

# **LONE STAR RISK RETENTION GROUP, INC.**

**(a Risk Retention Group Formed in the State of Texas)**

## **INFORMATION CIRCULAR**

**March 2005**

**Lone Star Risk Retention Group, Inc.  
Attn: Linda S. Nethery  
Rankin-Shuttleworth of Georgia, LLC  
2224 Walsh-Tarlton Lane  
Austin, Texas 78746**

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**NEITHER THIS OFFER TO BECOME A SUBSCRIBER NOR THE SHARES IN THE CORPORATION HAVE BEEN REGISTERED UNDER THE FEDERAL OR ANY STATE SECURITIES LAWS BUT ARE BEING MADE PURSUANT TO EXEMPTIONS CONTAINED IN THE FEDERAL LIABILITY RISK RETENTION ACT OF 1986. THESE SHARES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS ANY SUCH REGULATORY BODY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS INFORMATION CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**THE SHARES OF THE CORPORATION ARE SPECULATIVE, AND THE PURCHASE THEREOF INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS."**

**THERE IS NO PUBLIC MARKET FOR ANY OF THE CORPORATION'S SHARES AND NO SUCH MARKET IS EXPECTED TO DEVELOP. SIGNIFICANT RESTRICTIONS ON TRANSFERRABILITY WILL APPLY. PROSPECTIVE SUBSCRIBERS SHOULD BE PREPARED TO BEAR THE ECONOMIC RISKS OF PURCHASING SHARES IN THE CORPORATION FOR AN INDEFINITE AMOUNT OF TIME AND BE ABLE TO WITHSTAND A TOTAL LOSS OF THEIR INVESTMENT.**

**THIS INFORMATION CIRCULAR IS BEING FURNISHED SOLELY FOR THE PURPOSE OF ENABLING PROSPECTIVE SUBSCRIBERS TO DETERMINE WHETHER THEY WISH TO PROCEED WITH FURTHER INVESTIGATION OF THE CORPORATION AND THE PURCHASE OF INSURANCE AND SHARES OF STOCK**

**OF THE CORPORATION. THIS INFORMATION CIRCULAR IS NOT INTENDED TO FORM THE BASIS OF ANY DECISION TO PURCHASE SHARES AND DOES NOT ATTEMPT TO PRESENT ALL THE INFORMATION THAT PROSPECTIVE SUBSCRIBERS MAY REQUIRE FOR PURPOSES OF MAKING SUCH A DECISION. THE CORPORATION ANTICIPATES PROVIDING PROSPECTIVE SUBSCRIBERS WITH THE OPPORTUNITY TO ASK QUESTIONS, RECEIVE ANSWERS, OBTAIN ADDITIONAL INFORMATION AND COMPLETE THEIR OWN DUE DILIGENCE REVIEW CONCERNING THE CORPORATION AND ITS SHARES PRIOR TO ENTERING INTO ANY AGREEMENT TO PURCHASE SHARES. BY ACCEPTING DELIVERY HEREOF, YOU AGREE TO UNDERTAKE AND RELY ON YOUR OWN INDEPENDENT INVESTIGATION AND ANALYSIS AND CONSULT WITH YOUR OWN ATTORNEYS, ACCOUNTANTS AND OTHER PROFESSIONAL ADVISORS REGARDING THE CORPORATION AND THE MERITS AND RISKS OF A PURCHASE OF SHARES, INCLUDING ALL RELATED LEGAL, INVESTMENT, TAX AND OTHER MATTERS. PROSPECTIVE SUBSCRIBERS SHOULD NOT CONSTRUE THE CONTENTS OF THIS INFORMATION CIRCULAR AS INVESTMENT, TAX, LEGAL OR OTHER ADVICE.**

**BY ACCEPTING THIS INFORMATION CIRCULAR, THE RECIPIENT AGREES NOT TO DUPLICATE IT OR TO FURNISH COPIES HEREOF, IN WHOLE OR IN PART, TO PERSONS OTHER THAN ITS REPRESENTATIVES, IF ANY, AND ITS BUSINESS, INVESTMENT, TAX AND LEGAL ADVISERS. ANY SUCH PERSONS MAY USE THE INFORMATION CONTAINED HEREIN SOLELY FOR PURPOSES RELATED TO THE RECIPIENT'S POSSIBLE PURCHASE OF SHARES IN THE CORPORATION. IN THE EVENT THE RECIPIENT DECIDES NOT TO PURCHASE SHARES IN THE CORPORATION, THE RECIPIENT AGREES TO PROMPTLY RETURN THIS INFORMATION CIRCULAR, THE ATTACHED APPENDICES AND ANY OTHER DOCUMENTS DELIVERED IN CONNECTION HERewith TO THE CORPORATION.**

**THIS INFORMATION CIRCULAR SPEAKS AS OF THE DATE HEREOF. NEITHER THE DELIVERY OF THIS INFORMATION CIRCULAR NOR THE EVENTUAL SALE OF ANY SHARES SHALL, UNDER ANY CIRCUMSTANCES, IMPLY THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY FUTURE DATE OR THAT THERE HAS BEEN NO CHANGE IN THE CORPORATION'S AFFAIRS AFTER THE DATE HEREOF. NOTHING CONTAINED HEREIN IS, OR SHOULD BE RELIED UPON AS, A PROMISE OR REPRESENTATION AS TO FUTURE PERFORMANCE. THE CORPORATION DOES NOT UNDERTAKE ANY OBLIGATION TO UPDATE OR REVISE THIS INFORMATION CIRCULAR.**

**NO PERSON HAS BEEN AUTHORIZED BY THE CORPORATION TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS CONCERNING THE CORPORATION OR ITS SHARES OTHER THAN AS CONTAINED HEREIN, AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS SHOULD NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE**

**CORPORATION. NEITHER THE DELIVERY OF THIS INFORMATION CIRCULAR NOR ANY PURCHASE OF SHARES SHALL, UNDER ANY CIRCUMSTANCES, IMPLY OR BE DEEMED TO IMPLY THAT THERE HAS BEEN NO CHANGE IN THE MATTERS DISCUSSED HEREIN SINCE THE DATE HEREOF.**

**THIS INFORMATION CIRCULAR SHOULD NOT BE CONSTRUED AS AN OFFER TO SELL INSURANCE. THIS INFORMATION CIRCULAR DOES NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY STATE OR OTHER JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH AN OFFER OR SOLICITATION NOR DOES IT CONSTITUTE AN OFFER OR SOLICITATION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.**

**THE CORPORATION RESERVES THE RIGHT, IN ITS SOLE DISCRETION AND FOR ANY REASON, TO MODIFY OR AMEND THE TERMS OF THE SHARES, TO APPROVE OR DISAPPROVE ANY PROSPECTIVE SUBSCRIBER, TO ACCEPT OR REJECT, IN WHOLE OR IN PART, ANY SUBSCRIPTION AND TO ALLOT TO ANY SUBSCRIBER FEWER SHARES THAN THE NUMBER SOUGHT BY SUCH SUBSCRIBER. THE CORPORATION SHALL NOT HAVE ANY LIABILITY OR OBLIGATION WHATSOEVER TO ANY PROSPECTIVE SUBSCRIBER IN THE EVENT OF ANY OF THE FOREGOING.**

**PROSPECTIVE SUBSCRIBERS AND THEIR ADVISORS ARE INVITED TO ASK QUESTIONS OF AND OBTAIN ADDITIONAL INFORMATION FROM LINDA S. NETHERY AT THE ADDRESS SHOWN ON THE FIRST PAGE HEREOF.**

**Appendices Attached to Information Circular**

- A. Articles of Incorporation
- B. Bylaws
- C. Stock Subscription Agreement to be Executed by Each Subscriber
- D. Voting Agreement and Irrevocable Proxy

## SUMMARY

THIS SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE TEXT OF THIS INFORMATION CIRCULAR AND THE APPENDICES HERETO, WHICH COLLECTIVELY CONTAIN A MORE COMPLETE DESCRIPTION OF THE CORPORATION AND THIS OFFERING TO BECOME A SUBSCRIBER. YOU SHOULD READ THE COMPLETE TEXT OF ALL DOCUMENTS CAREFULLY AND IN THEIR ENTIRETY PRIOR TO MAKING ANY DECISION TO BECOME A SUBSCRIBER OR AN INSURED.

### Corporation

Lone Star Risk Retention Group, Inc. (the “Corporation”).

### Purpose of the Corporation

The purpose for which the Corporation is organized is to be a risk retention group pursuant to the federal Liability Risk Retention Act of 1986, 15 U.S.C. § 3901 et seq. In this connection, the Corporation currently intends to provide professional liability and general liability insurance coverage to the shareholders of the Corporation.

### Suitability

Each person desiring to be insured by the Corporation must become a shareholder by subscribing to purchase shares of stock of the Corporation and having such subscription accepted by the Corporation. As of the date hereof, each Subscriber must be an owner, operator or manager of one or more assisted living or long-term care facilities located in the State of Texas. Each Subscriber also must meet certain eligibility requirements as set forth in the Articles of Incorporation of the Corporation, a copy of which is attached hereto as Appendix A (the “Articles of Incorporation”), and such underwriting, risk management and other guidelines and standards as may be set from time to time by the Corporation.

### Subscription Procedure

Each person desiring to become a shareholder of the Corporation must execute and deliver to the Corporation a Stock Subscription Agreement in substantially the form attached hereto as Appendix C, along with payment in full of the purchase price payable in connection with such subscription. Notwithstanding anything herein to the contrary, the Board of Directors of the Corporation shall have the

right to reject any subscription for any or no reason whatsoever in its sole and absolute discretion.

Purchase Price Per Share

As of the date hereof, the purchase price for shares of stock of the Corporation is \$10.00 per share.

Insurance Program

The Corporation anticipates providing insurance on a claims made basis as more fully described herein.

Initial Premiums

The Corporation shall determine and communicate to each Subscriber the premiums for the initial policy year applicable to such Subscriber.

Underwriting and Risk Management

Underwriting and risk management guidelines and standards shall be established by the Board of Directors of the Corporation from time to time. All shareholders shall be required to comply in all respects with such guidelines and standards.

Repurchase of Shares

In the event any shareholder ceases to be insured by the Corporation for any reason whatsoever, such shareholder shall have its shares of stock in the Corporation repurchased by the Corporation for a purchase price equal to the book value of such shares. In addition, in the event the Corporation determines that any shareholder is or has become ineligible to hold shares of stock of the Corporation in accordance with the criteria set forth in the Articles of Incorporation, including but not limited to as a result of any failure by such shareholder to comply in all respects with the underwriting and risk management guidelines and standards as may be set from time to time by the Corporation, the Corporation shall have the right to terminate any insurance provided by the Corporation to such shareholder and repurchase any and all shares of stock of the Corporation held by such shareholder.

Insurance Regulatory Considerations

The Corporation is subject to regulation by the Texas Insurance Department under the Texas Insurance Code and applicable regulations. The Texas Insurance Code, among other things, prescribes solvency standards that must be met and maintained and imposes certain regulatory reporting requirements on the Corporation.

Restrictions on Transfer

No shares of stock of any class of the Corporation may be transferred in any manner whatsoever (either voluntarily or involuntarily, directly or indirectly, by pledge, sale, gift, levy, or any other attempted method of transfer) without the prior written consent of the Board of Directors of the Corporation, which consent may be withheld, delayed or conditioned by the Board of Directors for any or no reason whatsoever in its sole and absolute discretion.

Risk Factors

The Corporation is not being formed for the purpose of providing an economic return to the Subscribers. As a result, a high degree of risk exists to Subscribers. See “RISK FACTORS.”

**RISK FACTORS**

PARTICIPATION AS A SHAREHOLDER IN THE CORPORATION INVOLVES CERTAIN RISKS INCLUDING, BUT NOT LIMITED TO, THE FOLLOWING:

1. **CORPORATION JUST FORMED; NO OPERATING HISTORY.** The Corporation has just recently been formed and thus has no prior experience in operating a business of the type proposed to be conducted by it. The Corporation is subject to all of the risks incident to the creation and development of a new business, including without limitation the absence of an operating history.

2. **NO GUARANTEE REGARDING COVERAGE OF LOSSES AND RELATED EXPENSES.** There is no assurance that the business of the Corporation will be successful or that premiums, together with investment income, will be sufficient to cover actual losses and related expenses. Potential Subscribers should consider their ability and willingness to share in the exposure of their capital to such losses.

3. **COMPETITION.** The Corporation may compete with domestic and foreign insurers with greater experience and greater resources than the Corporation.

4. **DISTRIBUTIONS NOT ANTICIPATED.** There can be no assurance that the Corporation will ever be permitted to make distributions in accordance with applicable laws and regulations. The Corporation anticipates that earnings of the Corporation will be retained in order to increase its surplus and, thus, its insurance capacity, except in the case of the dissolution and winding up of the Corporation.

5. **UNPROFITABLE, UNSTABLE MARKET; DEPENDENCE ON INVESTMENT RETURN.** Many insurers of liability risks for assisted living and long-term care facilities have in recent years experienced severe financial losses as a result of, among other things, inadequate pricing, significant interest rate declines, and unexpectedly large settlements and court awards. These losses have resulted at times in an unstable market for such insurance, characterized by large increases in rates for coverage, substantial decreases in policy limits and,

in some cases, the withdrawal of insurance companies from these lines. As is the case with many insurance companies, the profitability of the Corporation may depend to a material extent on the amount of income the Corporation will be able to earn on the investment of its capital and surplus and premiums held pending their utilization to pay claims under the Corporation's policies. There is no assurance that the Corporation will be able to earn an investment return sufficient to offset potential underwriting losses. Such losses might be substantial, in which case the Corporation might suffer a loss. It is possible that the Corporation will need to raise policy premiums to a level that the Subscriber may not be able to afford. The possibility also exists that the Corporation might fail. In such event, the Subscriber's insurance coverage might lapse and the Subscriber's claims might not be covered. In that case, claims made which were covered under the policies issued to Subscribers by the Corporation will not be covered by any state insurance insolvency guaranty fund.

6. **TAX CONSIDERATIONS.** THE CORPORATION MAKES NO REPRESENTATIONS REGARDING THE TAX IMPACT OF BECOMING A SHAREHOLDER IN OR PURCHASING INSURANCE FROM THE CORPORATION. POTENTIAL SUBSCRIBERS ARE STRONGLY ENCOURAGED TO SEEK THE ADVICE OF COMPETENT COUNSEL WITH REGARD TO THE POSSIBLE TAX CONSEQUENCES OF BECOMING A SHAREHOLDER IN OR PURCHASING INSURANCE FROM THE CORPORATION.

7. **UNPREDICTABILITY OF UNDERWRITING PROFITABILITY.** The success of the Corporation's business may depend to a material extent on the underwriting profitability of the Corporation. Underwriting profitability may be adversely affected by price competition, inflation, risk selection and expense control and cannot be predicted with any certainty. Losses and claims by insureds may fluctuate significantly from year to year, and the Corporation may experience unsatisfactory claims experience or results in any year, including but not limited to claims exceeding the total premium income of the Corporation for such year. If the Corporation should experience substantial adverse claims, its surplus could be depleted below required minimum surplus amounts, in which case the Corporation could lose its ability to continue writing insurance or it could be placed in receivership. In addition, as with any entity assuming risk on a long tail insurance business, losses and needed reserves cannot be accurately predicted for at least several years after an accident year ends because of the claim reporting lag and the lag between claim reporting and claim disposition, settlement and/or judgment. The claim reporting lag is reduced by claims-made coverage characteristics, but trends and accurate loss estimates still take at least several years to develop.

8. **SHARES ARE SPECULATIVE.** The shares of the Corporation described herein are speculative, involve risk and are generally not transferable. Any prospective Subscriber unable to bear the economic risk of loss of its entire investment or which requires liquidity or any cash or other return on its investment should not acquire shares in the Corporation. Subscribers should be aware that they will be required to bear the financial risks of this investment for an indefinite period of time.

9. **GOVERNMENTAL REGULATION.** The Corporation will be domiciled in the State of Texas and, as such, will be subject to regulation by the Texas Department of Insurance under the Texas Insurance Code and applicable regulations and the federal Liability Risk

Retention Act of 1986, 15 U.S.C. §§ 3901 et seq. The Texas Insurance Code, among other things, prescribes solvency standards that must be met and maintained and imposes certain regulatory reporting requirements on the Corporation. From time to time, various regulatory and legislative changes have been made or proposed by legislative or regulatory bodies that regulate the insurance industry which may have an effect on the Corporation. The Corporation is unable to predict whether any such proposal will be adopted, the form in which any such proposal would be adopted, or the effect, if any, the adoption of any such proposal would have on the Corporation and its financial results.

10. **SHARES NOT REGISTERED.** The shares of the Corporation described herein have not been registered under the Securities Act of 1933, as amended (the “Securities Act”), or under the securities laws of any state. The shares are offered pursuant to exemptions provided by the federal Liability Risk Retention Act of 1986, 15 U.S.C. §§ 3901 et seq. The Corporation does not intend to register the Corporation’s stock under the Securities Act. In making an investment decision, each prospective investor must rely on its own examination of the Corporation and the terms of the offer, including the merits and risks involved. The shares of the Corporation have not been approved or disapproved by the Securities and Exchange Commission, any state securities commission, or other regulatory commission or agency of the United States or any state or political subdivision thereof, nor has the Securities and Exchange Commission, any state securities commission or other regulatory commission or agency of the United States or any state or political subdivision thereof passed on the accuracy or adequacy of the information provided by the Corporation regarding the Corporation or its shares, or recommended the shares offered hereby.

11. **LACK OF SECURITIES REGULATORY REVIEW.** Shareholders of the Corporation shall have no right to require registration of their Shares, and it is expected that no registration will occur. As a result, shareholders will not have the benefit of any review by the Securities and Exchange Commission or any state securities authority. The Shares should not be viewed as investments but as a prerequisite for participation in the Corporation’s insurance program.

### **INSURANCE PROGRAM**

The Corporation anticipates providing insurance on a claims made basis. Subscribers which insure one assisted living or long-term care facility will be issued a policy with initial limits of \$100,000 per claim subject to a \$300,000 overall policy annual aggregate. Subscribers which insure more than one such facility will be issued one or more policies with initial limits of \$100,000 per claim subject to a \$300,000 overall policy annual aggregate and a \$1,000,000 combined annual aggregate for all such policies. All policies issued by the Corporation shall include defense costs as part of the policy limits of liability. No policies issued by the Corporation shall provide coverage for prior acts.

## **CORPORATE STRUCTURE AND VOTING AGREEMENT**

### **Corporate Structure**

Pursuant to the Articles of Incorporation, the Corporation is authorized to issue up to 250,000 shares of Class A Common Stock and 150,000 shares of Class B Common Stock. Each holder of shares of stock of the Corporation, regardless of class, shall be entitled to one vote per share on all matters upon which shareholders are entitled to vote and to participate in dividends and other distributions as may be authorized by the Board of Directors from time to time; provided, however, that in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of shares of Class A Common Stock shall be entitled to receive an amount equal to \$10.00 per share of Class A Common Stock, plus all declared or accrued and unpaid dividends thereon, before any payment shall be made in respect of the Corporation's Class B Common Stock.

As of the date hereof, all of the outstanding shares of Class A Common Stock are owned by Willowcrest Management Group, LLC.

### **Voting Agreement**

Each Subscriber will be required to execute and deliver to the Corporation a counterpart signature page to that certain Voting Agreement and Irrevocable Proxy, an unexecuted copy of which is attached hereto as Appendix D (the "Voting Agreement"), prior to the issuance of any shares of stock of the Corporation to such Subscriber. The Voting Agreement provides, among other things, that each shareholder of the Corporation which is a party thereto shall vote all shares of stock in the Corporation owned by such shareholder in such manner as may be directed by Willowcrest Management Group, LLC, holder of shares of Class A Common Stock of the Corporation. In addition, each such shareholder shall designate Matthew S. Robinson, or such other person as Willowcrest Management Group, LLC, may designate from time to time, as such shareholder's proxy to vote such shares in the manner required by the Voting Agreement. THE INFORMATION SET FORTH ABOVE IS QUALIFIED IN ITS ENTIRETY BY THE PROVISIONS OF THE VOTING AGREEMENT. PLEASE REVIEW THE ENTIRE VOTE AGREEMENT AT APPENDIX D CAREFULLY.

## **MANAGEMENT OF THE CORPORATION**

The Corporation's initial Board of Directors will consist of the following individuals: Walter A. DeRoeck, Greg Lentz, Linda S. Nethery, Rex Rankin, III, Matthew S. Robinson, J. Sterling Shuttleworth and Steve Streetman. The Articles of Incorporation and the Bylaws of the Corporation, a copy of which is attached hereto as Appendix B, govern the election of members to the Board of Directors.

The role of the Board of Directors of the Corporation is to manage the business and affairs of the Corporation. The Board of Directors provides general policy direction for the Corporation including, without limitation, the establishment of underwriting and risk management guidelines and standards and investment policies.

The Board of Directors also appoints officers for the Corporation. The initial officers of the Corporation will consist of the following individuals: Matthew S. Robinson, Chief Executive Officer, Rex Rankin, III, President, J. Sterling Shuttleworth, Vice President and Secretary and Greg Lentz, Treasurer.

The Board of Directors of a risk retention group typically delegates a significant amount of its administrative responsibilities to outside service providers. Please refer to the discussion of their role under the heading “MANAGEMENT SERVICES.”

### **MANAGEMENT SERVICES**

A management firm typically provides, among other services, regulatory compliance, financial, accounting, and insurance consulting services for a risk retention group. The management firm may also serve as the home or registered office of the risk retention group in the domicile of choice (Texas, in this case). Rankin-Shuttleworth of Georgia, LLC (“Rankin-Shuttleworth”) will serve as the management firm for the Corporation. Rankin-Shuttleworth is located at 2224 Walsh-Tarlton Lane, Austin, Texas 78746. The Board of Directors of the Corporation will delegate a significant amount of its administrative responsibilities to this management firm. Rankin-Shuttleworth will create financial reports; manage the banking, payables and receivables processes for the Corporation; assist the Corporation’s auditor in the process leading to the creation of audited financial statements; handle insurance and premium accounting; and handle most general administrative functions for the Corporation. Rankin-Shuttleworth will also oversee any third party administrator hired by the Corporation to manage the insurance claims process, and will manage any insurance agent hired by the Corporation to assist with the application process. The Corporation currently intends to use The Littleton Group as third party administrator for the Corporation.

### **OUTLINE OF KEY PROVISIONS OF THE STOCK SUBSCRIPTION AGREEMENT AND THE ARTICLES OF INCORPORATION**

The following information is intended to provide an overview of key provisions of the Stock Subscription Agreement attached hereto as Appendix C and the Articles of Incorporation. THE INFORMATION SET FORTH BELOW IS QUALIFIED IN ITS ENTIRETY BY THE PROVISIONS OF THE STOCK SUBSCRIPTION AGREEMENT AND THE ARTICLES OF INCORPORATION. PLEASE REVIEW THE ENTIRE DOCUMENTS AT APPENDICES A AND C CAREFULLY.

#### **In General**

Each person desiring to be insured by the Corporation must become a shareholder by subscribing to purchase shares of Class B Common Stock in the Corporation and having such subscription accepted by the Corporation; provided, however, that the Corporation hereby reserves the right to issue shares of Class A Common Stock in lieu of, or addition to, shares of Class B Common Stock to any person permitted by the Corporation to subscribe for shares of Class A Common Stock in accordance with such guidelines and standards as may be set by the Board of Directors from time to time in its sole and absolute discretion. The Stock Subscription Agreement governs a Subscriber’s purchase of stock in the Corporation, and each Subscriber

must execute and deliver to the Corporation a Stock Subscription Agreement in substantially the form attached as Appendix C. Notwithstanding anything herein to the contrary, the Board of Directors of the Corporation shall have the right to reject any subscription for any or no reason whatsoever in its sole and absolute discretion.

Upon acceptance by the Corporation of any subscription, the Articles of Incorporation shall govern the relationship between the Corporation and such Subscriber.

### **Issuance of Shares; Payment for Shares**

The Corporation will issue to each Subscriber accepted by the Corporation such number of shares of Class B Common Stock as may be determined in accordance with the formula set forth in the Stock Subscription Agreement or such other number as the Board of Directors may deem to be advisable and appropriate in accordance with the underwriting guidelines and standards of the Corporation. As of the date hereof, the purchase price for each share of Class B Common Stock is \$10.00, and the entire purchase price for all shares must be paid in a single lump sum. Notwithstanding anything herein to the contrary, in the event any person is permitted to subscribe for shares of Class A Common Stock, the Corporation will issue to such person such number of shares of Class A Common Stock as the Board of Directors may deem to be advisable and appropriate.

### **Each Shareholder Must Be An Insured**

Each shareholder of the Corporation shall be insured by the Corporation. In the event any person ceases to be a shareholder of the Corporation for any reason whatsoever, any and all insurance coverage issued by the Corporation with respect to such person shall cease effective as of the date on which such person ceases to be a shareholder of the Corporation.

### **Repurchase of Shares**

In the event any holder of shares of any class of the Corporation ceases to be insured by the Corporation for any reason whatsoever, such shareholder shall have its shares of stock in the Corporation repurchased by the Corporation for a purchase price equal to the book value of such shares. Such repurchase shall be effective as of the final date on which insurance coverage for such shareholder is in effect (the "Termination Date"). The purchase price for such shares shall be paid by the Corporation, without interest, in no more than five (5) equal annual installments, with the first installment being paid on July 1 of the year following the year in which the Termination Date occurs and the remaining installments being paid on July 1 of each of the four (4) subsequent years, or in such other amounts or at such other times as the Board of Directors may determine, provided that funds are legally available to make each payment and the Board of Directors determines, in its discretion, that such payment will not materially impair or threaten the financial stability of the corporation. Such a shareholder shall not be entitled to exercise any rights which it might otherwise be entitled to exercise as a shareholder of the Corporation after the Termination Date, and the amount owed to such shareholder shall be subordinated to all legal debts, obligations and liabilities of the Corporation.

In the event the Corporation determines that any shareholder is or has become ineligible to hold shares of stock of the Corporation in accordance with the criteria set forth in the Articles of Incorporation, including but not limited to as a result of any failure by such shareholder to comply in all respects with the underwriting and risk management guidelines and standards as may be set from time to time by the Corporation, the Corporation shall have the right to terminate any insurance provided by the Corporation to such shareholder and repurchase any and all shares of stock of the Corporation held by such shareholder.

### **Restrictions on Transfer of Shares**

No shares of stock of any class of the Corporation may be transferred in any manner whatsoever (either voluntarily or involuntarily, directly or indirectly, by pledge, sale, gift, levy, or any other attempted method of transfer) without the prior written consent of the Board of Directors, which consent may be withheld, delayed or conditioned by the Board of Directors for any or no reason whatsoever in its sole and absolute discretion.

### **Governing Law; Jurisdiction**

The Stock Subscription Agreement and the Articles of Incorporation are governed by the laws of the State of Texas.

### **REQUIREMENTS IMPOSED BY STATE AND FEDERAL LAW**

The Corporation has been formed pursuant to the federal Liability Risk Retention Act of 1986, 15 U.S.C. §§ 3901 *et seq.* (the “LRRR”), and the Texas Insurance Code.

Texas law (as it applies to risk retention groups) and the LRRR are the primary statutes governing the formation and operation of the Corporation. There are, however, limited interpretive or judicial opinions regarding their substantive provisions. Accordingly, there can be no assurance that the Corporation’s principal objectives or proposed operations will be consistent with future regulatory or judicial decisions under such laws.

### **Requirements of Texas Law**

This section of this Information Circular does not summarize all of the provisions of the Texas law applicable to the Corporation. Rather, this section focuses only on provisions that are likely to be of primary interest to potential Subscribers.

Under Texas law and applicable administrative regulations, the Corporation is subject to extensive regulation by the Texas Department of Insurance and is required to submit to the Texas Department of Insurance filings of financial and other information and detailed annual reports. The regulatory powers of the Texas Department of Insurance include: 1) the granting and revocation of a Certificate of Authority to provide liability coverage, 2) setting standards of solvency that the Corporation must maintain, 3) establishing paid in surplus and reserve requirements, 4) determining the form and content of financial statements, 5) authorizing the types and amounts of investments the Corporation can make, and 6) approving changes to the Corporation’s business plan. The regulatory powers of the Texas Department of Insurance are

primarily for the benefit of those who are insured by the Corporation. Failure to comply with applicable legal or regulatory standards could result in monetary penalties and/or the suspension or revocation of the Corporation's Certificate of Authority.

### **Requirements of Federal Law**

This section of this Information Circular does not summarize all of the provisions of the LRRRA applicable to the Corporation. Rather, this section focuses only on provisions that are likely to be of primary interest to potential Subscribers. All section references under this "REQUIREMENTS OF FEDERAL LAW" heading refer to sections of Title 15 of the United States Code.

Risk retention groups are limited under Section 3901(4) to writing liability insurance, and must be formed for the primary purpose of assuming and spreading the liability exposure of its group members.

Risk retention groups may not exclude any person from membership solely to provide for members of the group a competitive advantage. Section 3901(4)(D).

All owners of the risk retention group must also be insureds of the group, and all insureds of the group must also be owners. Section 3901(E).

The members of a risk retention group must be engaged in businesses or activities similar or related with respect to the liability to which the members are exposed, by virtue of any related, similar, or common business, trade, product, services, premises or operations. Section 3901 (F).

Risk retention groups enjoy certain exemptions from State laws and regulations in states other than the state of domicile of the group. Section 3902.

The policies issued by risk retention groups are required, pursuant to Section 3902(a)(1)(I), to contain the following notice, in 10-point type:

NOTICE: This policy is issued by your risk retention group. Your risk retention group may not be subject to all of the insurance laws and regulations of your State. State insurance insolvency guaranty funds are not available for your risk retention group

Under Section 3904, ownership interests of members in risk retention groups are exempted securities for purposes of Section 5 of the Securities Act and Section 12 of the Securities Exchange Act of 1934. They are not considered securities for the purposes of any State blue sky laws. Risk retention groups shall not be considered investment companies for purposes of the Investment Corporation Act of 1940. The securities fraud provisions under Section 17 of the Securities Act and Section 10 of the Securities Exchange Act of 1934 still apply.

Pursuant to Section 3906, any district court of the United States may issue an order enjoining a risk retention group from operating upon a finding of such court that the group is in hazardous financial condition.

**ADDITIONAL INFORMATION**

Questions regarding the Corporation, its insurance program, and other information of interest to potential Subscribers should be directed to Linda S. Nethery at Rankin-Shuttleworth. Copies of any documents relating to the Corporation (but not attached as Appendices) are available upon request. Potential Subscribers interested in obtaining additional information or copies of documents should address their requests to:

**Lone Star Risk Retention Group, Inc.  
Attn: Linda S. Nethery  
Rankin-Shuttleworth of Georgia, LLC  
2224 Walsh-Tarlton Lane  
Austin, Texas 78746**

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