

SUBSCRIPTION AGREEMENT

THIS SUBSCRIPTION AGREEMENT (this “Agreement”) is made and entered into by and between Lone Star Risk Retention Group, Inc., a Texas corporation (the “Corporation”), and the subscriber agreeing to be bound hereby by electronic signature (the “Subscriber”). This Agreement shall be effective as of the date of acceptance hereof by the Corporation as provided herein.

W I T N E S S E T H

WHEREAS, the Corporation is a risk retention group organized under the laws of the State of Texas for the purpose of providing liability insurance to its shareholders;

WHEREAS, the Subscriber desires to become a shareholder of the Corporation and purchase one or more policies of insurance from the Corporation;

WHEREAS, the Corporation and the Subscriber desire to set forth in this Agreement their mutual covenants and agreements regarding the Subscriber’s purchase of stock in the Corporation;

NOW, THEREFORE, in consideration of the premises and covenants set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

ARTICLE I **RECEIPT OF DOCUMENTS AND INFORMATION**

1.1 Information Circular; Governing Documents. The Corporation has provided to the Subscriber, and the Subscriber hereby acknowledges receipt of, the following: (i) a copy of that certain Information Circular dated as of March 2005, for the Corporation (the “Information Circular”), including all appendices thereto; (ii) a full and complete copy of each of the Articles of Incorporation and the Bylaws of the Corporation and any and all amendments thereto; and (iii) a copy of that certain Voting Agreement and Irrevocable Proxy between the Corporation and its shareholders (the “Voting Agreement”).

1.2 Other Documents and Information. The Corporation has provided to the Subscriber, and the Subscriber hereby acknowledges receipt of, any and all such other documents and information which the Subscriber and its professional advisors have deemed relevant to the Subscriber’s decision to purchase shares of stock of the Corporation and which the Subscriber or such advisors have requested from the Corporation. The Subscriber further acknowledges and agrees that the Subscriber has been provided an opportunity to ask questions and receive answers regarding the terms and conditions of the Subscriber’s purchase of shares and the Corporation’s business, operations, financial condition, assets, liabilities, prospects and other relevant matters as the Subscriber has deemed necessary or desirable.

1.3 Compliance with Agreements. The Subscriber hereby agrees to comply with the provisions of this Agreement, the Articles of Incorporation and the Bylaws of the Corporation, the Voting Agreement and any and all policies and procedures duly adopted by the shareholders or the Board of Directors of the Corporation, including but not limited to any and all underwriting and risk management guidelines and standards as may be set from time to time by the Board of Directors.

ARTICLE II **SUBSCRIPTION FOR SHARES; PAYMENT FOR SHARES**

2.1 Subscription. By executing this Agreement by electronic signature, Subscriber hereby subscribes to purchase shares of Class B Common Stock for a purchase price per share of \$10.00 upon the terms and conditions set forth in this Agreement. The number of shares of Class B Common Stock subscribed for shall be determined by the Subscriber in accordance with this Section 2.1 and through the use of the Corporation's web site. The total purchase price (the "Total Purchase Price") for such shares shall be an amount equal to \$55.00 per bed in each assisted living or long-term care facility for which the Subscriber is purchasing insurance coverage from the Corporation, and the Subscriber shall subscribe pursuant hereto for such number of shares as may be equal to the Total Purchase Price divided by the purchase price per share of \$10.00.

2.2 Payment. Simultaneously with the delivery of this Agreement to the Corporation, the Subscriber shall tender the Total Purchase Price payable in connection herewith as determined in accordance with Section 2.1 above.

2.3 Acceptance or Rejection. The Subscriber hereby acknowledges and agrees that this subscription may be accepted or rejected by the Board of Directors of the Corporation for any or no reason whatsoever in its sole and absolute discretion and shall be binding only upon acceptance of this Agreement by the Corporation. If this subscription is rejected for any reason, any payment tendered by the Subscriber herewith shall be returned to the Subscriber.

2.4 Issuance of Shares. Notwithstanding anything in this Agreement to the contrary, no shares of stock shall be issued by the Corporation to a Subscriber until all of the following conditions have been satisfied:

- (a) The Corporation has determined that the Subscriber meets all of the criteria set forth in the Corporation's Articles of Incorporation;
- (b) This Agreement has been executed by electronic signature and delivered by the Subscriber to the Corporation in accordance with the terms and conditions hereof;
- (c) The Total Purchase Price for such shares has been paid in accordance with Section 2.2 hereof;

(d) The Voting Agreement has been executed by electronic signature and delivered by the Subscriber to the Corporation in accordance with the terms and conditions thereof; and

(e) The Subscriber is covered under a policy of insurance issued by the Corporation.

In the event the conditions described above are not satisfied, the Corporation shall terminate this Agreement upon notice to the Subscriber, and neither the Corporation nor the Subscriber shall continue to be bound by the terms hereof.

2.5 Issuance of Additional Shares. The Subscriber hereby acknowledges and agrees that, pursuant to the terms of the Corporation's Articles of Incorporation, the Subscriber may be required to purchase additional shares of stock of the Corporation.

2.6 Redemption. The Subscriber hereby acknowledges and agrees that the Corporation's Articles of Incorporation set forth certain provisions regarding the repurchase by the Corporation of any shares of stock of the Corporation held by the Subscriber, including without limitation in the event the Subscriber ceases to be insured by the Corporation for any reason or fails to comply in all respects with the underwriting and risk management guidelines and standards as may be set by the Corporation from time to time.

2.7 No Transfer. Notwithstanding anything in this Agreement to the contrary, that Subscriber hereby acknowledges and agrees that 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.

ARTICLE III **REPRESENTATIONS AND WARRANTIES**

3.1 Representations and Warranties of the Subscriber. The Subscriber hereby represents and warrants to the Corporation as follows:

(a) No Misrepresentation in this Agreement or Insurance Application. None of the representations, warranties, statements, or information provided by the Subscriber to the Corporation in this Agreement or in the Subscriber's application for insurance, including any supplements or amendments thereto, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make such representation, warranty, statement or information not misleading. The Subscriber shall immediately notify the Corporation if, for any reason, any of the statements contained in this Agreement or the application for insurance become inaccurate at any time.

(b) Basis for Acquisition of Shares. The Subscriber is not acquiring any shares of stock of the Corporation based upon any representation or warranty, whether oral or written, by any person whomsoever, including without limitation any of the subscribers, shareholders, directors, officers or agents of the Corporation, or their employees or advisors, with respect to the future value of, or income from, such shares, but rather upon an independent examination and judgment by the Subscriber as to the goals, purposes and prospects of the Corporation.

(c) No Registration. The Subscriber acknowledges that the Subscriber must alone bear the economic risk of the purchase of Shares and recognizes that the Shares are being (i) sold to the Subscriber solely to allow the Subscriber to purchase liability insurance from the Corporation; (ii) sold to the Subscriber without registration under any state or federal law relating to the registration of securities for sale; and (iii) issued and sold in reliance on the exemption from registration under Section 5 of the federal Liability Risk Retention Act of 1986, 15 USC §§ 3901 *et seq.* The Subscriber also understands and acknowledges that the Corporation will not be registered as an investment company under the Investment Corporation Act of 1940.

(d) Knowledge and Experience; Consultation with Advisors. The Subscriber, individually or through advisers, has such knowledge and experience in financial, tax and business matters to enable the Subscriber to utilize the information made available in connection herewith to evaluate the merits and risks of purchasing shares of stock of the Corporation and to make an informed decision with respect thereto. The Subscriber has consulted with professional advisors of its choice prior to executing this Agreement, or has had the opportunity to consult with professional advisors of its choice prior to the execution of this Agreement, to the extent desired by the Subscriber.

(e) Risks. The Subscriber acknowledges that investment in the Shares involves certain risks, including without limitation the risk of loss of its investment and all of the risk factors set forth in the Information Circular.

ARTICLE IV **GENERAL PROVISIONS**

4.1 Notices. Any notice required or permitted to be given under this Agreement will be sufficient if in writing and delivered in person or sent by registered or certified mail, postage prepaid, return receipt requested, and addressed as follows:

If to the Corporation:	Lone Star Risk Retention Group, Inc. 2224 Walsh-Tarlton Lane Austin, Texas 78746 Attn: Linda S. Nethery
------------------------	--

If to the Subscriber:	To the address set forth in the Corporation's records.
-----------------------	--

4.2 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, including but not limited to the Texas Uniform Electronic Transactions Act, without regard to any choice or conflict of law provisions thereof.

4.3 Validity. The invalidity or unenforceability of any provision in this Agreement shall in no way affect the validity or enforceability of any other provision. Moreover, if any provision of this Agreement is deemed to be invalid or unenforceable or prohibited by applicable law, such provision shall be deemed severable from the balance of this Agreement and the validity of the remaining provisions shall be enforced to the fullest extent allowed by law in the manner best calculated to fulfill the intentions of the parties as expressed herein.

4.4 No Third Party Benefits. This Agreement shall not be construed to create in any person or entity not a party hereto any right, claim, benefit or defense with respect to the parties hereto or in any party claiming by, through or under any of them, with respect to any loss, cost, damage, claim or cause of action arising under or pursuant to the terms of this Agreement or the insurance policies issued by the Corporation.

4.5 Assignment; Binding Effect. This Agreement may not be assigned by either party without the prior written consent of the other party. This Agreement shall bind and inure to the benefit of the legal representatives, successors and permitted assigns of the Subscriber and the Corporation.

4.6 Further Assurances. Each party shall do all acts and things and make, execute and deliver such written instruments as shall from time to time be reasonably required to carry out the provisions of this Agreement.

4.7 Electronic Transaction. Each party hereby acknowledges and agrees that (i) this Agreement, either alone or together with the other documents and instruments referenced herein, constitutes a “transaction” within the meaning of the Texas Uniform Electronic Transactions Act; and (ii) such party intends to conduct and to complete such transaction by electronic means pursuant to and in accordance with the terms and conditions of the Texas Uniform Electronic Transactions Act. The Subscriber shall accept and agree to be bound by the terms and conditions of this Agreement by electronic signature within the meaning of the Texas Uniform Electronic Transactions Act.

4.8 Entire Agreement. This Agreement, along with the other documents and instruments referenced herein, constitutes the entire agreement between the parties hereto relating to the transactions herein and supersedes all prior and contemporaneous promises, representations, agreements and understandings, both written and oral, with respect to the subject matter hereof.

~Doc# 5604152.05~