



**NATIONAL CONTRACTORS INSURANCE COMPANY, INC., A RISK  
RETENTION GROUP**

**SUBSCRIPTION AND SHAREHOLDERS AGREEMENT**

“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.”

**RECITALS**

This Subscription and Shareholders Agreement (the “Agreement”) is made by and between National Contractors Insurance Company, Inc., a Washington, District of Columbia Risk Retention Group, a Washington, District of Columbia corporation (hereinafter referred to as the “Company”), and the undersigned purchaser (hereinafter referred to as the “Purchaser”).

**WITNESSETH:**

WHEREAS, the Company has been organized as a risk retention group pursuant to the Federal Liability Risk Retention Act of 1986, 15 U.S.C. §§ 3901 et seq. (“LRRRA”) as a District of Columbia stock captive insurance company underwriting a manuscript policy form of commercial general liability insurance for contractors, subcontractors, developers and other individuals and entities involved in the construction industry;

WHEREAS, the LRRRA and applicable state and District of Columbia law require that each insured of the Company be a shareholder of the Company and that each shareholder of the Company must be an insured of the Company; and therefore, each prospective insured of the Company will be required to purchase shares of the Company’s common stock (“Shares”) upon the Company’s acceptance of such purchaser (“Purchaser”) as an insured of the Company; and

WHEREAS, the Purchaser has made application to the Company to obtain insurance from the Company and upon acceptance of the Purchaser as an insured, the Purchaser will be required to purchase a certain number of Shares as described in this Agreement;

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NOW, THEREFORE, for and in consideration of the mutual covenants and agreements herein contained, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged by the Purchaser and the Company, the Company and the Purchaser agree as follows:

1. Incorporation of Recitals: All of the Recitals set forth above are incorporated herein as though set forth in full at this point.

2. Risk Retention Group. The Purchaser acknowledges and agrees that as a risk retention group under the LRRRA and applicable state law, the Company must require that each insured of the Company be a shareholder of the Company and that each shareholder must be and remain an insured of the Company.

3. Acceptance or Rejection of the Purchaser by the Company: This Agreement may be accepted or rejected by the Company in its sole and absolute discretion and shall be binding only upon the execution of this Subscription Agreement by the Company. If this Agreement is not entered into by the Company, in the Company's sole and absolute discretion, any documents deposited by the Purchaser will be returned to the Purchaser or destroyed by the Company.

4. Insurance Coverage for the Purchaser: If the Company determines to accept the Purchaser's application for insurance coverage, the Company will provide the Purchaser with a copy of this Agreement signed by the Company together with written notice of the premium due from the Purchaser for the first year of insurance coverage. In order to obtain the insurance coverage from the Company, the premium and any payments due from the Purchaser under this Agreement must be paid to and received by the Company.

5. Subscription for Shares: If the Company determines to accept the Purchaser's application for insurance coverage, the Purchaser hereby agrees to purchase Shares from the Company, and the Company hereby agrees to sell Shares to the Purchaser, pursuant to the terms and conditions set forth in this Agreement and in the Company's Articles of Incorporation. If the Purchaser's application to obtain insurance is accepted by the Company, the Purchaser agrees to pay the "Subscription Fee" as defined below along with the estimated annual premium payment for the Purchaser's manuscript insurance policy. In addition, the Purchaser agrees to pay any "Subscription Fee Increase" as defined below within ten (10) days from the date set forth on the Company's invoice for such "Subscription Fee Increase". The total amount of the "Subscription Fee" ultimately paid by the Purchaser with respect to an insurance policy shall not be less than the initial

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“Subscription Fee” even if there is a net decrease in the insurance premium due the Company with respect to the insurance policy issued by the Company to the Purchaser.

The number of Shares to be issued to the Purchaser upon payment of the “Subscription Fee” or any “Subscription Fee Increase”, as the case may be, shall be determined by dividing the fee by 100. For example, the payment of a “Subscription Fee” of \$2,000 would result in the issuance of 20 shares. Fractional shares may be issued. Failure to pay the Subscription Fee in full at the time the Purchaser’s policy premium (or the first installment of the policy premium, as the case may be) is due, or to pay any Subscription Fee Increase when due, shall allow the Company to cancel the Purchaser’s insurance policy. As used herein, (i) Subscription Fee shall equal 5% of the gross premium initially applicable to the Purchaser’s policy, regardless of whether such premium is payable in installments; and (ii) The Subscription Fee Increase shall equal 5% of any increase in insurance premium for the Purchaser’s insurance policy, taking into account all applicable additional premiums and audit premiums (but not taking into account return premiums or other premium reductions). The Subscription Fee will only be required when obtaining the original insurance policy. After the payment of the Subscription Fee, a Purchaser who purchases a subsequent policy from the Company will only be required to pay a Subsequent Policy Issuance Fee equal to the lesser of \$250.00 or 5% of the policy premium for each subsequently issued insurance policy

6. Purchaser’s Promise to Provide Further Documents and Information: The Purchaser acknowledges and that the Company may require further documentation and information from the Purchaser before the Purchaser’s application for insurance from the Company can be processed and the Purchaser promises to provide such further documentation and information as the Company may request from the Purchaser. The Purchaser further agrees that the Company shall be held harmless and indemnified by the Purchaser against all loss arising as a result of a failure to process the Purchaser’s application for insurance if such documentation and information as has been requested by the Company has not been provided to the Company by the Purchaser.

7. Purchaser Representations. The Purchaser represents and warrants to the Company as follows:

(a) that the Purchaser has carefully reviewed the Company’s insurance program materials and all other information which the Purchaser considers necessary or appropriate to evaluate the Company’s insurance program and operations as well as the merits and risks of purchasing the Company’s Shares and the Company’s manuscript insurance policy;

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(b) that the Purchaser has had the opportunity to ask questions of and receive answers from representatives of the Company regarding the Company, the insurance program and the Shares;

(c) that the Purchaser, if an individual, is a resident, or if an organization would be deemed to be a resident, of the state shown in the Purchaser's address set forth below and will be the sole party in interest as to the Shares subscribed for and is acquiring the Shares for his/her or its own account for the primary purpose of purchasing insurance from the Company and not for investment purposes and not with a view toward any distribution, sale, transfer or division thereof or for the account of any other individual, corporation, partnership or any other entity.

(d) that the Purchaser has consulted with the Purchaser's attorney, financial advisor and others regarding all financial, securities and tax aspects of the proposed investment, this Agreement and all documents relating thereto on the Purchaser's behalf. The Purchaser and the Purchaser's advisors have sufficient knowledge and experience in business and financial matters to evaluate the Company, to evaluate the risks and merits of an investment in the Company, to make an informed investment decision with respect thereto, and to protect the Purchaser's interest in connection with this Agreement and the purchase of insurance from the Company without need for the additional information which would be required to be included in more complete registration statements effective under the Securities Act. The Purchaser acknowledges that he, she or it has substantial business experience and is capable of evaluating the Company's insurance program and operations as well as the merits and risks of an acquisition of the Company's Shares;

(e) that the Purchaser has submitted an application to obtain insurance from the Company and that all statements, representations and warranties contained in the application for the insurance policy offered by the Company are true and correct;

(f) that the Purchaser understands and agrees that the Company is relying on the statements, representations and warranties made by the Purchaser and contained in the application for the insurance policy offered by the Company as well as the statements, representations and warranties of the Purchaser contained in this Agreement;

(g) that the Purchaser has the full power, legal capacity and authority to execute, deliver and perform this Agreement and that this Agreement has been duly authorized, executed and delivered by the Purchaser and evidences a valid and binding obligation of the Purchaser enforceable in accordance with its terms;

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(h) that the Purchaser is in compliance with the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001. The Purchaser is not, nor are any of its principal owners, partners, members, directors or officers included on: (i) the Office of Foreign Assets Control list of foreign nations, organizations and individuals subject to economic and trade sanctions, based on U.S. foreign policy and national security goals; (ii) Executive Order 13224, which sets forth a list of individuals and groups with whom U.S. persons are prohibited from doing business because such persons have been identified as terrorists or persons who support terrorism or (iii) any other watch list issued by any governmental authority, including the Securities and Exchange Commission.

(i) that the Purchaser understands that the purchase price for the Shares is not based upon any projected earnings of the Company and the Company does not represent that the Shares have a market value equal to the purchase price or any particular market value;

(j) that the Purchaser is acquiring the Shares of the Company for the Purchaser's own account and not with a view toward the sale or transfer thereof, and that transfer of the Shares of the Company are restricted and limited as provided herein;

(k) that the Purchaser understands that the Shares are exempted as securities for purposes of the registration provisions of the federal and state securities laws; and

(l) that the Purchaser understands that there will be no return on the Purchaser's Subscription Fee payment and that, although the Company may be obligated to redeem the Purchaser's Shares under circumstances described in this Agreement, there is no guaranty that the Company will have the financial resources to complete any such redemption in the near future or at all, that the Purchaser understands and agrees that the Purchaser is prepared to hold the Shares for an indefinite period of time, and that the maximum amount the Purchaser can receive is the amount of his initial investment. No interest on the initial investment or other benefit will be paid.

8. Company Shares - Transfer Restrictions. The Purchaser hereby agrees that the Purchaser shall not sell, assign, transfer, gift, hypothecate, pledge, encumber or otherwise dispose of the Shares purchased under this Agreement, and the Shares are not and will not be transferable to any person, corporation, partnership or other entity in any manner, including, without limitation, assignment, gift, bequest, intestacy, seizure or sale by legal process. The foregoing transfer restrictions shall not apply to any transfer of a Purchaser which is a corporation or limited liability company if the transfer is accomplished by operation of law to any successor-in-interest to the business of the Purchaser pursuant to merger, consolidation, reorganization or other changes in the structure of the corporation or limited liability company, so long as (i) the Company approves the eligibility for

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insurance of such successor-in-interest, in the Company's sole and absolute discretion, and (ii) such successor-in-interest continues to be insured by the Company. Any transfer or sale, or purported transfer or sale, of Shares in violation of this Agreement or applicable federal or state law shall be null and void and ineffective as against the Company.

9. Restrictive Legend. Any certificates representing the Company's Shares shall have the following legend written, stamped, or printed on the face or reverse thereof reading substantially as follows:

THIS SHARE CERTIFICATE IS ISSUED ONLY TO AN INSURED OF THE COMPANY. THE SHARES EVIDENCED BY THIS CERTIFICATE HAVE BEEN ACQUIRED BY THE HOLDER FOR THE HOLDER'S OWN ACCOUNT, AND NOT WITH A VIEW TO THE SALE OR TRANSFER THEREOF. THE SHARES EVIDENCED BY THIS CERTIFICATE MAY NOT BE SOLD, ASSIGNED, TRANSFERRED, GIFTED, HYPOTHECATED, PLEDGED OR ENCUMBERED OR OTHERWISE DISPOSED OF EXCEPT IN ACCORDANCE WITH THE TERMS OF THE SUBSCRIPTION AND SHAREHOLDERS AGREEMENT BETWEEN THE COMPANY AND THE REGISTERED HOLDER HEREOF, A COPY OF WHICH IS ON FILE AT THE OFFICES OF THE COMPANY.

PURSUANT TO THE LIABILITY RISK RETENTION ACT OF 1986, THE SHARES EVIDENCED BY THIS CERTIFICATE ARE EXEMPTED FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933 AND STATE SECURITIES LAWS. ACCORDINGLY, NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS REVIEWED THE MERITS OF OR APPROVED THE ISSUANCE OF THESE SHARES.

Shares of the Company may be issued without the issuance of a share certificate, as permitted by applicable law.

10. Status of Shareholder/Insured; Redemption. THIS PARAGRAPH CONTAINS IMPORTANT INFORMATION CONCERNING LIMITATIONS AND RESTRICTIONS REGARDING THE REDEMPTION OF THE COMPANY'S SHARES PURCHASED UNDER THIS AGREEMENT – PLEASE READ IT CAREFULLY.

The Purchaser acknowledges that no assurance can be given and no representation has been or is hereby made by the Company that the Purchaser will be entitled to continuation of insurance coverage from the Company, or renewal of such coverage, by

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virtue of the Purchaser's purchase of the Shares. The Purchaser acknowledges and agrees that, in the event the Purchaser ceases to be insured by the Company for any reason whatsoever, the Purchaser's Shares shall automatically be cancelled on the books of the Company effective on the date on which the policy issued by the Company to the Purchaser expired, was non-renewed, or was earlier cancelled or terminated (each of which is referred to herein as the Termination Date). The Purchaser hereby irrevocably constitutes and appoints the Secretary of the Company as the Purchaser's attorney in fact to cancel said Shares on the books of the Company as of the Termination Date. Within two years following the Termination Date, and subject to the other terms and conditions contained in this Agreement, the Company will, if such payment is approved by the Commissioner of Insurance for the District of Columbia and subject to the provisions and conditions below, pay to the Purchaser, as consideration for the cancellation and redemption of the Shares, none, or a part of his, her or its investment in the shares, i.e., the number of shares x \$100.00 (see paragraph 5 above) calculated as follows (the "Redemption Payment").

(a) In the event that the Purchaser was a Company policyholder for a continuous period (prior to the Termination Date) of less than three (3) full and continuous years from the commencement date of coverage under the policy, the Redemption Payment shall be forfeited and the shares surrendered to the Company without any payment or compensation to the Purchaser;

(b) In the event that the Purchaser was a Company policyholder for a continuous period (prior to the Termination Date) of more than three (3) full and continuous years, the Redemption Payment will be fifty percent (50%) of the Purchaser's original investment in the purchase of the shares.

In the event (i) the Company is precluded by applicable law from redeeming the Purchaser's shares, or does not receive the authorization from the Commissioner of Insurance for the District of Columbia to redeem the Purchaser's Shares as described above or (ii) the Company determines in good faith that the Redemption Payment will place an unreasonable financial strain on the Company, the Company's failure to redeem such Shares shall not be deemed a breach of this Agreement, and the Company shall make the Redemption Payment required hereunder at such time as the Company receives the authorization from the Commissioner of Insurance for the District of Columbia and the Company reasonably and in good faith believes that making the Redemption payment to the Purchaser will not cause the Company to be in violation of applicable law or impose an unreasonable financial strain on the Company.

Notwithstanding anything in this Agreement to the contrary, in the event that the Purchaser owes any policy deductible amounts, premiums, including audit premiums, "Subscription Fee", "Subscription Fee Increases" or other fees or charges to the

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Company, any Redemption Payment owed by the Company hereunder will be offset against, and reduced by, all such amounts owed by the Purchaser to the Company.

11. Subsequent Policy Issuance Fee. If the Purchaser elects to obtain a subsequent insurance policy after the Purchaser has been a policyholder for the initial 12 consecutive months, and if the Company elects to issue a new insurance policy to the Purchaser after the initial 12 consecutive months, then, as a condition to the Company issuing a subsequent insurance policy to the Purchaser, the Purchaser agrees to pay the Company a Subsequent Policy Issuance Fee equal to the lesser of \$250.00 or 5% of the policy premium for each subsequently issued insurance policy premium charged for the new policy. As this is a Subsequent Policy Issuance Fee, the Purchaser shall not be entitled to any shares of stock in the Company in exchange for the payment of each such Subsequent Policy Issuance Fee.

12. Indemnification and Liability of Directors and Officers; No Preemptive Rights. The Purchaser acknowledges that the Company's Articles of Incorporation and By-Laws contain indemnification provisions pursuant to which the Company will defend, indemnify and hold harmless the Company's directors, officers, employees, and agents, subject to the provisions of applicable law, as amended from time to time. The Purchaser further acknowledges and agrees that the Purchaser shall have no pre-emptive right to acquire any Shares subsequently issued or proposed to be issued by the Company.

13. Miscellaneous Provisions.

(a) This Agreement may not be amended except upon the written consent of the Purchaser and an authorized officer of the Company.

(b) All representations and warranties contained herein or made in writing by the Purchaser prior to the date of this Agreement, each of which are incorporated herein by this reference as though set forth in full at this point, will survive (1) the termination of this Agreement; (2) the purchase of the Company's Shares by the Purchaser. Except as set forth in the preceding sentence, this Agreement contains the entire agreement and understanding between the Purchaser and the Company and supersedes all prior agreements and understandings relating to the purchase of the Company's Shares.

(c) The Purchaser shall not transfer or assign this Agreement or any of its interest herein, except as set forth in Paragraph 8 of this Agreement. Subject to the foregoing and except as otherwise expressly provided herein, all covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto will bind and inure to the benefit of the respective successors and permitted assigns of the parties hereto.

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(d) Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

(e) This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument, and any party hereto may execute this instrument by signing any such counterpart.

(f) The descriptive paragraph headings of the Agreement are inserted for convenience only and do not constitute a part of this Agreement.

(g) This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the District of Columbia, without regard to the conflicts of law rules thereof.

(h) All notices, demands or other communications to be given or delivered under or by reason of the provisions of this Agreement must be in writing and will be deemed to have been given when delivered personally or mailed by United States mail sent by certified mail, return receipt requested and postage fully prepaid, to the recipient. Such notices, demands and other communications will be sent to the Purchaser at the address set forth below and to the Company at 130 South Chaparral Court, Suite 140, Anaheim Hills, California 92808, Attention President, or to such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party as specified in this Paragraph 13(h).

14. Grant of Proxy. In consideration of the issuance of the Company's Shares to the Purchaser under this Agreement, and for other good and valuable consideration, the receipt and adequacy of which is acknowledged by both the Purchaser and the Company, the Purchaser hereby constitutes and appoints the Chairman of the Board of Directors of the Company (or the President of the Company if the Chairman is either not available or not in attendance) as the Purchaser's proxy to attend all meetings of shareholders of the Company, with full power to vote as proxy for the Purchaser and act in the Purchaser's name, place and stead, in the same manner, to the same extent and with the same effect that the Purchaser might have if personally present, giving to said Chairman of the Board

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of the Company (or the President of the Company) full power of substitution. This grant of a proxy shall continue in force for such longer or shorter period as is permitted under applicable law.

IN WITNESS WHEREOF, the parties hereto acknowledge having read this Agreement and understand and consent to be bound by all its terms and conditions as evidenced by their signatures hereto.

PURCHASER:

NATIONAL CONTRACTORS  
INSURANCE COMPANY, INC., a  
Washington, District of Columbia  
Risk Retention Group, a Washington,  
District of Columbia Corporation

\_\_\_\_\_  
[Print Purchaser's Name]

\_\_\_\_\_  
[Signature]

\_\_\_\_\_  
[Print Title]

\_\_\_\_\_  
By: \_\_\_\_\_

\_\_\_\_\_  
Its: \_\_\_\_\_

\_\_\_\_\_  
Date: \_\_\_\_\_

\_\_\_\_\_  
[Insert Purchaser's Address]

Date: \_\_\_\_\_