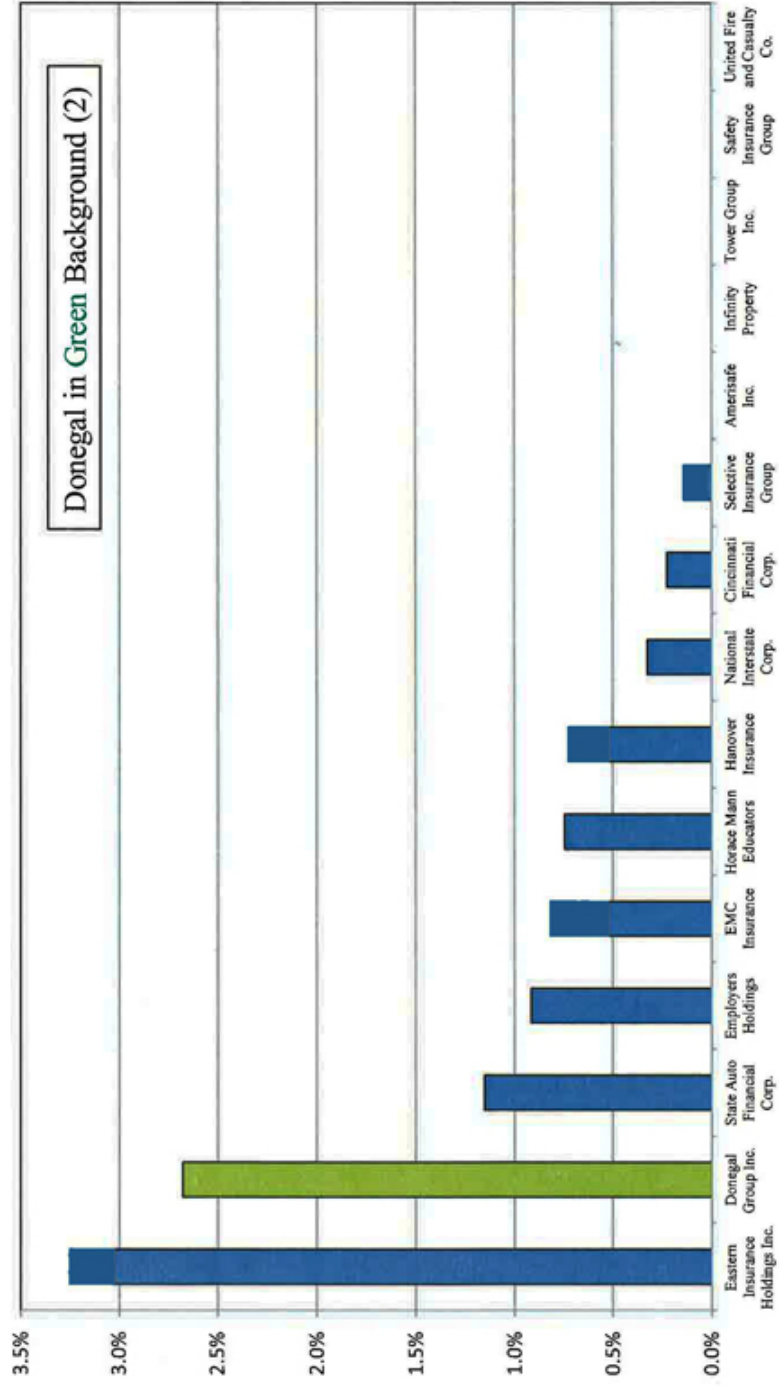
### Granted Options from 3 Yr Period (2010-2012) as % of Shares Outstanding, fully diluted



Donegal in Green Background

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## Value of Granted Options as % of Market Cap (1)



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- (1) Option value denotes the fair value (Black-Scholes value) of the granted options as of the grant date. Granted options include vested and unvested options.
- (2) This analysis excludes certain competitors whose Market Capitalization was greater than \$750 million or less than \$250 million as of 12/31/2012.

**Donegal Group Inc.**  
*Stock Option Analysis*  
 For years ending December 31, 2010-2012

(in millions, except per share results)

Company (1)	Current as of December 31, 2012				Options Granted				Options Granted (Cumulative)					
	Market Cap.	Total Value of Options Granted Opposer 2010-2012 as % of Market Cap.	Options Granted in 2010 (in millions)	As % of Shares Outstanding	Options Granted in 2011 (in millions)	As % of Shares Outstanding	Options Granted in 2012 (in millions)	As % of Shares Outstanding	Options Granted through 2010 (in millions)	As % of Shares Outstanding	Options Granted through 2011 (in millions)	As % of Shares Outstanding	Options Granted through 2012 (in millions)	As % of Shares Outstanding
Aerotech Inc.	\$ 317.9	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%	1.27	6.8%	0.92	3.0%	0.83	4.0%
EMC Insurance	313.4	2.36	0.22	1.7%	0.28	2.1%	0.26	2.0%	1.25	9.0%	1.44	11.0%	1.59	12.3%
Employers Holdings	653.2	5.97	0.41	1.0%	0.36	0.7%	0.20	0.6%	1.80	4.3%	1.80	4.8%	1.80	5.7%
Hallmark Financial	183.6	*	0.00	0.0%	0.00	0.0%	0.00	0.0%	1.60	8.0%	1.40	7.1%	1.60	7.3%
Infinity Property	700.6	*	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.24	1.9%	0.19	1.6%	0.91	2.8%
National Interstate Corp.	581.2	1.88	0.10	0.3%	0.10	0.3%	0.10	0.3%	0.60	3.1%	0.60	3.1%	0.52	2.7%
RLI Corp.	1,400.0	10.44	0.20	1.0%	0.30	1.4%	0.30	1.4%	1.50	7.1%	1.30	6.2%	1.50	7.1%
Oceflexcon Insurance Group	1,380.0	*	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.80	0.8%	0.70	0.7%	0.00	0.0%
Eastern Insurance Holdings Inc.	1,163.3	4.43	0.20	2.4%	0.80	0.7%	0.24	3.1%	0.80	9.5%	0.80	10.2%	1.03	13.7%
Haworth Insurance	1,750.0	12.71	0.40	0.9%	0.30	0.7%	0.36	1.1%	2.80	6.1%	2.70	6.0%	2.90	6.5%
Horse Man Educators	802.9	5.98	0.40	1.0%	0.30	0.8%	0.30	0.8%	2.80	7.1%	2.60	6.5%	1.90	4.8%
State Auto Financial Corp.	646.4	7.44	0.60	1.3%	0.60	1.3%	0.40	0.8%	3.40	7.3%	3.80	8.1%	3.90	8.2%
United Fire and Casualty Co. (2)	N/A	*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cincinnati Financial Corp.	6,490.0	14.56	0.90	0.6%	0.90	0.6%	0.50	0.3%	9.70	5.9%	9.40	5.8%	7.90	4.8%
Tower Group Inc.	766.1	*	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.92	2.1%	0.80	2.1%	0.86	2.2%
Solvative Insurance Group	1,090.0	1.54	0.10	0.4%	0.00	0.0%	0.00	0.0%	1.40	2.6%	1.24	2.3%	1.10	2.0%
Safety Insurance Group	718.4	*	0.11	0.7%	0.10	0.6%	N/A	N/A	0.20	1.3%	0.10	0.7%	N/A	N/A
Seabright Holdings (3)	238.2	*	0.20	1.0%	0.20	0.9%	N/A	N/A	1.40	6.7%	1.50	7.1%	N/A	N/A
Universal Insurance Holdings	178.7	5.55	1.70	4.3%	1.50	3.8%	0.30	1.3%	5.40	13.8%	6.70	17.1%	5.30	13.4%
<b>Donegal Group Inc.</b>	<b>386.6</b>	<b>10.34</b>	<b>1.89</b>	<b>9.0%</b>	<b>2.30</b>	<b>11.5%</b>	<b>1.30</b>	<b>6.5%</b>	<b>4.00</b>	<b>20.8%</b>	<b>5.30</b>	<b>26.5%</b>	<b>6.70</b>	<b>33.4%</b>
Min	\$ 126.30	*	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.20	0.8%	0.10	0.7%	0.10	0.9%
Max (4)	6,490.00	14.56	3.3%	3.3%	2.30	11.5%	1.30	6.5%	9.70	20.8%	9.40	26.5%	7.90	33.4%
Average	993.34	4.17	0.39	1.4%	0.38	1.3%	0.27	1.1%	2.20	6.3%	2.28	6.9%	2.36	8.0%
Median	653.19	2.22	0.20	0.9%	0.20	0.6%	0.24	0.6%	1.40	6.7%	1.40	6.0%	1.50	6.3%

(1) Information per S&P Capital IQ  
 (2) No public information available for United Fire & Casualty Company  
 (3) Information per 2011 10K, 2012 10K, has not been filed yet  
 (4) Numbers in bold denote when Donegal is the highest (or max) of the comparator set.

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**Donegal Group Inc.**

Stock Options Analysis  
For year ended December 31, 2012

Share Price as of 12/31/2012 \$ 14.04

Exercise Price (1)	Remaining Contractual Life		Options Outstanding	Exercise Value of Options Outstanding (2)	Options Vested	Exercise Value of Options Vested (3)	Options Unvested	Exercise Value of Options Unvested (3)
	9.0 yrs	3.0 yrs						
\$ 12.50			2,184,542	\$ 3,364,195	728,181	\$ 1,121,399	1,456,361	\$ 2,242,796
14.00			1,710,683	68,427	1,133,789	45,352	576,894	23,076
14.50			1,593,600	-	0	-	1,593,600	-
15.00			3,000	-	2,000	-	1,000	-
17.50			1,198,500	-	1,198,500	-	0	-
18.70			3,000	-	3,000	-	0	-
21.00			7,500	-	7,500	-	0	-
			<b>6,700,825</b>	<b>\$ 3,432,622</b>	<b>3,072,970</b>	<b>\$ 1,166,750</b>	<b>3,627,855</b>	<b>\$ 2,265,872</b>
			3,895,225		1,861,970		2,033,255	
			2,805,600		1,211,000		1,594,600	
			<b>6,700,825</b>		<b>3,072,970</b>		<b>3,627,855</b>	

# of in-the-money options: 3,895,225  
# of out-of-the-money options: 2,805,600  
Total Number of options: 6,700,825

(1) Information per Donegal's 10K for period ending December 31, 2012.

(2) Calculated as the difference between share price and exercise price times the number of options outstanding (for in-the-money options).

(3) Calculated as the difference between share price and exercise price times the number of options vested (for in-the-money options).

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# Donegal Group Inc.

## Stock Option Analysis

For years ended December 31, 2007-2012

	2007	2008	2009	2010	2011	2012	2013 (proposed) (2)	2013 (proposed) (2)
Net Income (1)	\$ 30,514,000	\$ 20,404,000	\$ 15,049,000	\$ 9,183,000	\$ 390,000	\$ 18,455,000	\$ 18,455,000	\$ 24,100,000
Class A Shares Outstanding (1)	19,685,674	19,866,099	19,903,069	19,961,274	19,997,146	20,031,455	30,050,649	30,050,649
Basic EPS	\$ 1.55	\$ 1.03	\$ 0.76	\$ 0.46	\$ 0.02	\$ 0.92	\$ 0.61	\$ 0.80

### Analysis of Donegal's Share / Voting Structure

Class A Shares Outstanding (1)	20,050,649	30,050,649	30,050,649	30,050,649
Class B Shares Outstanding (1)	5,576,755	5,576,755	5,576,755	5,576,755
Class A Shares Votes per Share	10.0%	10.0%	10.0%	10.0%
Class B Shares Votes per Share	100.0%	100.0%	100.0%	100.0%
Class A Votes	2,005,065	3,005,065	3,005,065	3,005,065
Class B Votes	5,576,755	5,576,755	5,576,755	5,576,755
Total Voting Shares	7,581,820	8,581,820	8,581,820	8,581,820

### Analysis of Shepard's Share / Voting Structure

Class A Shares Owned by Shepard	3,602,900	3,602,900	3,602,900	3,602,900
Class B Shares Owned by Shepard	397,000	397,000	397,000	397,000
Class A Shares Votes per Share for Shepard	10.0%	10.0%	10.0%	10.0%
Class B Shares Votes per Share for Shepard	100.0%	100.0%	100.0%	100.0%
Class A Votes for Shepard	360,290	360,290	360,290	360,290
Class B Votes for Shepard	397,000	397,000	397,000	397,000
Total Voting Shares for Shepard	757,290	757,290	757,290	757,290
Voting rights as % of Total Votes (3)	9.99%	8.82%	8.82%	8.82%
Earnings attributable to Shepard	\$ 3,274,548	\$ 2,192,648	\$ 2,192,648	\$ 2,863,334

(1) Information per Donegal's 10K's.

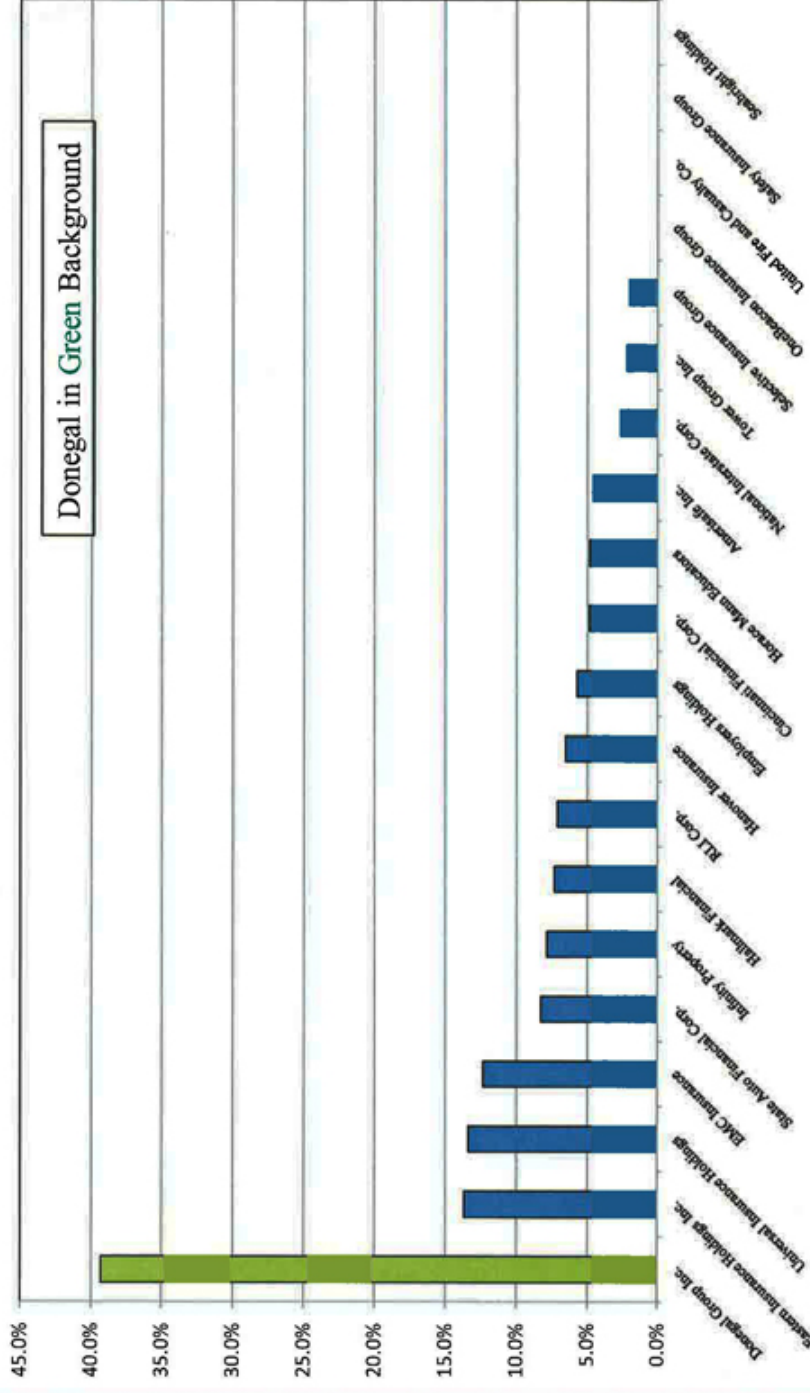
(2) The first approach for 2013 assumes the same net income as 2012, while the second approach uses analyst estimates from Thomson Reuters.

(3) Calculation for Voting Rights as % of Total Votes divides the Total Voting Shares for Shepard by the Total Voting (e.g. the 2012 % of 9.99% divides the 757,290 Total Voting Shares for Shepard by the 7,581,820 Total Voting Shares).

(4) Assumes that 10 million shares are issued in 2013.

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**Cumulative Granted Options as % of Shares Outstanding, fully diluted**  
**Assumes additional 10.0 million shares and 5.1 million options granted in 2013**



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